

The major accounting firms and development prospects for small Pacific Island Nations

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Abstract

The paper looks at the different ways the small island nations of the Pacific participate in the international economy. It is argued that involvement in international tourism and off shore finance activities is not enough to solve the growth problems facing small nations in the area. The authors stress the role of various business oriented services in facilitating international business operations and with them the linkages that such operations provide. Among those are the financial and legal services managerial consulting services, technical services related to engineering and construction. Of special importance is the ever increasing range of services offered by major accounting firms who have become international businesses in their own right.

1. Introduction

In recent years advances in transportation and communications have brought with them the emergence of a truly global economy. That economy

can only be further strengthened by the end of the Cold War and the breakup of the former Soviet Union. International business interests which were already significant can be expected to expand in importance as foundations for international linkages are replacing more ideological considerations.

In the new international climate traditional relationships are declining, new trading blocks are emerging, and nations large and small are being forced to reappraise their roles. In a world connected by business interests even the largest and wealthiest nations are finding incursions into their economic sovereignty on the part of the global economy.

Amongst the smallest nations of the world international linkages seem unavoidable if they hope to improve their material positions. To begin with such jurisdictions find it necessary to import a wide range of products which although needed cannot be produced locally due to insufficient markets. Import requirements and the need to balance them with exports underline the need for small economies to become active participants in the global economy.

Some small nations are in a better position than others to improve their circumstances by participating in the international economy. The nations of the Caribbean for example may be thought to have better prospects than those of the South Pacific due to their proximity to large North American markets (McKee and Tisdell, 1990). However to benefit from markets, nations must have something to sell. Faced with declining advantages from the sale of primary products and limited successes in manufacturing many Caribbean nations have turned to services which can be sold internationally to bolster their international linkages, not to mention their growth prospects (Amara, 1993a and b).

Although some small nations in the Caribbean and elsewhere have registered considerable success in certain services, international tourism and offshore finance for example, such pursuits are far from a universal prescription for the growth problems facing small nations. For instance various nations in the South Pacific may not be able to rely upon such services to the extent prevalent in the Caribbean.

In spite of this, various business oriented services which are less visible perhaps than tourism and offshore finance are playing major roles in facilitating international business operations and with them the linkages that small nations require to the world economy. Indeed such services may also be instrumental in strengthening the development prospects of the economies that house them. In settings like the South Pacific, where distance may preclude service involvement in the nature and scale of that which is evident

in the Caribbean, services which facilitate business may prove to be especially significant.

Among services which facilitate international business operations are those related to transportation and communications. Beyond those service cadres are various forms of financial and legal services, managerial consulting services, technical services related to engineering and construction and of course the ever increasing range of services offered by major accounting firms, who have become international businesses in their own right.

Services such as those offered by the major accounting firms may be especially instrumental in strengthening developmental prospects in small jurisdictions such as the island economies of the Pacific. The aim of the present paper is to offer some specifics concerning how the major firms are involved in such jurisdictions and what that involvement may mean for development prospects. The groundwork for the argument is laid by a brief discussion of development prospects facing the island economies in question. Following that the services which the firms are offering are discussed. Hopefully the result will be a more explicit realization of the significance of facilitative services such as those offered by the accounting firms to the Small Island Nations (SINs) of the Pacific.

2. An appraisal of development prospects

Among the factors impacting the development potential of the small islands of the Pacific has been their positioning in the world's largest ocean. Linkages between them and the more developed parts of the world have had a rather brief history. Some may assume that recent advances in transportation and communications have rendered the island states in question more accessible and perhaps better able to improve their economic circumstances. Unfortunately real world circumstances may not justify such an optimistic assumption.

It seems clear that small nations must rely upon linkages with the global economy if they hope to improve their economic circumstances. Despite improvements in transportation and communications which have made the global economy possible, many small island economies in the Pacific appear to be facing limited development potential due to inadequate external linkages. Remoteness coupled with the smallness of their markets and limits to what they themselves can offer in external markets have impeded their economic progress.

It has been recognized that "Pacific island countries differ widely in their

resource endowment and their capacity to achieve economic growth" (Fairbairn, 1985: 45). Fairbairn identified larger island countries such as Papua New Guinea (PNG) and Fiji as possessing the best prospects for expansion, predicting major changes in their economic and social life as "manifested through such avenues as the attainment of higher levels of social and welfare services; greater diversification of economic activity; stronger involvement in foreign capital; accelerated urbanization; and a further decline in subsistence activity" (Fairbairn, 1985: 45). In addition to those jurisdictions, he included the Solomon Islands, Vanuatu and "arguably New Caledonia" among jurisdictions which he considered to be growth economies (Fairbairn, 1985: 46). Collectively Fairbairn's growth economies accounted for 3.7 million persons or 84 % of the total population inhabiting the Pacific islands.

Those jurisdictions, Fairbairn suggested, had the potential for cumulative economic growth and structural diversification. Less fortunate in his eyes were Western Samoa and Tonga which he set forth as jurisdictions with limited expansion prospects. Those countries face rather serious developmental constraints not the least of which are "continued vulnerability to international trade instabilities and rapid population growth" (Fairbairn, 1985: 50-1). Fairbairn was even more pessimistic concerning Kiribati, Tuvalu, Tokelau, Nauru and the Cook Islands which he sees as no growth economies and the problem economies of the region.

It seems as though growth prospects among the SINS of the Pacific are less than robust. Fairbairn is not alone in that prognosis (e.g. McKee and Tisdell, 1990). Distance and isolation, resource problems and burgeoning populations have combined as impediments to growth. A reliance upon primary exports has made needed imports increasingly difficult to obtain. Import substitution is constrained by the smallness of domestic markets. By and large export oriented manufacturing has not emerged as a stimulus to growth.

If it appears as though primary and secondary pursuits have been unable to produce adequate expansion records for the jurisdictions in question it seems reasonable to ask whether or not service activities may be able to reduce the void. If they can, they will be reducing the problems of foreign linkage so prevalent in the region.

Writing in 1993 Yosra A. Amara suggested that services which are traded internationally are very supportive of the growth prospects of small economies (1993a). Services can often accomplish what agriculture and other primary activities, not to mention manufacturing have failed to do. Where

they are successful they earn needed foreign exchange while at the same time expanding employment opportunities in domestic economies. Amara has presented evidence vis a vis the parts played by various services in strengthening certain Caribbean economies (1993b).

Although there are some parallels between the SINS of the Caribbean and those of the South Pacific (McKee and Tisdell, 1990), it may be difficult to use events in the Caribbean as a basis for understanding what can be expected in the Pacific. The islands of the Pacific have received few of the assumed benefits from improvements in transportation and communication. Such improvements can only benefit locations that have reasons for linkages with the global economy or specific foreign jurisdictions.

3. The impact of the accounting firms

It seems clear that various jurisdictions may benefit from the rise of service subsectors in their economies. There are business services that can strengthen domestic economies, which have no linkages to dramatic service subsectors such as tourism or offshore finance. Among such services are those provided by the large international accounting firms.

"International accounting services have grown in keeping with the needs of international business or, perhaps more accurately, in keeping with the needs of the international economy" (McKee and Garner, 1992: 72). The international accounting firms have been willing to establish themselves wherever they are needed. By opening branches in emerging nations they are linking their host countries to the global economy while strengthening them domestically. The fact that the firms have emerged in the SINS of the Pacific is encouraging for it suggests that they feel that they can do so profitably or at least that competition and the needs of their customers justify their emergence.

The Big Six accounting firms have partners in various SINS in the Pacific (Bavishi, 1991). Papua New Guinea boasts the largest concentration at 20 followed by Guam with 12. Jurisdictions controlled by France had 10 partners (New Caledonia six and Tahiti four). Fiji and the Solomon Islands held four and three partners. Among the remaining economies the Northern Mariana Islands boasted two and the Cook Islands and Western Samoa each had one partner.

The presence of the accounting firms may contribute positively to growth prospects. They are a source of accounting techniques which can improve procedures used by local clients. The training of local accountants and

demonstration effects from their operations can impact local businesses and the domestic economy. The firms' international expertise may make foreign linkages more feasible. It seems clear that the international accounting firms are among those service firms which both facilitate and nurture business enterprises whether domestic or foreign.

Many manufacturing operations rely upon accounting and other service firms for specialized assistance. In addition to the employment opportunities which such firms offer, "the services themselves, through the linkage functions that they perform, add jobs to national economies and, on the international playing field to the world economy as well" (McKee and Garner, 1992: 78). The international accounting firms seem fully capable of impacting development in the SINS which house them.

Elsewhere the role of the accounting firms as service facilitators has been discussed (McKee and Garner, 1992, 79). Their auditing activities assist in establishing order in business circles where they are exercised. They establish standards for reporting business and financial data which render such information more credible. Their importance has been increased with the expansion of their service offerings.

It seems clear that the accounting firms can have positive impacts upon the economies of the SINS which host them in the Pacific. Accounting services can increase the operating efficiency of business in such jurisdictions and various consulting services may further augment that impact. If the overall impact of the firms is to increase the interest of international business elements then they have contributed to strengthening the international linkages of the jurisdictions concerned.

The question was posed as to "why international accounting firms elect to enter particular Third World jurisdictions, particularly those that are among the smallest and poorest" (McKee and Garner, 1992: 79). That question is certainly relevant in the Pacific island economies where the firms are operating. Although profit potential is central to location decisions on the part of the firms, in addition they may feel the need to expand their service networks to reduce the risk of a declining customer base. Certainly they will establish new bases to retain or augment their accounts. "Thus it would appear that many decisions to expand are driven by the need on the part of the firms to maintain their international competitive positions" (McKee and Garner, 1992: 80).

Their existence in various SINS in the Pacific suggests developmental potential for such locations. Their presence will undoubtedly improve the efficiency of the economies in question or at least that of operations in their

modern sectors. Of course their presence may absorb or eliminate local firms but it may bring with it stronger international linkages and economic expansion. Where local firms are absorbed by expanding international firms their members and/or employees should gain improved access to state of the art operating techniques.

As suggested elsewhere (McKee and Garner, 1992) services provided by the firms may go well beyond traditional auditing functions. In fact the firms provide a wide and expanding range of consulting services to public and private clients in numerous locations throughout the world. These services may be provided through the firms' offices in developed nations or may be supplied by local branch offices where traffic warrants such staffing.

When non-traditional services are added the firms' roles as facilitators of business and economic endeavors are broadened. Examples of the wide range of consulting activity that the international accounting firms can undertake can be seen in various guide books produced by Price Waterhouse for use by their clients. Those publications also provide basic business, economic and legal overviews of various nations. The SINS of the Pacific with guide books produced by the firm include Papua New Guinea, Fiji and Vanuatu, three economies listed by Fairbairn amongst those most likely to succeed.

It seems clear that Price Waterhouse and presumably other large accounting firms are well aware of their potential impacts. "With its worldwide network of specialists, Price Waterhouse is particularly well placed to meet the changing needs of international business. It is uniquely equipped to advise in matters relating to international operations, not only in individual countries but on a regional or global basis" (Price Waterhouse, 1990: 152).

In Papua New Guinea, Price Waterhouse through their Australian firm, has offices in Port Moresby and Lae which service a wide area. They have three partners, a total staff of twenty-five and "a significant group of consultants engaged on management consulting assignments" (Price Waterhouse, 1990: 152). The distribution and nature of operating personnel suggests how the firm has prepared itself to do business in the Papua New Guinea market. Each office has a resident audit partner, supported by expatriate audit personnel and local staff. The firm sees an advantage in training local staff, which in turn can have a positive impact upon the domestic economy.

From their statement of purpose it is clear that Price Waterhouse intends a positive, and expanding role in Papua New Guinea (Price Waterhouse, 1990: 154). The firm while supplying client needs, is concerned as well for the development of accountancy. Presumably this firm would carry such

intents with it to any jurisdiction it enters. It is probable that any accounting firm competing internationally share similar purposes.

The breadth of the Price Waterhouse's role can be seen in the intent, "[t]o adopt a comprehensive and integrated multi-discipline approach to the provision of services, based on an understanding of the requirements of each client" and "[t]o be part of a strong worldwide organization serving clients on an international basis" (Price Waterhouse, 1990: 153). In addition to basic accounting services Price Waterhouse has a wide variety of offerings in Papua New Guinea. Included are such things as taxation and exchange control, management consultancy, corporate reconstruction and insolvency, business advisory, corporate secretarial, government liaison and the recruitment of personnel together with training. With such an array of services the firm has a major potential for impacting the economy.

The firm offers international tax planning, the preparation of returns and advice on exchange control matters. Such services by attracting international clients and thus international financial capital, should serve to increase the integration of Papua New Guinea into the global economy. This in turn "may provide higher levels of needed foreign exchange, more employment opportunities in the domestic economy, and presumably economic expansion" (McKee and Garner, 1992: 85). Of course such benefits may reduce economic sovereignty as the domestic economy becomes more closely linked to foreign elements. Such adjustments should concern development specialists in Papua New Guinea and other small island jurisdictions where they may be occurring.

Price Waterhouse Urwick, the management consulting arm of the parent firm in Australia, offers a wide range of services. "By making use of the worldwide network of Price Waterhouse, the firm is able to supplement the skills of its own consultants with the skills of other consultants in specialized areas and industries" (Price Waterhouse, 1990: 154). The firm covers the majority of business functions including general management, information technology, finance, manufacturing, marketing, and matters related to human resources. It seems clear that any international accounting firm offering such services is involved in matters impacting not just clients but also the jurisdictions that house them.

Price Waterhouse offers assistance to firms in recruitment and in conforming to local laws and regulations. They also assist in carrying out reviews relating to management decision making, forecasting and marketing. The firm arranges the incorporation of subsidiaries and the registration of foreign companies. It arranges immigration clearances and work permits. It

prepares localization and training programs and helps businesses in setting up accounting systems and in maintaining accounting records.

The international accounting firms can impact host economies through governments and quasi public agencies, as does Price Waterhouse in Papua New Guinea. "We are able to provide positive assistance in liaising with a wide range of government departments and instrumentalities, vital in setting up and maintaining a business operation in Papua New Guinea" (Price Waterhouse, 1990: 155). Thus the firm offers its services to assist foreign firms wishing to establish themselves in Papua New Guinea. Price Waterhouse or its rivals may also offer their consulting services to governmental agencies directly. In either type of service developmental impacts appear likely.

Price Waterhouse Australia has also developed a practice in Fiji. The firm began in Suva in 1957 and expanded to Lautokes in 1968 "to service the increasing volume of work for individuals and organizations, including their branches on the western side of Vita Leva" (Price Waterhouse, 1989: 84). The firm also services Tonga, Western and American Samoa, Solomon Islands, Vanuatu and New Caledonia from Fiji. Although many of those smaller island nations may have little to attract the accounting firms as permanent residents, Price Waterhouse operations indicate how services can be offered regionally from a single base. Of course the islands concerned are potential beneficiaries. In addition such linkages whether established by Price Waterhouse or its rivals may encourage international linkages within the region.

Price Waterhouse has two partners and a staff of 60 in Fiji. They indicate that 30 employees are fully qualified while the remainder are in the process of training (Price Waterhouse, 1989: 85). Such training if offered on an ongoing basis to local workers is a contribution to the strengthening of the economy. The services offered by the firm in Fiji are basically similar to those available in Papua New Guinea. Thus there is little need to repeat the discussion of individual services in detail. Suffice it to say that the firm is in a position to impact the economy of Fiji and other economies, listed above from its Fijian base.

Although Price Waterhouse offices in Fiji do maintain linkages with clients in Vanuatu, the firm does have an office in the latter jurisdiction. "The Vanuatu practice is a part of the Price Waterhouse Australasian Firm and operates from an office in the capital of Port Vila. Clients over a wide area of Vanuatu are served from this office" (Price Waterhouse, 1992: 63). The firm indicates that through its offices around the world it can "provide distinctive comprehensive service on an integrated basis to global clients with

operations based in Vanuatu" (Price Waterhouse, 1992: 64). Clearly Price Waterhouse or its rivals can focus a wide range of services on clients in small economies.

4. A final overview

It seems clear that the major accounting firms have the potential for very significant impacts in the SINs of the Pacific. Such impacts may be higher in relative importance the smaller the jurisdictions concerned. If the firms through their traditional auditing and accounting functions prompt improvements in accounting and record keeping practices among local businesses the domestic economy is strengthened. If the firms contribute directly or indirectly to the training of local accountants at various levels positive spinoffs may permeate the business community. The various consulting services offered by the firms have great potential for strengthening client firms that utilize them. In cases where such services are engaged by government agencies public practices may be rendered more efficient.

It would be overstating the case to imply that the SINs of the Pacific will prosper in direct proportion to the presence of the major accounting firms. However the firms in question are members of a group of services that facilitate business operations in both domestic and international settings (McKee, 1988). In the SINs of the Pacific the firms where they exist may be instrumental in strengthening the international linkages enjoyed by their hosts. In doing so they add extra impetus to the forces of growth and development.

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Özet

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