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Globalisation, accounting and developing countries

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ABSTRACT

Accounting is an instrument and an object in globalisation but its impact and manifestation is not uniform across Northern developed countries and Southern developing countries (DCs). This paper reviews contributions on globalisation and its influence on accounting in DCs, and identifies important research gaps. It examines the role of accounting in changing development policies, from state capitalism through neo-liberal market-based to good-governance policies. It then considers specific accounting issues, namely the diffusion of International Accounting Standards (now International Financial Reporting Standards) and how they promote global neo-liberalism; the development of the accounting profession in DCs in the face of competition from Northern global accounting firms and professional associations; accounting issues in state-owned organisations, and privatised and multinational corporations; government accounting reforms and the resurrection of the state in DCs; social and environmental accounting issues; and the rise of non-governmental organisations and their accounting and accountability. The discussion and conclusions reflect on achievements to date and important areas requiring further development.

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1. Introduction

Accounting may seem peripheral to development, which could explain the lack of attention it has received from development studies and accounting researchers, indigenous politicians with more pressing matters on hand and, to a lesser degree, institutions providing aid and finance to developing countries (DCs). Better accounting will not solve poverty but it is an essential, if neglected, cog in development mechanisms. Too often it is seen as a simple transference of technical systems, regulations, and concepts used in rich countries to poor ones. This masks a series of issues including their bias to Northern ideologies and interests, not least those of multi-national corporations (MNCs)¹; insufficient recognition of indigenous circumstances, needs and participation; implementation problems; inequities of power; and an orientation to financial over development ends. Hence many accounting policies recommended and/or imposed by external institutions fail (Andrews, 2012). Too often the yardstick is whether DCs have adopted international accounting

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¹ For ease of presentation transnational corporations are included under the acronym MNC.

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and auditing standards and allegedly best (i.e. Northern)² practices, and failures to conform are attributed to cultural differences.

Despite work on accounting and development in the 1960s and 1970s (e.g. Enthoven, 1973) this topic became neglected. Socially- and politically-oriented accounting journals published little on DCs until the 1990s, e.g. *Critical Perspectives on Accounting's* first such paper was Asechemie (1997). He argued that agency theory, with its capitalist assumptions, failed to reflect accounting and labour processes in Africa. This brought a sharp rejoinder from Wallace (1997), a major pioneer of accounting and development research, who concurred that most contemporary Northern accounting theories are irrelevant to Africa. Subsequently, accounting research on globalisation and development increased. It often views globalisation negatively, expressing concerns that many reforms fail or have limited success, and that the voices, interests and needs of DCs are subservient to powerful Northern institutions' interests and hegemony; for instance, Esposito, Aronowitz, Chancer, DiFazio, and Yard (1998) and DiFazio (1998) claim that although globalisation could raise living standards, it has contributed to hollowed-out welfare states, growing unemployment, and repressive employment conditions. Lehman (2009) argues that deregulation, outsourcing and privatisation are heralded because they facilitate global markets but neglect values that bind societies together. Samuel and Manassian (2011) dismiss much international accounting research as a discursive exercise following decolonisation that continues to propagate 'Cold War' development doctrines and political programmes for a commodity-intensive world peopled by economic subjects.

Nevertheless, blanket condemnation of globalisation and accounting's role therein can occlude positive achievements and potential advantages of better integrating DCs into the global economy. Furthermore, there is a danger of 'ghettoising' development to poor countries. In many rich countries, income differentials and poverty are in fact increasing. Too often development policies implicitly assume that DCs should learn from rich countries but the converse can be true—e.g. micro-finance may help poor and marginalised sectors of society to be more politically engaged, and help empower women, redistribute income, and create jobs for the poor. These are, or should be, policy considerations in rich countries too.

The paper identifies key characteristics of DCs and globalisation, and how globalisation (an unavoidable world scale phenomenon, see Wolf, 2003) is pertinent to accounting in DCs. Then it examines the role of accounting in changing development policies, ranging from state capitalism through neo-liberal market-based to good-governance policies. Next, it examines related accounting issues affecting DCs, namely the diffusion of International Accounting Standards (IASs) now International Financial Reporting Standards (IFRSs) and their role in promoting global neo-liberalism; the development of the accounting profession in the face of competition from Northern global accounting firms and professional associations; accounting issues regarding privatised and state-owned organisations (SOEs), and MNCs; government accounting reforms; social and environmental accounting issues; and the rise of NGOs and concerns about their accounting and accountability. The discussion and conclusions reflect on achievements to date, theoretical perspectives employed and important areas for further development.

2. Developing countries

Defining a DC is fraught with difficulty. The World Bank (WB) uses Gross National Income criteria to categorise economies along four development stages: (a) low income (\$905 or less), (b) lower middle income (\$906–\$3595), (c) upper middle income (\$3596–\$11,115) and (d) high income (\$11,116 or more). This is a useful and objective measure but it has problems. A mean (or a median) may disguise wide income disparity within a country, e.g. in oil-rich countries like Nigeria, produce a static analysis, and inadvertently bias findings towards problematic 'failing' states. WB indices are cruder than those of the United Nations (UN). The WB human development index (HDI) measures life expectancy, educational attainment and adjusted real income (\$ per person). It classifies economies into less developed countries (LDCs) (50), developing economies (168), economies in transition (20) and developed economies (42). This paper focuses on the first category of the HDI index but, where relevant, it includes data from other countries. Ex-communist countries in transition are excluded³ as they are often relatively affluent, may lie within Northern political and economic systems, and have a legacy of Northern institutions under revival. Nevertheless, like rich countries, accounting and development issues in DCs are relevant to them.

Globalisation impacts on DCs, where 80% of the world's population live (more than seven billion people). Many subsist on less than \$10 a day; nearly one half on less than \$2.50 a day; and more than 1.4 billion on less than \$1.25. Worldwide, 870 million people have insufficient food according to UNICEF, and 22,000 children die every day due to poverty.⁴ Economic poverty, hunger, high mortality rates, unsafe water supplies, poor education systems, corrupt governments, war, and poor sanitation constrain development. Direct aid – i.e. cash and provisions – can alleviate such problems: a starving person cannot be more productive without greater sustenance; immediate relief is essential for natural and humankind-induced disasters; and often there is insufficient capital for infrastructure improvements such as digging wells. However, direct aid

² The dichotomy between rich and poor countries is useful for analysis but it is crude and neglects gradations of affluence. The division is often labelled through the terms First World and Third World, Western and non-Western, and the North and South. For ease of exposition this paper uses the latter terms.

³ See special issue of *Management Accounting Research* (2002, V.13, N.4) and *Research on Accounting in Emerging Economies* (supplement 2, 2014) for relevant work.

⁴ These statistics are taken from <https://www.dosomething.org/facts/11-facts-about-global-poverty>, 27/05/2014 derived from secondary sources, namely Global Issues, Statistic Brain, One, and World Food Programme. Debates over estimates exist but few query their basic tenor. They tally with WB estimates.

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