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A Normative Theory of Accounting for Zimbabwe:
A Third World Country

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ABSTRACT

A NORMATIVE THEORY OF ACCOUNTING FOR ZIMBABWE:
A THIRD WORLD COUNTRY

Accountants generally agree that accounting systems should harmonize with their environments and consequently it is commonly observed that Less Developed Countries (LDCs) should have systems different from those of the Western developed nations. The study constructs a normative accounting theory for Zimbabwe which accords with the aforementioned opinions. Further uniqueness occurs through the provision of a wholly generalizable paradigm for constructing explicit linkages between an environment and an accounting system.

The paradigm is utilized firstly as an instrumental framework for the structured analysis of the extant literature, resulting in a morphology of environmental properties relevant to harmony with accounting, the revelation of varied accounting practices, and relationships existing between practices and environments. Subsequently, the paradigm is used as a puzzle-solution model for the development of the normative theory of accounting for Zimbabwe.

Extensive argumentation supports the general environmental propositions, concepts of the firm, objectives, principles and fundamental practices constituting the normative theory. The major tenets of the theory, distilled from the LDC-type of environment; are that Zimbabwean companies should represent an amalgam of societal interests, dominated by controlling shareholders, employee representatives and government; and, that accounting should be concerned not only

with portraying wealth, wealth creation, and wealth transfers but also with their societal equitableness.

The resultant theory supports the common assertion that LDC accounting systems should be different from those of developed nations. The practices presented are pragmatic and in many instances unconventional but deemed necessary to positively stimulate national development (common-wealth) and, to more fully satisfy the needs of decision-makers than conventional systems. The system's normative nature and detailed structure affords numerous opportunities for further (especially empirical) research.

A NORMATIVE THEORY OF ACCOUNTING FOR ZIMBABWE: A THIRD WORLD COUNTRY

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CHAPTER 1

AN OVERVIEW OF THE RESEARCH STUDY

1.1 INTRODUCTION

On the 18th April 1980, after almost ninety years of British colonial and white-settler dominated minority rule, Zimbabwe gained internationally recognized independence following an election based on universal suffrage for the first time in the history of the country. Upon the attainment of sovereign power the government embarked on policies to restructure the inherited but non-representative social and economic systems. These policies were designed to establish a socialist and egalitarian national structure compatible with the beliefs of the majority of the peoples in Zimbabwe.¹

Although Zimbabwe is moving from the rejected socio-economic framework of the pre-independence era towards a new socio-economic structure, no changes have been made yet by statute or by professional accountants to the general purpose external financial reporting practices of limited companies.² This continuation of the status quo in accounting practices is the case notwithstanding the widespread view that accounting on companies within a country should meet the needs of the national users of financial reports.³ For example, it is a policy of the Financial Accounting Standards Board of the United States to tailor accounting practices to the particular needs of users in the United States:

"(T)he objectives set forth stem largely from the needs of those for whom the information is intended, which inturn depend significantly on the nature of the economic activities and decisions with which the users are involved. Accordingly, the objectives in this statement are affected by the economic, legal, political, and social environment in the United States" (FASB 1978, para 9). (Emphasis added).

Further support, for the viewpoint that accounting should be in accord with the national environment in which it operates, may be found in the academic literature. Chambers (1966, p. 6) has written that the foundation of accounting "...is not the overt features of existing rules but the features of the environment in which possible rules are to apply." Likewise, Fitzgerald (1981, p. 96) has observed:

"In practical terms it is, of course, to be expected that (accounting) principles, and perhaps more so reporting practices, should reflect the economic and social environment of separate nations and regions."

If accounting should be designed to suit the national environment, then when that environment develops and changes, accounting practices too may have to change to provide more or different information (AAA, 1966, p. 63).⁴ Furthermore, the provision of accounting information is a contributory factor in the developmental activities of a nation. To be effective in this developmental role and to be useful to a society, it is generally held that accounting should be a dynamic discipline responding to the evolving information needs of that society. This change in the form of information may require new concepts, new principles, and new practices to be developed, or old ones to be amended. That circumstances may occur which warrant a change in accounting theory and practices was acknowledged by the Financial Accounting Standards Board of the United States upon the issue of its first conceptual statement:

"The Board recognizes that in certain respects current generally accepted accounting principles may be inconsistent with those that may derive from the objectives and concepts set forth in this statement and others in this series. In due course the Board expects to re-examine its pronouncements, pronouncements of predecessor standard setting bodies, and existing financial reporting practice in the light of newly enunciated objectives and concepts" (FASB 1978, Journal of Accountancy, Feb. 1979, p. 90). (Emphasis added).

1.2 THE PURPOSE OF THE STUDY

At present Zimbabwe, like so many former dependencies of European powers, has its accounting practices patterned closely on Western, developed industrial-society models, which are designed to satisfy mainly the investment market. It will be shown later in Chapter 4 that accounting practices of the United States and Great Britain have materially influenced the form of reporting in Zimbabwe. At the time when the British Companies Act (1948) was operative in Great Britain, the Act which in fact was later to form the basis for the existing Zimbabwean Companies Act (Chapter 190), enacted in 1952, the accounting profession in Britain maintained that:

"(T)he primary purpose of the annual accounts of a business is to present information to the proprietors, showing how their funds have been utilized and the profits derived from such use" (ICAEW, 1952). (Emphasis added).

Thus primacy of place for information was accorded, in the case of companies, to shareholders. Later in 1973 the profession in the United States was influenced in its policy concerning accounting practice development by the "Trueblood Report" which held that: -

"This report is primarily concerned with information in financial statements that is useful for making economic decisions This emphasis was adopted not because social goals are less important than economic goals but rather because our social and economic system assumes that the pursuit of private goals generally tends to fulfill the social ones" (AICPA, 1973, p. 53).

This policy could be described colloquially as conceiving generally accepted accounting principles by means of the "What's good for General Motors is good for the U.S.A.!" approach. Neither the British nor the American policies expressed above, however, would appear to be in harmony with the Zimbabwean national credo of socialism and egalitarianism. Due to the changed socio-economic environment of that nation, the inherited accounting practices, while perhaps having been appropriate to the former ruling class and business community in Rhodesia, (the name for the territory before independence in 1980), may nevertheless now be inappropriate to the new society of Zimbabwe.

This research study may be viewed as an essential and fundamental step necessary for fashioning accounting to suit its role in Zimbabwe, namely, to supply information appropriate to the new society. However, if practices are to be designed to suit a particular environment, something more is needed than a collection of rules created on an ad hoc basis to resolve problems as they arise; otherwise there may result a contradictory, inconsistent, incomplete and disordered accounting system.⁵ This unsatisfactory prospect may be guarded against by constructing an accounting theory related explicitly to the environment, from which accounting principles and practices may be deduced and so derive their support. The purpose of this study is to construct such an accounting theory of related and consistent accounting principles and practices, for general purpose external financial reporting appropriate to the particular needs of users in Zimbabwe. This study fulfills a need which Ladd (1963, p.58) expressed thus: -

"There is the need for accounting to re-examine from time to time its basic role in our society and the way it is carrying out that role. Much of accounting's development seems mostly to have been a steady tinkering with nuts and bolts rather than a complete overhaul of the basic machinery" Ladd (1963, p. 158).

In brief, the aim is to construct not only a "normative" but also a "purposive theory" of accounting for Zimbabwe.⁶ This objective accords with the opinion that "(t)he general purpose of inquiry is to add to the existing stock of ideas and knowledge, so that men may more readily adapt themselves to or seek to mitigate the effects of their environment" (Chambers, 1966, p. 1). If in fact accounting's benefit as an information service⁷ to society is linked to or dependent upon the accounting system's attunement to the environment, then a disservice is done to that society if the accounting system is not amended to bring it into attunement when the environment changes.

1.3 THE SIGNIFICANCE OF THE STUDY

Specifically, this study has potential major significance for the nation of Zimbabwe because it provides a theoretical framework upon which accounting practices in accord with the national environment may be constructed. By providing this "purposive theory," formed after consideration of the key national aspirations and the structure of the socio-economic environment, future accounting research and development may proceed in accordance therewith so as to produce accounting practices capable of supplying pertinent information to users of general purpose external financial reports in Zimbabwe. Thus the significance of the study arises mainly from the potential benefits which would accrue to users from an accounting system which is modelled on or representative of the socio-economic environment of Zimbabwe.

More broadly, however, the study has significance for its potential contribution to accounting research on developing nations in general. The study quite simply sets out to provide a normative accounting theory for a particular developing nation at a particular time by deriving that theory from the environment. Though this form of theory construction has been widely encouraged and supported in the literature (AAA 1977, Briston 1978, Jaggi 1973), no research is evident of any attempts to construct such a theory of accounting for a developing nation. Surprisingly this situation prevails notwithstanding a surfeit of claims in the relevant literature on accounting in developing nations that the accounting practices of the less developed countries should be different from those in the developed nations for socio-economic environmental reasons (Enthoven 1973, AAA 1973, AAA 1976). Colloquially, it is commonly stated that "what is good for the U.K. and the U.S. is not likely to be good for developing countries."⁸ Accordingly this study is unique in providing a paradigm for both portraying, analyzing, and assessing any existing accounting practices in relation to any environment, and for subsequently developing a normative accounting theory and set of practices for any particular nation. In other words the paradigm provides a framework for constructing explicit linkages between an environment and an accounting system, which is wholly generalisable. Therefore, the paradigm may be used generally in both comparative and single nation studies and may also be used as a tool in descriptive, conceptual or hypothesis-testing studies by providing a systematic approach to a problem area which has been dealt with almost exclusively on a descriptive basis in the past.⁹

The study also has significance because it enables accounting to contribute to the attainment of a higher quality of life in less developed countries. As Boussard (1981, p. 129) has commented: "If accounting is a reflection of wider social concerns, it is also a shaper of its environment." It is in connection with this latter notion of a society or nation being affected or influenced by the concepts and outputs of accounting practices that a further potential benefit of major significance arises for the study. By being designed to be in accord with the socio-economic environmental goals of Zimbabwe, accounting may become a positive artifact in shaping the business environment and so become an instrument to be used for achieving harmony between investors, employees, government, and citizens in regard to the operations of businesses within Zimbabwe. In other words, if accounting is designed so that the resulting financial statements high-light the strengths and weaknesses of a business entity as viewed from the standpoint of users in a particular environmental setting, then decisions could be taken on the basis of the financial statements towards reconciling or meeting the interests of all these parties.¹⁰

Further significance attaches to the study because it addresses the accounting problems of developing nations as a generic group. In a "Report of the Committee on Accounting in Developing Countries" (AAA, 1976) details were given of an empirical study directed at determining what the accounting practice and education problems were in developing countries. Two of the six problems rated by that study as of extreme importance related to inadequate financial reports and standards, while lack of financial disclosure and the use of "concepts and techniques

imported from advanced nations regardless of their suitability for the local conditions and immediate needs" were rated amongst the moderately important category. The present study should assist in the elimination of problems of the above types which may currently exist in a developing nation, by providing "concepts and techniques," "standards" and "disclosure practices" suitable for "the local conditions and immediate needs" of the nation.

The study also has potential pragmatic significance for developing nations as a generic group despite the fact that the labels: "Third World Nation," "Less Developed Country," and "Developing Country" are attached almost indiscriminately to these countries with their wide variety of ideologies, different cultures, various stages of economic development and other dissimilar environmental circumstances.¹¹ First, this study should be of particular interest to all countries so labelled which possess similar environmental characteristics to Zimbabwe, by serving as a guideline for the development of their accounting systems. Second, the study should be of interest to the remaining "Third World," "Less Developed" or "Developing" countries, and especially their accounting communities, if they would wish to use the generalisable paradigm to construct a general purpose external financial reporting system in harmony with their particular environment and needs.

1.4 ORGANIZATION AND METHODOLOGY OF THE STUDY

The study commences in Chapter 2 with the construction of a paradigm and its elaboration for subsequent use in its commonly accepted role as a model for scientific inquiry. Inquiry, in the present context of purposive theory construction, in fundamental terms reduces to being a

systematic process: first, of induction from specifics concerning an environment to the postulation of general propositions about companies in that environment; and second, of deduction from those of general accounting propositions about concepts of companies and objectives of financial statements, to a consistent set of specific accounting propositions on accounting principles and accounting practices.

In Chapter 3 use is made of the paradigm in its form as an analytical framework for exposing the existing state of knowledge concerning the relationship between a nation's environment and its accounting system. The exposition gives major emphasis to those works on the "Less Developed Countries" (LDCs) because of the end focus of this study. The purpose of the analysis is to identify and define key or essential environmental properties and to place them within a morphological framework necessary as a base or starting point for the construction of a purposive theory of accounting. Furthermore, the survey of the extant literature assists in the identification of relationships between accounting practices and environmental properties of importance in the design of an accounting system which is required to be in harmony with the environment.

In Chapter 4 the environment of Zimbabwe is described to disclose the specific key environmental properties of essential importance in the construction of a purposive theory of accounting. This is accomplished by fitting the Zimbabwean environment within or expanding upon the morphology of environmental properties developed from the analyses undertaken in Chapter 3. Any natural difficulties of an analysis of the Zimbabwean environment, such as ambiguous, conflicting or incomplete

information, are addressed through views solicited from informed members of the major or important user constituents of financial reports and from local experts within the Zimbabwean environment. The eminent persons interviewed, listed on Appendix I, consisted of 41 experts, and included cabinet ministers, senior officers of government, leaders of industry and noted scholars. The interviews, conducted during September to December 1984, were of an extensive nature and were fully tape recorded, amounting to almost 60 hours of recorded time.

The paradigm is used finally in Chapters 5 and 6 in its puzzle-solution model role as the basis for an orderly and systematic construction of a normative theory which has as its goal the achievement of harmony between an accounting system and the environment within a nation. The unique characterisation of Zimbabwe through morphological analysis, (Chapter 4), is used in Chapter 5 to induce general propositions about limited companies in the environmental setting of Zimbabwe. A process of deductive reasoning derived from the general propositions about companies in Zimbabwe and the empirically observed and hypothesized relationships between environments and accounting systems, from Chapter 3, is then used to construct and defend the normative theory consisting of: general concepts of accounting for limited companies in Zimbabwe, objectives of accounting and specific principles of accounting measurement and disclosure. Chapter 6 is then concerned with the interpretation of the purposive theory, with deducing specific accounting practices and defending them in terms of their logical consistency with the theory of Chapter 5.¹²

The thesis concludes with Chapter 7, which reviews the main elements of the purposive theory and accounting methods devised, explores the policy implications of the findings of the study, identifies the limitations of the study, and suggests areas for further research.

1.5 DEFINITION OF MAIN TERMS

The terms: "general purpose external financial report," "annual report," "annual accounts," "corporate report," "financial report," and "financial statements" are all accorded the same meaning in the study. They are all taken to include those statutory accounts and reports, required by the Companies Act (Chapter 190), the information published in terms of the International Accounting Standards, and voluntary information (such as, financial ratios and management reports) provided at each financial year end to shareholders in limited companies.

A "limited company," "company" and "firm" are defined as a company registered in Zimbabwe with the liability of its shareholders being limited to the amount, if any, unpaid on its issued shares. Companies whether unquoted or quoted on a stock exchange are covered by the definition. However, companies registered under the Banking, Insurance, Building Societies, and Co-operatives Acts are not included in the study because of the specialized nature of their business operations and controlling laws.

A normative accounting theory is that which attempts to specify what accounting practices ought to be and what information should be communicated by financial statements. This meaning is used in contrast to a "positive" or "descriptive" theory of accounting which attempts to

determine the factors which influenced the development of accounting practices.¹³ A normative accounting theory which is designed or created specifically for companies in an identified national socio-economic environment will be described in this study as a "purposive theory".

An "accounting system" shall mean the set of accounting practices available within a national environment for general purpose external financial reporting.

The terms: "users," "national users," "rightful users," "stakeholders" are deemed interchangeable and all take the meaning in this study ascribed to "users of corporate reports" in the "Corporate Report" (Corporate Report, 1975, p. 17): -

"Users of corporate reports we define as those having a reasonable right to information concerning the reporting entity. We consider such rights arise from the public accountability of the entity whether or not supported by legally enforceable powers to demand information."

Abbreviations commonly used in the study are explained below: -

AAA:	American Accounting Association.
AICPA:	American Institute of Certified Public Accountants.
Companies Act:	Companies Act (Chapter 190) of Zimbabwe.
FASB:	Financial Accounting Standards Board.
Government:	Government of the Republic of Zimbabwe.
Growth with Equity:	Government of the Republic of Zimbabwe, Cmd. R.Z.4 - 1981, "Growth with Equity: An Economic Policy Statement," February, 1981.
IAS:	International Accounting Standard.
IASC:	International Accounting Standards Committee.
ICAEW:	Institute of Chartered Accountants in England and Wales.
ICA (Z):	Institute of Chartered Accountants of Zimbabwe.
LDC:	Less Developed Country.
MNC:	Multinational corporation or transnational corporation.

1.6 LIMITATIONS OF THE STUDY

It is not the purpose of this study to produce a "General Theory of Accounting" nor an all-inclusive conceptual framework for accounting and financial reporting for limited companies. The study is limited to exploring those areas of accounting and financial reporting for limited companies which may require different concepts, principles, and practices from those used at present in Zimbabwe in order to develop a purposive accounting theory which will meet the needs of users in that nation.

Finally, but most importantly, this study proceeds from the basic premise that an accounting system should be in harmony with the national environment. This premise finds widespread support amongst academic and professional accountants, accounting institutions and international organizations.¹⁴ This study is an attempt to produce such an accounting system for Zimbabwean companies, by deriving the accounting practices comprising the system from the environment. However, it is not part of this study to test empirically whether the derived system does in fact meet the needs of users or if it is practical in both an operational and cost-benefit sense.

NOTES, CHAPTER 1

1. See, for example, GRZ (1981).
2. For a definition of "limited companies" see section 1.5.
3. For a definition of "national users" and "financial reports," see section 1.5.
4. See also, Ijiri, Y. (1975), p. 14: Accounting like a language "has to be flexible to adapt to a changing environment."
5. "Accounting system" is defined in section 1.5
6. "Normative theory" and "purposive theory" are defined in section 1.5.
7. "Accounting is a service activity." AICPA(1970).
8. Enthoven (1973, p. 21) has written: "We must not assume that what might have been good accounting-wise in the past, and above all geared to the developed countries, will automatically be economically relevant and good for the emerging nations and the process of development. The socio-economic circumstances are more complex, and the requirements have become of a different magnitude."
9. See for example Radebaugh (1975) and AAA (1977, p. 69).
10. The desire for such a system was the major reason for the A.I.C.P.A. Round Table symposium on "Social Measurement." See in particular A.I.C.P.A. (1972, p. v-vii). Also see, Bedford (1973, p. 8) "... (I) f accounting is to play more than a passive role in our rapidly changing society and is to take the lead in providing useful information to individuals, groups, and other entities, it is a proper function of accounting to investigate and, when feasible, disclose information on the general problem of the proper goals and objectives of economic entities in society."
11. Seidler (1967, p. 15) wrote that though there was some concurrence among developing countries as to the goal objectives there were wide variations in their methods, and greater difference in their resources and backgrounds. It is thus difficult to generalize on the problems of "the underdeveloped countries."
12. The procedure outlined is in accordance with that described by many authors, for example, see Hendriksen (1982) p. 7, Hakansson (1969) p. 35, Chambers (1957).
13. See, Hakansson, 1969, p. 34, and Belkaoui, 1985, p. 133.
14. See, for example, AlHashim and Garner (1973), Enthoven (1973), Scott (1970), Kapnick (1979), Price Waterhouse (1979), FASB (1978), United Nations Centre for Transnational Corporations (1980).

CHAPTER 2

THE PARADIGMATIC STRUCTURE OF THE STUDY

2.1 INTRODUCTION.

It is one thing as in Chapter 1 to state the purpose of the study which is to construct a purposive theory of accounting; it is quite another to operationally put that intention into practice. A systematic and rigorous analytical approach to purposive theory construction may be found by turning to Phillips (1971) who wrote that analysis for research purposes is composed of three integrated parts: the paradigmatic, the theoretical and the methodological. Phillips (1971) argued that when it comes to conducting systematic inquiry it is the paradigms, whether made explicit or not, which materially guide and condition the further stages of analysis.¹ On reflection, this can be seen to follow quite readily, as one's "view" of problems and problematic situations must serve as the initial basis for one's unique attempts to solve or deal with both of them.² Thus the adoption of the approach outlined by Phillips (1971) requires that careful consideration be given to the structure of the paradigms chosen because the resulting theory will be only as complete as the paradigms are sufficiently holistic images of the subject matter and problems at hand. Furthermore, the resulting theory will be only as systematic as the paradigms chosen are rich in providing a holistic and orderly framework for understanding and pursuing problems.³

Consequently, the initial task in this chapter shall be the structuring of a particular paradigm which gives a holistic view of the subject of inquiry and within which supporting paradigmatic frameworks

may be designed for the orderly and systematic construction of the purposive theory of accounting. Subsequent tasks will include the design of the supporting paradigms which will be used later in the study to guide the development of the theory.

2.2 THE PARADIGMS

The concept of a paradigm has many definitions. Perhaps the broadest is that which deals with knowledge in an unrestricted way and presents it as a "world view."⁴ The paradigm as a "world view" may be taken as a model representing "the entire constellation of beliefs, values, techniques, and so on shared by the members of a given community" (Kuhn, 1970, p. 15; emphasis added).⁵ For purposes of this study, these members shall be interpreted to mean accounting scholars. The very broadness of a "world view" paradigm may be restricted by altering the precise "world" being viewed to suit the context of usage. No international accounting world view paradigm has been explicitly articulated by scholars (Amenkhienan, 1984, p. 17; Choi & Mueller, 1984, p. 29).

More narrowly, paradigms have been defined as instrumental frameworks that provide models for coherent scientific research within a discipline; that is, they are designed as accepted models of or patterns for scientific inquiry (Kuhn, 1970; Sterling, 1979, p. 48; Belkaoui, 1985, p. 141). Here too, no such framework is known to have been explicitly articulated as regards scientific inquiry into accounting practices of LDCs, notwithstanding the considerable amount of research which has been conducted in this area (Choi, 1981, p. 89; Jaggi, 1973). Similarly, no model appears to be available to guide the construction of

a specific purposive theory of accounting for a particular LDC (Amenkhienan, 1984). Therefore, although the general normative proposition that an accounting system should be in harmony with its specific environment is seemingly put forward widely,⁶ and by implication the construction of such theory and practices is widely encouraged,⁷ not only does no one seem to have actually attempted the task to-date, but no one appears even to have gone so far as to construct a coherent paradigmatic framework from which such an effort could proceed systematically.⁸

In section 2.3 of this chapter paradigms are introduced as models representative of accounting thought, or the "world view" at particular periods in history, of what accounting should be. In section 2.4 another "world view", representative of that held by many scholars of international accounting, is presented and broadly interpreted. This "international world view" paradigm is representative of the basic premise of this study that accounting systems should be in harmony with the environments to which they pertain. In section 2.5 the broadness of the "international world view" paradigm is reduced to specify the salient subject matter of theoretical and empirical inquiry as regards a single nation. In section 2.6 the paradigm is reformulated as an instrumental framework for analysis of the existing literature. Finally in section 2.7 the paradigm is reformulated to constitute the most narrow definition of a paradigm, that is "a concrete puzzle-solution" model. According to Kuhn (1970, p. 175) paradigms employed in their "concrete puzzle-solutions" role "can replace explicit rules as a basis for the solution of the remaining puzzles of normal science." A concrete puzzle-solution

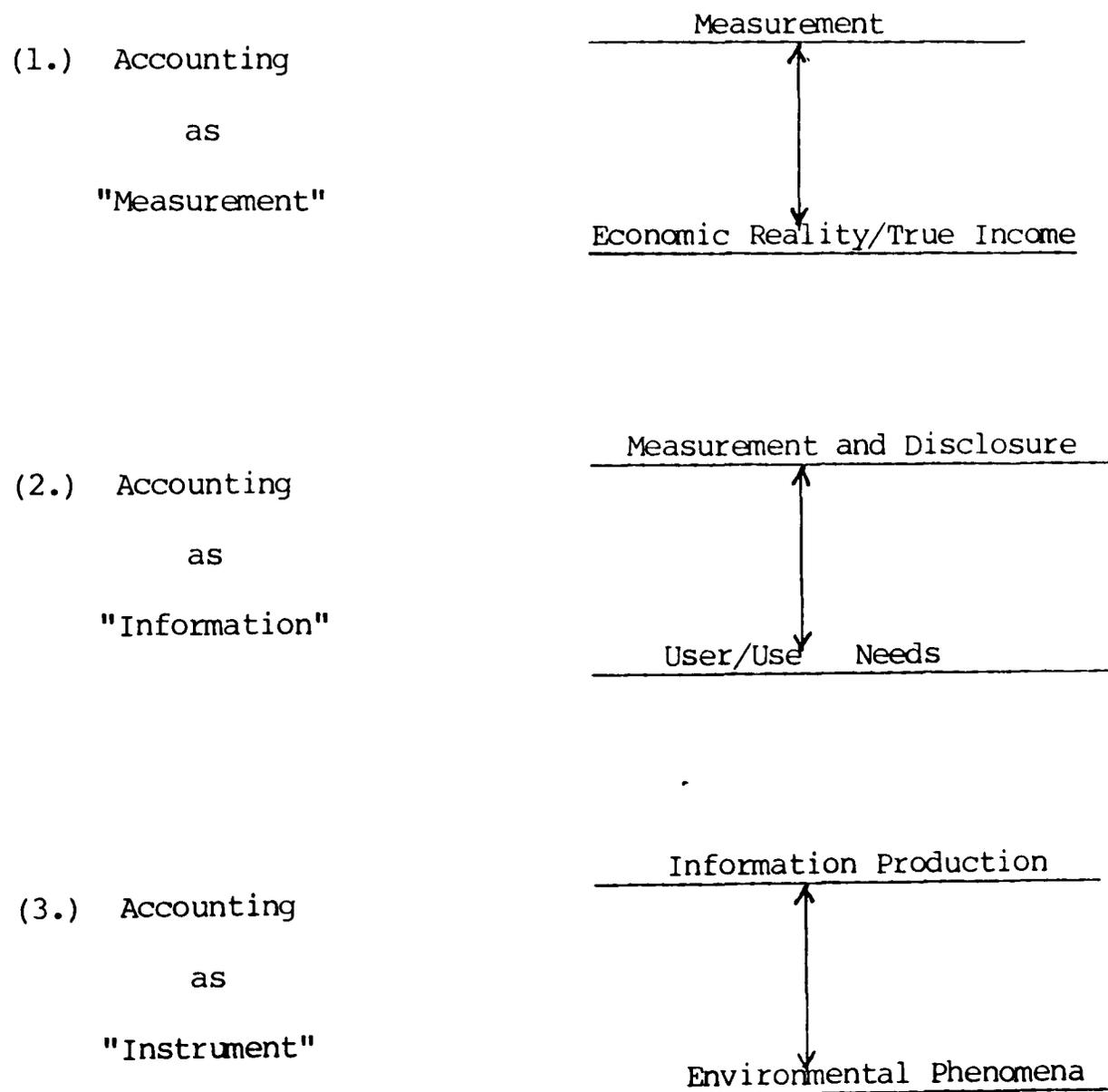
model is thus required to give a holistic image of the theory construction task itself to serve as a guide in performing the theory construction in an orderly and systematic fashion.

2.3 SOME ACCOUNTING PARADIGMS

The general proposition put forward in the last chapter that accounting systems should be in harmony with the environments to which they pertain although dominant in international and LDC accounting literature, is not ignored in the paradigms of the discipline of accounting theory, per se. Over the years there have been changes in the accounting scholars' view of the discipline of accounting. Three perceptions of these views, which are amongst those identified by others, are illustrated on Figure 2.1.⁹ In each illustration there is summarized the world view shared by accounting scholars at a particular time. Figure 2.1(1) summarizes the world view as described by the metaphor "Accounting as 'Measurement'" because accounting's fundamental role was perceived to be the attainment of a single correct measurable definition of income. This was the world view held by many eminent scholars from the 1920's to the 1960's.¹⁰ Figure 2.1(2) summarizes the world view changed to "Accounting as 'Information'," a description which metaphorically requires accounting to satisfy the information needs of users of accounting reports. In this view of the discipline, accounting would only satisfy users if the kind of information supplied was useful for rational decision-making. The heyday of this world view was the late 1960's and the 1970's.¹¹ In the 1980's there has occurred the world view of "Accounting as 'Instrument'," Figure 2.1(3), a view whereby accounting

FIGURE 2.1

Some "World Views" of the Accounting Discipline



is perceived as a discipline which produces economic information which may be used by a decision-maker and so result in shaping, in part, the events of a subsequent period.¹² Thus, accounting is seen as an artifact which might affect or be affected by socio-political factors.

Accordingly, accounting is both a shaper of and shaped by environmental phenomena, thus giving rise to the metaphor of "instrument" which encompasses the more familiar "consequences" metaphor.

In all three "world view" paradigms the basic assumption of a need for harmony between environment and accounting system is present. In each case to accomplish harmony the "image of the subject matter" of the paradigm changes.¹³ In the case of "Accounting as 'Measurement'", Figure 2.1(1), harmony is achieved when accounting measures "true income." "Prominent theorists hypothesized that investors and other economic decision makers seek current value, not historical cost information."¹⁴ In the case of "Accounting as 'Information'", Figure 2.1(2), it was considered paramount to harmonize accounting information with the varied needs especially "predictive power", of rational decision-makers.¹⁵ In the case of the world view of "Accounting as 'Instrument'", a greater variety of cost-benefit information was required so that information supply would be in harmony with information demand, because the consequences of financial statements were now perceived by the theorists to be of far more universal import.¹⁶ A few examples associated with this last world view of accounting are quoted to illustrate this contention that harmony is indeed contained within the paradigms of the discipline of accounting theory. Zeff (1978) pointed to the "behavioural

implications of accounting numbers", the costs and benefits of which should be considered by accounting in deciding what to measure and disclose. Here Zeff was concerned with the political consequences of accounting numbers and the effects of politics on accounting standard setting. Bedford (1971) was of the opinion that society's information needs had become so complex that a relationship between accounting and the environment founded on the values and norms of society was essential "in order that society will continue to accept the institution of business as we know it", (Bedford, 1971, p. 20). Bedford (1973, p. 97) also opined that because cultural properties may differ greatly between the "sender" and the "receiver" of information, "supplementary environmental disclosures" should be given so that the parties may share similar perceptions of the significant activities of an accounting entity. As the third example, the work of the AAA (1977, B) is turned to for support of the importance of harmony within the paradigm. It was pointed out by the committee (AAA, 1977B, pp. 22-23) that where a situation of demand for information arises from a number of heterogeneous individuals in an imperfect market, then the economic cost-benefit approach to information selection determination could fail; and then the question would arise as to whether to regulate the supply of information on various grounds which could be of an economic, ethical or humanitarian nature so as to keep accounting in harmony with the expanded needs of decision-makers.

The three world-views (summarized on Figure 2.1) have been used above to describe how the need for "harmony" has changed accounting over

the years from being a discipline preoccupied with a narrow micro-economic role to becoming involved with a broader socio-economic role. The aforementioned three world views have been used above also to indicate that the roots of the general proposition attached to the subdiscipline of international accounting practices, including those for LDCs, that accounting should be in harmony with the environment, to have evolved from the world views of the accounting discipline. There now follows the presentation of a world view paradigm for international accounting and accounting practices for LDCs.

2.4 THE INTERNATIONAL ACCOUNTING PARADIGM

The proposition that the accounting system of a specific country should be in harmony with the environment of that country is a normative manifestation of the "international accounting world view" that accounting systems should be products of, or even moulders of, the environments to which they pertain. For example: It has been written that accounting in each country should develop only in a manner relevant to its society, this was held to be necessary because different environments require different accounting objectives and therefore different accounting practices (Chetkovich, 1972). Others have argued that accounting practices should be in harmony with the environment because different environments make for "differing standards of comparison and possibly lead to different decision processes" (Mueller and Walker, 1976). Yet others have stressed that the LDCs need for economic development would be best served by tailoring their accounting systems to their environments (Enthoven, 1973).

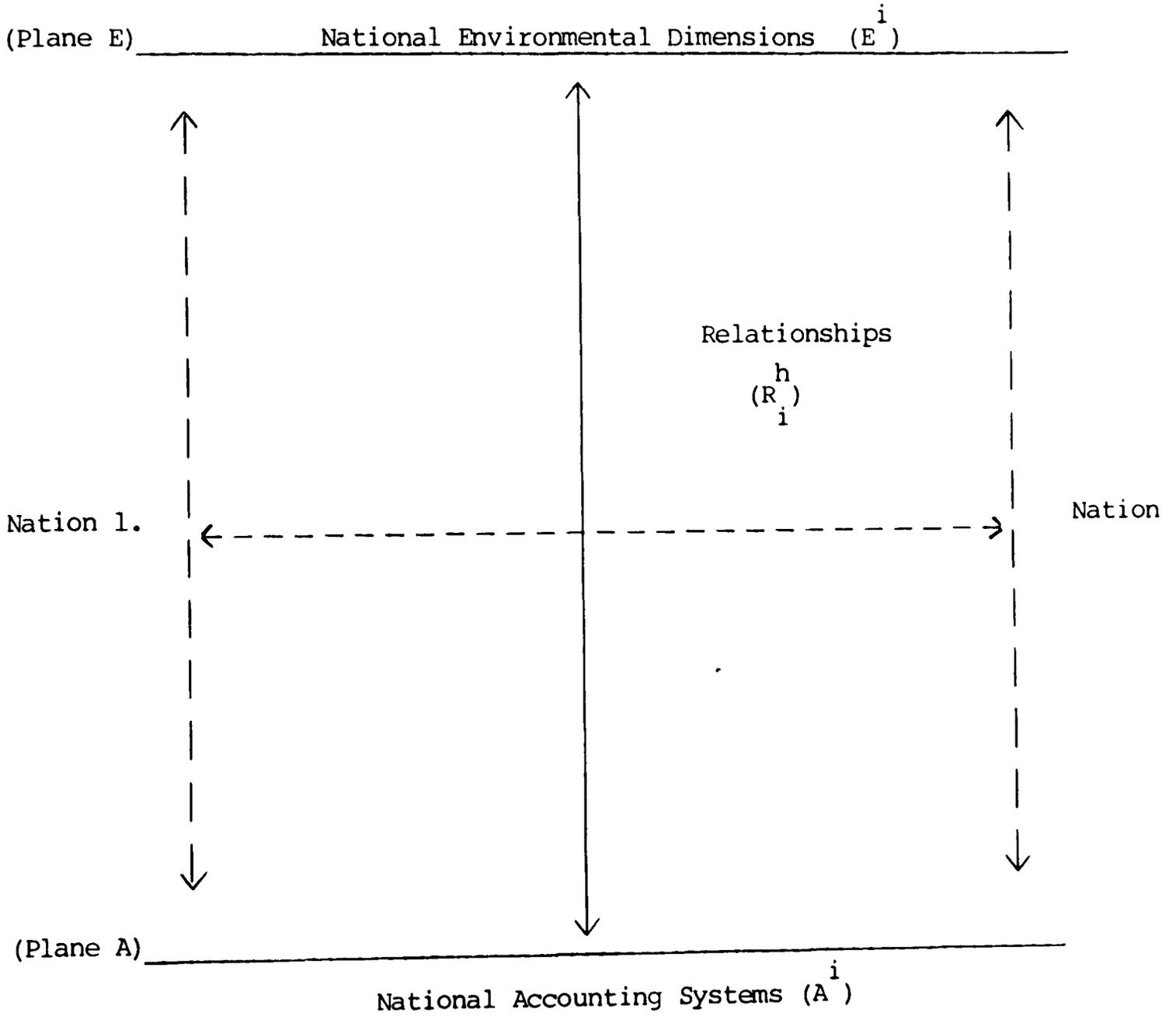
This concept of harmony appears to have influenced the Accounting International Study Group when it recommended that companies prepare "primary" financial statements to satisfy the reporting requirements of their country of domicile and, where necessary, "secondary" financial statements specifically for audiences of interest in more than one country (AISG, 1975). The belief in harmony has led many writers to point to the undersirability of "standardized" international accounting practices being foisted upon countries (Fantl, 1971; Enthoven, 1973; McComb, 1979; Seidler, 1981; Samuels and Oliga, 1982; Amenkhienan, 1984).

The concept that an accounting system should ideally be related to and suited to the national environment, as expressed in the metaphor of harmony, is contained in the international accounting paradigm as portrayed by Figure 2.2. Figure 2.2 also subsumes many of the other more focused propositions of a conceptual or empirical nature put forward by accounting scholars regarding accounting systems for developing nations (for instance AAA, 1977 and numerous others as quoted in Chapter 3).

The international accounting paradigm, as illustrated in Figure 2.2 and explained below, is an overall but fair image of the general proposition that accounting should be in harmony with the environment whether it is an international, national or a particular business entity's accounting system and environment which is being addressed. In all these situations the paradigm remains the same in basic structure except that its depth and sharpness of focus alters and becomes more acute as the knowledge under examination moves from the general to the specific. Otherwise put, depending upon the subject matter being

FIGURE 2.2

The International Accounting Paradigm
(as the harmony world view)



addressed the level of detail of the planes changes.¹⁷ In all situations there is an assumption, which may be implicit or explicit, that the two planes representing environments (E) and accounting systems (A) should be in accord relationally with each other logically and empirically. The closer the accord the greater the probability of the information provided by the accounting systems satisfying all users' needs. The greater the discord between the planes the greater the probability of the information provided by the accounting systems not satisfying the needs of all or even a single user. It is this basic assumption, that there should be a conceptually and empirically harmonious relationship between environments and the accounting systems, which is represented by the paradigm (Figure 2.2), and upon which the present study rests. A succinct expression of this assumption shared generally by accountants is provided by Zeff (1971) p. ix: -

"I... hold the belief that differing economic, social and political environments, even among such countries as Canada, England, Scotland, and the United States, are sufficiently formidable as to frustrate attempts to impose an identical system for generating accounting principles..."¹⁸

For purposes of clarity in the interpretation and later analysis of the international accounting paradigm it is necessary to define the terms "environmental dimensions", and "relationships."

The "dimensions" of the "environment" may be gleaned from the following dictionary meanings of environment: "(1) External conditions or surroundings, especially those in which people live or work. (2) Ecology: the external surroundings in which a plant or animal lives, which tend to influence its development or behaviour", (Collins English Dictionary, 1979). And, "(1) A surrounding or being surrounded.

(2) Something that surrounds. (3) All the conditions, circumstances and influences surrounding and affecting the development of an organism or group of organisms", (Webster's New Twentieth Century Dictionary, 2nd Edition, 1960). These definitions deal with the meaning of "environment" in its totality; that is, they include those items of both a physical character (such as climate, geographical location, geophysical structure, etc.) and a non-physical character (such as social, political and cultural habits), which by their surrounding presence may affect the development, behaviour, and viability of people, animals, plants, organisms. Being dictionary definitions they are of necessity broad in their coverage of the subject matter. But the environment as it affects all organisms, all people, all plants and all animals falling within its surrounding influences is too broad a concept for the present study. The particular "organisms" with which the study is concerned are the "accounting systems" as situated in particular locations. Specifically, it is only those dimensions of the environment which affect and are affected by the development and behavioural effects of accounting systems of limited companies situated in particular countries for which a definition is required. Consequently, the dictionary definitions may be narrowed down so that the "environmental dimensions" for the purposes of the study mean "the surrounding conditions, circumstances and influences which tend to affect and be affected by the accounting systems of limited companies in particular countries."

In this study there are two kinds of "relationships":

(1) "Empirical relationships" which shall mean those observable linkages or connections of cause and effect, of co-variance, or of

coordination between aspects of the environmental dimensions and aspects of the accounting systems.

(2) "Theoretical relationships," which shall mean the logically valid deductively or inductively reasoned linkages or connections of cause and effect, or consistency or inconsistency between aspects of the environmental dimensions and aspects of the accounting systems.

The paradigm captured in Figure 2.2 consisting of environmental dimensions (E^i), accounting systems (A^i), and relationships between them (R_i^h), of harmony or disharmony is now explained.¹⁹ For ease of understanding Figure 2.2, the bold outlines (i.e. the unbroken lines) are described and explained first, thereafter, an explanation follows on the interpretation of the broken lines: -

(1) E^i shall mean the various dimensions of environments such as the settings of the firm, the economic settings, the cultural settings, the professional settings, the political settings, etc.

(2) A^i shall mean national accounting systems (e.g. the U.K. system, the U.S.A. system) for general purpose external financial reporting, which are directed at satisfying particular generic kinds of user needs (such as shareholder needs, employee needs, government needs) and engendering particular kinds of environmental consequences.

(3) R_i^h shall mean the various relationships which are deduced or induced to exist between the environmental dimensions (E^i) and accounting systems (A^i). These relationships are perceived to arise through the effects of E^i on A^i and vice versa. This two-way relationship flow is illustrated by the double-headed arrow line (R_i^h) on Figure 2.2.

Thus the world view of the subdiscipline of international accounting as depicted in Figure 2.2 signifies: -

(1) that various relationships (R_i^h) exist between dimensions of environments (E^i) and accounting systems (A^i) which influence their development. This may be expressed thus: $E^i \xrightarrow{\text{influences}} A^i$.

(2) that various relationships (R_i^h) exist between accounting systems (A^i) and dimensions of environments (E^i) which influence the development of environments. Expressed thus: $A^i \xrightarrow{\text{influences}} E^i$.

(3) that harmony exists between environments and the accounting systems when the accounting systems (A^i) specifically suit the environmental dimensions (E^i). This should occur because the world view of international accounting, in a state of harmony between A^i and E^i , (as depicted by Figure 2.2), would entail the accounting systems employing environmentally appropriate and thus environmentally "ideal" measures of income; would satisfy users' decision-making needs; and would permit the evaluation of acts for their environmental consequences. Thus through the metaphor of harmony, expressed as a relationship thus:

$E^i \xleftrightarrow{\text{harmony}} A^i$, the world views of accounting illustrated on Figure 2.1 are seen to be covered by the international accounting world view of Figure 2.2.

Two examples, one from the mainstream discipline of accounting theory and the other from the subdiscipline of international accounting theory, are now provided. These lend support to the views (as summarized in both Figures 2.1 and 2.2) that accounting systems should be in harmony with their environments.

Devine (1960, p. 394) berated accountants in their theory construction for ignoring the ". . . reactions of those who consume accounting output or are caught in its threads of control." Here Devine (1960) may be said to be referring to the influence that accounting has on the environment as expressed in the international world view paradigm by $A^i \xrightarrow{\text{influences}} E^i$. Devine (1960, p. 399) then clearly turned to the $E^i \xrightarrow{\text{influences}} A^i$ sector of the paradigm when he wrote that this weakness in theory construction could be overcome by looking ". . . to the accepted social standard of the place and time and . . . [by using] . . . existing social attitudes as they are expressed in the form of laws, customs, administrative decisions, religious edicts, and the like, as the basis for subjective decision [making]"

Enthoven (1973, p. 1) recognized the especial significance of the international world view image to LDCs; and his thesis that "more effective accounting systems . . . will stimulate socio-economic progress" is but a restatement of $A^i \xrightarrow{\text{influences}} E^i$. In the same work he stressed the importance of theories recognizing that $E^i \xrightarrow{\text{influences}} A^i$. For example, he wrote: "There has to be a relationship between (1) the public and private requirements and aims in a society, and (2) the accounting objectives and tasks. This process of helping to evaluate overall aims has been too much neglected in accounting; accounting can benefit from a better dialogue with the whole environment in which it operates" (Enthoven, 1973, p. 114).

If Figure 2.2 is to be seen as a satisfactory portrayal of the presently commonly accepted world view of international accounting as expressed by the metaphor of harmony then it must be capable of

encompassing within its structure all international accounting "beliefs, values, techniques, and so on shared by members of a given community" (Kuhn, 1970, p. 15; see also, Ritzer 1975, p. 157). All of these matters although not explicitly revealed by the paradigm are nevertheless implicitly contained therein. It should be noted that the study concentrates on but one sector of the international world view, namely that there is a need for a national accounting system to be in harmony with the national environment; (this is the view illustrated by the bold or unbroken lines on Figure 2.2). For example: It is argued in this study that the Zimbabwean accounting system (A^Z) should be in harmony with the Zimbabwean environment (E^Z). However, it is by inserting the broken double-headed-arrow lines that the paradigm portrays clearly the broader international perspective that accounting systems worldwide should be in harmony with their environments. These broken-arrow lines signify that for global harmony to exist in international accounting, the accounting systems of nations must be in accord with each other and their respective environments. This situational need of international accounting may be expressed as $EA(1) \leftarrow - - - - \rightarrow EA(2)$; that is, the accounting system for nation one's environment should be in harmony with that of nation two. The obvious difficulties of achieving such harmony are amply referenced by both theoretical and empirical research studies.²⁰ However, it should be noted that the harmony portrayed between nation one and nation two does not imply uniformity between their accounting systems. Harmony between national systems should not be equated to a uniformity of practices. What is implied is that where the

environment of one nation is identical in all material characteristics to that of another and where each national system is in harmony with its national environment, that the systems would be in harmony with one another's environments and, thus, their accounting systems would of necessity be uniform. The paradigm also signifies that where the environments differ, the accounting systems would of necessity differ as well because, and only because, of the specific and indentifiable environmental differences. However in this latter case, despite the lack of uniformity between the accounting systems, they would remain in harmony with each other because the differences would be understandable, logically explainable, and thus, reconcilable.²¹ The relationship linkage illustrated by the broken, horizontal arrow lines also serves to illustrate the influence that one nation may have on another's environment and accounting system; an influence commonly described as arising because of one nation falling within another's "zone of influence" (A.A.A., 1977, p. 105).

It is therefore concluded that the international accounting paradigm (Figure 2.2) gives a sufficiently holistic view of the subject of inquiry so as to provide the basic structure within which other frameworks may be designed for the orderly and systematic construction of a purposive theory of accounting. These supporting paradigmatic frameworks are presented below in sections 2.5, 2.6 and 2.7.

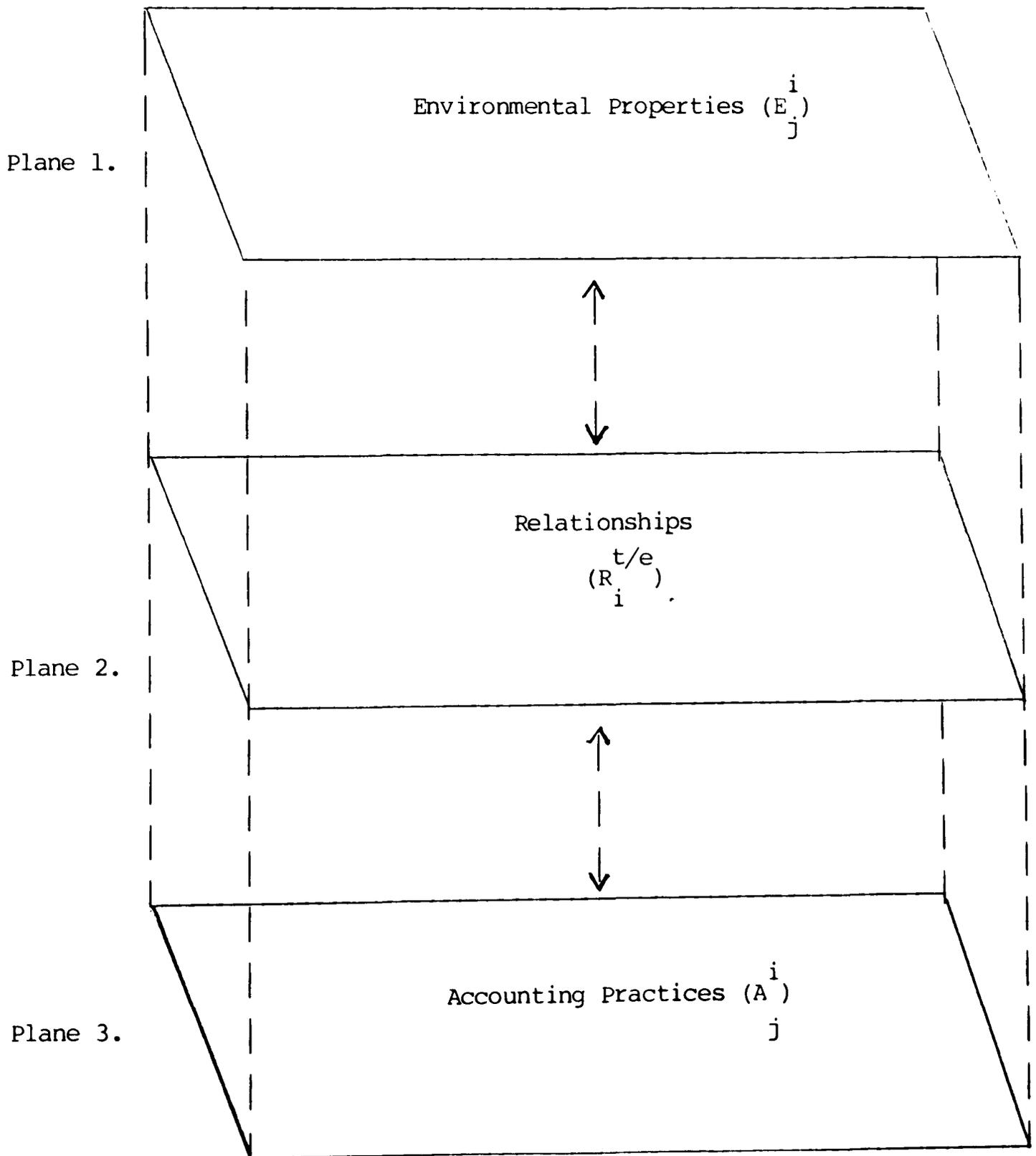
2.5 A FRAMEWORK FOR INQUIRY

A more operational image of the international world view that accounting systems should be in harmony with their environments may be

achieved by redrafting the paradigm of Figure 2.2 to show an empirical "image of the subject matter."²² This approach should enable a more clear definition of, and a more precise focus to be made upon, the empirical domain of the particular discipline or subdiscipline. In other words such an image of the subject matter should capture the fundamental elements of the empirical world which are the subject of inquiry of the particular discipline or subdiscipline.

The world view of the international accounting paradigm (Figure 2.2) restated as an image of the empirical domain of international accounting inquiry is depicted in Figure 2.3. For purposes of improved understanding, the relationships (R) between the environment (E) plane and the accounting (A) plane have also been depicted on a plane. The environmental dimensions (E^i) have been more precisely focused upon to show their elements which are defined as environmental properties (E_j^i). The environmental properties include matters such as limited company size, accounting profession's training, political philosophy. The accounting systems (A^i) have been subclassified to show their specific elements which are defined as accounting practices (A_j^i). These accounting practices include the various measurement and disclosure practices used within accounting systems by limited companies in nations. Because the paradigm has been restated as an image of the empirical domain of the inquiry, it becomes necessary to state the relationships as consisting of observable relationships (i.e. empirical relationships, R^e) and normative relationships (i.e. theoretical relationships, R^t). These relationships suggest a linkage between E_j^i and

FIGURE 2.3

The International Accounting Paradigm(as an image of the subject matter of inquiry)

A_j^i such as the correlation or co-variance between specific environmental properties and specific accounting practices. To summarize: simply and succinctly, the subdisciplinary subject matter at issue consists generically of two sets of empirical properties, namely, environmental properties and accounting practices, and theoretically conceived and empirically observable relationships between them.

Before moving onto the next section it is helpful to point to the consistency existing between the paradigms discussed thus far. A comparison between Figures 2.1, 2.2 and 2.3 shows that they all co-ordinate and that the roots of the world view of the subdiscipline of international accounting lie, as would be expected, in the main discipline of accounting.²³ Turning to Figure 2.1(1), the "measurement" of that view is contained in the accounting practices A_j^i of Figure 2.3; whilst the "measurement and disclosure" and "information production" practices of Figure 2.1 are represented on Figures 2.2 and 2.3 respectively within the accounting systems (A^i) and accounting practices (A_j^i). Similarly, the "user/use needs" and "environmental phenomena" are expressed as properties (E_j^i) within the environment (E^i) on Figures 2.2 and 2.3. Furthermore, the paradigms viewed seriatim reveal a progression in accounting from earlier to more recent times as well as a perspective of accounting which grows in broadness to include the previous views and accounting practices.²⁴

2.6 A FRAMEWORK FOR ANALYSIS

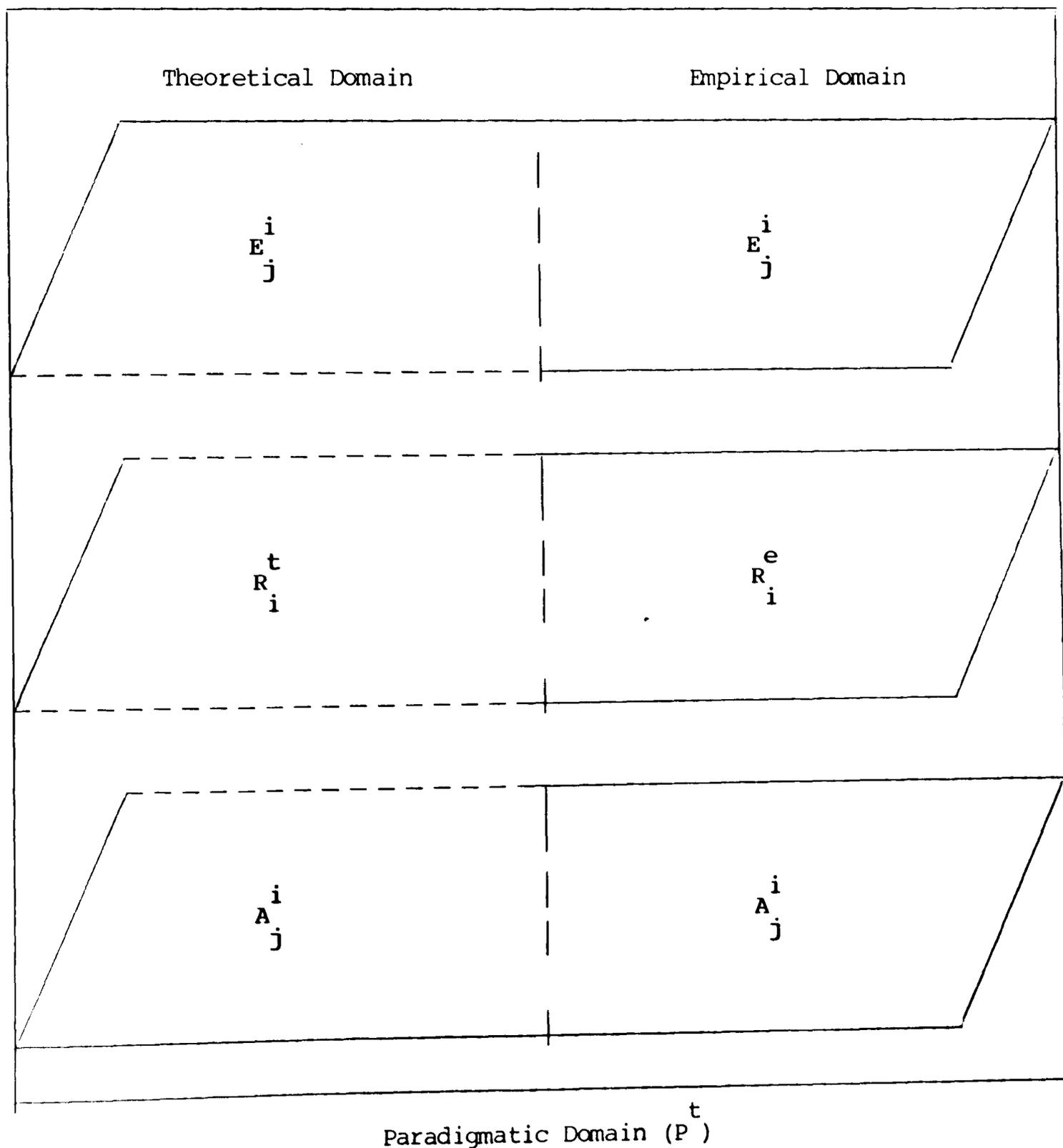
Mention was made earlier, in section 2.2, that one of the purposes of constructing a paradigm was for it to serve as a framework for inquiry

into the state of knowledge regarding theoretical and empirical research into national environments, accounting practices and their relationships with each other. Given the paradigm of the "image of the subject matter", Figure 2.3, it follows that all empirical research of a descriptive nature would require to deal with observations of properties on either or both of the environmental or accounting systems planes, and/or hypothesis testing regarding relational propositions linking the two planes. Likewise, all theoretical or conceptual research would deal with definitional and propositional aspects on either or both of the environmental or accounting systems planes; and/or, with the construction of relational propositions concerning the two planes.

Jaggi (1973) classified research on accounting for developing countries into descriptive, conceptual, and hypothesis testing studies, a conventional approach but one which lacks specificity and fineness in terms of readily disclosing the information content of prior research.²⁵ In contrast, the paradigm of the international world view of accounting, Figure 2.2, restated in Figure 2.4 as an instrumental framework for the analyses of the extant knowledge base provides a holistic schema of the types of knowledge (as set out in the prior paragraph) that these studies can have generated; and also may be used to disclose not only the specific character and extent of knowledge gleaned to date but also the unresolved or minimally researched puzzles which remain.

Figure 2.4 represents the international accounting paradigm in its instrumental form to be used in this study in Chapter 3 for exposing the state of the extant knowledge as regards research on accounting for developing nations and should be interpreted as follows. It is the

FIGURE 2.4

The International Accounting Paradigm(as an instrumental framework for the analysis of the extant literature)

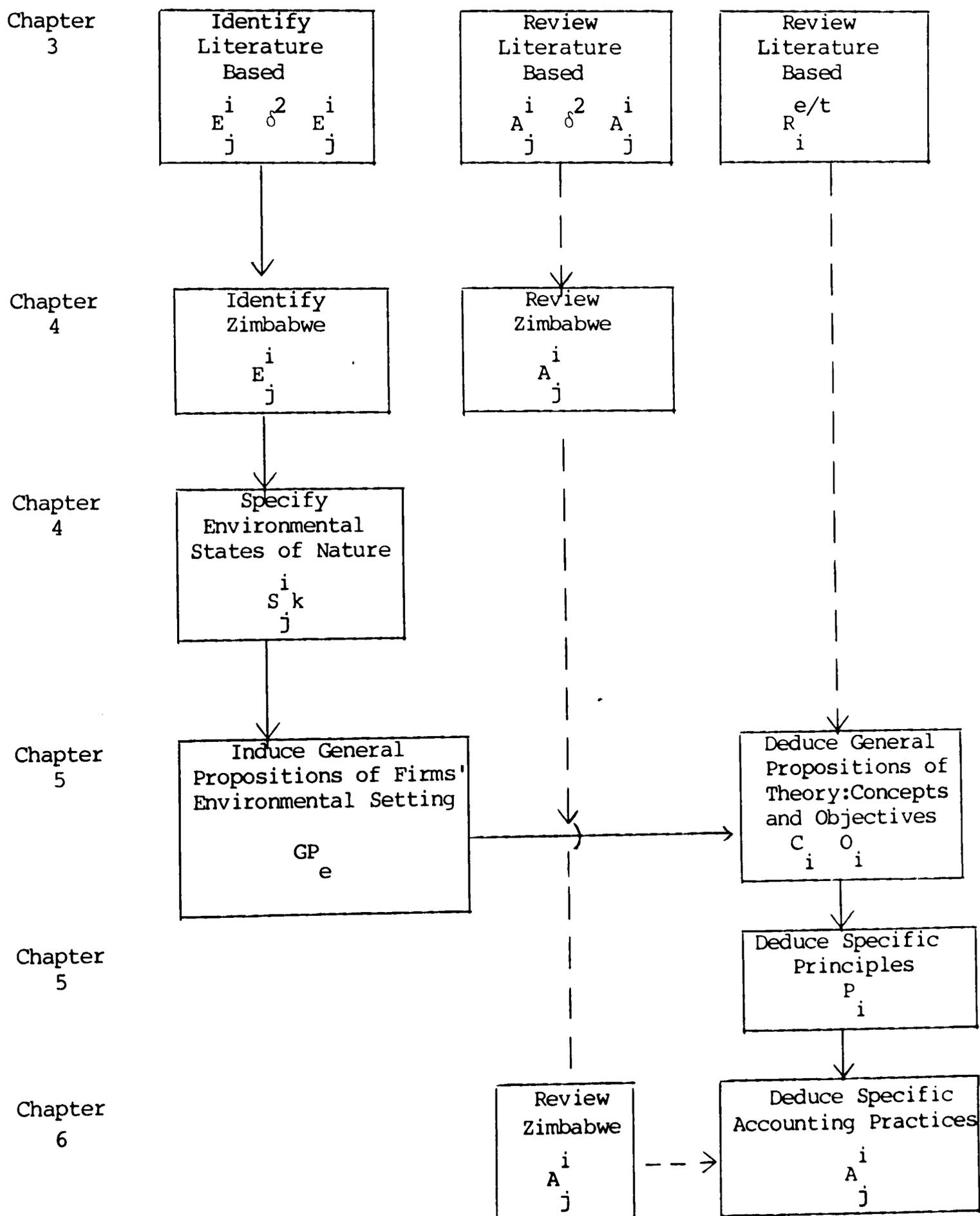
portrayal of the international accounting paradigm as an instrumental framework for analysis for discovering, "what is the extant knowledge regarding theories concerning the international accounting paradigm (P^t) and theoretical and empirical research into national environments (E_j^i), accounting practices (A_j^i) and their relationships (R_i)?" Since a strict classification between the theoretical domain and the empirical domain is not easily accomplished; because of the relative immaturity of international accounting research²⁶ and because few individual studies wholly confine themselves to observations or conceptualizations relating to a single plane of inquiry²⁷; it has been deemed necessary to classify the literature under four sections, instead of the seven as shown on Figure 2.4 and to allow for the overlapping between theory and empirical research and the planes by using dotted lines on Figure 2.4. The extant literature is classified in Chapter 3 to reveal its content: (1) as theoretical constructs of a paradigmatic type (P^t); as theoretical propositions or empirical descriptions, (2) on aspects of the environment (E_j^i), (3) on accounting practices (A_j^i), or (4) on relationships ($R_i^{t/e}$).

2.7 A CONCRETE PUZZLE-SOLUTION MODEL

In section 2.2 it was also mentioned that a paradigm may be structured as a concrete puzzle-solution model. Such a framework will be used in this instance as an orderly and systematic guideline for solving the puzzle: "How should a normative theory of accounting be constructed for a specific country?"

Figure 2.5 is the puzzle-solution model designed for such a task and is compatible with the basic international world view paradigm. The figure shows clearly that the work of analysis of the extant literature

FIGURE 2.5
The International Accounting Paradigm
(as a concrete puzzle-solution model)



undertaken in Chapter 3 using the instrumental framework of Figure 2.4 is the take-off point for the eventual theory construction exercise. This initial work is followed in Chapter 4 by a similar analytical exercise on Zimbabwe, the country for which the purposive theory is constructed. A main purpose of the analyses undertaken in Chapters 3 and 4 is to identify key environmental properties and their characteristics (expressed respectively on Figure 2.5 as E_j^i , $\delta^2 E_j^i$). The model then requires the aforementioned environmental information to be used in Chapter 4 to construct a morphology which enables a systematic and clear specification to be provided of the Zimbabwean environment (S_{jk}^i) necessary for theory development. Thereafter, in Chapter 5 the first propositions are made on the situation of limited companies in Zimbabwe. These general propositions on the Zimbabwean company environment are induced from the aforementioned key environmental characteristics (S_{jk}^i). The model then requires that in Chapter 5 the general propositions on limited companies in Zimbabwe together with the hypothesized and empirically observed relationships between environmental properties (E_j^i) and accounting practices (A_j^i), as established in Chapter 3, are the basis for the deduction of concepts of the firm (C_i), the objectives of accounting (O_i) and of accounting principles (P_i). The model requires that the construction be completed in Chapter 6 by the construction of accounting practices for Zimbabwe by their deduction from the principles specified in Chapter 5 and from the theoretical and empirical exposition of accounting practices set down in Chapters 3, 4 and 6.

An examination of Figure 2.5 shows clear parallels with the earlier paradigms. There is a similar arrangement of the structure--namely, the environmental plane, the relationships plane and the accounting plane. Interestingly, the positioning and use of the "review" of relationships and accounting practices in the deductive processes is a clear illustration of the proposition that A_j^i influences E_j^i and E_j^i influences A_j^i . This influential effect is portrayed by the use of dotted connecting lines on Figure 2.5.

2.8 CONCLUSION

The paradigms constructed above are designed to accomplish the objectives set down at the outset of this chapter. Firstly the international accounting paradigm (Figure 2.2) provides a holistic image of a "world view" of the subdiscipline of international accounting. Secondly, the international accounting paradigm is derived from and linked to the main disciplinary paradigms as depicted by Figure 2.1. Thirdly, the structure of the paradigm is designed to aid further analysis and development (problem solving) of the subdiscipline; specifically, the image of the subject matter (Figure 2.3) permits:

- (1) an instrumental framework for analysis (Figure 2.4) to be structured within its form so that the extant knowledge may be exposed; and,
- (2) a concrete puzzle-solution model (Figure 2.5) to be formulated for use in the problem solving task of purposive theory construction.

It is these two latter paradigms (Figures 2.4 and 2.5) which are used respectively in the subsequent chapters to guide the orderly

exposition of the subject matter of the subdiscipline necessary for, and the systematic construction of, a normative theory of accounting for Zimbabwe.

NOTES, CHAPTER 2:

1. Phillips (1971, p. 44) defined a paradigm as "a set of assumptions, both stated and unstated, which provide the basis on which scientific ideas rest." Thus a paradigm underlies every theory and every methodology. However, this does not imply that a dichotomy exists between theory and methodology. For as Phillips (1971, pp. v-vii) explained, progress in the development of the social sciences requires that there should occur a close integration between methodology and "implicit" theory.
2. Yu (1976, p. 21) explained: "The mere decision as to what to observe reflects the observer's preconceived notions, which not only set forth the initial position that he takes but which are conditioned by his prior knowledge and experience as well."
3. Bedford (1973, p. 31) emphasized that because the "point of view" is the result of a set of beliefs held by the designer of the paradigm it means that one of the greatest needs for the scientific development of an accounting system is an articulation of the "built-in" assumptions underlying the proposed theory.
4. See, for example, Pepper (1961) and Belkaoui (1985).
5. Ritzer (1975, p. 157) stated that "the paradigm is the broadest unit of consensus within a science . . . it subsumes, defines, and interrelates the exemplars, theories, methods, and instruments that exist within it."
6. "(Accounting) must respond to ever changing needs of society and reflect the (national environment)." Choi and Mueller (1978) p. 21. Also see, A.A.A. (1966, p. 69), A.A.A. (1977, p.3), and A.S.S.C. (1975, p. 32).
7. See, for example, Radebaugh (1975), p. 54.
8. However, this apparent disregard by researchers in accounting for developing nations of the fundamental need for a paradigm, out of which spring the explicit theories under examination, would seem not to be restricted to accountants. Phillips (1971, p. 43) was of the opinion that some of the most fundamental paradigms go largely unrecognized by scientists.
9. A.A.A. (1977B, p. 47) set down a tripartite classification of paradigms which it was suggested could be expanded by a further two. Belkaoui (1985, p. 453) subdivided this classification to show six basic accounting paradigms.
10. Canning (1929), Sweeney (1936), MacNeal (1939), Alexander (1950), Edwards and Bell (1961), and Moonitz (1961) are exemplars cited in A.A.A. (1977B).

11. Devine (1960), Beaver (1968), and Sterling (1972), are exemplars cited in A.A.A. (1977B).
12. See Boussard (1981) and Samuels and Oliga (1982).
13. Belkaoui (1985, p. 453).
14. See AAA (1977B, p. 6).
15. See Belkaoui (1985, p. 458).
16. See AAA (1977B, p. 17) and Belkaoui (1985, p. 460).
17. As Kuhn (1970) p. 23 explained: "In its established usage a paradigm is an accepted model or pattern . . . (but) like an accepted judicial decision in the common law, it is an object for further articulation and specification under new or more stringent conditions."
18. For further support see, amongst others, Ijiri (1975) p. 14, A.P.B. Statement No. 4, paras., 208/209.
19. Exemplars of this world view of environmental dimensions, accounting systems and relationships shall be established in Chapter 3.
20. See, for example, Mason (1977) and Fitzgerald (1981). The former deals with the establishment of international accounting standards and the latter with the vast variety of differing accounting practices to be found internationally.
21. See for example, Wilkinson (1964) and Belkaoui (1985B, pp. 57-58).
22. Balkaoui (1985, p. 452) quotes Ritzer, George, "Sociology: A Multiparadigm Science," The American Sociologist (August 1975), pp. 15-17: "A paradigm is a fundamental image of the subject matter within a science. It serves to define what should be studied"
23. Kuhn (1970, p. 182) wrote that a particular community of specialists may share the belief in a particular paradigm or paradigms. These paradigms constitute a "disciplinary matrix". Paradigms or parts of paradigms are constituents of the disciplinary matrix and as such form a whole and function together. International accounting is a subdiscipline of accounting and thus one would expect the paradigms of accounting and international accounting to "co-ordinate" or function together.

24. This process depicts what Kuhn (1970, p. 179) described as the changes that occur in a paradigm with "the transition to maturity" of a science. The paradigms shown reveal a development in accounting not a "revolution" and therefore are subsumed not replaced by the later paradigms. It is only when a science has reached a sufficient stage of maturity that use of the paradigm as a concrete puzzle-solving model is possible.
25. Jaggi (1973) defined descriptive studies as those dealing with the state of the art of accounting as practiced either in the past or currently. Conceptual studies were taken to be those of a normative nature which deal with the form that should be adopted by accounting. While hypothesis-testing studies were those concerned with verifying that the theoretical propositions are acceptable on the basis of experience or empirical data.
26. Shoenfeld (1981, p. 96) has noted that international accounting research has been limited in scope especially in empirical studies.
27. Choi (1981, p. 89) referred to the low levels of abstraction and the lack of systematic approaches in international accounting research.

CHAPTER 3

ANALYSIS OF THE KNOWLEDGE BASE

3.1 INTRODUCTION

An instrumental paradigm (Figure 2.4) is used as a framework in this chapter to guide the analysis of the extant literature concerning the influences of the environment on accounting or vice versa. Because the information gathered from the analysis is used for the later construction of an accounting theory for Zimbabwe, a Third World developing country, it is the literature on LDCs which is afforded the most emphasis. However, reference is made to writings in the sphere of the main discipline of accounting where relevant.

A major purpose of the analysis is to identify the environmental dimensions, their properties and their characteristics which are put forward in the literature as materially influencing, or being materially influenced by, accounting practices. Further purposes are to disclose accounting practices which are cited by the researchers as deriving from specific properties of the environment and to disclose the hypotheses on relationships between environmental properties and accounting practices.

Attention is directed to Figure 2.4. P^t , the paradigmatic domain, encompasses the total body of knowledge on the subdiscipline of international accounting. The literature expressive of P^t is that of the exemplars which provide a theoretical specification of or interpretation of the subject matter; this must be the case because a subdiscipline has its beginnings in the broad paradigmatic conceptualization of the subdiscipline by the exemplars.¹ All research which follows after the exemplars is fundamentally but further specification and elaboration of

the paradigm as conceived by the exemplars.² This subsequent research is a piecemeal process occurring over an extended period of time with few of the studies wholly confining themselves to observations or conceptualizations relating to a single plane (E, A, or R). For example, even that research which is empirical in nature often results in a contribution to the theoretical knowledge base mainly through hypothesis generation and results interpretation. It is because of this overlapping of the planes by research that broken lines are inserted within and between the planes of Figure 2.4 to illustrate this phenomenon.

If subsequent research is fundamentally specification of and elaboration upon the world-view as initially provided by the exemplars and if this is a cyclical occurrence of: elaboration and hypothesis generation -----> integrative theory construction -----> further elaboration and further hypothesis generation -----> new integrative theory construction -----> and so on (Kuhn, 1970, p. 43-51); then this order of knowledge development may be used to categorize the literature. Thus, for a systematic exposition of the knowledge base the literature is classified in a manner similar to the way in which the knowledge base develops. Firstly, the paradigmatic exemplars are presented (section 3.2). Then the literature is presented (in sections 3.3 and 3.4) which deals with elaborations of the environmental and accounting systems planes (E_j^i and A_j^i). In section 3.5 the literature dealing with hypothesis generation concerning relationships ($R_i^{t/e}$) is presented and finally, those studies are examined (in section 3.6) which summarize and integrate the knowledge into specific or general theories of accounting systems (ΣR^t). The chapter concludes with the presentation (in section

3.7) of a morphological framework of the environmental properties which should be considered when seeking harmony between an environment and an accounting system; and (in section 3.8) with a review of the chapter.

3.2 THE PARADIGMATIC EXEMPLARS

The paradigmatic exemplars are those scholarly research studies which first clearly articulated the conceptualization of a particular world view. The world view with which this study is concerned is that given by Figure 2.2; thus, the exemplars are those works which first encapsulated the beliefs associated with and ramifications of a theory of international accounting requiring accounting systems to harmonize with the environment. The exemplars identify the international accounting paradigm (Figure 2.2) in a holistic manner. Thus the exemplars possess analytical value principally because they expose the dimensions of environments, the broad characteristics of accounting systems and relationships between them.

Of course the seeds for the international accounting paradigm and for the harmony metaphor arose within the literature of accounting thought generally. For example, reference was made in Chapter 2, section 2.3, to several researchers within the main discipline of accounting whose works recognize the need for harmony between environment and accounting system. As shown before, Bedford (1971), Zeff (1978) and AAA (1977B) were cognizant that accord should exist between accounting practices and their economic, cultural and social settings. Scholars in the main discipline of accounting also acknowledge the importance of

environments in shaping accounting systems.³ For example, Littleton and Zimmerman (1962, p. 73) wrote that:

"A variety of differing conditions must have influenced the development of financial accounting statements. It is also reasonable to expect that financial statement practices in various countries differed as differing local needs and contemporary conditions influenced their development."

However, these and similar studies are not properly classified as exemplars of the international accounting paradigm per se, rather they are important in illustrating the accord which exists between the main discipline of accounting and the subdiscipline of international accounting.

Early works implicitly adopting the world view portrayed in Figure 2.2 and most particularly the image of the subject matter in Figure 2.3, that is exemplars of the international accounting paradigm, are Mueller (1967), Seidler (1967), Scott (1970), Zeff (1972) and Enthoven (1973). All these works derive their theoretical propositions from observations of specific national environments and accounting systems. Mueller (1967) (based on an observation of many Western nations' accounting practices) appears to be the first exposition which clearly and holistically reflects the international accounting world view and the salient key elements of environment, accounting system and the objective of a harmonious relationship between these. Seidler (1967), and Scott (1970) too were in the forefront of recognizing the significance of national environmental peculiarities, particularly those of LDCs, to the structuring of accounting systems. Enthoven (1973) was a pioneering work which stressed the vital potential of accounting for international,

especially LDC, socio-economic development. Likewise, Zeff (1972) is a seminal work in terms of showing how the environment is a catalyst for moving professional bodies to design accounting practices. Each of these studies is considered in turn as they bear upon fleshing out, in broad terms, the international accounting paradigm.

According to Mueller (1967, p. 224), "environmental differences have substantial and well founded effects on the accounting discipline." Mueller not only saw environmental properties affecting accounting practices, but also considered that there were good reasons for an accounting system being structured to suit the national environment (Mueller, 1967, p. 117). Stated in terms of the international accounting paradigm (Figure 2.2) Mueller recognized that (national environments) E^i influences A^i (accounting systems) and found good cause for a relationship of harmony to exist between a national environment and its accounting system, expressed thus: $E^i \xleftarrow{R_i^h} A^i$. It was the abovementioned assertions of Mueller's which led him to conclude that "a single uniform set of international standards in accounting does not seem desirable in the present state of the art" (Mueller, 1967, p. 224). This conclusion does not conflict with the view contained in the international accounting paradigm (Figure 2.2) because the paradigm accommodates different national accounting systems where the reasons for the differences are caused by differing national environmental properties.

Mueller (1967) held the national environmental dimensions (E^i) of import to be: the firm setting, the economic setting, the political setting, the social setting and the professional accounting setting.

Environmental properties (E_j^i) of significance deduced by Mueller were: the business policies (whether tied to national goals or profit optimization or pragmatic ad hoc practices); the type of national economic policy (whether macro or micro dominated or a combination of both); the level of government control (whether the political system is of a totalitarian or a capitalistic laissez-faire type); the form of social responsibility (whether regulated or a matter of individual firm's choice) and, the status of the profession (the availability of suitably qualified accountants). Thus Mueller's theoretical study is helpful because it identifies environmental dimensions and properties which might be of significance in the development of accounting practices.

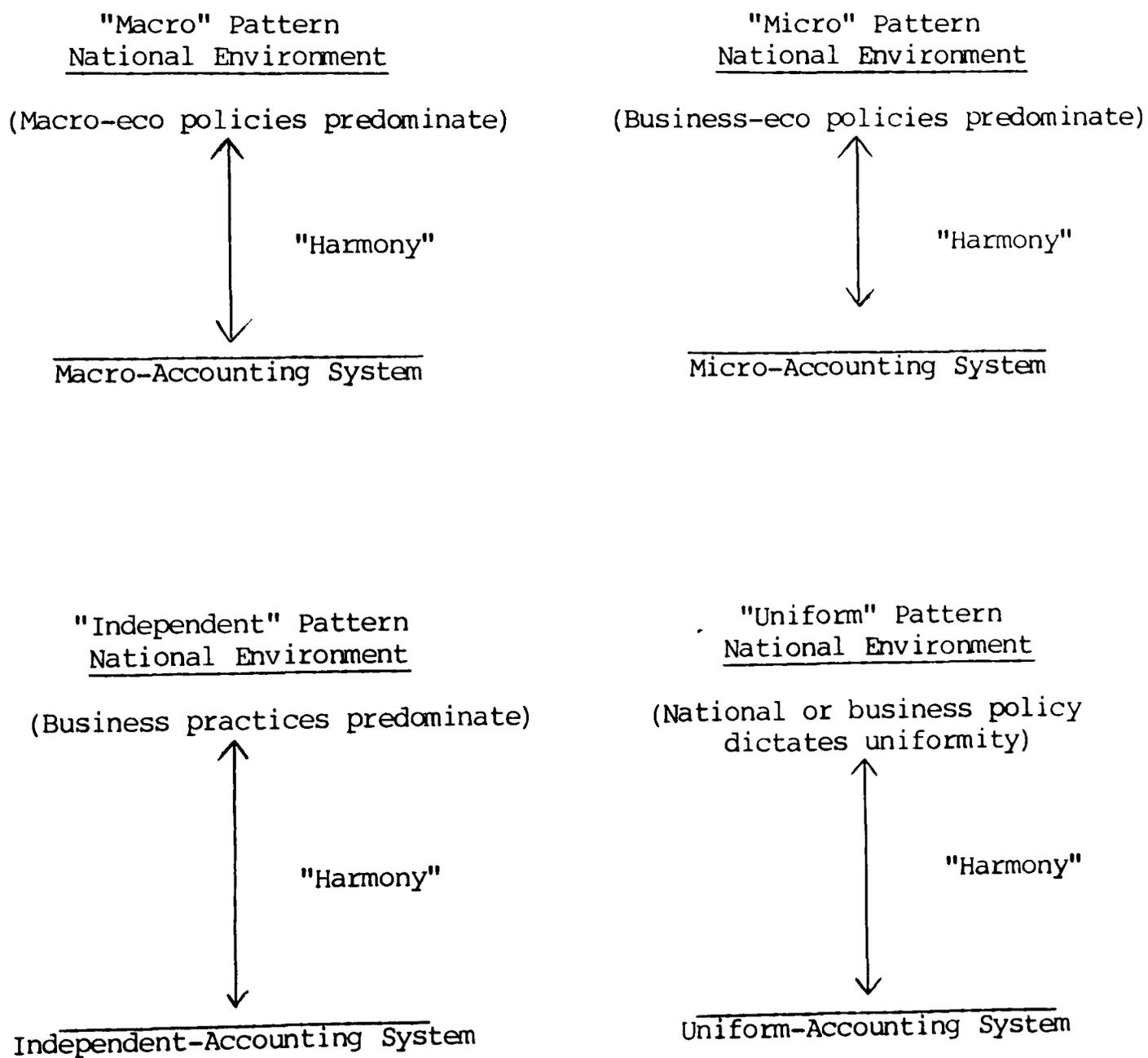
Mueller (1967) is also helpful by postulating relationships between the environmental plane (E_j^i) and the accounting systems' plane (A_j^i) of the international accounting paradigm. Mueller identified four fundamental patterns of national environments and accounting systems discernible from an international perspective. The four patterns were classified as the "macro-economic," the "micro-economic," the "independent" and the "uniform." In each of the four patterns of environments and accounting systems Mueller postulated that the firm was an important economic unit in the environment; but "the exact relationships between firms and the respective national economies within which they operate is a matter of national choice. No unequivocal normative judgments are possible on this point" (Mueller, 1967, p. 13). Mueller hypothesized that the role of the firm was induced by the national environment and it was the role of the firm in the national environment which determined the form of the accounting system.

Mueller (1967), perceived that a "macro" accounting system generally prevailed when firms' economic policies were dominated by the national economic policies and firms had a broad social function over and above their responsibilities to the owners. A "micro" accounting system generally applied when firms dominated the national economy and there existed only a relatively small degree of central government administrative interference; but this did not exclude importance being attached to the role of the firm in society. Business policies under a "micro" accounting system were heavily influenced by micro-economic principles and resulting from this there existed a technically sophisticated body of accountants and auditors administering the more involved system. The environment associated with an "independent" accounting system was similar to that for a "micro" accounting system except that firms relied more heavily on judgment, estimation and intuition in their practices and less on the dictates of the principles of micro-economics. Finally, a "uniform" accounting system applied in any of the above-mentioned situations where either governments or firms considered uniformity of great importance for reasons of administrative control or simplicity of operation and understanding.⁴

Figure 3.1 illustrates the four patterns of national environments and accounting systems described by Mueller (1967). In terms of the "macro" pattern there is a relationship at all times between the accounting practices and macro-economic policies. Mueller postulated that this relationship applied when firms could accomplish their goals best through a close co-ordination of their objectives with national economic policies, because "accounting, in turn, can best assist the

FIGURE 3.1

Mueller's Patterns of Environments and Accounting Systems



achievement of these goals if it views itself as serving directly the interests of national economic policies" (Mueller, 1967, p. 19).

Thus, harmony exists when the accounting practices are consistent with the national macro-economic policies.

The "micro" pattern indicates that it is the economic policy of the individual firm which dominates the accounting system. Harmony exists in this environment when the accounting practices are consistent with micro-economic policies of profit optimization related to the firm's survival within the changing economic environment.

The "independent" pattern of Figure 3.1 portrays both business practices and accounting practices as derived by a process of trial and error to best suit the business interests within the national environment. In such an environment to serve business effectively, accounting is an independent pragmatic discipline with its ability to establish a harmonious relationship being dependent upon the observation of existing business practices and the distillation therefrom of useful accounting practices. Under the "independent" pattern harmony exists when there is consistency between business practices and accounting practices because the environmental influences of significance are business practices.

The "uniform" pattern as illustrated in Figure 3.1 shows that it is a matter of national and/or business policy which determines whether or not the practices of accounting are uniform. The greater the deemed need for control of administration or simplicity of recording or understanding, the greater need for uniformity within the accounting system for the achievement of harmony.

The four patterns of national environments and accounting systems (Figure 3.1) caused Mueller (1967) to set down the following significant characteristics of the environments and accounting systems. The "macro" accounting system may apply if: the firm is the essential economic unit in the nation; and the firm's goals are achieved optimally through coordinating its activities with national economic policies. Consequently firms are served best if accounting interrelates with national economic policies. The "micro" accounting system may apply if: individual firms are the key units in business activities; the main policy of a firm is survival and this is best achieved through economic optimization. Consequently firms are served best if accounting is viewed as a branch of business or micro-economics. The "independent" accounting system may apply if: the firm is an essential business unit; and businesses benefit most from past experiences. Consequently accounting serves firms best by being neither a macro or micro economic instrument but an independent discipline related to business practices. The "uniform" accounting system may apply if either the nation or business wishes to: facilitate economic and political control; facilitate the preparation and understanding of accounting; aid government or management/owners in their administrative duties.

The environmental characteristics of the various patterns set out above enabled Mueller (1967) to offer examples of the effects that the different environments may have on the accounting principles of income determination, revenue and expenses and asset valuation. According to Mueller, under the "macro" accounting system: (1) no discrimination may occur in equity claims because a firm's pool of assets serve the nation

first and ownership interests second; (2) income normalization between periods is permissible as sharply defined cut-off periods are not required; (3) revenue becomes a more inclusive concept dispensing with the need for conservatism in realization and recognition;⁵ (4) expense recognition is determined by economic sacrifice measures and national economic policies;⁶ (5) methods of asset valuation are of little importance providing they are logical and uniformly and systematically applied;⁷ (6) wealth creation and utilization (i.e., the income statement) take precedence over the possession of wealth (i.e., the balance sheet); (7) a clear parallel exists between tax accounting and financial accounting.

The major accounting principles referred to by Mueller (1967) under the "micro" accounting system were: (1) survival requires that the economic substance of the firm be maintained, thus necessitating invested capital being maintained in real terms; (2) accounting income does not include monetary amounts needed to maintain invested capital; (3) accounting income does include changes in replacement values if not needed for required capital-investment adjustments; (4) the traditional accounting income concept applies.⁸

The major principles of the "independent" system of accounting put forward by Mueller (1967) as arising from business practices were: (1) income is dependent upon notions of realization, matching, and accounting period; (2) measurement methods are pragmatic, thus historical cost is preferred but price indices are acceptable in certain circumstances; (3) full and fair disclosure is required.

The foregoing shows that Mueller (1967) perceived that it was primarily the national economic environment which determined the system of accounting within a country. Furthermore, it was the character of the economic environment as described by general propositions of the national environmental setting of the firm which provided the basis for the deduction of an accounting system. This formulation led Mueller (1967, p. 36) to argue that LDC accounting systems because of government's direction of the economy, should be predominantly of a "macro" type until the economic "take-off" stage of the nation occurred. At this stage, because of a change in the national economy from controlled to market force direction, there should be a change from a "macro" accounting system to a "micro" or "independent" system of accounting.

To recapitulate: Mueller (1967) may be turned to in support of the contention that the dimensions of the international accounting paradigm (Figure 2.2) be national environments (E_i^i) and accounting systems (A_i^i) and the desirability of there being a harmonious relationship (R_i^h) between them. Mueller's work permits one to broadly specify the subject matter of the international accounting paradigm (Figure 2.3) by identifying key properties (E_j^i) of the environmental plane, the character of four accounting systems (A_j^i) and by projecting relationships of harmony (R_i^h) by hypothesizing that certain environmental circumstances have resulted in specific accounting principles (Mueller, 1967, p. 4-5). However, Mueller portrayed the economic properties of the environment as dominating the development of accounting systems. Apart from a passing reference, (Mueller, 1967, pp. 18-19), to the possibility of considering "the public interest" as an environmental property, but then dismissing

it for being "an elusive phenomenon," Mueller ignored any other properties of the environment for their influence on accounting development.

The next exemplar is Seidler (1967) where the role that accounting should play in an LDC (Turkey) in fostering industrial and capital development was considered.⁹ In formulating the recommendations Seidler examined Turkey's "business environment," particularly: the taxation setting, government regulatory involvement in business, the capital market, the foreign exchange resources, and the accountants' status. Seidler considered the above environmental dimensions and properties to be vital in his analysis of accounting's developmental role because:

(1) Most of the population due to historical foreign oppression was "completely removed from the industrial and commercial activities" (p. 23). (2) "Vague ideas of socialism" by government and a "lack of social responsibility" by business "creates general distrust for private enterprise" (p. 25). (3) Political policies of "equity" required businesses to be taxed to contribute to national development (p. 46). But the inequities caused through maladministration and tax evasion should be recognized too (p. 49). (4) Government regulations, such as price and foreign exchange controls, significantly affected businesses (p. 110, p. 129). (5) Serious shortages existed in the supply of capital, E.D.P. equipment and accounting personnel (p. 153, p. 186, p. 233).

Seidler (1967) did not specify any set of accounting practices for Turkey or other LDCs. The "American model" of accounting practices received some favouring by him because of its familiarity to capital markets and the great need for LDCs to attract capital, but Seidler said its acceptance holus bolus or in its entirety would usually be inappropriate for LDCs. However, Seidler considered that LDCs, being latecomers in the setting of obligatory accounting practices, would be able to benefit from the experiences of the developed nations with regard

to accounting system design in order to achieve accounting principles and practices appropriate to the problems of LDCs.

Scott (1970) envisaged accounting system and the environment as being closely linked if accounting was to possess important developmental potential for LDCs. Scott theorized that the cultural, business, professional accounting and governmental settings were of great significance in determining the role that accounting should play in the development of LDCs. Cultural influences were considered by Scott because in LDCs "standards of morality, honour and integrity are primarily interpersonal and do not embrace institutions." According to Scott these cultural differences created a commonly held "suspicion" of businesses. Furthermore, a lack of identification on the part of businesses in LDCs with government policies frequently led to an attitude by business of noncooperation and even hostility to the government. Accounting was seen to be an arm of business and thus lacking in credibility by those outside business. Information on the setting of businesses was considered by Scott because ownership rested usually in an elite minority, a consequence of which was that there was "no tradition of providing adequate information to the public." Finally, details of the professional accounting environment were considered by Scott because many Western style practices (such as training systems) frustrated rather than aided the development of accountants and accounting in LDCs.

According to Scott (1970) the LDCs environments were such that accounting should be based on general economic principles rather than business practices or legislation which reflected the narrow needs and interests of certain interest groups. Consequently, the use of current

value should be the preferred basis because of its decision-making usefulness, especially in national planning. Emphasis should also be given to information for the implementation of equitable taxation policies, for the formulation of economic development policies, for the regulation of economic activity, and for the assessment of business performance for decision-making and capital market needs. Scott also concluded that there should be a close relationship between enterprise accounting and macro-statistical accounting in LDCs. Furthermore, like Mueller (1967) he envisaged close government control of accounting in the early development of LDCs, with later movement to private sector control. In the view of Scott (1970) the best approach to designing an accounting system for an LDC would be to "effect a clean break with accounting tradition in developing nations and to attempt to develop accounting with a fresh start" (emphasis added) based on standards of accounting education, practices and professionalism required for economic decision-making.

Zeff (1970) as mentioned earlier in Chapter 1, saw national environments (coupled with national pride) as being a cause of differences in accounting systems. According to Zeff a major dimension of the environment affecting accounting systems was the influence of professional accounting bodies. Upon reviewing his research into the accounting development of five nations, Zeff (1970, p. viii) maintained:

"I cling to my belief that accounting principles should be established by agencies in the private sector, preferably professional accounting societies . . . [because] . . . surely the result would be more responsive to societal needs and unfettered by bureaucratic intrigue, [and] political pressure"

Zeff believed that there was a better chance of harmony being achieved between national environment and accounting system if the accounting principles and practices were established by "unbiased" or "independent" professional accountants; but this belief was tempered by an acknowledgement of the growing influence of other factors (Zeff, 1970, p. 306).

Zeff (1970) highlighted the significant influence which market factors (the stock exchange, organized industrial associations, major trading partners), political factors, and historical associations ("zones of influence"), may bring to bear on professional bodies and so affect the shape of accounting within a particular nation. Zeff also considered the status of the profession in regard to its authority to regulate and police accounting practices to be a major factor in the development of accounting systems. Zeff's study covered accounting system development in five countries, however, only one of them, Mexico, may be classified as being an LDC in some respects. Nevertheless the study is helpful because of the views it advances on how environmental factors brought about accounting practices.

Enthoven has contributed greatly over a number of years to the knowledge base represented by the international world view paradigm (Figure 2.2).¹⁰ A main theme of all his works is that accounting should be more closely related to the various environments in which it operates if nations, especially LDCs, are to receive the optimum economic development benefits which they all so desperately desire. In this regard, Enthoven (1973, p. 3) wrote:

"Accounting is . . . both a product of its economic environment and is able to shape that environment; as there are many environments, it is impossible to prescribe a detailed uniformly valid system that will serve the needs of all economic environments (countries). But this does not preclude more universally acceptable, underlying accounting theory, systems and techniques that are able to serve and are geared to the specific needs of these environments."

This is a clear exposition of the paradigmatic international world view of Figure 2.2 that E^i influences A^i and A^i influences E^i . His writings stress¹¹ that because of the varying socio-economic environments accounting in LDCs should differ greatly from that in industrialized, developed, Western style of culture, nations. For this reason the role of accounting must be determined in the context of the various environments. Accordingly:

"In order to get a clear idea of the accounting requirements of each developing country or region, an assessment must be made of: (a) the environmental conditions of accounting, (b) the status of the branches and activities of accounting in the micro and macro economic spheres, and (c) the necessity and feasibility for improving all forms of accounting." (Enthoven, 1973, p. 308).

In all his works, Enthoven emphasized the need for accounting to serve LDCs not only in a micro (individual business) way but also in a macro (national) way. In Enthoven (1973, pp. 113-4) he stated this role as follows:

"Accounting objectives--of primary and secondary nature--have to be based on the needs and aims of governmental (public) and private groups in a society. In this respect, the public interest, including established national goals, is becoming more and more prominent and involved an enlarged socio-economic decision making orientation of society at large. Primary accounting objectives may therefore be viewed as serving the national--and international--interest and related goals. Secondary objectives, relating to financial enterprise, management, government or social accounting, can diverge considerably, even within each branch."

Enthoven (1973) pointed to the usually high degree of influence held by governments over the economies of LDCs and the emphasis given to control and planning. This environmental situation induced Enthoven to postulate that the accounting systems of businesses in LDCs should be correlated to the national accounts and external financial statements should be prepared with these macro purposes in mind. This should require greater uniformity, greater use of current rather than historical cost, and the reporting of certain future-orientated information such as budgets and projections. According to Enthoven: "Accounting should be far more interrelated with socio-economic activities if a better and more equitable world is to be achieved" (Enthoven, 1973, p. 328). Furthermore: "The fallacy of misplaced correctness," whereby accounting reports only historical economic facts should be replaced and attempts should be made to measure aspects of the quality of life and to reflect social indices even if these cannot be "measured objectively" (Enthoven, 1973, p. 330).

From the foregoing it is concluded that the "world view" of international accounting as depicted on Figure 2.2 is reflected by the exemplars whose views were all induced by empirical observations of national systems. Enthoven (1973) provides the most succinct and holistic expression of the international accounting paradigm, derived from the further works of Mueller (1967), Seidler (1967), Scott (1970) and Zeff (1970); which themselves constitute the focused outcomes of the views expressed in the main discipline of accounting by Littleton and Zimmerman (1962). All are consistent with the view that various

environmental dimensions (E^i) should affect the development of accounting systems (A^i). A further hypothesis of great moment for LDCs is that put forward by all the exemplars that accounting systems may be powerful forces in shaping national environments, ($A^i \rightarrow E^i$). The main environment dimensions stated by the exemplars as of importance to accounting system development were:

- E^1 = The firm setting.
- E^2 = The macro-economic setting.
- E^3 = The political setting.
- E^4 = The social and cultural setting.
- E^5 = The professional accounting setting.

Figure 2.3 shows that the environmental plane is composed not only of environmental dimensions (E^i) but also of a variety of environmental properties (E_j^i). It is the character of these properties, or their states of nature, which according to the exemplars may be the cause of influence upon the development of accounting practices (A_j^i). The exemplars considered the following environmental properties, categorized under environmental dimensions, to possess potential for affecting accounting development:

Regarding E^1 , the firm setting: The structure of ownership; capital availability (money, labour and plant); and survival policy (profit maximization or optimization).

Regarding E^2 , the macro-economic setting: The national macro-economic policy (planning and control); the stage of economic development.

Regarding E^3 , the political setting: The type of political regime (totalitarian or laissez-faire); the form of social responsibility regulation.

Regarding E^4 , the social and cultural setting: The stage of moral and ethical value development.

Regarding E^5 , the professional accounting setting: The power of the profession; the duties of the profession.

Figures 2.2 and 2.3 stress that relationships should or do exist between environments and accounting systems.¹² Of all the exemplars, it is only Mueller (1967) who provides a structured framework, within which various accounting systems may be fitted, by hypothesizing general propositions of the environments of firms which are used to deduce relationships with accounting systems. Scott (1970), Seidler (1967), and Enthoven (1973) approach the relationship problem from positions similar to that described by Mueller as the "independent" approach which relies heavily on past experience, judgment, and "trial and error." This seems the case since all these researchers suggest that the developed nations' existing systems should be adapted or borrowed from to best suit the LDCs needs. Thus Scott (1970) favoured businesses in LDCs using accounting practices derived from micro-economic principles to foster business survival and development; while Enthoven (1973) tended to favour businesses following accounting practices attuned to the macro-economic needs of a country as well as meeting the micro or individual company information needs. This deviation in the perceived systems for LDCs by the exemplars may be explained by the international paradigm (Figure 2.2): where nations are perceived to have different environments (E^i) they should have different systems (A^i).

3.3 SPECIFIC ELABORATION OF THE ANALYTICAL PARADIGM

Attention is now given to that body of research which may be characterized by its ability to provide a more detailed or dimensionally focused elaboration of the paradigm (represented by E^i_j , A^i_j and R^t_i of Figure 2.4). Specifically, the extant body of theoretical research forms the basis for the efficient and effective identification and definition

of key or important environmental properties (E_j^i) and the way these may vary or the scale by which these may vary across nations (S_{jk}^i). In other words: the environmental plane (E) is composed of essential dimensions (E^i) pertinent to the world view that harmony should exist between environments and accounting systems. These essential dimensions of the environmental plane (E^i) were identified in section 3.2 from the exemplars. The more detailed or more specialized research studies are analyzed now to provide the set of properties ($E_1^1, E_2^1, E_3^1, \dots, E_n^1$) composing each dimension of the environmental plane. The literature is also used to identify the states of nature ($S_{11}^1, S_{12}^1, \dots, S_{1n}^1$) of each of these properties, signifying how they may vary between national environments; indeed, most importantly how the properties may vary between the industrialized Western nations and the LDCs.

The form that the analysis takes in this next section is a systematic one. For each environmental dimension (E^i) a property (E_j^i) is identified. Support is obtained from the extant literature of each property's existence and its potential importance particularly in terms of its key impact on accounting practices. The analysis culminates in the case of each property with a specification of the important ways in which each property may vary between national environments (S_{jk}^i). Whilst pursuing the abovementioned fundamental task, attention is also given to the relationships (R_i^t) and accounting practices (A_j^i) disclosed in the literature. This review of the literature in this regard is taken in anticipation of the later detailed theory construction, for it is at that stage that much of this information on relationships and accounting practices will be of assistance.

Dimension: E¹ The firm setting.

Properties of the firm setting which are considered by many scholars of international accounting to be of significance in their influence on the development of accounting systems are discussed in the sections which follow.

Property: E¹ Type of majority ownership

The structure of ownership of companies remains a matter of importance in influencing the system of accounting to this day in even the most developed industrialized nations. Parker (1977) and Nobes (1983) hypothesized that the composition of the shareholder body as to personality and spread of shares held was a major reason for differences amongst nations in accounting particularly in regard to accounting for group companies. This phenomenon has influenced greatly the form of accounting systems in LDCs (Elliott, 1968; Cunningham 1978; Givoly and Lakonishok, 1982). Bailey (1982, p. 34) wrote of the likely differences in approach to accounting practices between market economies and noncapitalist economies because of the difference in the personality composition of the owners/controllers of companies.

"Given that accounting is a dependent variable, then if a linear theory of socio-economic development (that is, all societies progress through the stages of slavery, feudalism, and capitalism), is discarded for a multi-linear theory, it becomes necessary to consider that accounting evolution may proceed along different paths in different countries. The cultural and institutional factors determining the nature of accounting evolution are different in an individualistic economy from those operating in a statist economy. It is a proposition having relevance to those non European countries opting for a noncapitalist economy. Where the impetus for economic development is provided by entrepreneurs, they are likely to be innovative in accounting procedures, but where the impetus for economic development is provided by the state, it is likely to provide the pressure for accounting development."

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In the United States public shareholdings are commonplace and have led to what has been termed "stockholder sovereignty" because of their influence on the type of external financial reporting, (Andrews and Smith, 1976, p. 139). A similar situation has arisen in the United Kingdom, (Moore, 1978). The status of national stock exchanges is another factor which may influence the external financial reporting system (McComb, 1982). The great influence that the stock exchanges in the U.S. have on the formulation of "generally accepted accounting principles" in that country may be perceived from the very existence of the Security and Exchange Commission and the Security Acts of the early 1930's. The direct role that stock exchanges themselves have played in the formulation of accounting principles in the U.S. is revealed by Storey (1964) in his records of the steps taken by the accounting profession and the New York Stock Exchange in the 1930's to introduce a form of generally accepted accounting principles. Stock exchanges may also yield great persuasive power. The lobbying power of a sophisticated and active stock exchange in the setting of accounting practice is touched on by Moore (1978), who reveals the strong opposition registered by the London Stock Exchange to certain proposals in the green paper "The Future of Company Reports" for extending corporate reporting into social areas.

On the Continent of Europe the stock markets generally possess less influence on the formulation of accounting practices (Nobes, 1980). There much of the capital in large companies is controlled even today by families, whose ancestors usually had founded the businesses, or by institutions such as banks. Indeed, many of these large companies may

be private or "closed" companies and thus not listed on a stock exchange, (Fisher, 1979; Lefebvre, 1981; and Nobes, 1980). According to Lefebvre (1981) many large companies in Belgium were controlled by "a few very powerful holding companies" owned by families and banks with no significant ownership being held by the public. Consequently, there was less publicity given to their financial affairs compared with the USA and UK; a situation evidenced until recently by the absence of any obligation to issue consolidated accounts. A very similar situation is described by Fisher (1979) and Nobes (1980) as having existed in Germany. In that country with family shareholders and bankers frequently in control there was no great demand for U.S. style external financial statements prepared according to "generally accepted accounting principles." The controlling shareholders, who more than likely were the only shareholders, were "insiders" and as such had the right of access to the detailed records or management accounts (Fisher, 1979). Therefore, published accounts tended to be sparse on detail and issued simply to comply with minimum legal requirements, (Cunningham, 1978, p. 69). Barret (1974) and Skully (1981) found family and bank shareholding ownership to be most common in the large Japanese companies. However, for historical reasons a different pattern of ownership had developed to that commonly found on the European Continent, for in Japan it was not uncommon to find intricate ownership patterns existing between companies. These intricacies caused through "cross holdings" gave rise to "no parent" and "no minority" situations, and arose, according to Barret (1974), from the anti-monopoly regulations imposed by the Allies during the occupation after World War II. Here

too, and mainly for the same reasons as described for Germany and Belgium above, consolidated financial statements were rarely published, there was a tendency for published financial statements to be short on detail and for accounting policies to vary according to the particular choice of the owners.

It is common to find that many of the major companies in LDCs are controlled by minority resident population groups representative of the wealthiest of families, (Scott, 1970). Bankers on the other hand are less likely to play a major role in direct shareholdings, mainly because in most LDCs the banking system is not extensive. Also, in regard to LDCs, Elliott (1968, p. 177) commented:

"The U.S. concern for investor information is not present in Latin America. This may be attributed to the lack of a large investor class."

There are a number of possible reasons for this lack of an investor class in LDC stock markets. A situation found in many LDCs is mentioned by Radebaugh (1975) who considered the position in Peru where the stock market was small and inactive, and concluded that:

"The problem with the Peruvian situation is the lack of confidence in the growth of the private sector of the economy due to the attitudes of the current regime towards socialism and the increased implementation of the worker's community."

Another cause for lack of activity in the LDC stockmarkets is that businesses may not look to a stock exchange for their capital needs. Givoly and Lakonishok (1982) cite this as one reason for the "insensitivity" of Israeli companies to the information needs of the investing public. Instead of disclosing the information publicly, companies may prefer to do so privately to their institutional backers,

even if they deal through a stock exchange. This dominance of institutional investors in the trading and in the holding of corporate stocks "leads to their monopoly over timely and relevant information" and causes the small investor to think of his participation in the market as a gamble. The public therefore is apathetic towards accounting disclosure and so accounting statements are not oriented towards shareholders in the way found in the U.S. and U.K. with their active shareholder markets. The research studies by Choi (1973 and 1973A) point to the necessity for accounting systems to be acceptable to the sophisticated capital markets, if investment capital is to be attracted. This is surely a matter of great importance to investment needy LDCs (Briston, 1978, p. 116). However, conformity to the particular accounting requirements of the major markets (viz., the U.K. and U.S.A.) should not be stressed too greatly because the information could and often was met by preparing adjusted financial statements for their particular needs (Cunningham, 1978). Cunningham (1978, p. 154) also mentions the resentment that could arise towards MNCs through an insistence that subsidiaries located in LDCs apply foreign or western developed-country biased IASC accounting practices instead of the host nations' standards.

Overall, the accounting systems of LDCs are what one would expect in a predominantly "family" style proprietary business environment. This contention is substantiated by the empirical studies of Radebaugh (1975) and Elliott (1968) in Latin America, whose findings are similar to those of studies by researchers such as Seidler (1967) and Enthoven (1976) in other LDCs. These studies revealed that in LDCs with a preponderance of

family shareholdings accountants perform mainly a book-keeping role; there was a lack of standardized accounting terminology and practice; and a veil of secrecy attached to financial disclosure. In the latter respect it was common for the minimum information required only by law to be provided. The content of the financial statements would be of a general and aggregate nature, with the balance sheet being the primary document and the income statement providing little more than the profit or loss total for the period (Enthoven, 1973, p. 276). In the majority of cases the financial statements were used primarily for tax and borrowing purposes and therefore by shareholder choice followed tax rather than accounting principles and gave emphasis to general business solvency rather than profitability details.

It is not uncommon in LDCs for many of the companies to be either controlled by or significantly influenced by foreign MNC shareholders. In this type of situation the shares are usually tightly held and the accounting practices followed are chosen by the MNC parent and are invariably related closely to those of the MNC shareholder's home country (Cunningham, 1978, Gray 1981). MNC reporting within the host country is very similar in effect to that of a family or closed company; the reports are not produced primarily for public viewing but for the private viewing by parent company personnel in a foreign land for incorporation into the parent company's financial statements. MNCs, once again like family companies, usually adopt a low profile and so show minimum information publicly concerning their LDC subsidiaries.

Governments for both ideological and economic reasons have frequently become involved in investing in business. In particular, many

LDC governments have invested in businesses to remove the imbalance in the economy caused through the holdings of foreigners and minority population groups. This involvement by government in business has greatly affected accounting practices. Much of this is dealt with later and it will suffice to record at this stage the examples provided by events in developed nations such as Norway (Riise, 1982) and France (Nobes, 1980) and in LDCs such as Peru (Radebaugh, 1975) and Turkey (Seidler, 1967). These studies reveal a preference for certain accounting practices as a result of government becoming an investor in the loan and share capital of companies. In all cases there was a preference for uniformity in accounting practices and a requirement for national socio-economic statistical information.

The empirical studies on accounting following a government's involvement in a company investment have not been the preserve of academics alone. A study undertaken by the Sri Lanka professional accounting institute in 1973 recommended that the domestic accounting system should be changed to include the information needs of government following the introduction of a centrally planned economy and the rapid growth of government's investment in enterprises (Briston, 1978).

The foregoing analysis of the extant literature shows that the personality of shareholders and the spread of ownership in companies have often greatly affected accounting development. In general it appears that the accounting reports of companies owned by family and bank or institutional investors tend to be sparse on disclosure; so too are those of MNC subsidiaries which also tend to follow the MNCs home countries' practices; those companies whose shares are widely held by the general

public are prone to "stockholder sovereignty" in establishing their accounting practices; while the reports of state owned companies tend to be codified to meet the requirements of government. For the purposes of classification family and institutionally owned companies and MNCs may be grouped as a single type of ownership category since the accounting practices in each case are those chosen by a single or small number of shareholders; the shares are closely held; and the financial reports receive limited exposure and circulation. It is therefore appropriate to state the commonly found ownership characteristics as follows: -

<u>Property</u>	States of nature		
	1	2	3
E ¹ Type of majority ownership	Family institutional & MNC	Public Market	State

Property: E¹ Nationality of owners and lenders.
2

Foreign majority or sole ownership, usually in the form of investment by MNCs, has been very prevalent in LDCs. Usually the foreign investors (who may be shareholders or lenders) would impose their home countries' accounting practices on the investee companies (Cunningham, 1978; Thorelli, 1977). Frequently an indirect consequence of this, arising from the economic strength of the foreign investors, would be the adoption of many of the foreign countries' accounting practices by the host countries (Choi, 1973 A; Riise, 1982).

Governments may require specific accounting practices if they fear exploitation of their national assets by outsiders. The European Economic Community, for example, once proposed that "horizontal consolidations" be prepared to disclose the full extent of MNC and

foreign interests within member nations (Nobes and Parker, 1981). Cunningham (1978, p. 92) stated that "there is considerable evidence that residents and governments of many countries view large and powerful MNCs as threats to their sovereignty, despite benefits MNCs may provide." For these reasons Egypt (Briston and El-Ashker, 1984) and Iran (Foroughi, 1981) required codified practices and the United Nations Center for Transnational Corporations recommended that accounting should reflect the needs and priorities of home and host countries particularly those of developing countries (U.N., 1980, p. 81). One of the fears held, particularly by LDCs, is that MNCs, which usually operate through local subsidiaries and which are often regarded as nothing but "legal shields" (Cunningham, 1978, p. 109), do not conduct arms length deals but "manage" their operations (Hall, 1977, p. 98). LDCs, according to Hall (1977, p. 100) consequently have great difficulty in assessing the valid net cost/benefit of the MNCs and foreign investments. Furthermore, the host nations' suspicions are aroused frequently by the very complex nature of the MNC parent/subsidiary relationships and the difficulties encountered in establishing the MNC total interests (Cunningham, 1978, p. 109). To lessen this inherent distrust of MNCs by LDCs (McComb, 1979) and to prevent government interference, Thorelli (1977, p. 10) suggested that MNCs should endeavour to build trust amongst all stakeholders and to act as agents of progress. Such an endeavour would require, amongst other factors, the use of suitably designed accounting measurement and disclosure practices. Thorelli also considered it likely for LDCs to evaluate earnings data relative to the extent of local investment in the

MNCs subsidiaries and to view dividend and interest remittances abroad more favourably if local residents were also receiving a share of the dividends and interest payments.

The above research findings are good reasons for creating an environmental property termed nationality of owners and lenders: -

<u>Property</u>	<u>States of nature</u>	
	<u>1</u>	<u>2</u>
E ¹ 2 Nationality of owners and lenders	Mainly foreign	Mainly local

Dimension: E² The macro-economic setting

Three economic properties selected after a study of the extant literature as affecting accounting development are: (1) Extent of planning and direction of economic development by the state; (2) extent of economic stability controls; and (3) stage of economic development. These properties and the way in which they may affect accounting within an environment are dealt with below.

Property: E²₁ Extent of planning and direction of economic development by the state

"There seems to be no a priori reason why accounting development could not be guided by national economic policies," (Mueller, 1967, p. 5), is an observation certainly not in conflict with the views of Lenin who obviously saw it as a practical proposition when he said:

"Accounting and control--that is the main thing that is required for the proper functioning of the first phase of communist society." (Mills and Brown, 1966). The degree of state management of the economy and the rating of importance for national development are seen generally to

affect the extent of state interference in accounting practices (Abel, 1971; Al Hashim, 1979; Berry, 1982). Bailey (1982, p. 34) considered that " . . . where the impetus for economic development is provided by the state, it is likely to provide the pressure for accounting development." Whilst AlHashim and Garner (1973) postulated that the more centralized the economy the greater the likelihood of accounting uniformity; and, the more urgent the felt need for development by a central government, the greater the desirability of uniformity.

Miller (1979, pp. 55-56) placed developing nations into four categories depending upon their national economic policies and described the likely accounting effects: -

- (1) Developing nations that adopted communism, or one of its variant forms, as the preferable solution to socio-economic growth. In these nations accounting and reporting systems would be those imposed by the governments to support their centralized national planning.
- (2) Developing nations that selected state ownership for the majority of the economy, with little emphasis upon the private sector. These nations would tend to adopt centralized planning from the top down, with much imposed uniformity in accounting.
- (3) Developing nations that chose state ownership and/or control of selected areas of the economy, such as those concerning natural resources, agriculture and basic industries. Central planning would be adopted as a necessary tool, but in co-operation with private enterprise, both domestic and foreign.
- (4) Finally those developing nations that depended for economic growth on the private sector with the state attempting to recognize and fill voids. These nations would usually approach national planning from the bottom up, depending more upon co-ordination than upon compulsion.

Belkaoui (1985B) pointed out that economic development plans could usually be grouped into two broad categories for achieving LDC development. Firstly, those plans which aim to maximize gross national product growth and provide benefits for the populace and nation through a "trickle down" of the benefits of economic growth; and secondly, those which are aimed at accelerating the growth of incomes of "target" poverty groups. Belkaoui's groupings may be seen to be a further subdivision which may be applied within each of the categories provided by Miller (1979) and cause the accounting systems to differ yet further.

Many consider that if national planning is used as a tool for achieving national development then accounting should be attuned to the planning system to provide useful input material. Campbell (1963, p. 11) wrote that although it was not always so, academicians in the U.S.S.R. consider that accounting reports should provide the major source of information for planning and controlling the economy.¹³ Bray (1973) was yet another researcher who generally favoured a linkage between accounting reporting of business firms and the macro-economic reports of nations. Enthoven (1973, pp. 148-169) said a main aim for accounting in LDCs should be to become a tool for aiding national economic development and social welfare and this should be achieved mainly by linking enterprise accounting to national planning and reporting.¹⁴ Mirghani (1982, pp. 66-67) pointed out that for this linkage between macro-planning and macro-accounting and micro-(company) accounting to be successful there should be:

- (1) An agreement between micro- and macro-accounting regarding the definitions, the measurement base, the unit of measurement, and accounting of the input data required for the evaluation of the country's economic performance or for monitoring the progress of a development plan.
- (2) An agreement between micro- and macro-accounting regarding the qualitative characteristics, classifications, and degree of detail of micro-accounting data for macro-accounting purposes.
- (3) An awareness by accountants and management of the importance of the information. Such an awareness being necessary for their support and for the success of national development.

Both Belkaoui (1985B) and Enthoven (1977), while recognizing the positive contribution accounting could make to LDCs seeking economic development, considered that to be successful in this regard, the accounting systems of LDCs should conform to the national social, political, and economic settings; and be adaptable and useful to the national developmental plans, (thus standardization of accounting practices should be of major importance). Bray (1973, p. 12) pointed not only to uniformity of practices if accounting was to be of full use to macro-planning and accounting but also of the need for the imputation of values to those factors to be used as "indicators" or principal measures in constructing and interpreting the national plans.

The various socio-economic policies of governments have forced accounting systems onto different paths of development (Foroughi, 1981). Many governments today require accounting information from businesses for a variety of purposes all of which are connected in one way or another to planning or fiscal needs (Riise, 1982; Ndubizu, 1984). Control over accounting practices by governments to achieve policy goals is commonplace; particularly so in civil code jurisdictions or under

socialist or strongly nationalistic governments (Berry, 1982; Gorelik, 1974). It appears that the greater the involvement of government in the directing of economic development the greater the need of government for information from businesses and thus the greater its influence on accounting development (Campbell, 1963, p. 11). This importance arises because it is the accounting practices which provide the fundamental material for the calculation of "indicators" or principal measures to be used in constructing and interpreting the national plans (Horwitz, 1970, p. 73; Seider, 1966, p. 652; Briston, 1978, p. 107; Shuaib, 1980, p. 140). Berry (1982, p. 187) writing on the role of accounting in the Comecon socialist countries said that in those countries:

"Accounting must be congruent not only with national philosophy but also with economic policy, as expressed in the national economic plans The data produced by accounting-information systems must be useful for two main purposes: To provide input for the economic planning process and to help in evaluating economic performance."

According to Gorelik (1974) it is the Soviet view that for central planners to be effective, detailed enterprise information is needed and this must be gathered from the accounting reports, (see also, Campbell, 1963, pp. 3-10). In 1975 there was an effort to legislate for a form of national economic planning in the United States. If Congress had approved of the measure there would have been a need, according to Andrews and Smith (1976), even in the limited type of planning envisaged under the law, for some form of involvement by government over the form of accounting reporting. However according to Andrews and Smith, because of the United States' environment, government's direction would have been of an "indicative" (French) style and not of a "coercive" (Russian) type.

It is concluded that: the extent of planning and direction of the economy by a state is considered by many accounting scholars to be a property of the environment which can affect the accounting system; and, that a useful scale for indicating the likely significance of this property on accounting may be provided by adapting the four classifications of Miller (1979) described earlier. Such a scale is shown below:

<u>Property:</u>	States of nature			
	1	2	3	4
E ₁ ² Extent of planning and direction of economic development by State.	Total, for all business sectors	For majority of business sectors	For selected business sectors	NIL

Property E₂² Extent of economic stability controls.

Enthoven (1973, p. 307) wrote that matters of macro-economic and financial stability should influence accounting in its role as a tool for national development. In Enthoven (1965) the view was expressed that accounting should be tested constantly for meaning against the economic background because of its potentially unstable nature.

One such cause of instability is inflation. Governments have been known to interfere with accounting systems in their endeavours to control inflation, see for example the terms of reference of the Inflation Accounting Committee, Sandilands (1975, p. iv). Certain nations have legislated on the form of reporting that should be adopted, for example, Brazil (Doupnik, 1982); other nations have permitted partial adjustments or revaluations to be made, for example, France (AlHashim, 1980); and yet

others have forbidden the use of inflation accounting methods fearing that their very usage may fuel the inflationary fires, for example, Germany (Nobes and Parker 1981). Because of the instability of the monetary unit Enthoven (1973, p. 274) considered that current value accounting should be presented with historical accounting, "at least for the time being." Scott (1974) however cautioned the use of current prices in LDCs because of the considerable likelihood of these prices reflecting government's current policies and not necessarily the underlying economic realities.¹⁵

Government policies of concern relating to macro-economic stability and reality would be those which place controls on business dealings and which are so often applied in LDCs. Seidler (1967, pp. 79, 110-128) considered that the effects of the controls on prices, foreign exchange usage, imports and the effects of government subsidies should be measured and disclosed because they lay outside the control of management. According to Seidler it was not accounting's task to debate the rights or the wrongs of the controls but to provide a system which makes them operable and provides information for an assessment of their value. He wrote as follows in this regard concerning price control in Turkey:

". . . if price control is not to be equated with expropriation, an element of fairness to the producers must enter into the system. Some concept of a 'fair profit' is invariably utilized and this, of course, requires profit determination . . . [there is also a need] . . . in the price control mechanism for an allowance for return on invested capital, otherwise the goal of increased import substitution is not being achieved" (p. 128).

Another economic matter of great importance to all nations and particularly LDCs is the balance of payments position. To manage the balance of payments, many LDC governments have resorted to controls on imports and on the use of foreign exchange, and to incentives such as subsidies to encourage exports and import substitution. AlHashim (1980, p. 48) described how the accounting practices in Brazil are basically those prescribed by the commercial code, the corporate law, the regulations of the Central Bank and the tax law. The perceived importance of accounting for economic and monetary control purposes is emphasized by the intrusion of the Central Bank into the accounting practice sphere.

However, in many cases, significant actions by governments to control economies may not be disclosed or measured by accounting systems although they may directly affect companies. Seidler (1967) found that in Turkey because of import and exchange controls "in many manufacturing industries. . . a large proportion of total cost is out of management's control" (p. 79); and because of government economic incentives and subsidies to businesses, "no one in Turkey has any idea of the actual cost to the government of the support programme." Seidler (1967, p. 132) concluded that accounting should provide static and trend data connected with these matters so that all parties could assess their impact.

Controls implemented by governments to manage the economic stability of nations are considered by some scholars to be factors which should be recognized in the development of accounting systems. The significance which would be accorded to these economic stability controls in the development of accounting would depend very much upon the extent and

stringency of the controls. A scale which may be useful in gauging the importance of this property on accounting development is shown below: -

<u>Property: -</u>	States of nature: -			
	1	2	3	4
E ² 2 Extent of economic stability controls.	Numerous monetary and pricing controls.	Selected monetary and pricing controls.	Occasional monetary and pricing controls.	Free trade regime.

Property E²₃ The stage of economic development

A nation's conception of what constitutes economic development is most dependent upon its own stage of development. In the industrialized Western nations a definition of economic development would concentrate heavily on raising income standards, as shown by a steady increase in certain indicators such as per capita real income.¹⁶ Whilst in LDCs economic development would encompass the need to improve not only income but also would stress heavily the need for an improvement in social standards, (Seidler, 1967, p. 4; Enthoven, 1978, p. 139). A more specific listing of what constitutes problems of an economic development nature is provided by Belkaoui (1985B). Belkaoui referred to Michael P. Todaro, "Economic Development in the Third World" when he wrote that the economic development problems of LDCs were both of a domestic and international character and summarized these as falling into the following six broad categories, any combination of which created a state of underdevelopment:

- "1. Low levels of living.
2. Low Levels of productivity.
3. High rates of population growth and dependency burdens.
4. High and rising levels of unemployment and underemployment.
5. Significant dependence on agricultural production and primary product exports.
6. Dominance, dependence, and vulnerability in international relations."

The economic setting of a nation may be classified by resorting to the five categories of economic development put forward by Rostow (1971). These are: "traditional society," the "transition to take-off," the "take-off," the "drive to maturity" and the "age of high mass-consumption." The traditional society is basically agricultural in economic structure with human constraints placing a ceiling on the level of attainable output per head. The move from traditional society to the transition to take-off stage is reached, according to Rostow, when a nation turns to science and technology for advancement and accepts that economic progress is a necessary condition for an improved quality of life. For example, a predominantly agricultural nation (with 75% or more of its working force in agriculture) would have to shift to a predominance for industry, communications, trade and services. In Rostow's view, in essence, the transition to take-off stage is typically represented by a rise in the rate of investment to a level which regularly, substantially and perceptibly outstrips population growth. In contrast, the take-off stage is reached when economic growth becomes society's normal condition. The proximate stimulus for growth in the take-off stage is frequently technological and incomes and investment in capital goods expand greatly. After take-off there follows a long period of sustained if fluctuating progress; industry expands and new industries are founded and goods previously imported are produced internally, not as a matter of social necessity but rather as a matter of economic or political choice. This is the stage of the drive to maturity. Finally, the stage of high mass-consumption is reached when the leading productive sections shift toward durable consumers' goods and services to satisfy

local society. Economic development is of particular concern to the underdeveloped countries and LDCs as they strive to move from a stagnant traditional society to the Western ideal of an industrialized, self-supporting, mass consumption society (Belkaoui, 1985B). In the earlier stages of development, those commonly referred to by economists in Rostow's terms of "pre-take-off" and "take-off," the governments of LDCs are usually heavily involved in investing in and directing the development.¹⁷ Where this involvement by government occurs and where it considers socio-economic development to be of critical importance then "the private sector must justify its existence; it must satisfy government that it is contributing to economic development;" which would require information not just confined to "financial costs and returns" (Samuels and Oliga, 1982, pp. 79-80).

A goal objective of national economic growth has spurred many to propound the positive contribution that accounting should play in this regard, especially in LDCs. Seidler (1967, p. 652) writing on the "function of accounting in economic development" studied the environment of Turkey and stated accounting's most vital task in that country to be the supply of information for the "wise allocation and effective use of economic resources." AlHashim (1977, p. 128) studied the Egyptian environment and commented that the goal of economic growth can only be achieved "when a central government is well informed [by accounting] of the factors affecting the goal setting." AlHashim (1977) and Briston and El-Ashker (1984) wrote of how the Nasser government had changed the Egyptian accounting system to help the economy attain a take-off stage. Abel (1971) and Campbell (1963) show how the accounting systems of Nazi

Germany and U.S.S.R., respectively, were modelled to assist these nations to reach a higher stage of economic development. Elliott (1968), Radebaugh (1975), Seidler (1967), and Scott (1970) may be cited as a few of the many studies of LDCs in the lower stages of socio-economic development, which claim that the countries would have great difficulty moving to higher stages unless their accounting systems were compatible with macro-economic growth reporting requirements.

Empirical studies have led to claims that different accounting systems are required depending upon the stage of economic development attained by the nation. Radebaugh (1975) disclosed that in Peru where three types of industry are crucial to the economy, namely mining, petroleum and fishing, it was adjudged prudent by the legislature to set different accounting rules for each of the industry types. The studies by Elliott (1968) on Latin America, by Dahmash (1977) on Jordan, and by Shuaib (1980) on Kuwait argue that it is not national wealth per se but rather the stage of economic development achieved by a nation which should be an indication of the potential importance of accounting systems for national development.

It is proposed to use the classification scheme of Rostow (1971) as a suitable scale for describing the stage of economic development of a nation because of its clear distinction between types. Such a scale may be useful in analysing the appropriateness of an accounting system for a nation because each stage may require different approaches and information from the system.

<u>Property</u>	States of nature				
	1	2	3	4	5
E ² E ³ Stage of economic development	Traditional society	Transitional society	Take-off	Drive to maturity	Mass-consumption

Dimension: E³ The political setting

This dimension includes those political properties of a national government in the environment which may affect the accounting practices to be found in a nation. Once again the criteria for specifying the political properties are obtained from the extant literature. One such property put forward in the extant literature as possessing such effects is political regimes.

Property E³ Political regimes
1

Political regimes as broadly classified to cover capitalist and non-capitalist ideologies have been thought by some to influence the development of accounting practices. For example, Karl Marx ("Capital," volume III, part I) viewed accounting as practised in the industrialized Western nations as having being moulded by the capitalist society for its selfish interests. According to Marx the accounting practices were designed so as to mystify rather than reveal the true nature of the social relationships which constitute productive endeavour. He gave the example of how accounting practices achieved this objective of mystifying or masking the contributions of society by treating the owners' labours as capital but the workers' labours as costs. "On the one hand, the value or the past labour, which dominates living labour, is incarnated in the capitalist. On the other hand, the labourer appears as the base material labour-power, as a commodity." (Marx, "Capital," volume III,

part I, p. 5). The accounting practices as adopted in many western nations, although perhaps satisfying capitalist beliefs, may not necessarily satisfy the needs of a communist or socialist society.

Paton was a scholar who perceived that different political regimes could have very different effects upon accounting practices. In Paton (1962, p. 26) he wrote: "How would accounting be affected . . . [in the United States] . . . if private enterprise were eliminated and a genuinely socialistic regime substituted?" Paton continued by expressing the view that accounting would still be required particularly for reasons of control;¹⁸ but "ownership and net income, the disclosure of which in the last analysis is now the problem of accounting, would be extinct elements, or at least would be very much modified."

It has also been recognized by some, see for example Cooper and Sheres (1984), that because accounting practices are affected by the political struggles in society the outcomes of accounting practices may be essentially political in that they may operate for the benefit of some and to the detriment of others. This causal effect has been recognized as a major reason for the difficulty of achieving the universal observance of international accounting standards, (Horngren, 1972; Mason, 1978). Its significance for the interests of LDCs has also been recognized. Samuels and Oliga (1982, p. 82) wrote as follows in this regard: -

"Accounting information is not politically neutral, and there is a danger that in encouraging developing countries to adopt international standards which are ideal for a set of social, religious, political, and economic circumstances different from their own, we may be doing more harm than good. We may be helping to destroy within the country the very economic system we are attempting to encourage."

Communist regimes are shown by empirical evidence to frequently involve themselves in accounting system development for control purposes. The U.S.S.R. and other Comecon countries are a classic case where accounting systems must conform to practices instituted by government decree (Campbell, 1963; Gorelik, 1974; Berry 1982).

Strongly socialist regimes have also used state control of accounting towards achieving their socio-economic goals, but their requirements from accounting are generally less rigid than those of the communist "coercive" type by being of an "indicative" nature, that is, the reporting of expected and achieved economic activities. For example, Egypt codified its accounting system under Nasser, (AlHashim, 1977; and Samuels and Oliga, 1982), whilst France and Peru, during socialist regimes, legislated for specific accounting practices (Nobes and Parker, 1981 and Radebaugh, 1975). Sweden, too, requires some accounting practices to be structured on macro-economic principles towards achieving certain socio-economic goals (Johannsen, 1969).

National political regimes are considered to influence the development of accounting practices depending upon their ideological composition. From the works quoted it seems that the most direct use of accounting practices to achieve ideological goals is likely to occur in communist countries. Strongly capitalistic regimes seem least likely to direct accounting practices towards achieving political goals. Strongly socialist nations may perhaps have their accounting systems more closely related to the communist countries whereas those nations with an almost balance between socialistic and capitalistic ideologies may employ

accounting to a lesser and indirect extent towards achieving their political goals. A scale depicting the above may be represented thus: -

<u>Property</u>	<u>States of nature</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
E ³ ₁ Political regime	Communist	Strongly socialist	Socialist/ Capitalist	Capitalist

Dimension E⁴ The social and cultural setting

Bailey (1982) considered that accounting would be more useful to LDC's if attention was given to those nations' social and cultural needs, beliefs and capabilities when setting their accounting practices. In Bailey (1982, p. 34-35) he wrote as follows in this regard: -

"During the first decade of ...[post World War II, LDC]... development, there was an easy presumption of the beneficence of transferring technology from the major industrialized countries to the poor countries. There was a parallel presumption concerning the transfer of accounting procedures.¹⁹ There was a concomitant tendency to regard the traditional cultural values as impediments to the adoption of modern accounting procedures.²⁰ Now more attention is being directed to the question of fitness for the purpose. The situation is similar with accounting. With some two decades of experience in attempting to apply business enterprise accounting in developing countries, there has been a growing recognition of its inapposite qualities. That is, there may not be an accounting model universally applicable in all countries irrespective of their historical experience and cultural traditions." (Reference notes added).²¹

Violet (1983 and 1983B) when considering the standardization of accounting practices by the IASC expressed a viewpoint in sympathy with that of Bailey. According to Violet (1983B) a conceptual framework should be designed to assist in the derivation of international accounting standards. Such a conceptual framework would tailor individual country information needs to the social and cultural settings and the differences in these needs between nations would then be catered

for when designing IAS's. Schweikart (1986, 1987) was of a similar opinion. He wrote that such a conceptual framework for international accounting harmonization should require consideration of the stability of a national economic, social and cultural environment, particularly as viewed by decision-makers in LDC host countries to MNCs, in the development of accounting systems.

An analysis of the extant literature brought forth three properties of the social and cultural setting of the environment which were considered by writers to be of importance in the development of harmonious accounting systems. These properties classified herein as: "type of cultural background," "society's opinion of the firm" and "type of stewardship responsibility" are dealt with below.

Property: E⁴₁ Type of cultural background.

According to Jaggi (1979, pp. 118-125) a cultural environment has a profound effect upon a person's "value orientation." The term "value orientation" is used by Jaggi in the sense of "a selective orientation toward experience, implying deep commitment or repudiation, which influences the order of choices between possible alternatives in action."²² In other words, a person's choice options are significantly predetermined by their personal cultural background experiences. Jaggi's opinion was based on the empirical studies of social scientists Parsons and Shils whose studies indicated that whether an individual's value orientation is tilted either toward institutionalized obligations to society or toward institutionalized obligations of friendship will be guided by their cultural background. In societies which exhibit complex technology, emphasize individual independence and mobility, and value

competition and achieved status there will be a greater tendency toward institutionalized obligations to society. Whilst in those societies which are less technical, less scientific and less urban, an individual's value orientation will lean towards institutionalized obligations of friendship. According to Jaggi the LDCs fall into the latter category, and as such their inhabitants "are not likely to realize their obligations to outsiders or to society." The cultural phenomenon caused Jaggi to hypothesize that:

- "(1) The reliability of disclosure in financial statements is likely to differ with differences in the value orientations of managers from different countries. Accounting principles and procedures will vary to respond to the needs of individual countries and to ensure reliability in a given set of cultural environments.
- (2) As a result of the prevailing cultural environment in the developing countries, the reliability of financial disclosures is not expected to be high unless legal disclosure standards are set."

The latter hypothesis does not imply that there are different standards of honesty between LDCs inhabitants and those of developed countries but rather that those matters considered to possess an important disclosure value in developed countries may be considered to be of little importance by LDC inhabitants and thus not be readily reported unless required by official regulation. Scott (1970) had written on a similar theme to Jaggi (1979) when he hypothesized that where "standards of morality, honour and integrity are primarily interpersonal and do not embrace institutions," financial statement standards could be improved in LDCs through the regulation of accounting.

Enthoven (1973) suggested another complication affecting the reliability of accounting systems due to different value orientations. Such a complication may occur according to Enthoven (1973, p. 277) because of a "lack of national identification." With so many LDCs being newly independent states this was seen to be a not uncommon problem; sections of the population may not identify fully with the new nation, typically the foreign or settler element may identify with their home countries. Enthoven (1973, p. 277) and Seidler (1967) cited tax evasion as a moral turpitude which may arise through such a lack of national identification. Scott (1970) was of a similar view. He wrote that lack of identification between the elite or business owner class and government and its policies, a situation not uncommon in newly independent LDCs, may lead to hostility to the government. Furthermore, it was hypothesized (Jaggi, 1979) that the value orientation of the majority of the population of LDCs to an "inter-personal" value bias may lead to a non-cooperative approach to government regulations where a clash in interests occurred between those of "impersonal" government and those of individuals. For example, such hostility towards and non-cooperation with the government of LDCs has led to clashes between government and firms' owners, sometimes resulting in the expropriation or nationalization of businesses. To avoid this type of confrontation, it was the view of Foroughi (1981), that businesses would be tempted, especially in LDCs which had recently experienced a social crisis and change of sovereign power, to adopt a low profile by following a policy of "secrecy rather than full disclosure", but yet to project an image of

apparent co-operation with government by disclosing the minimum information required by law.

This desire to avoid confrontation may also be reflected in businesses' approach to society in general. According to Siegal and Lehman (1976) businesses usually, no matter where situated, avoid disclosing nonrequired information, such as voluntary disclosures of socio-economic activities, if such disclosures may adversely affect their public image. Benston (1982) hypothesized that the management of companies only involve themselves voluntarily in socially responsible activities and the reporting of them "up to the point where the marginal cost of these actions equalled the marginal benefits (for shareholders) from them." Furthermore, externalities, those actions producing costs and benefits which are not assumed or acquired by the decision makers, would be reported voluntarily only if their disclosure revealed the corporation in a favourable or positive way. This would be done to benefit from the publicity. Negative externalities, therefore, would not be reported voluntarily by management. These views of Siegal and Lehman (1976) and Benston (1982) which they held to be applicable to businesses in general may, when taken in conjunction with the writings of Jaggi (1979), Scott (1970) and Enthoven (1973), particularly apply in those LDCs where personal value orientations tend to be tilted towards institutionalized obligations of friendship rather than society; and where there is a variation in the national identity between the owners of businesses and the majority of the inhabitants of the nation.

Social responsibility accounting in both developed nations and LDCs was almost exclusively confined to the larger companies (Ernst and Ernst,

1978; Singh and Ahuja, 1983; Teoh and Thong, 1984; and Lafferty, 1980). However, certain distinctions have been noted by researchers between the social responsibility accounting practices of firms in developed nations and firms in LDCs. Firms in LDCs were more inclined to disclose only those matters which favoured their images and otherwise to keep a low profile as a preferred means of achieving credibility and to avoid adverse reaction within a nation (Whitt, 1983; Singhui, 1968).

Whitt (1983), Ameiss (1983) and the AICPA (1972), amongst others, found many large firms in developed nations, as typified by the USA, published accounting information which they considered to be of societal concern. Matters of concern to this type of society were frequently reflected in statutes, such as the U.S. Foreign Corrupt Practices Act, and those dealing with environmental protection, safety, energy conservation, and minority rights (Ameiss, 1983). The end result was that increasing numbers of firms in developed nations were publishing information, sometimes involving socio-economic measuring techniques, on pollution control, energy costs, employee training and controls to help to reduce corrupt practices. On the other hand, MNCs in LDCs did not seek to publish accounting information of societal concern but instead made it "their long-term [societal] objective to impress the host government" (Whitt, 1983). Consequently, certain issues would be avoided if they were likely to displease government. For example, because "the discussion of minority rights is frowned on by some governments" any action in this regard would not be revealed in the accounts published by MNCs in those countries (Whitt, 1983).

Social benefits/costs by firms may arise: (1) from the conduct of the basic economic functions of the firm; and/or (2) from additional activities designed specifically to contribute to solving social and community problems (Ernst and Ernst, 1978). The latter activities have been found to be more greatly stressed by firms in the developed nations, whereas, MNCs in LDCs stress the former activities, claiming frequently that their most important role in the host countries is an economic one, because of the many beneficial multiplier effects their transactions can have for the LDCs (Ameiss, 1983). Thus, information on job creation, the development of human skills and the transfer of technology was rated of significant importance by MNCs for disclosure in LDCs (Whitt, 1983).

Contrasting social mores arising from different types of cultural backgrounds have been used in some empirical studies to explain differences in accounting practices (Cunningham 1978, pp. 97 and 133). Var (1976) and Foroughi (1981) have written how the holy laws of Islam have influenced the structure of Turkish and Iranian accounting. However, in LDCs it is not uncommon to find that the local cultural beliefs have little influence on businesses which are controlled extensively by persons not of the local culture. Seidler (1967) pointed to the non-Muslim holdings in Turkey; others have pointed to MNCs in LDCs (Miller, 1979), or the minority class (wealthy family) dominance of firms in others (Elliott, 1968), as examples of a lack of identification by businesses with the local social mores. This had led to the adoption of foreign accounting practices (Enthoven, 1973; Soyode, 1977; Hall, 1977), or the implementation of very basic stewardship accounting systems

attuned to the socio-economic needs of the owners and not general society (Elliott, 1968).

It is apparent from all the foregoing that the type of cultural background of the owners and managers of firms in a nation is considered to affect the value orientation of firms within a nation and their approaches to accounting. For example, where the cultural background of the firms' owners and managers is classified as "less sophisticated" by being less technical, less scientific and less competitive and by displaying stronger kinship relationships, (compared with the "sophisticated" industrialized nations, which exhibit a complex and competitive technological background, emphasizing self-reliance and self-achievement), one would expect the value orientation of many of the firms to be tilted towards institutionalized obligations of friendship. Consequently these firms would bias their accounting practices in favour of managers and/or owners rather than impersonal institutions such as government. (This appears to follow from the writings of Scott, 1970, and Jaggi, 1979). It also appears from the studies (Enthoven, 1973 and Cunningham, 1979), that where society, (owners of firms, management, and inhabitants) lacks a nationally common cultural identity, and thus may be described as being heterogeneous and not homogeneous, that the value orientation of firms' accounting practices may once again be biased in favour of personal rather than national or societal needs. Finally, the work of Foroughi (1981), taken with the disclosures of Siegal and Lehman (1976) and Benston (1982), indicate that the less sophisticated the cultural background of managers and owners and the more heterogeneous the cultures are within a nation, the greater the likelihood of firms

disclosing minimum information in order to project an image of apparent co-operation with national interests whilst actually favouring the self interests of owners and managers above all others. The studies quoted suggest that where the cultural background of owners and managers in a nation is classified as more sophisticated and homogeneous as to societal identity that society generally, and thus firms and their accounting practices, are more likely to be value oriented toward institutionalized obligations to society and nation.

A scale suitable for classifying the variations in cultural background as outlined above would have to cover situations either where the owners and managers could be described as less sophisticated and the national cultural profile as either common to all (homogeneous) or significantly mixed (heterogeneous); or, where the owners and managers could be more sophisticated and the national identity as either culturally homogeneous or heterogeneous. Such a scale is shown below: -

<u>Property</u>	<u>States of nature</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
E ⁴ ₁ Type of cultural back-ground	Less sophisticated owners/managers and nationally homogeneous society.	Less sophisticated owners/managers and nationally heterogeneous society.	More sophisticated owners/managers and nationally heterogeneous society.	More sophisticated owners/managers and nationally homogeneous society.

Property: E⁴₂ Society's opinion of the firm

Society (as representative of all national groups or community units) is generally most concerned that businesses should operate fairly,

however, the meaning of fairness frequently varies depending upon which societal group or unit is addressing the issue of fairness (McDonald and Puxty, 1979). For example, Soyode (1977) wrote that the government of Nigeria, in setting "fair" prices to be paid for shares purchased from former owners when strategic industries were "indigenized," was unable to apply a single formula to establish "fairness." The indicators considered by the authorities were historical cost, and earnings criteria concerning the firms; the national economy and the political and social objectives of the country; and also the general guidelines of "fairness to the buyer, considering his modest income," and "fairness to the seller considering that what they got was far greater than the nominal prices they had paid earlier." All these measures were considered in setting a fair price because of imperfections existing in the marketplace of an LDC between buyer and seller.

Many have referred to the adverse opinions of firms especially MNCs so often held by LDC societies (Cunningham, 1978; Miller 1979; O.E.C.D., 1980; U.N., 1980). McComb (1979) was of the view that this situation frequently arose because of a conflict between the goals and attitudes of MNCs and those of the inhabitants of LDCs. He wrote as follows in this regard:

"To the extent that multinational companies tend to reflect the attitudes of their parents rather than those of their host countries, we may also perhaps find some explanation of the suspicions, strained relations, and general adverse social reaction which many such companies have experienced abroad."

Such suspicion or strained relations indeed may be sustained by financial reporting. Thorelli (1977) wrote that LDC society " might look askance at very high rates of profit as perceived evidence of undue exploitation

rather than of superior performance, especially so if most of the surplus has been remitted to the home country."

If undue exploitation by companies is generally suspected by a society then accounting may be used to expose this by disclosing the underlying constituent elements of net income. Littleton (1953, pp. 21-22) recognized the importance of exposing exorbitant exploitation because: ". . . an excess of revenues (exorbitant profits) may be socially harmful to consumers (high prices) and to workers (low wages)" The exploitation of society may occur according to Littleton (1953, p. 22) not only from excessive profits but from large losses because ". . . an excess of costs (continuing losses) may be socially harmful to workers (loss of employment), to consumers (lack of products), to investors (loss of income and investment), and to government (shrinkage in tax collections)." However, Chastain (1973, p. 16) was perturbed that traditional or conventional accounting systems may not reveal serious instances of social exploitation and instead may permit a company which does the most social harm to be portrayed as the most successful.

It also has been said that LDC societies, when considering the fairness or exploitative character of firms, are interested in information of a social cost/benefit nature (Wells, 1975; Thorelli, 1977; Cunningham, 1978). For example, information on the foreignness or domestic content of transactions, the proportion of earnings remitted to foreign lands and the proportion reinvested within the LDC; the contributions made to the LDCs economy, as taxes and excise duties paid by firms, and the contributions made by the LDCs, such as subsidies paid, to firms.

The suspicion that companies may be unduly or wrongly exploitive of society's interests is a fear not restricted to LDC societies. To address this matter it has been suggested, AICPA (1972, p. 88), that information should be provided by an accounting system on: the contribution of a company to national goals; the social acceptability of a company's operations; and, the positive involvement of a company in the affairs of the community.

Because of the adverse label of exploiter that has been attached to MNCs so often by LDC societies, and because of their significance to so many of these nations, it was the view of Thorelli (1977, pp. 10-13) that MNCs owed them duties, described by him, of "corporate citizenship" and "agent of change." In its role of "corporate citizenship" Thorelli wrote that an MNC should: communicate very fully, widely and openly; provide employment practice information, such as, number, compensation, training, promotion, and stability of employment and the proportion of local relative to foreign management and professional personnel; make possible local ownership participation; attune its efforts to the pressing needs of the LDC, (development being a more pressing need than environmental protection); and, overcome local suspicions that the pursuit of profits is more important to the MNC than the welfare of the host countries. Furthermore, in its role as "agent of change" an MNC had a duty according to Thorelli: to contribute to national economic development through engendering a strengthened individual need to achieve; to avoid corruption; to seek balanced development through the transfer and indigenization of appropriate technology; to foster the development of the indigenous business infrastructure; to strive for the reduction of

dualism; to pay more than lip service to the crying need for integration of the rural population into the general thrust of development; and to work for consumer emancipation by means of consumer protection, education and information. It was Thorelli's view that the "corporate citizenship" and "agent of change" duties of MNCs to LDCs should form the goals on which to develop societal accounting indicators.

Many societies, both in developed Western nations and LDCs, are concerned that employees should not be unfairly exploited. However, national bodies and individuals have also expressed concern regarding the lack of fairness of some accounting practices to labour interests (Morley, 1978; Dierkes, 1979 and Schreuder, 1979). For instance, the German Trade Union movement registered strong protests in regard to social balance sheets and value added statements as presently constituted seeing them as being "predominantly political in nature" and propaganda documents biased in favour of the corporations.

Certain nations, particularly France, Belgium, Germany, and Sweden amongst Western developed nations, and organizations such as the O.E.C.D. and the U.N. have recognized the need for accounting to address the information requirements of employees. In O.E.C.D. (1980) and U.N. (1980) emphasis was placed on the responsibility of MNCs operating in LDCs to disclose pertinent information in this regard. Briston (1978, p. 116) was critical, however, of these attempts by these two organizations, for he considered the recommendations cited to be nothing but a "mishmash composed of extracts from the U.K. companies acts and the U.S., S.E.C., reporting requirements . . .," and as such totally inappropriate for the needs of LDC governments and other user groups in those countries.

Belgium is one nation which has taken authoritative measures for accounting to provide relevant information to employees and trade unions. Lefebvre (1981, p. 109) wrote that the royal decree of 1976 in Belgium on the "financial statements of enterprises" had as its fundamental objective the providing to employees of a:

"clear and correct picture of the economic and financial data on the firm's management as to organization, employment, and personnel. Moreover, this information must enable the workers to understand the firm's situation within the larger economic and financial entity (the group) and even within the larger economic environment such as the branch or trade (sector) in which the firm operates, the regional, national and international economy."

The foregoing survey of the extant literature shows that it is not uncommon for a sector or sectors of society to suspect companies of being unduly exploitive and to have used accounting practices to help overcome this problem. The main sectors of national society singled out as being susceptible to exploitation are: the whole nation, (particularly in the case of some LDCs dominated by foreign owned MNCs); and employees. If either of these sectors holds a significant suspicion of exploitation by companies then the accounting system may be used to provide them with relevant economic or societal information. The type of information that would be provided by accounting would depend upon the particular sector of society which is considered to be exploited. This gives rise to the property "society's opinion of the firm" on the scale below.

The states of nature deemed to be appropriate in regard to the property "society's opinion of the firm" are determined as follows. The type of information required by society from accounting may depend very much upon whether society is fearful of companies being unduly exploitive

generally within the nation, (state of nature 1); or exploitive generally except of national investors, (state of nature 2); or exploitive of employees only, (state of nature 3). The scale below caters for all the main societal groups identified in the extant literature as being susceptible to exploitation: if all society considers it is being exploited then state of nature 1 applies; this category is broad enough to cover significant societal concerns such as the natural environment and consumer protection. If investors are to be excluded then category 2 applies; while if society is fearful that employees alone are being exploited then state of nature 3 applies. Where no exploitation is feared of any of the societal groups, category 4 applies.

<u>Property:</u>	States of nature			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
E ⁴ 2 Society's opinion of the firm	Exploiter of national interests	Exploiter of all except investors	Exploiter of employees	Nationally beneficial

Property: E⁴
3 Type of stewardship responsibility

Stewardship responsibility, particularly the financial reporting responsibilities entailed thereunder, has changed over time. Chen (1975, p. 542) claimed this occurred whenever there was "a change in the prevailing philosophy." Chen outlined the historical development of stewardship and its implications for financial reporting. According to Chen under early Christian doctrine all property rested in God, who created it for common use and thus all human ownership "was contingent on the fulfillment of man's duty to use and administer it not exclusively for his own purposes, but to serve the needs of the whole society"

(p. 535). This was termed the "primary stewardship responsibility" by Chen. In medieval times a "secondary responsibility" was added whereby tenants owed a primary responsibility for the attainment of social welfare (or social responsibility) to society and a secondary responsibility to the landlords for the pursuit of their interests. Chen (1975, p. 536) wrote that in later years the primary responsibility to society was "eroded step by step as a result of capitalism" and its supporting theories such as Adam Smith's that "social welfare would be satisfied if each man were allowed to maximize his self-interest." However, Chen perceived a change in stewardship responsibility in the U.S.A. since the depression of the 1930's: in that nation there had come about a recognition by managers that "responsibility walks hand in hand with power," and so they adopted a stewardship policy of "responsibility to serve and attain social objectives." Chen presented two stewardship concepts prevalent in contemporary business: the "classical" still prevalent in small businesses acknowledging a responsibility by managers (the stewards) to owners only; and the "managerial" whereby management acknowledges a responsibility to owners and society. Chen was of the opinion that as published financial reports are a reporting by management of its stewardship that accounting should adopt management's point of view concerning its stewardship responsibility. That is, accounting should acknowledge both the primary and secondary responsibilities of management and "management's performance should be evaluated in terms of both profit and the accomplishment of social objectives" (p. 542.).

Chen (1975) appears to equate the right of society to information with that of owners and also to presume that its supply would necessarily

benefit society. However, environmental factors determine which group's interests shall dominate, and furthermore there is a need to balance the needs of users for disclosure and managers for control to optimize the welfare implications of accounting information (Laughlin and Puxty, 1983 A and B).

Suojanen (1954) attributed the change in the stewardship responsibility of many managers in the U.S.A. to a change in the prevailing social philosophy of that nation. This occurred through the "institutionalization" of companies whereby a company's performance was expected to accord with the role established for companies by society. The nature of a company as an institution in the United States was such that "ownership was separated from management" (p. 394) and "the rights of the shareholders, like those of the other participants, are subordinate to the viability of the enterprise itself" (p. 398). Thus in order for a company to survive and grow in the U.S. it was necessary for management to be undivided in its loyalty to the enterprise and to serve not only the nominal owners, the shareholders, but also "the people who are participants, however fleeting or intimate maybe their contacts with an organization" (p. 392). This perceived change in the stewardship responsibility of management caused Suojanen to call for accounting to be made "more realistic and relevant" by assessing management's performance in terms of a company's "contribution to the flow of output of the community . . ." (p. 395).

Ramanathan (1976) considered that management's stewardship responsibility grew out of a "social contract." This arose because business "operates in a society via a social contract, expressed or

implied, whereby its survival and growth are based on: (1) the delivery of some socially desirable ends to society in general; and, (2) the distribution of economic, social, or political benefits to groups from which it derives its power" (p. 518). Thus a manager's stewardship responsibility was to show that society required the services of a company and that the groups benefitting from its rewards have society's approval. Accordingly, Ramanathan (1976, p. 519-521) considered that accounting should show: "whether a firm's contribution to society is more than its aggregate consumption of the society's resources," and "how the aggregate benefits and sacrifices generated in the society (by the firm) are shared among individuals, communities, social segments and generations." It was Ramanathan's view that although accounting measures such as costs and income may be useful indicators of a company's social performance as an agent of production; however, in its assessment of a company's social responsibility performance society would be more concerned with "notions of fairness, equity and consistency with social goals than with considerations of optimality."

Tippos (1977) like Suojanen (1954) and the others quoted above saw companies as social institutions, but unlike Ramanathan (1976), he considered that companies no longer operated under a social contract. In his view the social philosophy had changed in many countries so that companies existed not as a matter of right but rather as a matter of privilege granted by their societies. Thus when critical problems confronted these societies their will was supreme and companies could be called upon to assume an active role in solving these problems which extended beyond their normally intended mission. Thus management's

stewardship responsibility under those critical circumstances would include working directly for the benefit of society; and, accounting's role should be to reveal what had been done to promote the welfare of society and the benefits and costs which had arisen for company and owners thereby.

The following citations by McComb (1979) indicate how very differently the US and UK professional accountants perceived the social philosophy of their respective nations, as it affected the stewardship responsibility of managers about the same period in history.

"The primary . . . goal . . . of every commercial enterprise is to . . . return the maximum cash to its owners."

A.I.C.P.A. (1973, p. 21).

". . . distributable profit is no longer the sole or premier indicator of performance . . ." A.S.S.C. (1975, p. 79).

Van den Bergh (1976), Schoenfeld (1978), and Jaggi (1980) also have observed the differences between nations in the responsibility of managers and firms to society as revealed by the different reporting objectives of companies in Germany, the United States and the United Kingdom. For example, Van den Bergh contrasted the social accounting reporting approaches found generally in Germany and the U.K. He wrote:

"The German social reports are designed to show the activities and performance of the companies for and on behalf of specific constituent groups . . . [and to give] . . . a more comprehensive view of what the company is doing, without restriction to a narrow financial or economic analysis."

Whereas:

"The U.K. theme seems to tend to limit the scope of corporate reports to the economic performance, oriented to the interests of each of the different constituencies. Widening the scope to including other areas of accountability is of secondary importance."

On the other hand, Schoenfeld's study may be used to illustrate why it is that the social accounting "message" transmitted by one nation differs from that put forward in another. Germany, according to Schoenfeld, is more concerned with employee matters and less with physical environmental matters which are dominant in U.S.A. societal accounting. Schoenfeld cited the political climate--(the strong position held by the socialist parties); and the social conditions--(the major housing shortages and the competition for labour, due to the scarcity of labour, both arising from the 1939-1945 war); as being major factors in determining the value orientation of firms to societal accounting reporting in Germany. Schoenfeld's work indicates that whilst management may acknowledge a stewardship responsibility to society, the specification of what will be disclosed by accounting in a reporting of that stewardship may be influenced by political and societal considerations.

Much of the support in the United Kingdom for greater disclosure of information by accounting systems for workers was engendered by a belief that a better educated workforce deserves the dignity of explicit recognition as responsible participators in the process of adding value for the national and business well-being (Morley, 1978, p. 19; and A.S.S.C., 1975). France legislated to accomplish similar objectives. Since 1977, all companies in France over a specified worker-force number must publish a "belan social" (a social balance sheet) in addition to normal financial statements. According to Rey (1978, p. 134) the French law on social balance sheets had several advantages for employees and business managers from the government's point of view:

"First, it shall serve information purposes just as financial statements give information to stockholders or to the board of directors so that they can understand the financial position of the firm. Because the social balance sheet meets the needs of information and provides quantitative unbiased data to each party, it will be easier to enter negotiations and reach a 'mutual agreement.'

As discussions occur within the Comité d' Enterprise, (a committee composed of management and employee representatives), parties will finally be induced to analyze the actions to be taken and to perform social planning while examining the past." (Emphasis added)

Although Great Britain has not passed similar legislation an official committee of the major accounting institute has recommended that economic entities over a certain size should provide information in their corporate reports to employees (A.S.S.C., 1975, p. 52).

Many national institutions and international organizations have concerned themselves too with the need for firms to orientate their accounting reports towards a particular social responsibility, namely, the impact of their activities on the quality of life of society (A.I.C.P.A., 1972; A.S.S.C., 1975; U.N., 1980; O.E.C.D., 1980). Dierkes (1979) referred to the prominent subject of debate and concern that occurred in Germany in this regard. He wrote that this development was mainly influenced by a growing recognition of the social cost of economic development and the basic value change in the intellectual and political elite. These debates in Germany, and in the U.S.A. (A.I.C.P.A., 1972), and elsewhere (Churchill, 1977; Doost, 1985), have "stimulated the search for a new paradigm--quality of life--and related academic research on 'social indicators' and 'social reporting' as an extension of traditional reporting on national growth rates, particularly productivity achievements and the amount of consumption goods available to different parts of the population" (Dierkes, 1979, p. 87).

Dierkes (1979, p. 102) found that "increasingly, companies experimenting with various concepts of corporate social reporting in Germany . . . are turning towards the goal accounting and reporting approach as the passive concept for further experimentation," (emphasis in original). Dierkes (1979, p. 89) in explanation of this approach identified three stages in this development of social awareness in Germany. "First stage, increasing recognition of the need for broadening business responsibilities Second stage, specifying the concept of social responsibility by developing broadly-based goals and purpose statements Third stage . . . to integrate social considerations into today's business decisions and operation."

Nevertheless, despite this increasing involvement of international and national institutions and individual firms in concerning themselves with the impact of business upon societies, there still occurs clashes between major groups within a nation as to what should be reported by companies (Moore, 1978), and how it should be reported (Schreuder, 1979). Dierkes (1979, p. 88) commented in this regard that " . . . what is seemingly good business policy frequently turns out to be poor social policy." So it is not uncommon to find that there is a built-in resistance amongst management to social reporting by firms.

Churchill (1977) found a lack of measurement recording of social costs and benefits by U.S. corporations due, he hypothesized, to the unsuitability of the entity theory for this form of disclosure. This was so, he argued, because many of the benefits that accrued to society went unrecorded by companies' accounting systems because they did not meet the criterion of "relevance" associated with the traditional accounting

concept of the "entity." The benefits were deemed to accrue to external society and not the entity. Furthermore, costs incurred by the firm were often not disclosed as social costs because the bulk were subsumed under normal economic cost headings because there was an apparent consensus amongst accountants that "social" costs were those "over and beyond the law"--i.e., voluntary payments--and so frequently these extra amounts turned out to be immaterial and so undisclosable. Churchill (1977) stated that if accounting pursued a concept of entity which is "changed from the firm alone to the firm and its affected constituency" the accounting system would be more appropriate for use in the measurement and disclosure of social costs and benefits. This he concluded would be the "beginning of 'an arithmetic of quality' and a step towards a more comprehensive and ideal system of social measurement."

Glatzer (1981) found the main guideposts which have been used internationally towards the measurement of the "quality of life and welfare," which he defined as including concepts such as "balanced growth," "solidarity," "freedom," and "security," to be:

- (1) political goals and goal attainment;
- (2) social needs and satisfaction; and,
- (3) values, value change and its consequences.

Glatzer found the social and political goals to have been perceived from: the state constitution, the political parties programmes, the programmes of interest groups, and the public discussion of goals; the values to have been determined by analyzing the value conceptions of societal groups and individuals; while the social changes and socio-economic development had been monitored by repeated measurements of the

level of welfare, much of it descriptive in orientation, or by the searching for relevant statistics to characterize the change in welfare (see also, Doost, 1985).

The above studies show that the interest groups addressed by managers in the financial statements of companies pursuant to their perceived stewardship responsibilities and the type of accounting information included may vary widely between nations. In some environments the information is almost exclusively economic and for the benefit of shareholders thereby indicating a stewardship responsibility only to owners; in others this economic information is supplemented with data for selected sectors such as employees, indicating an expanded stewardship role; in others society as a whole is catered for by providing information of both a societal and economic value that aims to satisfy all sectors including shareholders.

From all the foregoing it also appears that four broad categories of stewardship responsibility may be established: those environments where the management philosophy is such that the stewardship responsibility is owed to owners only; those environments where the primary responsibility is to owners and the secondary to society; those where both owners and society's interests are to be reconciled equitably; and, those environments where the primary stewardship responsibility of managers is owed to society and the secondary responsibility to owners. A scale illustrative of the above which may be used to categorize to whom a stewardship responsibility is due is shown below:

<u>Property:</u>	States of nature			
	1	2	3	4
E ⁴ ₃ Type of stewardship responsibility	To serve owners only	Primary to serve owners; secondary to serve society	To serve both owners and society equitably	Primary to serve society; secondary to serve owners

Dimension: E⁵ The professional accounting setting

Academics, and professional bodies within a society have been held to influence accounting practices (Radebaugh, 1975; Enthoven, 1981). Abel (1971, p. 36) revealed how the writings of the German economist Schmalenbach, who was a strong proponent of uniformity, greatly influenced the development of accounting in Germany and other continental countries, including the U.S.S.R. (Bailey, 1982); while Fisher (1979) described the prominent influence accounting and economics professors in the Netherlands in the early 1900's had on the accounting practices of that country.

The status of the accounting profession within a nation is considered a determining factor in influencing and establishing accounting practices (AAA, 1973; AlHashim, 1980). Many LDC professional bodies lack status because they are small and young (Elliott, 1968); other LDC professional bodies lack status because they or the practising professionals are not representative of the nationals (Enthoven, 1976); and yet others lack status because of their non-professional or purely book-keeping image (Radebaugh, 1979).

Professional status has been viewed as being directly related to the profession's responsibility for regulating accounting practices (Zeff, 1972; AAA, 1973; Fisher, 1978). If a society awards accountants the

right to regulate practices then a considerable degree of tolerance would be shown toward accountants using a diversity of accounting practices because accountants are acknowledged to be the experts in determining and setting the practices. Conversely where accountants are viewed by society as mere record keepers then protection for society would likely be sought in a legal codification of the accounting practices to ensure an acceptable standard of accounting. Reasoning such as this led AlHashim and Garner (1973) to postulate that "the less the professional status of accountants the more reason for uniformity to protect the general society."

Jagetia and Nwadike (1983) argued that because LDCs generally possess small, young, and relatively unexposed or narrowly trained bodies of professionals the imported accounting practices are often too complex and so there arises a need for practices to be designed specifically for them. IASs have frequently been adopted by LDC professional bodies to fill the breach created by the non-involvement of local professional bodies in the development of accounting practices. But this is not a satisfactory solution for the IASC is dominated by members from the developed nations and has concerned itself with those nations' problems rather than those of the LDCs (McPhail, 1983). The need for education and training to provide a cadre of suitably qualified accountants for LDCs for developing appropriate accounting practices has been advanced over the years (Scott, 1970; Enthoven, 1981). To improve the usefulness of accounting to LDCs, Scott (1970) argued that accountants in those countries should receive a liberal accounting education to enable them to view accounting and business enterprises in perspective as parts of the

total social and economic fabric. Enthoven (1981) considered the "soft spots" (weaknesses) in accounting education in LDCs to be a lack of specialized training in systems, controls and economic developmental accounting, in academic training; a lack of "in house" educational programmes in institutional training; and a paucity of institutions offering vocational and technical training for the development of basic skills. Similar shortcomings were noted by AlHashim and Garner (1973) and Holzer and Chandler (1981) and advanced as arguments for uniformity in accounting systems to protect the general society.

The above mentioned survey of the extant literature shows that a variety of factors affect the influence of accountants on accounting practices within a nation. Two broad categories may be gleaned from these: The ability of local accountants to directly influence the accounting practices and the ability of local accountants to indirectly influence them. The direct influence on accounting practices would arise from any legal right to regulate practices (e.g. accounting standard setting) and to enforce practices (e.g. audit power); whilst the indirect influence would arise through the profession's contact mainly with their clients, the producers of the accounting reports.

Property: E⁵ Standard setting authority
1

Surveys of third world countries by Enthoven (1977) and the AAA (1973) revealed that few of them develop or have the resources to develop their own accounting standards. Lelievre (1979) and AAA (1973) also wrote of the lack of involvement of either legislatures or professional bodies in standard setting and enforcement amongst LDCs. Enthoven (1981, p. 139) explained the reason for this state of affairs:

"In Third World countries, professional institutes generally tend to be weak. No recognition may exist of the need for a professional institute to set standards for accounting and auditing, to establish codes of conduct, to compile training and qualification tests, or to disseminate information. The professional set-up may also suffer from insufficient professional interest, inadequate government encouragement, and lack of support by private and public institutions."

The existence of these problems caused Enthoven (1977) to write that LDCs should at least appraise and adapt the standards of other nations to meet their special needs.

A property scale useful in assessing the influence of the national profession on accounting development would reveal whether the profession had very full powers, limited powers or no powers to fix standards of accounting practices. Such a scale is shown below: -

<u>Property</u>	States of Nature		
	<u>1</u>	<u>2</u>	<u>3</u>
E ⁵ ₁ Standard setting authority of national profession	None	Limited	Very full

Property: E⁵₂ Audit services

There is no strict international formulation for determining which business organizations require the services of auditors. Of ten nations surveyed in Europe, the Middle East, Asia, and North America, it was found that audits are usually obligatory only for the equivalent of limited companies either quoted on a stock-exchange or over a certain capital size (Needles, 1985). However, studies of LDCs show a variety of approaches to the need for audits and differing qualities of professional services (Seidler, 1967; Elliott, 1968; Enthoven, 1977). Turkey had no constituted accounting profession and this, according to Seidler, frustrated the national development, resulted in a generally poor

standard of accounting, stultified the capital market and eased the possibilities for tax evasion. Elliott wrote that different stages of professional accounting development were found to exist within Latin America; Mexico was described as highly advanced but Columbia, Peru and Chile were said to be in the "take-off" stage of professional development. The latter nations had newly recognized professional bodies but except in certain special situations, the appointment of auditors was not mandatory. Enthoven's survey of seven African and nine Asian countries also produced a wide disparity of practices, with many countries not having officially recognized accounting professions nor requiring audits of companies.

The professional accountant's ability to directly influence the development of accounting practices ranks high in certain developed nations because of the obligation imposed on companies to have audits (Zeff, 1972; Needles, 1985). However, the nonrequirement for audits in many LDCs appears to parallel unsatisfactory accounting practices (AAA, 1973; Seidler, 1967; Elliott 1968; Enthoven, 1977). Consequently, the finding of the A.A.A. (1973) research study that the "lack of strong national associations of accountants" was a problem of extreme importance in LDCs comes as no surprise. The professional accountants' direct influence on accounting practices may be determined to a great extent by whether audit services are obligatory, optional or not required under the law. A scale useful in this determination is given below:

<u>Property</u>	States of Nature		
	1	2	3
E5 2 Audit services	None	Optional	Obligatory

Property: E⁵ Professional accountant's skill level
3

The second category, the ability of professional accountants to indirectly influence accounting practices within a nation, derives from the standard of excellence of the professional accountants and the availability of adequately skilled accountants within society to serve as the information producers. AlHashim and Garner (1973) cited both of these circumstances as influencing accounting system development, and hypothesized that where weaknesses existed in any of these areas, the environment would be more conducive to uniformity in accounting practices.

The lack of an effective accounting profession within a nation may be of such serious concern to provoke a strong reaction from government. Radebaugh (1975) has commented as follows in this regard: -

"Where the government is an important user of information, does not feel that the accounting profession is meeting the needs of users, and does not foresee much change in the near future, it will probably take a much more active role in setting or influencing the development of accounting objectives, standards, and practices."

This threat of government intervention when things are not going well in accounting matters was researched by Zeff (1984) and thought to be the major motivating factor attending the major turning points in the due process of establishing U.S. accounting principles during the period 1917-1972.

Enthoven (1981 and 1977) stressed the need for accountants within the profession and industry and government to be appropriately skilled for LDC conditions and to be available in sufficient quantities to aid economic development in the Third World. Writing on accounting training and educational programmes in LDCs, Enthoven (1977, p. 77) commented:

"The old style 'on-the-job' training and articleship have shown certain deficiencies for developing effective accountants [for LDCs]; it has a tendency to make individuals 'nuts and bolts' technicians and not effective planning and control-oriented persons who are skilled in divergent fields."

This observation is in sympathy with the report of the A.A.A. (1973) which classified "inadequate accounting education for managers and prospective managers," and the fact that "accounting information is not utilized advantageously for internal management purposes," as extreme problems of LDCs. The primary reasons for these problems were said to be the frequently poor general educational level and the limiting of accounting education, if any, to basic bookkeeping and the lack of training in accounting for management purposes.

Needles (1985) dealing mainly with auditing in developed nations, apart from Jordan and Kuwait, wrote that most of the countries surveyed required auditors to be university graduates, to take professional examinations, and to acquire work experience before being permitted to practice. Although some developed countries, for example the U.K., still permitted experience to be substituted for tertiary education, it was the general trend for the profession to seek excellence through an education programme of university education plus work experience plus professional qualification (which covered entrance examinations and continuing education) (Zeff, 1972).

The position is often different in LDCs. The problems arising from an inadequate local accounting education setting were adjudged to be of most serious importance to LDCs (A.A.A., 1976). This finding from a survey of epic proportions (Scott et al., 1976) placed the lack of adequately trained accounting educators and indigenous accountants, in

first and eleventh ranking respectively amongst 88 top priority accounting problems identified by international accounting experts surveyed.

The qualitative indicators of professional excellence or skill levels have usually concerned discussions on the acquisition of skills through vocational or work experience, university or similar formal education, and professional qualifications (including continuing education and "in-house" training) (Solomons, 1974; Enthoven, 1981). Such a scale of skill levels is shown below:

<u>Property</u>	1	2	3
E ⁵ ₃ Professional accountants' skill level	Work experience	University education plus 1	Professional qualification plus 1 and 2

Property: E⁵₄ Source of qualification.

However, the level of skills in accounting acquired through training should not be the sole criterion of excellence. The appropriateness of the source of the training or qualification should also be considered if accountants are to be of optimum benefit to a nation (Enthoven, 1973, 1981).

Numerous researchers (amongst them: Enthoven, 1977, Lelievre, 1977; Briston, 1978; Chandler, 1981; Wells, 1986) have observed with dismay how many accountants, particularly in former colonial Africa, had been trained in developed European nations and had taken many of their courses in subjects totally inappropriate or of no significance (such as foreign tax and deceased estate law) to their national setting. All have stressed the importance of accountants in LDCs being properly qualified to satisfy national needs.

The criterion of possessing a proper qualification is not necessarily met if the accountants within a nation receive their training within the nation. For example Jagetia and Nwadike (1983) and Briston (1978) pointed to the training methods of Nigerian and Sri Lankan accountants as systems which were inappropriate because of inherited, mainly British colonial, practices; however the respective national accounting bodies were endeavouring to correct this situation.

Thus, the source of qualification is considered to be of importance to accounting development and pertinent states of nature are shown below. However, it should be noted that the source, whether "foreign" or "national," includes both the place of training and the appropriateness of the content of the material covered in the qualifying training.

<u>Property</u>	States of Nature	
	1	2
E ⁵ ₄ Source of qualification	Mainly foreign	Mainly national

Property: E⁵₅ Availability of accounting information producers and financial managers

The availability of persons possessing adequate skills within LDCs for the recording and interpretation of accounting data is a major factor which influences accounting development (Elliott, 1968; Scott, 1970; Holzer and Chandler, 1981). There is a critical shortage of adequately trained accountants in most LDCs (Enthoven, 1981). This shortage, adjudged by the practitioners surveyed to be of extreme importance, was found to exist "at all levels and in all areas of accounting" (A.A.A., 1973). But the problem extends beyond accountants per se; for a lack of managerial and governmental appreciation of the potential contributions of accounting is typical of LDCs (Lelievre, 1979; Enthoven, 1981).

The extremely important contributing problems to the above situation were the "inadequate college education training of accountants"; and, "the lack of qualified accounting instructors at the college level" (A.A.A., 1973). The problems were exacerbated by the shortage of foreign exchange and severe budget restraints in most LDCs and thus the inability to obtain satisfactory teaching equipment, or to pay teachers adequately (Seidler, 1967).

One result of the shortage of accountants in most LDCs was that accounting information was either not available in the proper form or was received by users too late to be useful (A.A.A., 1973). The availability of accounting information producers and financial managers may be shown through the application of the following scale: -

Property	States of Nature		
	1	2	3
E ⁵ 5 Availability of accounting information producers and financial managers	Serious shortage	Manageable shortage	Sufficiency

3.4 REVIEW OF ACCOUNTING SYSTEMS

The preceding survey of the literature related mainly to theoretical writings and empirical observations on environmental properties which may affect or be affected by accounting practices. The survey, therefore, was concerned mainly with those studies on the environmental (E) plane of Figure 2.4 and the dimensions of that plane ($E^{i \dots n}$) and the variations within each dimension ($S_{jk \dots n}^i$).

This section, on the other hand, is concerned with the accounting systems (A) plane of Figure 2.4 and in disclosing various accounting

systems ($A^{i\dots n}$) and accounting practices ($A_{j\dots n}^i$) which have evolved within certain types of national environments. The research studies dealt with are empirical observations on the disclosure and measurement properties of accounting systems associated with particular environments. Because of the nature of this thesis, the design of a purposive theory of accounting for the nation of Zimbabwe, major emphasis has been given to those research studies which may provide material of significance in an LDC environmental setting. Reference is made to Figure 2.5 (Chapter 2) where it is indicated therein that the review of certain accounting practices and their characteristics is conducted at this stage for later guidance in the deduction of specific accounting practices for Zimbabwe.

An approach to accounting that has enjoyed some fair measure of support from time to time amongst both developed countries and LDCs is that of uniformity in or standardisation of accounting practices. This is dealt with in the subsection which follows entitled "uniform accounting systems."

For basically the same reasons that make some form of uniform accounting system attractive to nations, especially LDCs and state dominated economies--that is, for reasons of control, better understanding and efficiency,--there has arisen a desire for accounting to provide statements and indicators of types useful to the major interest groups. Apart from direct financial investors (shareholders and lenders), the groups commonly interested in such information are government and employees. In the developed nations, apart from a disclosure of statements of profit and loss, balance sheets, and changes

in financial position, there is only one indicator usually published and that directly concerns share investors; viz., earnings per share.

However, the empirical studies reveal a number of types of information and indicators which have been held to be of interest to governments and employees.

Two main categories of indicators of interest to governments concerned with development planning are apparent from the research writings, viz., capital formation indicators, and output or efficiency indicators. Various practices revealed by the research studies to facilitate the derivation of the indicators and other economic information of use to government are dealt with below in subsections entitled "capital formation indicators" and "output and efficiency indicators."

Finally, information that appears to be of interest to both employees and governments particularly in socialist nations, such as the value added statement and other societal indicators, is surveyed.

Uniform accounting systems

Uniformity in accounting systems has found support amongst theorists, investors, employees and governments, with the latter group providing practical examples of its application. The most rigid and widespread form of uniform accounting system in existence is that found in the U.S.S.R., where it is applied for development planning and control purposes (Campbell, 1963; Mills & Brown, 1966; and Gorelik, 1973 and 1974). Other nations have adopted uniform accounting systems for similar macro-economic reasons, for example, Nazi Germany (Abel, 1971), Peru (Radebaugh, 1975), and Egypt (AlHashim, 1977). Efficiency and ease of

operation arising from a uniform accounting system, especially where there is a shortage of accounting skills, has been another reason for its introduction by a nation.

Riise (1982) listed the fundamental objectives agreed to by the Norwegian committee charged with developing a uniform accounting system for that country; they were:

- (1) Both small and large firms should be covered.
- (2) Only financial and not cost accounting should be covered because of the varied nature of the firms. This is in contrast to the German and U.S.S.R. uniformity systems which concentrated largely on the standardization of cost systems (Campbell, 1963, and Abel, 1971).
- (3) International accounting trends should be considered.
- (4) There should be sought a harmonization of the financial statement reporting with the tax and statistical authorities requirements.
- (5) The coding requirements should be simple of understanding and use.

In addition, the following criteria were specified by the Norwegian committee for the attainment of the above objectives:

- (a) Disclosure should enable easy comparison between companies. This necessitated the defining of various concepts, terminology, and ratios.
- (b) Fairly disaggregated data should be provided to facilitate user tasks. This resulted in the standardized accounts being designed with subsections and subtotals, with a separation of operational and financial data, and ordinary and extraordinary and prior period items.
- (c) The amount and movement in "hidden reserves" should be disclosed.

Accounting systems to be of value to users of financial statements must be so constructed as to communicate desired information clearly to them. Research indicates that accounting systems frequently fail in this endeavour. For example, it has been found, even in such a developed business environment as Great Britain that share investors generally have a poor understanding of financial statements. Lee and Tweedie (1978)

reported that their research showed financial statements and accounting terminology not to be well understood by both nonaccountants and many interpreters of accounts. Parker (1981) concurred and found this to be a result of financial statements being aimed at the sophisticated investor and analyst. A similar policy is inherent in the official policy of U.S.A. accounting standard setting (see F.A.S.B., 1978, p. viii). Both the studies of Lee and Tweedie (1978) and Parker (1981) suggest a need for financial statements to communicate also with persons who are not knowledgeable in accounting, otherwise a significant body of persons whose interests should be addressed would be ignored. The findings are considered to be of particular pertinence to LDCs with their largely financially untrained indigenous populations and small or non-existent stock exchange markets. Thus, uniformity in accounting practices if successfully designed as an aid to ease of understanding becomes a most attractive proposition for LDCs (AlHashim and Garner, 1973). Other reasons advanced in support of uniformity for LDCs have been its usefulness in development planning, in controlling operations, in measuring efficiency and of bringing about a better working knowledge of accounting. (AlHashim and Garner, 1973).

For reasons similar to those above referenced to AlHashim and Garner (1973), Elliott (1968) wrote that uniformity in the preparation, presentation, classification and terminology in financial statements should be a goal of Latin American LDCs if accounting was to play a positive role in their economic development. Dahmash (1977, p. 148) echoed those same sentiments in regard to Jordan, and so did Shuails (1980, p. 141) concerning Kuwait. Seidler (1967, p. 106) found the idea

of uniformity to be commonly expressed as being pertinent to Turkey's environmental needs.

Although uniformity finds many who support it for macro-economic and LDC purposes, there are many who also write of the serious deficiencies that can arise through too rigid a system; see, for example, Campbell (1963), Seidler (1967), and Gorelik (1973). One of the major impediments of uniform accounting systems is stated to be their inability to fit the needs of individual or peculiar circumstances. However, Bedford and Gautier (1974), after examining the financial statements of a sample of businesses in the U.S.A., the E.E.C., and Switzerland, found that E.E.C. uniformity was: helpful to creditors and investors; to centralized control; and as an aid to the prevention of manipulation and misrepresentation. Furthermore, the impediments of uniformity were dealt with by companies resorting to the use of reserves. According to Bedford and Gautier reserve accounting is prevalent in E.E.C. countries and 'reflects the endeavour to call attention to the more subjective aspects of E.E.C. accounting.' By this approach any rigidity or impediment arising through uniformity may be overcome or lessened. A further measure taken by some countries to lessen the rigidity problem associated with uniformity is to design accounting systems on an industry type basis. This was the approach in Germany (Abel, 1971), in Sweden (Arpan and Radebaugh, 1981), in Peru (Radebaugh, 1975) and in Egypt (AlHashim, 1979 and Briston and El-Ashker, 1984).

One of the most explicit expositions of the application of a uniform system of accounting in an LDC was provided by AlHashim (1979) in regard to the Egyptian system under the Uniform Accounting Law of 1966. Highlights of the system were described by AlHashim (1979) as follows:

1. Companies were classified into groups according to type of activity, each under an accounting control board; one purpose of which was to suite the system to the industry's needs.
2. Three objectives were sought from the system by the Egyptian authorities:
 - (a) information for planning and control of the economy at all levels;
 - (b) the co-ordination of financial and social (macro) accounts for GNP and other statistical data; and
 - (c) the facilitation of the compilation of data for easy retrieval and supply.
3. Companies had to produce financial statements consisting of: balance sheet, statement of changes in financial position, current operations account, production and trading account, profit and loss account, cash flow statement.
4. Assets were all shown at historical cost. But to maintain "the integrity of the invested capital," fixed assets, except for land, would be revalued and a reserve for the appreciation in the value of the assets would have to be established before the distribution of any profit.
5. All allowances, for example, depreciation, doubtful debts, etc., were shown under a separate group heading on the equity side of the balance sheet.
6. The current operations account showed:
 - (a) the marginal/direct cost of production;
 - (b) the value added;
 - (c) the income available for distribution under the law;
 - (d) the production at sales value;
 - (e) imputed values for leasing instead of owning assets (i.e., rentals instead of depreciation) and interest on invested capital at officially determined rates of interest;
 - (f) contra accounts to remove the imputed amounts arising from (e) and the unearned income on production not sold (d).

Indicators of control and performance used under the unified Egyptian system were those typically used in a free-enterprise economy; for example: current ratio; profit margin ratio; and rate of return on investment.

Capital formation indicators

Capital formation is calculated from economic information on the asset bases of businesses and other bodies in a nation. The calculation of the asset base is important not only because of its use for establishing capital formation but because it is a fundamental figure in

many of the other indicator calculations used by government planners. The composition of an asset base is therefore of vital concern to government. Various approaches to its calculation are provided below.

The U.S.S.R. and other communist bloc countries rely exclusively for information on capital formation on the accounting system. Fixed assets, other than land which is not valued (Campbell, 1963, p. 13), and working capital are valued at historical cost; with fixed assets being depreciated over their estimated useful lives. However, recognition is given to the great distortions which may result among enterprises with different ages of assets by instituting occasional industry-wide appraisals of assets (Horowitz, 1970, p. 70; Gorelik, 1974, p. 424). Intangible assets such as "research and development" and "human assets" are not accorded values.

Egypt, during the socialist rule of Nasser, introduced uniform accounting practices which were designed to provide information for national planning and control purposes. Under this system of uniform accounting land was shown separately in the balance sheets and valued permanently at historical cost. All other fixed assets were shown at historical cost but depreciated and provision was made for their replacement by requiring a charge to be made against profits before dividends could be declared (AlHashim, 1977).

Turk (1976) described the Yugoslavian approach, where business entities are termed "work organizations", with their resources or assets being owned by society and income after meeting contractual obligations accruing to the workers. In that country "for fixed assets, the principle of permanent valorization is adopted;" meaning, the book figure

is adjusted each year by an official price index and the difference placed to a "business fund" and depreciation calculated on the new figure in the next year. France adopted a similar approach on one occasion (in 1978) and Brazil has instituted an annual price indexing of asset values.

Output or efficiency indicators

The disclosure of production and sales in physical and monetary measurement terms is a common requirement of government for planning and macro-economic purposes. For national or macro purposes production is frequently required to be valued at selling price. Egypt, under the Nasser regime, interestingly accomplished this by showing production in the financial statements at selling price and still complied with the realization concept of traditional historical cost accounting by setting up a contra account for the unrealized profit on unsold production (AlHashim, 1977, p. 129). But many users find physical measures of output more suitable than monetary measures for their purposes. For this reason, in the U.S.S.R. great emphasis is placed by government on both monetary and physical volume information being supplied by the accounting system.

The unit cost of production was cited by Campbell (1963) as probably the most emphasized indicator of success or failure of an enterprise in the U.S.S.R. Unit costs were also the main data upon which selling prices were calculated. Campbell pointed out, that because of the absence of the market price setting mechanism in the U.S.S.R., the importance of the cost-accounting rules having to be correct from an economic point of view was critical if the cost indicator was to be a reliable measure of performance. A difficulty in this regard could arise

if indirect factory costs were apportioned to unit costs, which is a method required for financial accounting purposes by the FASB and IASC. The difficulties of control and comparison that may result from an apportionment of indirect production costs were avoided in Egypt by requiring industries to show their output on a marginal or direct cost basis (AlHashim, 1977, p. 129). However, the ignoring of indirect costs under this approach to avoid the difficulties in the apportionment of these costs does not, of course, ease the overall problems of comparison and control when a total production cost is needed.

Profitability, expressed in one form or another, for example profit as a percentage of invested capital, is used generally as a measure of efficiency and not only in capitalist or private enterprise dominated environments. Horwitz (1970, p. 25) and Mills and Brown (1966, p. 114) wrote that in 1965 the U.S.S.R. moved from the "index of volume of gross output" based on the unit cost of production as the principal measure of enterprise efficiency to the indicators of "volume of goods actually sold, profit and profitability." Thus, through dissatisfaction with relying on physical production as an indicator of efficiency, the Soviet Union and other East European countries moved, in varying degrees, to use financial indicators as measures of efficiency (Horwitz, 1970, p. 73). In the U.S.S.R. the profit figure used as an indicator of enterprise efficiency was the accounting profit adjusted to exclude certain expenses and losses connected with activities which were not related to the basic operations of the enterprise. Whilst the "profitability" indicator was defined as "profit" less an imputed 6 percent interest charge on the capital employed to give "residual income," which was then related to

average gross tangible assets, at original cost, which formed the asset base (Horwitz, 1970, p. 27).

A comprehensive set of output or efficiency indicators may be obtained from the Yugoslavian system. Turk (1982, p. 92) wrote that the following indicators had to be published by "work organizations" in Yugoslavia in terms of the statutory law:

1. Coefficient of income per worker; an indicator similar to national income per capita.
2. Coefficient of net income per worker; similar to the macroeconomic category of national income without taxes per capita.
3. Rate of "income" (i.e., earnings or profit before distribution to workers or their common consumption fund or before transfers to specific reserves, such as extra depreciation) to business assets.
4. Rate of "accumulation" (i.e., amount of income retained within the worker organization or business) to "income."
5. Rate of "accumulation" to "net income." "Net income" is "income" less taxes, obligatory contributions to national funds and transfers to specific reserves, such as extra depreciation.
6. Rate of "accumulation" to business assets.

The value added statement

An accounting statement considered by some researchers to be of particular value to government and others, such as employees, is the value added statement (Suojanen, 1954; Morley, 1978; Gray and Maunders, 1980; McLeay, 1983). McLeay (1983), who had as his purpose the examination of "the relationship between value added estimation in national accounts and the measurement, in a number of countries of corporate value added" found a correlation between them, subject to a few straight forward and reconcilable differences.

According to McLeay (1983), the value added statements as produced by British and German companies, the only two countries where companies publish the statements in significant numbers, could be related to either

the "income," or "expenditure," or "production" approaches to gross domestic product, as defined by the United Nations. The major conceptual difference between value added statements and gross domestic product calculations requiring adjustment would be for value added statements to be constructed using production valued at selling price (McLeay, 1983, p. 43).

Gray and Maunders (1980, pp. 27-28), in a research study into the value added statement practices of sampled U.K. listed companies, considered the measurement of value added at the time of production instead of sale to be the preferable approach for employees for wage negotiation purposes and for users interested in a company's "social performance." Value added measured at production would be more relevant, according to Gray and Maunders, for assessing a company's "ability to pay" and the "relative equity" of distributions because of temporal relationships usually associated with production and employee earnings and production and wealth creation.

Morley (1978, p. 20) reported that some U.K. companies and organizations found value added statements to be useful reports upon which to base productivity measurement. For example, value added had been used as a basis for calculating productivity bonus awards. In the case of the U.K. the value added approach to incentive bonuses was considered by Morley to be particularly apposite because incentive schemes linked to increases in value added were in accord with the British national economic wage policy. In a related area, Gray and Maunders (1980) observed that value added also may be a useful indicator of "managerial efficiency" where this was judged by objectives not

restricted to profit making. Yet another quality possessed by value added statement disclosure, according to Morley (1978, p. 20), was its ability to easily reveal the existence of "nonlinearity" in the tax burden between industries.

Many nations with strong worker organizations have adopted special or additional accounting practices to cater for their needs. One such development, since the mid-1960's, has been the increasing popularity of the value added statement in Great Britain (Morley, 1978), and Germany (Arpan and Radebaugh, 1981). The strongly socialist and communist countries naturally give great prominence to employee related information. Turk (1976 and 1982) researched the accounting system in Yugoslavia, where the majority of businesses are "work organizations" operated by workers for their common benefit. He revealed that a main financial statement in that country was the "statement of allocation of income and determination of net income." This statement showed the allocation or distribution of the "newly created income" amongst the workers and the organization's "contractual and legal liabilities based on income and profit" (Turk, 1976, p. 112). A clear similarity is apparent between the "newly created income" of Yugoslavia and the "value added" of the Western European countries and the emphasis on employee benefits from the distribution of the value added/newly created income.

Morley (1978, p. 19) in his research into value added reporting in Great Britain wrote that "the enthusiasm for value added is partly a reaction to the fact that 'profit' is a dirty word to many workers. . . ." In view of the sensitivity of LDCs to the possibility of exploitation by businesses through profiteering and unfair remuneration

to workers, it would seem that indicators of value added and its distribution would be appropriate in their circumstances. This contention regarding the suitability of the value added statement for showing the division of profit received support from the authors of the Corporate Report (A.S.S.C., 1975) where the value added statement was described as:

"The simplest and most immediate way of putting profit into perspective vis-a-vis the whole enterprise as a collective effort by capital, management, and employees."

A variety of presentations and measurement bases are to be found concerning value added statements. Gray and Maunders (1980) identified the following uses for value added:

- (a) to enable shareholders to better predict their returns and their variability (risk) by forecasting the likely economic consequences of employee reactions to value distributions;
- (b) to enable "managerial efficiency" to be measured where its standard is judged by objectives not restricted to profit-making;
- (c) for evaluating "relative equity" amongst stakeholders within companies;
- (d) as an indicator of "ability to pay" because it may serve as "an indicator of total productivity, when it is related to total outputs" and be of use in wage negotiations (p. 13); and, for assessing the "future continuity of employment" (p. 14);
- (e) to evaluate the "social performance" of companies by those who may have their decisions influenced by notions of "justice" in corporate allocative activities.

The assumptions of value added statement uses, especially as expressed in the concepts of "managerial efficiency", "relative equity", "ability to pay", and "social performance" enabled Gray and Maunders to postulate that:

- (a) the measurement of value added on a production rather than a sales basis appeared desirable;
- (b) value added should be disclosed on both a gross and net basis to serve a wider range of uses;
- (c) depreciation should not be treated as a distribution of value added;

- (d) retained profits together with dividends payable should be classified as the share of shareholders because of their (legal) rights.

Other societal indicators

Other socio-economic data deemed to be of importance in various nations may be gleaned from the research writings (Doost, 1985). Great attention is given to the information needs of employees.

Campbell (1963, p. 14) wrote of the great importance U.S.S.R. financial statements place on disclosing "money payments" to workers. While Turk (1982, p. 96) stated that indicators of prime importance for employees in Yugoslavia were: gross personal income per worker, categorized over skills, and corrected by an inflationary price index to permit comparison between periods.

Jaruga and Schoenfeld (1978) wrote that in Poland enterprises revealed the expenditure on social activities, such as nurseries, kindergartens, canteens, health services, recreational centres, scholarship funds; employee rewards such as bonuses; and, housing.

Rey (1978) found that the "diagnostic" concept was used by many large businesses in France in setting indicators of interest to employees. To "diagnose" employee needs questions were addressed, under main topic headings, which were deemed to be relevant to employees' interests. Four of the topic headings were: income distribution in the firm; sources and allocations of funds; wage structure; and, use of net income. An example, provided by Rey, of a question likely to be relevant to employees which could bring forth significant disclosure and measurement indicators was in the case of the topic "wage structure": what are the rules for wage determination? This could solicit the

following responses which could be indicators: qualifications; age; seniority; family dependents.

A French law of 1977 stipulated seven areas to be covered by companies in their social balance sheets: (1) employment numbers and categories; (2) wages and benefits; (3) safety and health; (4) working conditions; (5) training; (6) industrial relations; (7) other "quality of life" conditions. The measurement and disclosure indicators specified in the law under the seven areas included:

- Re (1): Total permanently employed; average monthly workforce; distribution by nationality, sex and age.
- Re (2): Total wages paid; average amount paid to employees in highest 10 percent and to employees in lowest 10 percent of wage classification.
- Re (3): Numbers and types of accidents and occupational diseases; safety costs budgeted and safety costs incurred.
- Re (4): Leave condition for each employee category.
- Re (5): Number of apprentices and categories.
- Re (6): Meetings of worker committees; official grievances.
- Re (7): Budgeted and actual expenses and purposes of other specific "quality of life" items.

Kern (1975) cited the 1974 proposals of the German Federation of Trade Unions relating to the social responsibilities of employers as a basis for deriving accounting principles and indicators for employee and external user reporting needs. The German Federation of Trade Unions proposed that businesses should follow a management policy based on a concept of "labour-oriented business management;" a concept "designed to represent the interests of 'dependent' employees as well as those of society in general." The main goals were to achieve "the humanization of labour and the improvement of the quality of life." These were to be achieved by a reduction of corporate decision autonomy, changes in the goal system of private enterprise, and a new orientation of decision processes and supporting analytical techniques. According to Kerns

(1975, p. 33) this meant that "corporate management in the future . . . [should] . . . base its decisions on labour-oriented and overall economic indicators rather than the capital-oriented, individual enterprise related indicator of profit." Shareholders, creditors and management, all groups possessing a "capital-oriented rationality" may find satisfaction from "measures of success" composed of homogeneous data concerned with profit making such as net profits, earnings per share, cash flow, return on investment; but labour and other external and macro-economic interest groups possessing an "emancipatory rationality" require data of a heterogeneous nature. Thus, until such time as a single indicator of success such as "profit" could be found a set of indicators should be presented to suit the specified needs of the users in this group.

The "fairness" of profit earned by a company frequently concerns those user groups generally interested in notions of societal justice (McDonald and Puxty, 1979). The determination of what is a "fair profit" is not an easy or straightforward task, but attempts at easing the assessment of a "fair profit" have been tackled by some nations. Turkey (Seidler, 1967), France and even the U.S.A. in specific instances (Nobes and Parker, 1981, p. 225), have resorted to uniform accounting practices as an important step towards monitoring costs, selling prices, profits and returns to owners. Gorelik (1974, p. 424) cited the approach of the U.S.S.R, a nation with rigidly uniform accounting practices, whereby mark-up percentages adjudged to be fair by central administration price-setters were added to the average costs of industries to give "fair" selling prices. Mills and Brown (1966, p. 114) pointed out that one of

the main objectives of national planners, upon the introduction of the criterion of "profit" as a measure of efficiency performance in the U.S.S.R. in the 1960's, was to establish "profitability norms" for firms within industrial sectors. These "norms" would then be used for judging a particular business's efficiency performance, as a basis for awarding bonuses to employees, and as standards for judging the "fairness" of profits.

3.5 STUDIES ON THE RELATIONSHIP PLANE.

This section is concerned with those studies which deal with issues concerning the linking of accounting practices or systems and the environment. The area being dealt with is that depicted as R^e on Figure 2.4. The purpose of this section is to reveal those studies which disclosed relationship findings of some import to this study concerning environments and accounting practices; findings which may be of value when inducing general propositions of the firm's environmental setting for use in deducing the purposive theory of accounting (as indicated on Figure 2.5 in Chapter 2).

Empirical studies on the relationship plane have largely ignored consideration of the economic, political and socio-cultural properties that may be responsible for differences in the accounting practices of countries; Amenkhienan (1984) conducted such a study. Twenty-one market-oriented developed countries were classified by Amenkhienan on the basis of their similarities/dissimilarities in environmental characteristics and accounting practices. The A.A.A. (1977) morphology (to be presented later and as set out in Figure 3.2[3]) was used to assist in the analysis of the environment. The study provided evidence to indicate a

significant relationship existed between accounting and its underlying environment and to support the proposition that environmental characteristics can be used to distinguish between national accounting systems. Four environmental characteristics which Amenkhienan put forward as being more important in determining national accounting groupings were: the level of private consumption expenditure, the rate of inflation, the use/non-use of the English language, and the legal system--common-law/civil law. Furthermore in regard to the development of accounting systems, Amenkhienan concluded that the study "supports the proposition [of Scott, 1970], that the ideal strategy for developing countries is the zero-based approach based on comparative analysis of accounting and the underlying environments in developed countries."

Amenkhienan (1984) suggested the following procedure for the development of purposive accounting and reporting standards for a given LDC:

1. Collect data on the important environmental variables: official language, political system, legal system, type of economy and economic structure variables such as: income per capita, and private consumption expressed as a percentage of g.n.p.
2. Analyze data collected in 1) above comparatively with similar data on the developed nations, using multivariate classification techniques.
3. On the basis of the environmental analysis determine with which group of developed nations the given developing nation clusters.
4. For the cluster determined in 3) above analyze the accounting principles and practices to determine "commonalities".
5. Develop own accounting and reporting standards within the general framework of the commonalities resulting from step 4.

Amenkhienan's proposal is found to be unsatisfactory on the following grounds: Firstly, as Amenkhienan (1984, pp. 150-151) pointed out:

"The suggested model is not without some obvious limitations. One such limitation is that associated with attempts to build normative models. The use of the situation as is in the developed countries to suggest what ought to be in developing countries is certainly not without somewhat subjective considerations. Additionally, in terms of accounting standards, the developed countries are still actively "searching" for the standards appropriate for their reporting needs."

Secondly, although the environmental variables of language and legal system, as well as those mentioned earlier of historical background and zones of influence, may indeed be considered to be important properties for accounting system clustering purposes and for use in positive theory development; it does not necessarily mean that they are pertinent for normative or purposive accounting system analysis. This is stated to be the case because a legal system like an accounting system is related to various specific environmental properties and it is these which should be isolated, not the system. Similarly language, zones of influence and historical backgrounds are not of themselves the vital properties of concern but rather the social and cultural properties affected by these. Undoubtedly, common languages, zones of influence and similar historical backgrounds make for the more easy adoption of accounting practices and thus may be a cause for a closeness in the classification of accounting practices between nations. However, they hardly seem factors in themselves to be used in determining what the practices should or ought to be. Finally, rates of inflation and macro-economic wealth rates may be indicators of why certain accounting practices have been adopted; but they are also indicators of the character of the macro-economy and it is this which should be used as a guidepost to what the accounting practices should be, rather than the macro numbers themselves.

A number of surveys have been published showing the wide variety of accounting practices to be found in use in countries of the "free world", for example, see A.I.C.P.A. (1975) and Price Waterhouse (1979). Other research studies have dealt with the difficulties surrounding the issue of establishing internationally accepted accounting standards because of this wide disparity in practices and the negligible impact IASs have had on national practices (Evans and Taylor, 1982). Yet other studies have shown practical examples of differences in reporting practices and the difficulties of comparability (Lafferty and Cairns, 1980). Various studies have been undertaken to establish whether the abovementioned variety of national accounting practices may be classified into groups representative of common environmental circumstances. Varying measures of success have been achieved in this endeavour as illustrated by the following empirical studies.

Frank (1979), employed factor analysis to show the extent of use of 233 accounting principles and reporting practices in 38 countries. He reported that similar patterns could be identified in 4 different groups of countries; namely, the British Commonwealth, Latin America, Continental Europe and the United States and influenced nations. Frank concluded that the hypothesis that the cultural and economic environment in a country influences its accounting principles and reporting practices is supported by the study. The close association, according to Frank, provided indirect support for the practice of relying upon an analysis of environmental factors in developing a conceptual framework for accounting principles. The Frank (1979) study was not totally satisfying. This applied because the study placed India in the South American group,

Germany with the United States and France in the same group with Sweden. Nobes and Parker (1981, p. 213) were of the opinion that to classify India as being closer to the South American group of countries than Britain, and also to show Germany closer to the United States but to show Britain in a separate group seemed incongruous. (See also Nobes, 1983, p. 3 in this regard).

A study by Seidler (1967) stated that accounting practices could be classified according to three main groups, viz., British, American and Continental. On the other hand an A.A.A. (1977) committee report classified accounting systems into five broad "zones of influence," viz., British, U.S.A., Franco-Spanish-Portuguese, German-Dutch, and Communist. Furthermore, Da Costa, Bourgeois and Lawson (1978, p. 83) were able to distinguish:

"a group of countries, former British Empire members, which follows accounting practices which constitute a distinctly British model. A second group follows the lead of the United States in dissociating themselves from practices common to the British model . . . [But] . . . contrary to common assertions, the dominant role ascribed to a continental model of accounting appears to be invalid. We uncovered no group of countries following a distinctly Continental set of practices."

Nobes and Parker (1981, pp. 212-213) have explained why it is so difficult to classify accounting systems into international groups. They pointed out that "accounting systems are so different, changeable and complex that accurate classification is not possible" and that, "one must acknowledge that a classification is only good for one moment in time." They commented that although research studies have been successful in providing broad classifications, difficulties are encountered in making precise groupings. For example, most studies establish two fairly

"tight" family groups - the British and United States - representing nations following very similar practices - and then very general or "loose" groups for the remainder. Nobes (1983, p. 15) proposed that accounting system classification should be "based on evolution and 'general knowledge' of background factors" (i.e. the environment).

The economic influence and strength of the United States has been found to have been a dominant factor in shaping other national accounting systems. For example, Nair and Frank (1981) found from examining 131 accounting practices common to the 1973, 1975 and 1979 surveys of international accounting practices made by Price Waterhouse that:

- 1) harmonization of practices was not detected on those issues on which the stand of the IASC was in conflict with the stand of the United States; and,
- 2) where harmonization had occurred that the U.S. was not active in making these changes. Most of the changes were made by countries in the British Commonwealth, Central Europe and Latin America. It was noted that most of the practices accepted or rejected had been accepted or rejected by the U.S. earlier.

Further evidence of a linkage being caused by economic influences present in an environment is available. The accounting practices of those nations which were paramount in the supply of capital funding appeared greatly to influence the structure of the debtor nations accounting practices (Choi, 1973; and Barrett, 1977). The following study was related to this issue. An economic event of some magnitude, the growth of the Eurobond market in the 1960's and its effect on financial statement disclosure practices was researched by Choi (1980). The results of the study indicated that the desire to attract Eurodollar funds into those firms seeking investment monies appeared to have been a most positive suasive force for adopting U.S. style disclosure policies.

That economic forces are related to accounting practices and have an important influence on accounting practices was clearly revealed by a study of Nair and Frank (1980). However, it was found that the classification of countries into groups was not the same whether measurement or disclosure practices were used. Secondly, and most pertinent to this present study, it was found that although economic variables were related to the groupings, the specific economic variables most closely related to each subset were different. On a single country basis this appears to imply that not necessarily the same environmental considerations apply when setting measurement and disclosure practices and furthermore that the economic properties applied in each case may be different as well.

Jackson - Cox et al (1984) revealed how social circumstances may have an effect on accounting practices in this instance through the general acceptance of objectives sought by organized labour. In 1960 the British Trade Union Congress resolved that "work-people have a natural legitimate interest in the affairs of the organization on which they rely for their livelihood and it is right that they should know what is happening and is likely to happen in the companies in which they work." This resolution eventually found its way into the British legislation. The Industrial Relations Act through the Code on Industrial Relations Practice (1972) identified the types of information it would be "good industrial relations practice" to disclose: organizations and activities of the employing unit; manpower; pay; conditions of service; financial information; and, plans and prospects. Although the statute was amended by a later government, the social philosophy appears to be reflected in

the "Corporate Report" (ASSC, 1975), which has had a noticeable influence on UK reporting practices and accounting research (McDonald and Puxty, 1979).

In France similar social pressures caused the Sudreau Commission to report that:

"The relationship of man to his work, human relationships within an organization, the exercise of power at the top, the relations of industry with the community, are indissociable aspects of realistic reform of enterprise."

The result was the passing of legislation requiring corporations over a certain size to produce a "bilan social" to be based on "indicators representative of (the enterprise's) social situation and working conditions" and to determine the quality of an organization.

Jackson - Cox et al (1984) were critical of a shopping list approach to employee information. Instead the information sought should have been related to issues, such as, "the ability to pay," "job security," "introduction of new technology," "marketing strategy," "changes in company structure." According to Jackson - Cox et al the process of disclosure should involve a duality of purpose in the sense that it should serve the objectives of both management and employees or trade unions.

The establishment of a relationship between socio-environment and accounting practice when it comes to employee information is helped by the empirical study of Lewis et al (1984). The literature on financial reporting to employees in the U.S.A. between 1919 to 1979 was studied. It was found that the level of publication interest varied widely during the period but greatest interest by companies appeared to repeatedly co-exist with four major socio-economic factors: application of new

technology in the workplace; increased merger activity in the corporate sector; ground swells of anti-union sentiment; and, economic recession or fears of recession. According to Lewis et al (1984) the increased interest in reporting to employees may have occurred to achieve the following objectives:

- (1) to allay fears of lost rank, skill or employment through technical advances;
- (2) to counter fears of "bigness" monopoly power, employee relocation, loss of identity;
- (3) to take advantage of community anti-union sentiments by bypassing union communications;
- (4) to prepare employees for hard times, to urge employees to greater efforts.

All of the above objectives are compatible with those mentioned by Jackson - Cox et al (1984) as being issues which may be used to link the issues or needs of employees with accounting information. All also relate to changes or "threats" of changes to the status quo of the social milieu.

Bedford (1973, p. 5) contended that an accounting measurement and disclosure system involves "perception, symbolizing, analysis and communication" and thus financial statements should give "supplementary environmental disclosures" which would help both message sender and receiver to share similar perceptions of the significant activities of the accounting entity (Bedford, 1973, p. 97). However in international reporting difficulties may arise because cultural properties may differ greatly between "sender" and "receiver" and so affect an understanding of the message. A study which highlighted these difficulties was that of Choi (1980). Choi conducted an empirical analysis of the financial statements of two major businesses, one in Japan and one in the U.S., engaged in the same trade. Because of differences in cultural and other

environmental circumstances it was discovered that a restatement of either set of accounts into the accounting practices of the other did not present a fair picture and was "potentially misleading" because of the undisclosed environmental circumstances common to each. Examples cited by Choi of some of the differing accounting practices related to cultural environmental differences were:

- (1) Dividends may be compulsory in one country and discretionary in another.
- (2) Dividends may be allowed from consolidated earnings in one country and from holding companies in another.
- (3) Reserves may be considered as part of equity in one country and as liabilities in another.
- (4) Short term borrowings may be assured of being "rolled-over" in one country and not another.
- (5) Bank loans may be very similar to equity in one country but not the other.

It has been pointed out that social conditions may require new or additional information from companies. The Committee for Economic Development (1971, p. 16) reported why this may be required:

"Today it is clear that the terms of the contract between society and business are, in fact, changing in substantial and important ways. Business is being asked to assume broader responsibilities to society than ever before and to serve a wider range of human values. Business enterprises, in effect, are being asked to contribute more to the quality of American life than just supply quantities of goods and services."

A survey by Ernst and Ernst (1978) relevant to this wider range of information brought forth this conclusion:

"The quantification of a disclosure improves its quality by specifying the amount of effort a company expends in a particular area of social responsibility. These measurements may be stated monetarily or nonmonetarily . . . The quality of the quantified disclosure also can be affected by the unit of measure used, e.g., dollar, hours, people, and by disclosing comparative or trend data for these measures. The quality of disclosure is further enhanced

by describing, in greater detail, the nature and extent of the company's involvement in socially responsible activities . . . An objective and balanced approach to disclosure improves its quality and usefulness by including failures as well as success."

Wiseman (1982) conducted an empirical study to measure the content of disclosures and the relationship between disclosure content and the firms' environmental performance. His results indicated that corporate environmental disclosures were incomplete and were not related to the company's actual environmental performance. Wiseman's interpretation of why this should be is generally covered by the following statement from the A.I.C.P.A. (1977):

"Although there are enormous gaps, companies do have available a fairly substantial amount of information about business actions and the nature of their social consequences; most of it about impacts on what might be called the 'social conditions' which substantially affect the lives of individuals. In most areas, the information available is incomplete, and often inaccurate; usually, companies do not and cannot measure social impacts very well nor trade them very far. Information is most complete and accurate when it is required by law, regulation or contractual agreement."

3.6 PARADIGM INTEGRATION AND THEORY CONSTRUCTION.

The body of research now analysed consists of studies which attempt to consolidate the various ideas generated by the exemplars (section 3.2) and the more detailed or dimensionally focused studies (section 3.3). These studies represent an integration of ideas for the formulation of theories pertinent to the international world view paradigm. The purpose of this section is to uncover the most complete studies that are available from the literature on the paradigmatic domain of international accounting (as depicted by P^t of Figure 2.4), to provide knowledge useful for purposive theory construction.

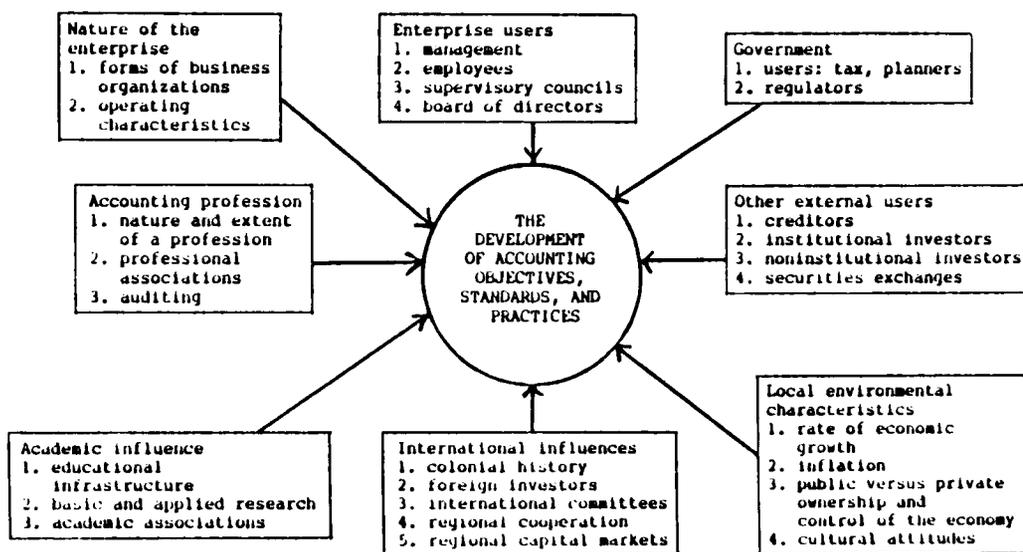
Radebaugh (1975) discusses "the major environmental factors that influence the development of accounting objectives, standards, and practices." Twenty-seven environmental factors affecting the development of accounting theory were identified. These are listed on Figure 3.2(1). Radebaugh concluded that differences between national environments warranted differences in national accounting practices.

By setting out "the major factors that influence the development of accounting objectives, standards, and practices; domestically and world wide", Radebaugh (1975) attempted to present a world view type paradigm of international accounting. However, Radebaugh's paradigm [Figure 3.2(1)] is not as holistic a view as Figure 2.2 upon which to build an accounting theory or theories. His paradigm is deficient as a normative model, for not all the factors are expressed as environmental properties, and no depiction is provided of the normative objectives of harmony between a national environment and an accounting system on the one hand and between different national systems on the other hand. Furthermore, the paradigm is simply a one-way view, as depicted by the single-headed arrow lines, of factors which may influence an accounting system; and furthermore, it ignores portraying the image that accounting practices may affect the environment. The Radebaugh paradigm is at best an aide memoire of headings under which to search for environmental properties which may influence accounting systems. Radebaugh does not expand his paradigm into an instrumental framework for the systematic analysis of the extant knowledge base nor does he develop it into a concrete puzzle-solution model for the development of accounting theory.

FIGURE 3.2

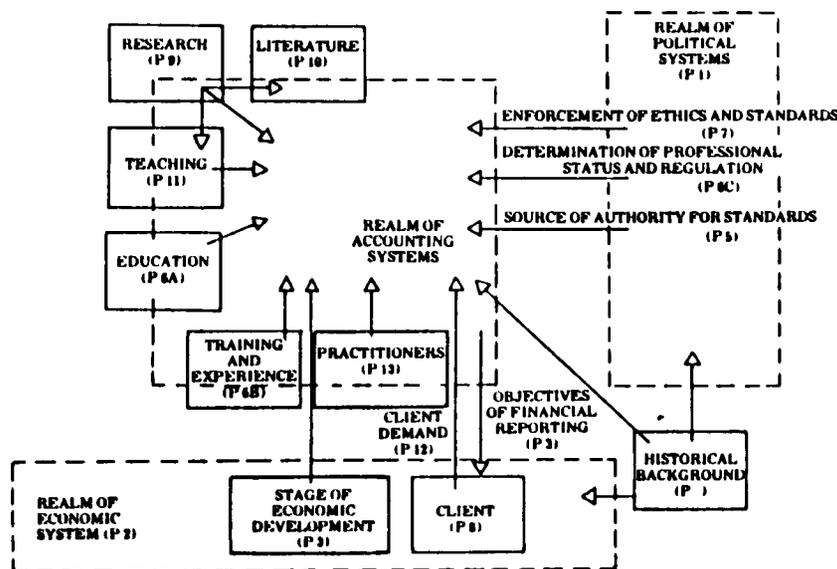
International Accounting Environmental Models

(1)



Radebaugh (1975)

(2)



MacDonald (AAA, 1977)

(3)

Parameters	States of Nature				
	1	2	3	4	5
P ₁ - Political System	Traditional Oligarchy	Totalitarian Oligarchy	Modernizing Oligarchy	Tutelary Democracy	Political Democracy
P ₂ - Economic System	Traditional	Market	Planned Market	Plan	
P ₃ - Stages of Economic Development	Traditional Society	Pre-Take-off	Take-off	Drive to Maturity	Mass Consumption
P ₄ - Objectives of Financial Reporting	Investment Decisions	Micro Management Performance	Social Measurement	Sector Planning & Control	National Policy Objectives
P ₅ - Source of, or Authority for Standards	Executive Decree	Legislative Action	Government Administrative Unit	Public-Private Consortium	Private
P ₆ - Education, Training & Licensing	Informal	Public-Formal	Informal	Private-Formal	
P ₇ - Enforcement of Ethics & Standards	Executive	Government Administrative Unit	Judicial	Private	
P ₈ - Client	Government	Public	Public-Enterprises	Private-Enterprises	

Buckley and Label (AAA, 1977)

The first attempts to present an instrumental framework for systematic analysis of the environment were those of McDonald, and Buckley and Label as part of the AAA (1977) research study for the classification of international accounting systems. McDonald, as part of the AAA (1977) study, presented a more condensed and slightly varied listing of environmental factors than Radebaugh (1975). These factors were held to compose "the realm of accounting systems," or in other words, "the paradigmatic domain" of Figure 2.4. The environmental factors are shown on Figure 3.2(2) which indicates that the "objectives of accounting systems" are determined by the particular national environment under consideration.

Once again, like Radebaugh (1975), the paradigm provided by McDonald (AAA, 1977) is but an incomplete "world-view" of international accounting. Furthermore, criticism may be leveled at both the paradigms of Radebaugh and McDonald for showing "colonial history" or "historical background" respectively as a separate factor directly affecting the development of accounting systems. This approach is considered to be unhelpful. It is suggested that the historical background should not be shown as a separate factor influencing accounting development directly, but should be considered as a factor which may affect each of the environmental properties. In other words, the historical perspective should be a factor always to be considered whenever an environmental property is subjected to analysis in a national situation. Such an approach is employed in Chapter 4 because the historical background may be of importance in both a descriptive and predictive sense and so be important to normative theory development.

Buckley and Label, as part of the AAA (1977) study, described a methodology for research on comparative accounting employing morphological classification for use in analysing national accounting systems and for identifying opportunities for improving the systems. Their "first effort" (AAA, 1977) at producing a morphology for international accounting classification is shown on Figure 3.2(3). However, although the morphology provided a framework for uniquely identifying an accounting system, the appropriateness of such a system required the further specification of the objective function of the accounting system to be derived from an analysis of the environmental properties. Nevertheless, the methodology, according to AAA (1977, p. 100), would be very useful to an LDC which wished to "deliberately manage the development of the accounting system for the nation."

By providing a morphological framework for classifying accounting systems, Buckley and Label (AAA, 1977) provided the idea of an analytical framework for classifying environmental properties which affect accounting systems. No framework for identifying the major or key environmental properties was provided, however, nor was a concrete puzzle-solution model provided for the purposes of constructing an accounting theory. It was studies such as those by Previts (1975), Briston (1978) and Enthoven (1977) which were helpful to a limited extent in this latter regard.

Previts (1975) focused upon "The matter of methodology for reviewing and synthesizing global accounting developments considering the interrelationships which have arisen from the changing economic and financial environment" He identified six steps as being useful

in discriminating the issues and reviewing extant materials on the subject of international accounting and the need for uniformity of financial accounting principles. The first step, described as "a positive step", was to empirically evaluate, compare and analyze intercountry accounting systems, the output of which would yield an appreciation of the complexity of environmental properties and their influences upon accounting practices. The second step, "a normative step" would be a "crystal ball gazing" exercise necessary to anticipate the future role of accounting. The third step, would be "a historical" one to discover accounting's social and economic origins in each environment. The final three steps would follow the same positive, normative and historical patterns of analysis and evaluation but instead of being focused at the national level would be at the international level. The six steps proposed by Previts (1975) show clearly that he recognized the need for a strong relationship to exist between environments and accounting systems at both national and international levels. According to him, the implementation of a "uniform" or harmonious international accounting system by a nation could follow any one of three approaches or some combination thereof. The choice could be made from: "the authoritarian approach" (by promulgating mandatory regulations); "the practice approach" (by the good example of leading nations and their practitioners); and the "scientific approach" (by constructing a normative theory).

Enthoven (1977) appraised the accounting systems of LDCs and concluded that for optimum efficiency in socio-economic development these countries warranted accounting concepts of a far broader and more

interdisciplinary context than existed currently. A narrow stewardship system was inappropriate for LDCs: instead what was required was a measurement and reporting system of use for both "micro" and "macro" decision-making. Appropriate changes to systems would be achieved by directing attention to environmental properties of types similar to those contained in the studies portrayed on Figure 3.2, and by analysing such properties to reveal an "inventory of status and needs" and an "accountancy plan." Such an analytical framework would guide the development of articulated or integrated financial reporting, management accounting and national accounting practices for LDCs (Enthoven, 1977, p. 113).

Briston (1978) favoured Enthoven's view that LDCs should have integrated enterprise accounting, government accounting and social (i.e. national) accounting practices. In his view it was regrettable that so many LDC accounting practices had been adopted through "habit, inertia and vested interests" from metropolitan or former ruling developed nations and were totally inappropriate for independent LDCs. According to Briston (1978, p. 117) an LDCs accounting system should be "highly responsive to the social and economic environment;" and, much of the background knowledge for such a system should be obtained from "a comparative study of the evolution of accounting under different environments . . . [so as to provide] . . . important lessons regarding the true nature of accounting and the extent to which it is possible to separate the fundamental truths from the historical accidents". Briston went on to write that an appropriate accounting system should be guided by deciding what information is necessary for economic decisions at both

the micro and macro levels. At the micro level the system would be guided by addressing such questions as: What are the relevant costs and revenues? To what extent should current costs, opportunity costs, replacement costs, social costs, benefits and so on be taken into account? At the macro level the system should be guided according to Briston by addressing such questions as: What are the objectives of government? What information is necessary to devise plans for the attainment of those objectives? Does information need to be submitted to the government on foreign exchange transactions, investment plans, projected imports and exports, profits (if so, how defined), social costs and benefits? Briston concluded that other factors requiring consideration would include: what measurement criteria should be used? and what levels of manpower expertise are available?

A clear pattern for the initial and fundamental stages in accounting theory construction emerges from the integrated paradigmatic studies of this section: -

(1) Establishment of the environmental dimensions and properties of a nation is vital for the revelation of the appropriate objective and conceptual functions of accounting.

(2) Although a variety of environmental factors are dealt with in the studies, all may be fitted easily within the environmental dimensions, E^1 to E^5 , listed in section 3.2 following upon the survey of the exemplars.

(3) Key properties of the environmental dimensions, E_j^i , similar to those mentioned in the specific elaboration of the paradigm in section 3.3, should compose the instrumental framework for guidance in developing an accounting system in harmony with the environment.

The integrative studies surveyed in this section tended to broadly approach the construction of an accounting system for an LDC in a manner similar to that described in this study as a precursor to theory design. That is to say, all the studies agree that there should be:

- (1) an identification of national key environmental properties, E_i^j ;
- (2) a review of the existing national accounting practices, A_i^j ; and,
- (3) the establishment of linkages ($R_i^{e/t}$) between the national

environment and the objective functions of an accounting system so that a purposive theory may be constructed for the nation. However, none of the integrated paradigmatic studies set down an instrumental framework for theory construction (as shown in Figure 2.5), nor do any of the studies give anything but very generalized examples of how accounting practices should be derived from the properties of the environment.

3.7 A MORPHOLOGICAL FRAMEWORK

The literature has been surveyed above to provide those environmental properties which theoretical writings or empirical observations have considered to have had an influence on the development of accounting practices. The research studies showed that the way in which accounting was affected would vary depending upon the states of nature of the environmental properties. A summary of the environmental properties and the pertinent variations in those properties is expressed as a morphology on Figure 3.3.

A comparison of the morphology of Figure 3.3 with that of Figure 3.2(3) shows that their composition differs in certain properties named and states of nature specified. The main reason for these differences is that Figure 3.2(3) was designed as a morphology for purposes of

FIGURE 3.3

Morphology of Environmental Properties

<u>Property</u>	<u>States of Nature</u>				
	1	2	3	4	5
<u>E¹ Firm setting</u>					
E ₁ ¹ Type of majority ownership	Family institutional and M.N.C.	Public market	State		
E ₂ ¹ Nationality of owners and lenders	Mainly foreign	Mainly local			
<u>E² Macro-economic setting</u>					
E ₁ ² Extent of state planning and direction	Total for all business sectors	For majority of business sectors	For selected business sectors	Nil	
E ₂ ² Extent of economic controls	Numerous monetary and pricing controls	Selected monetary and pricing controls	Occasional monetary and pricing controls	Free trade regime	
E ₃ ² Stage of economic development	Traditional society	Transitional society	Take-off	Drive to maturity	Mass consumption
<u>E³ Political setting</u>					
E ₁ ³ Political regime	Communist	Strongly socialist	Socialist/capitalist	Capitalistic	
<u>E⁴ Social and cultural setting</u>					
E ₁ ⁴ Type of cultural background	Less sophisticated owners and managers and nationally homogeneous society	More sophisticated owners and managers and nationally heterogeneous society	and nationally heterogeneous society	and nationally homogeneous society	
E ₂ ⁴ Society's opinion of the firm	Exploiter of national interests	Exploiter of all except investors	Exploiter of employees	Nationally beneficial	
E ₃ ⁴ Type of stewardship responsibility	To serve owners only	Primary to serve owners; secondary to serve society	To serve both owners and society equitably	Primary to serve society; secondary to serve owners	
<u>E⁵ Professional accounting setting</u>					
E ₁ ⁵ Standard setting authority of national profession	None	Limited	Very full		
E ₂ ⁵ Audit services	None	Optional	Obligatory		
E ₁ ⁵ Professional skill level	Work experience	University education plus 1	Professional qualification plus 1 and 2		
E ₄ ⁵ Source of qualification	Mainly foreign	Mainly national			
E ₅ ⁵ Availability of information producers and financial managers	Serious shortage	Manageable shortage	Sufficiency		

classifying national accounting systems into comparative groups, whereas the purpose of Figure 3.3 is to provide a morphology for classifying national systems to show what states of nature of the environmental properties are present within a nation which should be considered when seeking harmony between the environment and accounting practices.

In one case the details specified on the two morphologies (Figure 3.2(3) and Figure 3.3) are identical: "stages of economic development"; in other cases the environmental dimensions are identical but the environmental property descriptions differ because of the difference in purpose to which the morphologies are put. For example, the definition of "political system" differs; the A.A.A. (1977) morphology (Figure 3.2.3) gives a specification of forms of government whilst the categorisation of Figure 3.3 is more useful for analysis purposes by specifying ideological beliefs of governments. All of the remaining properties of Figure 3.2(3) are to be found in Figure 3.3 but specified in a different form to meet the different purpose of the morphology. For example, "client" (Figure 3.2.3) is closely related to "majority ownership" (Figure 3.3); "economic system" (Figure 3.2.3.) is covered by the more fine analysis provided by "state planning" and "economic controls" of Figure 3.3. By these means the morphology of Figure 3.3 should give a more precise and more useful classification of the environment for purposes of constructing a purposive theory of accounting.

3.8 CONCLUSION

In Chapter 2 the question was asked: "what is the existing state of knowledge regarding theoretical and empirical research into national environments and their linkages or relationships with accounting?" To assist in addressing this question an analytical paradigm, Figure 2.4, was constructed and used in this chapter to disclose the extant theoretical research. Instead of using a traditional form of classification similar to that employed by Jaggi (1979), a different classification has been used which places the literature in an evolutionary type of time frame and so shows how far the research has progressed and what shortcomings exist in the coverage of the subdiscipline. For example, Figure 3.4 lists the studies dealt with in the four classification groups of: research for an international accounting paradigm, research into national environments, research into national accounting systems, and relationship studies. The classification shows clearly that apart from a few writings on the periphery of the subdiscipline it was the exemplars in international accounting research who first articulated the "world view" paradigm that inspired specific and detailed theoretical research on the subdiscipline.

It should be clearly noted that the studies cited under research into national environment and accounting systems are not meant to be all inclusive in coverage of the subject matter of international accounting, but are simply those mentioned from a survey of the literature which highlighted or dealt with appropriate properties, and related accounting practices. Furthermore, certain studies such as Campbell (1963) are seen to fall outside the "time-frame" set by the dating of the works of the

FIGURE 3.4

Classification of literature on research for an international accounting paradigm into national environments, accounting systems and their linkages or relationships.

1. Research for an international accounting paradigm:
 - (a). Exemplars:
 Mueller (1967), Seidler (1967), Scott (1970), Zeff (1972), Enthoven (1973).
 - (b). Paradigmatic integration and theory construction:
 Radebaugh (1975), Previts (1975), McDonald (1977), AAA (1977), Enthoven (1977), Briston (1978).
2. Research into national environments:
 Elliott (1968), Singhui (1968), Johannsen (1969), Cherkovich (1972), Horngren (1972), AlHashim and Garner (1973), Bray (1973), Chastain (1973), Barrett (1974), Scott (1974), Aiken (1975), Radebaugh (1975), Wells (1975), Andrews & Smith (1976), Enthoven (1976), Scott (1976), Siegal and Lehman (1976), Vandenberg (1976), Var (1976), Barrett (1977), Churchill (1977), Dahmash (1977), Enthoven (1977), Hall (1977), Parker (1977), Soyode (1977), Thorelli (1977), Briston (1978), Choi and Mueller (1978), Cunningham (1978), DaCosta (1978), Enthoven (1978), Mason (1978), Moore (1978), Rey (1978), Schoenfeld (1978), Dierkes (1979), Fisher (1979), Jaggi (1979), Lelievre (1979), McComb (1979), McDonald and Puxty (1979), Miller (1979), Radebaugh (1979), Schreuder (1979), AlHashim (1980), Jaggi (1980), Lafferty (1980), Nobes (1980), Shuaib (1980), Enthoven (1981), Foroughi (1981), Glatzer (1981), Gray (1981), Holzer and Chandler (1981), Lefebvre (1981), Seidler (1981), Skully (1981), Bailey (1982), Berry (1982), Douppnik (1982), Evans & Taylor (1982), Givoly and Lakonishok (1982), McComb (1982), Mirghani (1982), Samuels and Oliga (1982), Wiseman (1982), Ameiss (1983), Jagetia and Nwadike (1983), Laughlin and Puxty (1983), Witt (1983), McPhail (1983), Singh and Ahuja (1983), Violet (1983), Briston and El-Ashker (1984), Choi and Mueller (1984), Cooper and Sherer (1984), Needles (1984), Ndubizu (1984), Teoh and Thong (1984), Doost (1985), Needles (1985), Schweikart (1986, 1987).
3. Research into national accounting systems:
 Campbell (1963), Mills and Brown (1966), Horwitz (1970), Abel (1971), Gorelik (1973), AICPA (1975), Turk (1976), AlHashim (1977), Jaruga and Schoenfeld (1978), Morley (1978), Ray (1978), AlHashim (1979), Price Waterhouse (1979), Gray and Maunder (1980), Fitzgerald (1981), Riise (1982), Turk (1982), McLeay (1983).
4. Relationship studies:
 Choi (1973), AAA (1977), Frank (1979), Choi (1980), Nair and Frank (1980) and (1981), Nobes and Parker (1981), Wiseman (1982), Nobes (1983), Amenkhienan (1984), Jackson-Cox (1984), Lewis (1984).

exemplars. This is not an unexpected occurrence as the works were undertaken not for international accounting disciplinary purposes but because of their unique historical interest value; for example, Campbell (1963) dealt with the accounting methods of the U.S.S.R.; similar early detailed studies are to be found cited by Abel (1971) on the systems of Nazi Germany in the 1930's and 1940's.

From a study of the classification of Figure 3.4 there appears a paucity of studies, except for the generalized approaches of Mueller (1967), Previts (1975), AAA (1977), Enthoven (1977), and Briston (1978), on theory construction for either specific nations or international accounting. None of the paradigmatic studies is a complete, let alone a detailed attempt to provide a methodology for the construction of a harmonious accounting system. Thus, the earlier claim in Chapter I of the uniqueness of this study as a vehicle for purposive theory construction is substantiated.

The extant literature discloses no attempt to put forward a morphology for analyzing the characteristics of the environment for the specific purpose of constructing an accounting system for an individual country. The morphologies set down by the A.A.A. (1977) and Amenkhienan (1984) were primarily designed and used for comparative studies towards achieving national grouping or clustering. They possess the major limitation that their use would force an LDC to accept those practices adjudged to be most appropriate from the nations with which it clusters. These need not necessarily be the best or most appropriate for its needs.

The analysis conducted in this chapter shows firstly that a different morphology than that used for national clustering, as depicted on Figure 3.3, is required for ease of deriving propositions on the environment of the firm, so that these general propositions may be used as a zero-base or fresh start for constructing a purposive accounting system. Secondly, the review of certain aspects of specific national accounting systems listed practices which may be of consequence when constructing purposive accounting practices. Thirdly, the empirical relationship studies show that there should indeed be a linkage between a nation's accounting system and environment, and that the characteristics of the economic, political and socio-cultural settings should be given consideration when structuring an accounting system for a nation. It seems that the "best" approach for a nation is to tailor the accounting system to the national environment by starting from zero-base or by making a fresh start. It seems inappropriate to accept the "perhaps best" system by resorting to a clustering technique approach and using the resulting selection of best practices available from within the cluster.

NOTES, CHAPTER 3.

1. Belkaoui (1985, p. 453) defines an exemplar as "a piece of work that stands as a model for those who wrote within the paradigm." For a more detailed explanation of the term "exemplar" refer to section 3.2.
2. See Kuhn (1970, p. 64).
3. Refer to Chapter 1, Chambers (1966, p. 6) and Ijiri (1975, p. 14).
4. The "uniform" pattern, although classified by Mueller as a fundamental pattern, is but one possible additional dimension of the other three patterns.
5. Mueller (1967, pp. 22-23) stated that "the widened concept of revenue" arises because it is the firms contribution to economic wealth which is of concern rather than sale of goods and services alone. Thus holding gains are of interest.
6. Mueller (1967, pp. 23-24) gave the example of depreciation write-off policies being geared to serve the national interests. According to Mueller, in terms of the macro pattern, the "matching of expenses to revenues still obtains quite strictly in this process; but the matching of expenses to periods loses its absolute force."
7. Mueller (1967, p. 24) wrote that "the measure of value for assets recognized in the accounting process is clearly subordinate to income determination considerations when it comes to an accounting pattern oriented to national economic policies." Mueller cited the example of the Lifo valuation issue in the USA. He also pointed out that "any given valuation base used may be changed when it ceases to serve effectively important national policies."
8. Mueller (1967, p. 48) described the traditional accounting income concept as that "which holds that accounting income is the difference between revenues of a period realized, in the traditional AICPA sense, and costs expired in the same period."
9. Seidler (1967, p. 1-2) set out to show "that accounting has a positive role in the development process." According to Seidler, accounting should be viewed as a "secondary agent in the development process" because accounting should be "a device to improve the efficiency of the other factors of the development process."
10. See, for example, Enthoven (1965), (1967), (1973), (1976), and (1981).
11. See, for example, Enthoven (1973, pp. 328-334).
12. It is the variety of properties composing an environment and the various interrelationships existing between them which prevent the postulation of a single all purpose accounting system and require a national system to be deduced from the national environment. None of the exemplars provided a ranking or a hierarchical classification of the environmental properties for accounting system development. In a later work, (AAA, 1977, p. 97), hierarchical importance was

given to the "political system" and "economic system", see Figure 3.2(3), because these properties were "viewed as being pivotal to the type of accounting system which does (or can) emerge." The approach of this study is that, although hierarchical classification may be important for comparative accounting system classification (Nobes and Parker, 1981, pp. 203-214), there is no need to formulate a hierarchical classification of environmental properties for normative accounting system development. Instead, all properties considered of importance from an analysis of the extant literature (see figure 3.3) should be characterized in the light of the Zimbabwean environment (Figure 4.5) and then together with considerations of the nature, extent and implications of their interdependencies used to derive the accounting theory (Chapter 5).

13. See also, Gorelik, George. "Soviet Accounting, Planning and Control," Abacus, June 1974.
14. See, for example, Horwitz, (1970, p. 73); Seiler, (1966, p. 652), Briston, (1978, p. 107), and AlHashim, (1977).
15. Enthoven (1965) had also cautioned that accounting practices should not be revised constantly under the influence of short-term distortions in the economic environment.
16. See AAA (1977, p. 99).
17. See, Rostow, W. W., "The Stages of Economic Growth: A non-communist manifesto." London: Cambridge University Press, 1971.
18. See also, Mills and Brown (1966), who quoted Lenin as having written: "accounting and control - that is the main thing that is required for the proper functioning of the first phase of communist society."
19. A commonly held view was that "enterprise accounting provides great potential for assisting the economic development of developing nations." G. M. Scott, 1970, p. 1.
20. See, for example, Seidler (1967).
21. Bailey (1982, pp. 34-35) referred to the inapposite qualities displayed by the basic accounting objectives of Western industrial businesses (to "aid entrepreneurs in the extraction of profits and accumulation of capital") and those of the communist and socialist nations (to be "a societal tool to improve the welfare of society"). The latter objective was made clear by Lenin when he wrote: "The programme of this accounting and control is simple, clear and intelligible to all; everyone to have bread, everyone to have sound footwear and good clothing; everyone to have warm dwellings." Bailey cites the strong resistance of the communist countries to Western accounting practices as the most obvious example of a recognition of their inapposite qualities.
22. In this instance Jaggi is quoting a definition from: Clyde Kluckhohn, "The Study of Values," Values in America, ed., Donald N. Barrett (Notre Dame: University of Notre Dame Press, 1961, p. 18).

CHAPTER 4

ANALYSIS OF THE ZIMBABWEAN ENVIRONMENT

4.1 INTRODUCTION

The tasks set down to be accomplished in this chapter are clearly portrayed on Figure 2.5 and are deemed necessary to accomplish the subsequent construction of accounting concepts, principles and practices. The morphology as set out in Figure 3.3, containing environmental properties (E_{jk}^i) and variations or states of nature of those properties (S_{jk}^i) constructed from the analysis of the extant literature in Chapter 3, is used in this chapter as the basis for the systematic exposition of the environment of Zimbabwe. The main purpose of this exposition is to provide a morphological analysis of the Zimbabwean environment which provides the fundamental and essential raw material necessary for the subsequent theory construction of an accounting system to be undertaken in Chapters 5 and 6.

A supplementary purpose of this chapter is to provide evidence, in the form of two contrasting morphologies of the nation of Zimbabwe, one prior to independence and one for the national environment of today, to show clearly that circumstances have changed sufficiently to justify the development of an accounting system to suit the changed environment of Zimbabwe.

Two distinct advantages evolve from the above-mentioned approach to analyzing the environment of Zimbabwe. Firstly, the morphology of Figure 3.3, constructed from the extant knowledge base, provides a systematic schema for ensuring that no matters of possible import for the later development of an accounting system are overlooked. Secondly, the

approach holds out the important possibility of the knowledge base regarding environmental properties (E_j^i) and states of nature of those properties (S_{jk}^i), which affect accounting system development, being increased through the application of the morphology for analyzing a real-world situation. This addition to the knowledge base, regarding environmental properties and their effect upon accounting development, would occur if the national environment of Zimbabwe were to contain circumstances (S_{jk}^i) which are not catered for on the morphological framework of Figure 3.3. Such a situation would provide information for the expansion of or change to the general morphological framework.

4.2 ANALYSIS OF THE ZIMBABWEAN ENVIRONMENT

Dimension: E_1^1 The firm setting.

The morphology shown in Figure 3.3 lists two environmental properties, type of majority ownership and nationality of ownership, under the environmental dimension of the setting of the firm. The Zimbabwean environment is analyzed below to place it on the morphological scale.

Property: E_1^1 Type of ownership.

From 1890 to 1923, Southern Rhodesia, the territory's former name, although under the de jure sovereignty and protection of Great Britain, was in terms of a Royal Charter under the administrative control of a company, the British South Africa Company owned by Mr. Rhodes after whom the territory was named until 1980, and described as "one of the first multinationals in Zimbabwe" (G.R.Z. 1981B, p. 23). For 33 years it was "the Company," controlled from its head office in London which dictated

the micro- and macro-economic policies of the country. "The Company" apart from direct interests in mining, agriculture, and business firms, also owned the total mineral and land rights which it could sell or grant to settlers or other companies. In 1923 the de jure government of the territory passed to the white settlers except for international and "native" affairs which remained with Great Britain. However, in matters economic the country remained de facto very much under the influence of foreign MNCs (Clarke, 1980; Seidman, 1980).

After the 1939-45 World War the economy grew at a faster pace. Foreign MNC interests continued to dominate but a few settler business empires of a very private or closed family-type were also of significance. One such family holding, still of economic importance to this day, is the Meikles Group, consisting of a large number of outwardly independent proprietary companies in such diverse sectors as departmental stores, building supplies, spinning and weaving, plantations, cattle ranching, hotels, mining and heavy engineering; giving rise to a popular saying of earlier times that "Rhodesia belonged to Meikles and the white-ants."

Further rapid growth, particularly by the MNC and family owned companies, occurred during the period 1953-1963 when the territory formed part of the Federation of Rhodesia and Nyasaland (the name for the amalgamation of territories now represented by the independent and separate nations of Malawi, Zambia and Zimbabwe). It was during the federal era that the national stock exchange experienced its greatest growth. It was during that period that the flotation occurred of public issues by some of the family entrepreneurial empires and some of the MNC

groups. But in all cases the families or external MNCs retained majority shareholdings for themselves.

Zimbabwe has had a stock exchange market for many years. For most of that time only individuals could become members of the exchange, but in 1984, to counter a dwindling dealer membership which threatened to jeopardize the Zimbabwe Stock Exchange's (ZSE) existence, the government promulgated legislation permitting corporate dealer membership.

Until March, 1984, it was possible for both Zimbabwean and foreign companies to apply for their shares to be quoted on the ZSE. Volume of turnover fluctuated over the years, influenced mainly by the vagaries of national political events. Taking 1976 as the base year (volume = 100), volume of turnover in 1977 = 80; in 1980 = 243; and in 1983 = 87. 1977 was a depressed year because of the escalating war, whilst 1980 was buoyant through optimism from the independence settlement. In March, 1984, government suspended the right of the ZSE to deal in foreign company shares. This was done for balance of payment reasons. In the twelve months ended March, 1985, the ZSE had a turnover of 27 million shares traded for \$33 million compared with 18 million shares and \$68 million in the previous twelve months, with the shortfall in value being due mainly to the removal of foreign dealings from the ZSE (ZSE Annual Report, 1984/85).

In June, 1986, there were 53 Zimbabwean companies quoted on the ZSE, of this number a total of 48 were listed as "individual, financial and commercial" companies and 5 were listed as "mining and mining industrial"; compared with about 6,000 tax paying private or closed companies (GRZ, 1983). Although small in number these represent the

largest single economic group in Zimbabwe apart from government and parastatal organizations. An indication of their size may be obtained from Appendix 2, which provides a few selected examples. It should be stressed though that very many companies of major significance in the Zimbabwean environment are not quoted on the ZSE because they are private companies and as such relatively little information on their affairs is publicly available. The magnitude of foreign private companies within Zimbabwe is provided by Clarke (1980) who lists 337 foreign quoted holding companies (228 UK; 60 USA; 6 Canada; 43 South Africa) with over 430 private subsidiaries and associated companies registered in Zimbabwe. These Zimbabwean companies are in most cases the local parents of other local private companies.

The volume of transactions on the ZSE has reduced in recent years, not only due to the removal of the foreign shares from the register, but also because "more and more of the better quality shares are getting into the hands of institutions [pension funds mainly] and not coming on to the market again" (Mr. Burdett-Coutts, Chairman ZSE, Financial Gazette, Feb. 7, 1986, p. 19). Furthermore, although the ZSE had raised capital on the public market for companies over the years, their activity in this regard had not been of significant consequence.

The ZSE has little influence upon accounting practices in Zimbabwe and is not even directly represented on the Consultative Committee of Accounting and Secretarial Bodies which reviews all IASs before their acceptance by the accounting profession.

The ZSE does require quoted companies to publish abridged financial information in a local newspaper within six months of the end of each

financial year but the information is restricted to an abridged profit and loss account, e.p.s., and dividends paid and proposed. Shareholders in terms of ZSE regulations and the Companies Act must receive a copy of each annual report. No particulars other than those required by the Companies Act and IASs are specified to be shown in terms of ZSE regulations.

Two interest groups have grown in importance since independence. They are government (GRZ, 1981, p. 1) and the institutional investors, representing pension funds and employee trusts both indirectly representing the Zimbabwean populace. Government has acquired significant shareholdings in a few companies of key socio-economic or "strategic" importance, for example: Zimbank (one of the largest and the only quoted bank, formerly a South African MNC); Caps (the largest and only quoted pharmaceutical company, shares purchased from a founder entrepreneur now resident externally); Zimbabwe Newspapers (the only daily newspaper, from a South African MNC, the Argus newspaper group); Olivine (a joint venture purchase with Heinz, an MNC, of the shares of a family trust, members now resident externally); and Mangula (a copper mine and large employer of black labour, purchased from a South African MNC which wished to close the mine for economic reasons). With many companies opening pension funds to their black employees since 1980 and also introducing employee share purchase schemes there has developed a second interest group: the institutional investors representing the Zimbabwean workers and their dependents. Government has not nationalized any industries and seldom holds a majority shareholding in any company.

It is concluded that since its very "founding" in 1890 by British sponsored interests, the territory now known internationally as Zimbabwe has had the ownership of the majority of its firms dominated by MNCs and family shareholdings. Public representation in shareholdings has been minimal, but since 1980 and the attainment of national independence the government and worker trusts have become minority investors of some significance in a few industrial sectors. The majority of companies are private or closed companies and limit the financial statement disclosure to the minimum requirements of the Companies Act, modified in the case of companies subject to audit, to meet the requirements of IASs. It is noted that although employee trusts and government are entering the ranks of investors in companies, it is unusual for companies to produce information of specific interest to these groups. It is hypothesized that this arises because of the domination of family companies and MNCs of the market so that such information will only be produced voluntarily if the benefits to the controlling shareholders outweigh the costs. As the investment of government and employees in companies grows so too will their influence on company policy and so there will be revealed information of specific interest to them.

Using the scale " E_1^1 type of ownership," the Zimbabwean environment is categorized as "family , institutional and MNC."

<u>Property</u>	States of Nature		
	<u>1</u>	<u>2</u>	<u>3</u>
E_1^1 Type of ownership 1 in Zimbabwe	Family, Institutional & MNC X	Public	State

Property: E¹₂ Nationality of owners and lenders.

Foreign control of the investment capital has been a feature of the economy since the arrival of the British South Africa Company in 1890. By the time of national independence in 1980 foreign ownership of capital stock accounted for about 70 percent of the total investment, divided in the estimated proportions of 50% to British investors, 30% to South African investors, with USA interests holding most of the remainder (Clarke, 1980, p. 30-32). MNCs have always been involved in the main sectors of the economy. Mining, agriculture, and manufacturing are heavily invested in by MNCs; who also control most of the banking and insurance companies (Clarke, 1980, pp. 98-127; Seidman, 1980, p. 271.)

The overwhelming portion of foreign investment in the economy relates to investments in the private sector. In 1980 all investment of significance in the private sector was held by non-resident or foreign investors (Clarke, 1980, p. 33). Clarke forecast many resident investors (white settlers) would emigrate after independence but that MNCs would probably have "a greater capacity for seeing through the political and economic changes which are likely to take place in the future," Clark (1980, p. 58). Furthermore, Clarke (1980, p. 59) wrote that many individual settler investors may not acquire access to Zimbabwean citizenship in the future; but they could "probably inherit a new status defined as foreign or external even if they were domiciled in the country or continued operations." Events such as these would cause the foreign/domestic investment ratio to rise yet further.

The events between 1980 and 1987 approached Clarke's forecast scenario. Since 1980 a discernible trend has developed of many

previously domestically owned "family" companies being taken over by foreign controlled corporations. As Professor Hawkins said in interview:

"The white settler population is decaying rapidly and the multi-nationals are stepping in. What one sees is the typical African post-independence pattern of the big international companies soaking up the viable businesses."

The trend towards a higher proportion of foreign ownership relative to local individual resident ownership is even more pronounced if account is taken of those many companies officially classified as being controlled locally but which by 1987 were de facto controlled externally through their owners relocating (if not officially emigrating) abroad. In any event, as confirmed by Mr. Burdett-Coutts in interview, and in his annual report on the Zimbabwe Stock Exchange (quoted in the Financial Gazette, July 1985), since 1984 there has occurred a narrowing of the holding of domestically owned shares. Much of this was because of the government's requirement that all assets be sold by former residents upon officially emigrating.

The Companies Act accounting requirements are generally flexible enough to incorporate the home accounting standards required by MNCs or owners resident in the U.K., South Africa, or the United States. A reading of Fitzgerald (1979) shows how compatible Zimbabwean (Rhodesian) accounting practices are with those of the aforementioned nations. Furthermore the accountancy profession in Zimbabwe has adopted all the IAS's but not a single standard has been introduced to cater for national peculiarities.

The state of nature of the nationality of company owners and lenders in Zimbabwe may be classified as "mainly foreign" on the following scale: -

<u>Property</u>	States of Nature	
	1	2
E ¹ 2 Nationality of owners and lenders	Mainly foreign X	Mainly local

Dimension: E² Macro-economic setting

The three properties of the macro-economic setting listed on the morphology of Figure 3.3 are now analyzed as they apply to Zimbabwe. In addition the macro-economic setting of Zimbabwe reveals a fourth property of significance: "market form."

Property: E² Extent of state planning and direction of economic development¹

Clarke (1980, p. 162-165) provided a most informative table of the "hypothetical future position of foreign investments under different economic regimes" for the future Zimbabwe. This has been reproduced as Appendix 3. Clarke presented three economic models based on hypothetical scenarios for a range of potential economic regimes following upon Independence. The models describe situations where:

There is a maintenance of moderated pre-1980 economic policies. [Model (I)].

There is a substantive reconstruction and reform-oriented needs approach. The model favours a "mixed economy" with potential socialist goals. Here the private sector plays a major role but it is controlled more thoroughly than before by the state. [Model (II)].

There is a radical and rapid transformation to an economy which places great priority on the state sector and public administrative rather than market decisions. [Model (III)].

Model (I) is useful for obtaining a background to the pre-1980 economic model. Model (II) provides a fair description of the system followed in Zimbabwe since 1980, it has a "welfarish complexion" compared with Model (I) and in relation to Model (III) propounds a larger private sector. Model (III) describes the scenario into which Zimbabwe may move in the longer term if the nation relates more closely to Leninism-Marxism. Both Models (II) and (III) involve increased planning, some centralized resource reallocation, greater restraint on trade and greater focus on the equity implications of investment, subsidies, price and production decisions. However, in Model (II) the implications for companies could vary a fair amount by sector, being conditioned by a relatively pragmatist emphasis in policy.

Zimbabwe, in its commitment to socialist transformation, has moved towards a planned economy. In the Three-Year Transitional National Development Plan, the prime minister wrote:

"Our firm belief is that it is only within the framework of a planned economy that Government is better able to influence and purposefully direct development, create appropriate institutions, and establish the magnitude of investment and its allocation as well as the formation of a pattern of income and wealth distribution in harmony with socialist objectives." (G.R.Z, 1982 A).

In order to fully understand the import of government's plans for the development of the nation, so that adequate information is available for the accounting theory development to be undertaken in Chapters 5 and 6, it is necessary to unfold its economic philosophy. The ruling political party, Zanu, dominates the political field in Zimbabwe and it is its economic policy dicta which are looked at to provide the economic philosophy of the nation. The economic philosophy of Zanu as expressed in governmental policy is put forward here as being fairly representative

of the long term macro policy to be applied in Zimbabwe. This contention arises not only because of the political popularity of Zanu but because all the other main black political parties also espouse economic policies of a socialistic nature very similar to those of Zanu and which are aimed at benefitting the mass of the population who are economically poor.

The economic philosophy of government requires companies to work within a framework of a planned and directed economy. In its first three year plan government stated:.

"Government expects the private sector to work within the framework of Government objectives and priorities in promoting economic development for the benefit of all Zimbabweans." (G.R.Z. 1982 A, p. 37).

"Growth with Equity" (G.R.Z. 1981), the main official economic policy document outlines the framework by specifying, (see Appendix 4), the economic objectives and policy measures which the government will pursue in the short, medium, and long terms. Dr. Chidzero, the chief architect of "Growth with Equity," when asked in interview to give an explanatory outline of the economic philosophy of the nation said:

"The basic consideration was that the economy of Zimbabwe should be assured of sustained and significant growth in the quantitative concept. That is more goods and services to be produced, therefore, more employment, more investment, etc. But equally we were concerned by the possibility that growth can be maximized in terms of production and services and yet reach only a small sector of the population. The idea was to net in as many people as possible to distribute more equitably the cake without destroying the basis for expansion. The central concept was: "Let's try to maximize growth and yet at the same time also maximize distribution." Can the two goals be set side by side? The strategy is to set a dialectic dynamic process between the two goals; which means that at one time more emphasis may be placed on growth and at other times more emphasis on equity, depending on how the economy is performing.

It should be clearly understood we are not simply stopping at growth and equity in a purely quantitative sense. No, because growth is a part of a three dimensional process in a developmental process meaning that which is quantitative, that which is qualitative and that which is transformative. Development meaning growth which is quantitative constitutes more goods and services; as measured for example by gross domestic product or per capita income. Qualitative development through more schools, thus more educated people, more hospitals thus healthier people; development which leads to an improved standard of living, not in the quantitative sense of having more food, houses or cars but improvements in society's perceptions of the realities of the world and their participatory role in the economy. To equip society to think for themselves, to operate, to contribute to society, that is the qualitative side of development, which is linked very closely with the material conditions of society. The third aspect of the developmental process is the transformative one: To transform society and this is where socialism comes into play."

Mr. Mswaka, who was also directly involved with the writing of the policy statement, "Growth with Equity", also explained some of the ideas making up the overall expression of the economic philosophy:

"It is not clear to me that the significance of the phrase 'Growth with Equity' has been appreciated by many people. It was deliberately chosen to emphasize that government's priority was on growth and then on equity accompanying it. It is important that wealth has to be created first before you can talk about distribution. . . The minister of finance and other ministers have often said that growth without equity is unacceptable. But equally, equity without growth can be disastrous."

Mr. Mswaka also emphasized that growth in terms of the Zimbabwean economic philosophy should contain more than a quantitative element. He said:

"In Growth with Equity we tried to avoid overemphasizing the word growth, but more to emphasize the word development. Development means more than just measuring the rate of growth in a given time. Growth means economic growth, the rate of GDP or GNP increase as a statistical measure. It is an economic concept devoid largely of the social implications or the social impact of that growth."

A further important concept contained in the Zimbabwean economic philosophy is that of "balance." The idea that growth must be balanced, that distribution must be balanced, that development must be balanced if equity is to be achieved is to be found in government policy statements, ministerial speeches and the words of those interviewed. "Growth with Equity" contains the following comments on why there arose a need for more balanced economic policy measures and what these new measures would be based on (G.R.Z., 1981, pp. 1-2). First, it was written that:

Due to the former "inequitable socio-economic order" there occurred the "economic exploitation of the majority by the few, the grossly uneven infrastructural and productive development of the rural and urban economy, the lopsided control of the major means of production and distribution" and a "grossly inequitable pattern of income distribution and of benefits." There were other inequities which arose from the "predominantly foreign ownership and control of assets." In addition, "education and manpower policies were generally designed to ensure the existence of cheap unskilled black labour" and "horizontal and vertical population movements were restricted by an elaborate system involving both racial and urban and rural zoning."

Secondly, in view of the above, government declared that equity was to be achieved in the post-Independence era through the pursuit of progressive economic policies, so called because they would correct inherited imbalances and prevent new imbalances in the economic welfare of the nation. These economic policies would:

"Be based on socialist, egalitarian and democratic principles" and would aim for "rapid economic growth, full employment, price stability, dynamic efficiency in resource allocation and an equitable distribution of the ensuing benefits." (G.R.Z. 1981, p. 1)

"Balance" it would appear from the foregoing is not a concept which stands on its own when considering the economic philosophy of Zimbabwe. "Balance" is indeed inexorably interwoven with the fundamental concepts of growth, development and distribution if such concepts are to be

equitable when applied within the Zimbabwean economic environment. Support for this contention is provided by the explanation by Dr. Chidzero that purely quantitative economic growth is not sufficient, there must be a balance brought about by considering the quality of that growth and whether it has been transformed to meet the national goals of socialism, egalitarianism and democracy. A further example of the need to consider balance when setting economic policy in Zimbabwe is this quotation from the Presidential Speech after Independence:

"It is the intention of my government to follow to the letter the policies laid down in 'Growth with Equity' as they represent the only hope for the aspirations of the majority of our people.... My government, concerned at the high degree of foreign ownership of industry, will pursue its policy of encouraging increased local participation. ...(and yet a further example of many a measure to correct imbalances)....Emphasis will be placed on the decentralization of industry...." (Parliamentary Debates, Vol. 3, 1981, June 23, 1981).

The correcting of the balances shall be pursued in search of the attainment of one of the fundamental tenets of the economic philosophy: egalitarianism. Egalitarianism arises from the belief that by virtue of their shared humanity, men should enjoy equal satisfaction of certain basic common rights and needs. It favours equality of opportunity and may as an extraordinary case recognize that unequal individual capacities and work will be differently remunerated. (The Fontana Dictionary of Modern Thought, 1977). The latter type of extraordinary recognition applies in the interpretation of egalitarianism in the Zimbabwean economic philosophy. For as explained by Mr. Mswaka:

"There is no reference in government documents or ministers' speeches to equality of distribution. The emphasis has been on equitable distribution."

To achieve egalitarianism the economic philosophy requires the third dimension, transformation, to occur through government's control of the planning and development of both the public and private sectors (GRZ, 1982). In GRZ (1982) it is stated that:

"This goal [of egalitarianism] cannot be achieved overnight" for time will be required to achieve "the correct relationship between the masses and the means of production" and to provide those qualitative dimensions to "enhance and maximize their productivity." (G.R.Z. 1982 A, p. 17). Until these essentials of a correct relationship between the populace and industry and the necessary qualities to maximize productivity are achieved there shall exist a partnership between the state and private enterprise which is categorized as "the middle bourgeoisie and capitalists, some of whom are national and other (sic) foreign and multinational." During this stage "the commercial farmer, the mining company, the manufacturer and the trader must be regulated and coordinated by the state in such a manner as to make them serve the national interest." (G.R.Z., 1982 A, p. 19) (Emphasis added).

This conviction that companies in Zimbabwe need to be controlled during the transformation process has indeed not been an uncommon belief amongst nationalist movements in southern Africa. Seidman (1980, p. 295) pointed to the generally accepted policies followed by governments of LDCs who wished to plan and control their economic development:

"Experience throughout the developing world suggested that, after gaining state power, the liberation movements of southern Africa would first have to implement two interrelated sets of institution changes. On the one hand, they would need to reinforce their political base, strengthening the alliance of workers, peasants and "committed petty bourgeois" elements and involving them in decision-making relating to the transformation process. . . . Experience elsewhere suggested, furthermore, that the liberation movements would simultaneously have to ensure effective state control over the commanding heights of the national political economy: basic industries, banks, and financial institutions, and foreign and domestic wholesale trade. The requisite institutions and policy changes could only be forced through from a position of political strength based on growing popular backing, participation and direction. Democratic state control over the commanding sectors is a minimum requirement for carrying out the long-term development strategy needed to build socialism; restructuring the inherited, disproportional and externally dependent political economy to

shape integrated, balanced structures which could provide productive employment and higher living standards for the mass of the population."

The above two interrelated sets of changes have been adopted as necessary policy by the government of Zimbabwe. Seidman's requirement for "effective state control over the commanding heights" has been a Zimbabwe government policy evidenced by its direct investment in "strategic industries," and its indirect control of companies through democratization schemes such as workers committees, and the encouragement of share ownership for workers. Yet further control flows from government regulations regarding minimum wages, prices, foreign exchange movements, and investment approval. According to Seidman (1980, p. 297):

"such control of the private sector would facilitate the development of a long-range (say, 20 year) strategy to restructure the national economy. This would provide the general direction and continuity for democratically formulated and implemented intermediate plans, lasting five to seven years. This kind of long term approach is required because development of political, economic and labor power processes involved in creating a balanced, integrated and socialized economy requires decades. Over time, planning in this context could achieve the following goals: First, it could reduce transnational corporate and financial influence, ensuring national control over the accumulation and allocation of investable surpluses Secondly, it could direct available material resources to the construction of appropriate industries Thirdly, enforcement of an equitable incomes policy could direct investable surpluses to critical productive sectors in accordance with an overall financial plan. Fourthly, plans could expand and improve the form and content of educational and training programs"

The long-range strategy to restructure the national economy and transform the private sector, together with the concomitant short-range plans of five years each and the goals sought, as described by Seidman (1980) as being so popular amongst emergent African nations, are all reflected in the socio-economic philosophy of the Zimbabwean government.

This transformation of the private sector through direct government involvement in planning and development of companies is emphasized and further explained by the following excerpts from the budget statement of the minister of finance to parliament on July 30, 1981.

"Government may be expected to increase progressively both its own role and influence and that of collective participation by the people in the country's economy On the basis of partnership between the State and private enterprise, the egalitarian chapter of Zimbabwe's society will be enhanced and the lives of our people will be made more meaningful."
(Parliamentary Debates, Vol. 3, 1981, July 30, 1981).

The wealth goals of government are a blend of quantitative and qualitative socio-economic objectives for the attainment of the overall goal of maximizing human welfare in a socialist, democratic and egalitarian nation. Emphasis is placed on state directed planning and control to achieve high quantitative economic growth for speedy and urgent development. Some of the primary wealth goals listed in Growth with Equity (G.R.Z., 1981, p. 2) are: the raising of incomes and standards of living of all in Zimbabwe especially those of the rural peasants; the promotion of rural development and conservation of the natural resources; the ending of imperialist exploitation and the promotion of greater ownership of assets by nationals and the state; the abolishment of racial discrimination and the promotion of skills amongst the masses; the democratization of the work place; the extension and improvement of social services; the achievement of price and balance-of-payments stability consistent with high levels of employment. All the measures are designed to bring about a more equitable distribution of wealth and to improve the welfare and well-being of the citizens.

In formulating its economic plans, government uses a "planned and not merely a projected growth rate." This accordingly requires a

"commitment and determination of the people" to the plans and "demands the determined and concerted application of appropriate instruments of economic control and regulation and full mobilization of human, financial and other relevant resources" if the objectives are to be achieved.

(Emphasis added) (G.R.Z., 1981 A, p. 29).

Planning results since 1980 in Zimbabwe have not been successful. Professor Hawkins commented: "The story of planning in Zimbabwe has been an unmitigated disaster. Hopelessly optimistic assumptions and inadequate data were used." Mr. Kadhani commented: "Government needs information from companies that would reduce risks inherent in planning and decision-making." And it was commonly suggested by government officials and economists interviewed that the disclosure of relevant information by companies in their financial statements would be a most beneficial way of collecting data for good planning.¹

The need for data to be provided in financial statements for planning and decision-making purposes was thought to be particularly apposite in the circumstances prevailing in Zimbabwe for the following reason cited by Professor Hawkins.

"With government now directly involved in the business sector, the Mineral Marketing Corporation, the envisaged National Trading Corporation (for barter deals), the existing National Tourist Corporation, the National Reinsurance Corporation, the National Development Bank, the National Oil Corporation, the Small Enterprise Development Corporation, the Agricultural Marketing Corporation, the Agricultural Finance Corporation and other parastatals; with the objective to set up a parastatal in practically every sector of the economy; and with government owning significant shareholdings in private sector companies in banking, newspapers, pharmaceutical products, mining, etc.; there arises a growing need for government to refer to company accounts for decision-making and planning."²

Another reason for planning data and the way in which businesses may assist in its supply was advanced by a former secretary of finance in the Zimbabwe government. The imbalances in resource availability, either surpluses and oversupply or shortages and deficiencies, often go unreported under the present accounting system. Consequently the damaging effects are often overlooked until a crisis situation arises. To assist in overcoming this shortcoming, Mr. Young commented that the Zimbabwean environment required straight forward, unbiased, factual information to be given in the financial statements on production, employment, prices, and foreign currency movements. This type of information could perhaps reveal resource imbalances and the financial statement disclosures may bring "indirect pressure" onto government decision-makers to correct them.

No statutes or professional accounting regulations exist which require companies to publish financial statement information specifically for planning. The financial statements and statistical returns of companies are of limited value to government for planning purposes. Firstly, not all companies are surveyed by government, and secondly, there is no reconciliation required between the statistical returns and financial statements. Thirdly, the statistical returns are noncomparable because of the various accounting policies pursued by the companies. Finally, the statistical returns are solely for purposes of compiling g.n.p., earnings per capita and historical capital expenditure data; they do not give any indication of the qualitative or transformative nature of the companies' results.

Dr. Chidzero, in interview, said the following on accounting and its value to Zimbabwe as an LDC: -

"Perhaps what we need is a system of accounting which makes us all very aware of the problems affecting our nation in all its various sectors. We may not be able in the early stages or if ever to devise perfect measures, but let us at least be aware of the problems instead of hiding them or ignoring them and through this disclosure we may be able to go some way to finding solutions.

In Zimbabwe we have not just an economic problem; we have a sociological problem. One needs a different form of accounting or a clear perception of the problems of accounting in a country such as this one given its plural multiracial nature, its varying stages of development from the poorest to the wealthiest and the behaviour patterns of these persons.

Given all this, is the accounting system now used able to cope with the problems? For example, the mere collection of data is a huge problem in our country with present resources. What is the lowest real wage paid, how does the family cope that receives this amount? Should our accounting system impute values to things that are not valued in more developed nations? This is or requires a very different concept to the cash exchange concept followed in the present accounting system. Should this type of information be captured in the accounting system? In the developed nations much has been said about the pros and cons of inflation accounting. But how worthwhile is this type of concept for a nation such as ours. We have two cost of living index tables but what do they mean in our society which is so differently structured from the nations where these measuring concepts developed? Of course, it is necessary to give consideration to our environment in all its aspects when considering whether our system of accountability is what we need."

The all pervasive interest of government in the affairs and plans of companies within Zimbabwe is obvious from the above exposition of the economic philosophy plans and actions of government. Since independence in 1980 government has taken many decisions which indicate the extent of state planning and direction of economic development. The general policy was set down in "Growth with Equity" (GRZ, 1981); and the first steps to manage both the micro and macro economy were the "Three-Year Transitional National Development Plan" (GRZ, 1982A) and "Foreign Investment" (GRZ, 1982). Legislation has been promulgated which directs the economy in

regard to: imports, exports, plant investment and disinvestment, dividend payments, price setting, employment policies, wage rates, foreign currency dealings, etc. Furthermore, governments direct control of many major sectors of the economy, for example the control of mineral and agricultural marketing, energy supply and pricing, and transport, is an indication of its great involvement in business planning and economic development. It is because of this overriding interest of government that the "extent of state planning" may unhesitatingly be classified as "majority of business sectors."

<u>Property</u>	States of Nature			
	1	2	3	4
E ₁ ² Extent of state planning and direction of economic development	Total, all business sectors	Majority of business sectors X	Selected business sectors	Nil

E₂² Extent of economic controls
2

A Zimbabwean company executive commented in interview:

"Government has total control of business in this country today even without the need for owning a single share. Through labour legislation; through price control; through control over foreign currency; through project approval; through dividend remittance they control business."

In regard to labour, government regulations set minimum and maximum wages and require official approval for such matters as staff lay-offs. Companies are required to establish workers committees: to act as a direct link between management and employees; to provide a means for the presentation of and discussion with management of employees requirements; to promote productivity by generating a stable and good atmosphere; to

promote the interests of employees; to cooperate with the established trade unions (G.R.Z. 1982 B, pp. 1-2).

On price control and profits, Mr. Landau commented that,

"Government encourages companies to make a profit; the only difference is the extent of the profit. Government feels the profit should be smaller generally than the private sector does. Government attempts to project its philosophy in its price control setting; a small (say 8 percent) markup on basic foodstuffs, medicines a little higher, luxury goods the highest."

Mr. Landau commented that government certainly considered the return on investment when setting prices and, "it was up to companies to make greater efforts to get the message across" if they thought this was not fairly treated. Furthermore, government officials endeavoured to consider original costs, depreciated costs, and replacement costs in their deliberations. Government "recognized the need for fair returns from investment having regard to its price control policy and taxation regime." (G.R.Z. 1981, p. 16).

Foreign exchange restrictions were necessary for balance of payment reasons, and in the interests of promoting development (G.R.Z., 1981, pp. 6 and 16). To boost foreign exchange reserves government offers various incentive schemes tied to export performance and controls remittances abroad; for example, not more than 50 percent of earnings after tax per share may be remitted abroad as a dividend payment.

The control on the mining industry in the form of requiring it to market all its production through a government institution arose according to various sources interviewed for two main reasons: government's wish for the nation to participate in the management of the largest foreign currency earner for the country; and from government's

suspicion that the country may have been exploited by practices such as transfer pricing.

Foreign investment is now closely monitored. The general rule is that the absolute amount of existing domestic participation in domestic enterprises may not be diluted by sales to foreign interests, nor may domestic control be allowed to pass to foreign investors. Foreign investment is "especially welcome" if it is: in rural areas; a joint-venture with nationals or state; labour intensive; generative of exports; promotive of processed products from local raw materials; a contributor to skills by Zimbabweans. (G.R.Z., 1982, p. 1 and G.R.Z., 1982 A, p. 22).

The present accounting system is unhelpful in measuring or disclosing the existence or the effects of the numerous economic controls on the viability of companies. One complication encountered by executives and price control setters, was that price control applications and financial reports do not necessarily follow the same principles. Negotiations between the various interest groups may become extremely involved because of this. Mr. Chambati commented that price control was one of his group's major problem areas:

"There is a need for speed in processing applications. Difficulties arise because there is a gap in accounting in this regard. Previously companies did not have to be accountable to third parties for their costs, now they do."

Mr. Dibb confirmed that price control and price agreement was a major problem. Mr. Hinde described the time delays experienced by his group due to "to-ing and fro-ing" between company and government departments concerning costs when an application was made for a price rise. Annual report after annual report since the introduction of price

controls contained comments by the chairman or some other senior executive of the losses, cash flow problems, and viability difficulties caused through delays linked to price increase applications.

The price control regulations cover three broad categories of goods. In one category a formula is applied to fix the new price. Being standardized it is favoured by most businessmen because "we know where we stand" and because of its speed and ease of application. The formula basis consists of raw material costs, direct labour costs, direct power costs, and direct overheads (but not depreciation) plus an agreed mark-up margin. This margin is intended to cover all other overheads and hopefully leave something over as profit. The second and third categories do not specify a formula, they are considered on a case by case basis and any increase requires ministerial or cabinet approval, respectively, before a price change may occur.

One executive of an industry falling into the third category mentioned two difficulties experienced in applications relating to his group. Firstly, depreciation charges have caused difficulty of understanding and acceptance. He said:

"On our [price control] presentations we now no longer blur the issue by including a charge for depreciation. We have simplified the matter by substituting a contribution for capital replacement and a fair dividend. We have explained that companies could go to the market for growth needs, but we believe that the expected and normal plant replacements should be built into the selling price; we certainly shouldn't have to go to the market for our normal replacement needs."

Secondly, the accounting title "reserve" such as in "revenue reserve" in financial statements seemed to cause misunderstanding amongst the officials concerned with price control review. According to an executive interviewed, the government had rejected the need for a requested price

increase: "Spend your reserves!" was the response of the price control bureaucrat who handled the application. The company, in reply, had to explain that all its reserves and more were already invested in its fixed assets.

The issue of businesses accepting the "good years with the bad years" seemed to be a major concern of government. The issue closely relates to matters of exploitation, profit maximization, "get-rich-quick" policies and short-term ventures instead of a long-term and fair return type of approach by entrepreneurs. When asked to comment on business practices, Dr. Chidzero referred to one matter of particular concern to government:

"Most decisively and most importantly in my view, is the long-term commitment of the private sector to the future of this country. This commitment will be measured in terms of: Are companies here to maximize profits in the shortest possible time and then get out, or are they here to identify with the future of the country? That latter approach of the private sector would put us as a country in a position where the private sector could not be criticized let alone nationalized because the private sector would be agents of development and would identify with the process and would grow together with society and the nation."

The many controls of government were considered by businessmen in Zimbabwe to be damaging the viability of companies. Matters, confirmed in interviews, of great concern to management were the shortage of imported goods (spares, plant and materials) because of a lack of foreign currency; cost-push problems; selling price controls, administration interference; and liquidity problems. The adverse input costs and unsuitable quality of certain imports arising from government barter and aid programs also perturbed some businessmen interviewed.

Companies, too, felt that they were being exploited by an uncaring attitude on the part of government. Many of those interviewed pointed to the lack of urgency exhibited by government to their price control applications for increases while their companies "went down the tube." Government spokesmen on the other hand countered that delays were the result of inadequate, conflicting, or confusing information being submitted.

The lack of foreign currency is a destabilizing factor in the economy. A number of those interviewed considered that note should be taken of the contribution to or withdrawal from foreign currency reserves by individual companies within the nation. Profit maximizing considerations could cause companies to sell output containing scarce foreign content materials on the local market at high mark-ups rather than seeking foreign currency earning exports, bearing lower profit returns to the companies but bringing vital foreign currency returns to the nation.

Since 1980 Government has embarked upon a policy of minimum wage regulation and upper level wage freezes. Employers now claim that as a result wages are no longer cheap. Mr. Lander stated this was due not only to increases in the wage rate but in ancillary costs such as housing, education and health services. It was the cost of all these items which affected the viability of a venture and the number of workers employed. The Chamber of Mines pointed out that rises in labour costs had been a major factor in reducing the number of persons employed in the mining industry from 65,000 to 52,000 during the five years to June, 1985 (Financial Gazette, June 14, 1985). Rising labour costs, general

inflationary pressures, depressed trading conditions and controlled selling prices caused companies to reduce their labour rolls between 1980 and 1985 and to strive for an improved efficiency of production. The decrease in numbers was achieved despite government restrictions on dismissals. One chief executive put the situation this way:

"We have been very conscious of the need to conserve cash. This is not due to changes in the social or political environment but because of changes in the economic environment. Our task has been complicated by government's legislation relating to redundancies. But we have reduced our labour force by getting voluntary resignations through offering compensation to encourage them to go."

This method of achieving a reduction in staff numbers was found to be common practice followed by companies in their endeavours to keep labour costs as low as possible.

Another form of exploitation cited by company spokesmen was the failure of government to relate profits to capital employed in assessing its adequacy: "A million dollars is considered to be a massive profit no matter how much capital is employed." Government officials remarked that this was not the case but that companies "should take the bad years with the good." Interpreted to mean that at a time when the national economy was under strain that businesses too should be prepared to bear some of the load.

The aforementioned exposition of the direct and indirect controls placed on businesses in Zimbabwe by government shows that there are numerous monetary and pricing controls placed on all businesses. For example, foreign exchange controls; controls on prices, imports, exports, wage rates, dividend remittances, new investment and disinvestment controls; wage dismissal controls; and then, specific controls applicable

to certain industries such as the marketing controls on mines and agriculture. Consequently, Zimbabwe is classified as follows on the scale: -

<u>Property</u>	States of Nature			
	1	2	3	4
E^2_2 Extent of economic controls	Numerous X	Selected	Occasional	Free trade

Property: E^2_3 The stage of economic development

The Zimbabwean economic system is characterized by a dualism represented by two broad economic sectors: the modern sector (consisting of commerce, manufacturing, mining and commercial agriculture) and the peasant sector. The modern sector is white controlled and mainly foreign owned, relatively advanced, dynamic and diversified; the peasant sector populated by the majority of the black population, is generally underdeveloped, largely subsistence in character and poorly served with essential public, agricultural and social infrastructure.

Prior to Independence, public and private investment was concentrated in the modern sector. Government expenditure was made very much on racial grounds, with the bulk of the revenue coming from taxes on companies and (white) individuals. However, "by denying the normal city services, medical care, education and welfare to the African majority, the regime could hold taxes to a minimum" (Seidman, 1980, p. 264). The state participated in and controlled certain well defined areas of the economy mainly connected with the infrastructure: transport, power, water and similar utilities; and the marketing of major agricultural products such as grain and beef. It also participated as initial

investor in getting certain major capital intensive industries "off the ground" such as the main iron and steel corporation, but the policy was to sell off its interest once viability was assured to a private, and usually new foreign investor. (For example, the sale of its cotton spinning investments to David Whitehead, now Lonrho.) Government's open support of the inflow of external funds was a feature of the pre-1980 policy. Government subsidies were a main source of profits for many white farmers and industries, particularly those related to agriculture, for example the milling industry; and surpluses from the state controlled agricultural marketing corporations were channeled directly to producers. Cheap financial credit was available to commercial (white) farmers from government funds and other parastatal bodies were available to give subsidized financial and administrative aid to new ventures in the private sector. (In the above regard, see for examples, Clarke, 1980, p. 27; Seidman, 1980, p. 264; and G.R.Z., 1982 A, p. 3.) In many cases the most that could be offered for the advancement and benefit of the majority of the population was the hoped for "trickle down" which might flow from the new modern and private sector growth. Unfortunately, the resulting benefits which "trickled down" simply caused the rich to grow richer and the poor to grow poorer (G.R.Z., 1982 A, p. 17).

Zimbabwe is classified as a middle-income, oil-importing and new industrializing country by the United Nations and OECD. International trade has always played and continues to play a significant role in the development of the economy. An indication of the importance of the main industrial sectors of agriculture, mining and manufacturing, and of imports and exports to the national economy may be gained from a few basic statistical indicators:

In 1982, according to the Central Statistical Office, contributions to the domestic product were 25 percent by manufacturing, 15 percent by agriculture, and nearly 6 percent by mining. Visible trade exports amounted to 22 percent and visible trade imports to 24 percent of domestic product. These are considered to be very high trade ratios, meaning that the economy is closely and almost inextricably linked to developments in the outside world. Furthermore, the economy is linked to a few major trading partners determined frequently by the nationality of the major controllers of the equity of limited companies. For example, in 1984 total exports as a percentage of g.d.p. were almost 26%, with over 18% of this total of exports going to South Africa; total imports were about 20% of g.d.p., with about 25% of this total coming from South Africa.

Since its exposure to international trade upon its colonization in 1890 by Britain the territory has been linked through systematic primary export to the international economy and its development has thus been largely determined and controlled by external interests. According to Clarke (1980, pp. 137-138): "A rough breakdown of asset ownership for 1979 would probably show (say) 55 percent under external control, 25 percent in the private (corporate and noncorporate) domestic sector and the balance (20 percent) under the aegis of the state." By 1987 the only significant movements in the above estimates would be a decline in the private domestic sector due to the emigration of whites and this decline would be matched by a greater percentage increase in the state ownership and a smaller percentage increase in the external ownership figures.

Apart from the economy always being firmly planted upon a base of foreign ownership or investment and foreign trade, it has always been

heavily dependent upon foreign sources for banking, insurance, technology and skilled labour. According to the Annual Economic Review of Zimbabwe (1981, p. 1), Zimbabwe has the most sophisticated monetary sector in Africa apart from the Republic of South Africa. The monetary sector is under the effective control of the state's Reserve Bank of Zimbabwe. There is a well established banking sector of discount houses, commercial banks, accepting houses and finance houses. The sector operates on a basis very similar to the British system, and most of the institutions are foreign controlled, usually from Britain. Government has purchased significant interests in two commercial banks, but the majority of the banks still remain under (foreign) private sector control. The insurance sector is also well established and provides a full range of services; and, apart from government's entrance into the re-insurance business remains in the (foreign) private sector. There also exists a small stock exchange but this is restricted by government regulations to dealing only with residents and in local companies.

All the large mining and agricultural companies have their local registered offices and head office administrations sited in either Harare, the capital city, or to a lesser degree Bulawayo. More than three-quarters of the manufacturing industries are concentrated in these cities. This concentration is clearly depicted by the census figures of 1982. Of a total population of 7.5 million, 2 million people were registered as living in urban areas with half of these being resident in Harare and Bulawayo. This uneven distribution of economic resources, or a lack of balanced growth, causes great concern to the government.

The great importance of limited companies to the socio-economic well-being of Zimbabwe may be judged clearly from but a few statistical

figures, (source, Central Statistical Office, Zimbabwe). At Independence in 1980 gross domestic income, at factor cost, was \$3084 million. Of this amount a sum of \$784 million was contributed by limited companies by way of profits, prior to adjustments for interest and dividends. This was a significant contribution to the nation especially if the major component of gross domestic income, \$1883 million for wages and salaries from all sectors is taken into consideration; for it may be estimated that almost 50 percent of the total wage and salary amount was paid by limited companies (G.R.Z. 1981 D). The major significance of the taxes and duties paid by companies towards the national current account revenues may be seen from Figure 4.1.

Limited companies, both private and quoted, continue to be the most significant contributors to the Zimbabwean economy. Manufacturing companies have contributed approximately 25 percent to the gross domestic product (g.d.p.) in every year since 1980 while the mining and agricultural companies have shown an aggregate contribution to g.d.p. of about 20 percent every year, with these two sectors frequently switching between second and third place in importance for contributions to the g.d.p. total because of the vagaries occurring in the agricultural and mineral market climates. (See Figure 4.2)

The significance of companies to the national economy because of their income tax contributions may be judged from the following. In 1981 a total of 90,227 individuals paid income tax amounting to almost \$215 million, while a total of 5,605 companies paid \$297 million. Of the companies, 432 companies paid \$237 million, or about 8 percent of the companies paid 80 percent of the total income taxes on companies (G.R.Z. 1983, p. 15).

FIGURE 4.1SOME INDICATORS OF THE PLACE OF LIMITED COMPANIES
IN THE ZIMBABWEAN ENVIRONMENT

National Current Account Revenues: -

Actual Total Revenues 1984/85 \$2131 Million

Actual Revenues Provided by:-

Company Income Tax 321 Million
Taxes on Goods & Services

Sales Taxes, Customs Duties
to a Large Extent by Limited
Companies 960 Million

Taxes on Interest & Dividends
(Mainly Relating to Limited
Companies) 99 Million

Income Taxes Paid by Individuals 547 Million

All Other Sources 204 Million

(Source: 1985 Budget Speech; Financial Gazette, August 23, 1985)

FIGURE 4.2THE PLACE OF MANUFACTURING COMPANIES
WITHIN THE ZIMBABWEAN ENVIRONMENT

1. Contribution to Gross Domestic Product 25% to 27%
2. Second Largest Employer of labour (17%)
3. Largest Contributor to the National Wage Bill (22%)
4. Biggest Contributor to Gross Fixed Capital Formation

(Source: Senator Callistus Ndlovu, Minister of Industry and Technology' as quoted in Financial Gazette, October 11, 1985.)

Manpower is in abundant supply in Zimbabwe but skilled manpower is in short supply especially in certain areas. The National Manpower Survey said that the shortage of skills was less in relation to the inherited economy than in the context of the new demands of a Zimbabwe concerned with the development of all its resources and people (G.R.Z., 1981 B, p. 39). If it is considered that nearly 80 percent of the total population live in the rural areas and 90 percent of these live in the communal areas and eke out a subsistence income, and if it is considered that just over 55 percent of the population is estimated to be under 15 years of age, and that the estimated rate of growth in the number of the population is 3.3 percent a year, then the dualism of the economy is perhaps put into perspective and the stage of economic development, or lack of development, may be more clearly perceived. New labour force entrants total 80,000 a year but jobs are scarce with new jobs averaging around 7,000 a year since 1980. (Budget Speech, 1985, Financial Gazette, August 2, 1985.) Skilled personnel amongst the resident population, particularly the blacks, is in short supply particularly in engineering and allied trades and accountants (G.R.Z., 1981 B); and in certain public sector fields such as tax assessors (G.R.Z., 1983, p. 3). "This situation has resulted from past overreliance on the imported manpower at the expense of development of local skills." (G.R.Z. 1982, p. 72).

The emigration of skilled workers was claimed by many executives in Zimbabwe to be a serious impediment to viability. Prior to Independence businesses relied greatly on white immigrants for formal skills, believing it was quicker and more profitable to import such skills than to invest in local training despite the high mobility of skilled whites

(G.R.Z., 1981 B, p. 25). Immigration regulations now prevent this practice and many of the executives interviewed stated that their businesses had now instituted on the job training programs for employees.

The skills shortage has had a further effect upon company viability policies. Prior to 1980 it was common for large firms, especially foreign firms, to have a wide spread in their portfolio of investments as well as in sectoral activities. According to Clarke (1980, p. 36):

"These practices facilitated a wider base to returns and the spreading of risks across sectors as well as within them in different lines of business. Few foreign firms, especially larger companies, appear vulnerable to single markets or upsets in only one sphere of the economy. This is not to negate the view that foreign capital has remained highly specialized. It has. But this has not been under a restrictively understood strategy in which all investments have been put into one basket."

Since Independence, the shortage of skills has caused one MNC to change its local policy in regard to the above. In interview Mr. Lander said:

"(The group) is trying to focus on the substantial interests and disengage from the peripheral. This is because we are concerned with the level of skills that will be available over a period of time. There may not be sufficient skills available to keep them all operating properly, so we are pruning our diversification."

The same executive was of the opinion that the earnings gap between the highly skilled employee and the less skilled or unskilled would increase over the years instead of decreasing as desired by government. This would occur because the national institutions would not be able to satisfy the demand for highly qualified persons.

To summarize: Zimbabwe is classified as possessing a dualistic economy. Firstly, there exists an advanced, diversified and modern

industrial sector mainly controlled by foreign interests and situated in a few geographical urban areas. This sector is highly dependent upon imports and exports and a small skilled labour force whilst the nation relies heavily for economic income and development and employment upon the relatively few industries within the modern sector. Secondly, there exists an underdeveloped and mainly subsistence sector of the nation in which the very large majority of the population are to be found. These persons lack capital, paid employment and the skills required by a modern type of industrial economy. Therefore, on balance Zimbabwe should be classified as a "transitional society" on the scale shown below: -

		States of nature				
<u>Property</u>		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
E ² 3	Stage of economic development	Traditional society	Transitional society X	Take-off	Drive to maturity	Mass consumption

Property: E² Market form
4

In 1965 the white citizen elected government of Southern Rhodesia (commonly called Rhodesia because by then Northern Rhodesia had been granted independence as Zambia) proclaimed a unilateral declaration of independence (UDI) from Great Britain. It has been alleged that it was the anonymity provided by the corporate veil and the web of complexity woven by entrepreneurs through resorting to outwardly independent private companies which enabled the MNCs, in particular, and other group companies to survive and even profit exorbitantly from the U.N. sanctions, during the UDI years of 1965-1980. It has been written (Clarke, 1980, Seidman, 1980) that it was also this common structure of

business, namely the power of the group combined with the privacy of ownership, which permitted the MNCs and other significant groups to unfairly exploit the nation and peoples of Zimbabwe.

Both Clarke (1980) and Seidman (1980) pointed to the material influence and in some cases the dominating role that MNCs, family, and economically related companies hold in and across sectors of the Zimbabwean economy. Clarke (1980), for example, revealed the Anglo-American Corporation's many controlling holdings in companies which dominate in the three productive sectors of the economy: agriculture, mining and manufacturing, as well as that group's significant investment in the financial, banking, and insurance sectors. The same group's extensive investment within industries of a vertical nature encompassing involvement from raw material stage to finished product is illustrated by its substantial interests in the fertilizer, maize and wheat growing, milling and baking industries. Anglo-American Corporation through its subsidiaries and associated and closely related companies and one other group (T.A. Holdings) form an oligarchy which dominates and controls the nationally crucial maize meal and flour/bread supplies.

The mining industry, in asbestos, coal, copper, chrome, emeralds, gold, iron ore, nickel, phosphate, silver and tin--in fact in all of Zimbabwe's main minerals--is also dominated by subsidiaries, associated companies and joint-ventures (many of them "private") of MNC's. These companies also have controlling interests in other companies with significant involvement in agriculture, and the light and heavy manufacturing sector. Mr. Nduna, sometime registrar of cooperatives, banks and insurance companies, confirmed the existence of this

economically significant cross-web of interests by the major foreign and MNC investors between all sectors of the economy; a linkage of interests which is often not apparent from such outward evidence as registers of shareholders but may sometimes be gleaned from the composition of the companies' boards of directors. Mr. Nduna commented:

"There is a massive linkage of interests in the finance world: insurance companies, brokerage firms, property companies, merchant banks, commercial banks, finance houses are linked in many cases. Take Anglo-American with its interests in Bard (a discount house), in Southampton Insurance, in G.R.E. Insurance, in C.T. Bowring (insurance brokers) and in RAL Merchant Bank."

Diversification has also caused a high degree of incorporation of private subsidiaries of MNCs inside Zimbabwe. But according to Clarke (1980, p. 37):

"There are also other links which cement together externally-based enterprises, these being found in the spheres of managerial contracts, supplier contracts and credits, "goodwill," policy preferences and strategic coordination at both an institutional and less formal or interpersonal level."

The size of establishments in the Zimbabwean manufacturing sector has been described as being generally "small". For example, in 1976 about 71 percent of industrial establishments employed no more than 100 people, about 6 percent employed more than 500, and only about 3 percent had a labour force in excess of 1000 employees. (G.R.Z., 1981 D, p. 21). Because of the small size of the Zimbabwean market there has occurred a considerable industrial concentration in the manufacturing sector, resulting in a situation in 1968, according to Seidman (1980, p. 281), where only one company, often affiliated to a multinational, produced almost 70 percent of each industrial product. Another source (G.R.Z., 1981 D, p. 21) stated that "in some cases, no more than two to four firms (produce) more than 80 percent of industrial production".

These companies as a result are often very large relative to the size of the Zimbabwean manufacturing sector, therefore, their hold on and importance to the nation can be very great indeed. For example: "Giant multinational corporations, such as Anglo American, Lonrho, Rio Tinto, Turner and Newall and Union Carbide have a significant control of the (mining) industry." (G.R.Z., 1981 D, p. 29). Although the mining industry employed 65,000 in 1979 and 52,000 in 1985, less than 6 percent in 1985 of the total formal wage employment, the majority of these workers were employed in a relatively few mining companies which were controlled by MNCs such as those mentioned above. These companies are generally very large, within the Zimbabwean context, in regard to capital employed and are of significant importance in their contribution to foreign currency earnings (Clarke, 1980, p. 80). (Also see, for example, Appendix 2.)

Today businesses in Zimbabwe are carried on under a number of forms: proprietorships, partnerships, and limited liability companies. Many of the private companies are of a significant size and economic importance; the reason they are termed "private" is because their memoranda and articles of association forbid the public offering of shares and shareholders are limited to 50. A large number of the socio-economically significant private companies are subsidiaries of local and foreign public companies and apart from lodging an annual return and financial statements with the registrar of companies are not obliged to publicize their financial affairs, thus remaining "private" in their business affairs. Clarke (1980, pp. 169-208) provided a list of 293 "principal foreign companies" with subsidiaries and operations in Zimbabwe. The

vast majority of the Zimbabwean subsidiary companies listed by him are "private" companies and the majority of these are known to have more than one subsidiary of their own but subsidiaries and associated companies are not mentioned in the list. As Clarke (1980, p. 169) acknowledged: "(The list) is probably incomplete in a number of respects. Hence it probably inadequately reflects both the extent and precise character of foreign ownership of investment and corporate enterprise in Zimbabwe." One such obvious incomplete listing is that of Anglo-American (Rhodesia) which is shown as the subsidiary of Anglo-American (South Africa); but no mention is made of its extensive investment in various sub-subsidiaries such as National Foods, Hippo Valley Estates, Wankie Colliery, Bindura Nickel, Zimbabwe Alloys, etc.; or its association with Charter Consolidated, Barlow Rand, and South African Breweries in Zimbabwean groups such as Mazoe Estates, Triangle, and Delta, amongst very many others. As Clarke (1980, p. 34) comments:

"Unlike in some other (Third World and African) economies, therefore, Zimbabwe does not represent a case in which one or even a mere handful of foreign firms can be identified as representing external investment interests."

The majority of these investments are owned or controlled by corporations; individual's investments are not very significant in comparison. The bulk of the corporate investments are so concentrated that a very small number of companies accounts for a disproportionate share of externally-controlled corporate assets. Foreign MNC's are dominant in those sectors of the private sector involving specialized services, high-levels of skills and advanced technology (Clarke, 1980, pp. 34-36).

Since Independence there has been a small decrease in the number of quoted public companies, due to economic failures; but also a significant consolidation of business interests in certain sectors, due to the purchase and merger of various businesses. Thus, there has occurred yet a further increase in the importance of "private" or "closed" companies, in subsidiaries, and holding companies in relation to the situation that previously applied. The significant consequences which foreign controlled large companies may wield on the national affairs was commented on by Clarke (1980, p. 155) when he wrote:

"Foreign companies control more than just a share of productive capacity and local markets; they also hold extensive mineral rights, operate townships (in the form of company towns, e.g. Triangle) own or control urban worker housing, influence and control the sectoral allocation of credit through banks, and are capable of orchestrating major changes in the social sphere (e.g., in terms of welfare provision and union recognition) as well as, more indirectly, in the world of politics."

The group form of business structure is most common in Zimbabwe. Some are of a relatively simple form with a direct link in ownership flowing between subsidiary and Zimbabwean holding company. Others are of a more complex form with the holding company possessing no direct ownership of shares in the subsidiary and being resident externally. The crossweb of control and relationship between companies is frequently most difficult to trace or discover and is often unknown to employees and society in general. Mr. Davies, in interview, claimed that such a situation could result in trade union and employee associations being placed at a great disadvantage when dealing with management on matters of remuneration and benefits. Government, too, were concerned with the ramifications of such holdings because of the possible "hidden" effects on pricing and profits.

Group accounts in terms of the Companies Act must be published by any company which controls more than 50 percent of the votes in another company, unless it is the wholly owned subsidiary of a Zimbabwean company. A subsidiary company is not permitted by law to own shares in its holding company. The investment by a company in another's shares which is deemed to be significant in terms of IAS3 must be treated in the investor's accounts on the equity method. Shareholders in a subsidiary or associated company are not entitled to receive the holding company's group accounts. There is no law or standard requiring a company to name its parent/holding or fellow subsidiary companies.

From the foregoing it appears that the business sector in Zimbabwe is dominated not only by foreign interests, but that the various segments of that sector are dominated by relatively few companies or related companies. Thus, the form of the Zimbabwean market should be classified as oligopolistic on the following scale: -

<u>Property</u>	States of nature		
	1	2	3
E ² 4 Market form	Monopolistic	Oligopolistic X	Openly competitive

Dimension: E³ The political setting

The political setting of Zimbabwe experienced a major change in recent times. The major black political parties in Zimbabwe circa 1980 shared a common perspective, a desire to end perceived injustices. The greatest of these was considered to be the inequality in land distribution within a capitalist framework. (Astrow, 1983, p. 138). "Land is the main reason we went to war", said Prime Minister Mugabe as

quoted in Astrow (1983, p. 140). Other major injustices considered by the masses to exist were racialism, economic exploitation, and an oppressive regime to enforce the system whereby a minority group ruled the majority. (Mugabe, 1983, p. 40). A nationalist movement waged a war of liberation against the white elected government during the post-U.D.I. period of 1965 to 1980. The struggle was cited by the two major nationalist parties, Zimbabwe African National Union (ZANU) and Zimbabwe African Peoples Union (ZAPU), as a struggle against capitalist imperialism. (Astrow, 1983, p. 215).

ZANU was victorious in the first general election in 1980 winning 57 of the 80 seats voted on by the black electorate and ZAPU won 20 of the remaining seats. Thus, the two nationalist parties that espoused socialist principles were selected overwhelmingly by the electorate. In the second election held in 1985 ZANU increased its parliamentary lead, capturing 63 of the seats with the balance going to ZAPU. With ZANU dominating the political scene and pressing hard for a one party constitutional system it is appropriate to establish its political philosophy since it is that followed by the majority of the population.

Property: E³ Political regime
1

According to the Prime Minister, ZANU adopted the ideologies of Marxism, Leninism, Maoism and scientific socialism only in 1973, but certain general principles of socialism had always been adumbrated (Mugabe, 1983, p. 44 and 56). Mr. Mugabe wrote as follows concerning the establishment of socialism in Zimbabwe:

"We, who have accepted socialist theory as the basis of practice in our own countries, have a duty to read and understand what the fathers (Marx, Lenin and Mao) of that theory actually say.

We also have to examine the theory in the light of our history and the environment of our country. Only in this way can we evolve from the pure ideology of socialism a workable practical ideology for Zimbabwe." (Mugabe, 1983, p. 38).

The need for the socialist ideology to be compatible with the national history and environment is echoed by other prominent members of ZAPU. Dr. Ushewokunze by quoting Amilcar Cabral, stressed the need for realism in applying socialism within the nation. He warned the party: "Do not confuse the reality you live in with the ideas you have in your head." (Ushewokunze, 1984, p. 173). Furthermore, the Prime Minister said in this regard in his address to the nation on December 31, 1980:

"The path of our socio-economic policy is decidedly socialist. What remains to be worked out is the mode of application of socialism and not its reality." (Parliamentary Debates, January 29, 1981).

ZANU's plan for transforming the nation of Zimbabwe to socialism is based on a two-stage theory of revolution which follows in the tradition of the Russian Mensheviks and international Stalinism. The two-stage theory consists of the initial "national democratic phase" when capitalism is democratized and of a later "socialist revolution" phase when socialism has been accepted by the whole society. (Astrow, 1983, pp. 140-144). One cabinet member had this to say about the first stage:

"We believe we are going through a national democratic revolution whereby the institutions, the society, have been democratized. This is a national democratic phase but it is also a transition to socialism." (Astrow, 1983, p. 143).

It is through the application of policies such as the economic policies of "Growth with Equity" that institutions (such as companies) and society generally are planned to be democratized through the redistribution of wealth in a more egalitarian direction under capitalism.

The reality of capitalism in Zimbabwe is accepted by government and it is also accepted that it is in the nation's best interests to transform that sector to socialism and not to adopt a scorched earth approach and start afresh by promoting pure socialistic institutions.

Mr. Mugabe has said:

"You do not destroy an infrastructure that is in being in order to realize your socialist aims. In fact you can do so by building on the structure that is there." (Astrow, 1983, p. 144).

Apart from economic reformation for the accomplishment of the transformation, ZANU has taken direct political steps to transform the masses to the acceptance of socialism. The initial step has been the establishment of a vanguard party for the moulding and organization of the proletariat. Another step has been the pursuit of a one-party state for Zimbabwe by ZANU, to be instituted "by virtue of the people willing it" (Prime Minister, Mr. Mugabe, Parliamentary Debates, Vol. 3, 1981, June 23, 1981). Thus, by means of economic and political methods the nation will progress from the "national democratic phase" to the "socialist revolutionary" stage when the time is ripe for socialist change. No timetable is set for this change (Astrow, 1983, p. 144).

What procedure was to be followed by the nation in the first phase of national democracy? First and foremost it was necessary to consider the welfare of the peasants and workers. (Ushewokunze, 1984, p. 38). "Class collaboration" or "the voluntary cooperation of employers and employees" was stressed as the key to workers fortunes (Astrow, 1983, p. 178). Modifications according to Prime Minister Mugabe had to take place in the capitalistic structure for greater equity during a period of economic development, but these would "only take place in a gradual

way." (Astrow, 1983, p. 174). Private initiative and private enterprise would have an assured and significant role to play in the economy but greater emphasis would be laid on private enterprise lending itself to local participation and management and reinvesting profits locally. (Astrow, 1983, p. 166). It would be policy not to nationalize indiscriminately but rather to have state participation in selected sectors of the economy (Astrow, 1983, p. 173). However, there was a strong conviction on the part of government and nationals that companies may report the consequences of government regulations on them but not interfere in political matters. Mr. Kadhani expressed it this way:

"There are certain matters which are not within the responsibility of company managers. For example, the effects of price controls should concern managers, equity holders and others connected with the company. There should be facts which reveal how the general policy specifically affects the company in its results. A positive constructive and factual report of the effects of price control on the company would be welcomed; this would be helpful to government in policy review and adjustment. But I do not think it would then be appropriate to then go to a debate on price controls from the company's point of view in general terms."

The existing system of law would not be changed, "morality is morality" no matter what the system; but the same legal code would apply to all persons (Mugabe, 1983, p. 184). There would be an avoidance of rampant individualism and an encouragement of collectivism or common ownership (Mugabe, 1983, p. 156). The companies and income tax acts, inherited from regimes prior to 1980, were greatly influenced by British and South African systems. The Companies Act (Chapter 190) section 119(1) states:

"Every balance sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of its financial year and every profit and loss account of a company shall give a true and fair view of the profit or loss of the company for the financial year."

The Companies Act, as indeed may be perceived even from the above quotation, is drafted so that through the disclosure of certain financial information the interests of shareholders, mainly, may be safeguarded. The main stewardship responsibility devolves upon the directors of the company and they owe a fiduciary responsibility to the shareholders.

The income tax law does not restrict a company in its choice of accounting system. The main features of the tax law as applied to companies are: Tax is payable on taxable income which is determined by assessing all income from business activity and allowing the deduction of expenditure in the production of income or for the purposes of trade. As a general rule income and expenditure of a capital nature are neither included in gross income nor allowed as a deduction. But in the determination of taxable income certain deductions related to capital expenditure may be made: depreciation at rates to be taken at the option of the taxpayer either at accelerated rates or over the taxed assessed life of the asset; expenditure on research; and investment allowances on the cost of specified investments. There is no obligation for financial statement depreciation and accounting classifications to accord with the tax laws.

The Companies Act and Tax Act are not at all restrictive or directive in their approach to accounting as might be expected from a legislature with strong socialist beliefs. However, changes to these acts may occur in the future. At present restrictions are implemented to aid government's socialist policies by promulgating specific controls on an ad hoc basis.

During the first stage of national democratization the goal is to slowly change the capitalist sector of society so that it operates in a

more equitable way concerning employees and the general welfare of Zimbabwe. As Mr. Davies said in interview:

"In my view the Zimbabwean brand of socialism is a reaction to past injustices. There is a rejection of capitalism but not the sophisticated understanding or desire to follow Marxism by the majority; thus the rather shallow attempts to tackle what is perceived to be the problems. For example: overpricing is seen as the problem not the control of the means of production by the capitalists."

However, the control of the means of production by society generally is planned to occur in the second stage: the "socialist revolution" when the efforts of the vanguard party and the economic transformation have made conditions ripe for its institution. The minister of Justice spoke of the first phase which began in 1980 in this way:

"Zimbabwe is a socialist-oriented state. We are not yet a socialist state, but being a socialist state during the national democratic stage of our revolution we are what Lenin describes, and I quote, 'a revolution that the masses themselves create by their slogans, their efforts, and not by repetition of the programme of the old bourgeois regime'. Lenin pointed out that not only the proletariat, but also certain other classes and social strata, are interested in the victory of such a revolution. In this connection, Lenin spoke of a revolutionary bloc, of the power of the people, with some of the progressively minded democratic bourgeoisie included in its composition. That is what we have done since 1980." (Parliamentary Debates, Vol. 11, No. 10, November 14, 1984).

The second stage represents the attainment of a true socialist (communist) state when scientific socialism will be pursued. As such, there would exist a collective system of owning and controlling the means of production; and, there would exist a redistributive mechanism for what society produces in favour of the producers (Ushewokunze, 1984, p. 28).

Zimbabwe may be described in summary as possessing a democratic form of political system which, because of the strong nationalistic fervour which pervades the nation following its newly and hard-won independence,

and its materially poor majority population, is strongly socialistic. At present, the national political philosophy may be described as socialist with a determination to move into scientific socialism (communism). For these reasons, and because of political policies which strongly regulate private enterprise, it is fair to typify and classify the regime as "strongly socialist." It cannot be classified as "socialist/capitalist" because not a single political party espouses "capitalist" or "free enterprise" policies.

<u>Property</u>		States of nature			
		1	2	3	4
E^3_1	Political regime	Communist	Strongly Socialist X	Socialist Capitalist	Capitalist

Dimension: E^4 Social and cultural setting

Figure 3.3 shows three properties under the heading of social and cultural setting: type of cultural background, society's opinion of the firm and type of stewardship responsibility. The Zimbabwean environment is analyzed in regard to these properties below.

Property: E^4_1 Type of cultural background

Present day Zimbabwe is made up of different ethnic groups which may be classified under three headings. Firstly, the Shonas; secondly, the Ndebele; and thirdly, the settlers after 1890.

The first people to settle in Zimbabwe were of Bantu origin and entered the territory from the north about 1600 years ago. By the beginning of the nineteenth century there were a number of clans or tribes which had been resident in the territory for centuries and these

ethnic sub-groups are today collectively referred to as the Shona. In the early 1800's a second group of Bantu entered Zimbabwe, but this time from the south. The new black settlers made their home in southern Zimbabwe, Matabeleland, and came to be known as the Ndebele. The European, Asian and other non-Bantu inhabitants started to enter and settle in the territory after the acquisition of the land by the British South Africa Company of Cecil Rhodes in 1890.

The settler group of Europeans, Asians, etc., reached its maximum population total in the mid-1970's at 250,000. By the time of the 1982 population census there were 7.5 million inhabitants in Zimbabwe; by 1987 the non-Bantu (mainly white) population had dwindled to around 100,000 and the Shona inhabitants outnumbered the Ndebele by more than six to one.

Professor Murphree pointed out that there were no classes in traditional Shona society; but there were status differentials. Ndebele society might be argued to have had a class system. Shona society was very much an egalitarian society, almost communal in nature, with the chiefs and those within the ruling lineage ostensibly being no wealthier than anybody else (Bourdillon, 1982). In traditional society material wealth accumulation by individuals was permitted and respected. However, too great an accumulation of wealth was in danger of being interpreted as the result of unfair practices--usually the practice of witchcraft was the charge, and the penalties could be severe: a sentence of death. Society wished to be satisfied the wealth was fairly acquired. However, under white rule and exposure to Western economic practices wealth differentials occurred between chiefs and subjects, and between rural and

urban dwellers, and between occupational types. Nevertheless, tradition and the extended family practice remain strong and the vast majority of the population continue to be very much an egalitarian society with communities coming together to assist one another, for example with planting and harvesting.

The traditional approach to property ownership was akin to egalitarianism and communal in nature. No individual or group could own land. In Shona society the ownership of land had religious connotations; the land belonged to the deceased ancestors and the living custodians were the chiefs who granted the usufruct in the land to families or individuals. Mr. Mugabe has written,

"In respect of agriculture . . . our own traditional system is identical with the Marxist-Leninist approach: at least, in so far as ownership of land is concerned. Land never belonged to individuals, neither has it belonged to the chiefs as in West Africa. It has always belonged to the people as a whole. We must go back to that traditional position which coincides also with our present scientific thinking."
(Mugabe, 1983, p. 180).

Other ethical qualities are outlined in the literature. Mugabe (1983, p. 24), Astrow (1980, p. 149) and Ushewokunze (1984, p. 16) wrote that the war was not fought over racial origins nor between races but for the qualities which the people held dear, namely, "true democratic principles, equality, non-racialism, justice and fair play." (Mugabe, 1983, p. 24). The main political parties have turned to socialism to achieve these qualities. Freedom, or liberty, perhaps the most important of all democratic principles is considered by these parties as not possible of attainment under the capitalistic market system in Zimbabwe. Arguments were advanced by Mr. Gutto and some others interviewed which were very similar in substance to those of Lindblom (1977, pp. 45-46).

"The classical liberal case for the market system declares: Liberty through the market; no liberty without. . . . In a market system one responds only if the proffered benefits are attractive, hence only if one voluntarily chooses to do so The objection (to this argument) rests on logic. The traditional liberal argument is incomplete unless it defends private property as itself consistent with freedom, a point on which it is silent."

For Mr. Gutto said:

"How can there be freedom of exchange or liberty in the marketplace if there is inequality in private property ownership due to historical consequences? Similarly, is freedom possible where there exists an unfair or unequal distribution of skills?"

Reference has been made above to the egalitarian and socialistic nature of society. Professor Murphree defined Shona egalitarianism thus:

"My belief of egalitarianism in Shona society is that it is not egalitarianism in the Marxist sense, that is, to each according to his ability, to each according to his needs. It is more, if anything: to each according to his ability, to each according to his work. Which is, of course, the distinction which Marx made himself between true communism and socialism."

The favouring of socialism by the indigenous peoples of Zimbabwe was explained by Professor Murphree as follows:

"The electorate were supporters of nationalism in 1980; they wished to be masters in their own house. The nationalistic movement had been a powerful force in many nations seeking independence and international socialism had aligned itself with the movement. Socialism and its espousal of egalitarianism, self-determination, welfare-state, etc., broadly subsumed the aspirations of the African people. All the important foreign and local political leaders in Africa had been supporters of socialism: Nkruma, Nyerere, Nkomo, Mugabe. So it was almost natural for the black electorate to vote for the socialist parties, particularly the two (ZANU and ZAPU) which had been actively fighting for national independence."

Professor Chavanduka's comments may also be helpful in establishing the beliefs of society in the above regard.

"In my opinion it cannot be said there is a national tendency for the black inhabitants of Zimbabwe to be socialists. However, because of their social and cultural heritage there is a greater acceptance of communal life and a greater awareness of social needs."

Very few of the black inhabitants of Zimbabwe are engaged in business ownership. Those that are so engaged operate small trading stores and other small business operations such as builders, transportation companies, and artisan/technician type trades. Naturally there are a few exceptions who have become entrepreneurs of considerable success. The majority of the population views companies as belonging to whites and only has had contact with companies through themselves or some family member being employed on a weekly or monthly basis, usually in a non-managerial post.

This rather limited personal contact with companies is illustrated by a 1975 official survey of 44 large industrial corporations. Out of 21,874 workers, only 69 Africans (0.3 percent) were employed in professional grades; only 1,495 (6.8 percent) were occupied in "skilled, supervising or professional grades." Over 46 percent of workers were in unskilled grades and another 37 percent was classified as semi-skilled. (Clarke, 1980, p. 151).

Benefit values of both an economic quantitative and qualitative nature are appreciated by the indigenous population and because of their traditional values great importance is attached to qualitative benefit values such as education and societal benefits. But "costs" are not comprehended quite so readily. Professor Murphree illustrated this problem by turning to past professional experience. The majority of the people have little familiarity with administering financial affairs; because of this lack of understanding of matters financial there often arises a distrust of figures produced by authoritative bodies. There is a fear that they are being misled. Or in other cases, there is a lack of

appreciation of what constitutes a cost or how costs arise. In order to avoid or overcome this distrust or suspicion or misunderstanding it is necessary for administrators to take great pains to communicate the information. Information must be as clear and as simple as possible and full disclosure is essential.

The desire of the government for a one-party socialist state in Zimbabwe was considered by many Zimbabweans interviewed not to be at conflict with their cultural heritage or the principles of democracy. First, such an event would only occur at the express wish of the population (Mr. Mugabe, Parliamentary Debates, Vol. 3, 1981). Secondly, much debate would occur within the party at grass-roots level under the proposed one-party system, something very similar to the traditional approach. Professor Chavunduka explained matters thus:

"The idea of a one-party state will certainly be sold more easily here than say in the United Kingdom. Our main complicating factor is that we have two nations, as it were, in traditional terms--the Shona and the Ndebele. There would be relative ease of acceptance of the concept of a one-party system within each national group because the concept is very similar to the traditional system. Traditionally there were one-party states in effect but with a lot of consultation taking place in its operation."

Direct consultation between leaders and populace was common in traditional society between all levels. This acceptance of consultation taking place right down to grassroots level was found to have benefits within the operation of companies in present day Zimbabwe. The installation of workers committees since 1980 as a forum for consultation between management and employees was held by all interviewed to have been beneficial to the better running of business. It was a method of democratizing the workplace. Mr. Clement made the point that an objective of equity between owners of capital and labour was attained

mainly through a balancing of power relationships and worker democracy was one way of getting this balance right in business. The right to be involved in decision making was the key and for companies to stay in business in Zimbabwe a change in their style of decision making would be required. Companies would have to take into account the collective wishes of those who represented employees. A company may indeed go in for wide disclosure and other progressive approaches but unless there was this sharing of power through decision making they would fall short of worker democracy and required progressiveness.

Mention has been made of the dualistic nature of the Zimbabwean economy. It has, on the one hand, an advanced and sophisticated modern industrial sector and, on the other, a rural subsistence sector which is one of the most underdeveloped in the world, (Zimcord, 1981). This dualism has created a dichotomy in the national culture; the majority of the population resident in the rural areas has had its traditional ways affected to some extent by the non-African living standards, whilst those Africans living in the cities and engaged in government and private enterprise duties have been greatly affected. Despite the sophistication of the modern sector of Zimbabwe, much of the population is outside its direct influence but because of the extended family relationship some indirect contact has occurred with modern business and its ways. Figure 4.3(1) shows that in 1980 a total of only 20 percent of the population resided in urban locations. The remoteness of the bulk of the African population from modern business is indicated by the fact that over 60 percent of the African inhabitants lived in rural areas more than 50 miles from an urban centre, Figure 4.3(2). With the population mix in

FIGURE 4.3

Population Distribution

(1) <u>Regional Distribution:</u>	<u>African</u>	<u>Non-African</u>	<u>Total</u>
Estimated total population (1980)	7,320 (thousand)	250 (thousand)	7,480 (thousand)
Percentage of urban population to total population (1980)	18%	82%	20%

(Source: "Annual Economic Review of Zimbabwe," Aug. 1981, Cmd. RZ 11).

(2) Distance from regional urban centre (1970): -

<u>Miles</u>	<u>African rural areas</u>	<u>Non-African rural areas</u>
within 10	5%	10%
11 - 50	35%	70%
51 - 100	50%	20%
over 100	10%	0

(Source: Roger C. Riddell, "The Land Problem in Rhodesia:", Gwelo, Mambo Press, 1978).

the urban centres being African to non-African in the ratio of 6:1, compared with 132:1 in rural centres, it is clear why it is that the bulk of the African population has little direct contact with non-African society and the corporate sector.

It is in the urban areas where the bulk of the modern businesses are located and it is the non-African population group which dominates the managerial levels of commerce and industry. Some indication of the wide socio-economic rift which exists between the non-African and African population groups may be gained from the following: It is estimated that per capita income in the modern (white management dominated) sector is at least twenty times that in the rural sector. There are also significant income differentials within the modern sector itself; in 1979 average annual earnings for black workers were \$1,180 while they were \$11,950 per person for other workers, (Zimcord, 1971). A further indicator of the wide disparity in personal incomes is that of a total population of over 7 million there were only 91 thousand individual taxpayers in 1981, (G.R.Z. 1982 B).

Government has taken steps to lessen this disparity in incomes by instituting minimum wage legislation since Independence and the leading industrialists seek economic stability in this regard by paying above the minimum rates in an endeavour to be fair because of the rising cost of living. However, inequities in pay continue to exist generally. An example of the general trend of unfairness in pay scales may be obtained from the following statistical figures. During the first five years after Independence the consumer price index (CPI) for higher (mainly white) income families went up by about 185 percent while salaries for

executives rose by 181 percent, whereas the CPI for the lower paid rose by about 195 percent, but their wages increased by only about 174 percent (Financial Gazette, July 12, 1985). These figures reveal an inequitable distribution of income which, while benefiting a few, diminishes the welfare of society as a whole.

Two possible adverse societal affects may have arisen from this cultural dichotomy. Prior to national independence the white population group and the modern business sector were favoured by the ruling government, (Seidman, 1980). Consequently, upon independence both whites and businesses may have felt threatened by the nationalistic and socialistic policies of a black government.³ Furthermore, since 1980, both parties have had to endure heavier direct and indirect taxes imposed to fund national development plans. These changes, together with the upheaval in the administrative branches of both government and businesses since national independence in 1980, mainly due to the significant white emigration and widespread black advancement into unfamiliar administrative positions, has resulted in sectors of society engaging more frequently in accounting fraud and tax evasion, (as officially reported by the auditor-general and parliamentary committee on public accounts and confirmed in interview by the Minister of Finance and President of the Institute of Chartered Accountants of Zimbabwe).

No official or institutional changes have occurred in accounting practices to cater for the social changes that have occurred since independence. Some companies have tried to tailor their financial statements to the changed environment by including value added statements with the required balance sheets, profit & loss accounts, and statements

of changes in financial position; as well as including more pictorial presentations (e.g. pie charts and histograms) of the financial results. However, the overall approach continues to be a presentation of shareholder orientated historical financial information.

From the foregoing it may be concluded that Zimbabwe, an LDC, has a large and less sophisticated indigenous population with a small but socio-economically significant sophisticated management and non-indigenous population group. Therefore, the type of cultural background in Zimbabwe may be classified as E^4 on the following scale: -

13

<u>Property</u>	<u>States of nature</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
E^4 1 Type of cultural background	Less sophisticated owners/managers and nationally homogeneous society	Less sophisticated owners/managers and nationally heterogeneous society	More sophisticated owners/managers and nationally heterogeneous society	More sophisticated owners/managers and nationally homogenous society
			X	

E^4
2 Society's opinion of the firm.

Brief mention has been made earlier of the indigenous inhabitants participation in matters of business prior to the arrival of the settlers in the late 19th century. Bourdillon (1982) wrote that in the early twentieth century the African peasantry supplied the bulk of the food stuffs required by the mines and trade with the Africans was the most profitable sector for the European merchant. But policies favouring the white interests--such as land apportionment, poll and hut taxes, and pass laws, which reduced the Africans' agricultural threat to the white farmer, forced them to seek paid employment to pay the taxes and directed

labour where it was wanted--removed the Africans as a potential force from the entrepreneurial sector and "caused the development of a disorganized and incoherent African wage earning class." (G.R.Z., 1981 B, p. 32).

The prime minister of Zimbabwe described the establishment of Rhodesia this way:

"Colonial and hence capitalist forces had, since 1890, erected a strangely exploitative socio-economic environment where the new ruler became identified by the following selfishly individualistic characteristics:

- (a) The ruler was a settler who imposed his will upon the people. . .
- (b) The ruler was a white man for whom race and colour decided a person's status. . .
- (c) The ruler had with impunity acquired vast land acreages. . .
- (d) The settlers had, by employing borrowed or self-acquired capital and laying open the country to foreign multi-national investment capital and other forms of speculative capital, established a liberal economy in which the primary industrial sectors (farming and mining) and the subsequent manufacturing and commercial sectors turned the African population (indigenous and non-indigenous) into a worker class whose remuneration, on the average, always fell below subsistence level" (Mugabe, 1980, pp. 40-41). (Emphasis added).

That companies are often viewed as being exploitative and unfair in their dealings with the black inhabitants no doubt goes back to the times when the territory was administered by Mr. Rhodes' British South Africa Company from 1890. Clarke (1980, p. 18) wrote as follows in this regard:

"The Company had to take the increasingly powerful set of local white interests into account. To many settlers, African aspirations were a recognizable economic threat. Hence as an insurance against the times, as well as the future, they turned their energies, legislative attentions and political power towards constructing and refining a battery of political controls, social restrictions, extra-economic restraints and ideological restraints."

Dr. Murapa put forward another view of companies as held by general society:

"Companies are seen first as a totality and not as individual companies here and there. At this point, willy-nilly, people have a certain view about companies, which is not positive. They are associated with the past rule and its injustices borne by the people; they are seen as being largely racially exclusive and they are considered to represent foreign interests. I would say that very few people see companies as foreign in the way one may talk of MNCs. I believe the bulk of Zimbabweans would consider companies as not belonging to them because they belong or represent the old regime. This view is the product of the absence of a national integration where things are seen to be operative within the context of Zimbabwean values and Zimbabwean interests. Companies and their values and interests are still seen as white, racist, resistant to change, and when they make any concessions these are perceived as being only tactical, but not sincere and only done to achieve their own selfish objectives."

Seidman (1980) dealt with how businesses, for their own wealth gains and thus their owner's profit, pursued policies for the deliberate "underdevelopment of the African people." Two examples are provided:

"The destruction of the traditional economy forced Africans to look for work on the white-owned mines and farms. By 1948 the success of the colonial policies was clear: in that year, 60 percent of all men had left Matabeleland to seek work as migrants; 40 percent had left Mashonaland South. Usually, their families were not allowed to live with them. Wives and children were expected to continue subsistence farming in the reserves, lowering the pressure on employees to pay a living wage." (Seidman, 1980, p. 260).

Some of the injustices of businesses were mentioned in the National Manpower Survey of 1981:

"Businesses are seen as going to any lengths to keep management white--by filling vacancies privately; by attaching bogus labels to job categories and by placing senior Africans in those senior posts which are of a less executive responsibility nature: such as personnel officers, marketing officers, public relations officers" (G.R.Z., 1981 B, p. 28).

Indications of the racially discriminatory policy of hiring and remuneration put forward in the National Manpower Survey are that average

wages for each of the four main racial groupings in the mid-60's were \$1860 for whites, \$1210 for Asians, \$750 for 'coloureds' (i.e., of mixed African/white parentage) and \$200 for urban Africans (G.R.Z., 1981 B, p. 30).

The abundance, cheapness and subservience of black labour were claimed to be factors which greatly attracted businesses to the country (Seidman, 1980). At the time of independence in 1980 the vast bulk of workers were paid below the Poverty Datum Line (PDL) set for modest family sizes. The primary sectors, especially agriculture and mining, were much dependent on a low wage system of production but the large, mostly foreign controlled, companies usually set wages ahead of the PDL to avert criticism from abroad, nevertheless the wages they paid were still very low (Clarke, 1980).

Another practice was to under-grade the qualifications of workers so that they fell into a lower wage rate category. The official "National Manpower Survey" (N.M.S.) confirmed this by stating:

"The most significant finding of the N.M.S. is the fact that the existing system of labour categorization in the economy is designed to maximize the rate of Surplus Value (or rate of profit maximization) for capital through a subjective- rather than objective-classification of the participation and contribution of different labour categories. This is a central feature of a capitalist economy. Thus, of the total of 862,014 persons covered by the N.M.S., 8% were professional, 12% skilled, 20% semi-skilled, and 60% unskilled." (G.R.Z., 1981 B, p. 35)

According to the same report of government, the "white capitalist and the white worker became allies" in the process of exploiting and oppressing the African people.

"As the most threatened section of the white population, the white working class in Southern Africa was, perhaps, logically the most acutely 'white conscious'...Whatever the contradictions and battles that ensued between capital and white labour, these were usually resolved at the expense of the African wage worker and in the spirit of white unity against the black threat."

One result was the unofficial reservation of certain jobs or skills for whites while Africans were allowed to enter those jobs or skills classified as "dirty" by the whites. With the departure of many white labourers during the later UDI years (1975-1979), due to the war, and after independence, due to black rule, many companies placed blacks in the posts previously held by "skilled" whites but paid them much less and so profited greatly in the economic upsurge following immediately upon independence. (G.R.Z., 1981 B, p. 35).

The government policies of those days were also interpreted as being biased towards the interests of the business sector and the white community. The following examples were provided by Clarke (1980, p. 21): Government economic policies prior to 1980 were supportive of "white" business often by means of interventionist legislation: the determination of prices (maize), the setting of quotas (tobacco), the payment of subsidies (small workers); all taken to shelter white agriculture and industries; (see also Seidman, 1980, p. 278).

During the pre-Independence times the African workers were virtually excluded from having any meaningful dialogue with companies on labour matters because of the strict labour laws (Seidman, 1980, p. 260). Clarke (1980, p. 28-29) wrote that African labour unionism was always held in tight check by the government especially during periods of economic depression (1958-1959) and political trouble (the breakup of the Federation 1963 and after U.D.I.) The Riddel Commission of 1980

estimated that approximately only 8% of the workforce eligible for normal trade union membership were union members at Independence (GRZ, 1981c).

Through the restrictive practices of businesses and legislature and the lack of exposure of their results and affairs by businesses both workers and society in general have little intimate knowledge of company operations and viability. Mr. Davies said in this regard:

"I think it is important to remember that because of the peculiar circumstances that pertain in Zimbabwe that workers, both at the individual company level and the trade union level cannot easily, if at all, get information on a company. Government may be able to get information they need but not the workers. Workers are at a distinct disadvantage because of this lack of information when bargaining with management or industry for pay rises or better conditions of work. The lack of disclosure enables the industrialists to paint a picture of the companies' affairs to suit their self interests."

To this day there remains a confrontation view of business represented by an "us and them" attitude of many in the nation. Mr. Makins referred to the rather draconian "hire and fire" practices prior to 1980 and the lack of concepts such as "bargaining in good faith" and "unfair labour practices" in prior labour legislation. Mr. Mew referred to the poor image bestowed on companies when some attempted to show a better black/white composition of management by resorting to "window dressing" by appointing blacks to so-called senior posts which carried no real managerial responsibility.⁴

The cultural dichotomy which exists between the general society and businesses in Zimbabwe is of concern because of the hinderances it causes to national development. Dr. Chidzero (Financial Gazette, June, 14, 1985) mentioned one such hinderance--"mutual suspicion":

"In 'Common Crisis' the Brandt Commission has observed... 'mutual suspicion remains. Many investors still worry about operating conditions, taxation, repatriation of profits, renegotiation of contracts, perhaps above all political risk. And some host countries fear exploitation, unfair contracts, concealment of information, transfer pricing, international cartelisation, restrictive business practices, distortion of pay or consumer patterns, and even political interference.'"

In interview, Dr. Chidzero said:

"Because of our environment all sorts of suspicions prevail. We are a young country, there are suspicions between the public and private sectors. Thus on both sides facts may be hidden or distorted. If we can encourage an attitude of frankness and openness, then the situation would be improved. If we can devise methods which reveal where faults lie--take a simple example the suspicion of the avoidance of sales tax, its reconciliation and correct accounting--then these should be used."

Dr. Sibanda blamed the method of operation of companies in communicating information of a financial nature as the cause for much distrust of companies by both society generally and workers. Regretably it was most unusual practice for companies to communicate with workers on a regular basis regarding their financial results. Workers would usually only be confronted with the figures in the event of an industrial dispute over wage negotiations or threatened closure. For an understanding of results and an appreciation of costs and their affects it was essential for there to be a regular communication of information to the workers.

The general society and workers in particular see themselves as minimal beneficiaries from company operations. With slightly over 1 million persons being in formal paid employment in 1983 out of an estimated actual available labour force of 3.2 million, the persons unemployed by the formal sector amounted to about 70 percent of the actual available labour force (G.R.Z., 1983 A, p. 19). More than half the peasant population in the communal lands relied in the early 1960s on

remittances from migrant workers merely to subsist (Seidman, 1980, p. 267). This percentage is bound to have grown since then considering the steadily high population growth rate and the declining trend in the growth of new jobs over recent years.

Companies have been branded with the label of exploitation for being uncaring about the welfare of the nation. They are seen to place profit maximization above job creation in a country where only 12.5 percent of the total population are in formal employment. One reason for this claim of uncaringness is the apparent preference for capital plant expansion in preference to labour intensive methods:

"The modern sector has a strong bias towards capital intensity induced, in part, by the relatively cheap cost of capital and the foreign exchange allocation system, both of which grossly understate the scarcity of capital and foreign exchange."
(G.R.Z., 1982 A p. 8).

The statistics below indicate that changes in the structure of output, mainly a turn to increased capital intensity, gave rise to changes in the structure of employment; but in the private sector these did not match the output changes.

GDP and Employment, selected years, 1970 and 1980
(Percent of Total)

	1970		1980		Change between 1970-1980	
	GDP	Employment	GDP	Employment	GDP	Employment
Agriculture	15.1	34.9	13.9	32.4	-1.2	-2.5
Manufacturing	20.7	13.4	25.5	15.8	+4.8	+2.4
					<u>+3.6</u>	<u>-0.1</u>

The problem continues; in 1981, for example, an increase of 12.2 percent in real national output gave rise to a 3.2 percent increase in employment, of which 37 percent was in government sector administration.
(G.R.Z., 1982 A, p. 8).

Society also sees itself at a disadvantage when dealing with businesses for employment and at a distinct disadvantage when negotiating with businesses from the standpoint of a worker. Companies are seen by society to have the upper hand in all transactions with them, despite the fact that the companies are dependent upon them for their survival. The following quote from Lindblom (1977, p. 105) may explain the situation:

"As Marx saw more clearly than the classical economists, the historically given distribution of wealth is such that, when potential suppliers of labour contemplate joining with each other in an enterprise, the suppliers of capital have the necessary exchange or bargaining power to insist that authority be in their hands rather than in the hands of the workers. Not by logic but by history, owners of capital have become the owners of enterprise."

This observation is most pertinent considering the relatively recent historical background to national asset acquisition by companies in Zimbabwe. The African experience of business policy in pre-Independence Zimbabwe was one of:

- (1) Job reservation whereby particular jobs mainly the managerial and highly paid were reserved mainly for whites.
- (2) Under categorization of skills; by assigning such labour categories as "semiskilled" to African and "coloured" workers.
- (3) Underutilization and unemployment of African professional and skilled manpower. Thus, with time African education became quite unrelated to both employment and production, with the numbers of educated Africans rising and the unemployment figures escalating (G.R.Z., 1981 B, p. 35).

The inequities of such a situation as that described above are obvious. In a pure market system, without organized trade unions or laws to protect labour, "the landless labourers, without assets of any kind must count on jobs alone to protect their freedoms in the market" (Lindblom, 1977, p. 48). Since Independence the government has taken steps to

improve the negotiating position of labour by legislating for workers committees within businesses and the establishment of trade unions.

Recent history has perhaps instilled a belief in society that businesses are mainly concerned with short-term profit maximization. Seidman (1980, p. 262) wrote that during the early years of U.D.I., 1965 to 1970, entrepreneurs and MNC's in particular invested heavily in the manufacturing sector. This was done by draining off surpluses from their mining and agricultural businesses. The attraction of the investment being the super profits from government incentive schemes, the abysmally low wages for blacks and from an economic climate that appeared to them to be inherently stable because of a white government which appeared invincible. Seidman (1980, p. 276) provided an example illustrative of a business sector apparently obsessed with the desire for quick and high returns:

"In Southern Rhodesia the transnationals made superprofits (in tobacco trading during U.D.I.) as a result of low labour costs, paying low (secret) prices--reportedly two thirds the world tobacco price."

The above practices became even more sinister when it is remembered that there were world supported U.N. sanctions forbidding trading and investment in Rhodesia and the penalties imposed by many nations for their circumvention were most severe.

Two further examples are provided by Seidman (1980) of viability policies followed in pre-Independence times which may be held to have drawn the picture of business in Zimbabwe as one of overwhelming self-interest and short-term nature:

"In Southern Rhodesia . . . light industry . . . produced primarily for the luxury market. They clearly did not go out of their way to make available inexpensive staple foods needed by low-income Africans" (Seidman, 1980, p. 282).

and:

"The transnationals almost never encourage research or development outside their home factories: there is very little if any R&D activity in the subsidiaries of foreign corporations in Africa... technology which is 'trickled down' to a periphery-based subsidiary primarily takes the form of a finished product to be sold directly on the market or assembled on the spot from its pre-fabricated parts."

Acts such as those described have led to a suspicion of firms by society and an abhorrence of capitalism and imperialism by the government of Zimbabwe. For example, government sees the disparity of skills and earnings between blacks and whites as a direct result of capitalism. Society's image of firms has no doubt been influenced by government statements and political views, such as those which follow.

"The nature of capitalist relations of production inhere that, in order to maintain and increase the rate of surplus-value (or rate of exploitation) there should always be on the one hand the deliberate undercategorization and underestimation of both the level and value of skill and labour of those who actually produce; and on the other hand, an overrating and overestimation of the level and value of skill and service of those who are either the owners of capital or are non-productive supervisors and overseers of labour." (N.M.Z., 1981 B, p. 23).

The above quotation is an example of what was taken to be imperialism at work. Astrow (1983, pp. 197-216) turned to the works of Marx, Lenin and Grossman to provide an explanation of imperialism as applied in LDCs. It was argued that the return on capital was the driving force behind capitalism. It was said it was not higher profits abroad which were the underlying cause of capital investment exports but a shortage of investment outlets at home. The developed nations were deserted as productive investment areas by capitalist entrepreneurs and investment took place in LDCs so that they could be "underdeveloped" or exploited to increase the capital of the investors. Thus imperialism is seen to be a

destructive force in LDCs. The Prime Minister, Mr. Mugabe has had the following to say about the destructive nature of imperialism.

"Imperialism and colonial settlerism, being by nature oppressive and exploitative, always have a potential for creating deadly instruments for their own destruction. The oppressor stands opposed to the oppressed, the exploiting bourgeois to the exploited worker, the land seizing bourgeois farmer to the impoverished peasant holder, and overall the ruling settler minority community to the ruled broad masses. The relationship, antagonistic in nature, yields sooner or later a situation of active opposition, resistance, revolt or aggression by those subjugated against those subjugating them, such being legitimate means of attaining political power, constituting an instrument for correcting and transforming the existing oppressive socio-economic order. It was this pervading phenomenon of class antagonisms, gaping clearly for the adoption of the instrument of armed violence against the ruling settler bourgeois class, that gave rise to ZANU." (Mugabe, 1983, p. 59).

The business sector is suspect by the government not only for its inherent, albeit in many cases latent, imperialistic tendencies; but the sector is suspect also because it is feared it fosters neocolonialism:-

"[Neocolonialism is the situation which arises] when the few rich blacks and whites team up to run the old colonial economic structure for their own benefit and for international capital, forgetting that our political independence was brought about through sacrifices of the peasants and workers who still remain poor under neocolonialism." (Ushewokunze, 1984, p. 4).

Later he wrote:

"Most of our socio-economic and political institutions are still geared towards the maintenance of private ownership and disposal of national wealth . . . Progressive elements are advocating a collective responsibility over the exploitation of our national resources and the distribution of our products according to need. These progressive elements are trying to forge a new unity among people of diverse backgrounds, but with a common goal: the achievement of socialist development in Zimbabwe . . . Our prospects for socialist development now depend on the outcome of this struggle between the forces of neocolonialism and those of true national liberation." (Ushewokunze, 1984, p. 32).

Professor Chavunduka expressed the opinion that because of the traditional background of egalitarianism and communal ties that most Zimbabweans would wish companies to be beholden to all associated with its viability. He said:

"In my view the average Zimbabwean would look at the undistributed residue as belonging to the company. Not to the shareholders, not to the workers, not to the government, but to the company, being looked after by the directors to be used by them for the good of the company to bring more benefits to the company. These benefits would flow to all and not just the shareholders; these benefits to be for the company on behalf of all connected with the company; perhaps we may call it the commonwealth of the company. We may link this to the Zimbabwean tradition by saying that as many of the assets were held by chiefs for the ancestors for the commonwealth of their descendants, so the directors are holding the undistributed profits for the commonwealth of persons linked to the company. If we carry this idea through, then the directors should consult with those affected by the decisions as to how the undistributed profits should be used."

However, at present most Zimbabweans regard the management and shareholders as the major, and perhaps only real, beneficiaries from business operations. In summary, government, workers, and society see businesses as currently structured as:

- 1) benefitting society minimally;
- 2) representing foreign interests and local shareholder interests and being uninterested in the long-term welfare of the nation;
- 3) following unfair and restrictive labour practices in order to maximize profits for shareholders; and,
- 4) being secretive and selfish in their dealings with them.

Consequently, the Zimbabwean society's opinion of the firm should be classified on the scale below as: -

Property	States of nature			
	1	2	3	4
E ⁴ 2 Society's opinion of the firm	Exploiter of national interests	Exploiter of all except investors X	Exploiter of employees	Nationally beneficial

E⁴ Type of stewardship responsibility.
3

The motivating goals of businesses and the operations undertaken to achieve them as perceived by some to have existed before Independence (1980) may be gleaned from the writings of two economic researchers on business operations in Zimbabwe in pre-1980 periods, viz., Seidman (1980) and Clarke (1980). Seidman (1980) portrayed businesses as being interested overwhelmingly in profit maximization; pursuing policies of human and resource exploitation; and deliberately "underdeveloping Africa" for their own corporate interests. The transnationals were singled-out as being the major business enterprises engaged particularly in these policies. According to Seidman (1980),

"In southern Africa, and everywhere else on the continent, uncontrolled transnational corporate investment in industry, designed to maximize shortrun profits, led to the production of the wrong goods for the wrong consumers, in the wrong places." (Seidman, 1980, p. 297).

Consequently, the needs of the bulk of the population were ignored in favour of immediate profit returns.

Clarke (1980) also saw businesses as being selfishly concerned with profit making in its most narrow form. A clear indication of this was said to be provided by the measures taken by the MNCs and foreign investors to circumvent and defy the mandatory U.N. sanctions imposed after U.D.I. in 1965. During the U.D.I. years foreign controlled companies, according to Clarke (1980), were divorced from the real needs of the populace because the owners or shareholders of the businesses drew upon a different socio-economic milieu. They, therefore, were able to make important decisions, consciously or otherwise, which had little or no bearing on the short- or long-term needs of the economy.

"Indeed, the domestic economy may for them have an abstract quality, a distant reality to be considered if and when specific events bear upon the return flow of interest, dividends or profits and, of course, the proper growth and management of corporate assets. In one sense, the external corporate sector represents a 'hidden constituency' without vote or formal presence but having nonetheless no inconsiderable influence on political, social and economic conditions." (Clarke, 1980, pp. 36-37)

Examples of policies followed prior to 1980 without consideration of their short-or long-term effects on the nation were capital repatriation policies, both those which were officially sanctioned such as dividends, and unsanctioned such as transfer pricing, (Clarke, 1980, p. 157); and capital investment policies, such as turning to plant and machinery as a substitute for human labour, in the pursuit of cost reductions, despite the rising level of unemployment amongst the national populace and an ever widening earnings gap amongst the population (GRZ, 1981B).

Whether or not the above views accurately reflect the goals and operations of businesses prior to Independence, it was clear from interviews that businessmen indeed considered that their companies' goals and operations were commonly viewed with suspicion. One executive expressed the situation existing between nation and business as follows: "Because our company is white owned and its major shareholders are overseas anything we say is looked at with suspicion." Mr. Lander understood why this should be and explained the situation thus:

"It is a fact that the bulk of the economic development of this country was achieved by companies which had outside capital. Now the directors of these companies are controlled by these outside investors, and these directors will act in the best interests of those shareholders. In the present situation, there is a fear by local inhabitants that when the chips are down first priority will be given to the overseas investor by the boards of these foreign controlled companies."

Mr. Chambati considered that these suspicions could only be resolved or overcome through increased accountability by companies, through better communication and an appreciation of each others' goals. The situation called for companies to expose themselves in a manner that was unnecessary under the previously ruling society. Thus, although not a motivating goal of business, the objective of banishing suspicion of companies goals, operations and results should nevertheless be seen as a major policy objective of companies in Zimbabwe. In this regard it was of the utmost importance, according to Mr. Laurie, that the private business sector should adapt its goals so that they did not conflict with the national goals. His reasoning was similar to that of Mr. Chambati, who said (Business Herald, Nov. 29, 1984):

"If the private sector is to operate effectively in the changed circumstances, it must move with the tide (to create a socialist state) because any attempt to swing against the current can only lead to serious problems."

The private sector was required to "transform" in order to become "compatible with the new socialist framework". Thus the need for companies to transform their image and modus operandi to be compatible with the socialist framework of the nation was perceived to be a vital goal of businesses in Zimbabwe. Mr. Hammond was of a similar opinion and expressed his viewpoint as follows:

"The principal objective of business in the private sector today must be survival. When I say this I am not thinking of current short-term problems. I am thinking of survival in the context of a state-controlled economy. If we are to survive we have to change our mission in order to accommodate that situation."

However, if companies do "transform" are they likely to survive in the new environment? Mr. Davies held the following opinion:

"If government is sincere about following a Marxist-Leninist line then they would want to do away with private enterprise. They would not care what private enterprise did towards showing its cooperation in the areas of equity, worker democracy, balanced growth, etc. For it would not be in the interest of government and the achievement of its Marxist society for private enterprise to cleanse itself. But if there is to be a socialist style of society still permitting the inherited private sector to exist providing it accepted government's long-term objectives of equity, balanced growth, etc., then it would be useful for companies to show their cooperation, to show their contribution to the economy and society."

It was the view of Astrow (1983) that the policies of government towards businesses and the Western developed aid supplying nations make the attainment of a communist society unlikely. Because of its dependence on capitalism for economic survival, Astrow (1983) was of the opinion that companies will survive in Zimbabwe.

One way of aiding their future survival was for companies to strive for a climate of good faith. Mr. Lander said:

"We realize that any government is not likely to be happy with a group (Anglo American) as big as ours; they feel threatened by it. Our major task is to establish a strong fiduciary relationship with the government of the day."

A most obvious way of creating this fiduciary trust relationship was for companies to operate and show that they strove for progressive goals. In the view of Mr. Paterson, much of this had occurred since Independence and "the private sector has gone through a learning curve and now follows many progressive policies."

Progressiveness was explained by Mr. Resike to be a value laden term which in the Zimbabwean context may represent the pursuit of policies which should benefit the greatest number of people and which should correct the wrongs of the past. Mr. Hammond said in this regard:

"We are faced with a situation where the policy of our government is inherently opposed to us. Yet another factor which contributes to this overall need to survive is the relative poverty of the region. Add this to the heated debate as to which is the best way to overcome this poverty--in brief, the private sector is saying it should be tackled one way and government is saying it should be tackled another way--but the broad objective of both sides is the same: to increase the well-being of all in the nation. In other words, to remain going-concerns, or to survive, or to remain viable, companies should follow progressive policies which consider the needs of the underprivileged."

Many of those interviewed were preoccupied with the necessity for companies to be progressive, in the sense outlined above, if private enterprise was to survive in Zimbabwe. However, closely linked to progressiveness by many interviewed were the goals of equity and balanced growth if businesses were to survive. This was a common trait amongst interviewees and indicated the major impact that the government's policy statement "Growth with Equity" (G.R.Z. 1981) has had upon businessmen. Mr. Rusike encapsulated the thoughts of many interviewed when he stated that "equity" as applied in "Growth with Equity" was synonymous with "progressiveness" and in relation to businesses in Zimbabwe had a very specific meaning, namely, "redistributive wealth or redistributive justice. The correction of the unfair gap between the 'haves' and the 'have-nots'."

It was also found through the interviews that "balanced growth" had acquired special connotations when applied to business policy making.

Once again Mr. Rusike summarized the matter nicely:

"We inherited a dual economy which is concentrated in the urban areas. We look for growth to take place also in the rural centres. Decentralization is desired. That is one sense of balanced growth. Another sense would be that we inherited a highly sophisticated economy but an imbalanced economy in that we are strong in the extraction and production and trading of raw materials but weak in the beneficiation of these

materials. Also growth is not balanced because it is viewed from the shareholders viewpoint and not the national or social viewpoint. For example, technology is used to maximize profits when increased manpower would still increase profits, benefit shareholders and the nation through extra jobs but perhaps is not adopted because the short-term view of profit maximization is followed. In our group it was proposed by some that we close our Bulawayo newspaper plant because it is not economically viable. However, I have persuaded the directors to keep that plant open because it provides a community service. We have a social responsibility to keep the Bulawayo plant open."

The importance of the adoption of goals such as progressiveness, and balanced growth is recognized today by many of the larger companies in Zimbabwe. Mr. Carter's viewpoint is representative of that held by many of the executives interviewed:

"Company results must reveal the philosophy of the concern. They must show that you are in business for a long period of time and that you are concerned with the balancing of stakeholder needs. In a highly complex environment like Zimbabwe, unless you keep the best possible balance between meeting shareholder and the other stakeholder needs and wants, you will not in fact be able to perpetuate the business."

Seidman (1980, p. 8) noted that in many African nations MNCs had been called upon to mend their ways and become more socially responsible, but "behind the glowing official rhetoric calling for the expansion of human rights, the transnational corporate managers kept their eye on the bottom line." Would the experience with MNCs be the same in Zimbabwe?

Professor Hawkins said:

"The local management of the multinationals are being expatriatized at the top. For example, the main banks, Levers, B.A.T. are but a few who have replaced residents with expatriates since Independence. One possible consequence of such a change (whereby the business community at the top in the multinationals instead of going home every night becomes a community which only goes "home," that is overseas, every three years or so after their tour of duty is up), is that the chief executives may be primarily committed to making the maximum profits within their (short-term) period of duty in Zimbabwe to stand them in good stead in their career paths. As such they may not feel committed to serving the particular and perhaps peculiar needs of the country.

On the other hand, these "foreign" executives, having been exposed to the frequently more social responsibility conscious environment of the industrialized West, may contribute positively to the broadening of the stewardship responsibilities of management. Yet the 'old-guard' former resident executives may find it difficult to change from their entrenched philosophy of only accounting to shareholders. Furthermore, a number of large organizations have Africanized at the top level since independence and this too may lead to a broadened view of stewardship."

One such post-Independence African appointee Mr. Chambati outlined his view of the overall stewardship responsibility of an executive in Zimbabwe:

"The role of a chief executive today is to ensure that the group operates within the framework and guidelines of the national philosophy in meeting the objectives of the group. Thus, both national and group interests will be advanced. My job is to transform the group to fit the new framework without destroying or damaging it."

From interviews conducted in Zimbabwe the overwhelming opinion of business leaders seemed to be encompassed in this statement by Mr. Moyo when dealing with the stewardship responsibilities of executives:

"As long as the system of private ownership is maintained by shareholdings by investors there is a duty to report to shareholders and to serve their interests. But equity to shareholders does not imply inequity to other interest groups."

Without exception the need for equity towards a cross section of interest groups in the exercise of management's stewardship was expressed by all of those interviewed. Mr. Robertson's interpretation of equity in business was:

"Equity meaning fairness is acceptable to business. It is possible to be fair to people without them having equal shares. Even if there are directors representing other interests it must be the shareholder directors who have the final say on how the surplus is dealt with; it is they who represent those who put up the money and risk their funds. Workers of course make a contribution and should be fairly rewarded but their contribution is not equal to the special entrepreneurial contribution."

Mr. Hammond expressed the stewardship responsibility of equity this way:

"If we don't think of others, then that will militate against the survival of the private sector. I think that the company has to be seen as a compromise of interests. Shareholders because they have the final say remain the dominant interest group. But perhaps we can achieve fairness amongst the interest groups by adopting policies to enable workers to have their say in decision making and providing facts that are vital to the needs of the various interest groups."

The main interest groups were cited by those interviewed as being shareholders, workers and government representing the nationals of the country. Furthermore, the executives stressed the imperativeness of communicating to all interest groups the importance of cost control, production control, quality control, and fair selling prices if companies were to remain viable and contribute to the benefit of shareholders, employees, and nation. But most acknowledged that their role in regard to these matters may be greatly complicated because of the nature of the Zimbabwean environment. One example of one such complication was provided by one of the executives interviewed. Apparently in order to meet the increased demand for the company's product, an essential product, the quality had dropped seriously. But to have pressed for improved quality would have slowed down output and this could have caused the workers to object and to strike. The workers, it was feared, could have interpreted the enforced slowdown as an attempt by management to sabotage the national interest. In the words of the executive:

"What the workers perceive to be in the national interest and what management considers to be the correct way for a business to operate may not always coincide."

A situation which illustrates the importance for executive managers to carefully weigh and balance their stewardship responsibilities to the

various interest groups and to communicate their decisions and reasons to all concerned.

A major motivating goal of companies is the making of profits. Because of criticism of the Seidman (1980) ilk and because of government's dominant philosophy of equity--as evidenced by such documents as "Growth with Equity," (G.R.Z. (1981)--and government's price control regulations, companies in Zimbabwe have become most sensitive to the need to show that their profits are fair and equitable.⁵

All those executives interviewed also expressed it to be their duty to convince all interest groups of the necessity for companies to make a profit to achieve equity not only for investor shareholders but also for workers, government and nation. Mr. Burdett-Coutts said in this regard:

"It must be shown that profits are necessary for meeting the high costs of the national health, defense and education votes. Towards achieving this, companies should show their contribution to the development of the nation not only via taxes but also through the reinvestment of profits."

Representatives from all cross-sections of the nation--politicians, civil servants, labour specialists, economists, businessmen, etc.,--all agreed in interview that if there is to be a continuing private sector, then companies should strive for and earn a fair profit return. The difficulty exists though in defining what is meant by a fair return. Most of the interviewed persons considered it should be gauged by a measure such as a "return on investment". Setting aside the difficulties of defining precisely such matters as "return" and "investment", there seemed to be no consensus on what constituted a "fair" return in percentage or other terms. For example, Mr. Paterson both in interview and in a paper submitted to the Ministry of Finance (as reported in the

Financial Gazette, June 21, 1985) argued the case for a 25 percent minimum return on investment for industry. Others interviewed mentioned different figures and reasons as to what would represent a fair return. Mr. Hinde pointed to the drawbacks that could result from restricting profits to a fixed percentage return on capital. He said:

"Back in the 1960s we were allowed a 10 percent return on capital employed; if we made more, it went to subsidize the next year. It was a shocking situation, there was no incentive to do better, to operate more efficiently, to grow because your growth was limited by the 10 percent maximum return."

Mr. Hinde's company, ZSR, a sugar refinery, was not the only company limited to a maximum return in the past; Wankie Colliery Company was restricted to a 12.5 percent return under their agreement with government. Of course, under the price control regulations all controlled products are priced to set what is hoped to be a fair price in a developing economy, a price that protects consumer, is fair to government in terms of revenues and fair to manufacturer in terms of return on investment. However, the setting of a fixed rate of return which always represents an equitable or fair profit is not possible of achievement, for as Dr. Chidzero, Minister of Finance, said,

"Return on investment is a philosophical argument. We must accept that it must be reasonable. 15 percent to 20 percent is what most people say is reasonable. But reasonableness is a negotiable figure." (Financial Gazette, July 12, 1985).

Following upon the tarnished image of companies associated with the pre-Independence era, the changed socio-political climate, and the desire for companies to remain "going-concerns," it would appear that companies are anxious to show that they now indeed pursue policies of progressiveness, equity and balanced growth in their motivating goal of seeking a socially responsible profit.

Accounting in Zimbabwe still treats the common stockholders as the "ultimate risk" bearers. Management since independence has adopted a different approach; it recognizes the duties and responsibilities which must be shown to various groups in society if companies are to be permitted to survive. Management appears to be eager that accounting should aid it in this regard by portraying the "corporate citizenship" image of businesses to workers and government.

In their endeavours to communicate with government and workers, little help could be sought from present day financial statements by managers. Mr. Walters was of the opinion that the Zimbabwean environment required financial statements to emphasize not only "the bottom line" of profitability to shareholders but to also give emphasis to whether employees, consumers and government were receiving a "square deal;" in other words, a balanced or societal view was required.

It was patently obvious during interviews that managers were keen to publish information that could improve the image of companies but were certainly reluctant to reveal information or adopt procedures which could in any way besmirch the image or complicate the operation of their companies. For example, one executive was very much against the suggestion that companies should reveal employee earnings in categories related to tasks or qualifications because of the discontent the wage differentials may cause within the labour force. Another example was the objection to the revelation of the eventual, or "end of the line", controlling shareholder in companies because of the "unnecessary embarrassment and ramifications that such disclosure may hold for both investor and investee". On the other hand, Professor Patel and Mr. Guto

said that at the socio-political stage of socialism, or state capitalism, or the lower phase of communism that classes would still survive and the individual mental transformation to classlessness would take place over a long period. Consequently this implied that for many years there would be multiple user groups of accounting information with conflicting interests within Zimbabwe. Therefore, the classification of accounting information into particular categories would be of significance to the different user groups.

The historical background and the socio-economic strata of the nation made it imperative according to some interviewed for companies to publish financial statements which would be credible, understandable and address all significant user groups. Others stressed that credibility appeared to be most likely of acceptance if the financial statements were based on factual information which was impartially disclosed. Mr. Dibb suggested that financial statements would be more readily accepted if the methods used in their compilation were in accord with an agreed formula. "There must not be a suspicion that businesses can manipulate the results to suit their ends." Mr. Mswaka expressed the essential criteria in regard to credibility and acceptance of information in this way:

"There is a great need, a greater need in our country because of its past, for clear communication between the two sides, (namely companies on the one side and government and workers on the other side). There is a need for both sides to be open with each other; there is a need to avoid suspicion by stating the facts and then perhaps debating the actions to be taken as a result of the circumstances."

With black nationals of Zimbabwe possessing little if any familiarity, let alone expertise, in matters relating to financial statements there has arisen, since 1980 because of majority and

consequently black rule, an awareness by the executives interviewed of an obligation for companies to communicate meaningfully to appropriate representatives of sectors, such as workers' representatives, and government officials, within the nation. Two main reasons were presented as to why this obligation arose on the part of companies in Zimbabwe; firstly, because of the expanded stewardship responsibility that the minority but privileged exploiters of wealth now acknowledged they owed to the majority, whose country provided that wealth; and secondly, because businessmen wished to avoid wrong decisions being made by representatives of sectors of the majority population through a misunderstanding of the financial affairs of companies. Examples of viewpoints expressed in this regard during interviews follow:

"The financial statements must be presented in a more digestible form for government and employee consumption." (Mr. Grubb)

or more specifically;

"I think the function of the annual report should be to inform. I would be happy to communicate information that can be meaningfully digested, that is not beyond the comprehension of people. It is important that the decision makers--the majority of whom have little accounting knowledge--those in government, the worker leaders, the trade union negotiators, the senior civil servants, the civic leaders, find the annual reports understandable and informative. Today the annual reports are often ignored because the decision makers in these areas get nothing out of them personally." (Mr. Lander)

The main user groups of financial statement information apart from shareholders and lenders were stated by persons interviewed to be government and workers' representatives. It was found that the former (i.e., government) were considered by management executives interviewed to be of greater importance in current circumstances than the latter, because of government's control of fundamentals such as minimum wage

rates and dismissals, and because of the newness of workers' committees and trade unions within the nation.

However, Mr. Kadhani outlined why it was important for companies to address the information needs of both government and workers representatives. He said:

"In the context of the Zimbabwean economy, just being able to operate as a company really does carry with it social responsibility going beyond equity holders. For example, there is a national shortage of foreign currency, and that foreign currency which is available is made available by the economy and by society generally. This situation places a certain amount of responsibility on companies for a usage of this scarce resource."

The same reasoning applied in relation to the usage of other scarce resources such as natural resources like minerals. Companies granted the privilege to exploit such scarce resources should be accountable to government as the representative of all within the nation. Workers' representatives too should be addressed by companies because of the workers' legitimate interest in the viability of their operations.

The example provided by Mr. Kadhani was that of "a company going down-hill. This is of vital concern to the workers. It is no good the shareholders saying that ultimately this is our baby. In a legal ownership sense this may be so; but there may be 200 to 300 employees times 4, if their dependents are taken into account, whose livelihoods and future depends to a very great extent on the fortunes of that company. So it is important for that interest to be reflected in the daily management of that company and in the accountability of its operations."

Dr. Sibanda considered that companies should communicate with workers' and government representatives as one means towards operating a "capitalist system in a harmonious way." It was his view that benefits could only flow from such a tripartite flow of information between management, government and workers' representatives.

In Mr. Hammond's view:

"First and foremost companies should be addressing government. Here I see the need not so much for lobbying the parliamentarian but rather the need to place the executive officers of government and the bureaucratic executive, the senior civil servants, in the know."

Professor Hawkins submitted a pragmatic reason for addressing of government by companies in the form of pertinent information. He said,

"Today business decisions in many sectors do not rest solely with management. The decision whether to expand or to close down a mine no longer rests with the company's directorate. The Mineral Marketing Corporation will have a say in time, and the ministers have a say already because of the political consequences if a decision will adversely affect employment."

Mr. Robertson also desired companies to consider government as an important potential user of financial statement information, because this would lead to an improvement of government's understanding of company financial affairs, an understanding of the need for profitability, and an appreciation of how a rigid system of making companies pay for past sins by uneconomic minimum wage rates and non-dismissal can cause bankruptcy and further hardship.

Workers as being an important user group, which should be considered by companies when designing the content of financial statements, was acknowledged by all interviewed. However, it seems workers have not been formally recognized in this regard by companies, as becomes clear from the following foreword by the prime minister to the National Manpower Survey (G.R.Z., 1981 B, p. 3).

"Among the most significant of (the results of the survey) is the 'discovery' that it is the often ignored or despised 'semi-skilled' workers who have been the backbone of the colonial capitalist economy such as that we in Zimbabwe inherited at independence. It was and is these workers who have rendered viable and profitable operations including those in mining, agriculture, secondary industry and the services."

For example it was the so called 'semi-skilled' workers who kept the economy 'flying' both during the U.D.I. war period and during the exodus of white skills after 1980 (G.R.Z., 1981 B, p. 21). According to Mr. Mswaka: "The lack of communication with the worker should be a feature of the past." Mr. Robertson pointed to the success of workers committees initiated since Independence towards achieving industrial harmony as an indicator of the benefits which could arise in the Zimbabwean environment for companies which take pains to communicate with workers through their representatives.

It was common for interviewees, especially those with direct contact with trade unions and labour negotiators, for example Messrs. Clements, Dean, Davies, and Hove, to stress that workers' representatives were at a particular disadvantage at getting factual unbiased and sufficiently detailed information from published financial statements. The difficulties for workers' representatives were particularly acute in the case of "multi plant" and related company operations. In the former case the sometimes highly debatable and possibly biased allocation of indirect costs to departments or plants caused dissatisfaction amongst workers' representatives when the methods were uncovered. Dissatisfaction and a cynicism towards the "truth and fairness" of accounts could also arise when intra-company or inter-subsidiary/associated company transfer pricing was unearthed.

The more commonly expressed items of presently non-published information that would be of interest to investor, worker and government users of financial statements produced the following listing: -

- (1) Disclosure of foreign currency spending and earnings including the disposition of dividends and interest.
- (2) The pursuit of a policy of "full disclosure of information" on matters likely to affect employees, such as, future plans for capital investment, take-overs, sale of businesses, relocation of operations.
- (3) Disclosure of subsidies received from government and taxes and duties paid to government.
- (4) The publication of efficiency indicators and the basis of their compilation. In this regard, many commented that companies and industrial associations were prone to deprecate labour for poor economic results achieved without substantiating the basis of their allegations.
- (5) A standardization of terms and their content. For example, the wide variety of options available to companies in deciding upon the composition of "employee remuneration and benefits" in the increasingly popular value added statement.⁶
- (6) A clear distinction between profits earned and resources available for cash appropriation.
- (7) A classification and disclosure of worker numbers, and earnings such as per qualification and nationality. An example of this need is government's aversion to expatriate labour--"it drains the meagre foreign exchange reserves of the country; it delays the training of nationals; it does not alleviate the problems of unemployment" and foreign experts may sabotage local economic measures which act against their own countries' interests. (G.R.Z. 1981 B, p. 21)
- (8) Bankers were particularly interested in information which provided an indication of "the vulnerability of a company in the environment". For example, the segmentation of purchases and sales, and personnel between national and foreign categories.

Specific changes that have occurred in company policies since 1980 which are indicative of this desire to transform and portray a better image of companies to society are provided by the following examples:

- (1) Profit sharing schemes have been introduced by some companies. Notable amongst the quoted companies are Art Printers and National Foods, who donate a percentage of net profits to worker trust funds for the acquisition of new share capital in the companies until such time as the trusts own 15 percent and 10 percent, respectively, of the total issued

share capital. Others have different schemes, for example Hunyani Paper distributes 5 percent of its profits in cash to employees and strives for egalitarianism by setting upper and lower limits. For example, in 1985, "no individual received less than \$96 and nobody more than \$289." (Financial Gazette, July 26, 1985).

- (2) Employee education and training is given a top priority by many companies today; this is over and above the compulsory levy for training that is based on employee numbers and which must be paid across to government. For example, Delta, with a net asset value of about \$150 million in 1985 reported that it had spent over \$10 million on staff training between 1980 and 1985. The T.A. group with about 6,000 employees reported expenditures of \$1.5 million on training in 1984. (However, it is not clear from either Delta or T.A. or any other published accounts whether or not the amounts were inclusive or exclusive of the compulsory training levy.)
- (3) Companies strive to show their importance to the nation as employers of labour. Labour's share of the value added is often quoted but it is unclear whether the amounts disclosed are net cash wages or inclusive of related costs such as canteen costs, medical benefits, etc. Numbers of employees are often quoted but even here ambiguity exists through possible double counting of employees in the case of related companies and reporting such as "17,000 employees and dependents benefit directly" (per National Foods, 1985 annual report). Misunderstanding can also arise when figures are quoted for a group and acquisitions or disposals of companies occur. (Delta was criticized by the main national daily newspaper for retrenching staff, whereas the "reduction" had occurred through the sale of a subsidiary and no retrenchment had occurred.) (Financial Gazette, August 2, 1985).
- (4) Capital development expenditure and plans for capital expenditure are now frequently highlighted, as well as the amounts that have been allocated for worker amenities. For example, Hippo Valley in 1985 reported that it planned in the long-term to spend \$20 million on "improving amenities for workers."
- (5) Other major steps taken by companies since 1980 have been the Africanisation of senior posts and the use of the worker committee mechanism for communicating company policies, plans and results to employees.

However, many of those interviewed stress some of the difficulties often experienced by companies in their endeavours to achieve their main goal of a socially responsible profit. For example:

- (1) The difficulties of measuring a most essential indicator, viz. the productive efficiency of labour.
- (2) The difficulty of narrowing the gap between the "haves" and the "have nots" in industries employing scarce skilled workers and a plentiful supply of unskilled workers.
- (3) The difficulties of establishing fair comparisons of results between companies because of variations in accounting policies; even between companies in the same industrial sectors (e.g., Rothmans and BAT, per Financial Gazette July 5, 1985).
- (4) The difficulties arising from certain constraints placed on businesses, e.g., price controls, currency rationing, minimum wages. These difficulties have caused many to reorganize constantly to take advantage of every possibility which may assist in staying in business. This has been done by such measures as relocating their operations amongst companies, by adopting intra-transfer pricing practices, and considering accounting policies from the angle of their possible effect on profitability and dividend repatriation.

The foregoing discussion on managements' approach to business survival in Zimbabwe shows that although micro-economic practices for the achievement of maximum profits and shareholder benefits may have been the dominant and perhaps only significant policies followed prior to national independence, the same cannot be said to be the post independence approach.

It was the opinion of all interviewed that management and directors in their role of the shareholders' representatives should set company policy for the equitable benefit of all affected by companies. In the post-independence environment, due cognizance should be taken of the responsibilities and duties owed by the company to shareholders, to employees, to government and to society.

It is apparent that the determinants of business survival policy in Zimbabwe should not be pure micro-economic principles, but should be managements' policies designed to produce the optimum economic operating results with equity within the national environment. Thus, the appropriate classification on the scale below should be:

<u>Property</u>	States of nature			
	1	2	3	4
E ⁴ 3 Type of stewardship responsibility	To serve owners only	Primary to serve owners; secondary to serve society	To serve both own- ers and society equitably	Primary to serve society; secondary to serve owners
			X	

Dimension E⁵ Professional accounting setting

Five properties were identified earlier as being of importance under the professional accounting setting in accounting system development. A sixth is disclosed below through an analysis of the Zimbabwean environment, this is "the identity of the profession."

Property: E⁵₁ Standard setting authority.

The Institute of Chartered Accountants of Zimbabwe (ICAZ) is established under the Accountants Act (Chapter 215). Under the terms of the Act only members of ICAZ may perform the audits of limited companies. No statutes grant ICAZ or any other body the right to set accounting standards. However, the Act permits ICAZ to set "rules of professional conduct" and it is in terms of these rules that members are obliged to adopt certain standards and practices. The rules of professional conduct specify in this regard that:

"An accountant has a duty to carry out with care and skill, and in conformity with the professional and technical standards promulgated by the Institute and by legislation, the instructions of the client . . ." (Institute of Chartered Accountants of Zimbabwe, "Rules of Professional Conduct," January 1985, p. 10).

In other words, companies as such are not obliged to follow the accounting standards set down for accountants; they are simply obliged to produce accounts disclosing at least the minimum information required by the Companies Act (Chapter 190) which "give a true and fair view of the state of affairs of the company as at the end of its financial year and . . . of the profit or loss of the company for the financial year." However, under the powers of the Accountants Act (Chapter 215) ICAZ requires its members, who audit those accounts, to apply the accounting standards promulgated by it in order for the accounts to satisfy the "true and fair" requirement of the legislature. If a standard is not followed, then provided the member agrees with the departure and discloses this fact, the accounts may still be found to be "true and fair" otherwise, the member is obliged to qualify the audit report. Furthermore, the IASs are usually sufficiently broad to allow clients to select standards which suit their goals.

The profession invariably adopts the IASs in toto. The profession does not research or issue accounting standards of its own; the procedure followed is for new IASs to be vetted and approved by a Consultative Committee of Accountancy and Secretarial Bodies in Zimbabwe (CCASB) on which ICAZ holds a majority membership. Once a standard has been recommended by CCASB it becomes enforceable on ICAZ members when it receives the approval of ICAZ's accounting procedures committee. The

purpose of CCASB is a pragmatic one: to sound out the reaction of the main industrial sectors, who are represented on the committee, and other accountancy bodies who specialize in commerce and industry (such as company administrators and cost and management accountants), to the acceptability of the IAS under examination. However, no representatives of employees or employee organizations or of government or of society (such as consumer organizations) are represented on CCASB; only accountants and management representatives.

Clearly, the standard setting authority of the accounting profession in Zimbabwe is "limited" on the scale produced below: -

<u>Property</u>	States of nature		
	<u>1</u>	<u>2</u>	<u>3</u>
E ⁵ ₁ Standard setting authority	None	Limited X	Very Full
<u>Property: E⁵₂ Audit services</u>			

The Companies Act (Chapter 190) was promulgated in 1953 and has been amended from time to time, but fundamentally is still very similar to the 1948 British companies act on which it was modelled. Government had no plans as of late 1987 for changing the act to any great extent.

The Companies Act provides for two main types of limited companies: "private" limited companies which cannot have more than fifty (50) members and "public" limited companies. Simply put, all limited companies must have their financial statements audited by members of ICAZ; the only exception is that a private company with less than ten shareholders, none of whom is a company, may dispense with the need for

an audit if all its members agree. The result is that all quoted companies have audits, and so do the MNC controlled companies. The auditors report on the truth and fairness of the financial statements to the shareholders. They are the agents of the shareholders who appoint them and set their fees, and so it is, perhaps for these reasons, why they are so obviously preoccupied with matters of profit and loss and solvency to the exclusion of other matters which may interest other users. Auditors therefore may be perceived to be stewards of the owners and not of government, employees or society.

The general rule that all companies shall have audits, (unless they have less than ten individuals as shareholders and all agree not to have an audit), appears to be a condition that found its way into the Zimbabwean Companies Act mainly from the U.K. companies act of 1948. There is no known public evidence available that sets down the reason for the rule being appropriate for Zimbabwean conditions. However, the rule seems a pragmatic one from the viewpoint of the controlling individual shareholders of small companies and these constitute the vast majority of limited companies in Zimbabwe. It is also a pragmatic rule from the standpoint of the professional auditing firms because of the difficulties of auditing small firms.

The foregoing exposition enables the property "audit services" to be classified as "optional" on the scale below:

<u>Property</u>	States of nature		
	1	2	3
E ⁵ 2 Audit services	None	Optional X	Obligatory

Property: E⁵ professional skill level
3

Since the 1970's the general rule of ICAZ has been that new entrants into the profession must: -

- (1) be in possession of an accountancy bachelor's degree from an approved university;
- (2) serve three years in training with a practising member; and
- (3) pass the ICAZ entrance examinations.

Prior to that date membership had been obtained by serving five years' articles with a practising member and passing a professional series of examinations introduced by ICAZ in the 1960's or by foreign (U.K. or South Africa) institutes before that date.

Because no member may enter into practice on the basis of work experience or university education alone and because all members must have both experience in public practice and have passed the professional examinations, the professional skill level may be described as below: -

<u>Property</u>	States of nature		
	1	2	3
E ⁵ Professional 3 accounting skill level	Work experience	University education plus 1	Professional qualification plus 1 and 2 X

Property: E⁵ Source of qualification
4

The Institute of Chartered Accountants of Zimbabwe (ICAZ) was established as a society of accountants about 70 years ago. Although ICAZ has set qualifying examinations for approximately the last 20 years, those members who qualified earlier may be held to be locally qualified on two counts. Firstly, because their examination qualifications would have been obtained in the majority of cases in either South Africa or the U.K., both having accounting, tax and commercial legal systems very

similar to those in Zimbabwe. Secondly, their practical experience over the past 20 years, since ICAZ started examining new members, would certainly entitle them to be classified as "nationally" qualified. Thus, the appropriate classification is shown below: -

States of nature

<u>Property</u>	<u>States of nature</u>	
	1	2
E ⁵ 4 Source of qualification	Mainly foreign	Mainly national X

Property: E⁵ Availability of information producers and financial managers
5

Audits of limited companies in Zimbabwe are restricted to members of ICAZ in terms of the Accountants Act. Figure 4.4 provides certain pertinent statistical information on the profession. Membership of ICAZ in March, 1985, was exactly 1,000 and of these 540 were absentee members (or resident outside Zimbabwe) and only 146 were engaged in professional practice within Zimbabwe (103 of these being resident in Harare). During the year ended March, 1986, 71 out of 138 candidates passed ICAZ's final examination and became eligible for membership. The total number of black members at Independence in 1980 was 5, by March 1985 this had risen to 31. Membership of ICAZ is dominated by whites and whites constitute the majority of the council, but since 1985 the rules permit up to five additional (at present black) members to be invited to join the council of twelve so that its membership may be more representative of the nation's population. Government (since 1985) also has the power to elect two further persons, not necessarily members, to serve national interests.

FIGURE 4.4

THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF ZIMBABWE AT 31 MARCH, 1986

Membership: -

Zimbabwe resident practising members	138	14%
Zimbabwe resident non-practising members	327	33%
Members resident outside Zimbabwe	<u>531</u>	53%
	<u>996</u>	

Zimbabwe resident members, geographical location:

	Total	Harare	Bulawayo	Elsewhere
Practising	138	97	28	13
Non-practising	<u>327</u>	<u>249</u>	<u>65</u>	<u>13</u>
	<u>465</u>	<u>346</u>	<u>93</u>	<u>26</u>
		74%	20%	6%

Practising firms: -

Total number of firms: 37

Distribution of offices of firms:

Harare-----	27
Bulawayo-----	11
Elsewhere-----	<u>12</u>
	<u>50</u>

Articled clerks:

Harare-----	256
Bulawayo-----	85
Elsewhere-----	<u>24</u>
	<u>365</u>

Examination results (September)

	<u>1985</u>	<u>1984</u>
No. of candidates	138	161
No. of passes	71	37
% pass rate*	51%	23%

*(the pass rate in 1985 was the highest since 1970)

(Source: The Institute of Chartered Accountants of Zimbabwe, membership list, 31st December, 1985, annual report 31st March, 1986.)

There are other associations in Zimbabwe concerned with accountancy related matters, such as administration, costing, public sector accounting and commercial accounting. These associations together with ICAZ are members of CCASB for purposes of coordinating operations. During 1985 at the instigation of government work started to form a closer association of member bodies under a single national organization.

Mr. Peter Bailey mentioned the serious shortage of indigenous, especially black accountants, both in practice and in industry. Despite efforts by educational bodies, such as the national university and colleges and accounting associations, it was generally considered that this situation would prevail for many years. Many of the posts in industry and professional practices were filled by expatriate workers on short-term (2 year) contracts recruited from a number of countries, mainly the United Kingdom. He mentioned that the work nature of the professional firm had changed quite significantly in the years since Independence with an increasing amount of time being spent on matters connected with government controls, such as exchange control, sales tax reviews, price control, external dividend applications, capital project approval and other investment proposals for approval. Following upon the introduction of workers committees he foresaw the role of professional accountants being expanded to cover financial information of interest to them. This would bring yet further workload difficulties upon an already heavily burdened body of accountants. Under present conditions the accounting tasks could only be adequately performed because local accountants were greatly assisted by the expatriates.

The shortage of suitably qualified accountants was also referred to by a consultative committee of public finance accountants from the U.K., appointed by the Government of Zimbabwe to report on "the requirements of a local government accountancy training programme" (GRZ, 1983 B). The consultative committee reported that "the public sector in Zimbabwe is suffering from a critical shortage of trained manpower at all levels concerned with financial management" (GRZ, 1983 B).

Government reported in 1981 (GRZ, 1983, p. 62), that there were some 3,300 people in Zimbabwe designated as accountants, of which approximately one-third had diplomas or degrees. Africans constituted only thirty (30%) percent of all accountants in the nation at that date. Major shortages were reported (GRZ 1981 B, p. 54) in the various professional specialities--chartered accountants, chartered administrators, cost and management accountants, and financial and project analysts. This shortage of accounting personnel was having seriously adverse effects on the economy. For example, the efficiency of the income tax department was declining (GRZ, 1982 B), as was the record-keeping of other government departments.

The serious shortage of information producers and financial managers has had an adverse effect on national development. Mr. Lander, chief executive of an MNC with a large labour force, stated that of all their intensive and structured training programs it was the accounting program that had achieved the least success. Mr. Paterson confirmed that the shortage of skilled financial and accounting personnel was very serious and revealed that his group was to engage upon a \$1 million recruiting, training, and bonding scheme for school leavers in this regard. (Also, see The Boardroom, May 1985, p. 14.)

The collection and availability of adequate and reliable macro-economic information is in a parlous state. In the preface to the Transitional Development Plan, the Minister of Finance, Economic Planning and Development, wrote:

"Data and other information needed in formulating a comprehensive plan based on advanced quantitative techniques are either inadequate or nonexistent..."

Mr. Kadhani considered the private sector, especially companies, could help in this regard. He said:

"Our idea is not to turn managers and industry into a group of form fillers; we appreciate the need for them to be on the shop floor, where the production is, the need for them to be seeking sales. But there is a need particularly in our emergent nation for more information both for government and for management so that efficient resource allocation may occur and production may be monitored and growth assisted. We do get information now from the Central Statistical Office but it is not adequate. We would like to get more socially oriented or plan oriented information: Information on gross fixed capital formation, manpower resources, productivity, etc. Government quite simply is interested in this type of qualitative information because it helps to identify what they can do to make a difference. But government is also interested for another reason. Government will be participating more and more out there (i.e., in the private sector) and this participation is not going to be decided on the basis that we can go into such and such a company and make a lot of money. Participation is considered and taken on the basis again where government involvement on the basis of equity holding can make a difference in terms of our ability to remove constraints in that company. The constraint may be investment, management, etc. Government needs information from companies to make a more scientific approach and aid to decision making for the good of companies and the nation itself."

In 1981 ICAZ took a step aimed at reducing the shortage of "non-professional" or "second-tier" accountants. The Zimbabwe Association of Accounting Technicians was formed to train accountants for governmental and industrial posts. However, this body is in danger of collapsing due to a lack of financial support and there was still a serious shortage of

accounting producers and financial managers in late 1987 (I.C.A.Z. general meeting minutes September, 1987). This situation is reflected on the scale below: -

States of nature

<u>Property</u>	<u>1</u>	<u>2</u>	<u>3</u>
E ⁵ 5 Availability of accounting information producers and financial managers	Serious shortage X	Manageable shortage	Sufficiency

Property: E⁵
6 Identity of profession

The first members of ICAZ (founded in 1917) were either members of British professional accounting bodies or South African, and thus, British orientated bodies. Not only are the majority of the members of a foreign qualification origin but the largest practising firms are of an international identity. Of the 37 practising firms of chartered accountants in Zimbabwe in 1986 (Figure 4.4), eight of them were international firms, holding 21 of the 50 offices of chartered accountants in Zimbabwe. Furthermore, the eight international firms had 95 partners resident in Zimbabwe in 1986, compared with only 42 partners for the 29 totally Zimbabwean firms.

The records of ICAZ reveal the great efforts made and continued importance attached by it to recognition by international and developed country accountancy bodies. Mr. Bailey stressed the importance placed on the membership of IASC and IFAC and the close linkages with the Canadian, South African and British chartered accountancy bodies.

Hove, (1982) was critical of the stress placed by ICAZ on these international links. He commented that

"Quite a lot of emphasis is placed on international recognition of the Institute's examinations, and very little on the examinations' appropriateness to local needs. Could it be that the council of the Institute has one foot in this country and the other in some other country?" (Hove, 1982, p. 3)

He was also critical of the stress placed on international accounting standards, and developed nations accounting statement presentation to the total disregard of local needs.

Mr. Bailey commented in interview that, because of the MNC and foreign investment linkages of many of the local companies, and the vital need of the country for investment funds and investor confidence, that it was most important that local professional accountants be seen to be well qualified by developed nation standards.

This commitment to upholding Western developed nations and international standards has resulted in some friction occurring between ICAZ and other accountancy bodies since 1980. In 1985 a meeting of accounting bodies representing Zimbabwe, Botswana, Malawi and Tanzania was held to form a regional association of the International Federation of Accountants, (IFAC), for East, Central and Southern Africa. Apart from Zimbabwe none of these countries restrict the conducting of the audits of limited companies to chartered accountants and great emphasis is placed by some of these nations and their member bodies for ways to be sought for accountants and their work to be aimed primarily at the development needs of their nations. ICAZ reported prior to the meeting that:

"Certain basic differences existed in the ideas of the institutes and associations which would be represented at the meeting as to the membership, structure and functions of the regional association and the Institute would only participate if that association was used as a forum for mutual co-operation between member bodies and a channel for representing the collective views of those bodies to IFAC" (Minutes of the Institute of Chartered Accountants of Zimbabwe, Annual General Meeting, August 2, 1985).

In June, 1986, ICAZ reported it had joined the regional association "to co-ordinate the development of the accountancy profession in the region and to promote observance of internationally accepted standards for the profession." (Annual Report of the ICAZ for 1986). ICAZ emphasized the importance of the membership as it would "enhance the reputation and standing of the profession." It appears that ICAZ sees its major role and the role of the IFAC regional committee to be the propagation of international standards and the traditional Western role of professional accountants and does not welcome the possible weakening of its "professional image" through engaging in tasks or admitting non-internationally recognized accounting bodies to its ranks. In notices to members and the annual report of 1987 ICAZ reveals that despite the government's desire for a single united accountancy body in Zimbabwe, little progress is being experienced in this regard. For although ICAZ supports a unified accountancy administrative body, it desires the audit function to be restricted to its members. This restriction has been rejected by some of the other local (and presently unqualified to audit) accountancy bodies. ICAZ members are not keen to admit these "unqualified" persons to the audit ranks for fear that "standards will be lowered" and because members fear they may lose their international recognition. (Institute Annual General Meeting Minutes of 1984, 1985 and 1986).

No mention of the "identity of the profession" as a property of special importance in its possible effect on accounting development, occurred from the earlier analysis of the extant literature. In many cases the situation would be adequately covered by the property, "source of qualification." However, this need not be the case because in many LDCs the professional accountants are nationally qualified today; but members of the professional institutes in those countries are loath to forfeit their "elitism" as members of an international "club" of chartered accountants and certified public accountants (Hove 1982). The members of these exclusive institutes in LDCs, therefore, identify more with the international or foreign communities than the national community (Enthoven, 1981, p. 24). It appears that the members of the Zimbabwe Institute of Chartered Accountants should be similarly classified as shown below: -

<u>Property</u>	States of nature	
	<u>1</u>	<u>2</u>
E ⁵ 6 Identity of the profession	National community	International and foreign communities X

4.3 MORPHOLOGICAL SPECIFICATION OF THE ZIMBABWEAN ENVIRONMENT

The above analysis of the environment of Zimbabwe set down in terms of the morphological framework of Figure 3.3 has resulted in a morphology of the Zimbabwean environment as marked on Figure 4.5. The analysis of the environment caused two additional environmental properties and their

FIGURE 4.5

Morphology of Zimbabwean Environmental Properties

<u>Property</u>	<u>States of Nature</u>				
	1	2	3	4	5
<u>E¹ Firm setting</u>					
E ₁ ¹ Type of majority ownership	Family institutional and M.N.C. (X)	Public market	State		
E ₂ ¹ Nationality of owners and lenders	Mainly foreign (X)	Mainly local			
<u>E² Macro-economic setting</u>					
E ₁ ² Extent of state planning and direction	Total for all business sectors	For majority of business sectors (X)	For selected business sectors	Nil	
E ₂ ² Extent of economic controls	Numerous monetary and pricing controls (X)	Selected monetary and pricing controls	Occasional monetary and pricing controls	Free trade regime	
E ₃ ² State of economic development	Traditional society	Transitional society (X)	Take-off	Drive to maturity	Mass consumption
E ₄ ² Market form	Monopolistic	Oligopolistic (X)	Competitive		
<u>E³ Political setting</u>					
E ₁ ³ Political regime	Communist	Strongly socialist (X)	Socialist/capitalist	Capitalistic	
<u>E⁴ Social and cultural setting</u>					
E ₁ ⁴ Type of cultural background	Less sophisticated owners and managers and nationally homogeneous society	and nationally heterogeneous society	More sophisticated owners and managers and nationally heterogeneous society (X)	and nationally homogeneous society	
E ₂ ⁴ Society's opinion of the firm	Exploiter of national interests	Exploiter of all except investors (X)	Exploiter of employees	Nationally beneficial	
E ₃ ⁴ Type of stewardship responsibility	To serve owners only	Primary to serve owners; secondary to serve society	To serve both owners and society equitably (X)	Primary to serve society; secondary to serve owners	
<u>E⁵ Professional accounting setting</u>					
E ₁ ⁵ Standard setting authority of national profession	None	Limited (X)	Very full		
E ₂ ⁵ Audit services	None	Optional (X)	Obligatory		
E ₃ ⁵ Professional skill level	Work experience	University education plus 1	Professional qualification plus 1 and 2 (X)		
E ₄ ⁵ Source of qualification	Mainly foreign	Mainly national (X)			
E ₅ ⁵ Availability of information producers and financial managers	Serious shortage (X)	Manageable shortage	Sufficiency		
E ₆ ⁵ Identity of profession	National community	International and foreign communities (X)			

states of nature to be identified: "E₄² Market Form: monopolistic, or oligopolistic, or openly competitive"; and, "E₆⁵ Identity of the profession: national community, or international and foreign communities." Both these environmental properties are particularly relevant in regard to LDCs. Because of their stage of economic development it is not uncommon to find that the modern industrial sector within an LDC is dominated by monopolies or oligopolies. Furthermore, because of the significant numbers of MNCs and foreign investors in LDCs and their dominance of the earnings and clientele of professional accountants it is not unusual to find the profession within an LDC identifying itself with the internationally influential and prestigious foreign institutes.

Zimbabwe has been classified as possessing a dualistic economy, on the one hand, there is a fairly advanced and sophisticated modern commercial, industrial mining and agricultural sector (the "modern sector") and, on the other, there is the rural peasant or "subsistence sector" which is mostly underdeveloped, (GRZ, 1981D). It was the modern sector and the goals of the white settlers which influenced the economic development of the nation prior to 1980 (Clarke, 1980; Seidman, 1980). Figure 4.6 records the morphology of the environment of the nation which would have had the most influence on the development of the accounting system prior to 1980. Since 1980, the environment of the nation of Zimbabwe with which the accounting system should be in harmony is illustrated by means of the morphology of Figure 4.5. A comparison of the environmental states of nature before and after independence would result in the following descriptions in terms of the morphological framework:

FIGURE 4.6

Morphology of Pre-Independence Modern Sector
Environmental Properties

<u>Property</u>	<u>States of Nature</u>				
	1	2	3	4	5
<u>E¹ Firm setting</u>					
E ₁ ¹ Type of majority ownership	Family institutional and M.N.C. (X)	Public market	State		
E ₂ ¹ Nationality of owners and lenders	Mainly foreign(X)	Mainly local			
<u>E² Macro-economic setting</u>					
E ₁ ² Extent of state planning and direction	Total for all business sectors	For majority of business sectors	For selected business sectors	Nil(X)	
E ₂ ² Extent of economic controls	Numerous monetary and pricing controls	Selected monetary and pricing controls	Occasional monetary and pricing controls(X)	Free trade regime	
E ₃ ² State of economic development	Traditional society	Transitional society	Take-off (X)	Drive to maturity	Mass consumption
E ₄ ² Market form	Monopolistic	Oligopolistic (X)	Competitive		
<u>E³ Political setting</u>					
E ₁ ³ Political regime	Communist	Strongly socialist	Socialist/capitalist	Capitalistic (X)	
<u>E⁴ Social and cultural setting</u>					
E ₁ ⁴ Type of cultural background	Less sophisticated owners and managers and nationally homogeneous society		More sophisticated owners and managers and nationally heterogeneous society		
E ₂ ⁴ Society's opinion of the firm	Exploiter of national interests	Exploiter of all except investors	Exploiter of employees	Nationally beneficial (X)	
E ₃ ⁴ Type of stewardship responsibility	To serve owners only(X)	Primary to serve owners; secondary to serve society	To serve both owners and society equitably	Primary to serve society; secondary to serve owners	
<u>E⁵ Professional accounting setting</u>					
E ₁ ⁵ Standard setting authority of national profession	None	Limited (X)	Very full		
E ₂ ⁵ Audit services	None	Optional(X)	Obligatory		
E ₃ ⁵ Professional skill level	Work experience	University education plus 1	Professional qualification plus 1 and 2 (X)		
E ₄ ⁵ Source of qualification	Mainly foreign	Mainly national(X)			
E ₅ ⁵ Availability of information producers and financial managers	Serious shortage	Manageable shortage	Sufficiency (X)		
E ₆ ⁵ Identity of profession	National community (X)	International and foreign communities			

Before independence (as shown on Figure 4.6): -

E^1_{11} E^1_{21} E^2_{14} E^2_{23} E^2_{33} E^2_{42} E^3_{14} E^4_{14} E^4_{24} E^4_{31} E^5_{12} E^5_{22} E^5_{33} E^5_{42} E^5_{53} E^5_{61}

After independence (as shown on Figure 4.5): -

E^1_{11} E^1_{21} E^2_{12} E^2_{21} E^2_{32} E^2_{42} E^3_{12} E^4_{13} E^4_{22} E^4_{33} E^5_{12} E^5_{22} E^5_{33} E^5_{42} E^5_{51} E^5_{62}

The following comments are provided on the two morphologies (Figures 4.5 and 4.6) where differences occur between them. However, this comparison of the listed environmental states of nature, pre and post independence, should not be interpreted to mean that properties which remain the same may be ignored in the later construction of the accounting theory. They must be considered because a change in the state of nature of a single property may change the interrelationship among many others and may be of consequence for accounting system development. Furthermore, there is no reason to believe that the pre-independence system was in harmony with the national environment.

(1) The State has moved from no significant involvement in planning the socio-economic development of the nation to becoming heavily involved in planning and requiring all business sectors to contribute to the socio-economic goals, (reference E^2_1).

(2) Businesses in pre-independence times were subject to various economic controls which government intended to be temporary; but it is now national policy to use economic controls on businesses in great measure to direct the development of the nation, (reference E^2_2).

(3) In pre-independence times the government was mainly preoccupied with the modern sector and expected any changes in the subsistence sector to occur through any "trickle-down" or "spin-off" from the advanced

modern sector, which may be described as having been in the "take-off" stage of economic development. After independence, the national majority rule elected government concerned itself with the development of the country as a whole and decided to bridge the gap between the modern and subsistence sectors. Because of the magnitude of the poverty and lack of development in the subsistence sector, the stage of development for the nation as a whole should be viewed as that of a "transitional society", instead of the narrow view of prior times of a privileged minority experiencing a fast growing stage of economic development, (reference E₃²).

(4) The national political ideology has changed dramatically between the pre and post-independence eras. Prior to independence the electorate, (basically only the white-settler community), supported governments which espoused capitalistic beliefs and were supportive of private enterprise. Since independence and the enfranchising of the property poor majority of the populace there has been overwhelming support for parties who favour strongly socialistic policies and there is a planned and determined drive on the part of the government to move the nation to scientific socialism, (reference E₁³).

(5) In pre-independence Zimbabwe the only type of cultural background that concerned the modern sector was that represented by commercial agriculture, the mining industry, urban industries and government administration. In other words, only those involved in the cash economy were of importance. Thus, the cultural background was taken to be that representative of the white community, together with the urban non-white wage earner. Today, instead of restricting consideration of

the cultural background to a population of 1.2 million in the cash economy, consideration must be taken of the total population of 8 million. This has changed the cultural face of the nation, (reference E_1^4).

(6) Because of the change in the political scene and because of the change in the socio-economic power of the populace there has resulted a changed attitude towards business, (reference E_2^4), and a change of attitude by business, (reference E_3^4). Where the previous political regime created an environment which appeared to show companies as being beneficial to society (as represented by the minority in the modern sector), today the general suspicion voiced is that businesses are exploitive of all except their owners. Consequently, where managements previously confined their decisions to almost purely economic considerations, today they find that for businesses to survive it is necessary to pay much attention to socio-political considerations as well.

(7) The political, social and economic changes following upon independence have resulted in the availability of persons with accounting and financial expertise moving from a "sufficiency" situation to a "serious shortage" position, (reference E_5^5). Note is also taken of the change in the identity of the profession upon widening the purview of the environment from "modern sector" to "nation", (reference E_6^5).

4.4 CONCLUSION

The main purpose of this chapter was to analyze the environment in terms of the morphological framework of Figure 3.3; this has been

accomplished. Furthermore, the information on Zimbabwe enabled two further environmental properties to be identified, the "market form" and "identity of the profession," both of which are adjudged to be most pertinent to accountancy development in LDCs. Finally, a comparison was made between the environment (the modern sector) which accounting served in Zimbabwe before independence and the environment (the total nation) which it should serve today, and the differences are such as to conclude that the search for an accounting system which is in harmony with the national environment is justified.

NOTES, CHAPTER 4

(1) The inadequacy of the statistical data provided to and by the Central Statistical Office (CSO) was commented on by Mr. Khadani. It has also been officially reported on by the CSO itself; for example, in July 1986, the CSO appealed to businesses "to respond to questionnaires more seriously and accurately." Questionnaires sent to businesses are an employment questionnaire, (relating to earnings and numbers employed), a national income questionnaire, (relating to information on operations, costs, revenue and fixed assets), and on a sample basis: a questionnaire on prices for inflationary/cost of living data. The CSO complained that "the rate of response and the seriousness with which some of the questionnaires are being treated, has been declining." This was of concern because the data formed the fundamental material for the national plans. (The Financial Gazette, July 11, 1986, p. 3).

(2) The magnitude of government's involvement in statutory corporations dealing with the output of private industry is considerable as indicated by the following facts on three statutory bodies: All mineral sales, apart from gold which must be sold to the government's Reserve Bank, must be marketed through the Mineral Marketing Corporation. In its first year of operations to June, 1985, sales totalled \$560 million. All major crops, apart from tobacco, must be marketed through the Agricultural Marketing Corporation. Sales in 1983 totalled over \$500 million. All non-life insurance business, (premium income exceeded \$110 million in 1983) of up to 20 percent must be offered to the Zimbabwe Reinsurance Corporation.

(3) Dr. Chidzero, in interview, also commented that the volume of investment by private investors since 1980 had been a disappointment; because of a poor international macro-economic climate, and also because of a distrust and dislike by many investors of the socialist credo followed by Zimbabwe. This distrust would disappear over time, in his view, as potential investors witnessed the benefits flowing to society and businesses from those policies.

(4) A number of the large businesses (for example Zimbabwe Breweries, a subsidiary of MNC controlled Delta Corporation) have experienced worker strikes because blacks, suspected of being "puppets" of white management, were appointed to "managerial" positions. This situation, according to Mr. Mew, placed many progressive companies in a "no win" position with the only possible solution being the adoption of a policy of full disclosure showing that they were interested in the development of the nation and not only in their own gains.

(5) Two of those persons interviewed, both in the business sector, expressed the opinion that there was a growing tendency since 1980 for business to emphasize the short-term return. One put forward the growing expatriate nature of many of the large companies as a reason for this trend. The other stated many companies were pursuing a more "profit maximization and short-term policy outlook" because of the change in the socio-political environment since Independence which they believed made themselves "time-expiring."

(6) Mr. Laurie pointed out that the standardized marginal or direct cost system of the Commercial Farmers Union, representing all commercial farmers in Zimbabwe, had eased that bodies' discussions with government

on price setting (controls) and subsidies. However, the standardized (marginal) cost approach had not been reflected by the accounting profession in the financial accounting statements of farmers.

That companies are very aware of the need to illustrate that their profits are fair and equitable is shown by the popularity of value-added disclosure since Independence. In 1982, approximately 60 percent of all quoted companies in Zimbabwe issued statements or graphs showing the breakdown of the value-added for a financial year between employees, government, shareholders and "retained in the company". But the information rarely forms part of the audited statements and there are no accounting standards covering the material.

CHAPTER 5

THE CONSTRUCTION OF THE NORMATIVE THEORY

5.1 INTRODUCTION

The end purpose of this chapter is to construct an accounting theory for Zimbabwe culminating with a set of accounting principles. A synopsis of the approach followed is portrayed on Figure 2.5. This figure shows that the environmental states of nature, as applicable in Zimbabwe and as summarised on the morphology (Figure 4.5), are used to induce general propositions of the environment of the firm in Zimbabwe. Thereafter concepts of the firm and objectives of accounting are deduced: from the general propositions of the environment of the firm in Zimbabwe; from the knowledge on relationships between accounting systems and environmental properties, as revealed in Chapter 3; and, from the observations made in Chapter 4 on relationships between the Zimbabwean environment and its accounting system. These concepts of the firm and accounting objectives subsequently lead to the deduction of specific accounting principles.

5.2 DEFINITION OF COMMON TERMS

In order that the process of theory construction may be efficiently described it is necessary to first establish the meaning of various terms used. These are set out below:-

(1) "postulates," "assumptions," "axioms," and "propositions" are terms not infrequently used in the literature of accounting theory to communicate similar meanings. For purposes of this study, the terms "general propositions of the environment" or "general propositions" will mean: "descriptive statements regarding the nature of things or what is

as opposed to what ought to be" (Hendriksen, 1982, p. 59), or "a declarative or indicative sentence which has a truth value (i.e., either true or false, logically or empirically)" (Yu, 1976, p. 70), and concern the "economic, political and sociological environment in which accounting must operate" (Hendriksen, 1982, p. 61). Briefly then general propositions assert existence, they are frequently advanced on the basis that they be taken for granted as being generally accepted (Chambers, 1963, p. 9) and provide "a useful starting point as an assumption in the development of accounting logic" (Hendriksen, 1982, p. 61).

(2) "Concepts" are signs, generally verbal, pointing to invariant relations or transformations in the natural world. To explain: the word "concept" is derived from the latin concapio meaning, to take together. By means of the concept one may consider all the essential features which characterize a given group or class of objects and "take them together" into an elemental verbal form.

Mautz and Sharaf (1961, p. 54-56) are helpful in the exposition of the meaning of "concepts." They explain:

"Concepts are . . . abstracted forms derived from observation and experience, generalized ideas which help us to see similarities and differences and to understand better the subject matter in question. Without concepts, the field of study remains but a mass of observations or perceptions that conceptual thinking makes a contribution to the organization of any field of knowledge."

They write of the importance of concepts in the development of theory:

"Concepts provide a basis for the advancement in the field of knowledge by facilitating communication about it and its problems; . . . concepts also provide the core around which the accumulating knowledge in a new area can be organized Concepts form the framework around which the structure of theory is organized and on which it depends for progress and improvement."

And they explain how concepts are formulated:

"Generalizations drawn from a number of observations are concepts. Thus one begins to form concepts almost as soon as one has perceptions. The more accurately and discriminately one can observe or otherwise obtain perceptions, the more likely he is to develop useful concepts. The intellectual process of generalizing is called conception and results in the formulation of concepts."

"Concepts of the firm", "shall be used to portray the nature or characteristics and qualities necessary for accounting for a firm when operating in a particular environment" (Chambers, 1960). Common accounting "concepts of the firm" in traditional Western developed nations are: "going-concern," "economic entity," "proprietary entity." It is clear that concepts involve a combination of two things: a distinctive idea and a distinctive term.

(3) "Objectives of accounting" are those goals and purposes of accounting set down for attainment within the theory so that the resulting accounting system will produce information which satisfies the information needs of users of accounting reports, as perceived from the concepts of the firm and the environment in which the reporting company is situated. For example, in the United States the FASB considered the objectives of financial reporting appropriate for their environment to be the provision of information useful: in investment and credit decisions; in assessing cash flows; in determining claims to resources and changes in them (FASB, 1978).

(4) "Principles of accounting" are "statements of a general nature about classes of events or occurrences in the abstract" (Chambers, 1966, p. 447). In chemistry a principle is a constituent of a substance that gives the substance its characteristics and behaviour; thus a principle

of accounting should be that which determines the substantive form which the accounting practices should take. The analogy with chemistry was continued by Littleton (1953, p. 23) when he defined a principle of accounting as: "a crystallization of ideas into a clear verbal statement of a significant relationship. Thus, a principle serves accounting in very much the same way as a mathematical equation serves science." This relationship was explained thus: "A principle should express a significant relationship. There is a significant relationship running between any direct accounting action and the reason for that action. The significant relationship, to be expressed by an accounting principle, will usually be the kind of relationship that exists between a desirable accounting end [objective] and a suitable accounting means [practice] to that end" (Littleton, 1953, p. 188). Briefly then principles, in the present context, are considered to be guides to action, or guides to the resolution of choices of action. For example, to guide classification or meaning (e.g. what is an asset?) or measurement (e.g. how is an asset to be valued?) Accounting principles may be expressed in the form of concepts; examples of four conceptually expressed accounting principles commonly put forward are: "realization," "matching," "substance over form" and "holding gain".

(5) "Accounting practices" are those techniques, procedures and rules followed by accountants when compiling the information shown on financial reports. The "harmony" paradigm (as portrayed by Figure 2.2 and section 2.4) requires that practices of accounting should be consistent with the principles of accounting and constructed so as to satisfy the objectives established for accounting within a particular

environment. The total of all practices followed within a nation comprises the accounting system to be found therein.

(6) "Constraints" in the development of an accounting theory according to Hendriksen (1982, p. 71) are those "limitations of the users of external financial reports [which] place restrictions on the logical derivations of principles . . .," they are also those "limitations of available data and certain characteristics of the environment [which] place restrictions on the accuracy and reliability of measurements" (Hendriksen, 1982, p. 76). Constraints should not determine accounting principles but only require their modification, and should be made explicit and taken into account in the derivation of principles and practices. Some common modifiers to accounting principles and practices which derive from constraints are: materiality, cost-benefit, conservatism, and objectivity.

(7) "Induction and "Deduction"; This study employs both inductive and deductive reasoning in the development of a theory and practices of accounting, with the greater part devoted to deductive argumentation from this chapter on.

"Induction" is the reasoning process that starts from instances. It is a process involving inferences whereby it is shown that a particular conclusion reasonably follows from the instances presented. For example induction was paramount to deriving the properties and property scales and characterizes the process in this chapter of deriving general propositions regarding the environment of the firm in Zimbabwe. The propositions, being generalizations made regarding the environment in which accounting must operate, are inductively derived from empirical

observations of the business, economic, political, professional and socio-cultural environment. It is conceded that this stage of the process cannot be totally inductive because the choice of the environmental material from which the propositions are derived is guided by what is considered to be logically of importance (i.e., by deduction) to the observer/researcher. This covert choice, determined by the particular epistemological and ontological positions assumed by the theorist, builds in a value or subjective bias (Samuels and Oliga, 1982, p. 73-78; Hendriksen, 1982, p. 9) and thus, falsifiability which is present in all theories (Popper, 1966). This unavoidable quality of any theory was recognized by the Committee on Concepts and Standards for External Financial Reports (A.A.A., 1977, p. 3) which wrote:-

"It is easy to obtain agreement on the broad role of financial accounting . . . Such agreement, however, overlooks the existence of basic differences in the way various theories view users and the preparer-user environments. One's specifications of users and environment are integral to the modeling of accounting choices and will significantly shape the resulting theories."

"Deduction" is the process of reasoning whereby a conclusion reached (in this study whether it be a concept of the firm, an objective, a principle, or a practice), is one in which the conclusion follows necessarily from the premises advanced. The deductive method of reasoning in this study is the process of starting with the fundamentally induced general propositions on the environment of Zimbabwe and, from these, deriving logically deduced concepts of the firm, objectives of accounting, and principles of accounting that form the bases for the eventual accounting practices; (this accords with the general approach of Hendriksen, 1982, p. 7). These derivatives must be in accord with one

another or at least must not clash through being irreconcilable through inconsistency in their reasoned conclusions. This should be so because all the deduced concepts, objectives and principles are constructed from the same source material, the general propositions on the environment of the firm; and thus, although the "mixing" of the general propositions in their origination may be in different proportions or "strengths" the conclusions deduced therefrom should be capable of being reconciled because of their close originating relationships.

5.3 THEORY CONSTRUCTION

A meaning of accounting theory and a reason for theory construction which are appropriate for purposes of this study are clearly enunciated by turning to Hendriksen (1982, p. 1) who wrote that:

"accounting theory may be defined as logical reasoning in the form of a set of broad principles that (1) provide a general frame of reference by which accounting practice can be evaluated and (2) guide the development of new practices and procedures . . . The most important goal of accounting theory should be to provide a coherent set of logical principles that form the general frame of reference for the evaluation and development of sound accounting practices."

An accounting theory develops "by building up a series of relevant propositions from a few fundamental assumptions or axioms" (Chambers, 1955, p. 19). The selection of the originating propositions is an inductive process, and their choice as general propositions "must be relevant to the development of accounting logic; that is, they must serve as a foundation for the logical derivation of further propositions" (Hendriksen, 1982, p. 61). The environment in which the theory is to be applied is the source of the general propositions. Chambers (1966) explained why this should be:

"There is no sense in which a theory may be developed which will be applicable to all environmental contexts through time. In particular the kind of accounting in an economy with no system of credit may well differ from that appropriate to an economy with a well developed credit system. The kind of accounting appropriate to business entities where there is no corporate business and no widespread investment in corporate business may well differ from the kind of accounting appropriate in a highly industrialized economy where such devices and institutions exist."

However, in the search for general propositions it is not only the disciplinary related economic environment which must be looked to but other dimensions, too. Yu (1976, p. 79) agreed to the wider environment being the originating source for the fundamental general propositions and explained why this should be as follows:

"Since, in general, accounting studies the interaction of human motivation and behavior and scarce means, the search for accounting postulates must go beyond the traditional boundaries of accounting. In other words, they are necessarily selected from those aspects of the socio-economic environment of mankind that are of relevance to the accounting discipline."

Violet (1983, pp. 5-6) explained why the general propositions should reflect the culture of a national environment:

"As a social institution, an accounting system must reflect the postulates of its culture. By examining and studying the normative and existential postulates of a culture, society's accounting system and its use in communicating financial data to various users may be defined and understood."

According to Violet (1983, p. 8):

"Normative (cultural) postulates are developed by a society to evaluate human behaviour and goals, that is, values and direction. Existential postulates determine a people's view on how causal relationships are interpreted."

Others, quoted below, explained why politics, too, should be considered in the derivation of propositions for accounting theory.

Paton (1962, p. 15) wrote:

"Put in general terms, it may be said that the present tendency in the direction of government control of industry contributes vitally to the need for accounting analysis, affects the development of accounting principle and technique, and complicates considerably the task of the accountant." (Emphasis added).

According to Littleton and Zimmerman (1962, p. 161):

"Differing conditions, such as those existing between regulated companies and competitive companies, may be sufficient to justify differing theories (beliefs) regarding fixed asset accounting; the differing theories may explain differences noted in accounting actions."

Horngren (1972), Mautz (1974) and Solomons (1980) explained that the political environment may be such as to necessarily have a strong influence upon the development of accounting theory and practices such as rules and standards:

"My hypothesis is that the setting of accounting standards is as much a product of political action as of flawless logic or empirical findings. Why? Because the settings of standards is a social decision. Standards place restrictions on behavior; therefore, they must be accepted by the affected parties. Acceptance may be forced or voluntary or some of both. In a democratic society, getting acceptance is an exceedingly complicated process that requires skillful marketing in a political arena." (Horngren, 1972, p. 61).

"Accounting research has a two-fold function. First, it must discover as best it can, and taking into account all available information, the theoretical preferred solution to the issue at hand . . . Second, and this is an indispensable part of the applied research, steps must be taken to determine just how far in the direction of that preferred solution a standard can go and still be acceptable to a majority of those concerned." (Mautz, 1974, p. 60).

"Sometimes all that is meant when it is said that setting accounting standards is a political activity is simply that the standards must be made acceptable to those who must observe them. One way to make them acceptable is to show that they are consistent with an agreed set of objectives of financial reporting. If those objectives are viewed differently in the U.S. and the U.K. that may explain why a standard that is acceptable in one country is not acceptable in another . . . If the derivation of different standards from different reporting objectives is what is meant by "political activity" there is

nothing wrong with it. It is important, however, that the objectives be defined to serve the public interest and not some sectional interest." (Emphasis added). (Solomons, 1980, p. 14)

Although the environment should be looked to as the basis for the general propositions, care must be taken that they are appropriate as a basis for the derivation of accounting concepts of the firm, objectives, principles and practices; in other words, that they are supportive of the theory of accounting. The following quotation from Chambers (1963, pp. 14-15) regarding general propositions makes this point clear: -

". . . They are all descriptions of some thing, some event or some form of behaviour found in the environment of accounting . . . All of (accounting's) postulates must . . . be outside of it, must be descriptive of the world in which it plays a part. Of the thousands of statements it is possible to make about the environment in which we live, only those which deal with the problems of computation and communication can be related to accounting . . . Any proposition descriptive of the environment which is fundamentally necessary to support a conclusion, a principle or a practice in accounting is a postulate of accounting, however remote or trite it may appear to be."

It is largely from the environmentally induced general propositions that the detailed remainder of the theory is derived by logical deduction. Chambers (1973, p. 9) stated that it is the implications of the environmentally induced general propositions which lead to a set of concepts of accounting, encompassing concepts of the firm, objectives, principles and practices. These concepts are derived from the relationships which are deemed to exist between the environmental propositions. Great emphasis is placed by Chambers (1960, p. 33) on the view that the usefulness of the concepts depends upon the degree of completeness with which they denote the characteristics of the environmental propositions. Thus, in their development there must be

adequate and continued comparison of the concepts with the environmental propositions.

The precise stage of establishing the objectives of accounting in theory construction is a matter of some debate. Authors, (see Hendriksen, 1982, p. 66 and Belkaoui, 1985, p. 219), point out that the objectives can be considered part of the concepts of the firm in the formal structure or they can be viewed as a set of propositions above or at the same level as the concepts of the firm. It is generally agreed, however, that the objectives must derive from the environment and are essential for the development of accounting practices. This should be so according to Trueblood (1969, p. 9) for:

"To formulate acceptable practices without a framework of objectives, is putting the cart before the horse."

The principles of accounting are deduced from the objectives and must be logically consistent with the concepts of the firm and environmental propositions. Thus, because of the way theory is constructed it is clear that the practices which are developed from the guiding principles must be logically consistent with the preceding objectives and concepts of the firm and thus, too, a relationship should exist between accounting ends and means. Furthermore, because of the derivation of the theory from the induced propositions on the environment there should be harmony between the environment and accounting system.

5.4 A REPRESENTATION OF THE APPROACH TO BE ADOPTED.

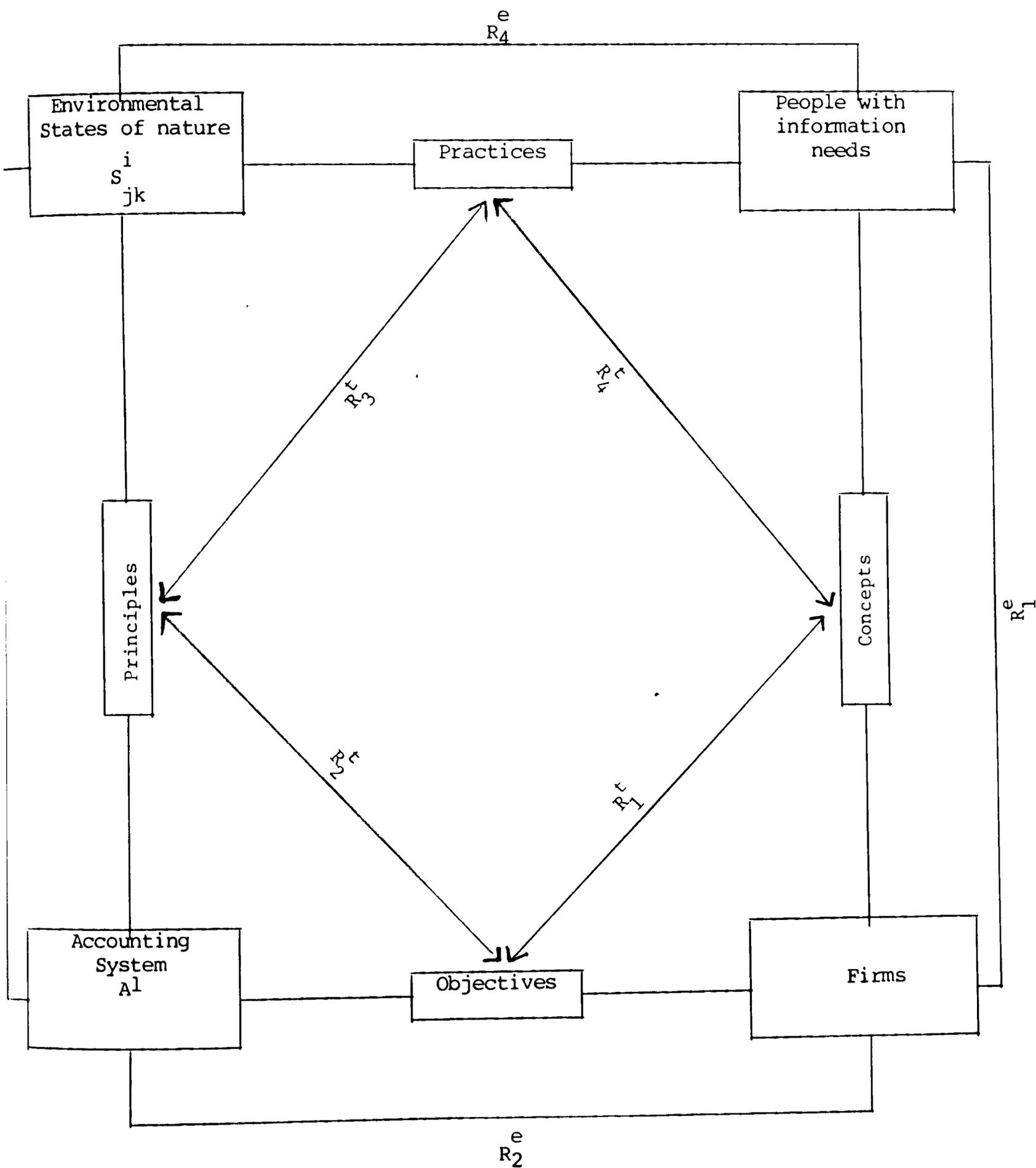
A fundamental thesis upon which this study is founded is that contained within Figure 2.2, and the subsequent image of the subject

matter (Figure 2.3), that accounting practices (A_j^i) should be in harmony with the environmental properties (E_j^i). Specifically, it was argued that such harmony would exist within a nation when the accounting practices (A_j^i) were suited to the key environmental characteristics of the environment (S_{jk}^i).

For purposes of illustrating the approach to be taken to the construction of such a harmonious theory of accounting it is necessary to portray a more fulsome view than that provided by Figure 2.2. Such an enlarged view is set down in Figure 5.1. The figure portrays three basic images: Firstly, an image depicting the environmental states of nature (S_{jk}^i), people possessing information needs regarding companies, firms, and an accounting system (A^1). Secondly, empirical relationships ($R_1^e \dots R_4^e$) of harmony or disharmony, which may be observed to exist between people, firms, system and environment. Thirdly, theoretical relationships ($R_1^t \dots R_4^t$) which are necessary for harmony to be achieved between an environment and an accounting system. Figure 5.1 is a structured and detailed exposition of the composition of the $R_i^{t/e}$ linkage between environment and accounting system of the international accounting paradigm as shown on Figure 2.2. Such a detailed treatment is necessary for ease of comprehension of the theory construction task because there is a considerable volume of complex material represented by the relationship symbol (R).

The parameter of Figure 5.1 shows a continuum of relationships: 1. The environment and people's information needs are related; 2. people's information needs affect the actions of firms and vice versa; 3. firms design their accounting system to meet the perceived information needs of

FIGURE 5.1

Empirical and Logical-Deductive Relational Elements of Harmony

people; 4. the accounting system affects and is affected by the environment; and to continue, 1. the environment and people's information needs are related.

The figure clearly illustrates the empirical relationships (R_i^e) of harmony or disharmony which may be observed to exist: Between people with information needs and firms, a relationship (R_1^e) which is expressed in and dependent for harmony upon the concepts of the firm. Between firms and an accounting system, a relationship (R_2^e) which is expressed in and dependent for harmony upon the reporting objectives of accounting. Between an accounting system and a national environment, a relationship (R_3^e) which is expressed in and dependent for harmony upon the measurement and disclosure principles of accounting. Between a national environment and people with information needs, a relationship (R_4^e) which is expressed in and dependent for harmony upon the measurement and disclosure practices of accounting.

Finally, Figure 5.1 illustrates that for harmony to exist in the forementioned relationships, there should exist a logical and deductive set of relationships ($R_1^t \dots R_4^t$). R_1^t represents the relationship which should exist between the concepts of the firm and the reporting objectives of accounting; R_2^t represents the relationship which should exist between the objectives of accounting and the principles of accounting; R_3^t represents the relationship which should exist between the principles of accounting and the practices of accounting; and, R_4^t represents the relationship which should exist between the practices of accounting and the concepts of the firm. Thus for harmony to exist

between the environment (E^i) and accounting system (A^i), as depicted by the two-way arrow $R_i^{t/e}$ of the international accounting paradigm (Figure 2.2), it is now clear that there should be a continuous and logical linkage between concepts of the firm, objectives of accounting, principles of accounting and practices of accounting.

5.5 CONSTRUCTION OF A PURPOSIVE THEORY OF ACCOUNTING FOR ZIMBABWE.

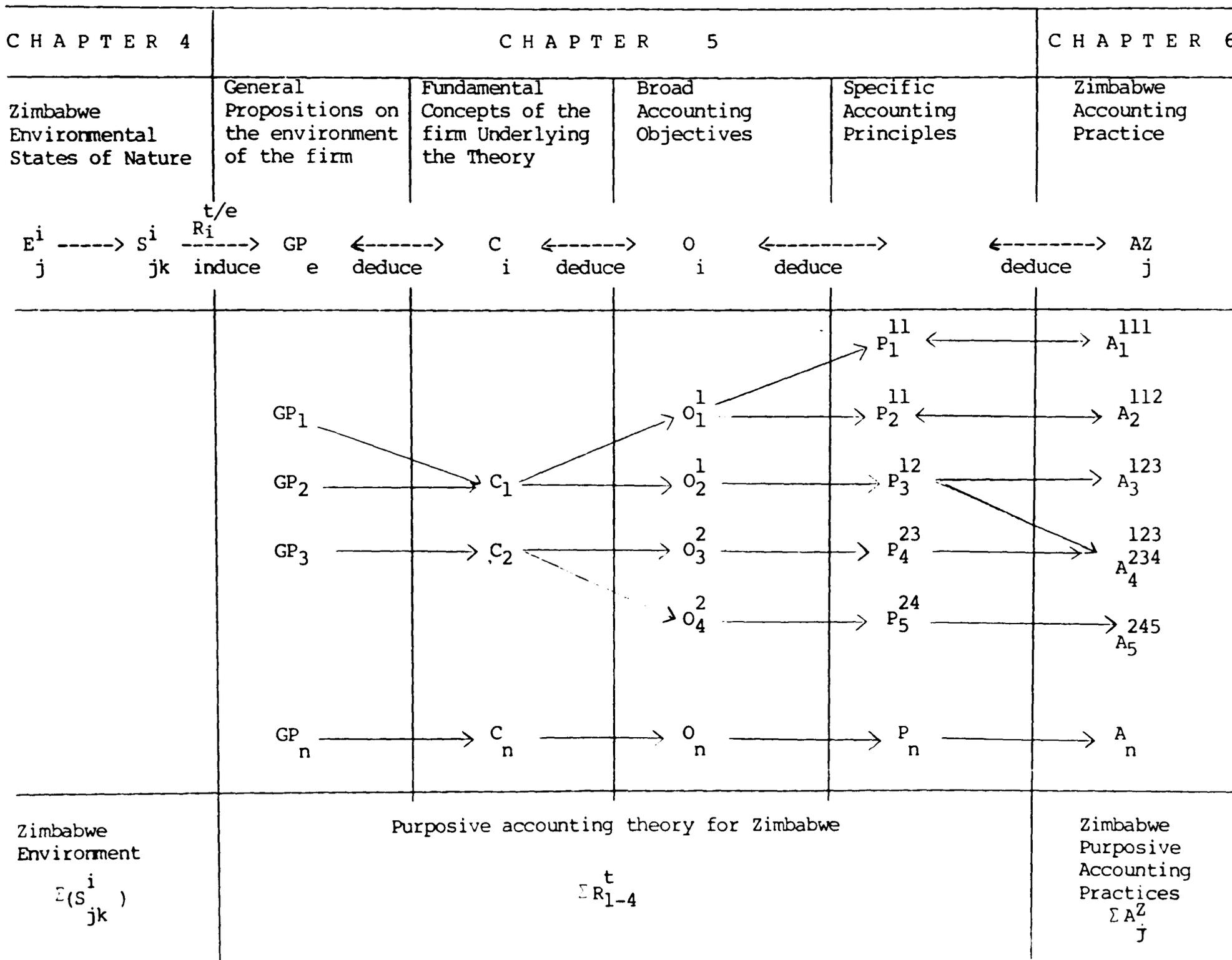
Figure 5.1 illustrates the systematic process to be followed in this study and the deduced and logically consistent relationships which should be contained within the structure of the theory when developing an accounting system for a particular environment. The stages to be followed when constructing the theory so as to achieve a systematic process which should aid in the derivation of a logically consistent theory are illustrated on Figure 5.2. This figure links in with both the content and order of Figure 5.1 and Figure 2.5. The content of Figure 5.2 shows that firstly, general propositions on the environment of the firm (GP_e), are induced from the states of nature representative of the key environmental properties of the environment of Zimbabwe, as shown on Figure 4.5. Secondly, the initial step in the theory construction itself occurs with the deduction of concepts of the firm (C_i) from the general propositions of the environment of the firm. Thirdly, there occurs the deduction of accounting objectives (O_i) from the concepts of the firm and the general propositions of the firm's environment. Fourthly, the accounting principles (P_i) are deduced from the previously derived accounting objectives, concepts of the firm and environmental propositions. Finally, in Chapter 6, the accounting practices are

deduced to be logically consistent with that part of the theory developed in this chapter.

From the foregoing it is apparent that the accounting theory consists of a set of relationships between environment and accounting system, consisting of concepts of the firm, objectives of accounting and principles of accounting. The concepts of the firm may be thought of as revealing the overall relationship, the objectives of accounting as reflecting the purposive relationship, and the principles of accounting as reflecting the regulatory relationship between environment and accounting system. It is necessary to point out that no single stage of the theory construction is built in a self-contained style by referring to the preceding stage only; a good deal of feedback is required so that the theory will be in harmony with the environment. For example, principles of accounting are not deduced solely from the preceding objectives of accounting. To the contrary, the line on Figure 5.2 should be viewed in the same way as the continuous flow line on Figure 5.1. For a systematic and orderly presentation, accounting principles will be derived only after the establishment of concepts of the firm, objectives of accounting and propositions of the environment but in their deduction constant referral attention will be made to all of them; (note the illustration of this feedback by the use of double arrow lines in both Figures 5.1 and 5.2). Not only should consideration be given to prior derivations in the construction of concepts of the firm, objectives of accounting, and principles of accounting but, as Figure 5.3 illustrates, due consideration must be given to all the combination effects which each stage may have on the subsequent stages. Figure 5.3, summarizes the

FIGURE 5.3

Theory Construction Instrumental Framework



orderly and yet theoretically sound approach to be taken in the next section and in Chapter 6 towards the construction of a purposive theory of accounting for Zimbabwe. The order to be followed hereunder is specified as follows: -

- 5.6 The induction of general propositions of the environment of the firm in Zimbabwe (GP)_e
- 5.7 The deduction of concepts of the firm in Zimbabwe (C₁)
- 5.8 The deduction of objectives of accounting for Zimbabwean companies (O₁)
- 5.9 The deduction of principles of accounting for Zimbabwean companies (P₁)

General propositions are advanced in the following section (5.6) which are induced from the states of nature of the environment of Zimbabwe, (Figure 4.5). The general propositions possess the two essential criteria necessary for accounting theory development (Chambers, 1963, p.14). Firstly, each general proposition is a statement typifying the environment in which companies operate within Zimbabwe; and secondly, each general proposition provides a useful starting point for the development of accounting logic.

5.6 THE INDUCTION OF GENERAL PROPOSITIONS OF THE ENVIRONMENT OF THE FIRM IN ZIMBABWE (GP)_e

The Zimbabwean pattern of ownership is indeed as shown for E₁¹, "family and MNC", but since independence in 1980 government and employee bodies have become sectors of significant influence on companies. Any investment of government is usually restricted to purchased shareholdings of between 40% - 60% or to loans in established industries classified as of "strategic" national importance. The objective of government is not that usually associated with financial investment because the investments

are not made on the basis of financial returns and risk. Economic return considerations need not be of paramount concern; a multitude of factors enter into government's decision whether to invest but all revolve around the responsibility of government to serve society and to assist the nation to grow with equity (E_1^2). Employee shareholdings usually arise from bonus awards to trustees from accumulated unappropriated profits as a gesture of goodwill signifying company "transformation" and a determination to bridge the wealth gap and usually continue to be awarded from future earnings until employees own a specified minimum of the share capital (E_3^4). The employee share schemes rarely permit the individual ownership of the shares; the objective is not to provide extra individual earnings but to benefit the employees as a community by means of the establishment of trust funds for benefactions (such as old age homes, educational scholarships, hardship awards).

Since 1980 government and employees have acquired a further means, apart from the direct ownership of shares, of gaining the ear of management and thus potentially affecting company practices. Many MNC and large family businesses have elected government representatives to their boards of directors and all companies are obliged by law to have workers' committees to "democratize the workplaces" and help to bring equity into dealings between management and workers (E_1^3).

The foregoing gives rise to the general proposition that:

Government and employee representatives are significantly involved in companies as trustees for the protection of the socio-economic interests of their constituents (GP_1).

The dualistic nature of the economy (a small but highly productive modern industrial sector and a large subsistence agricultural sector), makes government very dependent upon companies because they provide so much of the revenue for the national budget (E_3^2). Great importance is accorded to companies by government as long-term instruments for the national benefit (E_1^2), this in spite of the fact that the political philosophy favours scientific socialism (E_1^3).

A very large portion of the wage and salary income paid within the nation is provided by companies (E_3^2) and if cognizance is taken of the extended family cultural practices (E_1^4) it is clear that society in general is most dependent upon companies for cash income and other benefits.

Management is always quick to point out that the prospects for socio-economic development in the nation are very dependent upon the performance of companies, particularly in regard to generating revenue for government for infrastructural development and paid employment for the fast growing population (E_3^4).

It is concluded that: Companies are generally considered to be essential providers of resources for the socio-economic sustenance and development of the nation (GP_2).

Government accuses companies of having exploited the society in the past and is suspicious of their current practices. It is government policy to encourage or to direct companies to transform by pursuing democratic and equitable economic policies (E_1^2). The indigenous population is traditionally supportive of social practices akin to socialism and equity, while unbridled free-enterprise practices, as

represented by the dominant goals of economic profit making and wealth accumulation, are very foreign to its culture (E_1^4). Furthermore, the indigenous population has virtually no direct financial investment in companies ($E_1^1 E_2^1$), and holds a historically reprehensible image of companies (E_2^4).

It is therefore concluded that: Government and society desire companies to "transform" by pursuing democratic, socialistic and equitable practices (GP_3).

In Zimbabwe there remains amongst the management of limited companies a penchant for secrecy, fostered by the type of ownership (E_1^1), the lack of influence of the stock market (E_3^2), the oligopolistic dominance of the market (E_4^2), and the general fear of managers and owners of the national political system (E_1^3). However, since 1980 and the attainment of national majority rule there has arisen a widespread acceptance by management that their stewardship accountability be extended to society if the new ruling society is to continue to indefinitely accept private enterprise and limited companies, (E_3^4).

The belief that the management of limited companies should extend their stewardship responsibility to society is an extension of a major tenet of the Zimbabwean culture, (E_1^4). Under traditional conditions those persons in authority always consulted with and reported to the people (tribe); and, those entrusted with property always owed a stewardship responsibility to the people (tribe) and reported to them via their representative (the chief or headman). Under traditional culture the use of the national resources constituted a privilege bearing attendant responsibilities for the usufructuary; it did not constitute a right of unquestionable dominion.

The political beliefs (E_1^3) which contain strong elements of socialism, egalitarianism and equity, and the adopted economic policies are all strongly supportive of the pursuit of socially responsible practices by limited companies. Government, in putting its beliefs and policies into practice, has adopted a pragmatic stance as illustrated by the observations of government spokesmen (e.g. Ushewokunze, 1984, p.37) that there can be no development without economic growth and that paradoxically more socialism will occur mainly through state controlled private enterprise growth and profitability than through the abolition of private ownership, (E_1^2 E_3^2).

It is therefore concluded that: Government and society generally expects and management generally accepts that companies should be socially responsible (GP₄).

The political philosophy of the nation (E_1^3), the government's adoption of a planned type of economy (E_1^2), its involvement in industry through direct investment (E_1^1), its controls (E_2^2), all of these factors combine to give government a most significant influence and interest in the affairs of companies.

Organized employee bodies, as represented by trade unions and workers' committees, because of government policy, (E_1^1 E_1^2 E_2^4) and management practices, (E_1^1 E_3^4) are having an ever increasing and significant influence in the affairs and direction of companies.

On the other hand, the representative majority in Zimbabwe, because of the structure of society (E_1^4 E_2^4 E_3^5), has very little personal interest in company affairs, (E_1^1 E_2^1 E_4^2 E_1^4 E_2^4).

It is, therefore, concluded that the environment of Zimbabwe is such that: Government and organized employee bodies, but not individuals in society, per se, have a significant and growing influence and interest in the affairs of companies (GP₅).

Companies are the major employers of paid workers in the productive sector of the economy and provide the largest sectoral contribution of revenue in the national accounts (E_3^2). Managers and business organizations acknowledge the heavy societal responsibility attendant upon this position within the economy and are aware of the role that companies are expected to play in the development of the nation (E_3^4).

Government plans for companies to contribute the most of all sectors to increased levels of employment and revenue so as to bring about the fulfillment of its socio-economic and political goals ($E_1^2 E_1^3$).

Employees and a large sector of society, because of the extended family system, rely on employment pay from companies for their support; and the unemployed masses and large proportion of the population in the younger pre-employable age generations look to companies for future employment ($E_1^4 E_2^4$).

The above leads to the general proposition that: Companies are generally perceived as the main means for reducing unemployment and increasing national development (GP₆).

The large majority of financial investment in Zimbabwe is from foreign sources (E_2^1). The largest producers and exporters of products are foreign owned (E_2^1). The foreign owned companies employ the most skilled persons and are an important training ground for local labour ($E_1^4 E_5^5$).

Continued and increased foreign investment and exports are sought to finance the sorely needed national development ($E_1^2 E_2^2$). Increased employment and higher skill levels are urgently needed for a better quality of life for the population (E_3^2). Companies are expected to generate funds and to provide more jobs to achieve national growth and development (E_2^2).

It is concluded that: Companies are expected to remain the major suppliers of scarce capital resources so essential for national development (GP7).

Zimbabwe is a Third World nation desirous of improving its stage of socio-economic development, (E_3^2). It has a small but sophisticated modern sector populated largely by closely-held foreign companies, ($E_1^1 E_2^1$), which are suspected by the indigenous population and government of the unfair exploitation of them and their natural resources, ($E_2^4 E_1^3$). Zimbabwe, like so many Third World nations, has turned to socialism as a means of improving the quality of life of its peoples, ($E_1^3 E_1^2$). This policy of socialism has created an aura of suspicion of government by businessmen and investors, (E_3^4), who fear for the viability of their businesses and the security of their invested capital. Thus, a crisis situation exists in Zimbabwe which the Brandt Commission found to be common in many Third World countries, namely, a situation of mutual suspicion prevails, (E_1^4).

This presence of mutual suspicion is an environmental condition which greatly hinders the advancement of the socio-economic well-being of the nation, (E_1^4). It creates a reluctance to invest by entrepreneurs and encourages disinvestment and short-term "get rich quick" policies amongst

existing investors because of the risk atmosphere. This presence of suspicion drives government into passing regulations which may have counter-productive economic results as an unintentional consequence (E_2^2), and, furthermore, this suspicion is a catalyst for employee/employer discontent and disruption ($E_2^4 E_3^4$).

The above-described environmental situation gives rise to the proposition that: There exists a situation of mutual suspicion (between investors on the one side and employees, government and society on the other) which hinders national development (GP₈).

Disparities in the distribution of asset ownership ($E_1^1 E_2^1$), earnings and related benefits (E_3^2), skills ($E_1^4 E_5^5$) and development policies of companies (E_1^2) are considered to be iniquitous by government and society ($E_1^3 E_2^4$). The disparities are also viewed by management to threaten the stability of company operations and survival (E_3^4).

By siting development in a few geographical positions (E_3^2) and by following manufacturing policies which are thought to be exploitive and of an "underdevelopment" policy type, companies are seen to have restrained national well-being in favour of profit maximization (E_4^2). Companies have also relied heavily on foreign sources for their skilled manpower needs and have neglected using local labour for skilled and management positions (E_5^5). In general companies are viewed by society and government to have structured their policies so that the maximum benefits flow to investors (foreign) with but the bare minimum "trickling" down to workers and nation (E_2^4).

It is concluded that: Some company policies are perceived to have placed inequitable restraints on the earnings and benefits accruing to employees and society (GP₉).

The guaranteed and continuous supply of cheap labour, the availability of extensive supplies of raw materials and land, often simply for the "taking," and the preferences accorded to the private sector by previous pre-independence regimes; these were some of the factors which attracted companies to Zimbabwe ($E_2^4 E_3^4$).

Restraints are now being placed on the availability and cost of these factors of production by organized labour, and government. A shortage of local finance and foreign currency availability and a lack of local manpower skills constrains company viability ($E_2^2 E_3^2 E_5^5$). Legislation controls the supply and price of labour and numerous controls have been instituted by government which regulate the supply of and demand for goods, their prices, their type and the benefits which may be distributed (E_1^2). Labour unions and worker committees now involve themselves in company policy making (E_1^1).

It is concluded that: Many restraints, outside the control of management, are placed on company performance by government and employees (GP₁₀).

Government officials in their positions as planners and decision-makers, because of the political system (E_1^3) and the economic philosophy (E_1^2), are required to be au fait with company affairs. Labour representatives, for political (E_1^3) and cultural (E_1^4) reasons, are expected to participate in management decision-making to overcome and

prevent imperialistic and social injustices (E_2^4). Government officials and labour representatives, however, are not usually familiar with or trained in financial accounting ($E_1^4 E_5^5$).

The structure of ownership and the preponderance of foreign investors leads to a diversity of reporting practices between companies. Company accounts are sparse on detail, not readily available, and designed mainly for the needs of their ownersshareholders

($E_1^1 E_2^1 E_2^2 E_1^5 E_2^5 E_4^5$).

It is concluded that: The company accounting system currently favours ownersshareholders but the diversity of measurement and disclosure practices hinders government and labour representatives in their duties (GP₁₁).

Figure 5.4 lists the general propositions of the environment of firms in Zimbabwe which are deemed pertinent for the derivation of concepts of the firm. According to Littleton and Zimmerman (1962, p. 2) it was "contemporary environmental circumstances" which first stimulated accounting ideas "that would meet the perceived needs" of society. Thus, the general propositions of the environment of the firm in Zimbabwe are considered singly and collectively in the following section (5.7) so that concepts of the firm in Zimbabwe may be deduced which are appropriate for accounting theory formulation. In this way no traditional or hidebound approach to the role of accounting on company financial statement reporting is automatically foisted upon the nation but instead, the accounting system is purposively constructed to suit the national environment.

FIGURE 5.4

General Propositions of the Environment of the Firm in Zimbabwe

- GP₁ Government and employee representatives are significantly involved in companies as trustees for the protection of the socio-economic interests of their constituents.
[Induced by: $E_1^1 E_1^2 E_1^3 E_3^4$]
- GP₂ Companies are generally considered to be essential providers of resources for the socio-economic sustenance and development of the nation.
[Induced by: $E_1^2 E_3^2 E_1^3 E_1^4 E_3^4$]
- GP₃ Government and society desire companies to "transform" by pursuing democratic, socialistic and equitable practices.
[Induced by: $E_1^1 E_2^1 E_1^2 E_1^3 E_1^4 E_2^4$]
- GP₄ Government and society generally expects and management generally accepts that companies should be socially responsible.
[Induced by: $E_1^1 E_1^2 E_3^2 E_1^3 E_1^4 E_3^4$]
- GP₅ Government and organized employee bodies, but not individuals in society, per se, have a significant and growing influence and interest in the affairs of companies.
[Induced by: $E_1^1 E_2^1 E_1^2 E_2^2 E_4^2 E_1^3 E_1^4 E_2^4 E_3^4 E_5^5$]
- GP₆ Companies are generally perceived as the main means for reducing unemployment and increasing national development.
[Induced by: $E_1^2 E_3^2 E_1^3 E_1^4 E_2^4 E_3^4$]
- GP₇ Companies are expected to remain the major suppliers of scarce capital resources so essential for national development.
[Induced by: $E_1^1 E_2^1 E_1^2 E_2^2 E_3^2 E_1^4 E_5^5$]
- GP₈ There exists a situation of mutual suspicion (between investors on the one side and employees, government and society on the other) which hinders national development.
[Induced by: $E_1^1 E_2^1 E_1^2 E_2^2 E_3^2 E_1^3 E_1^4 E_2^4 E_3^4$]
- GP₉ Some company policies are perceived to have placed inequitable restraints on the earnings and benefits accruing to employees and society.
[Induced by: $E_1^1 E_2^1 E_3^2 E_1^3 E_1^4 E_2^4 E_3^4 E_5^5$]
- GP₁₀ Many restraints, outside the control of management, are placed on company performance by government and employees.
[Induced by: $E_1^2 E_2^2 E_2^4 E_3^4 E_5^5$]
- GP₁₁ The company accounting system currently favours owner shareholders but the diversity of measurement and disclosure practices hinders government and labour representatives in their duties.
[Induced by: $E_1^1 E_2^1 E_1^2 E_2^2 E_1^3 E_1^4 E_2^4 E_1^5 E_2^5 E_4^5 E_5^5$]

5.7 THE DEDUCTION OF CONCEPTS OF THE FIRM IN ZIMBABWE (C)

It is generally accepted that a firm should be portrayed as a specific entity by an accounting system. However, debates have occurred over the years as to the conceptual identity that the entity of the firm should take; for example whether a "proprietary" or an "enterprise" concept should apply. At other times controversy has raged as to whether the entity of the firm should be portrayed in a purely "economic" or in a "socio-economic" way. Such issues revolving around the identity and content of the entity of a firm are not matters of "tweedledum or tweedledee" (Paton, 1962) because the determination of the concept of the entity greatly predetermines the objectives and thus the practices of an accounting system. Sprouse (1957, p. 378) explained the importance of the establishment of the concept of the entity by showing that a "proprietary" identity may produce very different account classification results from those produced by an "enterprise" identity; for example, certain items classified as expenses under one concept would qualify as distributions of income under the other. However, as Churchill (1977) has observed, many such issues are compounded because the accounting entity has been traditionally conceived of as "the firm" rather than "the firm and its affected constituency." It is proposed to refer now to the general propositions of the environment of the firm in Zimbabwe to deduce concepts of the firm so that the "corporate veil" hiding the identity of the firm will be lifted. In this way the interests of the constituents of the firm may be addressed by the accounting theory so that suitable practices will be the final result.

The environmental analysis revealed that companies provide a most significant portion of the revenue and benefits of employees, society and government (GP₂ GP₇), but past experiences have caused these sectors to be suspicious of the socio-economic ethics of companies. Companies are expected and managers have accepted that they mend their ways (GP₃ GP₄ GP₅). To accomplish this "transformation" government has implemented controls (GP₁₀) on companies. Furthermore, companies are obliged to "democratize" the workplace (GP₁). Government's and labour's representatives, in their fiduciary duties in companies, are primarily concerned with keeping a watching brief over the socio-economic interests of their constituents, namely employees and society (GP₅).

It is deduced from the above that much importance is attached to the operations of companies especially in regard to their impact on the economy and quality of life of all within the nation. Attention is not directed only at the economic interests of investors (shareholders); rather it is the interests of this group as well as economic and quality of life interests (the socio-economic interests) of employees, government and society which are of concern because the whole nation is seen to be the ultimate beneficiary or loser. The concerns of the nation --(a need for economic development, a better quality of life for its peoples, socialism, and tight controls of businesses)-- are analogous to those revealed by the literature on countries where companies and their practices were viewed as being of such national importance to development that governments took an active role in their direction. The government of Zimbabwe has been shown to have significant control over companies for purposes of achieving social and economic equity within the nation; and,

has entrusted worker representatives with a responsibility for these matters in regard to employees. It is therefore concluded that a company in Zimbabwe is dependent for survival upon the continuing support of two main constituencies, its societal constituency (government and employee representatives) and its economic constituency (shareholders). Such support is likely to be forthcoming only if the returns, both societal and economic, are adjudged equitable by a company's constituents. The concept of such a firm is that of "a socio-economic entity of national and investor concern", (C₁). This concept of a company would require the accounting system to acknowledge the significant proprietary claims of shareholders, employees, government and society to equitable socio (quality of life) and economic (wealth) returns.

Given that the political philosophy and cultural beliefs are such that government and society expects companies to "transform" their practices (GP₃); given that government and employees have significant control over companies (GP₁ GP₅); given that management accepts that companies should be socially responsible if they are to survive (GP₄); and given that suspicions exist that companies have deliberately "underdeveloped" the society (GP₉); then it may be deduced that companies should follow socially-reformed policies which are acceptable to government and employee representatives. The situation is analogous to that described by Tipgos (1977) wherein companies operate by a privilege of society and must be seen to be socially-responsible to survive; most especially in times of crisis when companies are expected to actively address the environmental problems.

Futhermore, given that companies are the essential providers of resources for the sustenance of society and development of the nation (GP₂); given that companies are perceived as the main means for reducing unemployment and increasing national development (GP₆); and, given that companies are the means of acquiring scarce capital resources (GP₇); then it may be deduced that the Zimbabwean company should be perceived as a creator of wealth to benefit shareholders, employees, government and society.

If, as stated above, companies should follow socially-responsible policies; and if, as also stated, they should be creators of wealth which benefits many in the nation; then it follows that a Zimbabwean company should be conceptualized as "an entity for the equitable creation of common wealth", (C₂). Such a concept envisages a firm which operates with equity to all within the nation and which actively endeavours to correct those inequities within the environment to which it may have contributed by its acts. This concept of a company would permit the accounting system to disclose transactions in those areas where its constituents (particularly as represented by employees and government) are concerned that inequities may exist through company practices. An example of a practice where shareholders, management and thus companies may unfairly exploit and deliberately "underdevelop" a nation would be transfer-pricing which favoured the foreign external holding company's earnings over those of the Zimbabwean subsidiary.

Given that: companies are essential for the socio-economic sustenance and development of the nation (GP₂); and, companies are the main means for improving social and national development (GP₆); it

follows that factors which significantly hinder companies in their developmental role should be of national concern.

Given that: mutual suspicion exists between companies and society (GP₈); given that certain company policies are perceived to have restrained employee and social development (GP₉); given that some policies of government and employees, instituted because of a fear of company exploitive practices, are perceived to restrain company development (GP₁₀); then it follows that the effects of these restraining practices should be of national concern.

Because the environment is such that: restraints on national development may exist because an entity may be restrained in its growth due to the actions of shareholders, employees and government on the entity; then it is concluded a Zimbabwean company should be conceptualized as "an entity highly susceptible to growth restraint by shareholders, employees and government" (C₃). This concept is intended to highlight that a firm in an LDC environment such as Zimbabwe is particularly susceptible to being restrained in its growth by acts on it by its constituents: shareholders, government, and employees. This concept would enable the accounting system to disclose particulars of those acts by the constituents which may adversely affect the growth of the company.

Accepting that shareholders require information from companies for investment decision-making given that government and employee representatives require information from companies to serve society in a fiduciary capacity (GP₁₁); given that these representatives need company

information to establish the "transformation" status of companies (GP₃) and societal responsibility record (GP₄); given that a situation of mutual suspicion injurious to company, investors, employees and society may be resolved by information (GP₈); given that government and employee representatives require information from companies to carry out their trustee duties (GP₁): It is concluded that a company should be conceptualized as "a nationally accountable entity" (C₄). Such a concept is intended to portray the general responsibility of companies in Zimbabwe to be answerable to their main constituencies: shareholders, government and employee representatives. This concept of a company would require the accounting system to address the information needs of these three constituencies.

The concepts of the firm derived from the general propositions of the environment of the firm in Zimbabwe reveal that shareholders, employees, government and society: have significant proprietary claims on the company for socio-economic returns; expect the company to act equitably towards them; expect none of their body to act inequitably towards the company; and expect the company to account to them. The significance of these concepts for accounting is that the system would have to: report on those transactions which may be of economic or societal importance to shareholders, government and employee representatives; disclose information on company transactions which may be inequitable in their effects on the interests of government, and employees; disclose information of acts by government, and employees which may adversely affect the growth of the company; in brief, to address the information needs of shareholders, government and employee representatives.

The concepts of the firm (as summarized on Figure 5.5) are used in the following section as guideposts to the deduction of objectives of accounting for Zimbabwean companies. Argument is supported by reference to the Zimbabwean environment (Chapter 4), where the circumstances are particularly different to warrant especial attention, and to the literature (Chapter 3) where this may assist in the settlement of an accounting objective.

5.8 THE DEDUCTION OF OBJECTIVES OF ACCOUNTING FOR ZIMBABWEAN COMPANIES (O₁)

It is stated that a company in Zimbabwe should be conceptualized as "a socio-economic entity of national and investor concern" (C₁) and as "a nationally accountable entity" (C₄). Obviously such an entity must account to those groups in the nation who are identified as having a justifiable reason for information on either societal or economic grounds. This obligation to account to those who have just societal or economic grounds for information arises because companies are viewed as entities of national importance which should operate with equity (C₂) and because of the social responsibility form of stewardship which arises from the circumstances of the national environment (E₃⁴).

It is generally accepted that shareholders should be entitled to information on companies. This may be shown to be the case in Zimbabwe. Shareholders are the providers of the great bulk of the long-term monetary capital needs of companies in Zimbabwe (E₁¹). This situation has resulted in shareholders receiving primacy of place amongst recipients of accounting information on limited companies. This preferential treatment of shareholders is a legacy of the power wielded

FIGURE 5.5Concepts of the firm in Zimbabwe

- C₁ "A socio-economic entity of national and investor concern"
[Deduced from: GP₁ 2 3 4 5 7 10]
- C₂ "An entity for the equitable creation of common-wealth"
[Deduced from: GP₁ 2 3 4 5 6 7]
- C₃ "An entity highly susceptible to growth restraint by
shareholders, employees and government"
[Deduced from: GP₂ 6 8 9 10]
- C₄ "A nationally accountable entity"
[Deduced from: GP₁ 3 4 8 11]

by mercantile interests in pre-independence days, and a right bestowed on them for being viewed as the ultimate risk bearers in traditional capitalist thinking. The preferential treatment afforded to shareholders is evidenced by the provisions of the pre-independence companies act, the adoption of accounting practices moulded on those in Western developed nations ($E_2^1 E_6^5$) and the right of selection of accounting practices by company directors, who are the agents of shareholders. Whilst circumstances in Zimbabwe since 1980 would militate against awarding shareholders preferential treatment in the receipt of information, there is clear evidence that political and economic considerations nevertheless require shareholders to be accorded positions of importance in this regard. Politicians accept that shareholder capital investment support should be retained as a means of attaining the ideological goals set for the nation (E_1^3). This acceptance by government of shareholders as investors of importance for the achievement of national development is reflected in economic policies, such as "Growth with Equity" and "Foreign Investment Policy," (E_3^2); and also in the action taken by government for the survival of the stock exchange (E_1^1). Accounting information is especially of importance to shareholders in Zimbabwean companies because of their relatively greater exposure to risk compared with the general situation existing in developed market economies (C_3). The greater risk also occurs because so many shareholders possess majority or even virtual total share ownership in companies; in other words, because of the preponderance of family, individual and MNC-owned companies, the risks of ownership are often concentrated amongst a single or few shareholders instead of many as is the rule in developed nations. Furthermore,

because of the smallness and inactiveness of the stock market there is less chance of disposing of or reducing share holdings. Because of the national need to encourage share capital investment; because of the significant capital contribution by shareholders; and, because of the relatively larger risks borne by shareholders in general through their significant investments in individual companies; it is concluded that, as in the developed nations (ASSC, 1975; FASB, 1978), the range of main users of accounting statements should include: present and potential shareholders.

Employees as a generic group are a vital source of capital for limited companies in Zimbabwe. While it is true that employees are becoming a force of growing importance in the long-term monetary capital funding of companies through shareholdings held by pension fund institutions, it is the capital support provided by their physical manpower and skills which still remains such a major factor for the development and prosperity of Zimbabwean companies (E_1^4). Government has acknowledged this major capital contribution by employees and, as illustrated by its labour and economic policies, is determined that employees should have a fairer and bigger say in company direction because of their contribution (E_2^2 E_1^3). In order to participate in this desired direction of company affairs it is clear that company information should be made available to employee representatives. Management, too, in order to redeem company goodwill lost through the not uncommon depiction of Zimbabwean companies as the unacceptable face of capitalism, is generally keen nowadays for companies to be more communicative with employees through their representatives (E_3^4). Many managers champion

this approach because of the benefits which devolve upon their companies if they are shown to have "transformed," and also because the revelation of information to employees representatives may aid them in getting workers to reach rational decisions in dealings with their employing companies. Furthermore, since 1980 there has occurred the promulgation of liberal labour laws, the formalisation and legalising of trade unions and the establishment of workers' committees. All of these measures have created a situation which requires employee representatives to seek information about companies and their affairs (E_2^4). All of the forementioned circumstances combine to show clearly that employee representatives require accounting information on companies because of the important contributions of employees to company capital, their attendant risk bearing, and, because of their new role in company direction through the national policies of democratization of the work place. It is therefore concluded that employee representatives should be included as main users of financial statements.

The government of Zimbabwe pursues a socialistic ideology favouring cooperative ownership and egalitarianism; but is prepared to accept private enterprise, as represented by shareholder controlled limited companies, for the foreseeable future if companies transform themselves so as to operate equitably and to advance the interests of society and nation (E_1^3). However, government is aware that limited companies are controlled mainly by shareholders who are generally not representative of the national populace (E_2^1), and are fearful that the companies may be unfairly exploitive of the nation's human and natural resources (E_2^4).

Furthermore, because of the unsophisticated nature of the general society it is the overriding policy of government to watch-over or monitor the interests of the majority of society ($E_1^3 E_1^4$). It is obvious that pertinent information on company operations and affairs should be supplied to government so that it may properly augment its social and economic policies (E_1^2). It is therefore concluded that government, both as the national executive power and as the representative of the majority of society, should be a main user of accounting statement information.

The above analysis of the Zimbabwean environment leads to the conclusion that the main users of accounting statements should include:

1. Shareholders;
2. Employee representatives; and,
3. Government.

None of the remaining groups which have dealings with companies should be classified as main users of accounting statements requiring special consideration. This is held because: either their number is insignificant in the Zimbabwean environment, (e.g. share analysts); or, they can conveniently be classified with an existing group, (e.g. trade unions with employee representatives); or, they have legal rights to request information or protection in terms of the common or statutory law, (e.g. creditors); or, accounting information would be of little appropriate use to them, (e.g. the unsophisticated background of the national consumer).

It is concluded that an objective of accounting should be to recognize shareholders (present and potential), employee representatives,

and government as those entitled to financial statement information for decision-making (O_1).

The aforementioned reasoning together with the environmental circumstances: whereby equity of treatment to all sectors of society is considered of paramount importance as particularly evidenced by "Growth with Equity" (E_3^2); where traditional culture and societal practices favour "grass roots" consultation (E^4); and, whereby previously biased societal preferences are expected to disappear through policies of "transformation" (E_1^3); and furthermore because the existing reporting system is biased towards shareholder type information (E_1^1) and the providers of the information, mainly professional accountants, are trained to accept this as the norm (E^5); lead to the conclusion that an objective of accounting should be not to bias the financial statement information in favour of either shareholders or employee representatives or government (O_2).¹

Given that companies are perceived to be "nationally accountable" (C_4); and given that they are also perceived to be "socio-economic entities of national and investor concern" (C_1); it is deduced that companies should be socially responsible in their approach to accounting reporting. Such responsibility should require companies to report to the main persons who require accounting information for decision-making, namely; shareholders, employee representatives and government (O_1). In developed countries it is generally accepted accounting policy to address the accounting statements at users who are reasonably knowledgeable in accounting interpretation (see for example, FASB, 1978); the philosophy adopted presuming that to do otherwise would be an unfair cost on the

majority of society. Similarly, government is not awarded special treatment in the provision of information, especially as it has the power, if it so wishes to mandate that information be supplied. However, the environmental circumstances are very different in Zimbabwe.

Government is highly involved in socio-economic development (E_1^2) and management (E_2^2); but government officers and employee representatives are unfamiliar frequently with accounting practices and there is a shortage of reliable statistical data (E_5^5).

Thus, if rational decision-making is expected to be made by employee representatives and government on the accounting information then social responsibility should be displayed by requiring the accounting system to be designed with a view to simplifying the task of understanding by government and employee representatives. In other words, preference in the accounting system's design should be accorded to the users who are the less knowledgeable in accounting interpretation rather than those who are likely to be more knowledgeable.² Therefore, an objective of accounting should be to take due cognizance of the non-familiarity of government and employee representatives with accounting interpretation, (O_3).

If a company is of importance to all within a nation (C_4), because of its socio-economic impact (e.g. its impact upon the quality of life and wealth of society) (C_1); if a company is viewed as an instrument for the fair creation of wealth within the nation (C_2); if a company is susceptible to being harmed by the actions of shareholders, employees and government (C_2), (C_3); then it follows that the behaviour or performance of a company should be of major concern to present and potential

shareholders, employee representatives and government as an indicator of its survival prospects.

Potential investors are unlikely to invest in a company which is not perceived to have survival prospects; the same can be said for existing investors when contemplating additional investments or the disposition of a company's earnings. The survival prospects of a company in free enterprise, Western-type environments are judged primarily by an assessment of its economic viability. Of particular moment in such decision-making are economic indicators such as the solvency or magnitude of the owners' equity vis-a-vis the other liabilities; the earnings or profitability history; and, the liquidity or cash flow position. It is patently obvious that existing and potential shareholders and creditors should be desirous of obtaining information from the accounting statements for use in assessing the economic viability of a company. This should be of major importance to them whether the company is in the environment of Zimbabwe or elsewhere, because without the presence of economic viability, the shareholders' investments would be placed in jeopardy. However, in Zimbabwe, survival or the going-concern nature of a company is dependent not only on its economic viability, but also on its socio-political acceptability, $(E_1^3 E_2^4 E_3^4)$. Thus, existing and potential shareholders in order to make rational investment decisions, require accounting information helpful in assessing the socio-political viability of a company as well as its economic viability.³

The behavioural and thus survival aspects of a company in Zimbabwe are of significant importance for its employees. The liquidation of a company generally entails immediate and serious hardship for the former

wage earners because alternative positions of employment are not easily found (E_3^2) and because the wage earners are frequently the major economic supporters of an extended family (E_1^4). However, employees are no longer passive figures in the survival-destiny of companies (E_3^4). Because employees are so dependent upon companies for their and their extended-families' livelihood; and, because employees are today in a position to influence the policies and practices of companies (E_1^2), it is in their best interests for their representatives to be provided with information regarding the socio-economic practices of their employing companies. Such information is required by employee representatives so that rational career decisions may be made by employees. It is therefore concluded that accounting in Zimbabwe should provide employee representatives with socio-economic information pertaining to the survival prospects of a limited company.⁴

Government in Zimbabwe is committed to following policies which will uplift the quality of life and wealth of the majority of the populace (E_1^3). It is a deliberate policy of government to use companies as a means of developing the nation and improving the welfare of its inhabitants (E_1^2). However, government remains highly suspicious that companies are prone to work against the political and national interests because of their inherent practice of placing company profitability above all else (E_1^3 E_1^4). Therefore, government is keen that companies should transform so that the benefits for the nation from their continued existence out-rank the costs (E_1^2). It appears that if companies operate for the overall benefit of the nation and its peoples, they very well may, in terms of government's policies, be permitted to survive

indefinitely in their private enterprise form. (E_1^3). Thus accounting should provide government with socio-economic information for assessing the survival prospects of a company.

The above discussion gives rise to the accounting objective: To provide socio-economic information in the financial statements useful to shareholder, employee representatives and government for judging the survival prospects of a company (O_4).

Having established that a Zimbabwean company should be an "equitable creator of common-wealth" (C_2) it follows that there should be a common interest amongst shareholders, government and employee representatives for information on the wealth created for their interests by a company. Shareholders, via directors, are actively involved in vetting the economic results of companies because these directly affect their wealth prospects. Employees through workers committees (E_3^4) have a duty to concern themselves with a company's economic results, they naturally want companies to perform well because their livelihoods are at stake (E^4). Government too shares a similar concern because a company's economic results may have significant effects on its plans (E_1^2) and national development (E_3^2) and because government policy on whether or not to permit a company to survive (E_1^3) may be very dependent upon a company's economic "track-record". Thus in designating the information to be provided on company wealth creation cognizance should be taken of the importance of company economic operations as they affect shareholders, employees and the interests of government (C_1). Consequently "created wealth" is defined as "the extra or additional monetary exchange value

which accrues to a company for the benefit of shareholders, employees, government and society".⁵

Survival and the prospects of a company are of concern to all the decision-makers (O_4 O_5). Survival and the prospects of a company in the last resort frequently depend upon the ability of a company to pay its debts, repay loans, pay wages, pay taxes and pay dividends (Sandilands, 1975, p. 157). The availability of cash resources to a company is especially of importance in the environment of Zimbabwe because of the market and economic constraints (E_3^2 E_4^2). The availability of cash resources and the cash earning capacity of a company are also factors for consideration in deciding upon the equity of cash distributions amongst claimants (GP_7). It therefore should be of interest to decision-makers to have information not only on the monetary resources of a company but also its cash generating ability; thus information should be provided on the cash or cash equivalent resources realized from economic wealth creation.

It is therefore concluded that the objectives of accounting for companies in Zimbabwe should include:

To measure and disclose the wealth created and cash earned by a company for shareholders, employees and government's interests (O_5);

Because of government policies such as "Growth with Equity (E_1^2), and the common societal desire that companies act with equity in their dealings (E_1^4 E_2^4 E_3^4), there should be a common interest amongst shareholders, government and employee representatives for information which assists them in judging whether or not a company's wealth creating

behaviour benefitted or damaged the quality of life of the various sectors of the nation (C₁).⁶

It is therefore concluded that the objectives of accounting should require a company to provide information in its financial statements which may be used by shareholders, government and employee representatives for assessing the equitableness of its wealth creation operations in regard to their impact upon the quality of life of the various sectors of society. Such an objective is summarized thus:

To provide information for the assessment of the societal equitableness of the wealth created by a company for shareholders, employees and government's interests (O₆).

Given that a company is perceived to be a "socio-economic entity of national and investor concern" (C₁); given that a company is considered to be "susceptible to growth restraint by its constituents" (C₃); and given that companies are perceived to be essential contributors to the socio-economic growth and development of the nation and people (C₂); then it follows: that any restraints placed on companies by shareholders, government and employees which adversely affect their wealth creation abilities or development should be behaviour of national concern. Such matters of national concern should be reported on by companies because companies are nationally accountable (C₄).⁷ Therefore it is deduced that it should be an objective of accounting: To measure and disclose the effects of any restraints on wealth creation placed on companies by shareholders, employees, or government (O₇).

From the objectives derived above and shown in Figure 5.6 it can be derived that accounting should provide information in keeping with the

FIGURE 5.6Objectives of accounting system for Zimbabwean companies

- (O₁) To recognize shareholders (present and potential), employee representatives and government as those entitled to financial statement information for decision-making.
[Deduced from C₁ C₂ C₃ C₄]
- (O₂) Not to bias the financial statements in favour of either shareholders or employee representatives or government.
[Deduced from C₁ C₂ C₃ C₄]
- (O₃) To take due cognizance of the non-familiarity of government and employee representatives with accounting interpretation.
[Deduced from C₁ C₄]
- (O₄) To provide socio-economic information in the financial statements useful to shareholders, employee representatives and government for judging the survival prospects of a company.
[Deduced from C₁ C₂ C₃ C₄]
- (O₅) To measure and disclose the wealth created and cash earned by a company for shareholders, employees and government's interests.
[Deduced from C₁ C₂ C₄]
- (O₆) To provide information for the assessment of the societal equitableness of the wealth created by a company for shareholders, employees and government's interests.
[Deduced from C₁ C₂]
- (O₇) To measure and disclose the effects on wealth creation of any restraints placed on companies by shareholders, employees and government.
[Deduced from C₁ C₂ C₃ C₄]

concept of the company as a socio-economic entity. Traditional accounting systems fall short in this regard; they provide economic cost and benefit information on the financial structure (the balance sheet), the earnings results (the profit and loss account), and financial management (the statement of changes in financial position), but neglect to provide information of a societal orientation useful to users for adjudging the quality of the company's being, trading and policies. Consequently, the view of Mobley (1970, p. 762-763), that a system of accounting limited to economic consequences is inadequate because it neglects the social effects, is particularly appropriate to the environment of Zimbabwe. It therefore follows that an accounting system for Zimbabwean companies should be structured on principles (deduced in the following section) which acknowledge that users require accounting practices for reporting not only the economic results of companies but also to aid them in judging the societal results.

5.9 THE DEDUCTION OF PRINCIPLES OF ACCOUNTING FOR ZIMBABWEAN COMPANIES

An essential step in the deduction of accounting principles is first to set the constraints within which the principles should be developed. The constraints do not act as determinants of the principles but as guidelines, induced from observable limitations of the users of financial statements and the limitations which characterize the environment (Hendriksen, 1982, p.76). The constraints in other words require the principles to be pragmatic. Thus the requirement set by the objectives that accounting principles cover both societal as well as economic information must be tempered with pragmatism. Constraints

derived from the environment of Zimbabwe and deemed necessary for a pragmatic accounting system are discussed below.

Given that potential and present shareholders are entitled to information for decision-making (O_1); given that very many of the shareholders of the socially and economically important companies are foreign MNCs and are required to incorporate the financial statements of Zimbabwean companies in their accounting systems (E_1^1); given that many potential and existing investors are foreigners and more likely to be familiar with conventional accounting information (E_2^1); given that the foreign capital market is looked to nationally as a major and continuing source of new loan and share capital (E_3^2); and given that the existing Zimbabwean companies act requires financial statements to show certain conventional accounting information (E^5); then it is concluded that any proposed accounting system should be capable of being reconciled with conventional accounting systems at no material cost to company or investors because investment opportunities may be lost to the nation if this quality was not incorporated. The empirical studies on the relationship plane (section 3.5 of Chapter 3), particularly those of Choi (1973, 1980) and Barrett (1977) are suasive in this regard, and so with most of the investment coming from foreign environments (namely, the U.K., U.S.A. and South Africa) the accounting system should be reconcilable with conventional accounting systems at no material cost; (constraint 1).

Because the nation's stage of economic development is that of a "transitional society" (E_3^2), cost considerations of an economic or societal nature are of significant importance to the nation for the

attainment of optimum growth and development (E_1^2). Because there is a shortage of skilled national accountants and financial managers (E_5^5) efficient use should be made of these scarce resources. For example: because of the non-availability of a national current cost data bank and the significant economic and social costs it would entail to produce one it would be impractical to suggest that a current cost accounting system be introduced for Zimbabwe. It is therefore concluded that consideration should be given in the derivation of the accounting system to the socio-economic cost and benefit implications of any suggested accounting practices. Such a constraint on the accounting principles may be summarized thus: economic and societal costs should be a consideration in the design of the accounting system, (constraint 2).

Given that: government has difficulty in obtaining planning data (E_1^2); government requires accounting information for planning (E_1^2) and control (E_2^2); the economy is planned to become more state controlled in the future (E_1^3); government is generally suspicious of companies (E_2^4); the present accounting system permits contradictory principles and a variety of practices to be used (E_1^5); many governmental users are unskilled in accounting interpretation (E_5^5); then for purposes of governmental control, administrative efficiency and understanding of financial information, there arises a need for a uniform accounting of information by companies to government.

Given that: employee representatives bear responsibilities requiring decision-making on financial statement information (E_1^4); employee representatives are generally unskilled in accounting interpretation and generally suspicious of firms (E_2^4); management

recognizes the need to communicate financial statement information to employees (E_3^4); certain employee representatives (e.g. trade union representatives) would be exposed to the financial statements of many different companies; then there arises a need for a uniform accounting of information by companies to employee representatives.

Furthermore a uniform accounting of information has distinct advantages for Zimbabwe because a uniform accounting system (see AlHashim and Garner, 1973) should ease the training of accountants for national reporting and so be a factor assisting in reducing the shortage of accountants (E_5^5); uniformity in practices should also lessen suspicions arising from differences in results which may arise through the variety of practices permitted under the present system (E_1^5) and aid the understanding of financial statements.

Accepting that uniform accounting practices: have been designed for major business types (e.g. the Industry Standards of the FASB and the various reporting models of the EEC 4th Directive); and would need to be designed to be capable of being reconciled with conventional systems (constraint 1); and, recognizing that the uniform system would not prevent a knowledgeable in accounting investor from calculating conventional information but would assist employee and government representatives in their interpretation of the accounting information: then it is deduced that the principles of accounting should apply to all types of companies but pragmatism may require variations in the accounting practices by industry type, (constraint 3).

Having established the constraints, attention is now directed to the deduction of accounting principles. Consideration is given to objectives

O_1 to O_7 and to the concepts of the firm, C_1 to C_4 , but reference is also made to the environmental characteristics, E^1 to E^5 , and the literature, chapter 3, where this is necessary to support the derivation of a principle.

Socio-economic information for adjudging company survival prospects is deduced to be required by shareholders, employee representatives and government (O_4). It is generally accepted that a company's survival is greatly determined by factors such as the nature and size of its wealth or capital and that traditionally in accounting a major economic indicator of company wealth or capital has been net assets as measured in monetary units and as disclosed in the categories of assets and liabilities (Ijiri, 1982). Because the survival of a company in Zimbabwe is deduced to be determined by both economic and societal factors it follows that both economic and societal information should be provided on a company's capital and net asset structure.

In Zimbabwe, shareholders, employees and government contribute various resources to companies for the purpose of wealth creation and its survival. The contributions by shareholders are generally represented by monetary or other tangible assets transferred by them to a company for a share in its profit or wealth creation. Employees contribute to the capital by providing labour services for wages and in some cases for a share in the company's earnings. The analysis of the Zimbabwean environment reveals how vital labour capital is to firms, how conscious society is of the importance of this contribution and that employees and shareholders may be described as being "ultimate risk bearers." Government has been shown to be a provider of capital in many forms:

through subsidy payments, through subsidized loans, through the granting of rights to natural resources (e.g. mineral rights), through the allocation of scarce foreign currency resources. Furthermore, government may be accorded a status equated to that of capital provider because of its active involvement in the financial and wealth distribution policies of companies (E^2). Government's classification as a provider of capital to companies may above all else be held to derive from the cultural (E^4) and political (E^3) settings of the environment. Culturally the right to grant the use of the natural resources (including land) rested with the chiefs, today this mantle has been placed on government. Government policy, as expressed in its political manifesto, requires the natural resources to be used for the benefit of the nation and sets as one of its targets the ending of their unfair exploitation by companies. The economy of the nation shows that the largest proportion of the GNP and export earnings comes from the exploitation of the natural resources of Zimbabwe in the form of primary product sales by companies. Government's grant of natural resources usage to companies is, therefore, a major capital contribution to them. Government may therefore be classified as a provider of capital on a number of counts as represented by its direct economic and indirect societal contributions. Thus it is deduced the environment of Zimbabwe is such that it should be a principle of the accounting system to recognize shareholders, employees and government as the providers of capital of a company (P_1). (This is hereafter referred to as the "providers of capital" principle).

Accepting that shareholders, employees and government are the providers of the capital of a company (P_1); given that shareholders may

provide capital funds to companies both in the form of share capital and loans, (e.g. it is not uncommon for the loan capital of MNC and family controlled companies to greatly exceed the paid-in share capital) E_1^1 ; given that capital may be donated to companies especially by government (e.g. subsidies for crop prices, export incentive grants, training grants, special reduced interest rates on loans, tax investment allowances) E_3^2 ; given that shareholders "reinvest" undistributed earnings with a company; given that debts may be owed to or by shareholders, employees and government; accepting that short-term/current debt due to shareholders, employees and government (e.g. cash dividends due, wages due, and taxes due) is not intended to provide capital funding for a company but to be paid out shortly; accepting that capital may be provided to a company through the granting of certain rights of usage and service (e.g. mining rights, land usage rights, often by government, and rights to employee services through contracts): then it is deduced that to disclose a full and unbiased view (O_2) a company's capital should be recognized as the total funds, assets and rights contributed by, debts due by and debts due to (excluding short-term claims by) shareholders, employees and government (P_2). (This principle is hereafter termed the "capital" principle).

The cultural background (E_1^4) revealed that although certain property, such as land and the natural resources, could not be owned by society's members, any personal right granted by authority of the regime to conditionally use them bestowed a real benefit and this constituted them as real assets to the authorized user. Other property and legal matters (res) such as cattle, crops and debts, could be owned as assets

to do with as the owner pleased. This situation prevails within the life-style of the vast majority of the Zimbabwean population, (e.g. they have a conditional right to use certain state land and an ownership right to the crops on that land). The political setting (E_1^3) revealed a philosophy held similar to the above cultural beliefs. From the foregoing it may be perceived that a person's assets may be held to exist not only through a right of ownership or claim (as for a debt) but also because of a right of use. Such a belief in the right of use as constituting an asset is found in Western cultures and reflected in their accounting systems, (e.g. FASB's treatment of leases). However, the Zimbabwean environment causes one to deduce that one particular right of use should be accorded asset status, viz., the right to services from employees, (see E^2 , E^3 and E^4 for the major importance attached to employee services as an asset of firms within Zimbabwe). It is therefore concluded that it should be a principle of the accounting system for the assets of a company to be that property or res to which it has a legal right of ownership, claim or control or usage, including the right to employee services. (P_3).⁸ (This is hereafter termed "the asset" principle).

The survival prospects of a company are affected by the liabilities or claims existing on it, including the short-term debt due to be paid to its providers of capital (P_1). So as not to provoke the incidence of suspicion of business, a characteristic prevalent in Zimbabwe (GP_8), it should be necessary for the liabilities of a company to be restricted to obligations or claims which are objectively determinable of existence and represent lawful claims on a company excluding claims by, other than

short-term debt due to, providers of capital (see P_2). Thus, it should be a principle of the accounting system for the liabilities of a company to be restricted to the lawful claims, excluding non-short term claims by the providers of capital, on a company (P_4). (This is hereafter termed the "certainty of liabilities" principle).

The continuing capital investment support of companies by shareholders, employees and government (E_1^1), the publicly avowed policy of government of permitting "transformed" or "progressive" companies to exist indefinitely (E_1^3), the workers' representatives duty to work for the economic growth of companies (E_2^2), the economic reliance of government (E_1^2) and society generally (E_3^2) on company growth and private sector investment; all these factors support the conclusion that it should be a principle of the accounting system to consider companies generally to be viable entities for accounting valuation purposes (P_5). (This is hereafter referred to as the "going concern" principle).

Socio-economic information for judging a company's survival prospects (O_4) and wealth created (O_5) may require a variety of valuation methods especially when the interests of the decision-makers may differ so widely as between the three groups of shareholders, employee representatives and government (O_1). Considerations of reconcilability, cost and uniformity (constraints 1, 2 and 3), as well as certainty of information to lessen suspicion, and an understanding of the measurement unit (O_3), all tend to support the use of historical cost values. Complicating environmental considerations attaching to some of the other valuation methods are the lack of available data (e.g. current costs), and their possible inappropriateness, (e.g. the inappropriateness of

general price indices because of the government's management of price levels and because of their composition; for example the two main general price indices available are those reflecting the cost of living changes for lower paid or higher paid individuals). Nevertheless despite these complications decision-makers may find historical cost adjusted figures necessary for their use (for example IAS 15 requires supplementary information of changing monetary values).

Historical values, however, are of use apart from their certainty and understandability qualities. For example, Zimbabwean employee and government users, like those in other LDCs (Soyode, 1977), are interested in historical prices as an indicator of fairness in dealings affecting company or other parties (E_2^4), particularly as so many assets were acquired by companies, not through market but rather through historical forces (Lindblom, 1977, p.105). The cost and the time of a transaction therefore are of concern and time may be a useful indicator to decision-makers for many purposes: for example for translating historical cost values to other currency values or monetary indicators, or for assessing the worth of assets such as plant and debtors.

It is deduced that two indicators related to value measurement are of fundamental concern to all three decision-making groups: Firstly, the present value monetary amount exchanged in a transaction; and secondly, the time period when the transaction occurred. It should therefore be a principle of the accounting system to measure a transaction affecting assets or liabilities or capital at the equivalent monetary exchange value at the time of the transaction and to disclose the time period in

which it occurred (P₆). (This principle by incorporating time and cost is appropriately termed the "historical cost" principle).

It is deduced that it should be an objective of the accounting system to measure and disclose the wealth created by a company for shareholders, employees and the interests of government (O₄). Wealth creation for companies in accounting systems where shareholders are perceived to constitute the corpus of a company, for example as expressed in the proprietary entity concept, is recognized only when revenue is realized (usually through a sale) and earned (through substantial performance, e.g. by delivery), FASB, (1984). However, the Zimbabwean environment necessitates shareholders, employees and government being constituted as the substantive corpus of a company (P₁), thus the selected measure or measures of wealth creation should satisfy not only shareholder needs but those of government and employee representatives as well.

Economists and governments have long required for macro-economic purposes that wealth creation be measured as a continuum commencing when costs are first incurred to manufacture or acquire a good or service.⁹ (Such a disclosure of information by the accounting system would be helpful to government in Zimbabwe because of the critical need for data on companies for national planning and economic direction E₁²).

The measurement of wealth creation from the time of an act (such as manufacturing or purchase of a good for resale) describable as the causa causans (the originating cause) of its future exchange value may hold further advantages for government, employees and shareholders, especially in LDCs such as Zimbabwe. Employee representatives and government

require information for adjudging the social performance of a company (O₆) especially the equity of pay and wealth distributions (E₂⁴).

"Progressive" managers, as representatives of shareholders, are also known to be keen to disclose information helpful in this regard (E₃⁴).

Wealth created, when defined as value added, has been used by some companies as a measurement upon which to base productive efficiency (Morley, 1978), an application which may be of interest to Zimbabwean users of financial statements because of their concern with productivity efficiency (E₃⁴). But of even more pertinence is the view of Gray and Maunders (1980) that value added when valued at production would be more relevant than the revenue recognition method for assessing a company's "ability to pay" and "the relative equity" of payments to shareholders, government and employees. In Zimbabwe where jobs are scarce and unemployment welfare non-existent (E₃²) lay-offs of employees may be delayed or prevented if the financial statements disclosed the revenue potential represented by production.¹⁰ Thus, by a general awareness of wealth creation at production, companies may be induced or persuaded to adopt a more humane or equitable employment policy than that induced by the revenue recognition principle. Furthermore by disclosing wealth creation at production instead of at the later revenue realization state certain restraints placed on production (O₇) may be sooner and indeed more strikingly disclosed because of the larger relative fall in the value of production and profit on production.¹¹

One distinct advantage of measuring wealth created only from the time of the realization of earned revenue (e.g. by sale and substantial performance), instead of from the time of its origination as future

revenue (e.g. by the production or purchase of a good) is that the uncertainty attached to estimating its amount is greatly lessened. Such a consideration is especially important in the context of Zimbabwe because of the inherent suspicion surrounding firms. The application of the revenue recognition principle is also of importance to shareholders for their limited liability protection¹² and as a measure of usefulness to all three groups as an indicator of cash-flow and viability.

It is therefore concluded that in order to satisfy the measurement and disclosure needs of shareholders, employee representatives and government regarding wealth creation, (especially as set down in objectives O₁O₂O₃ and O₅) that the accounting system should:

(1) Measure the forecast revenue of a company from the time of an act (such as the manufacture or purchase of a good for resale) evidencing the creation or acquisition of a good or service intended to be realized as revenue. Or in other words: to measure the forecast revenue of a company from the time of an act which is defined as the originating cause of the eventual recognition of revenue (P₇).

(2) Measure the revenue of a company from when it has been realized (e.g. through a sale contract) and when the company has given substantial performance (e.g. delivery). Or in other words: to measure the revenue of a company when it is both realized and earned (P₈). (These principles are hereafter referred to as the "forecast revenue" (P₇) and "earned revenue" (P₈) principles).

It is stated that it should be an objective of the Zimbabwean accounting system "to provide socio-economic information for judging the survival prospects of a company" (O₄) and "to provide information for the

assessment of the societal equitableness of the wealth created for shareholders, employees and government's interests" (O₅). However practical difficulties preclude accounting from measuring the welfare or quality of wealth created by a company. Littleton (1953 p.9) commented thus in this regard:

"Accounting does not concern itself very much with qualitative aspects of wealth . . . it is more nearly accurate to say that the subject matter of accounting is price (the quantitative aspect of wealth) than to say it is value (the qualitative aspect of wealth)."

Moonitz (1961, pp. 11-12) was even more forthright, he wrote:

"In its present and prospective stages of development, accounting is intimately and directly tied to the process and institutions surrounding the production, safeguarding, distribution, and consumption of wealth, not of welfare or of happiness. Accounting can conceivably measure how "well-off" some person or some organization is, provided that 'well-off' is measured by wealth in one form or another. Criticisms of accounting which say in essence that it does not measure welfare or happiness can be rejected as irrelevant and unwarranted. By the same token, assertions by some that accounting can or should measure welfare or happiness should likewise be viewed with a critical eye."

The state of accounting measurement practice in regard to welfare measurement remains very much the same today. Considerations of understanding (O₃) and cost-benefits (constraint 2) preclude the inclusion of esoteric principles of welfare measurement in the accounting system for Zimbabwe. The views of those interviewed in Chapter 4, both those of the leading politicians (E_1^2 E_1^3) and those of management (E_3^4), were quite clearly that wealth creation by companies was an essential prerequisite for welfare advancement (GP₆ GP₇); but, all were most concerned that companies conduct their wealth creation activities in ways conducive to an improved quality of life for the nation (E_1^2 E_1^3 E_2^4 E_3^4). Thus the environmental circumstances of Zimbabwe are compatible with an

accounting system which would disclose company wealth, company wealth creation and company wealth distribution details for the guidance of the shareholders, employees representatives and government in their assessment of a company's welfare or quality of life performance. For although the welfare which accrues to the various sectors cannot be measured by accounting, nevertheless the revelation of the economic details of a company which may significantly affect the welfare of the various societal sectors may provide useful guideposts for judging its welfare performance.

All of the guideposts to qualitative aspects of wealth mentioned by Glatzer (1981) of "balanced growth", "solidarity", "freedom", and "security" and others not mentioned but related to them such as "equity", "egalitarianism" and "worker democracy" are to be found within the policy statements of the government of Zimbabwe, and the mores of Zimbabwean society ($E^2_1 E^3_1 E^4_1$). Accepting that accounting is a discipline closely related to matters of economic measurement (AAA, 1966); and, having discovered in Chapter 4 that the premier economic policy statement of government concerned with societal welfare and quality of life criteria for Zimbabwe is "Growth with Equity" (GRZ 1981); and, noting that "Growth with Equity" is compatible with the goals, aspirations and mores of that nation's employees and society: then it is deemed appropriate to turn to that policy statement for guideposts to societal welfare concerns and measurement indicators of a company's welfare performance.

Two important guideposts to societal welfare concerns and measurement indicators of welfare performance emerge from a study of "Growth with Equity" (G.R.Z., 1981 and Appendix 2) and from the reported

interviews with its author (Dr. Chidzero) and others closely concerned with its interpretation and implementation (E_1^2 E_3^4). These important guideposts are found to be "equity" and "balance." The analysis of the Zimbabwean environment showed a societal concern regarding the equitableness of revenue (evidenced by price controls); of wages paid (evidenced by wage controls); and of earnings (evidenced by the controls on marketing and dividends). Concerns of balance include matters such as the foreign domination of companies (evidenced by controls on investments); the overreliance on foreign workers (evidenced by employment controls); and the lack of development in the rural areas (evidenced by subsidies and incentives by government for its development) E_1^2 .

These concerns for the protection and advancement of the welfare and quality of life of workers in particular and society in general are deduced to relate to the allocation of company wealth, created wealth and wealth distribution amongst geographical locations and individuals. For example, concerns as to the balance between national and foreign investors, the balance between individual shareholdings, the balance of assets between rural and urban locations, the balance in numbers between foreign and national employees, the comparison of earnings scales amongst employees, the division of the profit amongst shareholders, employees and government. It is therefore concluded that in order for the accounting system "to provide socio-economic information for judging the survival prospects of a company" (O_4) and "to provide information for the assessment of the societal equitableness of the wealth created for shareholders, employees and government's interests" (O_6) that:

It should be a principle of accounting to disclose segmented information on the geographical location of the providers of capital, the assets, the liabilities, the revenue and expenses of a company; as well as, segmented information on the division of earnings and capital amongst and within shareholders, employees and government (P₉). (This principle is hereafter referred to as the "segmented disclosure" principle).

The concept of a company as a socio-economic entity for the commonwealth (C₁ C₂) rather than a legal persona for benefit of shareholders is an illustration of the substance of company existence in Zimbabwe taking preference over legal form. The analysis of the environment (Chapter 4), especially as encompassed in GP₈, shows that much of the suspicion held by government, employees and society of companies has been fostered by companies adopting legal forms which veiled their substantive identity and acts. For example: during UDI years MNCs continued in reality but not in form to trade and thus support the minority regime (E³); and, owners are suspected (E⁴) of disguising the extent of their holdings in Zimbabwe so as to unfairly (but legally) bias operational dealings in their favour at a cost to government (often through tax avoidance); at a cost to employees (often through employee wage negotiators being unaware of the extent of an owner's holdings) and at a cost to society (through an inequitable distribution of wealth).

Conventional accounting in the interests of fairness in reporting (basically to shareholders) acknowledges the need for a principle of "substance over form", (for example the equity method of recording certain investments and the recording of certain transactions, for example, leases as fixed assets). The concept of a company as "a

nationally accountable entity" requires that this principle of substance over form be applied for the information benefit of all user groups; especially if companies are to be seen to have "transformed" (GP₃).

Suspicion has occurred because of a lack of exposure of information and a disguising of identity and transactions in order to serve the self-interests of a selected group. Such an approach is contrary to the ideals of egalitarianism, and societal equity. It is argued that substance over form practices would reduce the incidence of suspicion and inequity within society.

It is therefore concluded that it should be a principle of accounting in Zimbabwe for substance over form accounting practices to be applied to the recording of transactions to avoid one user group's self-interests being unfairly benefited over others (P₁₀). (This principle is hereafter termed the "substance over form" principle).

The environment of Zimbabwe is such that actions by companies (GP₉) or actions by others, which affect companies' operations (GP₁₀), may significantly restrain wealth creation and socio-economic development. These restraining characteristics are particularly significant because of the structure of the market, with its preponderance of companies holding monopolies or near monopolies (E_5^2), and with government exercising control over so many affairs of companies (E_2^2).

Government in its policy document "Growth with Equity" refers to restraints by companies (i.e. shareholders) on national wealth creation and development arising from: the lack of local beneficiation or fabrication of raw materials; the over reliance on imported goods and labour; the lack of local ownership; the underpayment of the labour

force; etc. Management, in interview, stressed the problems of the restraints to wealth creation arising from price controls; import controls; wage controls; etc. The analysis of the environment in Chapter 4 provides a comprehensive listing of factors alleged to be restraints to wealth creation and development. Both government and management have expressed a wish for accounting to disclose the restraints and their significance.

It is deduced that the restraints arise through the effects of the acts of the representatives of shareholders, employees or government on a company's capital, income, revenue and expenses. For example an increase in the minimum wage by government may result in a greater withdrawal from capital as represented by a fall in company income through increased wage expenses and a reduction in earned revenue because of either a fall off in demand through selling price increases or a reduction in the profit margin because selling prices are held firm by price control.

However, to identify and measure the variety of ways in which capital (and thus income, revenue, and expenses) may have been affected by an apparent restraining act such as an increase in the minimum wage is not pragmatic. For example: an increase in the national minimum wage rate may infact result in an increase in capital and income through an increase in demand for a company's goods and result in earned revenue which exceeds the increase in wage expenses.

Nevertheless an indication of the possible effects of apparent restraints, such as minimum wage increases and price controls, would be provided by a company disclosing the "main constituents of capital and income" likely to be affected by "the apparent restraining acts" which

characterize the environment. The main constituents of capital would be the significant movements in capital during a period. The main constituents of income would be those accounts such as sales, purchases, cost of production and sales, wage expenses, government duties and taxes most likely to be significantly affected by restraints. The apparent restraining acts would be those capital or income transactions of a company which involve the direct (i.e. the self) interests or indirect (i.e. the related party) interests of shareholders, employee representatives and government; such as increases in dividends, increases in wage rates, increases in taxes.

It is therefore deduced that it should be a principle of accounting to: reveal the possible restraints to growth and development by disclosing those capital and income transactions which involve the self or related party interests of shareholders, employees and government (P₁₁). (This principle is referred to hereafter as the "restraint disclosure" principle).

Consideration of objective O₂ (requiring that no bias be shown to any user group) and a consciousness of the aura of suspicion surrounding companies in Zimbabwe (E₁³ E₂⁴) require that importance be attached to the accounting system producing clearly stated and evidentially supportable results. That this is necessary was the basis of the "certainty of liabilities", the "historical cost" and the "earned revenue" principles.

However, to be useful to users it has been deduced that, like conventional accounting (FASB, 1985, para 141), in order to accomplish the desired objectives that not only factually provable events (e.g. cash transactions) be recognized but also other events involving estimates

(e.g. accruals and amortizations) be recognized. That estimates are useful to users was the basis of the "forecast revenue" principle. Furthermore, pragmatic considerations require that the legal fiduciary duty of directors to shareholders should not be frustrated by the accounting system. It is therefore deduced that the accounting system should permit the use of provisions arising from accruals and amortizations.

However because of the uncertainty or subjectivity surrounding provisions and because of the bias that their use may reflect¹³ provisions should not be held out as actual expenditure or revenue incurred but rather it is deduced that all provisions be disclosed as appropriations of capital (P₁₂). (This principle is hereafter referred to as the "appropriation of capital" principle).¹⁴

5.10 CONCLUSION

The end purpose of this chapter was to provide a set of accounting principles for a Zimbabwean accounting system; such a set is shown on Figure 5.7. As stated in Chapter 1 (section 1.6) the principles derived do not constitute a "general theory" of accounting but represent those principles which because of the unique character of the Zimbabwean environment may differ from conventional principles. The essential need for the principles to be deduced from and to be logically consistent with the concepts of the firm and objectives of accounting (Chambers, 1963; and Hendriken, 1982) was adhered to throughout. Care was taken also to follow the advice of Chambers (1963, p.33) to continually refer back to the characteristics of the environment to aid the deduction of a reasoned and consistent (or non-contradictory) set of principles. Consistency

FIGURE 5.7

Principles of accounting for Zimbabwean Companies

(Due cognizance having been taken of the constraining qualities of:

(1) Ease of reconciliation; (2) cost; (3) uniform application of principles).

- P₁ To recognize shareholders, employees and government as the providers of capital of a company.
- P₂ To recognize a company's capital as the total funds, assets, and rights contributed by, debts due by and debts due to (excluding short-term claims by or on) shareholders, employees and government.
- P₃ To recognize the assets of a company as that property or res to which it has a legal right of ownership, claim, control or usage (including the right to employee services).
- P₄ To restrict the liabilities of a company to the lawful claims, excluding non-short term claims by the providers of capital, on a company.
- P₅ To consider companies generally to be viable entities for valuation purposes.
- P₆ To measure a transaction affecting assets or liabilities or capital at the equivalent monetary exchange value at the time of the transaction and to disclose the time period in which it occurred.
- P₇ To measure the forecast revenue of a company from the time of an act which was the originating cause of the eventual recognition of revenue.
- P₈ To measure the revenue of a company from the time when it is both realized and earned.
- P₉ To disclose segmented information on the geographical location of the providers of capital, the assets, the liabilities, and the revenue and expenses of a company; as well as segmented information on the division of amounts concerning a company's capital and income transactions amongst shareholders, employees and government.
- P₁₀ To apply substance over form accounting practices to the recording of transactions to avoid one user group's self-interests being unfairly benefited over others.
- P₁₁ To disclose those capital and income transactions which involve the self or related party interests of shareholders, employees and government.
- P₁₂ To disclose all provisions as appropriations of capital.

exists between and within the set of principles, for example: in all instances, shareholders', employees representatives' and government's interests are recognized of equal importance; historical cost is recognized as the fundamental measure for the calculation of wealth creation, assets, liabilities and cash earnings; and it is recognized too that the disclosure of estimates, such as forecast revenue, provisions and other data, such as the time and location of transactions, should also be made available to the decision-makers for socio-economic purposes. Finally, the principles are structured so as to give clear guidance in the deduction of practices of accounting, a task which is pursued in the following chapter.

NOTES, CHAPTER 5

1. An example of an attempt to "remove the bias inherent in the formal structure of the present reporting system, which implies a special position for equity shareholders that does not accord with socio-economic reality" (McDonald and Puxty, 1979, p.53) was these authors' attempt to design a theoretical framework for financial statement presentation which would treat all users equally.
2. An example of this approach to accounting system design would be the presentation of "simplified financial statements". Such statements according to Tweedie (1981, p.141) could perhaps be useful for judging management's stewardship but would have limited use for in-depth investment decision-making. The former purpose is held to be pertinent for the general use of shareholders, government and employee representatives in assessing the socio-economic performance of a company. Significant investment decisions requiring an in-depth investigation because of the ownership structure of companies and the stock market (E_1^1) would most likely involve participants (such as controlling shareholders or government) who could demand management, or "internal" fully detailed, accounts and who could seek professional guidance in their interpretation.
3. Socio-political information useful for judging the survival prospects of a company may be that which "the political parties programmers" and "the public discussion" considers necessary for "balanced growth" or an improved "quality of life" (Glatzer, 1981). Examples taken from the major policy statement "Growth with Equity" (Appendix 4) could be information on "the improvement of social services to lower income groups"; "the narrowing of the wage gap"; and "the development of rural areas".
4. Socio-economic information useful to employee representatives for assessing the survival prospects of a company may be that which relates to issues such as "the ability to pay" and "job security", (Jackson-Cox et al, 1984; Lewis et al, 1984). In this regard, employee representatives may, for example, be interested in "the group structure" because of the frequently undisclosed ownership linkages existing between companies (E_2^4).
5. The need for this type of economic information is evidenced by the popularity of the value added statement in Zimbabwe, (where the majority of quoted companies now publish this although not required either by statute or IASs), and elsewhere (Gray and Maunders, 1980).
6. Examples of information which may be of use in judging the impact of a company's wealth creating behaviour upon the quality of life of society were provided by Dr. Chidzero in interview: numbers and earnings of employees in rural geographical areas compared with those in urban areas; amounts spent on employee training; foreign exchange income compared with its expenditure; details of employee profit sharing and share acquisition schemes. (See also Jaruga and Schoenfield, 1978). Other concerns may be the profit mark-up on sales at "arms length" and those to "related parties" (e.g. foreign parents).

7. Seidler (1967) suggested information relating to the following may be useful in disclosing the restraints placed on companies by government: wage controls, price controls, import quotas, excise duties. In Zimbabwe there exists in addition to the above, the following restraints highlighted by management interviewed: restraints on employee discharges; delays in price control applications; restrictions on capital plant investment. Employee related restraints covered by legislation in some nations (e.g. France) are details of man hours lost through industrial disputes and accidents. Shareholder restraints may occur through excessive dividend withdrawals, preferential transfer pricing to holding companies, restrictions on share ownership for employees, etc.
8. No condition is attached to the definition that an asset should possess the quality of probable future benefits for a company (as in FASB, 1985, para. 25). This is because although it may be a quality commonly attached to an asset in the majority of cases it is not an essential quality in the Zimbabwean situation. This is stated to be so because management or shareholders may deem a particular property not to possess future benefits for them and thus may not perceive it to be an asset of the company on those grounds; nevertheless the property when the company is viewed as an entity of national concern may hold significant societal or economic future benefits for others within the nation.
9. The Zimbabwean Central Statistical Office requires firms sampled to complete an income questionnaire valuing inventory at estimated selling price.
10. Such a result occurred in Zimbabwe when government provided bridging finance, at low or no interest rates, to certain mines and sugar plantations to permit the stockpiling of production and forbid labour lay-offs.
11. A common restraint to wealth creation which would be highlighted by valuing production at selling price would be shortages of material through the non-granting or the delay in granting of import licenses by government (E_2^2).
12. Under the common law shareholders lose their limited liability to contribute capital if dividends are found to have been a return of shareholders' contributed capital.
13. Management may, because of the conventional perception of a company as an entity representative of shareholder interests (Paton, 1962; Sprouse, 1957), pursue policies (e.g. conservative valuations) and provide provisions (e.g. doubtful debts) which are implemented to maintain or safeguard shareholders' capital.
14. Because provisions are estimates and a reflection of management policy decisions it is argued that such disclosure and treatment should be of assistance to users of financial statements.

CHAPTER 6

SPECIFIC ACCOUNTING PRACTICES

6.1 INTRODUCTION

The purpose of this chapter is to deduce specific accounting practices (A_i) and to defend them in terms of their logical consistency with the theory of accounting developed in Chapter 5. The procedure followed is illustrated in Figure 2.5; the practices are derived mainly from the specific principles (P_i), summarised in Figure 5.7, and from the theoretical and empirical exposition of accounting practices, set down in chapters 3 and 4. So that a practical and harmonious system may result careful attention also is given to the constraints present within the national environment and to the general propositions of the environment (GP_e), concepts of the firm (C_i), and objectives of accounting (O_i). The order of presentation, below, of the deduced practices is firstly to deal with revenue and expense accounting issues, then with accounting for the major categories of assets, liabilities and capital, and finally with general disclosure, cash disclosure and group accounting.

6.2 ACCOUNTING FOR REVENUE

It was deduced earlier that it should be a Zimbabwean accounting principle to measure both "forecast revenue" (P_7) and "earned revenue" (P_8). The former is not recognized under existing Zimbabwean accounting practices but standard practices do exist for the recognition of "earned revenue", for example: the recognition of revenue from the sale of goods, the rendering of services, the "use by others of enterprise resources yielding interest, royalties and dividends" (IAS 18);

construction contracts (IAS 11); leases (IAS 17); and investments (IAS 25). Practices deduced to cater for the measurement of "forecast revenue" and "earned revenue" in the above circumstances are dealt with below.

Forecast revenue is defined as accruing from the time of an act which is the originating cause of the eventual recognition of revenue (P7). Adapting this definition to the originating cause of goods and services and the "use by others of enterprise resources" (IAS 18) enables it to be stated that forecast revenue be recognized in the period in which assets are first used to produce output or services.

Conventional accounting practices as applied in Zimbabwe require manufactured products to be accounted for at accumulated production costs until sold, a procedure which results in production costs being "recognized as expenses in the periods in which product is sold rather than in periods in which assets are used to produce output" (FASB, 1985, footnote to para 80). Thus present practice requires "a systematic allocation of those production overhead costs that relate to putting the inventories in their present location and condition" (IAS 2, para 21). However, current practice also requires that the accumulation of production costs should not exceed the estimated net realizable value (i.e. "estimated selling price in the ordinary course of business less costs of completion and less costs necessary to be incurred in order to make the sale"), IAS 2 (paras 4, 28). Thus it is clear that companies at present do have to estimate the net realizable value of their manufactured goods (both partially and fully completed) and purchased finished goods inventory (IAS 2). It therefore follows that no extra

significant costs of accounting should be involved in recording the forecast revenue applicable to inventories as would be required by the "forecast revenue" principle (P₇). Various advantages were claimed, in the previous chapter, to be attached to disclosing forecast revenue. A further advantage which may be of some importance is added here. The recognition of expenses in the periods in which assets are used to produce output may hold distinct advantages for firms in an LDC environment where the need to impress on society the importance of costs is so important.¹

The acts, which are defined as the originating cause of the eventual revenue, pertinent to the industries in Zimbabwe of mining, manufacturing, merchanting, farming and services would be: in the case of a mine the mining of the ore body; in manufacturing the commencement of the production of a good; for a merchant from the time when the liability for goods purchased passes (this accords with the "certainty of liabilities" principle, P₄); for a farmer with the planting of a crop or birth of livestock and for a service company with the commencement of a service. Such definitions are but tentative at this stage and would require to be reconsidered for their pragmatism by industry sectors (constraint 3).

The adoption of practices to record the forecast revenue would be eased in many cases in Zimbabwe because of the controlled nature of the market making it easier to estimate selling prices (e.g. fixed selling prices exist by operation of law for many goods; many products have to be marketed through a single organization, for example all mining products and the majority of agricultural products; and many of the products have

internationally quoted selling prices, e.g. gold, copper, sugar, tobacco; or guaranteed local prices, e.g. dairy products and maize).

An illustration of a suggested recording of the forecast revenue and production costs of a manufacturer, in a form similar to that currently recommended for construction contracts (IAS 11), so as to reveal the estimated created wealth (O₅) follows:

Profit and Loss A/C (with accumulated production costs)	DR.	\$X
Profit and Loss A/C (with forecast revenue)	CR.	\$X+Y
Inventory (with difference; debit if net profit forecast, credit if loss forecast).	DR.	\$Y

However, the need for assets to be shown at historical cost (P₆) and the need to show all provisions as "appropriations of capital" (P₁₂) would require the forecast profit (or loss) to be excluded from inventory held at the close of an accounting period; a suggested disclosure of the inventory account for balance sheet purposes follows:

Finished goods inventory - at cost		\$X
(at estimated selling price \$X+Y)		
The suggested entry required to comply with the "appropriation of capital provision" (P ₁₂) would be:		
Profit and Loss (appropriation section) ²	DR.	\$Y
Provision for unearned income - Inventory	CR.	\$Y

The application of the "forecast revenue" principle (P₇) would also result in a consistent approach to the accounting of marketable equity securities held as current assets. Because these are held to be traded in to produce revenue any difference between cost and market price would be recorded at the financial year end to reveal both the estimated wealth created (lost), (similar to the above example for inventory), and provision for unrealized profit (loss). Such a treatment would result in both the market value and cost values being disclosed as required in

current practice (IAS 25). Furthermore, the "forecast revenue" principle when related to the IAS on "accounting for finance leases in the financial statements of lessors" is found to have some applications within current practice. For example the standard permits the estimation of future revenue to cover initial direct costs and for the calculation of forecast income so that the lessor may "allocate finance income over the lease term on a systematic and rational basis" (IAS 15).

The revenue recognition practices in Zimbabwe currently permit revenue from service transactions and construction contracts and instalment sales to be recorded on either a completed contract (earned revenue) method or a percentage (forecast revenue) method (IAS 18). No such inconsistency would occur under the proposed principles. For example, all service transactions, and construction contracts in process at a period end would have their income (loss) accrued on a forecast revenue basis (P7); all completed services, contracts and instalment sales would be accrued on an earned revenue basis (Pg); and, all provisions relating to unrealized income on work in process and to doubts of ultimate collection (e.g. on instalment and lay-away sales, which are very common in Zimbabwe) would be recorded in terms of the "appropriation of capital" principle (P12).

It is concluded that the application of the principle of "forecast revenue" (P7) and "earned revenue" (Pg) should lead to a consistency of treatment regarding revenue recognition; and yet be pragmatic because the practices should not cause significantly different recording costs to be incurred, nor should the practices pose problems of reconcilability especially because they are easily related to IAS's. Furthermore the

publication of forecast revenue would provide useful statistical information for governments macro-economic purposes (e.g. through the disclosure of production and inventory at estimated selling price) and would provide data as a guideline of the company's revenue potential and income in a particular production period.

6.3 ACCOUNTING FOR GOVERNMENT GRANTS

The survey of the Zimbabwean environment (Chapter 4), reveals that government is greatly involved in providing grants, subsidies and similar forms of assistance to companies (E²). Accounting practices in Zimbabwe in regard to government grants are regulated in terms of IAS 20. This standard requires that all grants (which are defined therein to include subsidies but not benefits for the determination of taxable income such as investment tax credits and accelerated depreciation allowances) be recognized:

"in the income statement over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis" (IAS 20, para 38); and, that "grants related to assets should be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset" (para 39). Furthermore, "loans at nil or low interest rates are a form of government assistance but the benefit is not quantified by the imputation of interests" (para 34).

The deduction of principle P₁, whereby government is defined as being a provider of capital, and because of the "capital" (P₂), the "substance over form" (P₁₀) and "appropriations of capital" (P₁₂) principles it should be necessary for different practices to be required than those set down in IAS 20. Firstly, government grants and assistance should be defined to include taxation benefits arising from "permanent

differences" such as investment allowances and from "temporary" or "timing differences" such as accelerated depreciation rates which cause the tax liability to be reduced either permanently or postponed.³ Secondly, those grants by government which are permanent or never to be repaid (such as crop subsidies) should be recorded as capital donated by government and not as income. Thirdly, those grants which are subject to repayment in later periods should be shown as loan capital provided by government and not as deferred income. Apart from the argument that government should be seen to be a provider of capital and that grants constitute part of the loan or permanent capital contributed by it, it is argued that government grants are not earned by a company but are provided by government without related cost, frequently to provide financial help and therefore are better perceived to be capital receipts rather than revenue. Finally, where the government grants are in the form of interest free or reduced interest rate loans then the benefit equal to the imputed saving between the loan rate and probable market rate for a similar loan should be recorded as capital donated by government.

The above practices are deemed to be logically consistent with each other and with the underlying principles and to provide fair and useful information by showing the monetary cost of the grants borne by government and also the amounts and types of capital assistance provided to a company.

6.4 ACCOUNTING FOR TAXES

Income taxes levied by government on companies are common and significant charges in Zimbabwe (E₁²) and are treated under current

practices as expenses being accounted for by either the deferral or liability method (IAS 12). In view of the "providers of capital" (P₁), "certainty of liabilities" (P₄), "forecast revenue" (P₇), "restraint disclosure" (P₁₁) and "appropriations of capital" (P₁₂) principles it should be necessary, as explained below, for some of the practices of accounting for taxes and duties to be changed.⁴

If government is presumed to be a provider of capital possessing the right to levy taxes on a company then any charges levied in this regard may be perceived to be costs of the company and if not to be paid in the short term to be loan capital.

If "permanent differences", as usually defined for conventional deferred tax purposes (IAS 20), exist which have the effect of reducing tax payable then the tax effect of these differences should be disclosed as "capital donated" by government (P₂); but if they have the effect of increasing the tax charge permanently then the additional tax should be disclosed as a restraint (P₁₁). These situations are illustrated as follows:

- (1) Situation where a "permanent difference" reduces tax payable, and donated capital results:

Profit and loss (for income tax expenses)	DR	\$X
Current liability (for tax payable)	CR	\$X
Profit and loss (appropriation section)	DR	\$Y ⁵
Donated capital (ex government)	CR	\$Y ⁶

The entry for \$Y is made to disclose the amount by which current earnings benefitted through the tax effect on the permanent allowances granted by government reducing the tax payable; and how government policy was the cause of capital growth.

- (2) Situation where a "permanent difference" increases tax payable, and a restraint results:

Profit and loss (for income tax expenses)	DR	\$X
Profit and loss (for income tax on permanent differences)	DR	\$Y
Current liability (for tax payable)	CR	\$X + Y

The effect of this type of recording would be to disclose (in accordance with P₁₁) that certain items recognized as accounting expenses were disallowed as tax deductions and this restrained company wealth creation by \$Y.

"Temporary" or "timing differences" (IAS 20) arising from the tax effect on revenue or expenses in different financial and tax accounting periods should be recorded in ways similar to the following so as to accord with the previously deduced principles:

- (3) Situation where \$Y less tax payable results because certain revenue (expense) is recognized by government in later (earlier) periods for tax purposes:

Profit and loss (for income tax expenses)	DR	\$X
Current liability (for tax payable)	CR	\$X

This entry \$X records the liability for tax (P₄).

Profit and loss (appropriation section)	DR	\$Y
Loan capital - gov (for deferred tax)	CR	\$Y

This entry \$Y is a provision for possible future tax and is recorded as an appropriation of profits (P₁₂) and an acknowledgement of government's loan contribution to company capital.

- (4) Situation where \$Y more tax payable results because certain revenue (expense) is recognized by government in earlier (later) period for tax purposes:

Profit and loss (for income tax expenses)	DR	\$X
Profit and loss (for income tax on timing differences)	DR	\$Y
Current liability (for tax payable)	CR	\$X + Y

Entry \$Y (in accordance with the "restraint disclosure "principle P₁₁) discloses the direct dollar amount of the restraint on company wealth creation by government's tax policy.

Current accounting practice permits the exclusion from tax expense of the tax effects of certain timing differences "when there is reasonable evidence that these timing differences will not reverse for

some considerable period (at least three years) ahead" and there is "no indication that after this period these timing differences are likely to reverse" (IAS 12, para 43). In such a situation there would be no need for the \$Y provision to be recorded as in illustration 3 above, but instead there should be an entry similar to illustration 1 whereby donated capital is credited.

Current accounting practice restricts the recognition of debits to, or the debit balance on, the deferred tax account or the potential tax saving relating to a tax loss carry forward to the amount that is covered by assured future taxable income (IAS 12, paras 44 and 48). Such a procedure limits recognition of what may be a significant asset of the company arising from the tax benefits granted by government. No such limitation would be imposed by the deduced principles (in particular note the "asset" principle, P₃ and footnote 8 of Chapter 5); and the deferred tax amount of the uncovered debit or debit balance or tax loss should be disclosed. A suggested procedure in such a situation would be to record the "grant" from government as "loan capital - government (for deferred tax) CR" and "asset-right for established assessed loss DR".⁷

The foregoing discloses that the deduced principles would enable practices for accounting for taxes on income to be developed which: recognize the capital contributions and restraints which may flow from national tax policies; and distinguish between withdrawals of capital for assessed tax liabilities and appropriations of capital for anticipated future taxes.

6.5 DEPRECIATION ACCOUNTING

"Depreciation is the allocation of the depreciable amount of an asset over its estimated useful life" (IAS 4). Depreciation under current Zimbabwean practice is charged in terms of IAS 4 either directly or indirectly (e.g. through inclusion in the cost of goods sold) to income and disclosed as a deduction from assets.

Because of the "appropriation of capital" principle (P₁₂) and the "historical cost" principle (P₆) it is deduced that the accumulated depreciation should be disclosed not as a reduction in the carrying amount of the assets but as capital appropriated for the estimated depreciation of assets. Furthermore the amount allocated during a period for depreciation should be disclosed as an "appropriation" to provide for depreciation.⁸ An illustration of the suggested practice would be:

Profit and loss - depreciation (appropriation section)	DR	\$X
Capital appropriated for depreciation of assets	CR	\$X

Such a treatment would continue to recognize depreciation as a cost but would also disclose that it represented an appropriation to provide for the estimated depletion in service potential of an asset, the sufficiency of which would be established only upon the eventual disposal of the asset.

6.6 ACCOUNTING FOR EMPLOYEE REMUNERATION

No IAS or required practices exist in Zimbabwe in regard to this matter. Principle (P₁) requires that employees be recognized as providers of capital for their services. Employees may be engaged for direct purposes such as product creation or for indirect oncost

purposes. The following illustrates the application of the principle by means of accounting entries:

Employees' services	DR	\$X	
Current liability (for contracted remuneration)			CR \$X
Amount of employee services provided by employees to a company in a period.			
Goods produced	DR	\$X - x'	
Indirect wage expenses	DR	\$ x'	
Employees' services			CR \$X
Amount of employee services provided in a period allocated to production and expenses.			
Current liability (employees)	DR	\$X	
Cash			CR \$X
Capital provided by employees to a company in form of services, withdrawn in cash.			

The illustration indicates that at any period end the employee services account (an asset, P_3) would be nil; whilst the current liability account would be the amount due in terms of their service contracts. Thus the accounting for employee remuneration would not change from existing practices through the deduced principles. However, the inclusion of employees as providers of capital (P_1) and their service potential as an asset does holdout significant disclosure requirements (see sections 6.10 and 6.15).

Employee remuneration and benefits may take many forms; for example: cash payments to the employees directly, such as net wages, or to others on their behalf, such as p.a.y.e. taxes; or other benefits such as the providing of subsidized canteen meals, medical aid, educational training, etc. Employee benefits may also include even more difficult to value and apportion items such as recreational facilities, pleasant and safe working conditions, etc. However, accounting, as explained earlier, see for example Littleton (1953, p.9) and Moonitz (1961, p.11), for

pragmatic reasons restricts the measurement of wealth to that which is measurable in economic terms. Thus wealth transfers to employees should be restricted to those transfers which possess a monetary cost. Morley (1978) dealt extensively with the problem of placing monetary values on the cost of wealth transfers to employees. For example, should the benefits to employees be valued at their cost to a company or at their saving value to the "pocket" of an employee, or should some other basis be applied? The resolution of the problem is eased somewhat by the requirement that Zimbabwean accounting practices be pragmatic. The income tax regulations specify the practices to be followed by companies for valuing employee benefits for tax purposes, these it is suggested may be used as guideline indicators for segmenting employee benefits into classifications such as "benefits at taxable value" and "other benefits". Furthermore, the extant literature analysis revealed the importance placed in many nations on the disclosure of "cash wages paid to employees". It therefore should be Zimbabwean accounting practice to measure (1) the "cash remuneration paid to employees"; (2) "taxable benefits for employees"; (3) "other benefits". Such practice is pragmatic and useful because it introduces some measure of certainty into the disclosure and specification of employee remuneration and benefits.

6.7 ACCOUNTING FOR RESEARCH AND DEVELOPMENT

The analysis of the extant literature and the Zimbabwean environment disclosed the common concern expressed about the paucity of research and development activities by companies in LDCs. Research and development costs are expensed as incurred in terms of IAS 9 except that their deferral and amortization is permitted if certain criteria relating to

project success and profitability are met; but "costs once written off should not be reinstated even though the uncertainties which had led to their being written off no longer exist" (IAS 9, para 22).⁹

The principles of accounting deduced in Chapter 5 should require a different approach to research and development accounting:

- (1) Plant, equipment etc. should be accounted for as an asset (P₃).
- (2) All other costs should be expensed unless they satisfy the criteria of project success and profitability when their costs ["limited to the amount that, taken together with further development costs, related production costs, and selling and administrative costs directly incurred in marketing the product, can reasonably be expected to be recovered from related future revenues" (IAS, para 18)] should be accumulated because they would satisfy the asset definition (P₃), (Thus the choice or conflict of treatment present in IAS 9 is not permitted).
- (3) If the research results in the successful development of an asset, and this had not been forecast, then the asset should be introduced retroactively because to do otherwise would understate the assets of the company and their cost and this may prejudice the interests of some user group (P₁₀). Such an adjustment would be made by adjustment through retained earnings as a "prior period item and adjustment" (IAS 8).¹⁰

The principles of accounting (especially P₁ "the providers of capital", P₉ "the segmented disclosure" and P₁₁ "the restraint disclosure" principles) should necessitate any grants by government (see section 6.3) relating to research and development being accounted for to acknowledge government's contribution. For example, where a "permanent difference" on research equipment reduces tax payable:

Profit and loss (for income tax expense \$X excluding		
tax effect on permanent allowance of \$Y on		
R & D equipment)	DR	\$X +\$Y
Research and development	CR	\$Y
Current liability (for tax payable)	CR	\$X

This entry acknowledges that the tax credit \$Y is applicable to research and development expenditure.

Research development	DR	\$Y
Donated capital (by government)	CR	\$Y

This entry introduces government's donation to research and development equal to \$Y, the tax effect of the permanent difference.

6.8 ACCOUNTING FOR PROPERTY, PLANT, ETC.

The assets of a company were defined to include that property or res to which it has a legal right of ownership, control or usage (P₃). Such a definition may be easily incorporated within the scope of IAS 16 which deals with accounting for property, plant and equipment. However, for purpose of fair disclosure the assets should be segmented into separate categories of property owned (e.g. plant), controlled (e.g. investment in subsidiaries) and used by right (e.g. finance leases, leasehold property, usufructs).

Accounting for leased property, IAS 17, is compatible with the principles of accounting as deduced. However because of the special significance attached to land by society in Zimbabwe, and because of fears of exploitation, greater disclosure should be accorded to operating leases on immovable property. This matter is considered in a later section, "information to be disclosed in financial statements."

Because of the practice of accounting for government grants, and because of the "restraint disclosure" principle (P₁₁) any property, plant, etc., acquired at less than or more than an arms length market value should be recorded to disclose both the historical cost and fair market value and the difference disclosed either as donated capital or a withdrawal (restraint) of capital.

Because of the need to avoid biased treatment (objective O₂) and because of the requirement to record assets at their historical cost it

should not be an acceptable accounting practice to increase or decrease the historical cost of property, plant, etc; apart from that revalued according to the situation outlined in the preceding paragraph. (This is a departure from IAS 16 which permits revaluation and is a common practice followed by Zimbabwean companies).¹¹

Property, plant and equipment should be disclosed to give its historical cost and time of acquisition.¹² For pragmatic reasons, the time periods would have to be divided into broad time periods judged appropriate considering the asset and industry type.

Property, plant and equipment should only be eliminated from the financial statements when the company ceases to own, control or have the right to use it.¹³ Any loss or gain at that time (calculated as the difference between historical cost and the provision established in terms of principle P₁₂ (see section 6.5) should be recognized in the income/profit and loss statement.

6.9 ACCOUNTING FOR GOODWILL

No IAS currently exists for this matter and as a consequence a variety of practices are to be found in Zimbabwe; some companies expense goodwill upon its acquisition, others record it as an asset but do not depreciate it, yet others amortize it over a selected number of years.

Because of the "asset" principle (P₃) it is deduced that goodwill should not be recorded as an asset of a company but should be disclosed at cost as a "contra capital account" because it represents capital expended for anticipated future super-earning potential. Furthermore any decision by management to amortize goodwill purchased in order to allocate its cost over its estimated super-earning lifespan should be

recorded as an amount appropriated between capital classifications in accordance with principle P₁₂ and never as an expense.¹⁴

6.10 ACCOUNTING FOR EMPLOYEE SERVICES

The right to employee services is perceived to be an asset which should be accounted for by Zimbabwean companies (P₃). Pragmatic considerations of general appropriateness of a unit of measure to shareholders, employee representatives and government needs (in particular objectives O₂ and O₃) prevent the deduction of human resource type of valuation methods. Employee services at the close of any accounting period should therefore be carried at no monetary amount (see section 6.6). However, certain numerical data and descriptive classifications concerning employees should be reported because of their likely information value to shareholders, employee representatives and government. Discussion of this is dealt with in a later section ("information to be disclosed in financial statements").

6.11 ACCOUNTING FOR CURRENT ASSETS AND CURRENT LIABILITIES

The main IASs accepted for general use in Zimbabwe in regard to current assets and current liabilities are IAS 13 and IAS 2 (the valuation and presentation of inventories). Major changes that should be required as a result of the deduced accounting principles would be the need: to carry all assets and liabilities at historical cost, and to disclose the time period when acquired (P₆); to treat all provisions for allowances as appropriations of capital instead of as contra asset or contra liability accounts (P₁₂); and, to disclose the estimated selling price of inventory and marketable securities (P₇). Short-term debts due

to shareholders, employees or government should not be excluded from classification as liabilities (P₂). Furthermore there would be a requirement for industry standards to be developed for the specification of uniform approaches to cost determination (constraint 3).

6.12 ACCOUNTING FOR INVESTMENTS

Current treatment in Zimbabwe accords with IAS 25. The deduced principles should result in changes mainly of presentation. Firstly all investments should be carried at historical cost, but market value should be disclosed in the case of quoted investments and accounted for in the case of current investments (see section 6.2). All provisions for losses should be treated as appropriations of capital (P₁₂) instead of being deducted from assets or added to liabilities.

All associated or subsidiary company investments should be carried at cost but the investor company's proportionate share of forecast income (P₇) and earned income (P₈) should be credited to income and provided for as an appropriation of capital (P₁₂). An example of a suggested way of handling investments in subsidiaries under the equity method in terms of the deduced principles follows:¹⁵ -

(1) Asset disclosure.	
Investment in subsidiary at cost	\$X
(accrued share of undistributed profits since acquisition \$Y+\$a)	
(11) Income disclosure.	
Proportionate share of forecast income in subsidiary for year.	\$a
Proportionate share of earned income in subsidiary for year.	\$b
(111) Capital disclosure	
Dividends received from subsidiary	\$c
less Provision for forecast income	\$(a)
less Provision for undistributed income	\$(Y)

Any provisions for losses (due to market being less than cost) on long-term equity securities should be treated as an appropriation of capital (P_{12}); with the investment still being carried at cost but with the reduced market value suitably disclosed. (The net effect on capital would thus be the same as set down in IAS 25).

6.13 ACCOUNTING FOR CAPITAL

The capital of a company should be accounted for to disclose that to which shareholders, employees or government respectively may hold some claim (P_1) and the major changes that have occurred within the capital accounts during an accounting period. The capital of government and employees would usually consist of debts due to or by them (but not for short-term debts due such as income tax payable, wages payable) and shares held, (for example shareholdings by employee trusts funds). A common loan account from government is likely to be "deferred taxation."

The bulk of most companies' capital is likely to be classified under shareholders. This should include such classifications as share capital, loan capital, retained earnings, donated capital, and other appropriated capital accounts (set up for specific provisions). The retained earnings account should include the profit (loss) for the accounting period, dividends paid and disclose the amounts transferred to specific appropriated capital accounts to provide for specified accounts to meet management policy (e.g. amortization of goodwill). The donated capital account should include the amount of tax benefit on "permanent differences" (see section 6.4) and government grants (see section 6.3). Common appropriated capital accounts are likely to be: "amounts appropriated for depreciation of plant" and other assets; "amounts appropriated for doubtful debts"; etc.

6.14 RELATED PARTY TRANSACTIONS

The unfair exploitation of employees, government and society is a matter of considerable concern in Zimbabwe (E₂²). In particular companies are suspected of employing their legal persona identity to enable them to benefit related parties, (such as controlling shareholders, fellow subsidiaries, and associated companies), in ways which are prejudicial to the interests of employees, government or society.

IAS 24 deals with the measurement and disclosure practices which should be used by companies in regard to related party transactions. This standard had not been implemented by the accountancy profession by 1987 because "of views expressed by representatives of the commercial and industrial sectors on the possible repercussions which could arise from adherence to the disclosure requirements" (ICAZ annual report, 1987). A similar concern was expressed by some executives during interview (E₃⁴). However, concepts such as C₁, "the company as a socio-economic entity", and C₄ "the company as a nationally accountable entity" and the objectives deduced especially "not to bias the financial statements" O₂, "to provide information of societal equity" O₆, and "to measure the restraints placed on companies" O₇, should require related party transactions to be disclosed.

The principles of accounting which should be most directly related to the deduction of suitable related party accounting practices are "the providers of capital" (P₁); "the segmented disclosure" principle (P₉); and especially "the substance over form" principle (P₁₀) and "the restraint disclosure" principle (P₁₁).

Affiliates, (that is parties that directly or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with a company); associated companies and subsidiary companies (IAS 3); and members of the immediate family of the principal owner; and others who can significantly influence the management of a company in its operating policy should be considered related parties (IAS 24, FASB 57). Because of the identity or characteristics of a company in Zimbabwe (concepts $C_1 \dots C_4$) and the "providers of capital" principle; it is deduced that government and employee representatives and employee bodies (e.g. trusts) be included as related parties who can "significantly influence the management of a company in its operating policy."

It is deduced that information on all material related party transactions should be disclosed, and should be of a kind similar to that required in developed nations such as the USA (FASB 57); i.e. the nature of the relationship, the type of transaction, the dollar amounts involved, the debts outstanding. Furthermore, the nature of control relationships should be disclosed even though no transactions occurred (FASB 57, para 4).

Because of "P₉, segmented disclosure" it should be necessary to disclose information relative to the geographical identity of the transactions (e.g. type of foreign currency involved) and the national identity of the related party. Furthermore because related party transactions cannot be presumed to be conducted at arms-length (FASB 57) not only the amount should be disclosed but the gross profit return

should be stated if significantly different from the overall average return shown by the financial statements.

6.15 INFORMATION TO BE DISCLOSED IN FINANCIAL STATEMENTS

Apart from the IASs mentioned previously in this chapter the main standards currently existing which affect accounting information disclosure in Zimbabwe are: "disclosure of accounting policies" (IAS 1); "information to be disclosed in financial statements" (IAS 5); "reporting financial information by segment" (IAS 14); "accounting for retirement benefits" (IAS 19). All of the information required to be disclosed by these statements is pertinent to and compatible with the deduced principles and practices. Certain additional information is deemed necessary to be disclosed because of the principles deduced (Chapter 5, especially the "segmented disclosure" principle (Pg) and interviews conducted (Chapter 4), and practices already set down in this chapter; this additional information is detailed below.

IAS(5) requires the main categories of fixed assets to be disclosed. In addition it is deduced that there should be specific categories for land, staff housing, educational facilities and equipment, and health facilities and equipment. These categories are selected because of their societal importance arising mainly from their scarcity within the nation (GWE paras 10 (x), 58,74)). The known physical reserves of natural resources where these are owned or exploited by a company and information such as opening balance, new discoveries, usage, and closing balance should be disclosed. Fears of economic exploitation and considerations of the need to conserve natural resources make information of this type important. (GWE, paras 10 (xiii), 40).

Disclosure should also be provided of the geographical location of the assets (P₉). The classification of share capital as between "foreign" and "Zimbabwean" shareholders, with the latter further classified to show "government" and "employee" shareholdings (P₉). The lopsided control of the means of production mainly gives rise to the need for this information. (GWE, paras 10(iv), 112-124).

The disclosure of employee share ownership and profit earning schemes (P₁). The cultural, political beliefs in egalitarianism and the desire to correct the ownership imbalances support this practice. (GWE, paras 10(i), 24).

Employment remuneration analyzed amongst: foreign and Zimbabwean recipients; between categories of skills; between sexes; as well as the numbers within each category, their geographical siting; and a specification of the information in earnings bands which fairly portray the spread of incomes. This information is deduced necessary because of the inequities quoted in GWE paras, 10, 35, 72 and principle (P₉).

Skills training expenditure, between categories of skills and numbers of employees involved. (Skills shortage is a major restraint on development. GWE paras 10, 35, 50-61). Expenses arising from government excise charges, sales tax, income tax, and skills levy. Government sees business as its main provider of revenue and developmental funds but wishes the charges to be equitable. (GWE paras 102-111). (Also necessary because of the classification of government as a related party, see section 6.9).

The purchases and sales, within Zimbabwe and foreign countries; (especially with South Africa because of the existing political

difficulties). (GWE paras 10 (xi) (xiv), 35; mainly because of balance of payment problems).

6.16 ACCOUNTING FOR CASH

Current Zimbabwean practice in regard to accounting for cash or cash equivalents is IAS 7 "statement of changes in financial position". A statement giving details of cash transactions should be of use to decision-makers in matters of wealth distribution and equity of distribution (O₅, O₆) as well as providing information for judging the restraints upon company or societal development (O₇). Such a statement, particularly drawn-up to show the cash revenues and cash expenses relating to a company's operating activities, investing activities and financing activities, should be most appropriate in the case of Zimbabwe because of the interest in the amount of wealth which has flowed to or "trickled down" to societal sectors, the funds which have been invested in a business and the investments by a business (GP₂ GP₆ GP₇). It therefore should be accounting practice to publish a statement accounting for cash; such a statement should show:

- (1) the cash received and spent in the operations of a company;
- (2) the cash dealings by a company in investment and development works;
- (3) the cash dealings by a company in financial activities; and,
- (4) the opening and closing cash balances.

Bearing in mind the lack of accounting familiarity of many who must interpret Zimbabwean company financial statements (GP₁₁) and the need for easing understandability of presentation (C₄), it should be the practice of accounting to present the accounting for cash by means

of the method commonly known as "the direct cash" method. Such a method discloses the actual receipts and payments made within significant categories, such as those detailed in section 6.15. In particular segmented data on "foreign" and "Zimbabwean" receipts and payments because of the foreign currency shortage (GWE paras 10, 36).

6.17 GROUP ACCOUNTING PRACTICES

The overriding consideration in the development of group accounting practices is the concept of a company as a "socio-economic entity of national and investor concern" (C₁). This concept requires that accounting should address the information needs of not only shareholders and lenders but also government and employee representatives (O₁). In conventional accounting the overriding consideration in group accounts is the addressing of the information needs of shareholders and even those of creditors and employees (see for example IAS 3, paras 5 and 6), by presenting a parent company and its subsidiaries as if they were a single entity (Nobes, 1986, p. 88). According to Nobes the proprietary concept is most obviously consistent with the single entity purpose of consolidation:

"It takes the viewpoint of the managers (or employees, etc.) of the whole economic entity that is controlled. Such a concept would appear to imply that all controlled companies should be consolidated. It would lead to the taking of 100% of assets, liabilities, revenues and expenses into the consolidated financial statements; and 100% elimination of intra-group profits. Also, minority interests would be treated as part of the shareholders' funds, though they might be separately identified" (Nobes, 1986, p. 91).

The environment of Zimbabwe is such that MNC and family controlled holding companies dominate business and this domination is more

pronounced because of the oligopolistic nature of the trading groups
 $(E_{11}^1 E_{52}^2)$. Thus the single entity composed of parent or holding company
and all its controlled companies may completely satisfy the information
needs of the parent's or holding company's shareholders; but more
information is likely to be required to satisfy the needs of employee
representatives and government. Because of the domination of the means
of production by a relatively few families (individuals) and foreign
parent or holding companies (E_{21}^1) there exists a situation whereby many
companies controlled by common owners are not linked through conventional
consolidation accounting methods. Such a situation, especially in an
environment where the general populace is prone to be suspicious of
company-owners (GP_8) , is unsatisfactory from the viewpoint of government
and employee representatives because their decisions may suffer through
their being unaware of the related party linkages which exist between the
group and affiliated enterprises. If companies are to be nationally
accountable (C_4) and if accounting should provide equal information
access and satisfaction to shareholders, employee representatives and
government (O_2) then all of these users should be aware of the
relationships which exist between the group and other enterprises.

Thus the consolidated accounts should not only reflect 100% of the
assets, liabilities, revenues and expenses of the group companies and
also eliminate profits (wealth created) made between the reporting
company and its controlled companies but they should comply with the
accounting practices specified in this chapter, most especially those
concerned with related parties.

6.18 CONCLUSION

The purpose set down of deducing specific accounting practices from the previously derived concepts, objectives and principles has been achieved. The practices have been shown to be logically consistent with the theory and with each other. Furthermore the extensive comparison of the deduced practices with existing Zimbabwean practices has shown that many changes are required to bring the present accounting system into harmony with the environment. However, the need for pragmatism in the design of the practices has been paramount and the increased benefits which would flow from the system are argued to be relatively cost free because so much of the information is already available to the information producers. Whether or not the recommended principles and practices will provide useful, reliable and cost-justified information should be the subject of further research, this matter and conclusions on the theory are referred to in chapter 7.

NOTES TO CHAPTER 6

1. The importance of cost communication to society was a common factor mentioned in chapter 4, for example the interview with Prof. Murphree (E₁⁴), and the need for cost containment and the disclosure of costs to authorities as referred to in interviews with management (E₃⁴).
2. The use of an appropriation account section to the profit and loss account may be a convenient way of bringing together all appropriations to provisions so that a clear disclosure may be made to users of financial statements.
3. Permanent differences such as investment allowances/credits are usually deliberately introduced by government as a form of grant to stimulate the business economy; for accounting not to acknowledge this is to ignore government's contribution to a company.
4. The major source of government revenue in Zimbabwe is a sales tax levied on goods sold, and another significant form of revenue is excise/customs duties. Sales tax is levied on most goods sold within Zimbabwe, with the exception of goods bought to be resold and a few scheduled "essential" goods such as: meat, bread, milk, maize meal, candles, etc. Sales tax constitutes a material proportion of the sales price, rising to over 20 per cent in one period in the 1980's and averaging over 15 per cent since 1980. Excise duties are material costs for certain industries (e.g. the largest liquor distributor contributed 65 per cent of sales in excise duties in 1987). The "restraint disclosure" principle (P₁₁) should require the amounts of taxes such as these to be disclosed within the financial statements; at present so such requirement exists.
5. The use of the appropriation section may be seen to be similar in intent to the use of the "extraordinary" and "unusual" subsections in conventional accounting (IAS 8); that is to highlight or disclose clearly certain significant events.
6. It should be noted that "donated capital" does not imply a legal restriction on capital available for distribution but is a classification necessary to attain fair disclosure of the source of company wealth.
7. An assessed tax loss is a right attaching to a company and therefore should be shown as an asset if it exists because of the definition of an asset which includes "owned rights" (res).

8. Such a treatment would not be unfamiliar in Zimbabwe where many companies disclose depreciation in their value added statements as value added retained for the replacement of assets. It would also accord with government's perception of depreciation for price control purposes (E₂); and by its disclosure in the appropriation section would highlight the significance, or otherwise, of the amount.
9. Various empirical studies (e.g. Horwitz and Kolodmy "The FASB, the SEC, and R&D", Bell Journal of Economics, Spring 1981) have claimed that the obligation imposed to expense research costs has restrained company research. Such a finding is of import to LDCs which favour an increase in research by companies. The proposed practice requires successful research (i.e. an asset) to be capitalized retroactively.
- 10 This approach of requiring the retroactive adjustment may be supported on the grounds of the stimulus that such a procedure may provide for research and development activities.
11. Not only does current practice permit assets to be increased in carrying amount through revaluation but it permits this increased amount to be amortized as a depreciation charge in the profit and loss account. Such a practice, which may surely cause a misunderstanding of results and costs by users (particularly employee representatives and government), would not be permitted under the proposed system.
12. The disclosure of time bands should be helpful in estimating current values, asset condition, and equity of returns or compensation bearing in mind when the asset was acquired and the length of time it has been held.
13. Current practice has the disadvantage of effectively eliminating from disclosure those assets which have been fully depreciated.
14. Furthermore goodwill is too elusive a concept to be pragmatically segmented into that which was purchased and that which is earned to enable a convincing argument to be put forward by shareholders or management that goodwill purchased may be fairly allocated over a predetermined number of years. Any such allocation whether it be a total initial write-off or an annual long-term amortization can be nothing other than an arbitrary one and viewed by employees and government as suspect.
15. It is not the practice in Zimbabwe to account for investments in subsidiary or controlled (associated) companies under the equity method, but instead to show them at cost. It is considered that the non-disclosure of earned but undistributed profits is undesirable. Such a weakness would not exist under the proposed practices.

CHAPTER 7

A REVIEW AND CONSIDERATION OF THE THEORY

7.1 INTRODUCTION

This chapter concludes the study. In section 7.2 a review occurs of the main elements of the purposive theory and accounting methods devised particularly in the light of the purposes set down in Chapter 1. The policy implications of the study are discussed in section 7.3 and the limitations of the study are identified in section 7.4. The study is concluded in section 7.5 with suggestions for further research.

7.2 REVIEW OF THE STUDY

The specific purpose of the study was to construct a normative accounting theory related explicitly to the environment of Zimbabwe, an LDC. Thus the theory was to be a purposive rather than a general theory of accounting. The subsidiary aim of the study may be summarized thus: to provide a model for both portraying, analyzing and assessing any existing accounting system in relation to any environment; or, for developing an accounting system for a particular environment. Both the specific purpose and the subsidiary aim have been accomplished as explained below.

The subsidiary aim was accomplished in Chapters 2 and 3. Firstly there occurred the development of the international accounting paradigm (Figure 2.2), together with the fitting therein of the frameworks for analysis (Figure 2.4) and concrete case puzzle-solution (Figure 2.5). The development of the paradigm was of significant importance because it provided a holistic, systematic and generalized model for the orderly

exposition of extant knowledge, accounting system analysis and accounting system development. Previous to this there was but a disarray of international accounting information and no clearly articulated model for theory construction.

Also of significance was the derivation of a morphology of environmental properties (Figure 3.3) from the extant literature for the identification of the essential distinguishing characteristics of an environment which are critically related to accounting systems. The importance of morphological classification was found to be its use as a foundation or zero-base for the development of accounting systems which suit or harmonize with their national environments and thus better satisfy user needs. One preliminary value of the morphology was demonstrated in Chapter 4 by showing that the environment of Zimbabwe had changed so greatly, (as shown in Figures 4.5 and 4.6) as to justify the construction of a normative accounting system.

The main purpose of constructing a theory of accounting for Zimbabwe commenced in Chapter 4, with the analysis of the environment. This exercise resulted in two further key properties being added to the morphology, thus illustrating the elasticity of the dimensions of the morphological framework. Such a finding is to be expected in view of the various environments which exist amongst nations; a finding which emphasizes the importance of an individual nation's environment being thoroughly investigated in case any previously unrecorded key properties may be uncovered.

In Chapter 5 the paradigm, particularly the puzzle-solution framework of Figure 2.5, was "put to the test" by being employed to guide

the development of the Zimbabwean accounting theory. Eleven general propositions of the environment considered to be of importance for the deduction of a harmonious accounting system were induced from the environmental characteristics as classified on the morphology. Perhaps the most important fundamental general deduction made was that companies should be conceived of as Zimbabwean societal entities, (this is an amalgam of the concepts $C_1 \dots C_4$). Thus logically primacy of place should not be permitted to any single group of shareholders, employees, creditors, or government; rather, all should be accorded fair consideration by the accounting system. This deduction is clearly evident from a reading of the objectives of accounting. Furthermore, an important observation regarding the influence that the societal concepts should have on the development of accounting principles was that above all else the principles should be "pragmatic". Pragmatism was interpreted to mean that a principle should only be considered if it was likely to have practical applications or consequences. Such a requirement is particularly appropriate because of the limited resources of Zimbabwe (an LDC) and accords with the other constraints imposed of cost effectiveness and reconcilability. Consequently all the principles advanced were those which are currently accepted in business as measurable in monetary or physical terms.

Twelve accounting principles were presented (Figure 5.7) and these are fashioned so that the accounting system becomes an artifact which is both moulded by and moulds the environment. Recognizing that Zimbabwe is an LDC, and thus in desperate need of wealth conservation and generation, and in an attempt to help LDCs "lift themselves up by their own

bootstraps", wealth creation is emphasized by recognizing it ab initio (i.e., from the start of its creation). But an awareness of the suspicion, prevalent within the nation of business by society, and of the subjectivity, attached to such a valuation method, makes it necessary for certainty to be introduced into the system by showing all assets and liabilities at historical cost, by stressing the importance of cash and by differentiating between realized and unrealized wealth. Such principles also act as indicators of the wealth available for distribution, with due cognizance being taken of wealth consumption through depreciation.

The environmentally derived principles also require the accounting system to recognize that labour and government are important sources of capital in an LDC such as Zimbabwe. However, the theory derived from the environment allows no principle of capital maintenance to be built into the system (apart from the pragmatic one of compliance with the law, namely that the paid in capital be maintained intact). Thus management may safeguard or reserve capital by suitably disclosed appropriations of capital. Rather a full disclosure policy and a distinction between realized and unrealized and appropriated wealth is used to inform decision-makers of the capital status of a company. This approach is followed because although it is the general policy within the nation that companies should survive as a generic group, there is no consensus that a company, as a single entity, should be accorded the same treatment of perpetuity. The environmental characteristics, the concepts of the firm, and the objectives of accounting all indicate that the question of individual company survival is a matter for continuing reassessment.

Furthermore, any principle requiring capital to be maintained at a level determined automatically by price change measures would be highly artificial in the climate of Zimbabwe because of its government managed economy. For example, it is national considerations such as the state of the foreign exchange reserves and the national income account which become the factors limiting individual company actions on investments and expenditures rather than the individual company's capital maintenance policy. Thus rather than having an accounting system which regulates the capital maintenance policy, there is a preference in the environment, which is reflected in the principles of accounting, for full disclosure, particularly regarding any restraints to growth, development or equity to company, shareholders, creditors, employees, government or society. A further consequence of the need for the accounting system to be fair to all parties and to avoid the engendering of suspicion is the principle that only enforceable debts be recorded as liabilities and that all other restrictions on capital distribution be disclosed as appropriations either of a legal or company policy nature.

The systematic framework provided by the paradigm (as summarized in Figure 2.5 and explicated in Figure 5.1) guided the theory construction along a definite path of general environmental propositions (Figure 5.4), concepts of the firm in Zimbabwe (Figure 5.5), objectives of accounting (Figure 5.6), and principles of accounting (Figure 5.7), so that logically consistent practices of accounting resulted. The accounting practices so deduced were presented in a structured form from for example "accounting for revenue", to common expense accounting, (such as "depreciation accounting", "tax accounting"), to asset/liability

accounting ("accounting for current assets and current liabilities") to "accounting for capital" and finally to "group accounting". This structure enabled the current practices to be presented and the differences which would come about because of the deduced practices to be disclosed. This approach highlighted the deficiencies in the present practices through their incompatibility with the deduced principles and illustrated the practicalities of the proposals. The end result is an accounting system which should be found to be in harmonious relationship with the environment.

7.3 THE POLICY IMPLICATIONS

The accounting profession in Zimbabwe is strongly tied to conventional Western practices of accounting and considers its role to be the presentation of "true and fair" accounts in terms of IASs . Because of the many changes to practices contained in the proposed theory, there is likely to be substantial resistance to change from the profession.

Management and shareholders are likely to offer little if any objection to those changes which may project a company in a better light or may be used to justify or benefit company operations. However, they are likely to be strongly opposed to the publication of information which may benefit competitors (such as production cost information), or possibly cause political embarrassment and economic losses (such as the identification of related parties, and the breakdown of earnings into narrow wage bands). Alleged direct cost increases and information production delays are likely to be arguments advanced for the non-acceptance of the proposed practices. Difficulties will also occur in

obtaining agreement between companies within an industry on uniform practices.

Government and employees are likely to favour the ideas of uniformity of principles and industry practices and the greater disclosure of macro information such as that which may be useful in national accounts and planning (for example: production and inventory at selling price, foreign cash flow and earnings details for balance of payment and investment approval decision making); and information on the division of wealth and cash between employees, government and shareholders. The clear disclosure of provisions, related parties and restraints should also be appreciated.

It is concluded that the prospects of the successful implementation of the proposed system are most dependent upon the regulatory intervention of government if general usage and full uniformity of practices are to be achieved.

7.4 LIMITATIONS OF THE THEORY

Prior to 1980 organized labour institutions existed in only a few sectors of the economy and they were strictly regulated by the governments of those times. Because of the immaturity of organized labour and the sparseness of its membership relatively little coverage could be given to exploring the views and needs of employees during the interviews conducted in Zimbabwe. Furthermore, the extant literature concerning employees and their information needs relates to Western developed nations' environments and not LDCs. In time the experiences of employee unions and workers committees may show that a very different

type of information should be provided by the accounting system in order to satisfy employee representatives needs in nations such as Zimbabwe.

The study concentrates mainly on the economic aspects of reporting for without wealth or its creation there can be no significant improvement in equity or the quality of life. For pragmatic reasons, subjective or experimental welfare-type or human-asset accounting practices were avoided.

A further limitation was the sparse attention paid to the "articulation" or practical linkage which should exist between cost accounting, financial accounting and national accounting systems.

7.5 FURTHER RESEARCH

This study is purely normative in construction, therefore most of the subsequent research should occur in empirically testing its acceptability and usefulness to the main users identified as shareholders, employee representatives and government. For example, empirical investigations should be conducted into the costs and benefits of the proposed system (particularly in view of the economic constraints placed on LDCs); and, the ways the system may be improved particularly in regard to societal or welfare accounting.

Further research should be undertaken into the morphology of environmental properties with the purpose of making it a precision instrument for accounting system development. It is likely that the morphology as presented in this study is incomplete, as indicated by the addition of two key properties in Chapter 4. Furthermore, greater usefulness may occur from research which results in a more precise definition of the properties and their characteristics.

Pilot studies should be undertaken in other LDCs with a view to confirming the completeness of the morphology and to testing the usefulness of the paradigms in the development of harmonious accounting systems. Empirical research may also be undertaken in order to bring about an "articulation" or integration between management, cost accounting, financial accounting and national accounting systems. Furthermore, empirical research should be undertaken to establish indicators of interest to the various users of the financial statements; such research may lead to the derivation of desired uniform indicators for disclosure in financial statements.

PERSONS INTERVIEWED IN ZIMBABWE OVER THE PERIOD SEPTEMBER, 1984 TO DECEMBER, 1984.

- Bailey, P. President of the Institute of Chartered Accountants in Zimbabwe. Partner in Peat, Marwick, Mitchell & Co.
- Burdett-Coutts, W. President of the Zimbabwe Stock Exchange.
- Carter, J. Chairman, Delta Corporation Limited (The largest holding company in the industrial quoted sector).
- Chambati, A. Deputy chairman and chief executive, T.A. Holdings Limited (the second largest holding company in the industrial quoted sector). Sometime Zimbabwean ambassador to the Federal Republic of Germany. Sometime deputy secretary-general of Zimbabwe African People's Union (ZAPU).
- Chavunduka, G. Professor and chairman of the Department of Sociology, University of Zimbabwe. Chairman of the Commission of Inquiry into the Agricultural Industry for the Government of Zimbabwe. Sometime secretary-general of the African National Congress (ANC) and United African National Council (UANC).
- Chidzero,
Dr. The Hon. B. M.P. Minister of Finance, Economic Planning and Development. Sometime deputy secretary-general, United Nations Commission for Trade and Development (UNCTAD).
- Christie, Professor R. Q.C. Honorary research fellow in the Departments of Accountancy and Law, University of Zimbabwe. Sometime professor of law, University of Zimbabwe.
- Cleary, A. Managing director, Standard Chartered Merchant Bank Zimbabwe Limited.
- Clements, D. Trade union advisor. Commonwealth Trade Union Federation.
- Davies, R. Senior lecturer, Department of Economics, University of Zimbabwe.
- Dean, P. Training officer, Employers Confederation of Zimbabwe.

- Dibb, D. Managing director, Olivine Industries Limited, a subsidiary of H. J. Heinz, Inc.
- Gisborne, M. Managing director, Bard Discount House Limited.
- Grubb, B. Senator of the Parliament of Zimbabwe. Sometime president of the Zimbabwe National Chamber of Commerce. Chairman, Randalls Holdings (Private) Limited.
- Gutto, D. Lecturer, Department of Law, University of Zimbabwe.
- Hammond, R. Managing director, Art Printers Limited.
- Hawkins, A. Dean of Commerce and Law, and professor of Business Studies, University of Zimbabwe.
- Hinde, G. Chairman, Z.S.R. Limited, a subsidiary of Tate and Lyle Limited.
- Hove, M. Mrs. Industrial officer, Ministry of Labour, Manpower, Planning and Social Welfare.
- Kadhani, X. Deputy secretary of finance, policy and analysis, Ministry of Finance, Economic Planning and Development.
- Landau, J. Deputy minister of Trade and Commerce. Member of Parliament.
- Lander, R. Managing director, Wankie Colliery Company Limited. Director of Anglo-American Corporation of Zimbabwe Limited. Sometime president of the Chamber of Mines.
- Laurie, J. President, Commercial Farmers Union.
- Makings, G. Chief executive, the Employers Confederation of Zimbabwe.
- Mandaza, I. Commissioner, Ministry of the Public Service. Sometime director, National Manpower Survey, Ministry of Manpower Planning and Development.
- Mew, K. Methodist World Peace Prize Award Winner. Principal, Glen Forest Training Centre. Sometime principal, Ranche House College.
- Moyo, N. Chairman, Department of Economics, University of Zimbabwe.

- Mswaka, T. Managing director, National Breweries Limited. A subsidiary of Delta Corporation Limited. Sometime secretary of the treasury, Ministry of Finance, Ministry of Finance, Economic Planning and Development. Sometime president of the Southern Rhodesia African Trade Union Congress.
- Murapa, R. Dean of Social Sciences, chairman of the Department of Political Science and Public Administration, University of Zimbabwe.
- Murphree, M. Professor and chairman, Centre for Applied Social Sciences, University of Zimbabwe.
- Nduna, A. Chief executive, Reinsurance Corporation of Zimbabwe. Sometime Registrar of Co-operatives, Banks and Insurance Companies.
- Nyandoro, G. Chairman, Art Printers Limited. Co-founder of City Youth League, later renamed the African National Youth League which later fused with the African National Congress to become the Southern Rhodesia African National Congress (SRANC). Sometime secretary-general of the SRANC. Sometime deputy-minister of Agriculture in the Muzorewa government.
- Patel, D. Lecturer, Department of Sociology, University of Zimbabwe.
- Patel, H. Professor of Political Science and Public Administration, University of Zimbabwe.
- Paterson, A. President of the Confederation of Zimbabwe Industries. Chairman of Hunyani Holdings Limited.
- Robertson, J. Chief economist, RAL Merchant Bank Limited.
- Rule, M. Chief executive, Mineral Marketing Corporation of Zimbabwe.
- Rusike, E. Managing director, Zimbabwe Newspapers Limited.
- Sibanda, B. Secretary, Ministry of Labour, Manpower Planning and Social Welfare.
- Walters, B. Managing director, T.S.L. Limited. Sometime secretary of the treasury, Ministry of Finance.
- Young, D. Chairman, Accounting Practices Board. Sometime secretary of the treasury, Ministry of Finance.

APPENDIX 2
SOME SALIENT FEATURES ON SELECTED LIMITED COMPANIES IN ZIMBABWE
TO PROVIDE SOME INDICATION OF THE IMPORTANCE OF
LIMITED COMPANIES WITHIN THE ECONOMY

Mining Companies:

- (1) Anglo-American Corporation (an MNC), (local interests mainly nickel, chrome, coal). Two locally quoted subsidiaries, Bindura Nickel, turnover \$77 million, Zimbabwe Alloys employed over 6,000 people in 1985. Between 1980 and 1985, \$33 million new capital investment occurred at Bindura. Anglo American previously held the largest shareholding in the nation's only coal mine, Wankie Colliery, a quoted company. Since Independence the government has purchased a 40 percent interest in that company and Anglo American is now the second largest shareholder with a 23 percent interest. Over \$100 million has been invested in new capital works on this mine since 1982. The 1984/85 turnover was \$74 million; net profit (after interest paid \$10 million) \$4.5 million. Thousands of workers are employed.
- (2) Lonrho (an MNC), (local interests mainly gold, silver, copper). The holding company is not quoted locally, neither are its mining subsidiaries. The group employs about 16,000 people in Zimbabwe, had export turnover of \$110 million in 1984/85 and planned to spend \$18 million on capital works (including \$3 million on housing) in 1985/86. Manufacturing subsidiaries include the nation's largest cotton spinning and weaving companies and motor dealerships.
- (3) Rio Tinto (an MNC), (local interests mainly gold, emeralds). Between 1980 and 1985 invested \$31 million in new capital development, including \$6 million on a new housing township for employees. Employed over 3,000 people and had a turnover of over \$55 million in 1984. The local holding company is quoted on the Zimbabwe Stock Exchange.
- (4) Turner and Newall (an MNC), (local interests asbestos). This group's mining and industrial companies are unquoted in Zimbabwe. Shabanie Mine produces between 150,000/200,000 tons of asbestos a year, and had a turnover of approximately \$81 million. Wage numbers are not known but are in the thousands.
- (5) Union Carbide (an MNC), (local interests chrome). This group's interests are not quoted locally. In 1985 about 6,000 people were employed on its mines. Capital development for 1985 was planned to be \$5 million including \$1 million for employee housing.
- (6) Falcon Mines (a British group), (mainly gold). Quoted locally; turnover about \$33 million in 1985. Net profit about \$6 million; capital expenditure over \$3 million.

- (7) Mangula (mainly copper). This quoted company was until 1984 a subsidiary of a South African mining group. To prevent the closing of the mine for economic reasons the government acquired a controlling interest in the company to safeguard the jobs for the labour force. 1984 turnover \$46 million; loss \$620,000; capital expenditure \$5 million.
- (8) MNCs are involved in the smaller unquoted companies as well; for example:
- a. British Petroleum controls Bikita Minerals (Pvt) Ltd, high quality lithium. 1984 foreign currency turnover exceeded \$5 million, employed 300 persons, and capital expenditure \$1 million.
 - b. Falconbridge, the second largest producer of nickel in the Western world, owns two gold mines in Zimbabwe; employed over 700 persons in 1984, had export sales of about \$13 million and spent over \$1.5 million on housing and social facilities between 1980 and 1984.

NOTE: A comparison of the above information on employee numbers and turnover with the following aggregate figures for mining in Zimbabwe should be helpful in noting the importance of the mining companies in the socio-economic sector:

(i) Employees in mining industry:	1980	65,000
	1985	52,000
(ii) Aggregate mineral turnover; (in millions of dollars)	<u>1980</u>	<u>1984</u>
Asbestos	70	81
Gold	145	214
Chrome	19	30
Coal	28	58
Copper	35	33
Nickel	55	60
Iron Ore	15	15
Silver	13	9
Tin	10	19
Other	25	27
TOTAL	<u>\$415</u>	<u>\$546</u>

- (iii) Over 80 percent of mineral turnover is exported annually and minerals and mineral products account, on the average, for about 50 percent of Zimbabwe's exports.

Quoted manufacturing and commercial companies include:

- (1) Delta Corporation, a quoted externally controlled holding company. In turnover, \$396 million, net profit, \$21 million, and net asset book value, \$149 million, Delta was rated "top company" in the Financial Gazette's 1985 survey of quoted manufacturing and commercial companies. It has a monopoly of the beer brewing industry and has significant subsidiaries involved in hotels, supermarkets, retail stores, furniture manufacture and soft drinks. In 1985 there were about 7,500 employees and the group was active in training and social welfare--between 1980/85 over \$10 million was spent on staff training.
- (2) Natfoods, a quoted subsidiary of externally controlled Anglo-American. Ranked in the 1985 "top company survey" as second in net profit, \$10 million, third in turnover at \$208 million, and fourth in net assets at \$50 million. It is the largest miller of wheat and maize meal (the staple food of the bulk of the population); and reported that in 1985 "employees received \$19.5 million in pay and benefits," representing "45 percent of the wealth created" by the company and "more than 1700 employees and dependents benefited directly." Capital investment between 1980/84 was \$44 million.
- (3) T.A. Holdings, a local company, with its largest shareholders resident externally, ranked third with net earnings of \$9 million, owns subsidiaries in milling, hotels, supermarkets,

mining, business equipment, agricultural supplies and services. The group employed over 6,000 persons in 1985.

- (4) Hippo Valley, controlled by Anglo-American, is one of two huge sugar plantations in Zimbabwe, the other being a wholly-owned private subsidiary of a South African group. Earnings fluctuate widely due to the uneven trend of the world sugar market; a profit of \$22 million in 1981, a loss of \$41 million in 1983 and a profit of \$7 million in 1985. A very large labour force is employed, the company owns a staff housing township and announced a long-term plan in 1985 to spend \$20 million to improve amenities for workers.

The companies quoted on the exchange fall into a variety of categories and some impression of their size and relative importance may be gauged from the following distribution scales:

<u>TURNOVER:</u>	<u>No. of Companies</u>	<u>Turnover Range 1984/85</u>
	3	Over \$200 Million
	3	\$51 - \$100 "
	16	\$25 - \$ 50 "
	19	\$10 - \$ 25 "
	6	\$ 3 - \$ 9 "
<u>NET PROFITS:</u>	<u>No. of Companies</u>	<u>Profit Range 1984/85</u>
	1	Over \$20 Million
	2	\$10 to \$20 "
	2	\$ 5 to \$ 9 "
	22	\$ 1 to \$ 4 "
	14	0 to Under 1 Million
	9	Losses

<u>NET ASSET BOOK VALUE:</u>	<u>No. of Companies</u>	<u>Range 1984/85</u>
	2	Over \$100 Million
	3	\$50 - \$99 "
	11	\$20 - \$49 "
	13	\$10 - \$19 "
	21	\$ 2 - \$ 9 "

APPENDIX 3

HYPOTHETICAL FUTURE POSITION OF FOREIGN INVESTMENTS UNDER DIFFERENT ECONOMIC REGIMES

(all assuming international agreement and cessation of war and sanctions)

Description of Model-type Characteristics/implications	I	II	III
	maintenance/moderated continuation of <i>status quo</i>	substantive reconstruction and reform-oriented needs approach	radical/rapid transformation
1. Principal Elements in Economic Structure			
a. State/pvt. sector balance	token expansion State sector; market related compensation for asset take-overs	increased State role via asset acquisition and regulation; larger pvt. sector tax liability; compensation for assets negotiated in bargaining	much increased State/pvt. sector ratio in asset base, investments, and greater control over use of private assets; considerable nationalisation; low compensation.
b. ownership of assets			state dominated trade system; possibly smaller m+x/GDP ratio
c. investment determinants			de-linking SA and possibly West; Lomé II uncertain; bilateral arrangements, socialist economies
d. external sector	freer trade regime; rising m+x/GDP ratios	controlled trade structure; little overall shift in m+x/GDP	rigorous control; individual co. agreements; reduced shares, rapidly falling except certain strategic sectors.
e. regional economic relationships	Lomé II, trade emphasis with developed economies; little restraint on SA ties	Lomé II, intra-African trade stress; PTA participation; delinking SA, some non-West trade	reduction in "non-essential consumption", peasant sector orientation in production; "social efficiency" emphasis
f. foreign private investments	"open door" policy with strong incentive structure. Continued large presence	increased control, regulation via State equity shares and legislation; gradual diminuation	
g. output productivity and market efficiency	market demand related, high modern sector productivity and market efficiency	control on consumption patterns, less emphasis on modern sector productivity, basic needs goods	
2. Major Policy Tendencies			
a. modern sector growth	tendency to maximise output	"trade-offs" sought	shift to non-modern
b. employment	growth as by-product	major objective through labour-intensity changes	sector and emphasis on large-scale parastatals structural stress
c. income distribution	use of transfer mechanisms	moderation of inequity, transfers and real asset re-distribution	major changes in assets/income patterns
d. poverty elimination	indirect, small outlays	direct, major programmes	emphasis on communal schemes
e. taxation	higher direct tax rates	higher corporate/individual rates	higher taxes, large enterprises
f. loans/debt	Eurodollar loans, higher debt service ratios	now contracted debt controlled for balance of payments reasons	rejection of debt liabilities, limited re-contracting
g. aid/technical assistance	large inflows ODA	large ODA flows, selective controls on programmes	limited/controlled use of aid and expertise
h. international finance	IBRD/IMF links as well as private banks	IBRD/IMF and private bank links, latter more controlled through stronger central bank	possibly IMF/IBRD, considerably lesser scope pvt. banks, powerful State bank
3. Key Economic Constraints (general character)			
i. Short-run (1-3 years)			
a. unemployment	high, urban stress, partly exported via contract labour to SA	high, spread over sectors, unemployment relief programmes	high, rural located, communal schemes
b. skills availability	shortages, immigration dependence (partly exiles)	shortages, moderate white skills exodus, use of external assistance and exiles	shortages, white skills departure large, dependence on local development and exiles
c. training capacity	expansion upper levels as required modern sector	more general diffusion sought	technical emphasis and highly specific
d. State sector performance	service supply efficient, little change in pattern	alterations in patterns, moderate inefficiency across groups	basic changes in patterns, uneven efficiency

e. planning capacity	unaltered, related to State sector	expanded, use of expatriates	shortage given new State demands and tasks
f. food supply	surplus but also net export, commercial sector emphasis	exports controlled, subsidies smaller commercial sector	low-export, self-sufficiency stress, State enterprises
g. rural sector incomes	continued differentiation	controlled inequalities, moderate land reform	sizeable land reforms, major changes
h. foreign exchange	high demand for capital stock replacement	moderate demand, import controls	tight controls, rationing
i. balance of payments	exchange controls unaltered	stricter exchange control	very tight exchange control
j. deliverability of benefits	uneven	equity stress	group-specific
ii. Longer-run (3-7 years)			
a. growth rate	positive, fairly high	positive, after moderate slippage	positive, from lower base after 1982
b. capital stock/investment	replacement, high rates, large use of external resources	alterations to structure, combining internal/external	high rates sought, sizeable re-allocations
4. Implications for Foreign Investment			
a. Operations			
1. continuity/control of production	little interruption, skilled unions strong	some uncertainty, greater union role for unskilled	significant short-term and longer-term changes, workers control schemes
2. asset confiscation and/or nationalisation	marginal, absentee landlords mostly, adjudicated valuation for compensation, limited	selective nationalisation, moderate compensation, management contracts	large-scale, fairly rapid nationalisation, "historic values" for compensation
3. compensation		banking and finance	productive and strategic sectors
4. sectoral restrictions			most pvt. co.s classified external
5. redefinition of status	marginal change	moderate, dependent on residence, domicile, citizenship	State, on specific projects
6. local partners	as before, more African emphasis	State, parastatals and African private sector	SA much affected
7. country-of-origin	even-handed	moderate restrictions SA	relatively small
8. new inflows	large	moderate	greater control,
9. technology	tarrif and price influence	tax on capital-intensity	negotiations
b. Returns			
1. costs	contained	increased	increased
2. profits	high	moderated	regulated/reduced
3. taxation	slight increase	sizeable increase	large increase
4. disbursement control	regulated by agreements as at present	re-definition of policy to control outflows	subject to State decisions
5. re-investment	moderate requirements	heavy requirements	heavy requirements
6. remittances	moderate control	controlled	strictly controlled
c. Controls			
1. TNC code	probably not applied	several policy likely	case-by-case approach
2. technology transfer	free movement	altered to meet policy goals	tailored to plans
3. training	volitional/incentives	tax/subsidy and legal	stronger obligations
4. exchange control	moderate control	increased controlled	strict regulation
5. disclosure	marginal public commitment	much increased obligations	full disclosure to State
6. legislation	generally favourable	higher cost/benefit ratio	generally unfavourable
7. employment practice	loose control over slightly altered minima	codefied, stricter minima	codefied, stricter minima
d. Long-run presence			
1. TNC responses likely	continuation/expansion all kinds of companies	selective withdrawal and general continuation of large enterprises	larger withdrawal and selective continuation
2. incentives	designed to induce new firms	moderated	selective - for negotiation
3. large TNC/Groups	continuation	continuation under greater control	continue if permitted
4. small external investors	some withdrawal, seeking of local partners	withdrawal	withdrawal
e. RSA and RSA-based TNC's			
1. contract labour export	at maximum demand level	continued in short-run	continued in short-run
2. local incorporation	little change	increased	diminished
3. strategic sectors	mining/manufacturing	mining/manufacturing	mining/manufacturing
4. conglomerates	expansion	controlled activity	reduced activity
5. oil	dependence on RSA	dependence on RSA in short-run	stronger attempts to reduce
6. transport	dependence	dependence	dependences
7. dividends	"free"/regulated flow	controls/moderate	controls/strong

(Source: Clarke, D. G., 1980, pp. 162-163.)

APPENDIX 4MAJOR OBJECTIVES AND POLICY MEASURES OUTLINED IN "GROWTH WITH EQUITY"

"Growth with Equity" is an economic policy statement of the Government of the Republic of Zimbabwe, (GRZ, 1981). It sets down the economic objectives and policy measures which government will pursue "in the short, medium and long terms."

The primary objectives are listed as: -

- (1) the progressive establishment of a socialistic and egalitarian society by means of sustained growth with equity;
- (2) the achievement of improved incomes and standards of living for all inhabitants;
- (3) the promotion of rural development;
- (4) the participation in, and ownership of, a significant portion of the economy by nationals and state;
- (5) the creation of high levels of employment;
- (6) the training of the workforce;
- (7) the democratization of the work place;
- (8) the improvement of the socio-economic infrastructure;
- (9) the improvement of the rural infrastructure;
- (10) the improvement of social services to lower income groups;
- (11) the achievement of price and balance of payments stability;
- (12) the achievement of domestic self-sufficiency in energy;
- (13) the conservation and prudent use of the natural resources;
- (14) the promotion of regional and international co-operation.

The economic policy measures are stated as: -

- (1) the attainment of balanced economic growth and development;
- (2) the fixing of a minimum (8 percent in real terms) annual average growth rate;
- (3) the institution of a comprehensive economic planning system.

Sectoral objectives set down for the accomplishment of the primary objectives included: -

- (1) the expansion of the manufacturing sector;
- (2) the promotion of exports;
- (3) the promotion of import substitution;
- (4) the training and upgrading of staff;
- (5) the better use of local industrial and intermediate inputs;
- (6) the establishment of linkages between the manufacturing and the peasant business sectors;
- (7) the expansion of employment through the greater use of labour intensive technologies;
- (8) the geographical decentralization of industries.

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