Traditional and Western Accounting Disclosure Models for Pacific Island Countries' Entities

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Three reporting models - Traditional, Western-narrow and Western-broad - are scrutinised to delineate the basis of accounting practices for the Pacific Island Countries' (PIC) entities for the years ending 1997-1999. Evidence is obtained about the filing of reports; timeliness of reports; and disclosure patterns. Patterns are measured via examination of twenty Aggregated Accounting Disclosures (AAD) items and sub-indices.

A significant number of entities completely fail to generate annual reports, or are several years behind the reporting cycle or are unwilling to disseminate their reports. The reporting patterns for PIC entities showed an overall AAD disclosure trend of 52% with specific patterns being 76% of Core Statement Accounting (CSA), 42% Financial Related Accounting (FRA) and 40% Non-financial Related Accounting (NRA) over the three years. The lack of current annual reports and timely reports (at least 50%) fits much more with the Traditional model than with either Western model.

(1) INTRODUCTION

Most countries in the world are developing rather than developed (World Bank, 2000), yet few models have been evolved to explain reporting practices in them, or to explain 'developing country accounting'. Despite over a hundred years of accounting transfers from the Western world, colonial administrative systems, missionary zeal, philanthropic international donations, debt relief, and imperialism there is a sense that accounting, which has served as a powerful and effective tool for

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preparers of financial reports in the developed world, has contributed little to entities operating in the developing world (Wallace, 1999).

In the first part of the paper three financial reporting models - Traditional, Western-narrow and Western-broad are developed and evaluated. These models are compared and contrasted to delineate the basis of accounting practices across developing economies with a focus on Pacific Island Countries (PIC). Predicated on the assumption that cultural, political, social and economic conditions have an influence on national accounting practices (AlHashim and Arpan, 1992; Ma, Lau and Tai, 1997; Mackerras, 1997), these models provide an intellectual foundation for explaining reporting practices in the developing world (Wallace, 1999).

The second part of this paper collects data on the current state of PIC entities' accounting disclosures to examine which of the three possible reporting models best fits the reporting trends. Reporting practices are documented using the annual reports of entities from the nine independent PIC for the three year period 1997-1999. The PIC economies comprise Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu which cover a land area of 552,191 square kilometres with a total population of over 12 million people (University of Hawaii, 1999). Although PIC share the Pacific Ocean, there are enormous cultural, physical and demographic differences across them. However, the PIC share a number of characteristics both with their member states and other developing economies (World Bank, 2000).

This model development has implications for accounting policy makers, international lending organisations and other stakeholder groups working in or for developing countries. The development of an alternative intellectual foundation will help groups to obtain a better understanding of reporting practices of countries different from their own. The World Bank classified 157 countries as developing (World Bank, 2000), and as yet, there is no distinct model of accounting practices for developing economies.

The three models are outlined in Section Two. The Traditional model's focus on oral traditions is contrasted with the financial emphasis of the Western-narrow reporting model and the societal focus of the Western-broad model. Section Three presents PIC reporting trends and links this evidence to the three reporting models. Implications and conclusions are then offered.

(2) THREE REPORTING MODELS

Developing countries, in contrast to developed countries, confront low levels of living and productivity, high rates of population growth, dependency burdens, both unemployment and underemployment, dependency on agricultural production and primary product exports, and vulnerability in international relations (Belkaoui, 1994; Evans, Taylor and Holzmann, 1994). Their particular set of societal, political, cultural, economic and organisational attributes belies a conventional Western interpretation of accounting practices in these economies (Wallace, 1999) because Western accounting concepts are based on constructs which are very different from non-Western civilisation (Tinker, 1985). Thus, there is a need for an alternative model which contextualises developing countries' circumstances before explaining their accounting practices.

2.1 Traditional Reporting Model

Various economic classifications of developing countries presented by (Western) multilateral bodies (UN, 1999; World Bank, 2000; and OECD, 2000) fail to explain developing counties' infrastructural characteristics which hinder extensive reporting practices. However, they do provide a useful start in separating the type of economies that can be described as developing. For instance, the World Bank classifies economies as low-income, middle-income and high-income, and refers to low-income and middle-income as developing (World Bank, 2000). These countries tend to have cottage industries, monopolistic practices, weak capital markets, highly centralised governments, a large amount of corruption, a dependency syndrome and low literacy rates which result in ineffective movement of local resources and low demand for accounting services (Amenkhienan, Perumpral and Briston, 1999). Conversely, industrialised countries have a large volume of sophisticated transactions, and more efficient competitive capital markets which necessitates the use of sophisticated accounting practices (Radebaugh and Gray, 1993). The gulf between the economic characteristics of First and Third World countries is reflected in the divide between their respective reporting practices.

Amenkhienan *et al.* (1999) argue that too few indigenous accountants, weak public sector accounting knowledge, growing corruption, lack of professional accounting development and a general lack of awareness of accounting techniques, preclude a western style concept of accounting or accountability for developing countries.

The Traditional-reporting model avers that accounting systems developed in an industrial country are inappropriate because of developing countries' differing trade practices, friendship patterns, language barriers, cultural norms and nationalism (Wallace, 1999). English (or other European languages), which may be the official business language of a developing economy, in fact, may not be spoken by the vast majority of the population, a cultural factor which precludes an easy transfer of accounting systems from the English (or other European) speaking developed world. There has been an assumption from Western literature that the prevalence of English as a first or second language would allow for the easy adoption of UK/US accounting systems (Briston, 1978), but this proposition is challenged by the Traditional Reporting model.

Wallace (1999) mentions the presence in developing countries of a different understanding of authority as exists in the West. In the developing PIC world, the authority of the elder and native administrations (such as the Great Council of Chiefs, village boti and fono) are pre-eminent (ABC, 2001). In many industrialised countries the authority of the law is supreme.

Developing countries also have no state-managed social welfare system as exists in developed countries and thus there is a reliance on the 'extended family' system which has implications on the financial resources of the developing countries' householders (Nicholls and Ahmed, 1995). Social classes in many developing countries are established according to processes largely unrelated to their economies. It is not uncommon for status, power and wealth to be shared by traditional elites, military officers, politicians and bureaucrats. Thus, status is related more to personal and group alignment than to merit. Western authors such as Hofstede (1983) and Gray (1988) attempted to culturally categorise countries. Although ignoring the PIC they acknowledge that a developing country's culture greatly influences accounting systems and, therefore, can affect reporting. By looking through a Melanesian versus Micronesian/Polynesian perspective, this study uses a slightly different lens from Hofstede (1983) and Gray (1988).

A conceptual framework is essential for accounting development in industrialised countries but most developing countries do not have one (Amenkhienan *et al.*, 1999). In addition, Kirkpatrick (1988) argues that the standards prepared by the International Accounting Standards Committee (IASC) are completely inappropriate to developing nations because they are intended for multinational corporations with vast resources at their disposal.

Most of the larger entities in developing countries are government-not-for-profit and government-for-profit (World Bank, 1997; Hagigi and Williams, 1995). Evans *et al.* (1994) aver that when a colonial power leaves, government entities will expand because of the lack of entrepreneurial resources and a strong middle-class. Determining efficiency for government entities is difficult. Whereas the private sector seeks to maximise profits, government entities may seek non-profit (political and social) goals. A government entity might hire more employees than is necessary in order to decrease the level of national unemployment and the social costs associated with joblessness. Millward and Parker (1983) suggest that managers of government entities have more opportunities than private entities for promoting their own welfare at the expense of their employers. Such entities and practices are not within the profit assumption paradigm of Western accounting models. The Traditional model suggests that only minimalist government reporting systems are presented in developing countries, in contrast to the movement towards extensive accrual accounting for Western government entities[1] (Mackintosh, 1999; McGregor, 1999).

Unlike their western counterparts, most developing economies possess few large entities. Any large entity is likely to be either a government-based or a foreign multi-national. Most of the Western-style accounting standards may have little significance to large government non-profit making entities operating in the developing world because of their different agendas. Many entities in the developing world comprise individuals eking out a subsistence living through barter or simple cash exchange. Consequently, simple unwritten accounting concepts such as cash inflows and outflows might serve their bookkeeping needs, as opposed to comprehensive accounting disclosures which are unlikely to have a high priority. Therefore, under the Traditional model only some PIC entities are expected to file annual reports or be timely, and disclosure levels will be low. The Western reporting models are contrasted in the following sub-sections.

2.2 Western-Narrow Reporting Model

In contrast to the Traditional model which embraces the ideals of the interconnectedness link extolled by Western political scientists but raises little preconception of reporting disclosure, the Western-narrow model champions Mill's individual foundation and leans to a narrow economic base of reporting disclosure.

Figure 1 sets out the three models along a reporting spectrum ranging from the Traditional viewpoint, where there is *little incentive to report,* to the wider-based accountability reporting of the Western-broad viewpoint. The Western-narrow viewpoint is positioned arbitrarily along the reporting spectrum between the Traditional and Western-broad viewpoint to indicate that whilst entities have a greater incentive to report to a *narrow* economic stakeholder base than under the Traditional viewpoint, they have little incentive to disclose information to a *wide* spectrum of societal stakeholders as advocated by the Western-broad viewpoint.

FIGURE 1

Three Models to Explain Reporting Practices by PIC Entities

TRADITIONAL VIEWPOINT	WESTERN - NARROW VIEWPOINT	WESTERN - BROAD VIEWPOINT
Little incentive to report	*Narrow - based, economic-based, decision-usefulness reporting*	*Broader - based accountability reporting*
HIERARCHIAL (Ascribed stratified social status)	FINANCIAL FOCUS (Achieved status system)	EGALITARIAN (Broad Democratic Principles)

Because the Western-narrow model focuses specifically on economic and profit-making concerns, it presumes that all entities need to keep fundamental financial bookkeeping or reporting records in order to monitor, and thus assess, profitability and performance. As the level of economic development improves, entities as a whole have the means by which to update more sophisticated practices of accounting.

Factors such as colonial influence, openness to international trade and donations, development of accounting infrastructure and adoption of a Western democratic political system may push developing countries accounting practices within the sphere of Western reporting.

The Western-narrow argument rests on what Belkaoui (1994) calls a "neoclassical dependence model". It sees poor countries dominated by rich countries in terms of the developed countries' power to control world commodities to their advantage, to dominate developing countries through direct foreign investment, to export unsuitable products to developing countries, to dump cheap products on developing countries, to lock developing countries into exporting primary products at low prices, and transfer to the developing an accounting system from the developed country.

The view that developed countries (colonial powers) influence the development of accounting in the developing countries because of a transfer of dominating knowledge, management and skills is coined an ethnocentric view (Belkaoui, 1994). Wallace (1990) outlines four explanations of how developing countries have adopted developed countries' accounting systems: firstly, the 'void theory' posits that a developing country will imitate another country's accounting system if an organised body of knowledge is missing (Wilkinson, 1965); secondly, the 'direct-investment theory' suggests that foreign direct investors impose their countries' accounting systems on the recipient country (Wilkinson, 1965); thirdly, the 'dependency theory' proposes that former colonies bind themselves to former colonisers' accounting systems (Seidler, 1967; Walton, 1986); and fourthly, the 'bandwagon effect theory' claims that some countries simply follow the lead of other countries (Belkaoui, 1994).

The above explanations may well explain the primacy of Western-narrow models in the PIC region. However, aspects such as the movement towards democratic principles could generate a movement towards a Western-broad position. The Western-narrow model is concerned with narrow financial matters. Under such a model there is little incentive for entities to disclose non-financial related issues. However, it is postulated that under both the Western-narrow and Western-broad model that PIC entities will file timely annual reports. The Western-broad model forms the final viewpoint to explain accounting practices of PIC from a wider view of reporting responsibility.

2.3 Western-Broad Reporting Model

Cooper and Sherer (1984) set out arguments of a political economy of accounting which turns away from the notion of emphasising individuals and the associated acceptance of the existing social and political context of entity reporting. Instead, it focuses on the idea of social welfare and society as an aggregate rather than a total of individuals. This interconnectedness is captured in Figure 1 as the Western-broad viewpoint with its emphasis on broader democratic principles and more inclusive and egalitarian ideas than the Western-narrow model. This is a similar logic to Triple Bottom Line Reporting (Elkington, 1999) and similar ideas on mega-accounting theory (Mathews, 1997).

The interconnectedness between economics, politics, culture, history, ideology societal factors is grounded in political economy theory, legitimacy theory and stakeholder theory which are seen as overlapping perspectives within the framework of political economy theory (Gray *et al.*, 1996). These social and political theories attempt to explain social disclosure and other aspects of the entity-society relationship in terms other than purely economic ones. Political economy sees accounting reports as more than the provision of information; it sees them as establishing relationships of accountability (Lehman, 1995), and of responding to competing stakeholders including employees, governments, customers, creditors, environmental groups, suppliers, the public and others with a stake (Adler and Milne, 1997).

Gray *et al.* (1996) argue that political economy theory, when viewed from the bourgeois political viewpoint, can be used to explain Western corporate social responsibility practice. They defined this as "the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large" (p. 3). This process of communicating the entity's interplay between itself and the environmental and social world is recognition of the responsibilities that need to be undertaken for certain actions or for non-action. It is a reporting category that this paper labels

Western-broad reporting practice. Entities are aware that their economic actions are of interest to a growing number of interested parties within society and to the world at large, therefore, they have engaged in voluntary disclosure to discharge their accountability to society for their actions and non-actions (Gray *et al.*, 1987). For example, corporate social responsibility may be used as a tool to construct, sustain and legitimise the political and economic ends of an entity's private interests. Guthrie and Parker (1990) argue that entities use accounting reports to provide information that serve the entities' political or ideological objectives, and are thus motivated by self-interest[2].

Whilst it is clear that Western accounting has been heavily influenced by the utility-based, marginalist neo-classical (Western-narrow) perspective, it is also evident that there has been growing accounting literature on political economic systems based on a broader political science viewpoint. Entities do more than maximising profit. They take on an active role in the behavioural, social and political world as well as an economic one (Parker, Ferris and Olley, 1989). Accounting itself is considered more broadly than the traditional and financial base with which it was once concerned. The dominant social paradigm in the Twentieth Century was characterised by a belief in growth, prosperity, progress, science, technology, private property rights, laissez-faire economies and the domination of nature (Pirages and Ehrlich, 1974). However, the traditional role of the Western accounting profession, preoccupying itself with technical measurement, can be seen as mechanistic, blinkered and rigid (Parker, *et al.*, 1989).

Conventional Western accounting thinking, based on reductionism[3], has been criticised for its propensity to cause misunderstanding (Gray, *et al.*, 1996). Its narrow image is the basis of conventional western accounting practice's characteristics (Laughlin and Gray, 1988). Its presumption that we live in a liberal democratic world is also questioned (Gray, *et al.*, 1996). Certainly in many developing countries (including the PIC), democracy has been fully put to the test with recent coups, corruption, ministerial murders and money laundering. Social, economic, psychological and political elements are all present in an entity's activities (Gray, *et al.*, 1987). Moreover, the Western-narrow paradigm has been shaken by a rise in concerns over the environment and the functioning of life supporting ecosystems (Meadows and Randers, 1992), and a shift to what Geno (1995) calls the New Environmental Paradigm.

In a PIC (developing country) context, the impact of international multilateral organisations' demands for environmental and human resource accountability from donee entities may broaden the reporting practices of government and non-government PIC entities. If this broader sense of societal concerns is adopted then PIC entities would move towards a Western-broad reporting model legitimising their actions to powerful donor country expectations and satisfying stakeholders which embrace both regional[4] and international players. This legitimisation would be accomplished by the communication of timely reports with extensive disclosures on a wide spectrum of issues. The following section links the reporting expectations of each model to actual PIC entities' disclosure trends.

(3) LINKAGE OF MODEL EXPECTATIONS TO ACTUAL PIC REPORTING TRENDS

Each model contains within it certain postulated trends of reporting practices. These postulates and their linkage to PIC entities annual report patterns are listed below.

3.1 Model Linkage

Six reporting criteria are examined to link the models to actual PIC reporting practices. These criteria are:

- Likelihood of a PIC entity to *file* a general purpose annual report;
- *Timeliness* of the annual report;
- Level of *aggregated overall* level of disclosures (as measured by the AAD index);
- Level of *core statement* disclosures (as measured by the CSA index);
- Level of *financial* disclosures (as measured by the FRA index); and
- Level of *non-financial* disclosures (as measured by the NRA index);

Table 1 lists the postulated trends of the PIC entities for these criteria in terms of each reporting model.

TABLE 1
Postulated Reporting Trends of the Three Models

CRITERIA	TRADITIONAL	WESTERN-NARROW	WESTERN-BROAD
Filing	*Moderate level of* PIC entities will file general purpose financial reports.	*All* PIC entities will file general purpose financial reports.	*All* PIC entities will file general purpose financial reports.
Timeliness	*Moderate* level of timely annual reports issued.	*High* level of timely annual reports issued.	*High* level of timely annual reports issued.
Aggregated Accounting Disclosures (AAD)	*Low* level aggregate disclosures.	*Moderate* level aggregate disclosures.	*High* level aggregate disclosures.
Core Statement Accounting (CSA)	*Low* level of core disclosures.	*High* level of core disclosures.	*High* level of core disclosures.
Financial Related Accounting (FRA)	*Low* level of financial disclosures.	*High* level of financial disclosures.	*High* level of financial disclosures.
Non-financial Related Accounting (NRA)	*Low* level of non-financial disclosures.	*Low* level of non-financial disclosures.	*High* level of non-financial disclosures.

Because of its elite hierarchical preferences, the Traditional model proposes that entities will not always file annual reports and when they do they may not be timely. They will tend to have low levels of all types of disclosures. The low level of transparency could be a cultural attribute; Hofstede (1983) and Gray (1988) posit that secrecy can be driven by culture. The postulated trends for the Western-narrow model are for filed and timely reports with high levels of core and financially-oriented data, with less non-financial disclosures. Finally, the Western-broad model would postulate extensive reporting practices for all criteria.

The measurement criteria for these postulates are problematic. There is no known research in this area that can offer definitive ranges to operationalise these ordinal categories. Therefore, a 'preliminary' set of benchmarks is evolved. *Few/Low* reporting practices are assumed to fall between 1-33%, *Moderate* disclosures are considered to be those between

34-66%, *High* disclosures are those between 67-99% with *All* being 100%. Most PIC countries require entities to file timely reports (for example the PNG Moresby Stock Exchange requirements are for filing of reports within 90 days after financial year end and follow those of the Australian Stock Exchange), therefore PIC entities filing within 90 days are considered timely and those later than 90 days are considered untimely.

3.1 PIC Entities' Reporting Patterns (1997-1999)

The models are tested using evidence from 86 PIC entity annual reports for the time period (1997-1999). The patterns of filing, timeliness and disclosure trends are discussed below.

Filing patterns

Filing patterns can be measured in several ways. The overall response rate can be examined, the actual stated number of non-filers can be computed and/or an estimated number of non-filers can be projected. All these approaches show a pattern that is consistent with the Traditional model postulate that there is a moderate level of PIC filers of annual reports.

In June 2000 there were 500 letters dispatched to entities in PIC requesting their most recent annual report and to be put on their mailing list. In February 2001 a follow-up letter was sent to all non-respondents. A total of 131 reports were received. There were 86 unique entity reports in the 1997-1999 study time period; 24 repeat reports from the same entity (in different years) and 21 reports from earlier years (from 1992-96 i.e. outside of the study period). The 86 unique entity reports used in the study (23 in 1997, 33 in 1998 and 30 in 1999) represents an overall 17.2% response rate (See Table 2). This response rate is low compared to other international disclosure studies, therefore, concerns are voiced about the ability to completely generalise these results to the PIC entity population. Williams (1999) also noted lower levels of report availability from developing countries. Moreover, the low response rate seems to reflect extant reporting in this region.

Letters were received from 67 PIC entities explaining reasons for not sending the annual report: three entities requested money; eight entities cited printing or publishing difficulties, and 56 (11.2%) stated they did not produce them.

TABLE 2
PIC Entity Report Filing Status

STATUS	NUMBER	PERCENT-AGE	SUB-TOTAL	
Number Filing (1997-1999)	86	17.2%		
Number Early years only (pre 1997)	21	4.2%		
Sub-total: Respondents indicating possibility of filing	107		21.4%	**Known Filers**
Number of PIC entities stating financial and/or printing problems	11	2.2%		
Number of PIC entities stating no report will be filed	56	11.2%		
Sub-total: evidence of non-filing	67		13.4%	**Known Non-Filers**
Number of PIC entities not responding in any manner	326	65.2%	65.2%	
Total Requests Sent	500	100%	100%	
Projected Number of Additional Non-filers Non respondents (326) x ratio of known non-filers to known filers	326 * 67/(67+107) = 126 Estimated additional non-filers (25.2%)	200 Estimated additional filers		

To summarise, 17.2% actually filed at least one report between 1997 and 1999 and a further 4.2% had filed in earlier years. Over 65% of the PIC entities did not respond. Only 21.4% of PIC entities have filed any report (timely or not timely). There is, thus, a maximum possible non-filing ratio of 78.6%. An estimated number of non-filers can be computed of known non-filers plus a projected number of additional non-filers as extrapolated from the ratio of known non-filers to known filers. This estimate of 38.6% (13.4%+25.2%) non-filers provides support for the traditional model's de-emphasis on written reports (moderate level 34-66% benchmark).

Timeliness of annual reports

Table 3 reveals the timeliness of PIC entities' (1997-1999) annual reports. The time from the financial year end to the date on the Directors' report was used (or in its absence the date on the audit report). This is likely to be a conservative figure in that the actual filing timeframe date could be much later. Means, medians, ranges and the frequencies of the reports filed timely criterion (90 days or less) are shown for each year.

TABLE 3

Timeliness of PIC Entity Annual Reports (1997-1999)

	1997	1998	1999	TOTAL
Sample size	16	21	23	80
Mean (days)	146.5	108.0	93.2	112.6
Median (days)	146.0	97.0	76.0	91.0
Range (days)	28-331	56-320	22-244	22-331
Frequency (% of reports that were filed in 90 days or less)	43.8%	47.6%	56.5%	50.0%

Note: only 80 of the 86 reports were dated

It was postulated that a *moderate* (33-66%) number of PIC entities filing timely reports would be consistent with the Traditional model and a *high* (over 67%) number of timely reports is consistent with the Western models. Table 3 shows timeliness patterns presented in a variety of ways are consistent with the Traditional model. The mean reporting timeframe of 112 days exceeds the benchmark date. However, the mean is skewed by several very late reports. The median average of 91 days is consistent with the frequencies that only 50% of reports were filed within 90 days.

There is a trend of improving frequency of filing and falling median/mean number of days to file over the sample time period. However, Table 2 showed that at least eleven reports (and potentially 200 more) still may file. 21 entities stated that their most recent reports were from 1992-1996, 23 organisations most recent filing was 1997 and 33 entities last filed in 1998. Thus, a whole raft of entities have failed to file within the last twelve months. The Western models' expectation of timely reports is not apparent in PIC countries.

TABLE 4
Disclosure Indices' Categories

INDICES	SPECIFIC ITEMS
Core Statement Accounting (CSA)	Income Statement Balance Sheet Statement of Cash Flows Footnotes Audit Report Management Report
Financial Related Accounting (FRA)	Segment Reporting Related Party Transactions Summary of Accounting Policies Directors Shareholders Asia Crisis Millenium Bug
Nonfinancial Related Accounting (NRA)	Environment Energy Human Resources Products & Customers Community Involvement Health & Safety Overview
Aggregated Accounting Disclosures (AAD)	Twenty items from the three indices: Core Statement Accounting (6) Financial Related Accounting (7) Nonfinancial Related Accounting (7)

Note: Consistent with past accounting literature a dichotomous score was calculated for each item (0 for non-disclosure and 1 for disclosure). Each index was calculated as the average score of the relevant topic items.

Disclosure indices

The evidence phase of this study also examines the presence/non-presence of twenty accounting items for each PIC entities' annual report. Marston and Shrives (1991) noted the frequent use of such indices to proxy for entity disclosures. The index item list is derived from past accounting disclosure literature (see Meek *et al.*, 1995; Williams, 1999; Purushothaman *et al.*, 2000 for reviews). The overall aggregated index is labelled AAD. To evolve more focused analysis these twenty items are placed in three mutually exclusive categories (see Table 4) to generate three sub-indices.

Core Statement Accounting (CSA) disclosures are considered to be the basic big picture accounting elements. The CSA measures the presence of six major items: Income Statement, Balance Sheet, Statement of Cash Flows, Footnotes, Audit Report and Management Report. These items provide an overview of core reporting patterns. Financial Related Accounting (FRA) focuses on the financial disclosures of key issues. These issues are: Segment Reporting, Related Party Transactions, Summary of Accounting Policies, Directors, Shareholders, Asia Crisis and Millenium Bug. The first three items are some of the most important International Accounting Standards on disclosure issues and all focus on financial aspects. Meek *et al.* (1995) noted the importance of Director and Shareholder data; this data is expressed in financial terms (ie. option and share values). The final two elements (Asia Currency Crisis and Millenium Bug) are recent critical items likely to influence Asian-Pacific countries (Purshothaman *et al.* 2000). Non-financial Related Accounting (NRA) disclosures are focused on non-monetary information items. The NRA index encompasses the remaining seven items in the Meek *et al.* (1995) list of accounting disclosures. The Aggregated Accounting Disclosures (AAD) provides an overall index score by totalling the other indices. Table 5 highlights the reporting patterns of all four indices.

There is a *moderate* level of overall aggregated disclosures (51.5%) with *high* levels of core reporting (76.2%) and *moderate* levels of financial and non-financial disclosures (42.2% and 39.9% respectively). The PIC entities reporting patterns fail to support the Western-broad model. These trends fall between the Traditional and Western-narrow models. The *moderate* level of most of the indices is higher than what was predicted under the Traditional model. The *high* level of core reporting and *moderate* level of aggregated disclosures is consistent with the Western-narrow. However, *moderate* levels of financial disclosures (42.2%) are clearly inconsistent. The indices are generally consistent across the three years, albeit with a generally falling trend of disclosures.

TABLE 5
PIC Entities' Disclosure Patterns

	1997	1998	1999	TOTAL
Sample Size	23	33	30	**86**
Core Statement Accounting (CSA)	84.1%	71.7%	75.0%	**76.2%**
Financial Related Accounting (FRA)	46.0%	47.2%	33.8%	**42.2%**
Nonfinancial Related Accounting (NRA)	41.0%	38.1%	41.0%	**39.9%**
Aggregated Accounting Disclosures (AAD)	**55.7%**	**51.4%**	**48.5%**	**51.5%**

(4) IMPLICATIONS AND CONCLUSION

The three evolved reporting models lead to predictions of differing reporting trends. The evidence obtained by 86 PIC reporting entities over a three year period finds support for the Traditional model with some aspects of Western-narrow present.

The actual or projected non-filer rate is clearly not consistent with the Western models' prediction of complete filing. Based on the responses received, a significant number of entities completely fail to generate annual reports, or are several years behind the reporting cycle or are unwilling to disseminate their reports. From a Western-broad and Western-narrow perspective, these impediments raise concerns about the overall accountability of PIC entities and the ability of their stakeholders to make useful economic decisions. However, the lack of current annual reports is consistent with a Traditional reporting perspective in PIC countries. Similarly, the lack of timely reports (at least 50%) fits much more with the Traditional model than with either Western model.

The trends of PIC entity disclosures lends no support for the Western-broad model and partial support for the other two models. Whilst the Western-broad model represents an alternative viewpoint of explaining accounting practices by PIC entities, the evidence shows that none of the nine PIC currently falls under that end of the reporting spectrum. The reasons for this are manifold. In developing countries, there is an insufficient awareness of the value of accounting as an administrative and financial control (Dominguez, 1976), a dearth of qualified accountants (Enthoven, 1983), an element of corruption that runs through the government and political sector (Briones, 1987; World Bank, 1997), and a lack of clear direction for accountability because of the absence of generally accepted accounting standards (Ghartey, 1987).

The Traditional-reporting model states that accounting systems left behind by colonial administrations are largely ignored because they do not serve the needs of developing economy characteristics and cultures (Wallace, 1999). The traditional model based on localism, cultural relativities and oral conventions weakens the effectiveness of transfer of accounting from past colonial administrations and accompanying Western business practices. Conversely, Western models assume some form of transfer of dominant colonial accounting systems (Nobes, 1998). Additionally, the Traditional-model posits that accountability systems imposed through development assistance disappear once a development project ends as there is little economic incentive to retain them as aid agencies' funding or expertise no longer exists to run the systems (Wesberry, 1984).

Nobes (1998) argues that developing countries will eventually revert from their colonial inherited (Western style) systems to their historical/traditional patterns. The disclosure indices demonstrate a falling trend over the three years. ANOVA tests show the changes are insignificant for three of the indices. However, the key Western-narrow 'financial' disclosures had a statistical significant drop (p-value .042).

Future research is needed to further examine these issues. Obtaining a bigger sample would allow for bigger cell sizes for statistical testing and enhance the ability to generalise the results to PIC countries. However, the low number of reporting entities in this region and their predilection for not publishing reports will always be problematic. A longitudinal study would increase understanding of disclosure trends over differing economic conditions. Moreover, other proxies (for Western-narrow, Western-broad and Traditional reporting variables) could be examined to see if they better measure such attributes in the unique PIC region of the world.

As in all empirical studies, there are several inherent assumptions and limitations. First, the low annual report response by entities, although perhaps indicative of the region, makes it difficult to offer definitive conclusions concerning the research findings. Second, the proxy and benchmark measures used in this study, based primarily on the models of Western-narrow and Western-broad, may need to be reconsidered to better represent this developing region of the world. Such an examination could consider the unique influence of institutions such as the World Bank and other supra-national funding bodies and the large role played by the various PIC governments. Third, all the index items listed in Table 4 were treated as equally weighted for analysis purposes. However, stakeholders might have very different preferences. A survey of domestic and international PIC stakeholders could better ascertain what types of disclosures are consider most important; this would allow for a defendable creation of a weighted disclosure index.

ENDNOTES

[1] Mackintosh (1999) notes that in the light of some economic disasters in the developing world, international lending agencies want both private and government entities operating in developing countries to adopt accrual based reporting. Further, Mackintosh (1999) suggests some government entities of developing countries are making overtures to move towards accrual based reporting.

[2] From the individual rationalist and marginalist argument of political economy evolved the theory of costly contracting and agency theory which suggests that increased disclosure benefits entities because it reduces agency costs (Jensen and Meckling, 1976). The level of an entity's disclosed information is a function of costly contracting relations between management and shareholders and assists the principals (shareholders) to monitor the agents' (management) activities in a cost effective way (Jensen and Meckling, 1976). Managers provide voluntary information because they bear the agency costs, and as agency costs increase their incentive to disclose more information also increases (Chow and Wong-Boren, 1987; Bradbury, 1992). Managers, because of their access to superior information, voluntarily disclose more information if they consider equity to be underpriced (Verrecchia, 1983; 1990. Healy and Palepu (1993)

suggest that changes to disclosure lead to changes in the financial market's assessment of an entity's performance and its cost of capital. Information asymmetry is reduced if voluntary information increases, and results in improved liquidity of an entity's shares in markets (Welker, 1994) and thus lead to more shares being held more widely (Diamond and Verrecchia, 1991). Lang and Lundholm (1996) found that the market analysts stakeholder group was particularly interested in the amount of an entity's voluntary disclosure, because increased disclosure gave analysts an opportunity to improve their assessments of market expectations, reduce information asymmetry and be less surprised by market changes. Additionally, greater voluntary disclosure results in increased liquidity and reduces asymmetry which results in rising institutional investment (Kim and Verrecchia, 1994).

[3] Which is the study of a part without an understanding of the whole from which the part derives.

[4] South Pacific Forum Secretariat requires member countries to coordinate regional development issues, liaise with regional and multilateral agencies and seek advice on natural resources, and social and gender issues (South Pacific Forum Secretariat Annual Report 1998-99).

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