The Political Economy of Accounting Change - The Case of Albania

by

Petar Sudar

A thesis submitted for the degree of PhD

at the University of Strathclyde

Department of Accounting and Finance

University of Strathclyde

2007

Acknowledgements

The completion of this study would not have been possible without the encouragement and support given to me by a great number of people.

I am very grateful to the Accounting and Finance Department of the University of Strathclyde for providing me with a scholarship, and creating an active and dynamic research environment.

Dr. Penny Ciancanelli, my supervisor, encouraged me to pursue a PhD degree, helped me with various scholarship arrangements and provided guidance. Her seminars on accounting helped me understand the philosophy of accounting.

Prof. Doug C. Pitt, my supervisor, encouraged me enormously throughout my studies and provided me with excellent help, guidance and support.

Prof. Anthony Clunies-Ross of the Economics Department of the University of Strathclyde, corrected my work so patiently, supported and encouraged me, and helped me understand the complexity of many issues.

I would also like to thank all the other members of the Accounting and Finance Department of the University of Strathclyde and all my PhD colleagues for the support and encouragement, my friend Niall Levine for the help, support, encouragement and useful comments on earlier drafts of this thesis, my friend Elona Tepshi for supporting me and believing in my ability to succeed, my friend Entela Musaraj for all the support and encouragement during my studies and for helping me enormously during my field research trips to Tirana, my friend Dhurata Thanasi for the help and support during my field research trips to Tirana, Pamela Kilpadi - the project manager of the International Fellowship Programme of the Open Society Institute, Budapest, for encouraging me and supporting my research work, and Sebastian Bretag for all the technical help, support and interesting ideas. Special thanks go to my brother in law, Christopher Hire, for simplifying some of my complicated ideas and helping me with the diagrams, Mrs. Jean Pitt for the encouragement and hospitality, and Mrs. Florence and Mr. Fred Levine for the hospitality, help, support, and encouragement during my wonderful years of studying and living in Glasgow.

Finally, I would like to thank my mother Vasilika, my father Nikolla, and my three sisters Mileva, Ljubica and Gordana who have been a constant source of love, support and understanding, and lastly, my wife Margarita, whose love, support, patience and encouragement helped me enormously during the tough times of writing-up.

All errors and omissions remain with me.

Petar Sudar

... to the one who taught me how to write ...

Abstract

The change of accounting system has been a part of Albania's transition from the centrally planned to market economy that started in the early 1990s. Accounting changes in Albania however, have not been documented and study. Furthermore, the review of literature on accounting in developing countries and that on accounting developments in Central and Eastern Europe of the 1990s evidences the need for critically studying the development and role of accounting in the economic and social context of countries such as Albania.

By utilising Perera's contingency based approach this study thus analyses accounting developments in Albania during the period 1992 - 2002. In a number of important respects Albania has differed from all or almost all the other Central and East European economies in transition and other developing countries. It has differed in its starting point of the reform, in its mode of adjustment, and in its reform outcomes. It has differed in its successes and in its failures. Nevertheless, the development of accounting in Albania has faced challenges similar to those in other Central and East European transitional economies and developing countries. The prevailing accounting philosophy in Albania's legislation on accounting has been French-inspired. This has meant that the range of actual and potential conflicts and confusions between a system based on legal formalities and tax domination of accounting and the broader International Accounting Standards spirit has been widening. Furthermore, while amendments to accounting legislation have been relatively quick to take place, a slow pace of change has characterized the functioning of Albania's accounting institutions - policy and decision-making bodies and professional associations. This has affected the proper functioning of the system of accounting which has been an integral part of Albania's financial infrastructure. Using a qualitative case study research and employing interviewing technique, this thesis ascertains the contribution that certain changes could make to the functioning of Albania's accounting system, and to the outcome of the activities of international governmental and financial institutions.

TABLE OF CONTENTS

List of Tables, Diagrams and Graphs

Introduction

I. Setting the Scene

The political changes of 1980s in Central and Eastern Europe led to the transition towards the verities of a market based society. Inter alia, this process of transformation was designed to alter the existing system of property relations from state to mixed private and public ownership, and provide a better management of economic resources. Taking place in Central and Eastern Europe, such a process has been commonly known as "reform".

Heavily based on the ideas and recommendations of international financial institutions, such as the International Monetary Fund, the World Bank, and the European Bank for Reconstruction and Development, and the governments of developed western countries - referred to as the West, the reform has consisted mostly of a transfer of political systems and economic policies from the West to Central and Eastern Europe (Sloam, 2003).

The implementation of economic reform has taken different approaches from one country to another. Differences have not only been pronounced, but also tend to be highly dynamic. No two countries in Central and Eastern Europe have been exactly alike in any respect, and there can be hardly two national models of transition to market that have been identical. In some cases, the reform involved a great-leap strategy, as illustrated by the Polish example, where the crucial economic changes constituted a shock to the previous centrally planned system, either simultaneously or at relatively short intervals (Siebert, 1991, p. 16). In some other countries, the reform was more gradual, as in the case of Hungary, where economic changes and a traditional openness towards the West had been going on for several decades. Yet, in other countries such as Albania, the approach to economic reform was different, often involving physical destruction of old productive capacities in hope of replacing them with modern infrastructure.

Whatever the type and degree of change, the reform generally could not ignore the necessity of also transforming the accounting system (CCEET - OECD, 1991, p. 7). Stated simply, the question of economic performance was at the core of upheavals, which led towards the transformation from centrally planned to market driven economic systems in Central and Eastern Europe. In order to meet the expectations that the political revolutions of 1989 - 90s had stimulated, the management of the economic resources had to be improved drastically.

Accounting reform was vital in this context because the accounting system developed for the purposes of central planning and asset control could not provide the information needed for the management of economic resources in a market driven environment. Centrally planned economies in Central and Eastern Europe used accounting only as a tool to satisfy national planning requirements and the needs of propaganda of one party states.

In addition, in most cases in Central and Eastern Europe, privatisation - the transfer of ownership rights from the state to the private sector, was considered as the key to improvements in managing economic resources. The preparation of state-owned companies for privatisation would not be successful without reforming their existing accounting system, because such a system could not provide the information needed for the valuation of companies' assets, which is a prerequisite for their transfer into private hands (CCEET - OECD, 1991). The lack of accurate accounting information would hinder both privatisation officials and potential investors in their appraisal of the assets of state-owned companies assigned for privatisation.

> "[T]he adoption of [new] accounting standards for enterprises and reporting requirements for non-performing assets comparable with those in Western countries" (Mochrie, 1997, p. 17)

as late as 1992 - 1993, clarified the extent of the problems that economic transition in Central and Eastern Europe was facing.

Not only state-owned companies, but also state-owned banks had to work their way through the difficult path of being re-structured[1] and subsequently either being privatised or liquidated. This however, could not be achieved without major changes in bank accounting practices. These changes meant that,

> "[o]ld bookkeeping entries and accounts ... had to be converted to international accounting standards for an accurate assessment of nonperforming loan values, bank capital and reserves, and past losses." (Borish et al., 1996, p. 42)

In the early 1990s, the prevailing belief was that if new accounting and financial reporting practices were well established, then management would be capable of creating a business that would be both internally and externally transparent.

Privatisation of state-owned assets was only the beginning. If privatised enterprises were to succeed, then they had to be competitive in the international market. This required, amongst others, that privatised enterprises undergo modernisation. Schiro (1998) argues that the three most fundamental engines of modernisation among privatised businesses in emerging markets have proven to be the renovated management practice, the new information technology and, the combined application of both traditional accounting standards and International Accounting Standards (hence IAS) or the UK / US Generally Accepted Accounting Principles (hence GAAP). The interaction of the above three factors would give enterprises of emerging markets the chance to analyse their operations, re-engineer where needed, and participate in world-wide capital markets.

While privatisation of state-owned enterprises required continuous modernisation, changes in accounting practices had to be accompanied by further efforts to build or re-build, as the case might have been, a professional, effective and complete accounting infrastructure. The achievement of this objective relied on having a well-

---

1 Restructuring refers to legal, financial, operational and organisational changes and improvements. In most cases, the restructuring of banks in Central and East European countries has led to their subsequent privatisation where the state has or has not maintained any share of banks' ownership.

trained accounting profession, which would be independent and professional in its advice, and also subject to proper forms of accountability to the legal and political establishment. An accounting infrastructure also needed appropriate accounting institutions - policy and decision making bodies, and standard setting and regulatory agencies through which accounting legislation would be set up, implemented and monitored in an effective manner. The above in turn depended on the provision of adequate resources, the availability of professionals with suitable expertise, and especially the need for regulation.

Some societies are more regulated and controlled than others, and it may be that curbing the degree of regulation is a desirable goal to be aimed at in modern democratic societies. However, while the precise level may be a matter of debate, a relatively high degree of regulation would be an indispensable feature of a stable and well-governed post-Soviet economy. Markets unaided would not provide sufficient discipline, particularly when dealing with relatively unsophisticated participants. Regulation and supervision would require not only the development of standardised accounting procedures, but also a regime of control which would be reliable and have sufficient authority to be effective in policing the accounting system.

II. Problem Statement

While seeking rapid economic growth, many developing countries found their efforts impeded by the lack of a correspondingly relevant accounting infrastructure. Since the start of economic reforms in the late 1980s Central and East European countries have been experiencing the same problem. That is why efforts have been put into reforming those countries' the accounting system. These efforts have been part of the transformation process.

The process of political, economic and social transformation however, has been filled with difficulties and setbacks (Chossudovsky, 1997; Andor and Summers, 1998; Vaknin, 2000) which could be used to demonstrate that economic transformation and growth would not be accomplished by a simple process of transferring property rights and removing restrictions as was perhaps supposed. The record of transition in many Central and East European countries have shown that successful economic development on market-based lines requires, amongst others, the presence of a well-articulated accounting system. Accounting is seen as playing a significant role in meeting the demand for reliable information from all sectors of the economy. Accounting reform has also been considered important because changes in accounting practices affect the functioning of sectors such as banking and insurance, the reporting on activities such as investment and trade, and the way the information required for tax purposes is prepared.

Edwards and Godwin (1995) however, note that,

> "[m]any accountants in ... centrally-planned economies believed that transformation to a market-oriented accounting system could be accomplished simply by modernizing the [existing] chart of accounts."[2]

Probably, this fact suggests the existence of the view that the role of accounting does not go beyond that of a mere technical craft and most importantly that accounting reform in Central and Eastern Europe encompassed changes in accounting legislation only.

As Sudar (2002) argues,

> "[li]ttle emphasis was put on the functioning of policy and decision-making bodies, the enforcement of accounting legislation, the establishment of supervisory agencies, and the creation of an independent accounting profession. Most importantly, little effort was expended on changing the views of policy makers, accounting professionals, and the general public on the role of accounting in economy and society." (p. 97)

---

2 http://www.cipe.org/publications/fs/ert/e15/focus.htm

Despite its drawbacks the reform of accounting has been documented in many articles and books. There is now a mounting literature related to accounting developments in Central and Eastern Europe. However, most of the literature on accounting in Central and Eastern Europe has mainly elaborated technical and legal changes in descriptive and largely uncritical terms. Such a literature has not adopted a critical approach and has only scarcely theorised accounting in terms of its complex interrelations, the way it is perceived and the various dimensions of its effects (Dosa et al, 1996). It is also a particular concern that this literature does not critically analyse changes in accounting in a global context. Nor does it question trans-national influences upon accounting in Central and Eastern Europe.

Social and contextual analyses of accounting have tended so far to focus mainly upon developed Western countries (see Knights and Collinson, 1987; Richardson, 1987; Gallhofer and Haslam, 1991; Ciancanelli et al, 1994; Haslam, 1994; Power, 1994) largely ignoring Central and Eastern Europe. The deficiency has not just been apparent in the English literature but in that of Central and Eastern Europe, too. Considering the Hungarian literature on accounting changes in Hungary, Dosa et al (1996) point out that,

> "[a]rticles upon accounting in the Hungarian transition process published in Hungarian, in both the professional and academic journals, are also mainly descriptive and adopt a technical and uncritical approach. Their main concern is to interpret new regulations in a conventional sense and to elaborate upon their application. This type of literature grew rapidly after the introduction in 1992 of the New Accounting Law in Hungary. The latter legislation was mainly understood in these writings as the replacement of one set of technical rules by another. Accounting "numbers" and "data" are widely referred to in the economic as well as accounting literature of Hungary but the "data" and "facts" are scarcely made the focus of critique."

Although the literature on accounting in Central and East European countries such as Hungary, the Czech Republic, Poland, and Russia has been mainly descriptive, it has, at least, documented changes in accounting that have taken place throughout the last decade. Accounting developments in other Central and East European countries such as Albania however, have not even been documented let alone critically analysed. When this research started in late 1997, there was a clear gap in both the English and Albanian literature with regard to studies on accounting changes in Albania[3]. There was thus, a need not only to document but also to develop a substantive critical theoretical account of changes in Albania's accounting infrastructure. Within this context, it was also necessary to search, study and identify what was needed to encourage the development of a well-articulated and integrated fully functioning accounting infrastructure. In addition, attention had to be given to how changes in accounting could be enforced in a country, such as Albania, which was being exposed to the operating norms of a global market economy.

III. Thesis Objectives and Research Questions

This thesis has three objectives. The first objective is to address an existing literature gap on accounting developments in Albania by documenting and critically analysing changes in accounting that have taken place in this country during the period 1992 - 2002. The second objective is to critically analyse accounting changes in Albania using Perera's contingency-based approach to examining accounting developments in developing countries. The third objective is to draw relevant policy recommendations for improving Albania's accounting infrastructure and for making the support of international governmental and financial institutions to reforms in Albania and other Central and East European countries more effective.

To achieve these objectives, the thesis will focus on eliciting answers to the following questions:

(i) What has the path of accounting development in Albania been like, and how does it compare with other countries' experiences?

[3] Since the start of reforms in 1992, there have been only two articles published - both in English, on accounting changes in Albania. The researcher is the author of one of them.

(ii) What are some of the possible ways of improving Albania's accounting system?

(iii) How can Albania's accounting policy and decision-making bodies, and professional associations achieve more?

(iv) What should the international political and financial organisations do to be more effective in their efforts of supporting Albania's economic reform and more specifically changes in Albania's accounting system?

In addition, this study will address several sub-questions such as,

(i) How do politicians and accounting professionals view accounting in the context of Albania's efforts to progress economically?

(ii) Given the time that has elapsed since Albania's pre-World War Two experience of private enterprise and Italian based accounting, to what extent are current Western accounting practices relevant to contemporary Albania?

(iii) How can new accounting practices be enforced into a country that has emerged out of an autocratic and autarkic politico-economic environment?

(iv) What locally specific political and cultural factors must be taken into consideration to assist changes in Albania's accounting system?

To achieve those objectives, the researcher uses a case study method within which a qualitative research technique - interviewing, is utilised

IV. The Importance of Study

There are a number of significant reasons why this study is important. First, accounting developments during the transition from planned to market-driven economy need to be analysed, so that practitioners and scholars see whether accounting has any impact on social and economic progress of Central and East European countries in general, and Albania in particular. To some extent, a common view that accounting is simply a set of techniques still prevails in many countries in the region. This reminds us of the constituents of the old controversy as to whether accounting matters or not. Accounting change in Central and Eastern Europe adds another dimension to the complexity of this controversy. Thus, a better understanding of accounting and its role during the transition towards economically developed societies is needed.

Second, this research is original as the study of accounting changes in Albania is almost a virgin field. The originality of this research lies less in offering a distinctly new methodological approach, but rather more in documenting and analysing a phenomenon - changes in Albania's accounting system - within a relatively novel political, economic and cultural context by fully utilising existing research methods.

Third, this study uses a contingency-based approach to analyse and interpret Albania's current accounting developments and future trends. Such an approach allows scholars to identify and investigate the processes of change, actors involved in them and especially the factors that have influenced accounting reform which has been part of the transformation that is taking place in Central and Eastern Europe.

Finally, the development of a market-driven economic system in Albania is still in its early stages. In addition, accounting changes are taking place within Albania's unique political and economic environment. An experience like that of Albania, documented in this research, might offer lessons to countries facing similar challenges.

V. The Contribution of Study

Ijiri (1992) argues that research findings must possess three essential characteristics, namely, novelty, defensibility, and availability. The case study used in this research will hopefully meet the above criteria.

With regard to novelty, when this research started, there had been no study of accounting changes in Albania. This research is the first serious attempt to document and analyse Albania's ten-year experience (1992 - 2002) in reforming its accounting system.

Defensibility is related to the way in which this research is carried out and the use of reliable sources to collect the data and appropriate methods to analyse them. If the findings are successfully defended then they can be used by anyone without the involvement of the researcher who produced them (Ijiri, 1993).

The third characteristic - availability, is related to the contribution of the study to the body of knowledge. Once it has been successfully defended, this study will become available in the library, which means that those interested can refer to it for various purposes.

VI. Explanation of Terminology and the Selection of the Accounting System of Albania

If any research is to be done, some common ground must be established as to the meaning of the terms used and the nature of the concepts conveyed. In order to mark-out some common ground, several explanations have been provided below.

Primarily, transition means the process of change from a centrally planned to a market driven economy. This process involves enormous changes at every level of society. Countries going through this process are principally the countries of Central and Eastern Europe (hence CEE) formerly under communist rule, and the republics of the former Soviet Union.

Some words should be said here about Albania - chosen as the most suitable country for the case study. Albania is the country in the Central and East European region that the researcher knows best. Despite his Montenegrin origin, the researcher was born and educated in Albania, and speaks the language fluently. In addition, since its beginning in the early 1990s Albania's transition process has brought about an ideal and interesting opportunity for a detailed examination of the political and economic changes and setbacks that have taken place continuously. Albania has been different. Coming out of an obscure Stalinist system in the early 1990s, initially Albania

> "seemed set to overtake its 1989 level of production earlier than any of the other [Central and East] European and ex-Soviet transition economies apart from Poland and perhaps Slovakia and Slovenia; and, alone among them, it had apparently experienced growth at 'East Asian' rates for four years [1993 - 1996]". (Clunies-Ross and Sudar, 1998, p. 1)

Then, in the early months of 1997, the rapid success of the previous four years was followed by a destruction of much of what had been achieved. Such a setback was initiated by the collapse of informal financial schemes, known as the "pyramid funds".

Since the 1920s, certain schemes had emerged in different countries at different points in time[4]. Such a phenomenon had also been widespread in many Central and East European countries. Russian M2[5], or Romanian CARITAS[6] were followed by the Albanian chain of pyramid funds, the form and the scale of which was never seen

---

[4] Charles Ponzi was the first to apply such a scheme in the USA in 1920. He raised USD 9.5 million from 10,000 depositors giving them instead, promise coupons under the pledge of 50% returns within 45 days. Later, such a venture became known as "Ponzi's felonious financial activity".

[5] The M2 Company was one of the most typical schemes in Russia. This company attracted liquid assets not only from individuals but also from import-export companies.

[6] CARITAS and other fund-raising companies managed to create a huge chain of money collecting in Romania.

anywhere else before[7]. Unlike other CEE countries, where pyramid funds operated in specific regions, and were sourced by a limited number of individuals, in Albania, they soon became a nation-wide phenomenon[8]. Official sources[9] estimated that approximately USD 1.2 billion equal to 60% of Albania's GDP in 1996, were employed in 17 money-collecting schemes[10].

Stated simply, one might ask, "What has accounting got to do with all this?" At the macro level, together with governmental institutions, the accounting policy and decision-making bodies, and professional associations permitted an idiocy in the financial environment of Albania. It was publicly known that pyramid funds were paying extremely high interest rates[11]. Nevertheless, the accounting policy makers and professionals did not ring the alarm bells, or take any corrective actions through the enforcement of existing accounting legislation. They failed to even forestall, or apparently foresee, the disastrous financial crisis that broke out in early 1997. Certainly,

> "accounting policy and decision-making bodies, along with professional associations, cannot guarantee the success of any actions or reforms. In the case of Albania [however], policy makers should have created, and maintained, an environment in which legislation

[7] The story of pyramid funds started in Tirana, the capital of Albania, in 1991. A Kosovar Albanian, immigrant in Switzerland, set up in Tirana a "holding" company with great "investing" ambitions. This company was also tempting savers with very high interest rates. Many Albanians invested their savings. After just over a year, the company ceased all its activities, and participants in the scheme lost considerable amounts of money. However, losses were not as huge as they happened to be a few years later, in early 1997.

[8] In the researcher's opinion, Albania's new leadership, which came into power after the general elections of March 1992, turned a blind eye to the fund-raising activities of pyramid schemes. This contributed enormously to the growth of such an activity.

[9] Ministry of Finance of the Republic of Albania.

[10] There has been a lot of controversy on whether Albania's money-collecting schemes functioned on a pure pyramid basis or not. Fund-raising - initially not licensed - was then followed by funds' investments in different economic sectors, such as supermarkets, tourism, food and clothing industries, etc.. However, the profit generated from these investments ought to have been quite low when compared to the return from the main activities of the funds, thought to be (i) the involvement in illegal transfer of drugs, weapons, and refugees, between the near East and Italy, (ii) money-laundering, and (iii) sanctions-breaking to Yugoslavia during the Bosnian war of 1992 - 1995. The above-mentioned activities "interfered" with each other, and this has made the proper classification of Albania's money-collecting schemes a lot more difficult.

[11] between 8% and 20% a month, and in some extreme cases even 100% a month.

> was fully implemented, and once implemented, was carefully monitored. The accounting profession should have complied to a greater degree with tax legislation and, at the same time, played a stronger role in public life." (Sudar, 2002, p. 97)

At the micro level, individuals made foolish investment decisions, which were not based on any accounting information, or proper financial analysis of the activities of pyramid funds. All in all, little accounting experience in market driven-economic issues, institutional immaturity and malfunctioning of accounting system, incomplete accounting legislation, and non-enforcement of existing accounting laws and practices could be held responsible, amongst other factors, for Albania's financial crisis of 1997.

This study thus, pays special attention to possible ways of improving the functioning of Albania's accounting infrastructure.

> "The accounting infrastructure is comprised of the facilities of information production, the framework of information diffusion, and the structure for information monitoring and contract enforcement." (Lee, 1987, p. 75)

VII. Research Methodology and Methods

A brief overview of research methodology and methods, and sources of information is presented below. The detailed discussion is however, provided in the relevant chapter on research methodology and methods[12].

VII / I. The Choice of Research Methodology

Whether research work should be defined and the methodology adopted as either quantitative or qualitative depends on the research question which needs to be addressed and the availability of data (Silverman, 2001, p. 25). However the choice between quantitative or qualitative is not as straightforward as this as the research question can be framed in the "right" methodological and philosophical approaches

---

12 see Chapter Four

and the method of collecting the data selected accordingly.

A quantitative approach entails collecting large volumes of data - evidence which can be measured. Then an analysis of casual relationships between variables can be carried out from which predictions on the basis of laws and measurement are made. It is therefore possible to develop general theories from which generalisations and universal laws may be made. This approach is consistent with a positivist viewpoint whereby we can apply scientific assumptions to the social world; where reality subsists in external objects and is independent of our human consciousness. A hypothesis can be devised and tested. Experiments can be set up and repeated in similar conditions; the object being to verify the hypothesis. Since its development positivism has been widely criticised. One of the criticisms of positivism put forward by Karl Popper as described by Delanty (1997, p. 31) is that the logic of science does not proceed from observation of data to the construction of theories or hypotheses. In addition all observations are theory dependent. Observations can never be said to exist independently of the assumptions on which the hypothesis is derived. Latour (1987) has taken this argument further. In the natural world what you are observing in general is inert; it doesn't react and change through the process of observation. However even scientific experiments carried out in the so called controlled conditions of a laboratory are impacted by "actors" in the network; test tubes, measuring instruments etc. all part of a network which are interacting with each other.

Whereas a qualitative approach entails most generally although not universally

> "an emphasis on processes and meanings that are not rigorously examined, or measured (if measured at all), in terms of quantity, amount, intensity, or frequency." (Denzin and Lincoln, 1994, p. 4).

Qualitative approaches have been more associated with the anti-positivist viewpoint where reality is socially constructed and does not exist independently of human consciousness. People construct their social world and researcher interacts with the objects. During the research process, knowledge is being structured. Reality is constructed through social interaction and social activity. Interpretation is a key part of qualitative research.

The choice between quantitative or qualitative approaches is influenced by the dominant paradigm of the discipline in which the research is being carried out. A paradigm sets the foundation for all the research within a discipline. A discipline shares common assumptions upon which new knowledge is built. Kuhn writing from a physics discipline perspective looked at the assumptions of scientific knowledge and his view was that all observations are theory dependent; "the scientific community knows what the world is like" (Kuhn, 1962, p. 5). This is what he regarded as "normal science". Revolutionary science occurs when there is a shift of assumptions and history is rewritten to eliminate the trauma of the revolution. There are criticisms of Kuhn's model in that it is very restrictive and most social science disciplines do not conform to this. Burrell and Morgan (1979) take the view that a particular paradigm is exclusive to one discipline. A discipline which does not control its own domain could be thought as one which is in a pre-paradigm stage. Burrell and Morgan's approach has been to split social theory into four paradigms arising from a two by two matrix; the dimensions being subjective and objective; radical change and regulation (1979, p. 22). This has been criticised for being too simplistic in that there are more dimensions of choice. (Laughlin, 1995, Willmot, 1993, Chua, 1986). Laughlin (1995) derives a three dimensional model: "theory, methodology and change" (1995, p. 66).

Most of the significant approaches to social science have been considered by accounting researchers (Laughlin, 1995). Chua (1986) argues that "accounting, it appears, remains in the throes of a 'scientific revolution'" (p. 602) and considers research carried out from mainstream, interpretative and critical perspectives.

Mainstream accounting research could be thought as from the positivist "map making" (Solomons, 1978) and post positivist "economic consequence" (Zeff, 1978) viewpoints, mainly as a consequence of accounting research stemming from an economics background and the use of the neoclassical economics framework - an objective being to maximise utility. This has lead to a quantitative methodology being favoured. This approach is still practised by the majority of American academics and consequently effects publications in American accounting journals (Ryan et al, 2002, p. 171).

Interpretative and critical accounting approaches developed as a "reaction" to mainstream accounting research. (Lamb, 1999, p. 35). The subject - object problem has long being an issue for social scientists as they are part of the world they study. Willmott (1983) argues the subject - object divide is not one of "binary" opposites as Burrell and Morgan (1979) portray. Heidegger argues that being, per se, does not exist but it is a convenient and necessary way to express the difficulty of ontology (Smith, 1998, p. 256).

Interpretative and critical researchers' ontology is that reality is socially constructed - constructivism. The constructivist approach is that representations become real in their consequences. People act upon accounting and it becomes reality that way, although there is no objective reality behind it (Hines, 1988). Accounting cannot be viewed in isolation. Laughlin (1995) argues that,

> "Accounting is a social practice conducted by diverse social actors. To claim that it has to be generalizable, theoretical characteristics similar to gravity is a proposition where there has to be some considerable leap of faith. The continuation of the belief 'as if' these generalizations exist clearly leads to a considerable complexity - reduction process which becomes questionable in the extreme." (p. 83)

It follows, by using this approach, that if accounting cannot be generalised then quantitative approaches are not suitable.

Post modernism, based on a constructivist ontology, takes the view that social systems are independent of human control. The human is regarded as the "self" who through observations "constructs interpretations of the world, these interpretations having no absolute or universal status" (Cooper and Burrell, 1988, p. 94). Although these constructs are unable to be generalised they seek to inform knowledge but this knowledge is itself a construct of discourse (what is said) and the "game" which is being played through the use of language or tension between the participants of the game whether these are humans (Lyotard, 1984 quoted in Cooper and Burrell, 1988) or things. Foucault's view is that the social world is influenced by knowledge and power. This has been classified as post modernism although Foucault himself was uncomfortable with this label (Burrell, 1988, p. 222).

Located within the accounting discipline, this study of accounting change in Albania is based on a conceptual framework that can be defined as qualitative. Research based on a constructivist ontology is usually qualitative as it is based on the premise that reality does not exist independently of the representations of it.

There are schools of thought which suggest that only quantitative research can be objective and that qualitative research must be subjective. However, there are situations when a qualitative approach is the only meaningful method of conducting research. In addition, although the supposed dichotomy between quantitative and qualitative approaches is thought to exist, a qualitative approach is not a non-quantitative approach and vice versa.

VII / II. The Research Method and Sources of Information

To achieve the stated objectives, the researcher chose the case study method within which semi-structured, open-ended, face-to-face interviews were used to collect information on accounting changes in Albania - the CEE country chosen for the case study. The interviewees were accounting professionals from the local professional associations, and international accounting firms, key officials from the Albanian government and international financial organisations such as the International Monetary Fund, and the European Bank for Reconstruction and Development, and accounting academics involved in Albania's accounting reform.

Detailed information gathered during the interviews created the picture of accounting developments in Albania during the period 1992 - 2002. This information also served the purposes of revealing the difficulties encountered during the implementation of accounting reform.

The information gathered during the interviews, together with the results of analysis, were used to devise policy recommendations for improving Albania's accounting infrastructure and the results of the activities of international governmental and financial organisations.

The feasibility of empirical research depends on access to sources of information. The researcher had a rich body of contacts in Albania's professional and academic circles, and access to key policy influentials in the country's financial sector.

The information and data necessary for this study was collected from primary as well as secondary sources. While primary information was collected during the interviews, secondary data and information was collected from a variety of other sources such as archival research on policy formulation in Albania, desk literature search using libraries and electronic databases[13], and perusal of financial periodicals, journals, and professional magazines.

The details related to the sources, collection and analysis of information are given in Chapter Four on the research methodology and methods, and in other chapters where appropriate.

VIII. Thesis Layout

This PhD thesis is divided into eight chapters. The first chapter provides a review of the literature on the role of accounting in the economic and social progress. Special attention is given to the case of accounting in developing countries. The widely held

13 BIDS Social Sciences

view that developing countries should establish an accounting infrastructure that suits their own special needs, rather than import accounting models established and used by developed countries in different economic contexts has led to the establishment of contingency-based research in international accounting. The first chapter thus, continues with an overview of the contingency theory and its applicability in the area of international accounting research. Then, Perera's (1989) contingency-based approach used to analyse the development of accounting in developing countries is reviewed because such an approach will form the framework that will be used to analyse the data collected during the semi-structured open-ended interviews.

Chapter two focuses on the history of accounting in Central and Eastern Europe. This makes possible an understanding of the context in which accounting practices emerged. This chapter also identifies the international influences that shaped the development of accounting in Central and Eastern Europe until 1989.

The third chapter reviews the process of accounting reform in Central and Eastern Europe. The information discussed in this chapter was gathered from a developing body of literature on this topic. The chapter looks at the key features of accounting change observed in Central and Eastern Europe after the political upheavals of the 1989-1990s. Further, this chapter provides a reference point for the later discussion[14] of various factors that have affected the process of accounting change in Albania.

The research methodology adopted in this study is discussed in detail in chapter four. More specifically, support for the use of the case-study method and interviewing technique is extensively analysed throughout this chapter.

The case study is presented in chapters five through to eight.

The key aspects of political, economic, and social history of Albania are discussed in chapter five. Particularly, this chapter deals with the factors - political, historic,

[14] Chapter Seven deals with this discussion in detail.

economic, and cultural - which render the Albanian experience unique, illustrative, and worth looking at. In addition, chapter five postulates some of the factors responsible for the spectacular economic growth in the mid 1990s and the failure of 1997. The analysis will set the scene for the discussion in the following chapters of Albania's insistent need for an effective financial system.

Chapter six focuses on Albania's financial system. A careful examination of key problems and challenges that the development of a market-driven financial system in Albania has faced since the early 1990s is provided. Accounting system is an integral part of the financial sector, and this chapter forms part of the background for the analysis in the following chapter of Albania's accounting system.

In order to have a clear picture of Albania's accounting infrastructure, chapter seven provides an in-depth analysis and summary of the field research findings. Interviewees' responses serve as the main source of information and Perera's contingency-based approach is used to analyse accounting developments in Albania during the period 1992 - 2002. An investigation of different factors - political, institutional, economic, legal, social and cultural - which have influenced accounting changes in Albania is provided. The functioning of Albania's accounting policy and decision-making bodies and professional associations is given special attention. The chapter also includes some policy recommendations for improving Albania's accounting infrastructure and the results of the activities of international governmental and financial institutions.

The last chapter summarises the whole thesis and discusses the limitations of the study. Some suggestions with regard to possible directions of future research conclude this thesis.

Chapter One

Accounting, Developing Countries, and the Applications of Contingency Theory

1.1. Introduction

A considerable amount of accounting literature is related to the issues surrounding the role of accounting in the economic and social progress of developing countries. There have been individual country studies (Seidler, 1967; Quershi, 1974) as well as general studies (Seiler, 1966; Jaggi, 1973; Briston, 1978; Ndubizu, 1984). Some of these studies (Enthoven, 1965; Enthoven, 1969; Scott, 1970; Enthoven, 1973) support the idea that accounting infrastructure, as a part of the overall financial system, has a considerable impact on the economic and social progress of developing countries. The remaining controversy surrounds the precise measurement of such an impact. Simply stated, the extent to which accounting is responsible for successful economic performance has not yet been empirically proven.

This chapter begins with an analysis of the opposing views related to the role of accounting in economy and society. The examination of argument posed by Burchell et al (1980) that more research was needed in order to establish the role(s) of accounting in organisations and society, will constitute the major part of the analysis. The chapter will continue with a critical review of the research that has been done on accounting and its role in the economic and social progress of developing countries. This review is organised around four major themes: accounting for business enterprises, governmental accounting, national accounting and accounting education. Special attention is devoted to the significant work of two groups of scholars: those who have studied the relationship between accounting and economic development from a theoretical point of view and those who have examined the relationship between accounting and economic development from a practical point of view. One of the main conclusions of many studies on accounting in developing countries is that in order for accounting to play a key role the developing countries should establish an accounting infrastructure that should suit their own special needs, rather than import accounting models established and used by developed countries in different economic contexts. This conclusion has led to the establishment of contingency-based research in international accounting. This chapter will continue with an overview of the contingency theory and its applicability in the area of international accounting research. Perera's (1989) contingency-based approach used to analyse the development of accounting in developing countries will constitute the focal part of the review of literature on contingency-based research in international accounting. Such an approach is important because it will serve as the framework that will be used to analyse the data collected during the semi-structured open-ended interviews.

1.2. Accounting: Does It Matter?

The research on the role of accounting in economic development and social change dates back to mid 19th century. The subject of the controversy that closely followed the research in this area, was whether accounting mattered or not. Two schools of thought were developed. First, scholars such as Day (1843, p. iii), Hatfield (1924, p. 241), or economists like Morgenstern (1963, pp. 70, 79, 86) disregarded accounting merely because they viewed it as nothing more than a technical craft.

On the contrary, Weber (1961, p. 170) described accounting as "quantitative reckoning" that became dominant "over the whole extent of economic life", while other scholars, like Schumpeter (1962, pp. 123 - 124), underscored the importance of accounting in rationalising "man's tools and philosophies".

1.2.1. The Roles of Accounting in Organisations and Society

In an article published in 1980, Burchell et al developed an alternative argument with regard to the roles of accounting in organisations and society. By examining the adequacy of claims and the contexts in which rationales for claims had been articulated, the authors aimed at contrasting "the roles that have been claimed on behalf of accounting with the ways in which accounting functions in practice" (1980, p. 5).

Burchell et al (1980) start their analysis by pointing out the extensions of accounting domain. In modern industrial societies accounting has become an influential part of organisational and social management. In addition, the authors point out that accounting is also seen as supporting many of the functions performed by the state. Such extensions of accounting domain have influenced the development of accounting thought and practise. More specifically, there have been important improvements in financial reporting and disclosure and also in various accounting techniques, such as those for measurement of costs. As a result of such developments, the organisational and social significance of accounting has grown. Against such a background, Burchell et al (1980) inquire about the roles that accounting has come to serve in organisations and societies. The authors initiate their inquiry by discussing two tendencies that have formed the basis for the development of accounting as it is now known: "the increasing institutionalisation of the accounting craft, and the growing abstraction or objectification of accounting knowledge" (1980, p. 6). Burchell et al (1980) argue that discussing such tendencies would help gain an understanding of the difference between the roles that have been claimed on behalf of accounting and the functioning of accounting in practice.

While discussing the increasing institutionalisation of the accounting craft, special attention is given to the development of accounting within organizations. Burchell et al (1980) point out that as the importance of accounting as an organisational practice grew, so did the profession of accounting. The emergence of professional institutes and the growing importance of accounting profession were followed by an increasing governmental pressure for regulating the profession. While in the U.K. and the U.S.A. professional institutes established and preserved their powers of self-regulation, in other countries, especially in continental Europe, the regulation of accounting was a more direct result of the activities of expanding regulatory agencies of the state.

As accounting practitioners continued their quest for the expansion of accounting practices and greater autonomy of accounting within organisations, the increasing interest in training, examining and regulating allowed the professional institutes to provide a stimulus for the separation of accounting discourse from the practice of the craft. The autonomous development of accounting knowledge was followed by the abstraction of accounting. Subsequently, sources of accounting change became increasingly distant from the arenas in which the new accounting practices were to function (1980, pp. 8 - 9). This meant that changes in accounting practices as well as new roles of accounting could emerge not only as a result of interplays between businesses, the capital market and the state, but also due to pressures from bodies of thought which were not involved in practical applications of accounting, or did not necessary have a priori relationship with the accounting craft.

After examining the institutionalisation and abstraction of accounting Burchell et al (1980, p. 9) review the stated roles and definitions of accounting. The authors point out that while some scholars (Rose, 1977; Gandhi, 1976) have considered accounting as a mirror which reflects the organisation of social relationships, others (Galbraith, 1973; Khandwalla, 1972; Daft and MacIntosh, 1978; Chandler, 1962) have seen accounting as a product of social relationships. Burchell et al (1980) argue that although the above considerations are not based on any evidence, "this has not prevented their growing popularity and influence." (p. 10) In addition, there has not been any inquiry on the relationship between accounting and its presumed organisational and social determinants such as the complexity of the organisational environment, the technology of enterprise, the strategy of corporate management, the type of economic system and the nature of property rights.

Burchell et al (1980) continue their analysis by examining the characteristics of the claims made with regard to the roles of accounting in organisations and society. The authors argue that those claims have created a framework for defining what accounting is and ought to be. In return, such a framework has facilitated the appraisal of accounting practice. Moreover, while contrasting the roles of accounting with accounting practices, Burchell et al (1980) point out that,

> "the former have been used as vehicles for identifying the disparity of the later and, on this basis, for correcting what have been seen to be errors in practise. Indeed many of the functional claims that have been

made for accounting have emerged at a distance from the practice of accounting." (p. 10)

The same authors explain that as a result of pressures, very often professional institutes, regulatory agencies and the academia have formulated functional claims that have attempted "to provide rather particular interpretations of the accounting mission" (ibid). In addition, the stated roles of accounting and the practice of accounting have influenced each other but that is not to say that the stated roles of accounting are descriptive of the accounting practice.

Then Burchell et al (1980) further their argument by pointing out that as a result of pressures within the academic circles and problems encountered in practice, some observers have started to analyse the complexities of both financial and management accounting practice. The same authors for instance, draw attention on the research on the impact of accounting data on security prices - a research which has provided a basis "on which the actual functioning of accounting has come to be reconsidered" (p. 11). Investors no longer take accounting data at face value. Instead, they inquire into the significance of such data for the investment decisions that they take.

Another example of the growing awareness of the actual functioning of accounting is that of the need to understand the basis on which accounting policies are formulated. Within this context, more emphasis is given to the study of roles played by the regulatory agencies of the state.

Inquiries have also been made into the functioning of management accounting systems. Burchell et al (1980) bring together pieces of research which question the extent to which accounting information is used in organisations, or the presumptions of a positive and casual relationship between accounting systems and effective organisational performance.

Despite the fact that very little is known about how accounting systems function in practice, Burchell et al (1980) point out that,

> "the studies that are available do enable us to question the descriptive accuracy of many of the functional imperatives that are claimed on behalf of both financial and management accounting systems. Whilst they may be introduced in the name of particular conceptions of social and organizational efficiency, rationality and relevance, in practice accounting systems function in a diversity of ways, intertwined with institutional political processes and the operation of other forms of organizational and calculative practice." (p. 13)

Being aware of the fact that very little is known about accounting in action, the authors then take the position of simply suggesting the roles which accounting systems play in practice. They focus their attention on the involvement of accounting in organisational decision making processes and then on the social aspects of the functioning of accounting.

While the relationship between accounting information and decision-making has been the focus of attention of many writers, Burchell et al (1980) point out that such a relationship has been presumed rather than described and critically examined. Then they suggest the use of a simple framework which might enable the articulation of a variety of roles - computational, inquiring and decision supporting, position and interest promoting, and action rationalising - which accounting systems might serve within organisations.

As the accounting literature covers some of the roles of accounting in organisations, Burchell et al (1980) draw attention to the extension of computational practice, the growing use of accounting systems as a means through which various parties within an organisation seek to promote their position, and the possible roles of accounting in rationalising organisational actions.

The authors explain that the extension of computational practice could be related to the increasing formalisation and objectification of management knowledge, and the involvement of accounting in the development of increasingly complex forms of organisational segmentation and management (p. 15).

In addition, the same authors point out that,

> "[N]ew [computational] practices can themselves create possibilities for the development of yet further practices, the emergence of and functioning of which may be governed by entirely different forces than those which guided the original change." (p. 17)

Then, attention is drawn to the growing use of organisations' accounting systems for articulating and promoting the interests and position of certain parties. Within organisations, accounting systems help the powerful to observe the less powerful. Such observations create the basis for organisational awards and sanctions. In addition, particular interests and concerns create new accounting systems which in turn make visible certain phenomena, help establish specific chains of command or inculcate new organisational missions.

Within organisations, accounting systems also help justify, legitimise, and rationalise decisions. Most importantly, as Burchell et al (1980) point out, accounting can create "a symbolic structure within which discourse could take place and through which action could be achieved." (p. 18)

Despite their efforts to distinguish between the functional claims made on behalf of accounting craft and the roles which it serves in practice, Burchell et al (1980) do acknowledge the fact that there is a lot more to be known about how accounting systems operate within organizations. Most importantly, the authors point out that it is the organisational pressures that create, shape and change the roles of accounting craft. Those roles "are implicated in action, rather than being prior to it" (p. 19)

Then Burchell et al (1980) draw attention to accounting at a societal level. They point out that as a result of an array of political, economic and social pressures, regulatory bodies, professional institutes and other agencies of the state have shaped the accounting domain. However, such changes to accounting domain have taken place at a distance from the arenas in which accounting operates. In addition, Burchell et al (1980) point out that not much is known about the social nature of accounting craft.

Despite the shortage in attempts to test the validity of claims on the importance of accounting at a societal level, there have been quite a few writings on the social significances attached to accounting. Burchell et al (1980) point to Marx's view on accounting as an ideological phenomenon, Weber's work on the contribution of accounting towards the emergence and maintenance of the particular order inherent in economic rationality and Schumpeter's arguments on the significance of accounting in propelling the logic of enterprise and rationalising man's tool and philosophies. "Accounting has been seen as both reflecting and enabling the construction of society." (p. 21)

While the emergence and development of accounting has intertwined with institutional forms and modes of social action, the activities of regulatory agencies and professional institutes have grown in importance and have changed the accounting craft. However, as Burchell et al (1980) emphasise, the roles attached to accounting change "can be different from those which subsequently might be implicated with its actual operation and use." (p. 22)

Contrasting the roles that have been claimed on behalf of accounting with the ways in which accounting functions in practice has major implications for accounting research. Burchell et al (1980) conclude their inquiry with a call for further investigation into the processes which gave rise to the existence and significance of technical developments in accounting, more research on the organizational and social functioning and significance of accounting craft rather than on its human use, and more social analyses of accounting change.

1.3. Accounting in Developing Countries

During the last fifty years scholars have broadened their focus of research to include the study of accounting in developing countries. As a result, within the framework of international accounting, a sub-field dealing with accounting in developing countries emerged. Such a tendency accompanied the state building and consolidation processes that took place in the former colonies. While seeking rapid economic progress, many former colonies lacked, amongst other things, a properly developed accounting system of documentation and reporting that would support independent economic development. The development of accounting systems was seen as linked to overall economic development; one seemed to influence the other. Scott (1968) point out that,

> "social function in accounting, to measure and to communicate economic data, cannot be considered simply as the effect of economic development ... but also as a valuable tool for promoting development." (p. 4)

Establishing an appropriate accounting system became a crucial task. In parallel, the growing activity of multinational companies and international accounting firms had led to the export of accounting to many developing countries. These developments highlighted a major problem which concerned both practitioners and academics: should developing countries establish an accounting infrastructure that would suit their own needs, rather than "import" accounting systems developed and used by developed countries in different economic contexts? This problem did not lead to easy solutions.

Stated simply, the issues that surround accounting and its role in the economic progress of developing countries are complex, and a detailed understanding of the attendant accounting literature could help reduce such complexity.

1.3.1. The Review of Literature

The literature on accounting in developing countries could be organised according to (i) the depth of analysis conducted, (ii) the identification of economic or social areas where accounting plays a role or has an impact upon, and (iii) alternative ways through which accounting could assists the economic development.

Descriptive accounting research, which portrays the accounting infrastructure of one developing country, has had a long tradition. One could mention studies of Seidler

(1967) and Bursal (1984) on Turkey, Jaggi (1970) and Bose (1977) on India, Al-Hashim (1977) on Egypt, Mepham (1977) on Jamaica, etc.. These studies provide indications of how country-specific accounting systems have emerged. Stated simply, they describe the history of the development of accounting in specific countries, and mention political, historic and legal changes which have led to subsequent changes in accounting laws and practices. Such studies represent predominantly an information-gathering type of research.

Comparative studies have also been an important part of the literature on accounting in developing countries. Studies by Rydell (1963), Holzer and Tremblay (1973), Dahmash (1982), etc., give details of the development of accounting systems in more than one country. Although interesting, these studies have not been able to explain the factors that influence a country's choice of a certain type of accounting system, or discuss the challenges which accounting systems of compared countries were likely to face in the future.

Another part of literature on accounting in developing countries - probably the most important one - has attempted to analyse the role of accounting at the enterprise, government, and national level as well as the development and the role of accounting education, and also identify those areas which accounting can influence. As Enthoven (1973, 1977, 1981) explains, the accounting system comprises enterprise, governmental and national accounting. In addition, as the same scholar argues, issues central to accounting in developing countries are closely linked to accounting education.

Accounting for businesses deals with microeconomic planning and control at the level of the individual enterprise. Financial accounting for businesses is primarily concerned with providing information to interested parties outside the enterprise. Disclosure of information is required for statutory and tax purposes, and the information relates to the immediate past. Enthoven (1973) propounded the view that the type of a country's accounting system is dependent upon the level of development and sophistication of the business environment.

Management accounting for businesses provides information for decisions within enterprises. The trend in Anglo-American developed countries has been to keep financial accounting for businesses and management accounting for businesses as two separate disciplines. Many developing countries have adopted the same custom.

Government accounting refers to the "collection, measurement (classification and valuation), processing, communication, control of, and accountability for, all receipts and expenditures and related activities in the public sector." (Enthoven, 1981 p. 16) Every year, government budgets set out financial programmes for the coming year or years. In many developing countries the annual government budget has been an integral part of the country's development plan. If a government is to function effectively and efficiently, there must be an integration of tax structure, tax policies and tax administration into the accountancy process. A complete system of government accounting is the one that includes all economic inflows and outflows.

According to Enthoven (1977), the third branch of accounting is national or macro accounting. It describes systematically and quantitatively the structure and activities of an economy or sector during a certain period. The stock of assets and liabilities of a country at a particular time are also measured in a system of national accounts. Economic transactions between groups of individuals i.e. households, business enterprises, government agencies, and with the outside world, are also included. The information is aggregated into tables; national product and national income accounts are two examples.

Enthoven (1975a, 1975b) also stated that there is the need for each country to make an effort to develop accounting fundamentals and conditions suitable for gradual adaptation to greater uniformity in accounting. He described these fundamentals in detail, based in part upon studies of accountancy systems in Africa and Asia

(Enthoven 1975a, 1975b). In addition, Enthoven prescribed changes to the accounting education programmes that he considered to have a direct effect on economic development in the countries which he studied.

Similar arguments have been put forward by other authors. Mirghani (1982) for instance, argues that the development of accounting should be viewed as equivalent to the development of part of the infrastructure necessary for achieving progress.

1.3.1.1. Political, Economic and Social Influences on Accounting System

A major theme in Enthoven's writings is the need for each country to develop an accounting system that is appropriate to its environment. This normative view of what should happen has a positive counterpart in that many observers have noted that accounting is influenced by its environment and in turn reciprocates that influence. Choi and Mueller (1984) for instance, identified twelve environmental factors (legal systems, political systems, nature of business ownership, differences in size and complexity of business firms, social climate, level of sophistication of business management and the financial community, degree of legislative business interference, presence of specific accounting legislation, speed of business innovation, stage of economic development, growth pattern of an economy, status of professional education and organisation) that they believed had a direct effect on the character of development of the accounting systems in different countries. This approach of identifying environmental factors that can affect the development of accounting has been used to classify accounting systems of countries in order to understand the causes of differences in financial reporting.

Bevis (1958) discussed the influence of economic development on accounting. Writing specifically about the U.S.A. in the 1950s, he explained that the importance attached to the accounting function in an economy varies directly with the volume of economic data required to flow among natural persons, legal persons and government. This volume in turn depends very much upon the extent of industrialisation of the economy.

Two of the factors identified by Choi and Mueller (1984) above relate specifically to the economic development or growth patterns of an economy and to stages of economic development. Companies and industries grow, stabilise and then decline; economies may follow the same pattern. During growth and stabilisation there appear to be certain accounting techniques and standards, which are appropriate. The view that accounting systems are fundamentally economically defined has been questioned by scholars who have written about accounting systems in developed countries. Zeff (1971) for instance, in his review of accounting in five countries (Canada, Mexico, England, Scotland, and the United States) concluded that

> "a difference in environment coupled with national pride will sometimes result in the disparate approaches and solutions to substantive accounting problems." (p. 27)

Most (1984) reiterated the idea that each country should develop an accounting system that is appropriate to its environment by stating that what is "good" for accounting in the U.S.A. for instance, is not necessarily "good" for accounting in Canada. In addition, accounting principles and accounting systems, which have evolved in industrially developed countries to serve the needs of capital markets and economic diversity, have been poorly adapted to the needs of developing countries.

1.3.1.2. Accounting and Economic Development: The Other Views

Various other scholars, whose opinion is critical of the views raised above, have suggested alternative ways for using accounting to assist with economic development. Samuels and Oliga (1982) for instance, argue that the purpose of an accounting system is to provide solutions (to the problems) that are appropriate in the given context. Hence it is not logical to expect one accounting system to be suitable globally. The international harmonisation of accounting standards is strongly opposed by these two scholars. They add that where

> "economic, sociopolitical, cultural and contextual differences between countries, nations, or societies exist, the problems of appropriate

> accounting standards will assume a different conceptual meaning as well as contextual significance" (1982, p. 69)

On a more practical level, Samuels (1990) considers the economic consequences, which would result if developing countries were required to disclose - in accordance with international accounting standards - particular kinds of information. He asks:

> "(a) if a company needs to disclose the amount of funds that flow out of the host country to the foreign owner, does this reduce the net inflow of foreign capital? [and]
>
> (b) if a company has to disclose the average wages paid to a group of unskilled workers or a particular ethnic group, does this alter wage policy or employment policy?" (p. 74)

The implication of this type of disclosure could be that international investors might be offended and refuse to support the economic progress of developing countries. Therefore, it may not be possible to comply with those international accounting standards that require such disclosure.

In addition, for each of the issues (such as the economic growth, unemployment, balance of payments, income / wealth distribution, level of technology, regional imbalances, safety / security, impact of environment and corruption) which the developing countries face, Samuels (1990) suggests the preparation of an accounting report or statement. The local accountants and professional bodies may need to be convinced that this information would be useful for economic development. Increasing the level of social awareness of local professionals could be achieved through education, but at the end

> "[local] accountants are hired by private clients, ... it is the private clients who pay them and it is those clients whom they have to satisfy." (Samuels, 1990, p. 76).

Several other authors (Enthoven, 1981; Mathews, 1984) have expressed opinions similar to those of Samuels (1990).

Following Enthoven's broad definition of accountancy, Briston (1978) supported the idea of integrating all the elements of accounting system into a single accounting framework that would serve the needs of developing countries. As he also pointed out, this combination of financial accounting and management accounting had not taken place in either the U.K. or the U.S.A.. The consequence of this lack of combination was that accounting systems were not adequate to meet external reporting needs. In addition, Briston (1978) highlighted the absence of public sector accounting, which is fed directly into the national accounting system. Further, he suggested that,

> "instead of blindly embracing the colonial system, developing countries should concentrate upon an assessment of their ... needs in the enterprise, government and national accounting sectors and should seek to establish training programs to produce the staff for the provision of and use of that information" (p. 110)

A few years later, Briston and Wallace (1993) considered the question of how to develop a strategy for improving the accounting infrastructure as a means towards economic development. They identified three possibilities - the dependency approach, the self-reliance approach and an approach between the two extremes.

The dependency approach is one which connects the developed country with the developing countries. It is a process of cultural diffusion which involves the transfer of funding, personnel, technology and administrative systems. Thus entire accounting systems including regulatory structure, principles, procedures, qualifications and education and training may be transferred in a dependent fashion. The relation between the US and the Philippines or the UK and any of its former colonies before independence are examples of this approach.

The self-reliance approach is one which demands that each developing country allows its own environment to dictate the evolution of its accounting capability. Such a process permits cultural, economic, educational and technical diffusion from a developed to a developing country, but only to the extent that this filters into the system in the ordinary course of business and is a reflection of demand from and suitability to the developing countries' circumstances.

The third approach is self-reliance with external financial, organisational and technological assistance. Not all three forms of assistance might be required; the external assistance would be needed only if there are deficiencies in any areas (finance, organisation, and technology). In addition, the external assistance would not be offered automatically, but only after the developing country had tried to find its own solutions. It might be argued that, based on the nature of their history, developing countries have experienced either the dependency approach, or the self-reliance with external assistance approach.

While joining the debate on the emergence of accounting and its relation with economic development, Zeff (1971) argued that the development of accounting principles does not come from specific scientific theory, but from interactions among theory, practice and various social and political influences. He undertook a study of the process of development of accounting principles in five countries (Canada, Mexico, England, Scotland, and the United States). The structure of professional bodies (as they changed over time), and the involvement of other interest groups (such as the banks, the stock exchange and financial executives) in the evolution of standard setting were recorded. Zeff (1971) concluded that,

> "except for a common issuance of exposure drafts, the five countries do not share as many similarities as one might expect in the process by which accounting principles are forged." (p. 314)

In addition, he emphasised the importance of accounting research and education. He pointed out that in an academic sense "accounting does not ... have a research tradition." (ibid) "For too long", Zeff (1971) observed, "academicians and practitioners have not appreciated the necessary interdependency of their roles." (ibid) For education to have an impact on the "real world", he advised that,

> "the researcher ... must not only come to understand the real world, but the denizens of that world must understand his research. If practitioners seek the kind of new knowledge that would enable them to render more useful accounting services to their clients and to society as a whole, they must become active partners in the work of those accountants who are skilled at conducting the research: the academics" (Zeff, 1971, p. 318).

1.3.1.3. Developments in Accounting Education

As indicated in the above sections, several scholars have emphasised the importance of accounting education. Initially however, it is important to consider a number of definitions that can be given to the expression "accounting education". There is "education for accounting" which refers to the education that potential accountants get in order to obtain their professional designation. There is also "education in accounting" which refers to the instructions in the discipline of accounting. Then, there is "education of accountants" which implies continuing education for those who have previously gained a professional qualification in accounting.

Prior to the Second World War, the UK influenced the development of accounting in the English-speaking world through the export of senior professionals. (Johnson and Caygill, 1971) These accounting professionals moved overseas, primarily to the more developed Commonwealth countries (Briston and Kedslie, 1991) to establish firms of chartered accountants.

After 1945, the pattern of transfer of accounting technology changed. The export of accounting qualifications replaced the direct export of accounting manpower. Since then, the number of overseas members of British professional institutes has grown significantly. (Johnson and Caygill, 1971) However, overseas students, who expect to become qualified professionals, have been examined mainly on topics that are more relevant to the developed world rather than the developing world. It is also worth noting that in most developing countries, the institutes that prepare accounting students for their professional examinations are private profit making enterprises. This implies that tuition has been provided only in those cases where the amount of paid fees has been large enough to generate a profit for tuition providers.

In many developing countries, higher education institutes have provided accounting education. However, such education has not always met the expectations of accounting profession. That is why Bond (1970) suggested that the emerging nations should be encouraged to develop new models for higher education. Those nations, he argued, should neither have "to reinvent the wheel", nor "retrace the unsatisfactory steps of the developed institutions." (Bond, 1970, p. 12) However, the problem lies in the "inability or unwillingness of consultants and accrediting institutions to recognise alternative models [for higher accounting education in developing countries]." (ibid)

1.4. Contingency-based Research in Accounting

As indicated in the previous sections many scholars have reiterated the idea that each country should develop an accounting system that is appropriate to its environment. While this idea was being developed, investigated and debated, a growing concern about the suggestion that accounting information needs in different countries were subject to environmental influences became evident in the international accounting literature. (Schweikart, 1985, pp. 89 - 90) Furthermore, the influence of environmental factors upon the development of accounting and disclosure practices was being conceptualised with the help of a contingency theory approach. As Gernon and Wallace (1995) argued,

> "contingency theory offers a systematic approach toward the conceptualization of the national and foreign environmental variables which may have a significant bearing on the similarities and differences in accounting styles and practices across countries. The conceptualization has provided inspiration for empirical research concerned with determining the environmental causes and effects of accounting." (p. 75)

1.4.1. The Origin and Development of Contingency Theory in Management and Accounting Disciplines

Contingency theory emerged in the late 1960s and 1970s. For a long time, the view of classical management scholars that there was a single best way for managers to achieve efficient organisational operations had prevailed in the management literature. As a new challenge to the principles of classical management, contingency theory argued that what constitutes effective management is situational, depending upon the unique characteristics of each circumstance. (Bartol et al, 2000) Other scholars, such as Hicks and Gullett (1981), argued that within an organisational context

> "the best solution is the one that is most responsive to the characteristics of the unique situation being faced." (pp. 625 - 626)

Donaldson (1985, p. xii) has suggested that it was Lawrence and Lorsch (1967) who invented the term "contingency theory" as applied in the organisational / management literature. In their study, Lawrence and Lorsch (1967) asked,

> "What kind of organisation does it take to deal with different environmental conditions?" (p. 3)

The same authors argued that the determinants of effective internal organisational processes are dependent or contingent upon variations in the environment in which the organisations operate. Furthermore,

> "these outside contingencies can then be treated as both constrains and opportunities that influence ... [organisation's] internal structure and processes." (Lawrence and Lorsch, 1967, p. 186)

Thompson was another writer whose work contributed to the development of contingency theory. He suggested that,

> "technologies and environments are major sources of uncertainty for organisations, and that differences in those dimensions will result in differences in organizations." (Thompson, 1967, p. 13)

The same author added that environmental constraints that influence organisational operations are

> "located in geographic space or in the social composition of ... [organisation's] task environments." (Thompson, 1967, p. 68)

As the popularity of contingency theory grew, its applicability to accounting research in general and management accounting research in particular became evident in the 1970s. Hayes (1977) for instance, used Thompson's (1967) work to study the methods of assessing the performance of organisational sub-units, while Rayburn and Rayburn (1991) applied contingency theory while assessing the impact of new accounting methods on accountants working for hospitals in the U.S.A..

The application of contingency theory to management accounting research has proven very insightful because such theory is

> "based on the premise that there is no universally appropriate accounting system which applies equally to all organizations in all circumstances; instead, the optimal management control system depends on the specific elements of an organization's environment. Effective control systems are usually situation specific and tailored to the management of each organisation. The exercise of managerial choice and the interdependence of accounting systems and the environment are acknowledged." (Rayburn and Rayburn, 1991, p. 57)

In the 1980s the application of contingency theory was extended to the research in financial accounting issues. Thomas (1986) was one of the first scholars to apply contingency theory to corporate reporting. He argued that constraints which influenced management's choice of reporting practices fell into two categories: the environment of the enterprise and its organisational features. (Thomas, 1986, p. 254) This meant that contingent factors were both internal and external to the organisation. (ibid.) Thomas (1986, p. 257) considered the application of contingency theory as helpful because it could be used to examine the factors affecting financial reporting practices, and to provide valuable insights about the political and economic aspects of accounting standard setting processes.

Government accounting innovation was another area where contingency theory was applied. In 1992, Lűder introduced his contingency model of government accounting innovation which was based on the broad assumption that government accounting innovations in a country are the result of the interactions of its political, social and administrative variables. (Godfrey et al, 1995) He saw innovations

> "as conceptual, not merely procedural, changes of accounting system to ensure the supply of comprehensive, reliable, and meaningful financial information required for appropriate financial accountability and sound financial management." (Lűder, 1993, p. 1)

Lűder's model aimed at explaining why innovations - considered as above - took place in some countries and did not in the others. (Lűder, 1992)

More specifically, Lűder's model identified three main categories which influence changes to governmental accounting: stimuli, structural variables, and implementation barriers. Based on these categories, Lűder then provided four influential modules: the stimuli module, the structural variables of information producers, the structural variables of users of information and the implementation barriers module. The whole model was based on the assumptions that,

1. a number of stimuli (fiscal stress, financial scandals, capital market, external standard-setting, professional bodies' interest) exist;
2. there are two sets of structural variables [social (socio-economic status and political culture) and politico-administrative system (staff training and recruitment, administrative culture, and political competition)] that describe the fundamental attitudes of users and producers of information;
3. information users' expectations of change are influenced by their basic attitudes and by the stimuli that exist in the starting situation;
4. the setting off of the process of innovation does not necessarily require the existence of a stimulus, and
5. the decision to innovate is dependent not only on the information producer's willingness to change, but also the implementation barrier (such as organisational characteristics, legal system, qualification of accountancy staff and size of jurisdiction). (Lűder, 1992, pp. 109 - 110)

While seeking to offer something new and different, Lűder was also critical of his model. He admitted that its applicability to countries that are economically less developed and / or lack a democratic political system might not be possible and therefore cannot be claimed. (Lűder, 1993)

Godfrey et al (1995) used an adapted version of Lűder's model to study governmental accounting in three African countries: Kenya, Tanzania, and Uganda. Two new elements were introduced to the model: tribal structure of the population which affects people's attitude toward government, and the role of donor countries and international financial institutions.

In order to make it more generally applicable, Jaruga and Nowak (1996) recommended substantive changes to Lűder's model. They argued that the model should consider the consequences of innovation in the real world.

> "Innovations may well produce effects that are routed back to affect the contextual and behavioural variables themselves. When that is the case, the model becomes a cybernetic learning system with a feedback loop" [Chan et al (1996, pp. 8 - 9) commenting on the work of Jaruga and Nowak (1996)]

The contingency theory has also been widely applied in international accounting research. As early as 1983, Belkaoui (1983) acknowledged

> "the need to look for the relations between measures of accounting development and adequacy on one hand and measures of political, civil, and economic development and adequacy as a first step in the formulation of a contingency theory of international accounting." (p. 216)

Schweikart (1985) reiterated the idea of using contingency theory as a framework for research in international accounting. He argued that national environmental differences represented both external and internal contingencies on accounting information needs. (Schweikart, 1985, p. 92)

In one of its reports on research methodologies in international accounting, the American Accounting Association also acknowledged the use of contingency theory to study the "association between accounting and its environment." (AAA, 1993, p. 9)

One of the most interesting observations related to the application of contingency theory in international accounting research is made by Thomas (1986) who pointed out that

> "although only rarely explicitly articulated, the conceptual framework underlying such research is essentially a contingency approach. Most studies take the form of either testing for differences between certain reporting practices in various countries, or the grouping of national accounting systems into relatively homogeneous subunits. In both cases the results are usually attributed to differences or similarities in social, political, or economic factors. There is thus an implicit underlying theory that the reporting practices of each country are contingent on certain social, political, and / or economic variables." (p. 255)

The implicit adoption of a contingency framework has characterised Perera's (1989) work.

1.4.1.1. Perera's Contingency-based Analysis of the Development of Accounting in Developing Countries

In his article published in 1989, Perera (1989, p. 141) argued that an examination of the accounting development patterns of most developing countries revealed that they had little chance to evolve accounting systems that would truly reflect the local needs and circumstances He then added that the existing systems in these countries were largely extensions of those developed in other Western capitalist countries, imposed either through colonial influence or by powerful investors or multinational corporations. This meant that little consideration was given to the needs of developing countries which in turn implied that accounting practices introduced to those countries were not always relevant. Consequently, it was still arguable, as Perera (1989) pointed out, whether these accounting practices were capable of satisfying in the most efficient manner all the accounting information needs of developing countries. Within this context, Perera (1989) argued in support of regulation of accounting through legislation and the use of a uniform system of accounting formulated to suit the local needs and circumstances of individual developing countries.

This scholar saw the use of the uniform system of accounting as the best alternative available to developing countries because of the serious doubts that had been raised about the relevance of the Anglo-American accounting principles and practices to those countries. Accounting principles and practices developed in the U.K. and the U.S.A. were appropriate for countries with a large private sector and a well-developed capital market. Perera (1989) argued that due to various historical, economic and cultural reasons the development of an active capital market in developing countries had not been always possible. This meant that the evolution of accounting in developing countries was happening in an environment which was quite different from that which existed in Western capitalist countries when they were developing. The danger of applying Western accounting principles and practices in the context of developing countries was to be found in the tendency of these principles and practices to become accepted norms. This in turn would pre-empt any possibility of changing the inappropriate accounting systems and evolving new ones which would be better suited to the specific accounting needs of the developing countries.

Perera (1989, p. 144) reiterated the need of developing countries to establish and develop an accounting system which would accumulate all accounting information that could be used for decision making. Then he emphasised the importance of integrating all different branches of accounting (external reporting, management accounting, governmental accounting, national income accounting, balance of payments accounting, etc.), and relating business enterprise accounting not only with the efficient functioning of capital markets but also with the national economic development policies.

Using appropriate laws and regulations to promote the development of accounting in developing countries is seen as vital in Perera's (1989) analysis. He used Jaggi's (1975) argument to point out that the reliability of financial disclosures in developing countries was unlikely to reach any significant level unless legal disclosure standards were set. Furthermore, in the absence of regulation, business enterprises in developing countries would probably disclose varying amounts of accounting information in different formats. This in turn could confuse inexperienced unsophisticated users, and make accounting reports less credible in the eyes of the public.

Perera (1989) suggested not only the need for regulating accounting through legislation, but also the regulation of accounting by a governmental body. Many developing countries did not have an accounting profession which would be in the position to effectively regulate accounting and financial reporting, or any recognised professional associations. Thus, Perera (1989) argued for more governmental involvement in accounting regulation.

In many developing countries, government involvement in economic activities was also very evident. This meant that in many cases the government was the sole user of any accounting information. That is why Perera (1989) suggested that in developing countries accounting should assist the government in achieving its political objectives and economic development targets.

Another argument in favour of legislative control over accounting was the cultural orientation of many developing countries. Perera (19890 pointed out that as the majority of business managers were not likely to have formal education and training in management, they were not likely to be Western type professionals. The lack of formal training and education would affect the attitude of these business managers towards the disclosure of financial information, which in turn would lead to low reliability of information disclosed in financial reports. That is why Perera (1989) reiterated Jaggi's (1975) argument that

> "an active role of governments in developing accounting principles and providing legal authority ... [was] likely to result in a higher reliability of published financial information, which ... [might] be essential for creating public confidence and trust in companies, and for creating an atmosphere where industrialization ... [could] progress in those [developing] countries." (Perera, 1989, p. 147)

Then Perera (1989) commented on Tweedie's (1985) concerns regarding governmental control over accounting standard setting. Tweedie (1985, p. 20) argued that,

(i) governmental control might tend to be over-bureaucratic and not able to reflect the reality;

(ii) as a result of governmental control accounting legislation would tend to be inflexible;

(iii) as compliance would be mandatory, laws would tend either to be broad or to be set at a minimum level;

(iv) governmental overtaking of accounting standard setting would reduce professionals' incentive for continuous improvements in accounting practices;

(v) governmental rulings might be arbitrary as the governments would not be immune from pressure groups.

While addressing these concerns, Perera (1989, p. 148) pointed out that,

(i) the assumption that government regulation of accounting was over-bureaucratic and distant from reality was not necessarily true - the Japanese experience seemed to have rejected the validity of such an assumption;

(ii) while accounting legislation might tend to be inflexible as a result of governmental control, and in turn accountants might put more emphasis on compliance rather than disclosure, in many developing countries very often financial statements neither complied with any accounting standards nor disclosed - hence there was a need for legal imposition of accounting legislation which would hopefully make accounting professionals comply with at least certain basic accounting standards;

(iii) legislative control over accounting aimed at reducing the number of possible reporting alternatives available to individual business enterprises, and that despite its shortcomings a uniform mandatory reporting system - as the experience of Germany had shown - could improve the overall usefulness of accounting information for decision-making process;

(iv) governmental involvement in accounting regulation would not weaken the incentives and the role of accounting profession because in developing countries the accounting profession was already weak and relatively small and these were precisely the reasons why the government had to have more regulatory powers to safeguard the interest of public;

(v) it was impossible to isolate the government and the private sector from the pressure groups and that in any case the government was more likely to be insulated from private pressures and hence more objective in setting up accounting standards and procedures.

Throughout his article Perera (1989) saw accounting as a product of its environment, and that is why he reiterated that,

> "[A] systematic approach at improving the quality of accounting in a developing country would require research studies to accurately determine a country's particular accounting needs, and the role of accounting in the country's economic development process. This is important because in the majority of developing countries, there is a lack of awareness of the potential contribution that accounting could make in the economic development effort. ... Such research may ideally lead to the formulation of an accounting plan which would include such matters as the objectives of financial statements, education and training for accountants at various levels and so on." (p. 149)

Furthermore, Perera (1989) argued that in developing countries the objectives of financial statements were likely to be different from those in developed countries for as long as the main user(s) of accounting information in developing countries were different from the one(s) in developed countries.

In many aspects the developing countries have been different from the developed countries, Perera (1989) also acknowledged the fact that different developing countries were characterised by different levels of accounting development which meant that developing countries were far from being a homogenous group. Nevertheless, he suggested that, "accounting practices based on the uniform approach might be the only alternative available to them." (Wallace, 1990, p. 23)

Perera (1989, p. 151) argued that the need for uniformity in accounting would be greater if,

(i) the government's involvement in economic affairs would be heavier (the more regulated or centralised the economy the greater the need to generate accounting on a uniform basis for purposes of economic planning);

(ii) the felt need for economic development by a central government would be more urgent (uniform accounting reports would allow the central government to compare business enterprises in order to identify those that are lagging in efficiency and productivity);

(iii) the level of accounting education in a country would be lower in comparison with industrialised countries (deficiencies in accounting education and training would mean that accountants would not be able to exercise mature judgements in accounting matters);

(iv) the trained management would not be available (a well-designed uniform accounting system would offer inadequately trained management a greater prospect of success);

(v) the professional status of accountants would be lower (if accountants would not enjoy a high social status and the trust of public then a uniform accounting system designed and monitored by the government would be a better alternative for the protection of public's interests);

In addition to arguing in favour of a uniform accounting system, Perera (1989) also explored the level of acceptability of such system. He reiterated Hofstede's (1983) argument that developing countries were highly collectivistically oriented[1]. This implied that

> "[t]he cultural orientations of most developing countries are such that their societal values would seem to favour uniformity [in accounting]." (Perera, 1989, p. 153)

Perera (1989) pointed out that the acceptability of uniformity in accounting would be greater if

(i) the members of a society would progressively identify their own interests with the interests of the society;

(ii) the power distance in a society is larger[2] (uniformity in accounting would lead to more authority for accounting system, and more emphasis on compliance as against disclosure[3]).

While drawing on previous research in international accounting, Perera (1989) used a contingency-based approach to analyse the development of accounting in developing countries and support the use of a uniform accounting system. Perera's (1989) approach provides a richer and more complete theoretical framework for examination of accounting developments because it combines accounting practices, profession and education with politics, history, economic development and culture. It also facilitates the identification of various environmental factors that might influence a country's choice of accounting system. Most importantly, Perera's (1989) analysis

---

1 According to Hofstede (1983, p. 80) collectivism stands for a preference for a tightly knit social framework in which individuals can expect their relatives or other in-group to look after them in exchange for unquestioning loyalty. On the other hand, individualism stands for a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and their immediate families only. (ibid.)

2 "The power distance dimension relates to the extent to which the members of a society accept that power in institutions and organisations is distributed unequally." (Perera, 1989, p. 153)

Collectivist countries always show large power distances. (Hofstede, 1983, p. 80)

3 Gray (1985)

suggests an inward looking approach to accounting which can lead to an in-depth investigation of processes which shape accounting developments.

1.5. Conclusions

This chapter began with a review of literature on the role(s) of accounting in economy and society. Special attention was given to various arguments and the concluding remarks that more research on this topic was needed. The literature review also aimed at showing the researcher's awareness of the distinction between the functional claims made on behalf of accounting craft and the roles which it serves in practice. The chapter then examined key aspects of the literature on accounting in developing countries. One of the main themes of this literature is that the developing countries should establish an accounting infrastructure that should suit their own special needs, rather than import accounting models established and used by developed countries in different economic contexts. Then, the researcher showed how the contingency theory has developed in the management literature and how this theory has been applied to international accounting. Special attention was given to Perera's (1989) contingency-based approach used to analyse the development of accounting in developing countries. Such an approach forms the framework that will be used to analyse the data collected during the semi-structured open-ended interviews.

The next chapter analyses the emergence and development of accounting in Central and Eastern Europe.

Chapter Two

The Development of Accounting in Central and Eastern Europe

2.1. Introduction

This chapter focuses on accounting developments in Central and Eastern Europe from the emergence of double entry bookkeeping until the collapse of communist regimes in late 1989 - early 1990s. The purpose of analysis is to enable a better understanding of the nature of accounting in Central and Eastern Europe. In order to give a concise and clear picture the researcher traces the path of accounting development that different countries have pursued and tries to establish why accounting has evolved differently in different CEE countries.

The researcher begins with an historical analysis of the systems of accounting that were developed in Central and East European countries between sixteenth and early twentieth century. The emergence of uniform accounting is then discussed. A discussion of both theoretical and practical aspects of socialist accounting follows. The analysis is carried out by making use of the developing literature on accounting in the CEE. This chapter concludes that German accounting has had an enormous influence in the development of accounting in the majority of Central and East European countries.

2.2. Accounting Developments in Central and Eastern Europe - Early Trends

In order to understand fully the process of accounting change that has taken place in most CEE countries since early 1990s, it is quite important to highlight the evolution of the scope and role of accounting from its adoption by merchants of Central Europe in the sixteenth century until the fall of the Berlin wall in 1989.

One of the main arguments of many scholars (Bailey, 1982) is that accounting developments in Central and Eastern Europe from the sixteenth century to the early twentieth century followed the progress of Western European accounting. Bailey (1982, p. 5) explains that the European Renaissance was characterised by

> "traditional attitudes and traditional methods ... being overthrown not merely by the new spirit of scientific enquiry but also by the new spirit of business enterprise".

Developments in politics and religion in Western Europe were associated with an increased trade between merchants, which in turn led to the need for proper keeping of records and accounts. Gradually, record-keeping of accounts started to develop. In 1494, the Italian monk Luka Pacioli was the first to give a comprehensive explanation of the system of keeping accounting records - known as the double entry bookkeeping. This system used by Italian merchants would soon become increasingly popular throughout Western and Central Europe. Using Poland as an example, Jaruga and Bailey (1998, p. 1564) point to the

> "early evidence of the influence of accounting principles developed in Northern Italy. For two generations accounting and related records of the Royal Salt Mine in Wieliczka [Poland] were maintained by an Italian family."

Garrod and McLeay (1996, p. 10) also refer to the employment of Italian bookkeepers "in the mercantile centres of the Polish - Lithuanian empire which then ruled much of Central Europe". According to Bailey (1982), merchants in Bohemia, Slovakia, Poland and Hungary are thought to have used basic double entry bookkeeping despite the decline in trade in those countries during the late seventeenth century. On the contrary, Russian merchants did not rely on any written records or bookkeeping techniques, and as Shama and McMahan (1990) claim, transactions were carried out orally and memorised by the merchants, who nevertheless managed to prosper throughout the fifteenth and sixteenth century. It is believed that the aim of Peter the Great - Russia's ruler between 1682 and 1725 - to create a large army, provided the momentum for the adoption of bookkeeping in Russia. Peter the Great had brought to Russia many skilful Europeans who were employed in building numerous factories that would produce military hardware. As the number of military establishments was increasing Russia was in need of an accounting system that would facilitate the allocation of resources among military factories (Bailey, 1982). As a result, in April 1722,

> "Regulations for the Admiralty and the Navy were issued, which, alongside other provisions contained rules of accounting and book-keeping. It was in that document that the word 'accountant' emerged in the Russian language." (Liberman and Eidinov, 1995, p. 778)

Russia's experience of using bookkeeping to manage its military power and governmental administration does not seem to be unique. Bailey (1982) points out that long before the events in Russia, Maurice of Nassau - the Dutch prince who ruled between 1569 and 1625, had used bookkeeping to run his royal estate and army.

Despite wide spread use of bookkeeping in state administration and state-owned military factories, Shama and McMahan (1990) argue that in the early eighteenth century double entry bookkeeping was not adopted yet by the majority of Russian merchants and private enterprises. As Liberman and Eidinov (1995, p. 779) explain,

> "... Catherine II[1] ... fostered single-entry rather than double-entry bookkeeping, which remained Russia's official system of accounts and records until the second half of the nineteenth century. This was the main reason why the Russian empire fell some 350 years behind Western Europe with regard to the introduction of Italian double-entry bookkeeping."

However, western European accounting - namely German French, Dutch and British, continued to influence Russian accounting. This influence could be seen in the increasing number of translated accounting books published in Russian (Liberman and Eidinov, 1995, p. 779 - 780) and the opening of commercial colleges and schools. Bailey (1982) singles out the German influence on Russian accounting especially during the latter half of the nineteenth century - a period during which Germany opened a large number of commercial colleges throughout Russia.

The influence of West European accounting was present not only in Russia but also in other parts of Central and Eastern Europe. Accounting in the Czech lands was

---

[1] Catherine II - also known as Catherine the Great, was a German princess who married one of the grandsons of Peter the Great and ruled Russia between 1762 and 1796.

governed by the Austrian Business Code of 1862 and in Slovakia by the Hungarian Business Code of 1875 (Zelenka, 1993a). This is understandable as at that time Czech and Slovak territories were part of the Austro-Hungarian empire. It is worth pointing out that such codes prescribed very few regulations and businesses were given the freedom to design accounting rules that would suit their trading arrangements.

Social and political alliances and the partitioning of Central and Eastern Europe amongst European powers of the time determined the type of accounting used. The experience of Lithuania constitutes a classic example. As Mackevicius et al (1996) argue,

> "[F]rom the end of the seventeenth century until 1918, as a consequence of partition, different accounting legislation was applied in different parts of Lithuania. The French Commercial Code of 1673 was introduced into the south-western region of Lithuania (south of the river Nemunas). The Prussian Commercial Code of 1897 was adopted in the coastal region of Klaipeda, and elsewhere the Russian Commercial Code of 1857 was applied." (p. 43)

At the end of the eighteenth century Poland had an experience similar to that of Lithuania in the seventeenth century. Jaruga and Bailey (1998, p. 1564 - 1565) explain that due to the partitioning of Poland among Russia, Prusia and Austria and the arrival of Napoleon, the regulation of accounting practices in Poland was heavily influenced by the commercial codes of the above-mentioned European powers of that time.

In the case of Hungary, the administration of commerce "was greatly influenced by the banking and legal systems of Austria and, ultimately, Germany" (Borda and McLeay, 1996, p. 117). As part of Austro-Hungarian empire, Hungary's economy prospered considerably during the second half of the nineteenth century and all commercial activities were regulated by the Hungarian commercial law that was enacted in 1875.

Efforts to establish an accounting regulation were accompanied by accountants' attempts to organise themselves into professional associations. In the latter half of the nineteenth century the establishment of professional associations of accountants in Italy and Great Britain was followed with great interest by Russian accountants (Bailey, 1982). By the end of the 19th century there were discussions to set up a Russian professional body of accountants, but following a public debate this idea was rejected in 1901. Unlike their Russian colleagues, Polish accountants managed to establish their own Polish accounting association (Bailey, 1982) despite the fact that at that time - the beginning of the twentieth century, Poland was partitioned amongst imperial powers of Germany, Austro-Hungary and Russia.

In the early part of twentieth century the influence of West Europeans on the development of accounting in Central and Eastern Europe and especially Russia become more direct and peaked as Price Waterhouse and W.B. Peat and Co. opened a joint office in Moscow (Bailey, 1982). However, the start of October Revolution in 1917 led to the closure of this office, but most importantly to fundamental changes in the way that accounting would develop.

2.3. The Evolution of Uniform Accounting

While double entry bookkeeping was spreading across Central and Eastern Europe, the idea of uniform accounting was being developed in Western Europe and the United States. Parker (1981, pp. 203 - 205) argues that in the UK the uniformity of financial reporting was first discussed in relation to railways companies. The same author points out that in 1840s, the House of Lords set up a Select Committee on the Audit of Railway Accounts. In a Committee report in 1849, there was a section on "the want of uniformity in accounts", where a model of uniform accounts was explained in detail and proposed. However, the proposal was never adopted at that time (ibid).

Kitchen and Parker (1980, p. 11) point out that in an article read at a meeting of the Manchester Society of Chartered Accountants on the 20th of October 1882, and later published in the 28th of October issue of the same year of the Accountant, Edwin Guthrie (1841 - 1904) - an English member of the original council of the Institute of Chartered Accountants in England and Wales (ICAEW) - argued for uniformity in financial accounting and more specifically about the naming and presenting of the balance sheet and the profit and loss account. Guthrie's main concerns were the sides on which assets and liabilities should be shown in the balance sheet (Parker, 1981, p. 218). At that time, the balance sheet of a UK business would have the assets on the right side and the liabilities on the left side, but Guthrie argued that the UK should follow the reverse form which was popular in other countries (Kitchen and Parker, 1981, p. 12).

Uniformity in cost accounting was also being developed and put into practise as early as late nineteenth century. Initiated by the US National Association of Stove Manufacturers in 1889 the idea of a uniform scheme of cost calculation was further developed by the local associations of printers. As a result, a standard uniform cost finding system was approved for general adoption by the United Typotheta of America in 1910 (Solomons, 1950, p. 239). Across the Atlantic, developments in uniform costing were being observed closely. In a series of articles published in the Birmingham Daily Post in 1895 that were followed by a book published in 1899, E. J. Smith - the Secretary to the Trade Association of Iron Bedstead Makers, set out his scheme of uniform cost accounting (Solomons, 1950, pp. 239 - 240).

Most (1961, p. 45) argued that by 1960 some thirty uniform costing systems had been developed and used in the UK, while Solomons (1950, p. 241) pointed to an even larger number of uniform costing systems developed and used in the US. Various scholars (Lengyel, 1949; Solomons, 1950; Most, 1961) have considered the increase in industrial efficiency and reducing the price competition as the two main reasons for adopting uniform costing systems. More specifically, a uniform costing system was thought to provide better control over costs, which in turn would lead to eliminating unnecessary waste and increasing efficiency. In addition, a uniform costing system used by the firms of the same industry would provide a uniform basis for measuring the cost of manufactured products. This in turn would reduce the differences in cost, and whenever there was an agreement between the firms of the same industry to fix the selling prices of manufactured goods, then each firm could do so by adding to the cost an agreed percentage of profit. This way each firm within the same industry would generate a reasonable profit and price competition between firms of the same industry would be reduced.

Uniform costing systems have also helped extend governmental control over the price of manufactured goods. For instance, before the Second World War, uniform costing was widely used in Germany to secure governmental control over pricing of manufactured goods and raise industrial efficiency.

Uniform accounting also developed in continental Europe. However, unlike the UK and the US where uniformity was being developed either for financial accounting or costing purposes, uniformity in continental Europe developed for both financial and cost accounting purposes. Eugen Schmalenbach - a German professor of accounting, laid the foundations of the European uniform accounting. As Mueller (1965, p. 850) points out, in the 1920s, difficulties in comparing the accounts of companies led Schmalenbach to establish the first uniform codified chart of accounts. Soon after came into light, Schmalenbach's work was translated into Russian, and in the late 1920s and during 1930s, many accountants from the then Soviet Union met Schmalenbach with regard to his work on uniform accounting. During the Second World War the German uniform codified chart of accounts was introduced into France and Poland - at that time both occupied by Germany. After the end of the Second World War, the uniform chart of accounts became dominant in all the Central and East European countries that were under the influence of the then Soviet Union as well as in many other countries in Africa, Middle East, and Far East. It is noteworthy that whether voluntarily or not the uniform chart of accounts was embraced especially by those countries whose governments were heavily involved in planning and controlling their economies.

2.4. The Development of Soviet Accounting

As Europe turned into a battlefield between 1914 and 1918, a revolution that started in Russia in 1917 swept the Romanov dynasty from power. Then War Communism followed. During this period the Soviet revolutionary forces attempted the abolition of money and accounting in monetary terms, and tried to administer the entire economic system through physical controls (Bailey, 1988, p. 175). Such an experimental moneyless economy did not succeed. By 1921 a new regime had taken control of most of what later would constitute the Soviet Union. However, the task of rebuilding the economy of a country that was savaged by the First World War and a prolonged civil war was even more challenging.

In April 1921 a New Economic Policy was introduced. It required, as Bailey (1988, p. 175) argues, " separate accounting for the results of each state enterprise". However,

> [W]ith the disappearance of the management cadres through immigration, elimination or mere dispossession, the Bolsheviks were dependent upon the remaining Russian bourgeois accounting specialists, principally teachers and graduates in accounting of the commercial institutes, for rebuilding accounting systems in the nationalised enterprises (Bailey, 1982, p. 26).

Campbell (1963, p. 12) points out that "the re-organisation of state industry in 1921 clearly implied the use of traditional bookkeeping in monetary terms". Russian accounting scholars and practitioners were encouraged to learn from the experience of their colleagues in countries such as France, The Netherlands, and Austria (Bailey, 1982). However, in the then Soviet Union the German experience in accounting was the most influential one. This is understandable if one takes into consideration the argument of Graves and Berry (1989) that in the beginning of the twentieth century

German accountants were at the forefront of business economics and its links with accounting. Kontenrahmen - Schmalenbach's work on uniform accounting, played a crucial role in the development of Soviet accounting.

Campbell (1963, p. 12) points out that in the then Soviet Union there was a "wholesale transfer of capitalist accounting to the service of the planned economy". However, as the same author argues,

> [D]espite the formal similarity between Soviet and capitalist accounting, ..., the former shows fairly clearly the strong influence of centralized planning and control. In the planned economy, ..., accounting ceases to be a technique oriented towards the needs of individual enterprise for internal management and takes on the more general functions of providing the information which is needed for planning and control from above. (Campbell, 1963, p. 13)

Based on Schmalenbach's work, the first chart of accounts was introduced in 1924 (Bailey 1982), and the first uniform plans of accounts were worked out for Soviet industry in the early thirties (Campbell, 1963, p. 14). The drive for industrialisation and the introduction of the five-year economic plans were associated with efforts to develop a unified system of national-economic recordkeeping. Such a development was necessary to satisfy the information needs of a centrally planned economy. In addition, Campbell (1963, p. 14) points out that the Soviet accounting practices were "prescribed from above and ... characterized by a high degree of uniformity and standardization."

Despite the intervention of the state in the development of accounting, until the early thirties Soviet accounting was still influenced by the experience and advice of German accountants. Unlike all other spheres of economy and society that were under the heavy influence of Marxist - Leninist ideology, accounting was an exception. This was the case mainly because no Marxist or Leninist theory of accounting had been developed yet. As Bailey (1988) emphasises,

> "Marx and Engels provided few indications of how a socialist economy might be organised. ... [In addition,] the occasional references to accounting made by Marx and Engles were cast in general terms. It is not possible to draw any inferences concerning the form to be taken by, or the use to be made of, accounting records in the socialist economy." (pp. 173 - 174)

This meant - as members of the Institute of State Accounting Experts (IGBE) were arguing, that the Soviet Union should continue to learn from the accounting experience of other European countries. The Institute of State Accounting Experts had brought together many accounting scholars and professionals who had been educated prior to the October Revolution of 1917. They would argue that the functions of accounting had not changed despite the fundamental changes in social and economic relationships that had taken place in the then Soviet Union, and that accounting information should be used for managing enterprises and not only for statistical and administrative purposes (Bailey, 1998, p. 175).

Members of the ruling Bolshevik Party regarded IGBE as a harbour of bourgeois accounting ideology. In the early thirties, IGBE was dissolved and many of its members were put on trial for having expressed views that were against the ideology of the ruling Bolshevik party. The years that followed were characterised by further adjustments made to accounting practices. Fulfilling the five-year development plans required an effective combination of natural and human resources. It also meant that technocrats in charge of preparing the development plans needed vast quantities of information that would be used as the basis of prospective planning. On the other hand, the technocrats in charge of checking the completion of plans required plenty of detailed information on actual achievements. Campbell (1963) points out that,

> "in this situation it is necessary that the enterprise accounting be designed to produce information in the form needed by the central authorities. The concepts and categories used in the enterprise accounting must be assimilable to the planners' concepts and categories." (pp. 13 - 14)

In addition, Bailey (1988, p. 154) argues, that "[a]ccounting was confined to the fulfilment of a state control function", while Brzezin and Jaruga (1981) point out that the Soviet accounting system was used to legitimise the use of national assets by enterprises. Several uniform charts of accounts were introduced into various industrial sectors (Berry, 1982) while each enterprise was required to have a distinct bookkeeping department headed by a chief bookkeeper (Campbell, 1963, p. 15).

The start of the Second World War and the threat of an attack from Germany did not stop the co-operation between German and Soviet accountants. As Graves and Berry (1989) point out, in 1940 a single uniform German influenced chart of accounts was introduced. Unlike the previous charts of accounts used in the 1930s the new chart aimed at achieving uniformity across the whole economy of the Soviet Union. Uniformity of accounting has been seen as essential for the functioning of a planned economy (Campbell, 1963, p. 15; Bailey, 1988, p. 154). However, as Campbell (1963) argues,

> "[uniformity] often [had] ... an adverse effect on accounting by making it primarily an instrument for outside control and impairing the flexibility that might make it a more effective tool of management at the enterprise level." (p. 15)

2.5. Inter-war Accounting in Central and Eastern Europe

While the October Revolution of 1917 led to fundamental changes in two continents, the end of the First World War changed the map of Europe. A number of newly independent states were created in central and eastern parts of Europe. Nevertheless, old European powers - especially Germany, continued to influence the economic development in general and the accounting in particular, of the newly independent states of CEE. The case of Poland exemplifies the German influence. As Krzywda et al (1996, p. 63) explain the state-owned banks were the main provider of both short- and long-term finance, while the government tried to protect the trading activities from the effects of the Polish-German trade war of 1925 - 1934[2]. Governmental involvement in trade protectionism, in stimulating the development of state-owned industry, and in providing financing suggest that the Polish path to industrial development was of the Germanic type (Krzywda et al, 1996, p. 64). In addition, there was a

> "continuation of the [pre First World War] commercial codes ... until their consolidation (together with the Act governing joint stock companies) in the Kodeks Handlowy (Commercial Code) of 1934, [which] itself [was] influenced by the German [commercial] code." (Krzywda et al, 1996, p. 64).

In addition to being German influenced, the development of accounting in inter-war Poland was affected by governmental policies. As a matter of fact, the Polish government of that time became heavily involved in the regulation of accounting. There were governmental acts passed that aimed at regulating the accounting and audit in co-operatives, and more importantly the activities of joint stock companies. However, as Krzywda et al (1996, pp. 64 - 65) explain, in practice the provisions regarding the publication and the audit of financial statements were not fully met. These authors list three reasons for the inadequate implementation of accounting legislation. First, the main accounting legislation was not always supported with complimentary governmental acts whose application would lead to the full implementation of legislative requirements. This meant for instance, that in practice there was no separate auditing profession as envisaged by the legislation. Secondly, published financial statements differed amongst companies in terms of compliance with the legislation and the extent of disclosure. This was due to the lack of suitably qualified experts that would carry proper audits to ensure compliance with the legislation. The fragmentation of the accounting profession also contributed to the variations in the published financial statements. In 1926 the Association of Accountants in Poland was established on a national basis. This was followed by the establishment of a rival organization called the Polish Association of Accountants

---

2 The Polish-German war trade was a consequence of the collapse of the preferential trading terms with Germany that Poland had been enjoyed under the terms of the Versailles agreement of 1919.

and Bookkeeping Clerks in Warsaw. The rivalry between the two organisations continued until the occupation of Poland by Germany in 1939 (Krzywda, 1996, p. 65).

Despite the challenging tasks and problems, by the end of 1930s the quality of Polish accounting practice improved. This was due to the heavy tax penalties imposed by the tax auditor - a state official whose duty was to ensure that company accounts were prepared according to the accounting legislation. The activity of tax auditors exemplifies the increasing state intervention in the area of accounting regulation - a tendency that characterised the development of accounting in inter-war Poland. In addition, as Jaruga and Bailey (1998, p. 1565) explain, fiscal legislation played a key role in the regulation of accounting practices.

The development of accounting in the then inter-war Czechoslovakia showed some similarities with that in Poland. As in Poland, the Germanic influence was present in the then Czechoslovak accounting. Following the collapse of the Austro-Hungarian Empire in 1918, the union of Czech and Slovak regions[3] led to the creation of the then Czechoslovakia - a country that would soon gain "a reputation as one of the most advanced industrial countries in Europe" (Zelenka et al, 1996, p. 109). The independence however, did not fully cut all the ties with the Austro-Hungarian era. In the then Czechoslovakia the accounting rules of the Austro-Hungarian Empire continued to be in use and no accounting regulation of its own was developed (Zelenka, 1993).

Hercok (1988, p. 83) points out that in the 1920s, Schmalenbach's work on uniform accounting was studied and applied in the then Czechoslovakia. The same author (1988, p. 83) also notes the influence "exerted by American developments in accounting practice such as standard costing and the use of cost centres and profit centres." Understandably, the industrial development that the then Czechoslovakia

[3] Bohemia, Silesia, Ruthenia, Moravia, and Slovakia.

experienced in the 1920s and 1930s might have required the application of new cost accounting methods.

Accounting professionals in the then Czechoslovakia did attempt to organise in professional associations (Zelenka, 1993). However, those associations were in the early stages of their development. The independence of the then Czechoslovakia came to an end in 1938 when the country was invaded by Germany. As Hercok (1988, p. 83) notes, German occupation "contributed to the wider use of ... [Schmalenbach's] Kontenrahmen."

Similar to other Central European countries, Hungary's accounting development was influenced by its German-speaking neighbours. During the era of the Austro-Hungarian Empire, Hungary developed economically and established the foundations of a coherent financial system. The end of the First World War led to the end of the Austro-Hungarian Empire and the creation of an independent Hungary. As Borda and McLeay (1996) argue,

> "[D]uring the inter-war years [1918 - 1939] the financing of renewed industrialization in ... Hungary owed much to credits from Germany. New company regulation was again in the German tradition, and the provision of the Kft Act of 1930 defined a form of limited company, similar to the German GmbH ... ." (p. 117)

European powers - Russia and Germany, and relationships with the neighbouring countries - mainly Poland, also influenced accounting practices of the Baltic states. Lithuania's experience shows how a country's history could shape the path of accounting development. Although the end of the First World War changed the map of Central and Eastern Europe, the partitioning of Lithuania did not come to an end. The region of Vilnius - today's capital of Lithuania, was under Polish administration from 1920 until 1939. As a result, Polish accounting - although still developing, influenced strongly the development of accounting in this part of inter-war Lithuania. As Mackevicius et al (1996, p. 43) point out, Polish accounting practice was introduced and the Polish Commercial Code of 1934, was applied in the Polish administered areas of Lithuania. The same authors explain that despite foreign influences, the inter-war period provided Lithuania with the opportunity to develop its own accounting system. As a result, the Accounting Act was adopted in 1924, and its main purpose "was to ensure the use of accounting as an aid in the levying of taxation." (Mackevicius et al, 1996, p. 43) Lithuania's independent development changed direction when the country was annexed to the then Soviet Union.

Before the Second World War, German influence was also present in other Central and East European countries (Richard, 1998, p. 302). All in all, one of the major characteristic of accounting developments in Central and Eastern Europe was the incorporation of accounting regulation into commercial codes. However, as Richard (1998) explains, the commercial codes

> "regulate(d) in a very general way the [asset] valuation rules and presentation of financial statements. There were no obligatory accounting charts at ... [that] time. It was only with the German occupation that the period of 'national' accounting plans would start." (p. 302)

2.6. Post-war Accounting in Central and Eastern Europe

Between 1939 and 1945 most of Central and Eastern Europe was under German occupation. This meant that during the Second World War, the German accounting plan of that time, which was based on Schmalenbach's Kontenrahmen, was imposed on a good deal of German-occupied industrially developed areas such as Poland and the Czech regions of the then Czechoslovakia (Richard, 1998, p. 302). The liberation of most of Central and Eastern Europe by the then Soviet Red Army would change the course of history. New regimes came into power in CEE countries and the Eastern Block was established. This meant that with more or less rapidity, Central and East European countries adopted the basic rules of Soviet accounting. As Brzezin and Jaruga (1988, p. 47) explain,

> "Soviet accounting influenced to a considerable extent the approaches to accounting followed in other socialist countries such as Poland, the [then] GDR, [the then] Czechoslovakia, etc."

According to Richard (1998, p. 296) accounting systems of CEE countries after the Second World War became modified versions of the Soviet accounting that was developed between 1924 and 1940. Although the accounting system was not the same in any two CEE countries, some common features were shared by most accounting systems of those countries.

Accounting system was used to provide information for the purposes of planning the economy and finding whether the centrally set targets were met. Brzezin and Jaruga (1988, p. 45) explain that in his speeches in the early 1920s Lenin considered accounting as necessary for the purpose of controlling the adherence to the five-year state plans, and Lenin's directives did shape the development of accounting in the years to come. However, at the enterprise level accounting became a means of deception rather than a tool for purposes of collecting information and controlling the achievement of centrally planned objectives. Gorelik (1973) explains that the falsification of accounting records related to industrial output occurred because the punishment for failure of meeting the targets would be severe. Successful enterprises were usually the ones whose managers succeeded in finding the way round the system. According to Root and Emmanuel (1992) the majority of managers of state-owned enterprises under-reported the results also in order to limit further centrally planned increases in the level of production output. This way, the managers would ensure that the enterprises they were in charge of, would perform well in the future and meet the targets that would otherwise have been higher. Such falsifications led the ruling political elite in believing that it was receiving realistic information from enterprises, and that centrally set plans were fulfilled.

The absence of an objectively determined price system affected the usefulness of accounting data. In CEE countries prices were determined centrally and they did not reflect the supply and demand for products and services. The existence of fixed prices affected the validity of economic calculations in general and that of accounting profits and profitability in particular (Gorelik, 1973). As prices did not reflect the economic efficiency, the accounting profits - calculated on the basis of those fixed prices - could not measure the economic efficiency of enterprises (ibid). In order to address such a drawback, the Soviet regime for instance undertook a major price revision, which led to a new set of industrial prices that were introduced in 1967. Despite the efforts, as Schroeder (1966, p. 473) argues, the Soviet price reform did not solve the issue of pricing. The inability of the system of accounting to measure the economic efficiency of enterprise operations had its roots in the politicisation and centralisation of all major economic decisions (Gorelik, 1973).

In Central and East European countries, the accounting system was design to satisfy the information needs of central agencies that were in charge of economic planning and control rather than the information needs of various intermediate administrative bodies (ibid). All the information would be prepared for and passed on to the central planning agencies. This meant that the intermediate administrative bodies would have to ask enterprise accountants to prepare unsanctioned reports whose formats had not been established by the centre - usually the Ministry of Finance. This was the case especially in the then Soviet Union.

Although accountants were producers of information, they would have very little influence upon the processes of central planning and control. As Berry (1982) points out, the influence of accounting in a country can be measured by the status of the accountant, or in Central and East European countries, by the role of the chief accountant within the socialist enterprise. Stated simply, accountants were "rule-bound bureaucrats" who worked for the public sector.

Accounting in Central and East European countries was designed to serve state interests only. The state was the sole user of accounting information, and accounting reports were never made public (Hercok, 1982). As the only owner of economic resources, the state had a need for information which would be used to assist the process of resource allocation. This information need fed into the accounting system which then provided the required data in a very regulated uniform format.

2.7. Types of Accounting Uniformity

As pointed out earlier on, in Central and East European countries accounting rules and procedures were very formalised and subject to uniform central control. The purpose of such a rigidly constructed accounting system was to facilitate central planning and control. Accounting information was used to assist the resource allocation process and to support the preparation of national economic development plans.

Although embraced by many countries in both the West and the East of Europe, and also in Africa and Asia, uniform accounting has been practised differently in different countries. This is understandable because different countries have gone through different paths of development and as a result have different economic and legal systems.

Parker (1972) identifies three types of uniformity. First, he points out the uniformity found in the German chart of accounts and in the EU harmonisation plans. As the same author explains,

> "the emphasis is on standardising the content and presentation of financial statements, as well as the main principles and certain practices of measurement and valuation. This still allows a limited degree of flexibility when applying the relevant practices and procedures to implement these principles. (p. 11)

Second, Parker (ibid) refers to the French version of uniformity which has brought about the accounting plan. This author points out that,

> "both private and public enterprise accounting processes (content, principles, and practices) are legislated for. This might be called standardised accounting with very little flexibility allowed." (ibid)

Third, the same author points out that type of uniformity "where everything in the accounting process has been standardised with no flexibility allowed at all." (ibid) Parker did not mention where this last type of uniformity was to be found. However, it is quite obvious that Central and Eastern Europe was the place where this type of uniform accounting was applied until early 1990s.

Based on the above definitions, it appears that the degree of uniformity is highly dependent upon a country's economic system and needs. The more centrally planned the economy is, the more complete and compulsory uniform accounting is. On the other hand, the less planned a country's economy is, the less uniform its accounting system is. This last means that only the elements of presentation of financial statements and those of valuation rules are prescribed. In the UK and USA for instance, where the stock market plays a vital role and external financial reporting is the main area where uniformity is applied, financial statements are presented in standardised formats. This allows investors to compare the performance of companies and to make informed decisions with regard to the trading of shares in the stock market. In France, where there have been fewer individually held shares, uniformity has been applied to provide the central government with standardised information for the purposes of national planning and control. Uniformity has been achieved through the adoption of the accounting plan. The French accounting plan, however,

> "provides three systems for the presentation of the financial statements of individual companies, whose use depends upon the size of the company: the basic system, the abbreviated system and the extended system. Operating from a common base, these systems differ in terms of the quantity and detail of the information provided. The basic system comprises the minimum accounting requirements which must be observed by medium-sized and large companies. The abbreviated system is intended for companies whose size does not justify use of the basic system. The extended system offers, in addition to the requirements of the basic system, further documents which provide analysis of the figures with a view to explaining more fully the company's management." (Hoarau, 1998, p. 120)

In Central and East European countries, uniform accounting was adopted to supply the central government with standardised information for the purposes of national planning and control at all levels of the economy. Uniformity was achieved through the compulsory use of a rigid uniform accounting plan by all enterprises.

When comparing the experience of France with that of CEE countries before 1989 - 1990, one could find them different although in both cases uniformity was adopted to supply information for purposes of planning and control. In France, certain companies are required to use certain systems of accounting plan - as defined above - so that various accounting information could be generated for various aims including those for planning and control of the economy. However, the companies themselves have been responsible for planning and control of their own activities. The experience of Central and Eastern Europe was different. Every enterprise was obliged to use uniform accounting. The central government was responsible not only for planning and control of the economy, but also for planning and control of the activities of each enterprise. The above comparison shows that in those countries where the governments are in charge of regulating the economy, uniformity in accounting has been different. Thus, accounting uniformity cannot be seen as a homogenous phenomenon.

2.8. Conclusions

This chapter investigated the phases of accounting development in Central and Eastern Europe until 1989 - 1990. Continuous changes of the political map of this region and the influence of neighbouring imperial powers were found to have had a significant effect on the structure and functioning of the accounting system of many CEE countries. The German experience in accounting was singled out as the most influential one. The researcher also discussed the origin of uniform accounting, Schmalenbach's work on developing a uniform chart of accounts and key features of Soviet accounting model that was in use until the start of political and economic reforms in 1989 - 1990. The evidence documented in the literature showed that the purpose of Soviet accounting was to provide information only for purposes of central planning and control. The next chapter analyses key aspects of accounting reform in former communist countries of Central and Eastern Europe.

Chapter Three

Issues of Accounting Reform in CEE Countries

3.1. Introduction

This chapter focuses on accounting developments in Central and Eastern Europe after the collapse of communist regimes in late 1989 - early 1990s. The purpose of analysis is to provide a better understanding of the nature of accounting change that has taken place across the region. Giving a concise and clear picture of what has happened is extremely difficult. However, where possible, the researcher traces the courses of action taken by different countries.

The chapter begins with a critique of accounting used in Central and Eastern Europe prior 1989. Then the researcher outlines the path of accounting development since the end of the Cold War and discusses some of the common issues that most Central and East European countries have faced while reforming their accounting systems. The analysis is carried out by making use of the developing literature on accounting reform in CEE of the 1990s. The remainder of the chapter focuses on the role that international governmental and financial organisations and the governments of Western developed countries have played in reforming the economies of former communist countries of Europe. Special attention is given to the influence that international accounting firms have had on accounting systems of CEEC. This chapter concludes that formal changes of accounting have been the focal point of accounting reform in the majority of Central and East European countries.

3.2. A Critique of the State of Accounting in CEE Prior 1989

Accounting - whichever way one might define it - existed in Central and Easter Europe before 1989. The degree to which accounting existed though, varied between different countries. Nevertheless, being under the heavy influence of the Soviet ideology meant that there were certain features, which were consistent across accounting systems of Central and East European countries.

Meyer (1986) argues that one of the striking features of the existence of accounting in pre 1989 Central and Eastern Europe was the fact that accounting was largely a misnomer, meaning that accounting implied simply counting, or as Bailey (1995) puts it accounting had regressed to bookkeeping. One piece of evidence that could be used to back up such assertions is the fact that the old Russian word for accounting - schetovodstvo, disappeared from use in the early 1930s (Bailey, 1995).

The purpose of accounting was largely statistical (Boross et al, 1995), and control or surveillance (Bailey, 1995; Krzywda et al, 1995). As Garrod and McLeay (1996, p. 1) point out, accounting systems in Central and East European countries "had as their main objective the provision, in one form or another, of financial statistics by enterprises for use in higher-level budgets." Using the case of Poland as an example, Krzywda et al (1996) argue that,

> "accounting was treated as an instrument of central economic administration, as a tool in exercising control over the activities of enterprises. Accounting was brought under the direct control of the Ministerstwo Finansow (Ministry of Finance) and the control made effective through the creation of an obligatory uniform accounting system to be used in all enterprises." (p. 66)

Financial data was merely a by-product of accounting system (Jaruga et al, 1996). Despite this, as Borda et al (1996, p. 126) point out using Hungary as an example, financial data provided by the accounting system were adequate, to a certain degree, for planning and control at the economy-wide level. According to the same authors accounting however,

> "failed to provide adequate information for managerial decision-making and could not serve as a micro-managerial tool. ... [This was because] decision-making connected with production volume, product lines and manufacturing costs took place at the national level and not at the level of the shop floor, where more reliable information might have been obtained." (ibid.)

Managerial decision-making was almost absent and as Borda et al. (1996, p. 126) emphasise, all the decisions were made "by the central supervisory authorities or functional bodies such as Ministries." In addition, accountants had little, if any, opportunity to use their own judgement (Seal et al, 1995; Krzywda et al, 1995) because they were constrained by very strict rules, which were justified by reference to the communist ideology. In essence, accountants were no more than human processors of data. This meant that accountants' ranking in society was very low down the line. As Sucher et al (1996) points out for instance, Czech accountants were held in very low esteem.

In many CEE countries, accounting professionals were not organised in any associations. There were not, for instance, any professional accounting associations in the then Czechoslovakia. The situation was different in Poland though. Since 1957 there had been an association of accountants (Krzywda et al, 1995; Seal et al, 1995). In Central and Eastern Europe however, every aspect of life was highly politicised and centrally controlled, and so was the accounting. This meant that there was no room for an independent accounting profession.

The same applies to auditing or "control and revision" - the term used for auditing in CEEC. Seal et al. (1995) argue that the audit as such lacked the crucial element of independence and had as its main purpose to examine the effectiveness in using resources and compliance with legislation.

In the 1980s, some CEE countries like the then Yugoslavia and Czechoslovakia for instance, aimed at encouraging western foreign companies to invest. This led to the need to establish a western style auditing profession that would offer foreign investors some assurance (Zelenka et al, 1996, p. 95) and would also be proficiently capable of certifying the financial statements of those foreign companies that would invest in the region. As locally there was lack of knowledge of western audit principles and practices (Zelenka et al, 1996, p. 95), the international accounting firms became involved in building a western style audit profession. The then Coopers and Lybrand for instance, provided training in auditing matters for the state group audit of the then Yugoslavia (Coopers and Lybrand, 1997, p. 3).

Despite some efforts of the international accounting firms in the 1980s to transfer western knowledge and experience through training of local professionals, the real changes in accounting in Central and Eastern Europe would begin after the political upheavals of 1989.

3.3. Accounting Developments in the 1990s

The fall of the Berlin Wall in October 1989 induced political changes that were followed by economic reforms. No two countries however, were in the same conditions at the outset of reforms. This is understandable as Central and Eastern Europe was far from homogeneous prior 1989. Stern (1998) for instance, points out that,

> "Hungary had embarked on experiments in reform in the 1970s and 1980s. Poland had an extensive private sector at the outset of transition, particularly in agriculture. ... Some countries, such as Albania, Bulgaria, Hungary, Poland, Russia and the former Yugoslavia, began the transition with substantial levels of international debt, whereas for others the levels were negligible." (p. 3)

Despite differences that existed amongst Central and East European countries, changes in accounting infrastructure were part of the reform programmes. Jaruga (1993) however, argues that no one really knew how long the reform process would take, or what the road ahead would be like. Nevertheless, as Illés et al, (1996) point out, most Central and East European countries shared a common long-term goal of entry into the European Union regardless of different paths to transition or variations in economic structures, geography, natural resources, historical and cultural traditions.

3.3.1. EU Influences on CEE accounting

Ahead of accession to the European Union, most CEE countries initiated preparation of an accounting legislation conform European Union's Fourth, Seventh and Eighth Directives on company law. Stated simply, having an accounting legislation in line with EU Directives would be vital for CEE countries if they were to attract foreign investors. An accounting legislation comparable to that of Western developed countries would increase foreign investors' confidence in channelling their capital to the region. In addition, as Bailey (1995) points out, drafting an accounting legislation according to the EU Directives seemed to have been the only policy formulated at that time.

Bailey (1995) adds that accounting should reflect the current socio-economic circumstances which surround it. Many Central and East European countries however, adapted or simply copied the EU Directives on company law. This meant that in those CEE countries, despite the efforts, the new accounting legislation was to varying degrees out of context to reality.

Although theoretically one might argue that the new accounting legislation of Central and East European countries should have reflected fully the reality, in practice things were different. In his study on Romanian accounting system, Feleaga (1992) gives a very realistic account of the situation that Romania - like many other Central and East European countries, faced in the early 1990s, by pointing out that,

> "the first question to arise at the dawn of post-revolutionary Romania was whether the conceptualisation of a proper accounting system, adapted to the market economy, would be possible. A few academics have asked this question but, unfortunately, the answer is negative. Because of the lack of specialists in the 'rules of the game' of accounting in such an economy, the lack of an accounting profession that could update its knowledge to the level of the other side of the iron curtain, the lack of an economic reality that would test the hypothesis, and the lack of comparative accounting research, one must admit frankly that the only solution was to import an 'accounting product' as compatible as possible with the conditions and traditions of Romania." (Feleaga as quoted in Sochaka and Malo, 1996, p. 39)

Rather than following the EU Directives, some scholars and practitioners, as Grant (1992) reports, had argued that the existing accounting statements used in Central and East European countries during the communist reign could have been adapted into EU's financial reporting formats. This argument illustrates the lack of understanding that it was not just the form of those old accounting statements that needed to be changed but their very nature.

Incorporating the EU Directives on company law into the accounting legislation of CEE countries was not an easy task. Jaruga (1993) reminds us that France and Germany were key representatives in drafting the EU legislation. Those two countries however, spent around six years on researching, discussing and preparing the changes to their own national legislation in order to bring it in line with those very EU Directives they had drafted. Logically, one would expect CEE countries that have been aiming to join the European Union to face even greater challenges while trying to follow the EU Directives on company law.

3.3.2. The International Accounting Standards and their Use in CEEC

Since their first release in the 1970s, the International Accounting Standards (IASs) have developed into an influential regulatory regime. The IASs are prepared by the International Accounting Standards Committee whose work has been encouraged and supported by the international accounting firms, Western accountancy bodies, trans-national corporations, international financial organisations, etc. As Haller and Walton (1998, p. 12) explain, the international accounting firms and professional accounting bodies have provided the technical input to the International Accounting Standards Committee (IASC), which is the organisation that prepares the International Accounting Standards. The funding of the IASC has come from the member organisations as well as international accounting firms, and "companies or institutions from countries with an Anglo-Saxon accounting system … ." (Haller and Walton, 1998, p. 12)

As a result of continuous efforts of the IASC and those who support this organisation, the International Accounting Standards have gained international recognition and are now widely use. Choi et al (1999, p. 262) point out that the IASs have been used in many countries as the basis for their own national requirements with regard to accounting, or as an international benchmark for developing national standards of accounting. Central and East European countries have not been an exception to the above. From the start of reforms in the early 1990s compliance with the International Accounting Standards has been one of issues that many CEE countries have had to take into consideration while establishing their own accounting legislation. As Edwards and Godwin (1995) explain,

> "the adoption of internationally recognized accounting standards can ease privatization efforts because of the confidence they provide individual shareholders. Without such standards, the ability of privately held enterprises to attract capital from bankers and investors is seriously impaired. ... It is important to note what countries miss when they do not follow international accounting standards in not being able to fully access key capital markets such as those of London, Tokyo and New York. The importance of these capital markets is demonstrated by the $20 billion foreign companies raised in the US last year [i.e. 1994], of which 71% went to emerging markets and privatizing enterprises."

Using Russia as an example, Edwards and Godwin (1995) continue the argument on the importance of conformity with the IASs by pointing out that in the early 1990s Russia's failure to comply fully with the IASs "had a fallout effect on its efforts to establish a sound banking system." The same authors add that the then "Coopers and Lybrand's audit of the Russian Federation Central Bank found significant unaccounted-for sums even though the [audit] firm did not perform a standard audit of the bank's reports" simply because at that time - early 1990s, Russia's accounting system was not yet in conformity with the international accounting standards.

Since the start of transition to a market oriented economy in the early 1990s, some CEE countries have fully adopted the IASs as they are, while the rest of countries have followed a more cautious approach - develop national accounting standards in line with or based on the IASs.

The following table illustrates how the International Accounting Standards are used in Central and East European countries.

Table 3.1.: The use of International Accounting Standards in CEE countries (1997 / 1998)

(1) Use of the IASs only	(2) Use of both national standards of accounting and the IASs	(3) Use of national standards of accounting which comply with the IASs
Croatia Hungary Latvia FYROM Yugoslavia	Czech Republic Estonia Lithuania Poland Romania Russia Slovak Republic Slovenia Ukraine	Bulgaria Moldova

Source: The then www.iasc.org.uk

As seen from the table above, one end of the spectrum encompasses those CEE countries that use IASs only, while the other end those CEE countries that use accounting standards which are based on or comply with the IASs. Most Central and East European countries however occupy the centre of spectrum - they use both their own national accounting standards and the IASs. It is noteworthy that none of the above groups is fully homogenous. Within group 2 for instance, there are countries such as Ukraine where domestic listed companies must follow the national accounting standards, and others such as Slovenia where domestic listed companies are allowed to use either the IASs or the Slovene Accounting Standards (www.iasc.org.uk), and if "a Slovene standard is insufficiently detailed, or none exists, International Accounting Standards should be taken as a point of reference." (Turku and Garrod, 1996, p. 154)

Although the International Accounting Standards have found a wide-spread use across the region, Sucher et al (1996) argue that CEE countries considered the EU Directives as more suitable to follow partly because of the desire to join the EU, but also because local professionals could have a better understanding of the EU Directives which reflect the continental accounting than of the IASs which have been structured according to the Anglo-American approach to accounting. In addition, as Garrod and McLeay (1996) emphasise,

> "the wholesale importation of International Accounting Standards, based largely on a UK / US philosophy of financial reporting, into a legislative system [of those CEE countries] more closely aligned with the German approach is likely to lead to the introduction of conflicting objectives into the conceptual framework of corporate reporting." (p. 5)

Further, Bailey (1995) points out that,

> "the IASC has recognized that the international accounting standards developed may not be appropriate for adoption in either developing or newly industrialized countries. This may equally be the case for countries in the course of transition from centrally planned to market economies." (p. 613)

Jaruga (1993) however, advocates a more open minded approach with regard to the adoption of foreign accounting standards, be they European or international. According to her, CEE countries in transition must decide when, and to what extent, it is appropriate to incorporate foreign accounting rules into their national laws and accounting regulations. Despite pointing to a "schizoid condition" created by the variety of international influences, Seal et al (1995) agree with Jaruga's approach, and further the argument by emphasising the opportunity that Central and East European countries have had in choosing the most successful foreign models of accounting in order to avoid some of the unnecessary regulatory shortcomings, which developed countries have faced themselves during the course of their accounting history.

3.3.3. Financial Accounting Versus Accounting for Taxation

Bringing the accounting legislation in line with the EU Directives has been only one of the many issues that professionals in Central and East European countries have had to resolve. The separation of financial accounting from accounting for fiscal purposes has been another matter of concern. Illés et al (1996) point out that in Central and Eastern Europe tax law has had a great influence on accounting. Such an influence has been problematic because as Seal et al (1995) and Sucher et al (1996) argue further, tax law does not allow for provisions against stock and debtors. Practically, this has meant that local accountants have not made such provisions when preparing the financial reports of companies. The end result of this practice has been the fact that the management of local companies in many Central and East European countries has been able to overstate the profit figures.

The tax law has also influenced or determined as the case might be, the way tangible fixed assets are depreciated. It is known that accountants can choose between tax based (fiscal) depreciation and economic depreciation. However, Richard (1998, p. 312) points out that in the case of Romania for instance "the depreciation approach remains in the hands of the administration (particularly the tax authorities)" and "the principle of fiscal depreciation seems to have been preferred". As one of the two methods of depreciation, tax based depreciation is not in itself wrong. However, the use of the tax based depreciation approach in depreciating tangible fixed assets is an indicator of the influence that tax law has on accounting practises in some of the Central and East European countries.

While discussing the choice of depreciation method, it is noteworthy that in those CEE countries such as Bulgaria and the Czech Republic, that have instituted the principle of freedom of choice for the business in determining the depreciation method, large companies, usually multinationals, are more likely to follow company wide policy regarding depreciation policies (Illés et al , 1996).

In Hungary, accounting law is separate from the tax law. However, Borda (1992) argues that often, in order to save time, human and financial resources, financial accounts are prepared in a manner which is acceptable within the boundaries of tax legislation, too. Furthermore, the same author points out that it seems that the preparers of accounts use tax rules as a guide to accounting practices.

According to Jaruga et al (1996), Polish Accounting Act of 1994 eroded the domination of tax requirements on accounting rules and since then the accounting rules have overridden tax requirements. This Act has set out the general principles of accounting in a very clear and precise way, and Jaruga et al (1996) argue that this Act represented a revolution in economic thinking in Poland and has made the transition from planned to market driven economic system easier.

Boross et al (1995) emphasise that part of the reason why accounting professionals in Central and Eastern Europe have been struggling to separate financial accounting from accounting for tax is because in many developed West European countries, which those in Central and Eastern Europe have been following, tax law dominates accounting practices.

3.3.4. Accounting Reform and the Use of Language

In many Central and East European countries while drafting a new legislation, there were problems with the translation, or adoption as the case might have been, of certain accounting expressions used in the EU Directives on company law. Undoubtedly, the meaning of "true and fair view" has generated a lot of controversy. According to the Article 2(3) of the Fourth Directive of the European Union,

> "the annual accounts shall give a true and fair view of company's assets, liabilities, financial position and profit or loss."

The translation and the interpretation of this requirement have varied due to uniqueness of each language used across Central and Eastern Europe. For instance, the Czech word for "true" does not appear in the accounting legislation. Sucher et al (1996) explain that the Czech accounting legislation does not contain the word "true" because of the special connotations which this word has had during the course of the Czech accounting history. In addition, the same authors argue that "true" is seen as a philosophical concept that has little real significance. Sucher et al (1996) conclude that to the Czech companies "true and fair view" means "in accordance with the law", This in turn points to an overwhelmingly legalistic approach to business that characterises Czech companies. Practically, all this means that although there is flexibility in preparing financial reports, such flexibility cannot override certain parts of accounting legislation (Sucher et al, 1996).

The Hungarian law on accounting does not mention the words "true" and "fair", but does require the preparation of realistic reports which give a true picture or image of the businesses (Richard, 1998). Furthermore, "truth" is included in the Hungarian legislation on accounting as one of the generally accepted accounting principles (Roberts et al, 1998).

Krzywda et al (1995) explain that the Polish equivalent to "true and fair view" is "prawidlowe i rzetelne" - an expression that "emphasises compliance with legal regulations over generally accepted accounting principles." The same authors also point out that the use of the above Polish expression dates back to the period of the Second Polish Republic - between the First and Second World Wars. This shows the continuation of a strong legalistic approach to accounting.

It is no surprise that professionals in Central and East European countries have struggled to come to terms with the meaning of "true and fair view". The history of accounting in Western developed countries is quite rich with debates, arguments and counterarguments that for a long time have surrounded the meaning, application, and implications of the "true and fair view" requirement. As Van Hulle (1993) points out it is perfectly possible that annual accounts which are regarded as true and fair in one (EU) Member State would not be interpreted as such in another Member State. Parker and Nobes (1994) further Van Hulle's argument by stressing that it would seem implausible that a Danish company could be taken to task for not making disclosures that might specifically help a Greek reader.

While the accounting legislation of one EU member state may not be completely compatible with that of other member states, the experience of Central and East European countries has been characterised, as Bailey (1995) puts it forward, by a "spread of disharmonisation". Controversies surrounding the translation and interpretation of certain accounting concepts have led to different versions of the same accounting rules across the region.

3.3.5. Other Features of Accounting in Transition

In addition to technical matters arising during the process of bringing the accounting legislation of CEE countries in line with the EU Directives, Boross et al (1995) highlight the differences in the attitude towards accounting regulation that exist between Western developed countries and the countries of Central and Eastern Europe. While in Western developed countries Wilmott et al (1992) observe a tendency of moving towards greater governmental regulation of accounting, CEE countries as Boross et al (1995) point out, tend to move away from a government-controlled system of accounting.

Another feature of accounting reform in many CEE countries which is worth mentioning is that of a power struggle between economists and accountants. As a matter fact, problems in relationship between economists and accountants have been found in many developed and developing countries and documented in the literature well before the start of accounting reform in Central and Eastern Europe. Boulding (1977) for instance, points out that despite a long relationship between economics and accounting, the attitude of economists and accountants towards each other has often been of "mutual disdain". Whittington (1977) suggests that a poor relationship between accountants and economists has been due to lack of adequate understanding of each other's subjects.

In the case of Central and Eastern Europe, prior 1989 economists had more power and enjoyed a higher social status, and as Jaruga (1990) and Boross et al, (1995) point out the economists have not been overly willing to relinquish "privileges" of the past. According to Jaruga (1990) the economists have extolled the virtues of cash flow control over the accruals concept favoured by accountants. The same author explains that,

> "[T]he economists argue that cash flow control, aimed at ensuring the collectibility of recorded sales, improves the motivation system of enterprises and their financial management." (Jaruga, 1996, p. 24)

This argument over the approach to revenue recognition has caused a great deal of unnecessary conflict which has not helped the process of transition from centrally planned to market oriented economy.

3.4. International Influences on Economic Reforms

Western models of economic development have provided, in principle at least, policy exemplars acting as vehicles for transfer of ideas and procedures from mature democracies to post-communist societies. The "privatisation" for instance, was derived from Western political traditions and imported into the context of other countries, such as those of Latin America and Africa. In the early 1990s, Central and Eastern Europe was also turned into a policy laboratory, where the universal character and exemplary functions of Western practices were tested.

As Offe (1996, p. 159) reminds us, for reasons encompassing "central security and economic interests, the Western democracies ... could not leave the post-Communist societies to their own devices." The collapse of the "Iron Curtain" was urgently converted into a multidimensional reform, heavily based on the ideas and advice offered by the envoys of the EU, IMF, World Bank, EBRD, etc..

It could be said that *de jure* this reform was regarded as a "consensus" between policies "recommended" by foreign advisers and the ideas provided by the governments of Central and East European countries. It is important however, to clarify two distinct issues related to this notion of "consensus". The first issue could be posed as how the consensus on a vital and complicated process, such as transition from a centrally planned economic system to a market-driven economy, was reached. As an agreed theoretical model of transition from centrally planned to market-driven economic systems was missing (Siebert, 1991, p. 6), economists engaged in continuing arguments over different approaches to transition. This made the consensus on reform even harder to reach. However, policy prescriptions from abroad, supported by some professional economists, were offered to local politicians as the best ultimate choice. This meant that *de facto* the leaders of post-communist Central and East European countries were exposed to a high degree of pressure to consent to what was thrown onto their table.

The second issue is why the consensus had to be reached. The explanation for this is twofold. First, a failure in complying with foreign advice would automatically lead to an exclusion of Central and Eastern Europe from promised Western financial and expertise support. As Andor and Summers (1998, p. 2) argue, the national governments of CEE countries inescapably "needed the money" and expertise. Secondly, seen in a geo-historical context Central and Eastern Europe could be considered as the semi-periphery or outskirts of Western Europe[1]. As noted by Ágh (1998, p. 40) this position of Central and Eastern Europe implied "the possibility for

[1] This argument is developed on the idea of Ágh (1998, p. 40). In his politico-historic analysis, Ágh perceives the region of Central Europe as a semi-periphery of Western Europe. The researcher's analysis encompasses East European countries, too, as this part of Europe has faced the same transitional problems as the former communist countries of Central Europe. Thus, the researcher views Eastern Europe as the utmost outskirts of Western Europe. Undoubtedly, for instance, the Czech Republic is not only in a geo-historic context, but also in terms of economic development, closer to Western Europe than say, Bulgaria.

joining the [European] core". The integration with the West of Europe however, was rendered more arduous since the European Union had demanded a close co-ordination of economic policies with foreign advisers - especially with those from the IMF, as "an elementary condition for any cooperation with the ex-socialist countries" (Andor and Summers, 1998, p. 130).

Another important issue related to the above "consensus" based policy phenomenon is the composition of the teams of foreign advisers. Undoubtedly, the international institutions, especially those set up after the Bretton Woods agreement[2], were primary. As a matter of fact,

> "the IMF was designed to provide short-term [currency] assistance during the temporary balance-of-payments crises, to prevent the kind of cash-flow problems which had exacerbated the Great Depression [of 1929-1933]. The International Bank for Reconstruction and Development (IBRD or World Bank) was to give long-term loans which supposedly would raise the productive potential of borrowers." (Andor and Summers, 1998, p. 3)

In 1991, a newcomer - the European Bank for Reconstruction and Development (EBRD) - joined the team of foreign advisers. The main concern of this bank was to organise the "concerted flow of resources from West to East." (Andor and Summers, 1998, p. 24-25)

It is noteworthy that advice packages "offered" to post-communist societies in Central and Eastern Europe were remarkably similar to the ideas and advice previously "offered" to other developing countries. There was certainly some experience, from the previous decades, of programmes of liberalisation and stabilisation in a number of countries in Latin America and Africa. Yet, the extent of change required in these cases was not in the least comparable to that which has been necessary in Central and Eastern Europe.

[2] 1944

Quite a few supporters of the assistance offered by the international financial institutions treat the deployment of technical and financial support as invaluable, or view the role of official international financial agencies as that of an international crisis manager. Brada et al. (1995, p. 49 - 50) however, remind us that being "the main conduits of official western assistance and policy advice to the [CEE] region" has already converted international financial institutions into an easy target of criticism (McKinnon, 1993; Melloan, 1998). This criticism has taken two forms. On the one hand, external observers (Andor and Summers, 1998) of the reform process bitterly blame the policies of international financial institutions for the failures that have plagued CEE countries. On the other hand, criticism has also come from those who used to work for international financial institutions.

A simple question such as, "Why so much criticism?", does not produce any easy answer. The nature of the CEE case exemplifies that, at the start of the 1990s, outside advisers on transition policy could have had little or no experience of the process of "policy transfer", given the idiosyncrasies of the region and the set of emerging problems. They had to rely on a-priori reasoning and the outcomes of only loosely similar events. The appropriate speed and sequence, and even the proper extent of changes were not obvious. As a result, one might suggest the existence of a mismatch between the reality in Central and Eastern Europe on one side, and the foreign advisers' policy expectations on the other.

3.4.1. Immature Statements or Political Immaturity?

The history of world politics provides quite a few examples of mismatch between policy expectations and reality.

> "'We are bringing this crisis to a close.' It was with these words that Warren Christopher, then the American secretary of state, made public a $ 20 billion salvage operation for Mexico three years ago [in 1995]. True, the bail-out prevented Mexico's currency collapse from turning into bankruptcy. But the announcement was premature, as the next two years of recession made clear." (as quoted in The Economist, 14th of March 1998, p. 19)

The risky environments of CEE countries in which the international governmental and financial institutions have had to operate, have not always allowed for rational decision-making[3]. On the other hand, policy- and decision-makers have not always been able to design sound policies related to the issues of transition from centrally-planned to market-driven economic systems.

The continuous implementation of the "trial and error" approach could be explained by institutional uncertainty defined as

> "diverse cultures and traditions, divergent missions and values, different structures and work styles among personnel of different agencies" (De Marchi, 1995, p. 108)

that have been operating across Central and Eastern Europe.

Stated simply, it would be quite difficult to reconstruct what experts of international financial organisations or Western governments really expected from Central and Eastern Europe at the start of the decade. The continuation of instability and long periods of falling output might be used to demonstrate that economic reform could not be accomplished by a simple process of transferring property rights and removing restrictions as was perhaps supposed.

On the other side, foreign advisers were not the only ones making mistakes. CEE governments should also carry their share of blame for the failures. In the end, if the international financial institutions would not have offered technical and financial assistance to post-communist Central and East European countries then who else would have done so?

---

[3] In this case, rational decision-making refers to identifying and articulating the most effective means for achieving predetermined objectives of the process of transition from plan to market.

3.5. International Accounting Firms in Central and Eastern Europe

The analysis of international influences on economic reform in general and accounting change in particular would not be complete without looking at the international accounting firms and their activities in Central and Eastern Europe. Since the late 1980s, the international accounting firms have offered their expertise in the majority of matters surrounding the transition from centrally-planned to market-driven economic systems. Furthermore, the entry of international accounting firms into the Central and East European service market have coincided with major changes in the global audit market.

3.5.1. Some Features of the Global Audit Market

There have been a considerable number of firms which have created a significant global presence. This can be exemplified for instance, by the expansion of international accounting firms in new regions of global audit market. In the last decade, this market has faced interesting developments.

The 1989 mergers between Ernst and Whinney and Arthur Young, and Deloitte, Haskins, and Sells and Touche and Ross reduced the number of the largest suppliers of auditing, accounting and management consulting services from eight (Big Eight) to six (Big Six). Then in the 1990s, a proposed merger between KPMG and Ernst and Young did not go ahead while Coopers and Lybrand and Price Waterhouse merged and PriceWaterhouseCoopers was created. In 2001, the Enron scandal decimated Arthur Andersen and as a result the number of big players in the audit market was reduced to four. Since then, the accounting profession and its clients have been struggling to come to terms not only with the implications of the Enron bankruptcy but also with a serious of other subsequent scandals.

Broadly speaking, there has been an expressed concern that the dominance of a few large accounting firms may have an adverse effect on competition in the audit market. In particular, the fear that reduced competition might result in higher audit fees or a lower quality of service has been expressed by small businesses (Public Accounting Report, 1989) and by the clients of many big accounting firms (Copley, 1993, p. 187).

On the contrary, a number of studies (Minyard and Tabor, 1991; Tonge and Wootton, 1991; Wootton et al., 1994) have suggested that the mergers had not resulted in a reduction in competition. Earlier research (Simunic, 1980; Danos and Eichenseher, 1986) had also suggested that despite the appearance of an oligopolistic market structure, there was competition among big international accounting firms.

In addition to the above, Wotton et al. (1994) provided evidence which suggested that the mergers had led to a more balanced competition indicating a market with equal access by the top firms.

The debate on old and new merges continues, but the big international accounting firms have been determined to grow. However, only regulators might decide if these firms will have to feed off themselves.

3.5.2. Central and Eastern Europe: A Developing Market for Accounting Services

Throughout the 1990s, Europe experienced some of the most dramatic changes seen anywhere in the world. The creation of the single EU market in 1992, and the emergence of new regimes in Central and Eastern Europe offered unprecedented opportunities to accounting and consulting firms.

Following the political and economic changes in many former communist countries of Central and Eastern Europe and helped by their particularly strong and well established presence in Western Europe, the international accounting firms started to expand throughout a new region and gain new segments of the global service market.

Since late 1980s, in many countries in Central and Eastern Europe, the international accounting firms started to play a crucial role in the processes of

- transition towards market economies,
- opening up the business environment for foreign investment,
- privatisation of state-owned enterprises, and
- assisting local political and economic institutions to adapt to the unique challenges

These firms aimed at providing a wide range of services not only in the areas of auditing and accounting, but also in management consulting, taxation, privatisation, mergers and acquisitions, etc.. Furthermore, these firms tried to combine the local expertise with their international experience.

The constant growth of the international accounting firms in Central and Eastern Europe has been based on the recognition that premium services in the newly opened markets could only be achieved by offering clients the right balance of professional skills from local and expatriate knowledge base. This balanced-team approach has led to a good understanding of the organisation of local economy, and the accounting environment in particular.

As a matter of fact, the international accounting firms had been present in parts of Central and Eastern Europe since the 1970s. The then Coopers and Lybrand for instance, used to provide training in auditing matters for the state group audit of the then Federal Socialist Republic of Yugoslavia (Coopers and Lybrand, 1997, p. 3).

The break-up of the Soviet bloc however, made possible a real expansion of the international accounting firms throughout Central and Eastern Europe. First, as communist isolation was brought down, a whole range of new business opportunities, based on new markets and on cheaper labour and raw materials, became real. Multinationals established their CEE branches or subsidiaries as an extension of their global presence. Their accounts had to be audited according to the legislation of the countries where they were officially incorporated. Decades of experience made it easy for the big international accounting firms to establish a significant presence alongside the multinationals, and to organise their Central and East European auditing practices as an integral part of their overall European operations. Thus, foreign direct investments that aimed at supporting the economic development of Central and East European countries, brought about Western accounting and auditing practices in the CEE region.

The international accounting firms could be seen as investors themselves. Irresistible forces of globalisation have put those firms under pressure to invest in order to secure their continuity. Particularly, political and economic changes in Central and Eastern Europe in the 1990s provided many new accounting, auditing and management consulting business opportunities. Teams of Western professionals were established to work alongside local specialists.

Furthermore, growing international trade, multinational industrial and financial activities, and developing capital markets, have created many investment opportunities. This implied that in CEE countries, emerging individual and institutional investors had to be able to read and analyse the language of domestic and foreign business entities "in order to make investment decisions" (Bay and Bruns, 1998, p. 336). Often seen as the language of business (Haller and Walton, 1998, p. 1), accounting, however,

> "is a language for which there is no common grammar. Hence the anomaly that in a global economy, there is no globally consistent accounting language." (PriceWaterhouse, 1997, p. 31)

As financial reports are prepared differently in different countries, it is necessary to "translate" them into a common readable business language. Raffournier and Walton (1998) re-emphasise the indispensability of the accounting translatory process by reporting that,

> "[R]esearch by Choi and Levich (1991) showed, by way of example, that 50% of investors interviewed in New York, London and Tokyo did not invest in foreign stocks largely as a result of not being able to analyse their accounts. The problem is experienced not only by investors but by companies wishing to attract investments." (Choi and Levich as quoted in Raffournier and Walton, 1998, p. 429).

Consequently, the preparation and compilation of financial statements according to the International Accounting Standards, or the U.S. / U.K. GAAP through the conversion of local financial statements, and the preparation and compilation of financial statements in accordance with local accounting standards and legislation, are two major areas where the international accounting firms have utilised their experience.

Stated simply, foreign direct investments brought about Western type accounting, auditing and management consulting services in Central and Eastern Europe, and at the same time the demand for such services also brought about foreign investments.

The Central and East European expansion of big international accounting firms was further enhanced through their undertaking of major assignments on behalf of the international governmental and financial organisations. The following table exemplifies the co-operation between the then Coopers and Lybrand and the international governmental and financial organisations in the Balkans.

Table 3.2.[4]: Some of the then Coopers and Lybrand's assignments undertaken on behalf of the international governmental and financial organisations in the Balkan region during the period 1989 - 1997[5]

Country: / Sponsor:	EU - Phare	World Bank	EBRD
Albania	advise to the government on privatisation and restructuring of state-owned enterprises	assistance in the modernisation of the Rural Commercial Bank	assignment to implement new accounting systems for the whole commercial banking system
		audit of the World Bank - sponsored Critical Import Project	
Bulgaria	diagnostic study of the Bulgarian capital market	major enterprise restructuring project for the Bulgarian Ministry of Finance	
	review of the country's tourism sector and preparation of a comprehensive development plan		
Croatia		assignments on banking sector issues	assignments on banking sector issues
Former Yugoslav Republic of Macedonia		mission to examine issues surrounding the restructuring of the country's leading enterprises	study of the local electricity industry
Romania	project on advising the government regarding indirect taxes	audit of the World Bank's refinancing loans to the Romanian Ministry of Finance	

4 This table does not include the then Coopers and Lybrand's pan-national assignments undertaken in the region. It also does not specify the year when each individual assignment started.

5 The then Yugoslavia is excluded from the table as no assignments were undertaken in the area because of the United Nations' embargo.

Table 3.2. (continued):

Sponsors: / Country:	EU - Phare	World Bank	EBRD
Slovenia	study to develop a strategy for small- and medium enterprises		due diligence reviews in order to select the industrial enterprises that would participate in a restructuring programme assistance to the government in preparing an investment appraisal and development strategy for the energy sector project to advise a local bank (SKB Banka) on the development of environmental risk assessment procedures

Source: The then Coopers and Lybrand

The international governmental and financial organizations have played a key role in supporting and facilitating the entry of big international accounting firms into the Central and East European service market. Previous local government mismanagement of technical and financial assistance - evident in most African and Latin-American developing countries - might have been a factor which made the international governmental and financial institutions decide to rely upon the international accounting firms rather than the locals. Undoubtedly, the big accounting firms possess all the technological and professional expertise needed to conduct any assignments in any areas. Furthermore, it was much easier to require commitment, responsibility and accountability from the international accounting firms rather than from the newly established and in-experienced central governments of Central and East European countries. This last derives from the differences between the approaches to business pursued by the big accounting firms on the one side, and by CEE post-communist governments on the other. From another point of view, that of the interests of the international accounting firms, as Radebaugh and Gray (1993) argue,

> "[A]lthough accounting and auditing services are the most important source of revenues for all [international accounting] firms but Arthur Andersen (which includes Andersen Consulting), consulting is an important source of revenues. It is especially important for operations in Eastern Europe and the former Soviet Union, and is a way for the [international accounting] firms to gain entree to a client in order to pick up accounting and auditing services." (p. 538)

The tendency of the international accounting firms to provide consultancy services developed in the West many decades ago, and certainly a part of these consulting activities emerged while providing accounting and auditing services.

As argued above by Radebaugh and Gray (1993, p. 538), the consultancy assignments undertaken by the international accounting firms in Central and Eastern Europe have been one of the reasons for the emergence and development of subsequent accounting and auditing services.

3.5.3. Geographic Location and the Range of Services Provided

Within a relatively short period of time, the international accounting firms expanded throughout Central and Eastern Europe. The following table provides information regarding the presence (office opened and / or specific projects undertaken[6]) of these firms in each of CEE countries during the period 1989 - 1998.

6 In some of the countries, the international accounting firms have undertaken different / specific projects without opening permanent offices.

Table 3.3.: The presence of international accounting firms in Central and Eastern Europe (1989 - 1998)

		Firms					
		A A	C & L	D & T	E & Y	KPMG	P W
No.	**Countries**						
1.	Albania		✓	✓	✓	✓	
2.	Belarus		✓	✓		✓	
3.	B. and H.			✓			
4.	Bulgaria	✓	✓	✓	✓	✓	✓
5.	Croatia	✓	✓	✓	✓	✓	✓
6.	Czech Rep.	✓	✓	✓	✓	✓	✓
7.	Estonia	✓	✓	✓	✓	✓	✓
8.	FYROM		✓	✓			
9.	Hungary	✓	✓	✓	✓	✓	✓
10.	Latvia	✓	✓	✓	✓	✓	✓
11.	Lithuania	✓	✓	✓		✓	✓
12.	Moldova		✓	✓		✓	
13.	Poland	✓	✓	✓	✓	✓	✓
14.	Romania	✓	✓	✓	✓	✓	✓
15.	Russia	✓	✓	✓	✓	✓	✓
16.	Slovakia	✓	✓	✓	✓	✓	✓
17.	Slovenia		✓	✓	✓	✓	
18.	Ukraine	✓	✓	✓	✓	✓	✓
19.	Yugoslavia		✓	✓	✓	✓	

The ranking of these firms according to the number of offices opened and / or specific projects undertaken is as follows.

Table 3.4.: Ranking of the international accounting firms according to the number of offices opened and / or specific projects undertaken (1998)

Firms	Number of offices opened and / or specific projects undertaken
1. Deloitte and Touche	19
2. Coopers and Lybrand	18
3. KPMG	17
4. Ernst & Young	14
5. Arthur Andersen	12
6. PriceWaterhouse	12

The services provided by the international accounting firms can be summarised as follows.

Table 3.5.: The services provided by the international accounting firms in Central and Eastern Europe (1997 / 1998)

Area:	Service:
Audit and accounting	- Full scope audit or limited review in accordance with international and local accounting standards;
	- Independent opinion on compliance with the requirements of the Law on Accounting and other relevant local accounting legislation;
	- Preparation and compilation of financial statements in accordance with International Accounting Standards through transformation of the local financial statements;
	- Preparation and compilation of financial statements in accordance with local accounting standards and accounting legislation;
	- Advice on various accounting issues;
	- Review of internal control systems;
	- Due diligence;
	- Setting up or re-organising clients' accounts;
	- Payrolls and bookkeeping.

Table 3.5. (continued):

Area:	Service:
Tax and legal advisory	- Company registration; - Consultancy services; - Privatisation; - Court procedures;
Management consulting	- General management; - Administration; - Financial management; - Human resource management; - Other: - advice on mergers and acquisition; - advice on privatisation; - advice on concessions.

Source: International accounting firms in the CEE countries

3.6. Conclusions

This chapter analysed some of the key aspects of accounting reform in Central and Eastern Europe of the 1990s. Researcher's main focus was on identifying and explaining the general trends of accounting developments rather than analysing each country's accounting reform in particular. The latter is not the objective of this thesis, and in addition the lack of information on accounting reform in some of the countries makes the analysis almost impossible. It is also noteworthy that the existing literature on accounting reform in Central and East European countries is still developing.

As indicated in the beginning of this chapter, the political upheavals of 1989 - 1990 in Central and Eastern Europe brought about the need to change accounting, and one of the outcomes of accounting reform has been the preparation of a new legislation. Most CEE countries have tried to assimilate the EU Directives on company law into their own national legislation on accounting. This process has been characterized by the struggle to come to terms with the adoption and interpretation of some concepts of accounting used in developed Western countries. The "true and fair view" concept is one good example. While in some developed Western countries the "true and fair view" overrules all the other rules and regulations, in Central and East European countries it is the law who overrules any other concepts. In addition, while coming to terms with new accounting concepts the experience of some countries such as the Czech Republic and Poland has mirrored each other. As discussed above, the Czech and Polish interpretations of "true and fair view" have been very similar and reflect a legalistic approach to accounting.

Fiscal influences on accounting practices still abound, and this will have a detrimental effect on accounting practices in Central and Eastern Europe for some time to come. Although most CEE countries have separate tax and accounting laws, the two are still almost intertwined as they were in the past. Accountants in many Central and East European countries consider the preparation of two different sets of accounts - one for financial reporting purposes and the other for tax purposes, as a costly and time consuming process. Therefore, there is a trend of preparing only one set of accounts, which aims at fulfilling both purposes if this is possible at all.

Many Central and East European countries have chosen the path of following the EU Directives on company law and compiling a set of accounting standards that are also intended to be compatible with the International Accounting Standards. As a result, the accounting legislation in many CEE countries is compliant with many of the Articles of the Fourth, Seventh and Eighth Directives of the European Union and also with a number of International Accounting Standards.

Behind each country's efforts to establish a modern legislation on accounting may lay a different rationale. However, most Central and East European countries see their future in an enlarged European Union. For some CEE countries achieving such an objective may be a long way down the road. Simply incorporating the EU Directives and the International Accounting Standards into national legislation on accounting cannot guarantee the success of accounting reform. Legislative changes have to be accompanied by the process of building sound accounting institutions - policy and decision-making bodies and professional associations that will create and maintain an environment in which the legislation is fully implemented, and once implemented, is carefully monitored.

The changes in Central and Eastern Europe have provided many new business opportunities for the international accounting firms. These firms have organised their Central and East European practices as an integral part of their overall European operations. Teams of Western professionals have been established to work alongside local specialists.

In order to meet the challenges in a new political and economic environment, the international accounting firms have aimed at delivering a very wide range of services in the areas of accounting, audit, legal, tax and management consulting services. Their experience has attracted a very wide range of clients. The international accounting firms have undertaken many assignments on behalf of national governments of many Central and East European countries, private companies, major state-owned enterprises, a good number of foreign companies, potential Western investors, and international governmental and financial institutions such as the EU, IMF, World Bank, EBRD, etc.. Furthermore, the activities of the international accounting firms seem to have supported the reform of accounting system in various Central and East European countries.

3.7. Navigating Through the Maze

The discussion that has taken place in the introductory session and the chapters that have followed has addressed and analysed a significant number of theoretical and practical issues related to accounting. While all these issues are relevant to the researcher and his object of study, it is important to focus on the following key issues related to Albania and its accounting system.

The comprehensive review of literature on accounting in developing countries and accounting in Central and Eastern Europe has shown that until the late 1990s research on Albania's accounting issues has been lacking, and that any referred accounting academic publications, be they descriptive or analytical, in English or Albanian, have been nonexistent. Researcher's identification and discussion of such a gap in the literature on accounting is quite an important issue as (i) it has provided him with one of the main arguments that justifies this research study which is that of filling the literature gap, and (ii) it is expected to increase awareness about the need to study and understand accounting experiences of small countries like Albania.

Furthermore, the review of literature has also indicated that existing academic publications on accounting developments in Central and Eastern Europe have been mainly descriptive, have not used any theoretical framework nor have they questioned trans-national influences on accounting. Against such a background one (i) could inquire whether Albania and its accounting tradition could be analysed using a well-established theoretical framework, and (ii) would attempt to provide an interesting example and enriching research experience to accounting research community.

One of the reasons that could possibly explain the lack of any publications on accounting in Albania is that perhaps accounting matters in Albania may or may not be viewed as important or the importance of accounting may or may not be understood by those related to it. If that is the case then it is noteworthy that those inside and outside of Albania who deal with accounting in Albania, be it professionally or academically, are not the only ones who may struggle with the important philosophical question of whether accounting matters or not. As the researcher of this study has discussed, for the last one hundred and fifty years scholars worldwide have been divided over whether accounting should be viewed as nothing more than just a technical craft or whether accounting is more than just a technical craft and it has actually rationalised "man's tools and philosophies" [Schumpeter (1962, pp. 123 - 124)]. To add to the above controversy, Burchell et al (1980) aimed at contrasting the roles that have been claimed on behalf of accounting with the ways in which accounting functions in practice and called for further research on this topic. It may perhaps be unreasonable to expect anyone related to Albania and its accounting to solve the "mystery" surrounding the true nature of accounting. From the researcher's point of view however, it would be interesting and enriching to study the understanding of importance and functioning of accounting that Albania's accounting policy and decision makers, accounting professionals and anyone else related to Albania's accounting matters have.

While the debate on the true nature of accounting seems set to continue, it is widely accepted by both scholars and practitioners that every country needs an accounting infrastructure in order to measure and communicate economic data. Albania is no exception to this need but when taking into consideration Albania's history characterised by political dependency from a number of imperial powers, one could ask what kind of accounting infrastructure a country like Albania has and / or needs. The question of whether Albania should have an accounting infrastructure that reflects its unique environmental characteristics and suits its own needs, or whether Albania has "imported" or should "import" an accounting system developed and used by developed countries in different economic contexts follows. One could extend and generalise the same question above as follows, "Can there be one single useful accounting system for all the different countries?" If one accepts the proposition that "the environments in which accounting operates are not the same in different countries or even in different organisations, it stands to reason that accounting must necessarily differ from case to case ... ." [Choi and Mueller (1978, p. 22)]. The above implies that accounting system of country A is different from that of country B because accounting system of country A reflects the unique environmental characteristics of country A. As the researcher has discussed in details so far, the above issues represent the central theme of contingency theory based international accounting research. Borrowed from the management discipline, contingency theory has been applied as a theoretical framework for research in financial and management accounting and especially international accounting. Considering (i) the literature gap with regard to accounting matters in Albania, and (ii) the motivation to fill this gap by conducting a study that would not simply describe but also analyse - using a theoretical framework, accounting matters in Albania, the researcher has employed a contingency based framework, as applied by Perera (1989), to study the current features, antecedents and the progress of Albania's accounting infrastructure. The researcher has also argued that a contingency based framework has been widely used in international accounting research in studying how and why the components of an accounting infrastructure arise, are maintained and transformed over time - important research questions which the researcher aims to address in this research study on Albania and its accounting.

There are a number of questions and issues that the researcher has raised above and it is noteworthy that Albania is not the only country that has been struggling with questions and issues such as those above. An examination of the accounting development patterns of most developing countries reveals that they had little chance to evolve accounting systems that would truly reflect the local needs and circumstances The existing accounting systems in these countries were largely extensions of those developed in other Western capitalist countries, imposed either through colonial influence or by powerful investors or multinational corporations.

The review of literature on accounting developments in Central and Eastern Europe draws conclusions similar to the above. As a matter of fact, continuous changes of the political map of Central and Eastern Europe and the influence of neighbouring imperial powers have been found to have had a significant effect on the structure and functioning of the accounting system of many Central and East European countries. The German tradition in accounting has been singled out as the most influential one until the end of WWII while Soviet accounting became the dominant force after WWII. Taking into consideration that geographically Albania is located in a part of Europe that as a result of invasions, wars and ideologies has been (i) politically and economically dependent and (ii) subject to varying influences from a number of more economically developed countries, one could expect Albania's accounting system to have been influenced by external factors. Unless researched however, one can only guess what Albania's accounting tradition has been like. Within this context, key issues related to Albania and its accounting are those such as what the path of accounting development in Albania has been like, what countries have influenced Albania's accounting, and what and how any environmental factors have influenced Albania's accounting.

The literature on accounting in Central and Eastern Europe reveals a number of features such as (i) the prevalence of a legal system based on code law (which mandates acceptable behaviour) as a result of which accounting has been regulated mainly through an accounting code which has tended to be highly detailed, descriptive and procedural, and is generally set by the legislature, (ii) the development of a uniform chart of accounts that has been used throughout the region and has been modified and re-labelled at times, (iii) the central role of the government in planning and control of economic activities and in regulating accounting, (iv) the dominance of the view that accounting is merely bookkeeping, and (v) the lack of a well developed class of accounting professionals, which have characterised accounting and its development throughout the course of history of the region. In this study the researcher has aimed at examining whether Albania and its accounting has enjoyed any of the above features.

The review of the more recent literature on accounting in Central and Eastern Europe exposes, in addition to some of the above features, a number of attributes such as (i) the existence of a single set of rules for both tax reporting and financial reporting and the dominance of taxation law over accounting, (ii) weak policy and decision making bodies and professional accounting associations, (iii) the growing need for stronger law enforcement and monitoring of the application of accounting rules, and (iv) the growing influence of anglo-american based accounting standards (whose use has been endorsed by a number of intergovernmental organisations such as the European Union and international financial institutions such as the IMF and the World Bank).

Having such a mosaic of issues in the background, the researcher has focused on Albania and its accounting developments in the 1990s. Political changes of the late 1980s and the early 1990s in Central and Eastern Europe were also mirrored in Albania which started its own journey of transition towards the verities of a market based society. This process of political, economic, and social change aimed at altering the existing system of property relations from state to mixed private and public ownership (which, in turn, would reduce the size of the state controlled economic sector and subsequently the role of government in economic affairs), and providing a better management of economic resources. It is noteworthy that this process of change has been heavily based on the ideas, recommendations, and technical and financial assistance provided mainly by the European Union, the IMF and the World Bank

Part of this change process has also been the transformation of Albania's accounting infrastructure. The researcher has focused on studying how and why the components of Albania's accounting infrastructure have changed (the case of accounting legislation), arisen (the case of policy and decision making bodies and professional associations), and could be maintained and transformed, and most importantly on examining the factors and institutional groupings that have influenced such processes. Special attention is given to the influence of intergovernmental organisations and international financial institutions on Albania's accounting system and accounting change.

The literature on accounting acknowledges that a sound and functioning accounting infrastructure requires a complete, relevant and coherent legislation, appropriate accounting institutions such as policy and decision making bodies, standard setting and regulatory agencies through which accounting legislation would be set up, implemented and monitored in an effective manner, and a well-trained accounting profession which should be independent and professional in its advice, and also subject to proper forms of accountability to the legal and political establishment. Albania's accounting infrastructure is not exempted from fulfilling the above requirements.

A contingency theory framework has allowed the researcher to view Albania's accounting system as a set of distinguishable, but interdependent and inter-related parts and examine the relationship between the above mentioned accounting system and the changing environment that has surrounded it.

It is noteworthy that throughout the course of history Albania and its environment have been heavily influenced by external factors. This reality has created a national mentality which (i) considers many events (especially historical ones) as outcomes of the influences of external factors, or (ii) explains those events using a set of environmental factors or institutional groupings (mostly external ones). As such, one could perhaps expect the responses given from individuals with such a mentality to provide more direct references to factors that have influenced a system (such as the accounting system), or an event (such as accounting change in 1990s). A case like the one above, would, in turn, facilitate the use of a contingency based framework when analysing the evidence related to Albania's accounting system and accounting change.

The next chapter discusses the research methodology and methods utilised in this research study.

Chapter Four

Research Methodology and Methods

4.1. Introduction

The accounting literature has for some time recognised the need for a country to have an accounting system which is suited to its political, social, economic, and cultural environment. It is this belief which has led to most of the criticism levelled at international financial organisations, western governments and various regional political groupings whose activities have aimed, amongst others, at harmonising accounting practices by imposing the International Accounting Standards.

While harmonisation of accounting has been touted as an inevitable and beneficial process to the growing globalisation of business (Turner, 1983), scholars such as Miller and Hopwood (1994, p. 250) argue that,

> "[O]ur understanding of many key aspects of international accounting is more rudimentary than many people think and than some would want us to believe. The processes of institutionalization in the area are poorly understood. The emergence of interests in international accounting has not been explored. Little is known to outsiders of the complex and shifting politics that pervade the area. What is known is an official discourse on standardization and its benefits, the status of which is usually taken for granted rather than systematically explored.

The same could be said for the literature on harmonisation of accounting practices and other aspects of accounting reform in Central and Eastern Europe. There have been rare attempts to critically analyse accounting change in Central and Eastern Europe and to question trans-national influences upon Central and East European accounting.

It is these deficiencies that have provided the incentive for this study which aims at analysing accounting developments in the 1990s in Albania - a CEE country, using Perera's (1989) contingency based approach, and identifying possible ways of improving Albania's accounting system and especially the functioning of its policy and decision making bodies and professional associations. Without a proper methodology, the researcher cannot achieve the stated objectives.

4.2. The Choice of Research Approach

The research approach which is the programme of work that guides the researcher through the process of collecting, analysing, and interpreting data, is strongly influenced by the nature of research and the experience of the researcher.

At the start of this research, a choice between qualitative and quantitative research approaches had to be made. Quantitative research is exemplified by the social survey and experimental investigation. Qualitative research tends to be associated with the researcher's observation and in-depth interviewing (Bryman, 1988). Researchers, such as Filstead (1970), Lofland (1971), and Bogdan and Taylor (1975), have treated each approach as a mutually exclusive type of research. Others, such as Bryman (1988), have argued that the differences between the two are not as rigid as the programmatic statements often imply. All in all, it is very difficult to decide which method is superior. According to Walker (1985), certain questions cannot be answered by quantitative methods, while others cannot be answered by qualitative ones.

The right choice of approach however, can only be made when related to the context and subject of the research. The methodological approach adopted in this research was mainly qualitative because of the following considerations. First, the subject of this research - developments in Albania's accounting system in the 1990s, is complicated and not easily amenable to quantification. In addition, the number of officials and organisations involved in the reform of accounting in Albania has been small. This meant that large amounts of any quantitative data could not be generated.

Secondly, one of the objectives of this research was to systematically document and critically analyse the accounting reform in Albania. The successful completion of this objective required the establishment of a very close relationship between the researcher and the research subject. Quantitative researchers usually take the stance of an outsider and study the object through surface data (Hirschi, 1969). On the contrary, qualitative researchers would take a much closer role in their research process (Adler, 1985). For these reasons, the approach chosen for this study was qualitative. Nevertheless, in order to enhance the analysis and its conclusions, simple statistical analysis of data was used where possible.

4.3. The Methodology of the Study

The research on which this study is based, intends to articulate mechanisms which underline social behaviour. As Scapens (1990) argues, patterns of social organisation - in this case different models of accounting system, are both a prerequisite for and a result of social action - in this case various attempts made to reform the accounting system in Albania in the 1990s.

After selecting the research approach, the next issue was that related to the particular research method that had to be used. Taking into consideration the objectives of this research, the case study was the most valid research method for the following reasons.

First, this research referred specially to Albania, and the case study method would allow the researcher to focus on this specific country. Second, one of the major problems associated with research on countries such as Albania, is the scarcity of information and data. The case study method would make possible the collection of information and data through a variety of means, such as interviews, documents and records. Finally, a case study on Albania would provide the opportunity for an in-depth analysis and understanding of research issues.

The case study is considered as a quasi-experimental research method. In general, a substantial part of qualitative research is conducted in the form of case studies. That is why qualitative research and the case study are often treated as synonymous. Yin (1989) has defined the case study method as,

> "an empirical inquiry that investigates a contemporary phenomenon within its real life context; when the boundaries between the phenomenon and context are not clearly evident; and in which multiple sources of evidence are used." (p. 23)

Case studies can take different forms depending upon the purpose of the research. Ryan et al. (1992, pp. 114 - 115) classified the case studies used in accounting research as, descriptive, illustrative, experimental, exploratory, and explanatory. The case study used in this research is both exploratory and explanatory, although there are some elements of description. Based on the perception that accounting is a social construction, this case study utilises qualitative methods - interviewing, to collect information on accounting developments in Albania. Then the information collected is analysed to give a picture of Albania's contemporary accounting reform and explain changes in accounting.

The case study approach is used to identify those factors that have played a part in the development of accounting in Albania in the last decade. As Scapens (1990) argues, the researcher must

> "locate practice in its historical, as well as its economic, and social organisational contexts. Case studies are particularly suitable for this type of research." (p. 268)

Thus, a holistic approach is taken to the examination of and explanation of the development of the accounting system in Albania. Scapens (1990) adds that the case study examines "how various elements contribute to the individuality of the system" (p. 268).

As it would be unsuitable to explore individual parts of the system independently, the case study method uses the pattern model of explanation (Kaplan, 1964).

> "The researcher seek to identify a pattern in the case and uses theories to explain observed relations. Where existing theories do not provide convincing explanations, then new theories may have to be developed or existing theories modified." (Ryan et al, 1992, p. 120)

Thus, as Scapens (1990) concludes,

> "an explanatory theory which helps us understand the social structures which shape current practice" (p. 268)

is produced.

Albania has had to develop a new accounting system in response to political, economic and social upheaval.

> The analysis of accounting in a given country should present not only a description of the current state of art, but a discussion of the changes in accounting objectives, standards, and practices, what factors led to those changes, and how these changes were accomplished." (Radebaugh, 1975, p. 54)

Thus, the essential first step in the case study was to appraise the history of Albania and its financial system. The next stage was to build a picture of accounting developments in Albania in the last decade. Once changes in accounting were outlined, Perera's (1989) contingency based approach was applied to analyse and explain the development of accounting in Albania. Then, a set of proposals for further improvements in the overall functioning of Albania's accounting system in general, and that of accounting policy and decision making bodies, and professional associations in particular, was developed. Special attention was also given to certain measures that international financial organisations, western governments and various political regional grouping should take so that the technical and financial support that has been offered to CEE countries and especially to Albania, yields better results.

4.4. The Collection of Information

Initially, this research involved a variety of methods for gaining background information. There were three sources of information used. The first source of information was the desk-literature search in accounting in developing countries, accounting reform in Central and Eastern Europe, activities of international financial organisations and accounting firms, and the economic history of Albania. The libraries, databases and advanced-technology-search methods were fully utilised for the purposes of this desk literature search. Secondly, perusal of relevant financial periodicals, journals, and newspapers helped in updating the information already collected. Thirdly, the archival research on policy formulation in Albania using sources, such as various official papers, enhanced the researcher's understanding of the country's tax and accounting legislation. However, not all the information - especially that on accounting developments in Albania, could be collected from the literature search, databases or other auxiliary sources. That is why the interviewing technique was used. Corroborative views on accounting developments in the last decade in Albania were gathered from semi-structured, open-ended, face-to-face interviews with key professionals and policy makers.

4.4.1. Interviewing Techniques

Case study research requires the researcher to collect information from a variety of sources and to confirm the validity of one source against another. Thus, there were three aims for the interviewing process. First, to collect information on accounting in Albania which could not be gathered from any written or published sources. Second, to supplement this information with material which was difficult to trace and would not be found in published form, such as details of the procedures for regulating accounting, the structure of accounting profession, etc. Third, to understand the views of accounting policy and decision makers, and professionals regarding the direction of, and influences on, the new accounting system.

In order to collect information, a focused semi-structured, open-ended, question technique in face-to-face interviews (Merton, Fiske, and Kendall, 1956) with the respondents was employed. This technique provided appropriate flexibility to pursue issues which had not been anticipated from prior review of the existing literature on accounting in developing countries and accounting reform in Central and Eastern Europe.

Thus, this research relied on so-called semi-structured interviews, based upon outlined questionnaires. The reasons for adopting semi-structured interviews rather than structured or unstructured interviews were as follows. First, during the structured interview, the interviewer can manipulate the situation and has control over a set list of questions that have been formulated before the interview. However, only direct answers to defined questions can be captured. There is no opportunity for some questions to be considered, re-phrased, re-ordered, discussed and analysed during the interview (Burgess, 1991). This research is aimed at obtaining a comprehensive and detailed knowledge and understanding of the development of accounting in Albania. Therefore, the interviewees had to be given some space and flexibility, so that they could contribute unexpected information. It was obvious that a fully structured interview was not appropriate to this research.

Secondly, given the nature and scope of this research, unstructured interviews also had their weaknesses. Because of the absence of any prepared guidelines, the researcher might be overwhelmed by the amount of information disclosed during the interview. Relevant information could be missed through time constraints. The researcher might find himself at a loss to delimit the scope of the project and focus on specific problems (Whyte, 1984). Thus, to control the rhythm of interviews and the amount of information disclosed, some guidelines had to be prepared before the interviews.

To avoid the weaknesses of both fully structured and unstructured interviews, the researcher chose the semi-structured interviewing technique. While applying the interviewing technique, the researcher also took into consideration its drawbacks. As a matter of fact, the limitations of the interviewing technique have been a subject of analysis for several scholars (Mintzberg, 1973; Bryman, 1988); Burgess, 1991) and are discussed in chapter eight.

4.4.2. Sampling and Interviewing Process

As explained above, the interviewing technique was applied in order to collect information from organisations and individuals involved in the process of reforming Albania's accounting system. Primarily, interviews were a means of tracing information which could not be collected from the literature or any other sources. In addition, the information gathered from interviews was important because it helped the researcher in clarifying and understanding the views of those involved in the process of shaping Albania's accounting system.

Thus, for the research to be successful and meaningful, a representative sample of key participants in the process of reforming Albania's accounting system had to be chosen. The method of sampling utilised in this research is known as "snowballing". It is a sampling method used in the social sciences where a "study of elites" is being undertaken or where there is difficulty "locating rare populations" (Sudman, 1976, pp. 210 - 211) The functioning of snowballing is as follows. The researcher uses his personal contacts to create a small sample of interviewees. During the first interviews, more information is gathered with regard to other potential interviewees. Such a sampling method was appropriate to this research, because there was not any publicly available list from which a sample of key professionals and policy makers could be easily drawn. A small number of suitable professionals were contacted and the snowballing effect began. Twenty-five individuals were interviewed. Several of them were interviewed more than once in order to clarify certain issues, develop various arguments, and obtain the latest news on accounting developments in Albania. A total of thirty-eight interviews were carried out. Table 4.1 presents the details of the interviewees. The aims of the sampling process were achieved in that it produced a group of interviewees which were drawn from a wide background of professionals, policy makers and regulators. In addition, the greater the size of sample, the more reliable the sample of interviewees and research results. However, during the selection of interviewees in Albania assembling a large sample was not possible because of the relatively small number of individuals involved in the policy making process.

A former Minister of Finance, one senior official from the Ministry of Finance (who was also a member of the National Council of Accounting) and four high-ranking members of the National Council of Accounting were amongst the interviewees. These individuals were responsible for much of the drafting of the new legislation on accounting. Interviewees I8, I11, I13, I17, I21, and I22 continue to lead developments in accounting regulation.

Further, a number of accounting professionals (ranging from methodological accountants / bookkeepers and partners / employees of international accountancy firms) were included in the sample. Accountancy firms were a new phenomenon in Albania and the sample captured both foreign partners that reside in Albania and local employees of international accountancy firms. High ranking accountants employed by state-owned banks, typically having been in post for some time added the views of other interviewees who, used to the pre-1992 accounting system, had to cope with the interpretation and application of new accounting regulations.

Table 4.1.: Background information about the interviewees

No.	Organisation / Firm / Employer	Position / Occupations	Nationality	Interviewed in English	Number of Times Interviewed
I1	International Accounting Firm	Partner	Italian	√	1
I2	International Financial Institution	Representative	German	√	1
I3	State-Owned Bank	Head of Internal Audit and Control	Albanian		1
I4	Central Bank of Albania (Department of Research and Monetary Policy)	High Ranking Official	Albanian		2
I5	EU / Institute of Authorised Chartered Auditors of Albania	Project Manager	Albanian		1
I6	The Then State-Owned Commercial Bank (Now Privatised)	Head of Accounting Department	Albanian		2
I7	International Accounting Firm	Representative	Albanian		1
I8	Central Bank of Albania (Accounting Department)	High Ranking Official / Member of the National Council of Accounting	Albanian		1
I9	Ministry of Finance (Treasury Department)	High Ranking Official	Albanian		1
I10	The Then State-Owned Commercial Bank (Now Privatised)	Accountant / Credit Analyst	Albanian		2
I11	Ministry of Finance (Accounting Department)	High Ranking Official / Member of the National Council of Accounting / Academic	Albanian		2
I12	Self-employed	Freelance Authorised Chartered Auditor	Albanian		1
I13	Self-employed	Freelance Accountant / Member of the National Council of Accounting	Albanian		1
I14	Private Commercial Bank	Head of Accounting	Albanian		1
I15	British Accountancy Institute	Project Manager	British	√	1
I16	British Accountancy Training Centre	Former Head	British	√	1

No.	Organisation / Firm / Employer	Position / Occupations	Nationality	Interviewed in English	Number of Times Interviewed
I17	Institute of Contemporary Studies - Albania	Founder / Academic	Albanian		1
I18	Institute of Contemporary Studies - Albania	Founder	Albanian		1
I19	Ministry of Economic Co-operation and Trade	Head of Foreign Trade Policy / Journalist	Albanian		2
I20	International Financial Institution	Employee	Albanian		1
I21	Self-employed	Freelance Authorised Chartered Auditor / Member of the National Council of Accounting / Former Academic	Albanian		5
I22	Self-employed	Freelance Authorised Chartered Auditor / Member of the National Council of Accounting / Retired Academic	Albanian		1
I23	Private Commercial Bank	Former Accountant	Albanian		1
I24	Self-employed	Freelance Authorised Chartered Auditor	Albanian		5
I25	British Accountancy Training Centre	Trainer	British	√	1

Sensitivity on policy issues, as well as the fact that only a few senior officials were involved in policy-making, could make access to interviewees a relatively difficult problem. However, access to interviewees was made possible through the exploitation of the researcher's personal relationships with senior officials in Albania. The researcher had had previous work experience as a credit analyst for one of Albania's biggest state-owned commercial banks and later as a lecturer of the Faculty of Economy of Tirana University[1].

[1] Albania

"Personal relationships" are crucial when dealing with sensitive issues in Albania. Given the generally closed nature of Albanian society to outsiders and the deliberately opaque character of Albania's financial institutions in particular, the researcher's personal contacts proved to be an invaluable resource in securing the level and the quality of co-operation needed from the interviewees. Thus, personal contacts and the "snowball" method of sampling were the only approaches which could be utilised to overcome the difficulty created by the unique Albanian context and to produce satisfactory research results.

Because of continuous political and civil unrest in Albania and the neighbouring countries, the selection of interviewees was limited to Tirana, the capital city. It is fair to say that most economic activities, including international businesses, take place or are mainly located in Tirana. In addition, Tirana is the location of the international accounting firms, which operate in Albania, and also the city where the representative offices of international or regional organisations are situated.

In order to avoid limitations on the research results imposed by selecting respondents from the same cultural background - a process known as narrow sampling - potential interviewees from London and Edinburgh (the United Kingdom), and Brussels (Belgium), were also selected. This choice allowed for a comparison of views and understandings between natives and foreigners, with regard to changes in Albania's accounting system.

The United Kingdom was the second country where the selection of interviewees was carried out. London and Edinburgh served as an ideal place for selecting interviewees, because of researcher's good personal relationships with certain individuals who had been involved in the process of setting up Albania's first Institute of Authorised Chartered Auditors (IACA). Once again, personal contacts and the snowballing approach to sampling were used to enlarge the sample of interviewees.

Since the European Union has financed a considerable part of accounting, auditing, and management consulting activities of the international accounting firms, and other projects related to various aspects of accounting reform in Albania, it was necessary to interview relevant representatives from policy bureaus such as the EU Directorate Generale (hence DG) II (Economic and Financial Affairs), EU DG VIII (Development), and EU DG XV (Internal Market and Financial Services). Certain individuals working for the above directorates were contacted and some arrangements were made. However, the Belgian Consulate in London did not facilitate researcher's efforts to visit Brussels. The processing of researcher's Belgian visa application lasted several months. This made final arrangements with potential interviewees in Brussels impossible. As the process of obtaining the visa and re-arranging interviews in Brussels proved very costly and time-consuming the researcher had to exclude from the initial sample the potential interviewees that were based in Brussels. Thus, the interviews were variously located in Tirana, London, and Edinburgh only.

The breadth of the research topic and the difficulties and costs associated with interviewing resulted in the decision to interview a sample of twenty five interviewees using a semi-structured questionnaire.

The semi-structured questionnaire which was used as a basis for the interviews incorporated questions about past, the present and the future direction of Albania's accounting system, disclosure practices, the organisation of profession and the extent of influence of various external groups including international governmental and financial organisations. At the start of each interview certain questions were asked to gather background information about the interviewees. Those questions were centred around the interviewee's job before and after the political changes in the early 1990s, their primary professional responsibilities, details of any accounting association membership, their professional and academic qualifications and their involvement with the development of the new accounting regulations, if any.

The interviewees were informed beforehand only that they would be asked about various aspects of accounting reform in Albania. It was important to do so in order to obtain an understanding of the level of accounting knowledge, which the interviewees possessed. Some of the interviewees were more familiar with political aspects of accounting reform in general, rather than purely professional matters.

The semi-structured questionnaire was broken down into the following issues: the history of Albania's accounting system, the regulation of accounting at present, the organisation of accountancy profession, the role of various international governmental and financial organisations in the reform of accounting, the role of accounting in Albania's economy and society, and recommendations for improving the functioning of Albania's accounting system and especially that of policy and decisions making bodies and professional associations.

Where required, a detailed explanation of key notions was also provided. Most of interviews were conducted in Albanian, and the language of the interview questions was kept as simple as possible. Each issue or question was broken down into sub-questions which were asked if the interviewee expressed knowledge of the issue being examined.

The interview questionnaires were initially drafted in English. The reason for doing so was to receive as many comments and suggestions as possible from several British academics and practitioners. Once the suggestions and comments were received, the interview questionnaires were improved and the final draft was developed. The final versions of the questionnaires were taken to each interview. Minor adjustments were made to the semi-structured interview questionnaire during the course of the interview process in response to interviewees' replies. As interviewees were expected to have differing levels of knowledge on accounting developments in Albania, semi-structured interview questionnaires were used because, as indicated earlier on, they could provide more flexibility and give the researcher the chance to handle the situation flexibly, and not be a slave of fixed formats. In many cases, judgement was used at the interview about whether it was appropriate to ask certain questions. In addition, open-ended discussions with the respondents were encouraged where possible. This helped the interviewees to provide details in those areas where they felt more confident.

Once finally drafted the semi-structured questionnaires had to be translated into Albanian. Since the researcher was born in Albania and thus spoke the language perfectly, and also had good knowledge and experience of accounting issues, this process was completed without difficulty. However, the researcher who also played the translator's role, sought the advice and assistance of a number of academics and practitioners in clarifying some English terms. This made possible the elimination of discrepancies in the meaning of questions or ambiguity in the terminology used.

The researcher aimed at tape-recording all interviews, but some Albanian interviewees refused to have their voice taped. This was quite understandable to the researcher. During the period of communist regime the majority of Albanians grew and lived in fear, and they had to protect themselves from anything that could put them in danger. At that time, freedom of expression did not exist. The change of regime in the early 1990s brought about some freedom of expression. However, during the 1990s, ending up being prosecuted, or even physically assaulted by the secret police or the mob, for freely expressing thoughts were still possible.[2] That is why being tape-recorded was something that most Albanians continued to dislike and fear. Some Albanian interviewees did not like the fact that someone - the researcher, would have material evidence of what they had said. The researcher however, kept extensive notes whenever the tape-recording was not possible.

In order to implement the interviewing technique in the most effective way, it is recommended that the interviewer and interviewees should be of the same cultural background (Nasif et al, 1991). That is why all the interviews in Albania were conducted by the researcher who, at the same time, was also the interviewer.

---

[2] The interviewer had lived in Albania until September 1996, and he was fully aware of all the above.

However, the interviews in English were also undertaken by the researcher. The researcher had been living in the UK for quite a few years, and he was familiar with the British society and culture.

During the interviewing process, confidentiality was an issue taken into consideration very carefully. All interviewees were numerically coded and no explicit mentioning of individuals was permitted. The interviewees were told in advance (before the start of the interviewing process) that some parts of their answers might be quoted, but without disclosure of the interviewee's identity. Permission to quote parts of the answers was thus, required. Despite the measures taken to respect confidentiality, sometimes it would have been possible to identify some of the interviewees. In these circumstances those interviewees were asked to permit the acknowledgement of their identities.

4.5. Processing of Information

Amongst others, the processing of information is a critical factor in successfully conducting research. The achievement of desired research objectives depends not only upon the collection of sufficient and relevant information, but also upon its proper processing and presentation.

There is a considerable amount of literature related to the processing of information. Znaniecki (1934), Glaser and Strauss (1967), and Macintyre (1979) have proposed various methods of data analysis and presentation. However, the approach adopted in analysing the information and presenting the results depends upon the research context. The choice of data analysis and presentation will depend upon the theoretical perspective that is used, the goals of the researcher, and the audience he / she wants to address (Warren, 1980).

As indicated earlier on, the researcher employed a qualitative method - the case study - and used the interviewing technique to collect the data. The information gathered was then analysed by a technique known as "content analysis". This technique is an analysis of communication messages and also a process where, through semantics and objective application, data can be summarised and compared. Content analysis however, relies heavily on the judgement of the analyst to determine how to organise and interpret the data. (Holsti, 1969; Day, 1986)

It is noteworthy that no formal statistical analysis of empirical data was used due to the exploratory character of the study, the complexity of the subject and its interdisciplinary nature, and the relatively small size of the potential sample available.

Broadly speaking, when applied in international accounting research, statistical analysis has the following limitations. First, the theoretical foundation of the analysis may be weak and the hypotheses are difficult to substantiate. Second, the hypothesis may not embrace the complexity of the real world. Third, the selection of indicators and the dependent variables are determined more on the availability of databases than by theoretical reasoning. Fourth, little attention is given to the problems and consequences of converting categorical or ordinal measurement scales into ordinal or metrical scales. Fifth, as Stewart (1989) argues,

> "linearity is a trap. The behaviour of linear equations ... is far from typical; ... nature is relentlessly non linear, so how can we presume that the social constructs which we are observing will be linear?" (p. 54)

While it is generally accepted that there is a difference between statistical and casual relationships, it must be pointed out that the observable overemphasis on statistical tests in many areas of accounting and finance may result in a misinterpretation of statistically significant relationships. It could also be said that the outcome of some statistical analysis is often statistically significant but less often empirically relevant and results are sometimes trivial and sometimes ambiguous. (Lűder, 1991) It is for the above reasons that content analysis was chosen as the method of analysing the information gathered during the field research.

It is also noteworthy that during the analysis of information and the presentation of results, the researcher respected the principles of professional ethics. This approach was applied to both the information and its sources. With respect to the former, it meant that not all the information collected could be published. In addition, the researcher had the responsibility of making sure that any information published was accurate and reliable; otherwise the publication of distorted information might lead to inaccurate conclusions and be offensive to the object of research. The sensitivity of Albania's environment within which changes in accounting have taken place demanded careful data protection. Interviewees' names have not been mentioned, in strict regard to confidentiality.

4.6. Doing Field Research in Albania

The field research in Tirana, the capital of Albania, was not without difficulties some of which have not been mentioned in any textbook on field research in social sciences. During the first half of 1997 Albania experienced a total anarchy. When riots after the failure of pyramid funds led to the ransacking of army warehouses, 500,000 guns of different calibres and 200,000 tons of ammunition were stolen. Large stashes of guns not only created a gunslinger culture locally, but also found their way to ethnic Albanian separatists elsewhere in the Balkans. Despite efforts to normalise the situation, Albania experienced serious problems that were brought about by the lack of public order. During his research trips to Tirana, Albania, the researcher did witness a breakdown in law and order. On three occasions, researcher's life was in serious danger as he happened to pass by in areas not far from the city centre where rival mafia gangs opened fire against each other and the gun battles lasted for quite a while.[3] In another occasion, the researcher was mistaken for a rich foreigner and became a target of robbery.

Life threatening situations were not the only problem. Arranging the interviews was also a very difficult task. Telephone, fax and e-mail have been a luxury for many

---

[3] Two of those incidents were reported by the national media and press.

ordinary Albanians. Sometimes arranging the interviews was almost impossible due to lack of such facilities.

However, the most worrying issue was the fact that the politicians, academics, professionals, regulators and public at large had no understanding of the importance of field research in accounting. On several occasions, various individuals did not appreciate the importance of researcher's study of Albania's accounting change. To some extent this was quite understandable, because most Albanians were lacking basic facilities such as regular electricity and water supply, and struggling with issues of urban hygiene and public safety. Undoubtedly, the above would make any efforts to research Albania's accounting reform look like a second or even third hand issue.

While identifying potential interviewees was not problematic because the researcher had good personal contacts, meeting those who had agreed to be interviewed became quite a challenge. On many occasions entering government buildings or offices was quite difficult because the receptionists or the security guards would become suspicious of researcher's Slavonic name anytime he would introduce himself and ask for permission to meet the official who had agreed to be interviewed. It has to be said that the relationship between Albania and its Slavonic neighbours had never been any good. Balkan conflicts of the late 1990s made that relationship even worse, and this was reflected in the way minorities were treated. Sometimes, even researcher's fluent Albanian (although of Montenegrin origin, the researcher was born, grown up and educated in Albania) was not enough to convince the security guards to grant the researcher permission to enter government buildings or offices, or at least to contact the official that would be interviewed and confirm that researcher's intentions were indeed genuine. Thus, the researcher would have to find the nearest telephone booth - and there were not many of them in operation in Tirana, call the interviewee and ask him or her to ask the security guards or the receptionists to let the researcher enter the building or office.

As a result of forty-five years of extreme dictatorship, public accountability was still an alien concept to many officials in Albania. The government had a lot to do to improve the disclosure to the public of any information of economic nature. Even in the late 1990s, no matter what, every single piece of government information in Albania was still treated as "highly confidential". On several occasions, the researcher had to work very hard to convince the officials that any printed materials gathered would be used in strict regard, and that no direct reference to the source would be made.

During the interviews the best way to collect information was by using a tape recorder. However, this was not always possible. First, some interviewees with whom the researcher had no direct acquaintance, were very concerned that the information they were giving out could be misused. They were quite afraid of having their voice recorded, despite the researcher's strongest assurance that all the information collected was for research purposes only. Second, due to their official position some interviewees could not express themselves freely if there was a tape recorder around. Thus, the researcher had to keep extensive notes, and then type them. However, power cuts, especially in the evenings, made the process of organising and typing in the computer any information collected very difficult.

The majority of Albanian interviewees were not punctual. They would always come later than agreed. This not only would frustrate the researcher, as there was always the risk of not conducting the interview, but also create problems with other interviews that were arranged at some other time, in some other place, later on the same day. Sometimes, the researcher would be late for the next interview because the previous one had started late due to the interviewer not showing up on time. Moreover, getting from one place to another was always difficult due to the lack of reliable public transport.

While arranging the time of interviews, sometimes it was quite difficult to succeed because some potential interviewees would propose meetings at times which were not available due to previously arranged interviews with other interviewees. Often, the time proposed was the only one that those potential interviewees could offer. Thus, the researcher had to accept the proposed time and then re-arrange the other previously arranged interviews. This required very good communication skills and ability to convince those interviewees with whom the time of interview had been arranged once, to meet at some other time.

Initially, the semi-structured interview questionnaires were drafted in English, and after that translated into Albanian. Although the researcher was a native speaker of Albanian, some of his questions in Albanian were not fully understood by the interviewees. The reason for that was the poorness of Albanian language with regard to accounting concepts and expressions. To some extent, the language used in a country does reflect the level of economic development of that country. In the case of Albania, the economic environment was poor and there were quite a few concepts and expressions, which were still unknown to some of the individuals that were interviewed.

Financial constraints also made the field research very difficult. The cost of travelling to Albania, printing and photocopying the semi-structured interview questionnaires, telephoning and travelling within the capital area were all covered by the researcher.

It has to be said that it was researcher's full commitment and the support he received from his family and three colleagues who were working for various international agencies and the central bank in Tirana that made possible the successful completion of the field research.

4.7. Conclusions

Chapter Four presented a detailed analysis of sources of information, and the research methodology and methods that were used. This research was amongst the first of its kind on accounting change in Albania. Thus, the researcher aimed at being both exploratory and analytical.

The feasibility of research depended upon access to various sources of information. The researcher had a rich body of contacts in Albania's professional and academic circles, and access to key policy influentials in Albania's financial sector.

To achieve the stated research objectives, qualitative methods were applied to construct a single case study. More specifically, semi-structured, open-ended, face-to-face interviews were used to obtain a picture of the state of accounting in Albania - the country chosen for the case study. A semi-structured interview questionnaire was developed for this purpose. The interviewees were key officials from the Albanian government and international organisations such as the European Bank for Reconstruction and Development and the International Monetary Fund, accounting professionals from Albania's Institute of Authorised Chartered Auditors (IACA) and international accounting firms, and academics involved in the policy reforms in Albania. The interviews were variously located in Tirana, London, and Edinburgh.

The questions asked during the interviews aimed at gathering information on accounting changes in Albania during the last decade (1992 - 2002). The interviews also served the purposes of revealing and analysing the difficulties encountered while changes took place.

As explained earlier in this chapter, the information needed for this research was gathered from various sources. While primary information was collected during the semi-structured, open-ended, face-to-face interviews, secondary data and information were gathered from a variety of other sources by methods such as archival research on policy formulation in Albania, desk-literature search, and perusal of financial periodicals, journals, and professional magazines.

The Structure of the Case Study

Chapter Five outlines the history of Albania and its approach to economic development. The emphasis is put on the peculiarities of this Balkan country. Chapter Six analyses Albania's financial system. Attention is drawn to key problems and challenges that the development of Albania's market-driven financial system has faced since the early 1990s. In Chapter Seven, Perera's (1989) contingency based approach is used to analyse the information gathered during the interviews in order to provide a detailed understanding of the views of those involved in the process of accounting change in Albania. Some of the major factors - political, institutional, legal, and cultural - which have constrained the development of accounting in Albania are identified and analysed. The last chapter summarises the whole thesis, outlines some of the problems this research encountered, and makes recommendations for future work.

Chapter Five

The Political Economy of Albania: Failures and Persistence

5.1. Introduction

A good deal of the literature on accounting in developing countries and that on economic reform in CEEC acknowledge the vital need for a country to implement those policies and practices which fit within its political, economic, and social environment. It is this idea which has led to fierce criticism of the economic reforms in Central and Eastern Europe (Chossudovsky, 1997; Andor and Summers, 1998).

It is clear from the review of literature[1] that one of the major issues concerning accounting in developing countries and accounting reform in transitional economies of Central and Easter Europe is whether a country should establish an accounting infrastructure that suits it own special needs, or import accounting models used by developed countries in different economic contexts. More importantly, how the transfer of an accounting system from a developed country to a developing country or CEE transitional economy should and could be done is still a controversial matter.

In addition, the review of literature on accounting in CEE[2] identified the need to study further the experience of former communist countries in the area of accounting reform and especially the functioning of accounting policy and decision-making bodies, regulatory agencies and professional associations. This would be beneficial to accounting researchers and professionals and also the policy makers because it would shed light on possible ways of improving the functioning of accounting system, which in turn could improve the overall performance of the financial system.

The accounting reform is thus of interest and within this context Albania represents a suitable case study[3]. Moreover, as the accounting reform in Central and Eastern Europe has faced various problems[4], there is an ideal opportunity to discuss from a different perspective - that of the functioning of policy and decision-making bodies, regulatory agencies and professional associations - possible ways of improving a

[1] see Chapters One, Two and Three
[2] see Chapters Two and Three
[3] see Introduction: Section VII / II

country's accounting system. This discussion makes possible a better understanding of assumptions underlying the reform process and the role of participants in it.

Throughout the remaining chapters of this thesis, the following research questions are asked:

(i) What has the path of accounting development in Albania been like, and how does it compare with other countries' experiences?

(ii) What are some of the possible ways of improving Albania's accounting system?

(iii) How can Albania's accounting policy and decision-making bodies, and professional associations achieve more?

(iv) What should the international political and financial organisations do to be more effective in their efforts of supporting Albania's economic reform and more specifically changes in Albania's accounting system?

Carrying out a case study of Albania is the best approach to answering these questions[5]. When using a country case-study method, it is essential to analyse the political and economic history of that country and more specifically its accounting infrastructure. As Antonelli (1992) argues,

> "[w]ith the help of past experience we can try to understand some basic elements of the dynamics of ... [Albania's] economic system .... More specifically, we can try to identify the main stages in its evolution and the stylized facts that characterize its situation. The reconstruction of both elements cannot be considered free from value judgement and bias. Nevertheless, it helps to reconstruct a reference framework for the adopted [economic] model, which at least allows for a test of coherence, and to clarify from the beginning the reasons why an approach is chosen or dismissed." (p. 1)

---

[4] see Chapter Three
[5] see Chapter Four

In this chapter, the researcher will consider the key moments in the history of Albania and then outline from a historic and economic perspective Albania's version of communism and "velvet revolution" of the early 1990s. The researcher will argue that the peculiar characteristics of a political and economic system, which prevailed in most of Central and Eastern Europe, led to continuous policy failures. Particularly, this chapter will deal with the factors - political, historic, economic, and cultural - which render the Albanian experience unique, illustrative, and worth looking at. In addition, this chapter will postulate some of the factors responsible for the spectacular economic growth in the mid 1990s and the failure of 1997. The analysis will set the scene for the discussion in the following chapters of the insistent need for an effective system of accounting, which could propel the modernisation of Albania's fragile financial sector, previously underestimated, but now perceived as a "bottleneck" to future economic growth.

5.2. Albania's History - An Overview[6]

The question of the origin of Albanians is still a matter of controversy amongst the historians, ethnologists, archaeologist, and anthropologist. Quite a few studies have concluded that Albanians are the direct descendants of the ancient Illyrians. This is also what Albanian children are taught at school. The Illyrians inhabited the western part of the Balkans, from what is now Slovenia in the north-west to and including the region of Epirus, which extends about halfway down the mainland of modern Greece.

From the 8th to the 6th century BC the Greeks founded a string of colonies on Illyria. The presence of Greek colonies led Illyrians to contacts with a more advanced civilisation. This helped them develop their own culture, while in turn Illyrians influenced the economic and political life of Greek colonies.

[6] This section draws on "Fjalori Enciklopedik Shqiptar" (Albanian Encyclopaedic Dictionary), unless otherwise stated.

The Romans ruled Illyria for about six centuries: from 165 BC till the 4^{th} century AD. When the Roman Empire divided into east and west in 395 AD, today's Albania became part of the Byzantine Empire.

In the first decades under Byzantine rule (until 461 AD), Illyria suffered the devastation of raids by Visigoths, Huns, and Ostrogoths. Not long after this - between the 6th and 8th centuries - the Slavs appeared in the Balkan peninsula. It is thought that in the course of several centuries (from the 8th to the 11th century), under the impact of Roman, Byzantine, and Slavic cultures, the tribes of southern Illyria underwent a transformation, and a transition from the old Illyrian population to a new Albanian one occurred.

Long before that event, Christianity had become the established religion in Albania (1st century AD). Although the country was part of the Byzantine Empire, Christian population of today's Albania remained under the jurisdiction of the Roman pope until 732 AD. In that year the iconoclast Byzantine emperor Leo III, angered by Albanian archbishops because they had supported Rome in the Iconoclastic Controversy, detached the Albanian church from the Roman pope and placed it under the patriarch of Constantinopole. In 1054, when the Christian church split between Constantinopole and Rome, southern part of today's Albania retained its link to Constantinopole, while northern part of today's Albania remained under the jurisdiction of Rome. This split marked the first significant religious fragmentation of the country.

Latter in the Middle Ages, urban society went through a significant economic development. Especially strong trading links were established with Ragusa (today's Dubrovnik, Croatia), and Thessalonica (today's Thessalonikii, Greece).

The administrative system of military provinces, set up by the rulers of Byzantine Empire, contributed to the eventual rise of feudalism in Albania. By mid 14th century, Byzantine rule in Albania came to an end. A few decades later the country was confronted with a new threat: Turks were expanding over the Balkans. The Ottoman Empire invaded Albania in 1388. Occupation of the country was completed about four decades later (1430). After 1443, Gjergj Kastrioti - Skënderbeg (1405 - 1468), the son of one of the most well-known Albanian feudals of that time, rallied the Albanians and succeeded in driving the Turks out of the country. In the following 25 years, Skënderbeg frustrated every attempt of Turks to regain Albania, which was viewed as a springboard for the Turkish invasion of Italy and the rest of western Europe. It is unfortunate that the western history books ignore, to some extent, the fact that it was Skënderbeg who kept the Turks away from invading the whole of Europe. After Skënderbeg's death, Albanian resistance gradually collapsed. This enabled the Turks to re-occupy the country in 1506.

Turks established their rule over Albania just as Renaissance began to "rule" Western Europe. Turkish occupation cut off contact and exchanges with Western Europe. Thus, Albania had no chance to participate in, or benefit from the Renaissance era. Turkish conquest also caused great suffering and devastation of the country's economy, commerce, art, and culture. The base of Ottoman rule in Albania was a feudal military system of land estates. Ottoman rule in Albania remained backward and oppressive till its end.

In order to defeat continuous uprisings, as well as to bring Albanians spiritually closer to Turkey, by the end of the 16th century, the Ottomans initiated a systematic campaign to Islamize the population. This campaign continued through the following century, by the end of which two-thirds of population converted to Islam faith. A major reason why Albanians became Muslims was to escape Turkish violence and economic exploitation, exemplified by a tax that Christian population would have to pay if they wanted to remain Christians. Islamization aggravated the religious fragmentation of Albanian society.

Continuous efforts and an armed struggle (1910 - 1912) led to the independence of Albania from Ottoman Empire. After the defeat of Turkey by the Balkan states during the First Balkan War, a conference of ambassadors of the Great Powers (Britain, Germany, Russia, Austro-Hungary, France, and Italy) convened in London in December 1912 in order to settle the issues raised by the conflict. The conference agreed to create an independent Albanian state. Great Powers also appointed a German prince, Wilhelm zu Wied, as the ruler of Albania. The German Prince arrived in Albania in March 1914, but his unfamiliarity with Albanians and country's problems, compounded by complications arisen from the outbreak of World War I, made him depart from Albania six months after his arrival. World War I plunged the country into a new crisis characterised by the lack of any political leadership.

The end of World War I and continuous efforts for self-establishment led to a national congress, held in January 1920, which laid the foundations of a new governing. At the start of the 1920s, Albanian society was under two irreconcilable political forces. The first one was made up of deeply conservative, land-owning, tribal leaders, who were very close to the Ottoman ruling traditions. The other political force consisted of Western-oriented liberal-democrat intellectuals and politicians. This East-West polarisation of Albanian society between 1920 and 1924, led liberal forces into a popular revolution. In June 1924 a democratic regime was set up and a radical program of land reform and modernisation was declared. Soon, political mistakes in carrying out the land reform and deep financial crisis, led to the fall of democratic regime. By the end of 1924, a politician named Zog began his 14 years long rule of Albania, first as a president (1925 - 1928), then as King Zog I (1928 - 1939).

In order to stabilise the country characterised by political and social instability, and due to a huge need for foreign aid, King Zog I signed a number of treaties with Italy. These agreements provided some financial relief to Albania despite the counter-effects of the Great Depression of 1930s. The social base of King Zog I's power was the coalition of influential land-owing rulers of southern and northern regions of the country. With the support of this coalition, an Oriental-type bureaucracy, an efficient police force, and Italian financial assistance, King Zog I brought a large measure of stability to Albania. He extended the authority of the government to the highlands, reduced the brigandage that had formerly plagued the country, laid the foundations of a modern educational system, and took a few steps to westernise Albanian social life. On balance, however, his achievements were outweighed by his failures. Zog failed to resolve Albania's fundamental problem - the land reform.

In the meantime, Italy viewed Albania primarily as a bridgehead for the military expansion over the Balkans. On April 7, 1939, Italy invaded and shortly after occupied Albania. In 1941, Tito, the Yugoslav communist leader, organised left wing political groups into a communist party led by Hoxha, the forthcoming ruler of Albania. In September 1942, the Communist Party organised the National Liberation Movement - a popular antifascist front. Finally, by the end of 1944, Germans troops, who had replaced the capitulated Italians, withdrew from Tirana, the capital, and communist forces seized power.

The new communist regime inherited a devastated political, economic and social Albania. The ruling communist party (later known as the Labour Party of Albania) drafted a radical program which intended to bring social and economic relief to the country. Primarily, the land reform was conducted. This brought the social feudal base of the society to an end. The communist regime undertook the nationalisation of existing industrial establishments, banking system and all commercial and foreign activities. Shortly after the completion of land reform, the party-government collectivised the land. Rural population which comprised the majority was again devastated. In addition, the "socialist order" was forced over the rugged and isolated northern highlands. This brought down the endemic institution of blood feud and the patriarchal structure of family and clans and tried to give women a better social role. In order to obtain financial assistance for its economic programs, as well as political and military support, Albania turned to the communist world: Yugoslavia (1944 - 1948), the Soviet Union (1948 - 1961), and China (1961 - 1978). Benefits were derived from these alliances. Hundreds of millions of US dollar aids and loans, and enormous technical assistance helped Albania build its industry and improve its agricultural system. Politically, Hoxha remained "disillusioned" from his communist allies and broke with all of them. Alienated from both East and West, Albania adopted a "go-it-alone" policy and became an isolated bastion of Stalinism.

Political oppression, however, offset industrial, agricultural and cultural achievements. During Hoxha's reign, contrary to provisions of country's constitution, Albania was ruled, in effect, by the notorious State Security Service (known as Sigurimi). Government opponents were subject to public criticism, dismissed from their jobs, imprisoned in forced-labour camps, or executed.

After Hoxha's death in 1985, his successor, Alia, preserved the Stalinist system while introducing gradual reforms in order to revitalise the economy which had steadily declined since aid of former communist allies stopped. Alia legalised some foreign investments and expanded diplomatic relations with the West. The fall of communism in Central and Eastern Europe in 1989, made various segments of Albanian society politically active. The vanguards of anticommunist protests became intellectuals, a part of working class and especially the youth, which had been frustrated by years of confinement and restrictions. In December 1990, Alia endorsed the establishment of independent political parties. This signalled the end of communists' monopoly of power. Continuous economic, social, and political instability led to the fall of several governments. Finally in March 1992, anticommunist opposition seized power. Albania seemed to be well on its way towards political, economic and social changes.

5.3. The Path of Albania's Economic and Social Development

From the 15th century onwards, Albanian society was organised around a philosophy of patriarchy - the veneration of seniority that emphasised family values - and the tradition of economic subsistence - living from farming. The totalitarian regime of Hoxha that endured between 1944 and 1990, attempted to re-configure these old socio-economic traditions by changing the system of property rights from quasiprivate, largely feudal estates to public ownership of collective farms and enterprises. In this way, the entire administration of the country was under the auspices of a centralised administrative authority - the extreme form of the Stalinist state. However, the patriarchal values, and the Albanian approach to subsistence norms of living, persisted somehow.

During "its command-economy, Albania had all the ... institutional features of Stalinism" (Clunies-Ross and Sudar, 1998, p. 8), if anything in an even more extreme form: state-owned collective farms, industry and trade; and centrally-directed allocation of labour.

Foreign trade was heavily oriented towards political allies until 1978, when China, the last communist ally, revised the economic doctrine of Marxism-Leninism - a revision that wrote China off the political map of Albania's communist dictator[7].

> "'Revisionism' was seen [by the ruling communist elite] as a cancerous growth within Marxism." (Vickers, 1995, p. 199)

Independence from the ruling communist party-state was unknown to the system of legal justice. Those individuals regarded by the regime as trustworthy were entitled to state-determined education, employment, and housing. Travelling or studying abroad were privileges enjoyed only by the children of the highest ranking communist officials. Until the mid 1980s, foreign tourists were not allowed to visit Albania. Receiving uncontrolled foreign broadcasts or publications constituted a crime severely punished. There was a progressive elimination of religious activities, which eventually culminated in a constitutional abolition of religion in 1967.

Albania's unique "policy path" of "ambitious autarky" (Aslund and Sjoberg, 1992, p. 135) was founded on Hoxha's[8] well-documented xenophobia: three quarters of a million concrete bunkers exemplified his view that international superpowers - the

[7] Enver Hoxha
[8] Albania's communist dictator from 1944 till 1985

US and the former USSR - and the "neighbouring enemies", including Yugoslavia, Greece, and Italy, were "jealous of Albania's socialist purity" (Harxhi, 1995).

Autarky, in fact, was to reveal twin weaknesses - it demonised the outside world while failing to provide Albania with the staples necessary for survival and development. Hoxha's over-ambitious self-reliance had manifest dysfunctional consequences.

> "Albania had ... hardly produced any machinery or capital goods and export revenues ... [had] only allowed a trickle of imports." (Aslund and Sjoberg, 1992, p. 135)

Until as late as 1990, foreign borrowing was effectively prohibited by Albania's Constitution, leading to chronic under-investment. A consequence of this capital famine was technological obsolescence and a poorly developed infrastructure. As Pashko (1993) argues, the result of such obsolescence was that,

> "few of the fixed assets would have [had] any value in a Western market economy and even in Albania they were largely written off." (p. 909)

The same economist also emphasised that,

> "[the] technology given to Albania first in the 1950s by the Soviet Union and later in the 1960s by China was fully depreciated by the 1990s and required urgent attention. But the costs of renovation were extremely high." (Pashko, 1993, p. 909)

In addition, some indication of the introverted nature of Albania's political elite could be gained from consideration of the parallels between it and its last former socialist ally, China. Comparison with the Chinese policy model is instructive. According to Prifti (1978), Albania's dictator[9] and his followers "were ... uninhibited in their praise of the Chinese cultural revolution" (p. 145). While different in many component elements - the adulation of Mao did not find its equal counterpart in the public deification of Hoxha - "the basic premises of the two revolutions were identical" (Prifti, 1978, p. 149). They were both characterised by an obsessive fear of departure from Marxism-Leninism and the restoration of capitalism.

However, what distinguishes the Albanian model of socialism from that of the Chinese is that the latter was modified earlier in line with the development of political pragmatism. China was able to embrace the verities of a market oriented public policy path known as "socialism with Chinese characteristics". Following the death of Mao Tse-tung[10] in 1976, China adopted an incrementalist approach to economic reform including progressive decentralisation of decision making initiated in the early 1970s, the leasing of communally owned land (1978), and price reforms (1983). The separation of central from commercial banking functions (1984) and a developing capital market also proceeded in line with Hsiao-ping's depiction of a "one nation, two systems" philosophy. Reforms embraced hitherto state-owned agriculture, industry, and ultimately the de-monopolisation of large public utilities[11], up to but not amounting to actual privatisation.

The Albanian policy path, by contrast, featured the retention of centralisation (Aslund and Sjoberg, 1992, p. 135), monopolisation and bureaucracy - all bolstered by its isolation from the main intellectual and political currents prevailing in the West. Even when, under the old communist regime, limited attempts to decentralise and eliminate state subsidies did take place in early 1990, giving state-owned enterprises (hereafter SOEs) greater freedom to operate, no proper system of market mechanisms was yet in place. Most state financing was still "used to pay salaries in overstaffed enterprises and institutions" (Pashko, 1993, p. 909). Thus, without proper market mechanisms, half-hearted efforts to reform were doomed to fail.

---

[9] Enver Hoxha - Albania's communist dictator from 1944 till 1985
[10] China's communist leader from 1949 till 1976
[11] see X. Yan, N. Levine, and D. Pitt (1996) "Touching Stones to Cross the River: Evolving Telecommunications Policy Priorities in Contemporary China", Journal of Contemporary China, Vol. 5, No. 13, pp. 347 - 365

Standing in direct contrast to China's successful gradualist approach to marketisation of the planned economy (Raiser, 1995, p. 137), Albania had therefore to fast track its reforms. Inevitably, such ambitious objectives would be fraught with difficulties, as Albania attempted to simultaneously liberalise, re-codify and restructure virtually its entire economic foundations.

5.3.1. Policy Failures

In broad terms, the main consequences of the communist rule were a complete dependence on central planning with the added ingredient of economic autarky, and a total disregard of economic incentives, market forces, and the role of financial system. Under the Stalinist regime, the organisation and operation of Albania's economy was totally different from what would follow from market principles. It is fair to say that prior to 1990, economic values of western societies were not a part of Albania's experience.

Whether the failure of centrally commanded economic policies should be attributed to the theoretical tenets of the socialist system, or to the ruling autocratic bureaucracy, which put the theory into practice, remains open to opinion.

Within the French tradition, Crozier (1964) depicted the ruling bureaucracy as unable to learn from past mistakes and, in consequence, engaged in a retreat from reality. At the time when Crozier made the above statement, he might simply have intended to describe the western bureaucratic model. Ironically, nothing could better outline the most extreme autocratic bureaucracy which ruled Albania between 1944 and 1991. The inability of such a bureaucracy to learn from past mistakes could be described as the result of both a passive leadership in the sense that it continuously reinforced the status quo, and an active leadership in the sense that it severely punished any initiative to undertake reforms.

In large measure, however, policy failures were attributable to (i) the entrenched Stalinist tradition of state-owned property rights, (ii) the over-centralised administrative structures, and (iii) the incapability of meeting the challenges of an increasingly global economy. The economics of production, administration and distribution is one of the places where the roots of decay of the socialist system are to be found. According to economic theory, in an ideal system, demand should match supply for products and services. Through his in-depth political analysis, Schöpflin (1993, p. 226) reminds us that this fundamental principle of economics was totally ignored by centrally commanded economies, which simply administered the inputs and outputs of their production. It was political criteria that continuously ruled and distorted economic decisions, leading to an irrational detachment of the economy from consumers' needs. While this was happening, Western economies were becoming increasing globalised. As Ohmae (1990, pp. xii-xiii) argues, the policy objective of globalisation was to ensure

> "the free flow of information, money, goods, and services as well as the free migration of people and corporations." (pp. xii-xiii)

Thus, the imperatives and challenges of the global world market "could no longer be fully ignored." (Schöpflin, 1993, p. 227). Altogether, policy failures contributed to simmering undercurrents of civil unrest which led to the pacific resignation of Albania's communist regime.

> "The [economic] inefficiency ... made the unloved political system of one party rule indefensible." (Sametz, 1993, p. 1)

As has been noted by political commentators on systems crises, the trigger for such events are often domestic challenges to the incumbent regime in the form of civil disobedience. These domestic challenges may in turn be accelerated by foreign events or political actors. The "velvet revolution" of the late 1980s, which took place in almost all Central and East European countries, occupied the position of external factor, that proved impossible to police, and was a contributing force to the downfall of the Albania's communist regime, at a time when it also faced severe internal economic crises.

5.4. Albania's Approach to Economic Reform in the 1990s

In the beginning of the 1990s, Albania's economy was completely unable to cope with new challenges. Obviously, central planning, "a set of detailed physical commands to enterprises and sectors" (Nuti, 1988, p. 377), had to be revised. "[T]he basic mechanism of [resource] allocation [had to] ... be the market" (Siebert, 1991, p. 6), where individual and firms preferences count, and rationally react to prices.

The political changes of 1990 - 1992 brought into power a new leadership, which declared its commitment to reform the entire economic system, and especially the financial sector.

As widely discussed (see Brainard, 1991; Siebert, 1991; Sametz, 1993; Montias, 1994; Begg, 1997), the reform programme was anticipated by macroeconomic stabilisation, a process that constituted

> "disciplines over fiscal, monetary, exchange-rate and wage variables ... [which had to] be followed in order to combine price stability with a stable course of income growth." (Clunies-Ross and Sudar, 1998, p. 3)

It has been remarked elsewhere (Fry, 1997), that confidence in the financial system is enhanced if the economy enjoys stability regarding price level, interest rates, the foreign-exchange regime, and control over the budget deficit.

As an essential prerequisite for the reconstruction of a sound financial system, Albania's macroeconomic stabilisation did take place, but it started later than in other former communist CEE countries (in most CEE countries, the macroeconomic stabilisation process started earlier and the results had begun to appear), and also under extraordinarily difficult conditions. The total collapse of Albania's centrally planned economy in 1991 was followed by a massive physical destruction of previous productive capacities, such as state-owned enterprises and plants, farms and agricultural co-operatives. This destruction damaged very badly the revenue sources of the state budget. As a result, during the period 1991 - 1992, Albania's macroeconomic indicators, such as the GDP, unemployment and inflation rate were more unfavourable than in many other CEE former communist countries.

Table 5.1.: Change of GDP, 1989 - 1992 (1988 = 100)

1989		1990		1991		1992	
Albania	109	**Slovakia**	109	**Czech R.**	86	**Hungary**	83
Czech R.	101	**Czech R.**	101	**Hungary**	86	**Poland**	83
Slovakia	101	**Albania**	99	**Slovakia**	86	**Czech R.**	81
Bulgaria	100	**Hungary**	97	**Slovenia**	86	**Slovenia**	81
Hungary	100	**Slovenia**	93	**Poland**	82	**Slovakia**	80
Poland	100	**Bulgaria**	91	**Bulgaria**	80	**Bulgaria**	74
Croatia	98	**Croatia**	89	**Romania**	77	**Croatia**	70
Slovenia	98	**Poland**	88	**Croatia**	76	**Romania**	70
Romania	94	**Romania**	88	**Albania**	71	**Albania**	64

Source: EBRD Transition Report, 1995

Table 5.2.: Actual percentage unemployment, 1990 - 1992

1990		1991		1992	
Czech Republic	0.8	Czech Republic	4.1	Czech Republic	2.6
Bulgaria	1.5	Slovakia	7.9	Slovakia	11.0
Slovakia	1.5	Slovenia	8.2	Slovenia	11.1
Hungary	2.5	Hungary	8.5	Hungary	12.3
Slovenia	4.7	Albania	8.6	Poland	13.6
Poland	6.1	Bulgaria	11.5	Bulgaria	15.6
Albania	7.6	Poland	11.8	Albania	26.9

Source: EBRD Transition Report, 1995

Table 5.3.: Annual rate of inflation (per cent), 1990 - 1992

1991		1992	
Hungary	35.0	Slovakia	10.0
Czech R.	56.7	Czech R.	11.1
Slovakia	61.2	Hungary	23.0
Poland	70.3	Poland	43.0
Albania	104.0	Bulgaria	91.3
Slovenia	117.7	Romania	199.0
Croatia	123.0	Slovenia	201.3
Romania	223.0	Albania	237.0
Bulgaria	338.5	Croatia	665.0

Source: EBRD Transition Report, 1995

As Healey (1996) has generalised,

> "[t]he reform process was initially plagued by hyper-inflation. With [CEE] governments heavily reliant on 'profit' and 'turnover' taxes on enterprises for state revenues, the slump in production which followed the breakdown of central planning led to a sharp contraction of the tax base. The resulting budget deficits were financed by printing cash through the central bank." (p. 4)

It is noteworthy, however, that macroeconomic results achieved during a relatively short period of time were comprehensive. As a result of the implementation of rapid macroeconomic stabilisation policies, Albania's GDP increased fast after 1992; the inflation rate dropped to a much lower level by 1995; the exchange rate stabilised from mid-1992, and the budget deficit decreased. The external debt also started to be re-negotiated with the foreign counterparts.

This comprehensive macroeconomic performance enabled the introduction of structural reforms, such as the privatisation of most of the state-owned enterprises and the reform of the banking system.

5.4.1. Privatisation[12]

Kornai (1995) offers two characterisations of privatisation. The first, narrow formulation, simply implies the transfer of assets hitherto owned by the state into private hands. In the second, more inclusive sense, the term covers the property relations in the economy as a whole, so that privatisation of the economy must be understood to mean that the share of the private sector grows until it ultimately becomes the dominant economic sector. At a more general level, privatisation simply involves the specification of ambiguous rights and an assignment of those rights ultimately to physical persons (Jackson, 1994).

[12] This subsection and the following sections and subsections of this chapter draw heavily on research and its output which was compiled in a book titled "Albania's Economy in Transition and Turmoil: Policies, Adaptations and Reactions, 1990-97", co-edited by Prof. Anthony Clunies-Ross (University of Strathclyde, UK) and the researcher of this study, and published by Ashgate Publishing Co. - UK in 1998. The researcher is extremely grateful to Prof. Anthony Clunies-Ross (University of Strathclyde, UK) for his invaluable input, comments and explanations on the issues discussed in this chapter.

In many communist countries the very notion of private ownership of the means of production was simply anathema until after the state divested itself of land, housing and enterprises. Essentially therefore, privatisation means removing government control and replacing it with non-state actors: individuals, corporate entities and foreign investors. It is implicitly supposed that the market mechanism will automatically enhance efficiency, but the market mechanism's application to the context of the Albanian economy has not been without its difficulties.

To some extent, the actual term privatisation is misleading. To people in contemporary Western Europe, privatisation conjures up images of monopolistic producers - often utilities - being floated to enthusiastic investors in a well-developed stock market. By contrast, when applied to Central and Eastern Europe, it has formed part of a wholesale economic transformation that includes all the apparatus of the market economy: supply-and-demand-based pricing mechanisms, construction of an effective banking and legal system, profit-orientation, management incentives, monetary instruments and financial intermediaries. Such a programme will typically also include the elimination of state subsidies, price liberalization (with associated "re-balancing" inevitably requiring price rises to reflect better the actual costs of production), removal of guaranteed rights of employee-protection and pensions, and the prospect of free competition from both domestic and international rivals. Viewed in such a fundamentalist way, privatisation in Central and Eastern Europe is not infrequently presented as a form of "shock therapy" (Lipton and Sachs, 1990; Rutland, 1994) designed to raze the entire foundations of the extant economic system to the ground.

5.4.1.1. Rationale of Privatisation in General

The rationale for privatisation in Albania has been similar to that in other former centrally planned economies in Central and Eastern Europe. Its purposes has included: promotion of efficiency through extension of an incentive-based market economy; drawing more fully on the creative capacities of the population; and disseminating power and initiative in accord with the ideal of a decentralized and democratic society.

Debates in the West on the need for privatisation have also stressed deficiencies in "nationalized industries" including: low productivity and efficiency; political interference; lack of competitive incentives; sluggish response to changing market circumstances; poor quality; low diversity of goods and services; bureaucracy; and lack of capital-investment funding for modernization and innovation. These problems are seen as the natural outcome of monopolization, producer-driven mentality, and general managerial complacency (Yan et al., 1996).

Privatization has been an essential aspect of transition to a market economy. Hashi and Xhillari (1996) pointed to some of the idiosyncrasies of the Albanian situation that have relevance to the form and difficulties of privatization. They suggested the following factors as particularly significant for Albania's privatization (some shared less widely than others with the rest of the Central and East European countries): experience in the past of total dependence of the individual on the state, together with extreme centralization; the complete abolition of private property in the means of production under the Hoxha regime; recognition of the need for financial compensation of "formerly persecuted people"; the need for special criteria for share-allocation in a situation of widespread impoverishment; and the virtual non-existence of independent legal, financial and institutional frameworks.

5.4.1.2. Privatisation Process and its Characteristics

There have been a number of different modes of privatisation, such as:

(i) spontaneous privatisation (someone, usually workers or managers, simply takes over the enterprise);

(ii) special-claimant privatisation (existing tenants of houses, or workers of land, or enterprise employees, or former owners, have preferential access, often either at reduced prices or free);

(iii) patronage privatisation (certain people get assets on preferential terms, either to repay favours to, or to ensure support for, those in power);

(iv) cash auction of whole enterprises;

(v) cash auction of shares;

(vi) voucher-bidding for whole enterprises;

(vii) voucher-bidding for shares.

(viii) negotiated deals with major investors.

Most of these methods have been applied in Albania. The way in which vouchers were used in Albania meant that there was probably no distinction in practice between methods (vi) and (vii).

The method of privatisation obviously has a bearing on who gains the assets. Reasonable objectives here are that the distribution should be fair and also conducive to efficient use. Fairness may be taken to lead to two principles that will be sometimes in conflict: that the value of national assets should be distributed (as far as possible) equally to all; and that no one should as a result of the privatisation be deprived of livelihood or housing or accustomed way of life. Pursuit of the first of these principles may inevitably have to be modified in deference to the second. Much of the special-claimant privatization follows in fact from the second. Voucher-privatization is an attempt to pursue the first. Negotiated deals with major investors may be the only satisfactory way of privatizing certain types of asset. Fairness in that case involves getting the best deal for the public finances consistent with attracting the investor and giving him / her incentives to behave efficiently.

Giving small shops and service units to their employees, and farmland to those who have been working it, also makes sense on grounds of efficiency: they are likely to have the right experience. Correspondingly there is a real problem about ensuring efficient management in the wake of voucher-privatization: those bidding the vouchers may have no experience of the industry concerned or of market-oriented business in general.

One of the primary arguments for privatising state-owned enterprises for cash rather than giving them away through vouchers is the additional funding this might provide for financially hard-pressed governments. But one problem for former communist countries, including Albania, has been the limited capacity and willingness of the public to spend cash on equities. Those in the best position to acquire a stake (or management role) in a firm that is privatised for cash might well be drawn either from the leadership of the former regime or from racketeers. This would hardly be the most auspicious start for a market-based economy.

Another key issue, as suggested above, is whether the management of a newly privatised enterprise is likely to improve under the new structure, since privatisation alone will not guarantee improvement in efficiency. It is vital to place control of the enterprise in the hands of a better owner (Kornai, 1995; Lipton & Sachs, 1990). This has required that all other necessary support structures are available, which cannot be simply assumed given the pace of change in transitional economies such as Albania. Privatisation will not automatically therefore lead to more efficient production.

5.4.1.3. The Need to Build Institutional Structures

The potential institutional hazards of privatisation in the Central and East European context have been well documented in the burgeoning literature on transitional economies. If effective privatisation of SMEs and larger organisations is to take place on a relatively untroubled basis, certain institutional pre-requisites should be taken into consideration. Based on the literature on privatisation in transitional economies of Central and Eastern Europe one could list the following institutional pre-requisites:

(i) creation of basic financial institutions, including commercially-operated lending banks;

(ii) introduction of stock exchanges and financial intermediaries to generate necessary investment and capital;

(iii) adoption of appropriate governance structures, with managerial and technical training adequate to produce a qualified cadre of corporate managers;

(iv) operation of appropriate management and employee incentive structures.

The literature has considered that the third of these items, corporate governance, is of singular importance in any transition phase; there was a perception, that in the early 1990s CEE countries lacked many of the individual and institutional actors that had been involved in corporate governance in the West.

A vital step in the preparation for privatisation has therefore been to convert former state-owned enterprises into a corporate form (corporatisation). The issue of appropriate governance structures of post-privatised organizations is absolutely essential for their effective operation in a situation of full marketisation. Thus there must be an ownership structure that will effectively oversee the management of the newly privatised assets - in the early 1990s there had been little confidence in the then managerial class in CEE countries.

The issue of effective institutional investment has been particularly relevant in the Albanian case: whereas agricultural assets were distributed to the peasantry unproblematically, the transfer of large public-sector organizations to the private domain contained potential problems. For instance, the normal problems of initial public offerings were greatly compounded by the shortage of public [i.e., private] savings with which to purchase shares. A further difficulty was that of attracting private investors competent to take responsibility for management. What might be required for the privatisation of each large enterprise is a stable core of institutional investors following the French pattern. On this model, around 20% of shares should be sold to an investment group that could be foreign, domestic or mixed. This appears to be what has been meant in Albania by a strategic investor. The chances of attracting inward investment were of course greatly reduced by political instability of the kind continuously experienced in Albania.

The force of the argument that institution building is essential for the success of the Albanian privatisation gains strength from examination of contemporary Chinese non-privatisation policy developments. Eschewing privatisation, while nonetheless allowing the abundant development of new private and co-operative enterprises and recognizing the key importance of liberalization and the introduction of governance structures and competition, China has embarked on an ambitious reform programme to improve efficiency and output by subjecting the majority of its state-run enterprises to more rigorous forms of accounting and managerial control. A variety of different techniques have been employed, including devolving greater autonomy to existing managers, improving analysis of accounting information, and creating the necessary incentive structures (Yan et al., 1996). Similar developments in accountability and performance-measurement were surely to be adopted in large Albanian enterprises, whether or not they would remain in the public sector.

5.4.1.4. Privatisation and Other Aspects of Economic Reform

Privatisation of certain state-owned enterprises is viewed as highly correlated with the existence and well functioning of the capital market - the place where the initial public offering and trading of shares take place. There is a correlation in the sense that the completion of privatisation of certain medium and large state-owned enterprises cannot happen without the existence and proper functioning of the capital market. Further, the establishment of a functioning capital market cannot take place if banking reform is not successfully completed in the first instance. An effective banking system makes a vital contribution to the development of capital market. By acquiring and processing relevant information, by monitoring investment projects, and by providing opportunities for maturity- and risk-transformation, the banking system can encourage savings and ensure their efficient allocation across competing users located in the capital market. Thus, as Brainard (1991, p. 11) points out privatisation and banking reform go together.

Broadly speaking, the banking reform in Albania aimed to inspire confidence in a robust system of financial intermediaries, and establish a national culture of personal savings and investments. In the early 1990s, new laws on banking were approved, and a second tier banking system (i.e., a separation between the central bank and commercial banks) was established in 1992. The introduction of a two-tier banking system led to the separation of central banking from the functions of state-owned commercial banks. Nevertheless, Albania was lagging behind. A two-tier banking system had been introduced in 1984 in China, in 1987 in Hungary, in 1988 in the then Soviet Union, in 1989 in Poland, and in 1990 in the then Czechoslovakia.

5.4.2. Reform Outcomes

In the mid 1990s, the diminishing trend of inflation and a stabilised foreign-exchange rate, followed by considerable efforts to re-structure and privatise state-owned commercial banks, encouraged confidence in performing small- and medium-scale economic activities. Albania

> "seemed set to overtake its 1989 level of production earlier than any of the other ... [CEE] transition economies apart from Poland and Slovenia, and, alone among them, it had apparently experienced growth at "East Asian" rates for four years [1993-1996]." (Clunies-Ross and Sudar, 1998, p. 1)

Clunies-Ross and Sudar (1998, p. 20) identified a number of factors, which are thought to explain this spectacular growth record. Amongst them it is worth mentioning, (i) people's prompted (re)action to overcome economic problems inherited from the previous period of dictatorship, (ii) the quick privatisation of state-owned land - vital for a country where more than half of the employed workforce is reported[13] as living from farming, (iii) the transfer of ownership of small shops and service establishments, mainly to their workers, and a radical privatisation of urban housing - two processes which combined together managed to transform most of the population into stakeholders, (iv) emigrants' remittances and small scale inward investments, particularly from neighbouring Greece and Italy, and (v) the activities

[13] Source: Institute of Statistics of Albania

supported by weak law enforcement and favourable geographic position in the west coast of the Balkan peninsula[14].

"The success of early transition policies, however, was short-lived" (Hashi and Xhillari, 1998, p. 6). Initially, the downward trend of the inflation rate could not be sustained because of the pressures arising from the budget deficit. This was a signal that Albania's economic policies had not been consistently effective. The worsening of macroeconomic indicators preceded the collapse of informal financial schemes (known as the "pyramid funds"), in which a large part of the population lost their savings. The financial crisis of early 1997 generated a break down of state control, and anarchy in more than half of the country. The consequences of these events still continue to be perceptible.

5.5. Explaining Albania's track of transition: 1990 - 2002

In a number of important respects Albania has differed from all or almost all the other economies in transition. It has differed in its starting-point, in its mode of adjustment, and in its outcomes. It has differed in its successes and in its failures.

During the 1990s Albania's path of transition from planned to market-driven economic system though puzzling perhaps at first, is also fairly readily understood by standard economic analysis. But, to explain the distinctive features of the story as a whole, with its spectacular downs and ups, one needs to look at politics and institutions in the broadest sense.

[14] Sanctions-breaking to Yugoslavia during the Bosnian War (1992-1995), involvement in illegal transit of drugs, weapons and refugees between near East and Italy, and money-laundering are thought to have generated tremendous inward flows of income, especially for those who live on the land or coastal borders of Albania.

Overall, transition in Central and Eastern Europe has been decidedly disappointing as judged by the expectations of 1990, both internal and external. It would be hard to test that proposition conclusively, but the researcher believes it is true. Quite apart from civil wars and organised crime, plain unadorned real-GDP has shown falls rather than rises. According to official figures[15], total GDP in 13 former-communist Central European and Baltic economies (excluding Serbia, Montenegro, and Bosnia and Herzegovina) was 9% lower in 1996 than in 1989. In the 12 other successor-states to the former USSR (the CIS countries), it was 49% lower.

Perhaps the falls may be exaggerated. There are problems with measuring the output from the black economy and there is a probable uncomputed expansion of the subsistence sector. But a retreat to subsistence cultivation and street-hawking in a modern economy is generally a sign that something has gone very wrong.

Over the first eighteen months or so of its transition, from late 1990, Albania might well have been taken for the most disastrous of all. Then miraculously it seemed to be growing for four years (to end-1996) at East Asian rates - way ahead of the rates at which any of the others were growing during the period (and most of them were not growing most of the time but declining). At the end of 1996 it seemed likely to become quite soon the third or fourth or fifth of the transition economies of Central and Eastern Europe to surpass its 1989 GDP level. In terms of national disposable income per head, Albania had quite possibly risen more proportionately than any of the others between 1989 and 1996.

Then, in early 1997 the economy collapsed again. The causes of the collapse - and its character - are not parallelled at a similar stage elsewhere among the transition economies. However, the collapse over 1997 taken as a whole was far, far less than in the earlier part of the decade. There was a decided recovery in the second half of 1997 after the political situation took a leap forward with the election of June-July. It also has to be said that politically there were depressing moves in the second half of

[15] Source: EBRD Transition Reports, 1992 - 2002

1998 as a result of a coupe d'etat. Then in 1999 the economic situation worsened because of the Kosovo conflict.

One could ask, "Why this wildly atypical story?" The explanation does perhaps point to certain distinctive features of Albanian social behaviour without actually depending heavily upon them. In order to analyse Albania's path of transition it may be reasonable to start with a framework according to which a successful politico-economic system depends on four elements, all requiring appropriate institutions: on the working of the market, on the working of the state, on the distribution of property (and in particular the distribution of control over productive assets), and on civil society (that intangible rediscovered or renamed in the 1990s). Civil society is taken as covering several related habits: the readiness and capacity of a significant part of the population (a) to take account in their decisions (without the need for coercion) of what they themselves understand to be the rights or reasonable claims of other people with whom they have no particular connection and the interests of society at large, and to regard the state as potentially and properly the upholder of those rights and interests; (b) correspondingly to support the state while adopting a critical attitude to actual governments; (c) to express independent opinions on social questions peaceably in public; and (d) to organise and mobilise, independently of the state, for the fulfilment of broad social, or particular group, objectives.

Communist countries of Central and Eastern Europe following the Stalinist model had tended to suppress the market and civil society and to put all productive assets effectively under the control of the state apparatus. Maybe some observers implicitly supposed that, when the choking overgrowth of the state apparatus had been cleared away, a working market economy would be revealed underneath. But the fact was that much of what probably would have been there if the Stalinist superstructure had never been imposed had in varying degree been killed off. Removal of the strong hand of the totalitarian despotism was quite likely to leave something more akin to the state of nature - in which life was poor, nasty, brutish and short. However, the contrast between the histories of reform of China, the Baltics and Central Europe on the one hand, and the CIS countries on the other, suggests that the duration over which Stalinism has held sway can be important in determining what is left.

Albania went closer than any other ex-Communist country to anarchy in its early period of reform - in Albania's case between December 1990 and March-April 1992: closer but still not all the way. Much of it lapsed into fully-fledged anarchy in the first half of 1997. In retrospect it is hard to believe that these times of troubles were so abruptly ended, even if the law-and-order position since mid-1997 has been far from perfect.

The working of the state, the market, and civil society are not independent of each other. The institutions needed to make the market work benevolently are partly formal arrangements instituted by the state, such as law, with police and courts to enforce and interpret it, and partly habits of honesty and trustworthiness. The state without the market is ineffective at mobilising resources efficiently and hence at satisfying material needs; and the less it is backed and checked by civil society the more it is obliged or tempted to act repressively so as to maintain order. Civil society requires that the state be restrained and at the same time effective.

Property distribution - the distribution both of financial claims and of control over productive assets - has relevance to the benevolent operation of the other elements in the picture. Where in peoples' eyes there is sufficient equality in financial claims to be fair, the legitimacy of the arrangements for upholding the social order are more readily accepted. Where most people, or at least most households, have significant productive assets actually within their control, not only do they have the satisfaction of being able to use their creative powers in matters directly bearing on their material well-being; they can also contribute the fruits of those powers to the general efficiency with which the economy is conducted.

What did Albania and its policy-makers get right and what did they get wrong in terms of market, government, property distribution, and civil society? To answer such a question it is worth discussing the peculiarities in the endowment with which Albania started transition, and the policies adopted, and how these explain the rapid growth between 1992 and 1996. Then two more specific economic questions will be considered: the success of stabilisation policy, and the influence of comparative advantage and other factors in altering the pattern of production and trade. Then, the political and other institutions and practices and how they contributed to the rises and falls of Albania will be considered.

5.5.1. Endowments, Policy, and the Growth Story

Albania counts in all the figures as the poorest country in Europe (with a possible exception of Moldova and the states of the Caucasus) and as a low-income country in the World Bank's classification. It has an extraordinarily high proportion of its workforce in agriculture: 50-55% even in 1990 - comparable to Pakistan or Indonesia. It has an even more extraordinarily high proportion of output originating in agriculture: 56% in 1995 according to the World Development Report, fourth highest in the world among the countries listed in that report. But its health and education indicators are closer to those typical of middle-income countries, even high-middle-income countries.

From 1945 to 1990, Albania was probably the most rigorously Stalinist and closed of all the communist countries, opposed eventually to all the other governments on earth, allowing virtually no movement of people in or out and doing its best to stop the movement of ideas and information. Alone in the world, it banned the practice of any and all religion from 1967 - under fierce penalties. Albania was not only politically and intellectually isolated but also small.

Unlike all the rest of Europe it had quite a high rate of natural increase of population after 1945. Its people increased threefold in number between 1945 and 1990. Its population density - in a pretty barren, mountainous scene - is similar to that of France (which has about a tenth as high a proportion of its people on the land). So, Albania's density of agricultural population is extreme by the standards of Europe, and agricultural productivity at the end of the 1980s was low not only per unit labour (as one might expect) but also per unit land - even by the norms of communist Central and Eastern Europe.

Albania's international-trade policy in the communist period was also extraordinary. Not only was it extremely inward-looking and geared to autarky, but Hoxha's government also changed the direction of trade drastically with changes in political alliances. At certain times the Soviet Union and China in turn were each overwhelmingly Albania's largest trading-partner. Then there was no trade at all with the USSR for a long period after 1961 or with China after 1978. Albania's geographical position - close to Italy and Greece as well as to Yugoslavia - was to prove important in the story.

The political monopoly of the governing party was ended - in response to quite peaceful demonstrations - in December 1990, that is over a year after the fall of the Berlin Wall. The first public religious service for 23 years had been held the month before. From 11th of December 1990 political liberalisation came fast, with three new parties and a party newspaper within a few weeks, and all political prisoners freed within about seven months. In February 1991 people were allowed for the first time to own cars. In March the privatisation of small shops to their workers began. And, starting on the last day of March, there was a parliamentary election, said to be the freest ever in Albania to that date, in which the ruling party gained about two-thirds of the seats and the opposition Democratic Party one-third. A new interim constitution was passed by the new assembly, and under it the previous communist leader[16] was chosen as President of Albania. The previous government remained in power for a few weeks, though already passing decrees on privatisation, to be replaced by another government from the ruling former communist party; but then in early June 1991 a coalition government was formed with a Socialist Prime Minister[17], and a Democratic Party deputy[18].

---

[16] Ramiz Alia
[17] Ylli Bufi
[18] Gramoz Pashko

But meanwhile the economy was falling apart. Rapidly the chains of command that had made the whole machine work were broken. To a greater extent than anywhere else in Central and Eastern Europe people destroyed public and collective property. This seems to be a characteristically Albanian response. De-facto privatisation of land began, with destruction at the same time of vines and trees and items of rural infrastructure. Over 1991 and early 1992 much of the system of production and distribution broke down. And already by the start of 1991 attempts at mass-emigration had begun. The 1991 - 1992 winter was the worst period for those having to survive in Albania. Fuel was scarcely obtainable. By the end of the winter robbery and looting were common. Mines and bakeries were said to be only industrial establishments working. To judge by either figures or anecdotes, no decline anything like as drastic as this seems to have happened elsewhere at the start of transition. GDP is given as falling by 27.7% in the year to 1991 alone, and by 39.6% in the three years to 1992. The coalition broke up in December 1991, and it seemed that only a further election offered a last desperate hope for improvement.

An election was held in March 1992, in which the Democratic Party won a large majority and went on to form a government with some minor parties but without the Socialists[19]. Soon after this second election, the country seemed to settle down. The new government was a radical liberaliser and privatiser - though to a large extent continuing in these respects the policies of the governments of the previous year. One might have expected that opening the antique manufacturing sector to world competition, and presiding over a proportional fall in its output far more drastic than occurred anywhere else, would lead to further unrest. But quite the reverse. The entry of the liberalising government seemed virtually to have ended the turmoil. Part of the reason is that the liberalising moves that were intrinsically painful had been started already. In addition, the collapse of production and distribution had already done so much harm that things could not get much worse, and the prospect of a new broom led to a readiness to co-operate in the hope of improvement - a pattern repeated after the election of 1997 (another characteristically Albanian response perhaps). But part of the explanation is that the government did (or continued) some of the exactly right things: obviously right in retrospect, but retrospect is very different from prospect. It undertook or completed several of what stand out now as clever moves, even if one considers them only politically.

So how was political normality restored so quickly under the new government? First, the government carried through a systematic privatisation of state and collective farmland into tiny household plots, the process managed by local committees with careful attention to fair distribution within the area of any former collective or state farm. All but about 30,000 of the rural households became landowners: a total of about 450,000. This form of land privatisation was almost unique in the transitional economies: only Romania, it appears, had anything similar. Second, a similar transfer of small shops to their workers had been started under the previous governments and continued. Third, between January and November 1993, urban housing was transferred to its occupiers, either for a nominal price or, in the case of older dwellings, free of charge. Fourth, measures were taken, from mid-1992, to stabilise the exchange rate and domestic prices. Fifth, in 1992, unemployment benefit and "social assistance" were instituted, mainly for the benefit of urban people and against some misgivings.

By these means, almost every household in Albania acquired a stake in the country: a valuable piece of productive property. And these most hurt by the changes were given at least some palliatives. Moreover, a fairly stable medium of exchange was re-established.

A sixth element: a further major safety-valve - not instituted by the government but not seriously blocked by it - was emigration mainly to Greece. Those absent in the mid-1990s were probably 15-20% of the working-age people remaining in Albania.

---

[19] Berisha was chosen as President in place of Alia. The new government was led by Aleksander Meksi, who remained Prime Minister for just under five years.

This removed, to paid activity, most of the men who otherwise would either have become unemployed or have dropped out of the workforce, and it provided a large boost to the disposable income of many of those remaining in Albania. Albania's extreme poverty meant that Greek wages were way above what Albanian workers had been accustomed to expecting. The emigrants thus not only took themselves off the Albanian labour market but also sent substantial amounts home.

These six developments surely go a long way to explaining why politically the new government had an easy ride. Of course, the ameliorating effects did not happen all at once after the 1992 election. One can only suppose that the public was prepared to give the new government the benefit of the doubt during a honeymoon period. Somehow the government conveyed an impression of an effective new broom, and before long the cumulative effect of its own moves and those of its predecessor began to show concrete results.

The downside politically, one might have expected, was the slaughter of manufacturing that went with the opening to the world. IMF figures imply that value-added in industry fell by 78% from 1989 to 1993. But this had already begun, and it had virtually done its worst by the end of 1992. Indeed much even of the industry that was to survive had come to a halt before the March 1992 election. Given the palliatives - including possibly some movement of workers back to the land, mainly over 1994 - the ill-effects experienced under the new government seem to have been sufficiently mitigated.

But why, given this background, was economic growth so fast over the four years from 1992 to 1996? First, there is the peculiar position of the agricultural sector, providing by 1992 54% of GDP. Over a short space of time agriculture was privatised to family plots and its prices freed. What happened in Albania is comparable to what went on in China after 1978, though the change in Albania was more sudden. Real prices for farm produce rose. Farm families became the direct beneficiaries of any increase in output or efficiency: in Albania they could now consume as much of their own produce as they chose. They were also allowed to vary crop patterns as they saw fit. The outcome was also similar to China's.

Despite its initial fall into 1990 and 1991, agricultural net output was 25% higher in 1995 than in 1989. In no other transition country, except just marginally Former Yugoslav Republic of Macedonia, is agricultural output registered as at all higher in 1995 than in 1990. The growth in output adds another reason why the farm population quickly stopped protesting.

The second factor going to explain the rapid growth was the inflow of remittances. The remittances themselves do not count as an addition to domestic product or even to national product (they do contribute directly to the aggregate national disposable income). But of course they add to spending-power. This means that they not only enhance material well-being but also generate demand for services and goods wholly or partly of domestic provenance, and make it possible to pay for the imports needed to combine with domestic inputs in order to satisfy these demands. To see it another way, remittances to Albania helped to cover the huge gap between merchandise imports and exports entailed by rapid growth in the conditions of the 1990s. In 1994 and 1995 for instance, the annual figure estimated was not far short of USD 400 million, about 20% of GDP. It was enough to give everyone remaining in Albania an amount equal to about 15% of the average wage as it stood at the end of 1995. None of this existed before 1991. In every year of the mid-1990s except possibly 1995, private remittances seemed to have been decidedly more important than official aid, private direct investment, and other private capital inflows, put together; but aid and private FDI were also far from negligible[20]. This inflow of spending-power and of foreign exchange helps to explain the other elements in GDP growth: construction value-added growing by an average of 15.8%, transport by an average of 4.7%, and other services by an average of 11%, each year, over the four-year period from 1991

[20] Sources: International Financial Statistics, IMF, Washington, DC; (central) Bank of Albania; Institute of Statistics of Albania

to 1995[21]. The proliferation of services, all too visible everywhere in Albania, no doubt owes something also to the privatisation of housing and to the extremely liberal - perhaps far too liberal - policies over use of land.

A third possible element in the income-growth story is smuggling, especially to Serbia and Montenegro during the Bosnian War - until the Dayton Agreement of November 1995. A US official estimate in mid-1995 had about half the oil consumed in the then Yugoslavia as coming illegally from Greece through Albania.

Foreign direct investment may contribute mainly to the micro, rather than the macro, part of the explanation. Per inhabitant it was quite low by Central European standards. But there was a large number of very small investments, mostly from Italy and Greece, especially Italy, and mostly in joint ventures with Albanians. These comprised (in amount invested) only a small part of the total - dwarfed by a few larger foreign investments, mostly in construction and various forms of light industry. But they do suggest a lot of enterprise in total as coming in from outside, for the most part in trade. By contrast, at least until 1997, large foreign investors had shown little interest in privatisations. This has been a headache for the government in its attempt to find a new lease of life for the utilities, the state-owned financial institutions, and the mining sector.

5.5.2. Stabilisation

Over 1991 and the first half of 1992, there had been repeated devaluations of the lek and rising rates of inflation. The CPI rose 237% over 1992. At the mid-point of 1992, the authorities undertook one last large step-devaluation, reducing the U.S. dollar value of the lek by half. It then allowed the currency to float but (in intention, in public perceptions and largely successfully in effect) targeted the exchange rate by monetary policy at 100 lekë to the U.S. dollar.

---

[21] Source: IMF, "Albania - Recent Economic Developments", IMF Staff Country Report (Washington, DC: IMF, April 1997), p. 44

Thereafter, for four and a half years, though the rate fluctuated somewhat, 100 lekë was widely taken as the equivalent of the U.S. dollar. For practical purposes the foreign-exchange market was completely free. U.S. dollars and lekë were used interchangeably. The IMF acknowledged that the pavement traders in Tirana set the rate used by the banks. Some of the banks used the rate 1 USD = 100 lekë routinely in their accounting. Consumer-prices fairly quickly stabilised under this regime, rising by 31% over 1993, 16% over 1994, and 6% over 1995[22].

In early 1997, the trend was reverted. It was not that the supply of lekë increased inordinately. Rather, the belief in the capacity to maintain the old rate dissipated. A new rate was established before long - at about 150 lekë to the dollar, and then nearly 160 by April 1998. And domestic prices duly trundled into line. By May 1998, the CPI was 53.5% above its level of December 1996.

5.5.3. Comparative Advantage and Changes in Patterns of Production and Trade.

The Hoxha government was interested in self-sufficiency: especially in wheat and in the products of heavy industry. Efficiency, allocative or technical, was not a criterion. Trade partnerships were determined by political allegiances and correspondingly subject to drastic changes. Albania exported mainly minerals and fuels, which accounted for 50 - 60% of the value of merchandise exports through the 1980s, and certain farm products. By 1995 and 1996, minerals and fuels had slipped, apparently to about 26% and then 21% of a much smaller total; farm products also made up a lower proportion than before; but textiles, clothing, and footwear, had come from virtually nowhere to between 40% and 50%, and the total of manufactures excluding machinery and chemicals amounted to about 60% of the value of merchandise exports[23]. Albania seemed to be moving toward a pattern much more in accord with its apparent comparative advantage: as an exporter of labour-intensive manufactures (as well as metals and possibly fuels) and an importer of foodstuffs - an East Asian economy (with some excess natural resources) that happened to be situated in

[22] Source: (central) Bank of Albania

Europe.

The changed production patterns can be attributed to two causes. One is the assertion of comparative advantage in a context of pretty free trade internationally. The other is the fact that certain industries, though not intrinsically unsuitable, had become highly inefficient technically or (in the case of agriculture) were not suited to the new order of independent family plots. Movement out of viticulture had probably been more a matter of changed rural organisation and might be temporary; with enough technical inputs wine might become a promising export. The decline of metal production was also probably temporary: a matter of inefficient organisation and lack of investment. With its situation and resources, Albania might well be able to exploit an advantage in tourism, but the state might have a necessary facilitating role in marketing and monitoring of standards. The revival of those secondary and natural-resource industries that are intrinsically suitable has depended in many cases on the emergence of enterprise, local or foreign, that can operate effectively on a larger scale.

5.5.4. The Rises and Falls of the 1990s

During the 1990s Albania experienced political and social crises that inhibited the transformation process. The country reached the lowest point in early 1997. Superficially, one could say that the disaster of early 1997 happened because of the collapse of the pyramid funds. But why had the position with the funds reached that point: why had it been allowed to reach that point? And why had the state very largely disintegrated as a result? Finally, how was the recovery effected?

First, why were the public deceived into putting money into the funds? This happened partly on the principle that, if the sun has risen every day for the past few years, it is likely to rise tomorrow. The funds in one form or another, paying higher and higher rates, had been in operation for several years. Moreover, objectively in retrospect, a number of people surely did gain in real purchasing-power from their deposits in the funds, even if they were sorely disappointed at the last. Added to that,

[23] Sources: Institute of Statistics of Albania; (central) Bank of Albania

many people clearly believed that the government was backing the funds. Democratic Party propaganda in the election campaign of May 1996 supported that belief. Also, many believed that the funds' ability to pay such huge returns was based on money-laundering - although officials have denied such a claim by saying that the funds pretended to have been involved in money-laundering.

There was no public campaign to discredit the funds or to warn the public against them. The usually well-informed sources were not seriously worried[24]. In all these circumstances it is highly understandable that people kept on depositing or did not withdraw their deposits. Quite modest deposits (say USD 1,000 which many people could obtain from emigrant relatives), in even the most conservative fund, Vefa, in 1996, would provide an income of USD 80 a month, well above the average wage.

Second, why did not the government, the opposition, the academics, the journalists, raise the alarm? It has been said that members of the government were too closely involved with the projectors of some of the funds, that they had a financial interest in what was really a swindle. Maybe. But by the election of May 1996 the leaders of governing party were also politically compromised. They were boosted by the euphoria created by the funds and people's sense of being much richer than they had expected. The leading politicians used the popularity of the funds by suggesting an association of the funds with the Democratic Party. By August 1996, the mania was in full swing. Casting doubts then would have brought a huge edifice down. Insofar as the members of the government knew what was happening, they must by then have found it politically too risky to upset the house of cards. They were trapped. Maybe the same applies to the opposition. If they had undermined the illusion, they might have been blamed. What about academics and opposition or independent journalists? The opposition and independent press were not completely cowed but were operating under legal and extra-legal restraints; academics had no public platform and believed that they held their jobs on political sufferance. Civil society

[24] Why kill the goose so long as it continues to lay golden eggs? Why stick your neck out to stop something that is wildly popular and whose successes to date you cannot explain? Why bet against the sun's rising tomorrow simply because you cannot account for how it can do so?

thus ought to have provided a defence, but civil society had not been encouraged by the Berisha regime. The debacle of the pyramid funds suggests that you can not satisfactorily run an economy as completely uninhibited as that of Albania in the 1990s without really free expression and a critical press.

Third, how had the funds managed to continue for so long? Pyramid funds in Russia and Poland were short-lived. The IMF's explanation is that the true pyramids entered the scene only at around the end of 1995 or early 1996. There were a number of funds before that time that had been paying very high rates, say 5% a month, out of earnings. The entry of the true pyramid funds, such as Gjallica, Sude, Xhaferri and Populli forced the older funds to raise their rates to absurd levels in order not to lose their depositors. They were pushed more or less into relying on the pyramid principle. It became a competition to offer ever more attractive rates. Some of the true pyramids were in the end offering rates of the order of 49% a month. No amount of money-laundering could pay for that. One could only presume that the rate of entry of new deposits was just enough to keep the pyramid funds going until December 1996, when one fund failed, and another one ceased payments "temporarily". But what about the already very high rates that by 1995 had been paid by funds such as Vefa for some years? One could only assume that strictly illegal (or internationally disreputable) activities such as money-laundering and smuggling really had made a big contribution. Civil society had not taken such strong root that reputable Albanians would always worry about illegality, at least if it is illegality committed in or against other countries.

Fourth, why the collapse into anarchy over so much of the country when the funds failed? One could list three main reasons. First, there were organized criminal gangs ready to take over movements of protest where they could. Second, some opposition politicians had been imprisoned, and large numbers of the most prominent had become subject to laws that seemed likely to keep them out of office, so that a disturbance of the status-quo was not unwelcome to them. Third, the police and armed forces were as dissatisfied as everyone else, while sharing the unpopularity of the government as long as they continued to serve it, and the security police SHIK were hated. The importance of the second reason is suggested by the fact that it was in the south of the country, where the Socialist Party tended to be stronger, that central authority mainly disappeared.

Fifth, how was the writ of government restored so quickly after the election of June 1997? This could be because most people had no preferable alternatives in mind and did not like anarchy. There were several key moves: the formation of a coalition government early in March 1997; the entry of the multinational force early in April, and the continuing pressure from the EU and Organisation for Security and Cooperation in Europe towards an agreement that would make an election possible. Berisha's (the then Albania's president) behaviour in negotiation over the electoral system to be used suggests that either he did not want an election or he thought he would win it - may be both. The involvement of the rest of Europe seems certainly to have been important in restoring the Albanian state. But it is also clear enough that most people did not want a continuation of the anarchy that had ruled in much of the country since late February 1997. They did not want the state to break up. The troubles in Albania were not in any way comparable to those in Bosnia or Croatia or Kosovo. No one, apart from some organized criminals, was looking for independence from anyone else. Albanians still seemed to believe in the Albanian state and in democracy, even if they had been sceptical about actual politicians and not too concerned about legality. As in 1992 they were prepared to give a new government the benefit of the doubt.

The election of June-July 1997, as its results were analysed by Rama (1997), were in many ways encouraging. Religious and ethnic divisions seemed to have played very little part, if any, and there was no clear north-south division corresponding to the two major political parties, as foreign journalists had been very keen to postulate. Voting seemed to be strongly on party lines, which one could interpret as being on national issues rather than on local issues or personalities or patronage. It is a typical West European pattern rather one characteristic of the US or Japan or the Philippines.

Though electoral practices were doubtless far from perfect, the Democratic Party was heavily defeated, even in the north, in spite of controlling the Presidency, the Assembly, and the Ministry of the Interior.

Rama's main explanation for the 1997 troubles is the divisive behaviour of the elites. Once in power, the Democratic Party persecuted its main opposition. To put it another way what was lacking was observance of the proprieties of liberal democracy, including the rule of law. The courts were pressured. Critics were ill-treated by Democratic Party thugs. Berisha - Albania's president between 1992 and 1997 played on the principle of winner-takes-all. This makes the stakes in an election too high. The defeated politicians may end up in prison, and public servants right down the scale may lose their jobs.

The Socialists in power from the second half of 1997, have also tended to clear out the existing public service and replace it with their own clients; towards the end of 1997 - six months after coming in power, they began legal actions against certain individuals prominent in the previous regime. Then, in September 1998 the assassination of a leading politician of the opposition Democratic Party, followed by a ludicrous attempt by the former president Berisha and his followers to take over the Prime Minister's Office, led to the resignation of the initially-rather-promising socialist government. Since then, the socialist governments have come and gone on a regular basis. All this has been very discouraging to the development of civil society.

However, apart from a certain amount of continuing banditry, a huge private stock of (illegal) weapons, and comings and goings from the fighting in Kosovo and the Former Yugoslav Republic of Macedonia, government control was largely restored after the 1997 election. A number of economic indicators also went back up toward normal. Even revenue-collection, which had worsened well before the troubles of early 1997, has given signs of being redeemable.

5.5.5. The State of Market, State, Property-distribution, and Civil society

Liberalization in Albania has gone about as far as it can go, and the market has been uninhibited: perhaps too much so. Public resources, notably urban land, have been treated as free goods. And institutions have been lacking for permitting a land market or efficient financial intermediation.

Correspondingly the state, though showing considerable success in macro-stabilisation, has failed critically in some of its regulatory responsibilities. The financial system has not been adequately monitored, with disastrous effects. Revenue-collection has been very feeble. There has been no significant state borrowing from the public. Land-use planning in cities has been non-existent.

Law-and-order has been patchy, as has the independence and expertise of the courts: this puts at risk key aspirations for major foreign investment and renders some of the public-utilities unsalable. Interference at times with free expression has eliminated important potential safeguards. Illegality, especially in matters affecting mainly other countries, has been widely tolerated; with potential threats to co-operation with the rest of Europe, and far too much leeway to organized crime.

Property-distribution changes arising from the main original moves in privatisation were brilliant, both politically and economically; but later privatisations, undoubtedly facing dilemmas, have also missed opportunities. Privatisation has tended recently to stall in response to failures on the part of the state.

Civil society, inevitably a frail plant in the circumstances, has been intermittently smothered by government interference with the media, the courts, and the academia, and by a general flouting of the rule of law and the conventions of liberal democracy. The lack of an active and probing press and a developed public opinion has proved especially harmful in the presence of weak state apparatus and a tendency to economic anarchy.

The Albanian tendency to destroy public property as an expression of frustration has made legitimate channels of political protest especially necessary. The fight to the death between rival political factions, prompted by a neglect of the rules of the democratic game, has made it hard for leaders to co-operate in the face of a national emergency.

5.6. Conclusions

Economic issues are closely linked to developments in the socio-political environment. Once again, the case of Albania emphasises this link. In this chapter, the researcher analysed the course of Albania's economy and its transformation in the 1990s. The economic history of Albania was viewed against the political developments of the past half-century. The unique aspects of the economy of this country are undoubtedly related to the system of economic autarchy and secretiveness which prevailed from 1945 till 1990.

Albania was arguably one of the most fundamentalist of communist states. Internal party hegemony was matched by an idiosyncratic xenophobia and a thoroughgoing system of economic autarchy. For more than forty-five years Albania's society and economy were precluded from almost all contacts with the outside world. Blessings of rich subsoil and abundant natural resources were also ironically Albania's curse - allowing the political leadership the false luxury of economic hubris.

The fall of the communist regime in the early 1990s was followed by a crowded policy agenda. Economic policy-making was conducted against background of political instability and institutional immaturity. This made the transformation even harder. Thus, the focus of the researcher's analysis was on those factors, which seem relevant in analysing the country's economic performance. More specifically, this chapter examined Albania's distinct economic characteristics of the 1990s, and identified core areas of institutional weakness, which currently exercise a pervasive influence in the country's economic system.

Albania has experienced rapid political and economic change. During the 1990s, the entire society and economy underwent a period of shock therapy. The most significant ingredient of this process was the move from one of the most repressive of the communist regimes to a system of political pluralism and private ownership. In such a transition, it would be unrealistic to expect that this would all be attained without difficulty and rancour.

Several factors may be suggested as acting as constraints on succeeding in reforming the economy. First, Albania continues to display aspects of political immaturity. Concretely, the political system of the 1990s has demonstrated the characteristics of normlesness, typical of a society in transition. The speed of transition has revealed a pattern of confrontational politics characteristic of a proto-democracy. In addition, the full flowering of institutional reform probably requires that the mores of the political elite have to be transformed. Related to the above is also the issue of generic institutional immaturity. The implementation of economic reform has been seriously hampered by the existence of immature political and financial institutions.

A second key factor is that of depolitisation: throwbacks to the previous totalitarian regime include the continuation of a system of privilege and patronage epitomised in the concept of "nouvell nomenklatura". As Steele (1995) had argued,

> "some individuals from the old Communist system would try to maintain their power and position in spite of the change in the political and economic environment. ... this was a normal human process of adaptation, a matter of instinct and survival rather than ideology." (p. 229)

Nevertheless, serious attempts at economic and institutional reform suggest the need to displace such a system of privilege and patronage.

Third, policy makers overemphasised the formal dimension of reform in the sense that transition towards a market driven economy was signalled and meant only by the formal adoption of laws, which in turn did not necessarily lead to order, control and better socio-economic development. Within this context, the formal adoption of a legal and bureaucratic framework did not produce any substantive transformation of human mentality and behaviour. In the Western tradition, conformity is achieved to a considerable extent through compliance with the often-unwritten laws of the society.

On the contrary, atomised societies[25], such as that of Albania, could not easily achieve such conformity because the process of re-building respect for the unwritten rules, by which social cohesion is maintained, requires much more time.

Fourth, the political and economic climate for foreign investments is still problematic. One major issue in this regard is that of financial disincentives. The attraction of foreign investments requires political normalisation and the re-establishment of the rule of law. Foreign institutional investors have obviously been deterred by intermittent political unrest. In this respect, the reaction to the failure of informal financial schemes did little to enhance investors' confidence. The conclusion on such a political and economic setback was that economic stabilisation was not properly followed by deeper structural and institutional reforms. Especially, the acceleration of institutional reform should have been a greater priority for key policy makers.

Fifth, Albania's setback of 1997 also reflected the existence of a naive populist optimism about the re-invigoration of well being while forgetting the fact that long-lasting prosperity could not be achieved within a fortnight. It might be also possible to suggest that a considerable number of problems was brought about by the path of transition itself. As Healey (1996) reminds us,

---

[25] In his book "Politics in Eastern Europe: 1945 - 1992", Schöpflin (1993) argues that communist party-states of CEE countries prevented

> "society from coming together in any shape or form, for any development along these lines would potentially threaten the monopoly of power." (p. 169)

Consequently, these societies were left in an "atomised" state.

> "[p]erhaps the most important lesson from the transition experience to date is that transforming centrally-planned economies into market democracies hurt." (p. 9)

Sixth, imbalances related to the speed of development of different processes of economic transition were persistent. For instance, under the lack of a properly developed capital market, the banking sector remained the only finance provider to the privatised, re-structured or new enterprises. Nevertheless, state-owned finance institutions suffered from prolonged bureaucratic procedures, which delayed the immediate response towards business requirements for capital. Thus, a closer synchronisation between different aspects of the reform should have been much better in the first place.

Seventh, if economic reform is to provide a facilitative framework for effective financial management, this will partially depend upon having well-trained professionals which are independent in their advice, and also subject to proper forms of accountability to the legal and political system. That in turn depends on the provision of adequate resources and the availability of individuals with suitable expertise.

Economic reform requires more than just formal changes if its promises are to be fully accomplished. Within this context, a weak embryonic financial system has acted as a major constraint to Albania's economic growth. Thus, the following chapter considers key aspects and problems of the reform of financial system.

Chapter Six[1]

Albania's Financial System - Problems and Challenges

[1] This chapter draw heavily on research and its output which was compiled in a book titled "Albania's Economy in Transition and Turmoil: Policies, Adaptations and Reactions, 1990-97", co-edited by Prof. Anthony Clunies-Ross (University of Strathclyde, UK) and the researcher of this study, and published by Ashgate Publishing Co. - UK in 1998. The researcher is extremely grateful to Prof. Anthony Clunies-Ross (University of Strathclyde, UK) for his invaluable input, comments and explanations on the issues discussed in this chapter.

6.1. Introduction

This chapter will provide an analysis of Albania's financial system. Initially, the researcher will consider in general terms what the functions of a financial system are, and then look briefly at the basic influences which drive the development of any financial system. A careful examination of key problems and challenges that the development of a market-driven financial system in Albania has faced since the early 1990s will follow. Accounting system is an integral part of the financial sector, and this chapter forms part of the background for the analysis in the following chapter of Albania's accounting system.

6.2. Functions of a Financial System

Fundamentally the financial system seeks to put savings-surplus units in touch with savings-deficit units on mutually acceptable terms. This will involve the agglomeration of funds from many different sources, especially from the household sector which is always a major provider of funds. This means that a widespread network of collection points is required.

The financial system will also bring about the pooling, transfer and sharing of risk, both so that risk can be reduced and so that the varying risk-preferences of participants can be reconciled. Because they can operate on a large scale, the financial intermediaries offer the possibilities of diversification, and hence of greater predictability. They can also offer instant access to cash, which allows investors to deal with unpredictable requirements for funds without holding resources idle in cash form. And they can accommodate lenders who want to lend short-term with borrowers who want to borrow long.

A crucial function of the financial system will involve the allocation of resources between competing uses in an efficient manner. This will involve the system in dealing with the problems of adverse-selection and moral-hazard, since the essence of any financial contract is that it faces an uncertain outcome. Here the specialist skills that financial intermediaries can develop in verification and monitoring are important.

The system must also ensure that financial contracts are generally fulfilled and hence have a system of enforcement which is reliable in the face of contract failure. The maintenance of an acceptable medium of exchange is another key function, combined with a payments system to ensure the transfer of value in a reliable and safe fashion.

As well as dealing with current savings and investment the financial system must also allow for the trading of existing assets to allow savers to adjust their portfolios in order to meet their different preferences as their circumstances change. This requires the development of a range of financial markets.

To promote stability and confidence in the system it is also necessary to have an appropriate measure of regulation and supervision. The difficult choice is between having an over-regulated system which discourages innovation and an under-regulated system which encourages unreasonable risk-taking and destroys public confidence in the stability and longevity of the system.

6.3. Conditions Necessary for an Effective Financial System

For the financial system to perform the above functions effectively, certain conditions have to be met.

6.3.1. Information

In order to make rational decisions, access to appropriate information is necessary. Because of the future, contingent nature of the financial contract, full information is never available. What is more, the information available is not equally available to all parties to the contract. This information-asymmetry gives rise to problems of adverse-selection and moral-hazard (Akerlof, 1970).

The adverse selection problem arises ex ante. It is concerned with determining the quality of a prospective investment on the basis of imperfect and biased information. The advantage lies with the borrower, who will tend to have better information on (i) the nature of the project, (ii) the market which he faces, (iii) his own abilities, and (iv) his willingness and his ability to pay. While borrowers may not be overtly dishonest, they do tend to paint the most favourable picture of the prospects for a project that they are promoting. One of the consequences of this is that the market mechanism may not work effectively and the price (in this case the interest rate) may not be an effective instrument for allocating resources.

The moral-hazard problem arises ex post, after the loan has been made. It requires the monitoring of loans to ensure that the funds are used for their supposed purposes, and that repayment is likely to take place on the due date, at the expected rate of interest. The possibilities both of adverse-selection and of moral-hazard require expenditure to be made in order to reduce the gaps in information. This expenditure will only be undertaken by the private sector if those incurring the expenditure expect to benefit. If the information discovered would then be available to other market-participants, the incentive to pay the cost of acquiring it is reduced. This "free-rider problem" restricts the willingness of participants to seek out the appropriate information, and consequently makes the financial markets less effective than they would otherwise be.

In the face of such shortcomings of private markets, one solution is for the authorities to intervene. And indeed, in most financial systems, government plays some role. The authorities set out requirements for certain basic information to be produced. The financial markets themselves may also require members to provide information for general perusal. However the information that is by these means put into the public domain can never be complete. Inevitably much that lenders will want to know, such as about the effectiveness of management, the likely competition, or expected future exchange rates, will not be available.

It is often argued that such deficiencies in information give financial intermediaries their pivotal role. This view is that their crucial contribution is that of information provider. They make loans whose appraisal depends heavily on information. In many cases - particularly for small to medium-sized enterprises - the information they acquire will not be available to others, so that the free-rider problem is not serious. This is especially often the case where the intermediary is a bank.

Financial intermediaries of course have advantages over and above those that they enjoy in their role as providers and users of information. The scale at which they operate also makes possible (i) diversification (with consequent risk-reduction and term- and risk-transformation), (ii) access for their customers to cash on demand, and also (iii) the weight and experience for effective enforcement of their contracts. But it can be argued that, without superior information, these advantages would count for much less.

Banks and other financial intermediaries (in contrast to independent lenders and borrowers) have a comparative advantage in dealing with information-incompleteness, and this accounts in no small measure for their dominant role in most financial systems.

6.3.2. Confidence

Since the financial system necessarily involves risk associated with future contracts and the necessary illiquidity of financial institutions, the maintenance of confidence is a central feature of any successful financial system. Any significant loss of confidence can have a catastrophic effect, not only on the financial system, but also on the economy at large. It is for that reason that financial systems are generally subject to government regulation and supervision.

Governments normally provide support through a lender-of-last-resort facility which is designed to allow the banks to ensure liquidity for otherwise profitable enterprises. On the other side, financial institutions are subject to central-bank regulation and supervision, in order to make it less likely that central-bank intervention will be required. Such regulation will tend to include reserve requirements, capital-adequacy ratios, deposit-insurance requirements, restrictions on the size of individual loans, and limits on ownership of financial institutions by non-financial organisations.

Confidence is particularly sensitive in developing and transition economies where there may be a lack of experience and proven track record among both lenders and borrowers. Comprehensive, effective supervision and regulation is very important in these circumstances.

6.3.3. Property Rights

In any market system where titles to property are traded, it is crucial to have well-defined property rights and a well-structured law and legal system whereby such contracts can be enforced. The better these requirements are met, the lower are the costs of financial intermediation. Financial activity is greatly aided by clear rules regarding collateral and its use to back financial contracts.

6.3.4. Macroeconomic Stability

Confidence in financial contracts and the financial system is enhanced if the economy enjoys stability, or at least predictability regarding such nominal values as the price level, the interest rate and the exchange rate. Control of the budget deficit is also a pre-requisite for financial stability. Policies which promote stability greatly enhance the operation of the financial system. (Fry, 1997)

Where such confidence is missing, allowing the public to transact in some external unit, such as the dollar, will enhance the credibility of the authorities provided convertibility of the local into the external currency can be assured. A willingness to accept the limitations on policy that convertibility requires greatly enhances the credibility of the policy makers in a developing financial system.

6.3.5. Competition

As in any market, access of competitors increases the efficiency of the system. If a lender knows that making too many bad loans will result in the loss of deposits to competing institutions, the pressure to run an efficient institution is greatly enhanced. The existence of specifically foreign competitors will also tend to increase confidence in the system.

6.4. Albania's Financial System - Past and Present

Since the early 1990s Albania has been intent on developing an economy which is organised on a competitive-market basis. This has meant a radical re-orientation of the institutions of the economy and the supporting environment. Before examining this process of radical re-orientation, however, it is worth looking at the peculiar characteristics of Albania's history of money and banking. This will provide the necessary background information on which to further the analysis of changes in Albania's financial sector.

6.4.1. Money and Banking in Albania - A Look in the Past

For nearly five centuries (1480 - 1912), the rule of Ottoman Empire did not give Albania any possibility to develop economically and financially. The country was destroyed and divided. There was not anything the Ottoman Empire could be remembered for other than imposing a new religion on the local population and moving people forcefully from one place to another. In the early 20th century, armed uprising led to the declaration of independence from the Ottoman Empire. Albania however, would remain a backward feudal state. The economy was underdeveloped and lacked financing.

It was only in March 1925 when, as a result of an agreement between Zog - the then Albania's President (who later[2] self-proclaimed the King of Albania) and a group of Italian financiers, the National Bank of Albania was established. This Bank set up a monetary system whose one of the most important features was the fact that one third of the money in circulation had to be of valuable metals such as gold and silver. The Bank had to devise such a system because of the mentality of the majority of Albanians who would use as means of payment coins made of valuable metals rather than banknotes issued by the Bank. The monetary policies aimed at increasing public confidence in depositing money, especially gold and silver coins, with the bank. Despite the efforts, the public at large did not have much confidence in the banking system.

Soon after the liberation of Albania from the German occupation, the Bank of the Albanian Government (later known as the State Bank of Albania) was founded. This Bank, that started operating on the 22nd of January 1945, was in charge of monetary reform - mainly determining the exchange rates. In the years that followed, despite some achievements such as the establishment of a network of savings-collection agencies (1949), and an agricultural bank (1969), Albania's financial system remained largely underdeveloped.

6.4.2. The Reform of Albania's Financial System

In the early 1990s major changes were required from the previous regime under which the financial system had a subservient role. In that regime there was complete dependence on central planning with the added ingredient of economic autarky. There was a disregard of economic incentives, the role of market forces, the principle of comparative advantage, and the importance of financial discipline (Blejer et al., 1992).

In such a regime the organisation of the financial sector was totally different from that of a market-based economy. The State Bank of Albania performed both central-

[2] 1928

banking and commercial-banking functions. There was a State Agricultural Bank and a network of savings-collection agencies. After 1991 there was an Albanian Commercial Bank which took over some of the functions of the State Bank of Albania.

There were no other financial institutions apart from the state insurance company, INSIG, and the Social Security Institute. The banks' activities were confined to cash transactions and the clearing of invoices presented to banks for transfers between various public enterprises and between public enterprises and the government. Credit was automatically extended if enterprise funds were insufficient. There was little provision for household access to credit. Decisions on the quantity and allocation of credit were part of the central planning process. Interest rates were determined by the State Bank of Albania and were seldom changed. All savings generated by households were channelled to the State Bank of Albania. Such was the acute financial repression in existence in Albania until 1992.

Table 6.1.: Institutions of the Albanian Financial System as at the 30th of June 2003

a. Central Bank	
Bank of Albania	Central Bank pursuing policies relating to price stability, foreign exchange, supervision and regulation.
b. Second-Level Banks	
1. Savings Bank	Full service state-owned bank, 36 branches and 92 representative offices.
2. National Commercial Bank	Full service bank, 30 branches and 30 representative offices; two joint ventures with foreign banks.
3. Italian-Albanian Bank	Joint venture universal bank owned by Banca di Roma (40 per cent), the National Commercial Bank (40 per cent), and the European Bank for Reconstruction and Development (20 per cent); started in 1993.
4. Arab Albanian Islamic Bank	Joint-venture bank owned by the National Commercial Bank (40 per cent), and the Arab Islamic Bank, Dallah Baraka Group and Individuals (60 per cent); started in 1994.
5. Dardania Band	Private universal bank; started in 1996.
6. Tirana Bank	Albanian branch of the Piraeus Bank; universal bank; started in 1996.
7. National Bank of Greece	Albanian branch; universal bank; started in 1996.
8. International Commercial Bank	Malaysian private bank; universal bank; started in 1996.
9. Alpha Credit Bank	Albanian branch of Alpha Credit Bank of Greece; private universal bank.
10. American Bank of Albania	Fully fledged commercial bank wholly owned by the Albanian-American Enterprise Fund (AAEF), a private non-political, not-for-profit Delaware Corporation established pursuant to the support for East European Democracy Act of 1989; the Government of the United States of America has provided the capital for the AAEF through a USD 30 million grant; started in 1998.
11. Fefad Bank	The Foundation for Enterprise Finance and Development Bank invests in working-capital and assets of small and medium enterprises; started 1996.
12. First Investment Bank	Albanian branch of the First Investment Bank of Bulgaria[3]; universal bank; started in 1999.
13. Commercial Bank of Greece (formerly Intercommercial Bank)	Albanian subsidiary of the Commercial Bank of Greece.
14. Credit Bank of Albania	Kuwaiti bank; started in 2003.
c. Financial Markets	
Tirana Stock Exchange	Started in May 1996; traded Treasury Bills; intended also to trade Privatisation Vouchers and Government Bonds; inactive at the moment.

[3] The First Investment Bank (FIB) was established on the 10th of August 1993 in Sofia, Bulgaria. Under the Bulgarian Law for Banking and Credit Activities this bank was granted a full banking license for both domestic and international operations. The shareholders of this Bank include the European Bank for Reconstruction and Development (EBRD London, UK) - 20 %, and the European Privatization and Investment Corporation (EPIC Vienna, Austria) - 39%. FIB was the first bank in Bulgaria to have EBRD as a private equity investor.

d. Insurance	
1. INSIG: Insurance Institute	The state-owned commercial insurance provider; it provides property, life and business insurance.
2. SIGAL	Private insurance provider.
3. SIGMA	Private insurance provider.
4. Atlantik Limited	Private insurance provider.
5. Social Insurance Institute	State-owned; covers compulsory contributory social-insurance scheme.
e. Key Investment / Equity Funds	
1. Anglo-Adriatic Investment Fund	The sole investment fund that ever operated in Albania; started in 1996; ceased operating after the turmoil of 1997; took part in privatisation process of strategic enterprises using privatisation vouchers.
2. SME - Small and Medium Enterprise Fund	Provides small and medium-sized businesses with initial capital; started in 1992.
3. KfW - Kredit für Wiederaufbau	Provides liquidity for small firms.
4. DtA- Deutsche Ausgleichbank	Provides liquidity for small firms.
5. Albanian American Enterprise Fund	Takes an equity positions in or make loans to local enterprises.
6. Albania Reconstruction Equity Fund	Takes an equity positions in or make loans to local enterprises.
7. Euromerchant Albania Fund Limited	Albania's first venture capital fund, which provides private sector small and medium-sized enterprises with medium to long-term financing.

Source: Bank of Albania

As Table 6.1. above shows, there have been radical changes in the institutions of the system. The question then arises whether the necessary supportive changes have taken place in law, accountancy, management, and governance, to support the institutional change.

6.4.3. The Bank of Albania

One of the first steps on the road to marketisation was the introduction of a two-tier banking system. The State Bank of Albania was replaced by the Bank of Albania, which inheritied its central-banking functions. The rest of the banking system was divided into three state-owned commercial banks: the National Commercial Bank, the Savings Bank and the Rural Commercial Bank.

The setting up of the central bank was accompanied by a debate relating to the powers which the Bank of Albania should have and the independence which it should enjoy. One argument is that an independent central bank acquires its credibility from setting monetary policy free from those constraints of political pressure that would operate on a bank controlled by the government. On the other hand there is a counter-argument that such important economic policies should be under the control of democratically elected representatives, responsive to the needs of the country as a whole rather that to the more narrow viewpoint of the financial establishment. Also, in a period of radical developments, it is important that the government should have a say in determining economic priorities.

It has also been argued (Hasse, 1990, quoted in Eijffinger and Haan, 1996) that the actual rules relating to independence are less important than the support which the policies pursued by the central bank enjoy, not only from politicians, but also from the population at large. In this view success in Germany regarding the control of inflation flows not only from the Bundesbank's independent use of monetary policy, but also and even more from the high priority given to low inflation by the German population. The greater independence that the Banque de France has acquired in recent years arises from general political support for anti-inflation policy rather than from changed formal relationships between the Bank and the government.

6.4.3.1. Powers, Functions and Constitution of the Bank of Albania

The Bank of Albania was established under the Law of the Banking System No. 7560 dated 22nd April 1992. This law established the two-tier banking system and determined the powers which the Bank of Albania would exercise and its governance. This law was updated in law No. 8076 dated 20th February 1996, which incorporated changes reflecting experience during the 1992-96 period.

The main objective of the Bank of Albania is price stability. To support this it has the responsibility of determining the system of foreign exchange, of controlling the internal financial markets and the payments system, and of pursuing appropriate monetary and lending policies. Under the law of 1996 some of the main activities of the Bank of Albania are:

1. to formulate and implement monetary and foreign-exchange policies;
2. to act as banker, adviser and fiscal agent of the Republic of Albania;
3. to provide advances to banks;
4. to deal in government securities;
5. to make loans to the state;
6. to be responsible for the licensing, supervision and regulation of banking and other financial institutions;

Bank lending to the State, represented by the Ministry of Finance, can be provided by

1. the purchase of government securities directly;
2. the purchase of Treasury Bills by auction;
3. the purchase of government securities in the secondary market.

As noted above, the Bank of Albania is responsible for the supervision and regulation of the second level banks and other financial institutions. The Bank publishes regulatory norms which the banks of second level are expected to meet. The Bank is empowered to establish compulsory reserves of no more than 20 per cent of liabilities; it determines base interest rates and the volume of long-term and short-term loans which can be made to second-level banks. It is now, however, permissible for second-level banks to trade with one another any excess credit limits which they may have been allocated, and this trade represents in effect an embryonic inter-bank market.

The Bank of Albania is supervised by a Supervisory Board. This consists of seven members: the governor and vice-governor, who are nominated by the President; the General Secretary who is nominated by the Council of Ministers; and four other members who are respectively nominated by the President, the Prime Minister, the Minister of Finance and the Governor, all subject to the approval of Parliament.

The Supervisory Board has the following functions:

1. to approve the monetary policy of the Republic of Albania with regard to
   a. open-market operations,
   b. deposit rates and loans approved by the Bank of Albania,
   c. compulsory reserves required of the second-level banks;
2. to approve the foreign-exchange policy of the Republic of Albania including the exchange-rate system;
3. to approve the reports and recommendations which the Bank of Albania submits to the Council of Ministers and Parliament;
4. to monitor Bank of Albania loans to the government;
5. to determine debt securities acceptable to the Bank of Albania;
6. to control any affiliated organisations of the Bank of Albania.

There is also an Executive Committee of the Bank of Albania, which is composed of the Governor, the Vice-Governor, the General Secretary, and the Heads of Department (who are nominated by the Governor). This acts as the executive arm of the Supervisory Board.

Currently the Bank of Albania relies on direct instruments in pursuing its monetary policy. Total money supply is controlled through the limits put on the expansion of domestic credit. These limits are imposed on the whole banking system, including the Bank of Albania. To allow for the inflation target and the real growth expected, loan limits are set on the bank credit available to the economy. The total amount made available takes into account the credit provided to the government. The Bank of Albania ensures that positive real rates of interest apply in the state-owned banks, in order to discourage any outflow of assets and to prevent inefficient intermediation in the banking system. For instance, the three years to 1995 saw a progressive fall in the rate of inflation, but this was not sustained in 1996 because of the pressures arising from the government budget deficit.

The Bank of Albania intends to move away from a reliance on direct methods of detailed credit allocation. This fits with the fact that banks now have tradable loan ceilings which can be bought and sold in an inter-bank market. The commercial banks also have access to a refinance facility at the Bank of Albania. The Bank also uses variable reserve requirements to influence the availability of credit. The development of a Treasury Bill Market allows financial institutions and other firms and individuals to participate in the beginnings of a short-term money market, but it is believed that traders now are entirely, or almost entirely, state-owned enterprises.

It is hoped that an increasing amount of lending will take place, on terms influenced by demand and supply, and at interest rates determined in the money markets, though subject to the influence of intervention by the Bank of Albania. These developments are at an early stage, and their progress will depend on the successful reorganisation of the whole of the financial system.

6.4.3.1.1. How Independent is the Bank of Albania?

The examination of the legislation alone does not provide a definitive answer to this question. In limiting, year by year in advance, the amount of government deficit that could be financed by central-bank credit, the law aspired to tie the hands of both government and Bank in this very important area. Before the election of June 1997 for instance, there was speculation over who would win in case of conflict between the Bank and the government over Bank financing of the large deficit projected. The legislation seems designed to give the Bank a fairly high degree of independence, which was internationally fashionable in the 1990s. Yet such intentions have not been necessarily fulfilled in times of constitutional conflict and political unrest

The strength of the parliamentary and popular position of the government has a bearing on how far it can stretch its powers. For instance, the executive in Albania was in a strong position in the second half of 1996 and in a much weaker one in the second quarter of 1997. Yet even in this latter period it was possible for the President to dismiss the Governor of the Central Bank. Perhaps a clue to how this was possible is provided by the fact that, though the move caused concern abroad, it was not generally criticized, even by oppositionists, within the country.

Generally in a transitional economy, a central bank, if it chooses to be more conservative and restrictive than the government desires, can rely on at least tacit support from the multilateral organizations, notably the IMF. This can no doubt be an important element in any power-conflict.

A certain amount may also depend on the actual expertise present in the Bank and on popular and media perceptions of its effectiveness. Before the collapse of the "pyramid funds" for instance, the Bank of Albania could reasonably claim a fair measure of success in its anti-inflationary policy, which appeared to have brought inflation down to manageable levels without preventing rapid recovery of output and income. After the collapse, its achievements inevitably have looked more dubious.

6.4.4. Second-Level Banks

These were established by legislation on 28th April 1992. Their activities followed the universal-bank model associated with Germany and Japan, under which banks are the only source of short-term and long-term finance for enterprises and households. This was inevitable since there existed no alternative financial institutions or markets.

Initially, this sector was dominated by the three state-owned banks: The National Commercial Bank, The Savings Bank, and the Rural Commercial Bank. The other banks (joint ventures with foreign banks or wholly-foreign-owned banks) have been small in comparison.

This is a sector where the functions performed are radically different from those of banks in the previous regime. In a market-oriented system banks are expected:

1. to attract savers by offering competitive rates of interest;
2. to provide security of deposits by operating profitably;

3. to resolve the conflicting maturity and risk requirements of borrowers and lenders;
4. to provide a payments mechanism;
5. to allocate resources according to the expected returns which investments offer.

Table 6.2.: The share of each bank as a percentage of total assets

Banks	Jun. '99	Aug. '99	Jan. '00	Apr. '00	Jun. '00	Sept. '00	Dec. '00	Mar. '01	Jun. '01	Sept. '01	Dec. '01	Mar. '02	Jun. '02	Sept. '02	Dec. '02	Mar. '03
Savings Bank	67.1	66.8	66.3	63.7	63.6	61.0	64.8	63.3	61.6	60.3	59.2	58.3	55.8	54.5	54.1	53.7
National Commercial Bank	15.3	14.8	13.5	13.3	13.1	12.7	9.4	9.4	9.7	9.6	9.6	9.1	9.1	9.3	9.5	9.7
Italian Albanian Bank	5.1	5.4	5.4	5.9	5.9	6.0	5.4	5.4	5.3	5.2	5.1	5.0	5.1	5.0	4.8	4.6
Arab Albanian Islamic Bank	1.1	0.9	0.8	1.0	1.0	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.9	0.9	0.8	0.9
Dardania Bank	1.6	1.4	1.2	1.1	0.8	0.8	0.7	0.7	0.6	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Tirana Bank	2.7	3.0	3.2	3.8	4.1	5.1	5.1	5.5	5.9	6.0	6.1	6.1	6.7	7.1	7.1	7.6
National Bank of Greece	2.2	2.3	2.4	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.7	2.7	2.6	2.5
International Commercial Bank	0.5	0.5	0.8	1.1	0.6	0.5	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Alpha Credit Bank	1.3	1.7	1.8	2.1	2.3	2.9	3.0	3.1	3.3	4.1	5.8	6.1	6.8	7.1	7.1	7.1
American Bank of Albania	2.0	2.1	2.7	3.3	3.5	4.6	4.3	5.1	5.6	6.1	6.1	6.8	7.4	7.9	8.0	8.0
Fefad Bank	0.7	0.8	1.0	1.2	1.4	1.6	1.7	1.9	2.0	2.2	2.5	2.6	2.8	3.0	3.0	3.2
First Investment Bank	0.3	0.4	0.5	0.5	0.6	0.7	0.8	0.9	1.1	1.1	0.4	0.6	0.6	0.7	0.6	0.6
Commercial Bank of Greece	0.0	0.0	0.3	0.4	0.5	0.6	0.7	0.7	0.9	1.0	1.0	1.1	1.3	1.1	1.4	1.2
Credit Bank of Albania	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2

Source: Bank of Albania

Table 6.3.: The share of each bank as a percentage of total deposits

Banks	Jun. '99	Aug. '99	Jan. '00	Apr. '00	Jun. '00	Sept. '00	Dec. '00	Mar. '01	Jun. '01	Sept. '01	Dec. '01	Mar. '02	Jun. '02	Sept. '02	Dec. '02	Mar. 03
Savings Bank	75.6	75.2	72.8	71.4	71.3	69.1	69.3	67.6	66 0	64.7	63.7	61.8	59.0	57.6	58.3	58.1
National Commercial Bank	11.4	10.9	10.5	10.2	9.9	9.8	9.7	9.6	10.1	10.2	10.3	9.7	10.0	10.2	10.2	10.4
Italian Albanian Bank	4.2	4.3	4.5	4.8	4.7	4.6	4.2	4.3	4.4	4.5	4.5	4.6	4.7	4.6	4.5	4.4
Arab Albanian Islamic Bank	0.5	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Dardania Bank	0.3	0.5	1.2	1.0	0.7	0.7	0.6	0.5	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Tirana Bank	2.3	2.5	2.7	3.2	3.4	4.0	4.1	4.8	5.1	5.2	5.4	6.0	6.8	7.1	6.9	7.0
National Bank of Greece	2.1	2.1	2.3	2.3	2.4	2.5	2.5	2.4	2.4	2.5	2.5	2.6	2.7	2.7	2.5	2.5
International Commercial Bank	0.3	0.3	0.3	0.4	0.3	0.3	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Alpha Credit Bank	0.9	1.2	1.6	1.8	1.8	2.2	2.4	2.4	2.6	2.9	3.3	3.6	3.9	4.3	4.3	4.3
American Bank of Albania	2.0	2.1	2.9	3.5	3.7	4.8	4.6	5.5	5.9	6.5	6.5	7.4	8.4	8.6	8.4	8.4
Fefad Bank	0.3	0.6	0.9	1.0	1.2	1.4	1.5	1.7	1.9	2.1	2.4	2.7	2.9	3.0	3.1	3.2
First Investment Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.1	0.3	0.2	0.1
Commercial Bank of Greece	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.3	0.5	0.5	0.6	0.6	0.7	0.7	0.7	0.7
Credit Bank of Albania	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0 0

Source: Bank of Albania

Table 6.4.: The share of each bank as a percentage of total loans

Banks	Jun. '99	Aug. '99	Jan. '00	Apr. '00	Jun. '00	Sept. '00	Dec. '00	Mar. '01	Jun. '01	Sept. '01	Dec. '01	Mar. '02	Jun. '02	Sept. '02	Dec. '02	Mar. '03
Savings Bank	46.1	46.2	23.2	21.2	41.0	38.5	43.1	41.9	37.2	4.5	3.5	3.2	1.9	1.7	1.5	1.3
National Commercial Bank	34.9	33.8	43.3	40.5	30.3	28.5	0.0	0.0	0.0	0.1	0.3	0.6	1.6	2.2	3.5	4.1
Italian Albanian Bank	10.7	10.5	17.3	18.9	14.3	15.9	25.8	25.6	25.0	33.2	23.0	22.8	20.5	18.6	17.1	16.2
Arab Albanian Islamic Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.4	0.5	0.5	0.5	0.7	0 6	0.6
Dardania Bank	0.4	0.4	0.0	0.0	0.4	0.4	0.6	0.6	0.6	0.7	0.6	0.5	0.4	0.0	0.0	0.0
Tirana Bank	2.9	3.4	4.9	6.5	4.6	5.3	8.9	9.5	10.5	14.6	12.3	12.5	13.0	13.7	14.5	14.8
National Bank of Greece	0.0	0.0	0.1	0.1	0.1	0.3	0.6	0.7	0.7	0.9	1.1	1.0	1.3	1.8	2.4	2.5
International Commercial Bank	1.1	1.2	2.2	2.2	1.4	1.3	2.0	2.0	1.8	2.3	2.2	2.3	2.2	2.6	2.6	2.4
Alpha Credit Bank	1.5	1.4	2.7	2.6	1.9	2.8	6.3	7.1	7.7	17.2	33.6	33.8	34.9	33.5	30.7	31.0
American Bank of Albania	0.5	0.9	2.4	2.8	2.1	2.9	5.3	5.3	6.2	10.0	9.2	9.1	9.3	9.7	10.6	10.2
Fefad Bank	1.9	2.1	4.0	4.9	3.8	3.9	7.1	6.9	6.8	9.4	7.6	7.7	8.5	9.5	10.3	11.1
First Investment Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Commercial Bank of Greece	0.0	0.0	0.0	0.1	0.1	0.1	0.3	0.3	3.3	6.6	6.0	5.9	5.7	5.8	6.1	5.7
Credit Bank of Albania	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Bank of Albania

Bankers have to acquire the skills and techniques (i) to avoid bad loans and (ii) to provide an effective mechanism for monitoring loans made and ultimately for enforcing any contract (which may involve restructuring an enterprise or forcing it into bankruptcy). Consistent failure to operate profitably will result in the failure of the bank as depositors lose confidence in its ability to meet its liabilities.

In a thoroughly market-oriented system commercial banks cannot rely on the authorities, namely the Central Bank, to bail them out if they should get into difficulties. The Central Bank will provide lender-of-last-resort facilities for profitable, but temporarily illiquid, banks. But it is not the function of the Central Bank to bail out insolvent financial institutions. Where this rule is followed, banks are ultimately subject to a "hard budget" constraint.

6.4.4.1. Inherited Problems

Throughout the 1990s, the banking system in Albania had some distance from meeting the above objectives. This was in no small measure due to its legacy from the previous regime. As well as inherited loans in arrears, and the lack of market discipline in making and securing repayment of new loans, there were other weaknesses which played a part.

1. Illiquidity

The main reason for this illiquidity was the uncontrolled flow of loans to state-owned enterprises. Because of the changed circumstances, such loans were largely unprofitable. They accounted for a significant proportion of the loans in arrears which undermined the major banks.

2. High interest rates

The Central Bank had authorized quite high nominal interest rates, as high as 30 per cent in March 1997 for instance, whilst many of the longer-tem loans had been undertaken at lower rates of interest. The costs of intermediation were high (IMF, International Financial Statistics, April 1997).

3. Interest on Reserves

Reserves held at the Central Bank, which were expected to be up to 20 per cent of total liabilities and which might be paid a rate of interest by the Central Bank, had not attracted any interest payments. This constituted a significant loss of income for the banks.

4. Free Services Provided to the State

The State as owner of the banks had imposed certain functions on the banks for which they received no recompense despite the costs involved. These tasks involved the distribution of privatisation vouchers, loans to individuals persecuted under the previous regime, administration of pensions, and reimbursement of money taken by the failed "Populli" and "Xhaferri" pyramid funds. The banks had also on occasion been required to finance government-inspired loan agreements on inappropriate terms, for example, administration by the National Commercial Bank, in mid 1990s, of a credit from Greece to buy tractors.

5. Banks' Unwillingness to Cut Costs

The banks themselves had not changed their lending practices or sought to adjust employment to meet the new market-oriented financial regime. In consequence their costs were excessive and substantial losses had been generated.

6. Insufficient Capital

The financial stability of the banks had not been helped by the unwillingness of the government, as owners of the banks, to contribute sufficient capital to meet capital adequacy requirements.

7. Attitude of Government

The government tended to regard the banks as a source of funding to meet its budget deficits, without regard to the consequences for the viability and stability of the banks in the new environment.

8. Bank Loans in Arrears

The major concern regarding the commercial banks related to their loans in arrears which represented a major weakness, hindering privatisation and the introduction of market discipline. According to the Research and Monetary Policies Department of the (central) Bank of Albania, throughout the 1990s most of the arrears were on short-term loans and to the household and private (corporate) sectors. In addition, most of the loans in arrears were outstanding for more than six months: for instance 79 per cent at the end of 1996. Large incidence of arrears on loans, combined with a lack of capital, represented major weaknesses in the financial system and a major hurdle to future improvements. But the arrears were not only a large problem in themselves; they were also symptomatic of a serious deficiency in banking practice and in property law. For instance, arrears of loans from five banks - the National Commercial Bank, the Savings Bank, the then Rural Commercial Bank, the Italian-Albanian Bank and Dardania Bank, increased by more than 30% over 1996. This implies that arrears in loans did not appear to be entirely a hangover from an earlier time.

6.4.4.2. Approaches to Restructuring and Privatising the Banks

The future of the banks and the other public enterprises were clearly inter-linked. Steps to deal with the problem loans and their mirror image, the enterprise borrowing from banks, could not but affect both parties. The process of change was made easier by the fact that both the three main banks - the National Commercial Bank, the Savings Bank and the then Rural Commercial Bank, and their public-enterprise borrowers were owned by the government. The government as common owner had to be the driving force, using its ownership powers to pursue a solution which would promote a financial system driven by market forces. As with most financial restructurings, this solution involved substantial write-offs - as in the case of the then Rural Commercial Bank, and the injection of additional capital - as in the case of the National Commercial Bank, to allow the new organisations to cope with the new environment. The trick was to achieve this without a reversion to the bad habits of the past.

The difficulties of bank restructuring in Central and Eastern Europe are well summarised in Borish, Long and Noël (1996). According to these authors, any injection of capital is expected from a number of sources, including foreign sources. Usually, a foreign injection of capital to the banks does not happen unless:

1. the balance-sheets of banks and other enterprises are cleaned up;
2. there is an improvement in information provision so that decision-making can be better informed;
3. management is allowed to manage in the long-term pursuit of profit.

The last of these will probably require privatisation to allow investors the ability to use assets as they think appropriate.

While waiting to be privatised in the late 1990s, the National Commercial Bank and the Savings Bank were generally forbidden to make new loans, apparently on the ground that such loans would not be made on sound commercial criteria. Given that the private banks had been doing very little lending, the consequence was that privatisation was made a virtual precondition for significant new bank lending in the country. Privatisation in turn required attention to the governance structures of the banks.

The traditional market remedy for the inability of an organisation to operate profitably is liquidation, with the objective of using both the assets so released and new savings more efficiently (Burmaux, 1995). But this was unlikely to prove a satisfactory remedy in Albania. For Albanian banks liquidation represented a serious blow to an already weak financial sector. Liquidation would require private-sector deposits to be written off, which would be completely unacceptable, especially after the pyramid funds debacle and the consequent losses incurred by depositors. The whole economy would have been devastated by the loss, however temporary, of the only institutions granting significant amounts of credit. The costs of bankruptcy are high, and this would certainly be the case in Albania both for banks and for other public enterprises.

Generally speaking, bank restructuring could instead be arranged through other, "out-of-court" mechanisms. The government could provide additional funds to allow the banks to regain solvency. Such an approach is often associated with attempts to separate out performing loans from non-performing loans, with the government providing funding to write off the latter. For existing loans that are "performing" and for new loans, the banks would then carry full responsibility. Without a hard-budget constraint the strategy is unlikely to be successful. For instance, in the case of Hungary, since 1991, banks have been re-capitalised several times.

Some banks establish "work-out units" which seek to deal with problem loans while allowing the rest of the bank to deal with normal business. Similar good-bank/bad-bank strategies have been attempted, where separate organisations are established for the two categories of loan. Bank-restructuring agencies also exist. In these, a centralised approach is taken to all the bad loans in the whole system.

The major difficulty facing most of these strategies in transitional economies is the lack of suitably qualified staff to undertake the detailed negotiations and run the enterprises subsequently. Hence such measures in themselves will probably be insufficient to improve the health of banking and other financial institutions.

Since bankruptcy does not offer a viable alternative for the reasons given earlier, some form of enterprise restructuring is also required. Relying on the government to undertake the reorganisation while the banks remain in the public sector is seen as likely to be no more promising. By elimination one comes again to the conclusion that what is needed is privatisation, associated with improvements in governance arrangements, so as to allow market pressures to determine the allocation of resources.

For these and other reasons in Albania the privatisation of state-owned banks was inevitable. This in turn required foreign involvement in the rehabilitation of the banking system. However, the first step to create the necessary conditions for the privatisation of state-owned banks was the drafting of legislation that would allow changes to take place when the right moment in time would come. This legislation consisted of,

1. Law No. 8033 dated 16.11.1995 "For the Transformation of State-Owned Banks into Private Companies and their Privatisation";
2. A decision dated 27.03.1996 which recognised the Ministry of Finance as the legal owner of the state-owned banks for privatisation purposes;
3. Decision No. 655 of the Council of Ministers dated 23.09.1996 called "Approval of Privatisation Strategy of the State-owned Commercial Banks";
4. Decision No. 1648 dated 20.01.1996 and law No. 8169 dated 12.12.1996 which recognised some of the obligations of the State budget with regard to the commercial banks, especially relating to old long-term debts to the commercial banks, which carry an interest rate of 1.5 per cent.
5. Decision No. 821 of the Council of Ministers dated 06.12.1996 dealing with the re-organisation of the Savings Bank, the National Commercial Bank and the Rural Commercial Bank.

By the end of 1996 much preparatory work had been done. A government paper had also been circulated giving a timetable for privatisation, culminating in the sale of the banks by February 1998, but the difficulty of taking clear initiatives in the troubled first half of 1997 rendered this timetable obsolete. However, in the late 1990s some real progress was made. The then Rural Commercial Bank went into liquidation and its assets were distributed to the National Commercial Bank and the Savings Bank - both state-owned banks at that time. The bad debts of the then Rural Commercial Bank were transferred to the newly established Agency of Credit Restructuring.

In support of the first financial sector privatisation in Albania, the International Finance Corporation, the European Bank for Reconstruction and Development, and Kentbank[4] of Turkey joined forces to privatise the National Commercial Bank.

[4] Kentbank was established in 1992 by the Süzer Group, one of the larger industrial groups in Turkey, and the fourth largest in terms of capital. Its main shareholder was Süzer Holding, which owned 98 percent of the share capital. Kentbank's focus was on corporate and retail banking. After the privatisation of the National Commercial Bank, Kentbank was taken over by the Turkish state.

Following their acquisition of the National Commercial Bank, the International Financial Corporation and the European Bank for Reconstruction and Development each made an equity investment of USD 2 million in the National Commercial Bank while Kentbank provided USD 6 million in equity. The privatisation of the National Commercial Bank was completed in June 2000.

The plans to privatise the Savings Bank of Albania - the country's largest bank in terms of deposits[5] and its last remaining state-owned bank, were delayed because of a continuous political crisis in the early 2000s. However, the Savings Bank has been up for sale since 2002. Three foreign banks have expressed interest in purchasing a stake in Albania's Savings Bank. Citigroup, Austria's Raiffeisen and Hungary's Savings Bank are all showing interest in the privatisation tender. However, the privatisation is yet to be completed.

6.4.4.3. Foreign Assistance to Albania on Bank Restructuring and Privatisation

The European Community financed several projects to help Albania reform its banking system. A study was undertaken by Ernst and Young on the introduction and implementation of international accounting standards in the Albanian banking system. The first phase, from November 1996 to February 1997, was to prepare a draft plan. The second phase, March 1997 to June 1997, was to implement the new accounting system that would be compatible with the International Accounting Standards. The third phase, July 1997 to April 1998, included further assistance on the implementation of the project and additional matters relating, for example, to human-resource management. The political and economic turmoil of 1997 seriously undermined the success of the project. Nevertheless, the new manual of bank accounting came into practice in .

Another project was framed to start in February 1997 relating to the re-organisation of the Savings Bank, the National Commercial Bank and the then Rural Commercial Bank with the help of an American company. This did not eventuate because of the troubles at the time. The European Community also supported a "twin" bank programme between the Savings Bank and an Irish Bank.

6.4.5. Tirana Stock Exchange

Tirana Stock Exchange began its operations on the 2nd of May 1996. From an organisational point of view Tirana Stock Exchange was established as a department of the central Bank of Albania, and would remain like that for a transitional period of several years until it would be able to operate independently. Tirana Stock Exchange was organised as an order driven market.

The market started trading in Treasury Bills, which were a major source of government deficit funding. Privatisation vouchers and foreign exchange, the other main traded financial assets, were not traded on the Stock Exchange. There was almost no trade in government bonds; the only bonds on issue were those devised for such purposes as dealing with the bad debts of banks. Since the introduction of limited liability it has not been possibly practical for companies in Albania to issue common stock. The absence of any share issues can be attributed to the fact that most companies stumble at the first hurdle - that of publishing certified balance sheets for the last three financial years of their activities.

The only purchasers of Treasury Bills were the three state-owned banks, the state-owned Insurance Institute (INSIG) and the state-owned Social Insurance Institute. In order to be saleable, Treasury Bills had to offer something like two percentage-points in excess of the average bank deposit rate of interest. Banks were induced to buy them partly because otherwise they would have very restricted sources of earnings; in mid-1997 their brief virtually forbade lending to new customers. Despite efforts, dealings at the Tirana Stock Exchange, as shown in Table 6.5., have come to a halt.

---

[5] This bank has approximately 80 percent of all deposits in Albania, and a paid-up capital of USD 4.9 million.

Table 6.5.: The Volume of Transactions of the Tirana Stock Exchange

(in 000 Albanian Lekë)

	1996	1997	1998	1999	2000	2001	2002	2003
Treasury bills	3,305,000	6,325,000	4,959,000	75,000	0	0	0	0
Government bonds	800,000	0	0	0	0	0	0	0
Privatisation bonds	0	0	0	0	0	0	0	0

Source: Bank of Albania

6.4.6. The Insurance Sector

The other major financial institutions are the insurance institutes and companies. Two of the key insurance organisations are still state-owned and as yet do not face any serious competition from the private sector. The Albanian insurance market opened up to private firms in 1996. There have also been plans to open the market to competition from abroad.

INSIG - The Insurance Institute is a state-owned entity that covers commercial insurance of all kinds: car, property, life assurance. Premiums are set by the state. Being effectively a monopoly for a long time, INSIG has managed to be highly profitable and a source of tax revenue. However, in the last few years there has been some incentive to undertake private insurance. This has led to the establishment of SIGAL, SIGMA and Atlantik Limited which are private insurance companies.

The Social Insurance Institute covers insurance through the state for old age, unemployment, sickness, invalidity, and maternity. There are compulsory contributions for employees, which amount to 42.5 per cent of the payroll. 10 percentage-points of this is paid by the employee, and the rest by the employer[6]. The government has begun taking steps to place this insurance on a more actuarially sound basis (EBRD, 1996) so that the budget contribution will be limited.

Provision has been made in law for additional, privately financed occupational pensions within larger companies in order to provide a supplement to public provision. So far there has been no company which has agreed to provide these benefits. There are a number of reasons for this. The minimum size of firm to provide such a facility is set at 100 employees. There are few such firms in Albania, and amongst these little preference expressed by employees to undertake the necessary long-term savings commitment. The minimum capital for setting up such a scheme is 5 million Albanian Lekë, which has to be maintained in a bank account for two years. This is a major investment, which is likely to earn a low return compared to

[6] These figures exclude the medical contributions introduced in March 1995.

alternatives available elsewhere. There is a natural fear of the new venture, particularly given the parlous state of the financial system and uncertainties surrounding it. Disposable incomes are low, so that the surplus available for long-term saving is likely to be small. With a preference for current consumption over long-term income maximisation, pension provision has had a very low priority.

6.5. Conclusions

It is now widely accepted that an effective financial system can make a significant difference to the success of an economy. By acquiring and processing relevant information, by monitoring investment projects, and by providing opportunities of maturity- and risk-transformation, the financial system can encourage savings and ensure its efficient allocation across competing uses.

However, the evidence from developing countries and from Central and East European transition economies shows that successful financial development on market-based lines requires certain conditions to apply. These are macroeconomic stability (which almost certainly requires the government budget deficit to be under control) and effective regulation and supervision.

The financial system that Albania inherited from the previous regime was far from market-based, and the changes required were little short of revolutionary. Changes that have taken place include the introduction of a two-tier banking system, with central-banking functions separated from those of commercial banks. The Bank of Albania has acquired many of the functions of a market-economy central bank, with a degree of autonomy. In Albania the government has hitherto relied more or less heavily on central-bank finance, though a law has been passed requiring it to reduce that reliance. Widespread tax evasion, and a lack of alternative financial instruments apart from Treasury Bills, seriously restrict the government's financing capability.

The financial system is still dominated by the banks, and, despite the setting up of foreign-owned and joint-venture banks, the state still remains a key stakeholder of the banking sector. Other officially recognized financial institutions such as the state-owned insurance company, the Social Security Institute, and several dormant private investment companies are relatively insignificant as commercial intermediaries.

For a good part of the 1990s the banks were essentially government fiefdoms pursuing government preferences. Privatisation of state-owned banks, and the re-organisation processes that have preceded it, required the government to give up its ownership advantages.

To succeed in bank privatisation the necessary legislation had to be put in place and progress was made in restructuring the state banks in order to put them on a sound footing, with an appropriate level of capital and a balance sheet expunged of non-performing loans. Many of the laws required were in existence, and the procedures necessary to make the changes were under way. Once the shock of the pyramid funds scandal was absorbed, progress was made, with help and advice from various overseas agencies, in preparing the banks for privatisation. The then Rural Commercial Bank was liquidated, its non-performing loans were passed on to a newly established credit restructuring agency and the rest of the loan portfolio was divided between the National Commercial Bank and the Savings Banks. The National Commercial Bank was privatised in June 2000 and the Savings Bank has been put up for privatisation since 2002. However, unless the privatisation of the Savings Bank is successfully completed, the benefits expected to result from the discipline of the market system would not be realised.

The pyramid funds scandal showed the importance of having an effective financial system accessible to the population at large and enjoying its confidence. Paradoxically the failure of these informal "banks" provided an opportunity for the banks to attract depositors and borrowers to the official sector. But, if the banks are to attract depositors, there will need to be reasonable assurances of their soundness, so that people can be confident that their deposits are safe. Formal deposit-insurance arrangements would certainly help. Despite the efforts, the amount of cash in circulation is huge. In 2000 for instance, some 200 billion Albanian Lekë (USD 1.48 billion) were deposited in banks while 95 billion (USD 703 million) remained in cash.

Albanian banks are essentially universal providers of finance. This is inevitable given the lack of alternative sources of long-term debt or equity finance. This form of financial system has proved successful in countries such as Germany and Japan and presents the most appropriate model to follow in Albania. A case might be made for concentrating the banking system still further in order to make more efficient use of scarce banking-management resources, but the lack of competition that would result would impose potentially serious burdens on the public. It might be appropriate, however, to consider the development of a credit-union type of financial organisation to allow saving and borrowing activity to reach a greater proportion of the population whilst reducing the adverse-selection and moral-hazard problems of small-scale financial activity.

For the economy to become more integrated and for financial markets and financial institutions to interact more effectively, an improved payments system is required for the sake of greater speed and greater certainty of completion. Without such a development any attempt to encourage a greater dependence on indirect monetary-policy instruments will not succeed.

In general-enterprise governance, and specifically in bank governance, procedures will have to be updated. Without such accepted procedures privatisation of both banking and enterprise sectors will not be subject to the discipline of the market, which is essential to their functioning. The changes that should be undertaken are radical and have to be concurrent so that the total system can operate effectively. The resource implications are substantial.

Legal and educational measures to support an improved financial system will also be necessary. More clearly defined property rights and a mechanism for using collateral assets in financial transactions are required. Also bankruptcy law and practice will need to be clarified and made operational by the development and training of practitioners in the accounting and legal spheres.

The pyramid funds scandal also highlighted the need for careful regulation and supervision of all financial institutions. Markets unaided do not provide sufficient discipline, particularly when dealing with relatively unsophisticated participants. Amongst others, regulation and supervision require the development of standardized accounting procedures, well-trained professionals who are both independent and expert in their advice, and also accountable to the law, sound and functioning accounting policy making and administrative bodies, professional associations and regulatory agencies, and a reliable regime of control and monitoring, which possesses sufficient authority to be effective in policing the system. Despite the efforts such requirements have not been fully met. Thus, the remainder of this thesis analyses the development of accounting in Albania and identifies possible ways which are likely to improve the functioning of the country's accounting system.

Chapter Seven

Albania's Accounting Developments - A Contingency-based Analysis of Choices, Challenges and the Future

7.1. Introduction

This chapter provides an in-depth analysis and summary of the field research findings in order to have a clear picture of Albania's accounting infrastructure. Interviewees' responses serve as the main source of information and Perera's contingency-based approach is used to analyse accounting developments in Albania during the period 1992 - 2002. An investigation of different factors - political, institutional, economic, legal, social and cultural - which have influenced accounting changes in Albania is provided. The functioning of Albania's accounting policy and decision-making bodies and professional associations is given special attention. The chapter also includes some policy recommendations for improving Albania's accounting infrastructure and the results of the activities of international governmental and financial institutions.

7.2. Analysis of Interview Data

Qualitative research in international accounting sometimes involves face to face interviews with informants who can be influential figures in the financial sector and government. This is particularly the case for qualitative research in developing countries, such as Albania, where politics and developments in the financial sector can be highly entangled.

Using face to face open ended semi-structured interviews the researcher assembled a comprehensive assortment of information that enabled him to investigate different factors - political, institutional, economic, legal, social and cultural - which have influenced accounting changes in Albania. Furthermore, the researcher applied the necessary checks to ensure the reliability and validity of the information gathered.

Interview based research may be optimal when there is a small population of possible respondents. In this case, researchers must focus on the depth of data collected. The researcher of this study however, did not seek depth just to overcome the problem of a relatively small population; rather, interviews offered the opportunity to acquire a richness of information from each respondent. The researcher considered face to face open ended interviews as well-suited for gaining in-depth responses.

Interviews also allowed the researcher to develop a very good rapport with respondents. This was necessary to gain honest and accurate responses and to add insights that would lay the groundwork for an in-depth analysis of data. Furthermore, in some cultures, such as that of Albania, professionals, governmental officials and academics are neither accustomed to responding to sensitive questions nor convinced that their responses will remain anonymous. The development of good rapports through interviews is very important when interviewees are suspicious of how information they give may be used.

The social distance between the researcher and the interviewee, including both inferior and superior status, can also inhibit an interview (Welch et al. 2002). As some of the respondents were high ranked policy and decision makers, academics and practitioners developing good rapports through interviews became even more important.

Regardless of where interviews are conducted, researchers must decide what information they want, how to obtain that information, determine their target informants, persuade the target informants to participate, plan and carry out the logistics for interview meetings, conduct the interviews, analyse the data collected, and draw relevant conclusions. The above stages have been discussed in depth in Chapter Four[1], while this chapter focuses on, and explains further the last two stages of this interview based research study.

As discussed in Chapter Four[2], the researcher used a semi-structured interview questionnaire. This semi-structured interview questionnaire was essentially a check

---

1 Chapter Four - Research Methodology and Methods

2 Chapter Four - Research Methodology and Methods

list for the researcher to follow to help ensure that all or most topic areas were covered during interviews. Having a semi-structured interview questionnaire helped make sure that no information needs were overlooked during the interview meetings. Although responses were, in large part, open ended, the researcher used the semi-structured interview questionnaire to direct conversations so that they stayed on course. The semi-structured interview questionnaire allowed the researcher to quickly review topics before and during the interview, to ensure, where possible, that no important topics had been omitted and to prioritise. Even though different interviewees supplied information in different sequences, after the interviews the researcher could compare responses more easily by organising them in a way that corresponded to the order in the semi-structured interview questionnaire.

Occasionally, the researcher saw the need for clarification, or to fill in gaps. This meant going back to interviewees in order to complete the information gaps. That is why, in some cases, several respondents were interviewed more than once. Follow-up interviews and requests for further information were the way to fill in the gaps - so long as the good rapport with the interviewees had been established.

Interview scripts and notes as well as any other public or private documentation that had been collected and which was related to the research topic were kept together (Yin, 1994). Where possible the researcher triangulated separate sources of data to validate answers on the interview script. After asking interviewees who had similar job positions and responsibilities the same question or set of questions the researcher was able to check for consistency of interviewees. The researcher also compared some of the interview data, especially those related to accounting legislation (accounting law, general accounting plan and the manual of bank accounting), and those related to the tasks of Albania's accounting institutions (the National Council of Accounting, the Directorate of Accounting in the Ministry of Finance, the Institute of Authorised Chartered Auditors, the Association of Accountants of Albania, and the Professional League of Approved Accountants) with any publicly available information, press releases, internal statutes and documents (where available) which were very hard to obtain in Albania. As explained in Chapter Four[3], as a result of forty-five years of extreme censorship, "publicly available information" was still an alien concept to many in Albania. The government has had to initiate and maintain efforts to improve the disclosure to the public of any information of legal and economic nature. Even in the late 1990s, despite formal changes and reforms, every single piece of government information in Albania was still treated as "highly confidential". On several occasions, the researcher had to work very hard to convince the officials that any printed materials gathered would be used in strict regard, and that no direct reference to the source would be made without permission. After clarification and data validation procedures, the researcher was confident about the accuracy of the information collected during the semi-structured interviews.

Each interview script or set of interview notes was read through several times to get an overall impression. Then, any information provided by the respondents that was not relevant to the research study as well as any unnecessary repetitions were removed. As indicated above, different interviewees supplied information in different sequences. After each interview the researcher organised the information that was collected in a way that corresponded to the order in the semi-structured interview questionnaire. This made the follow up comparison and analysis of responses and identification of key issues and factors easier.

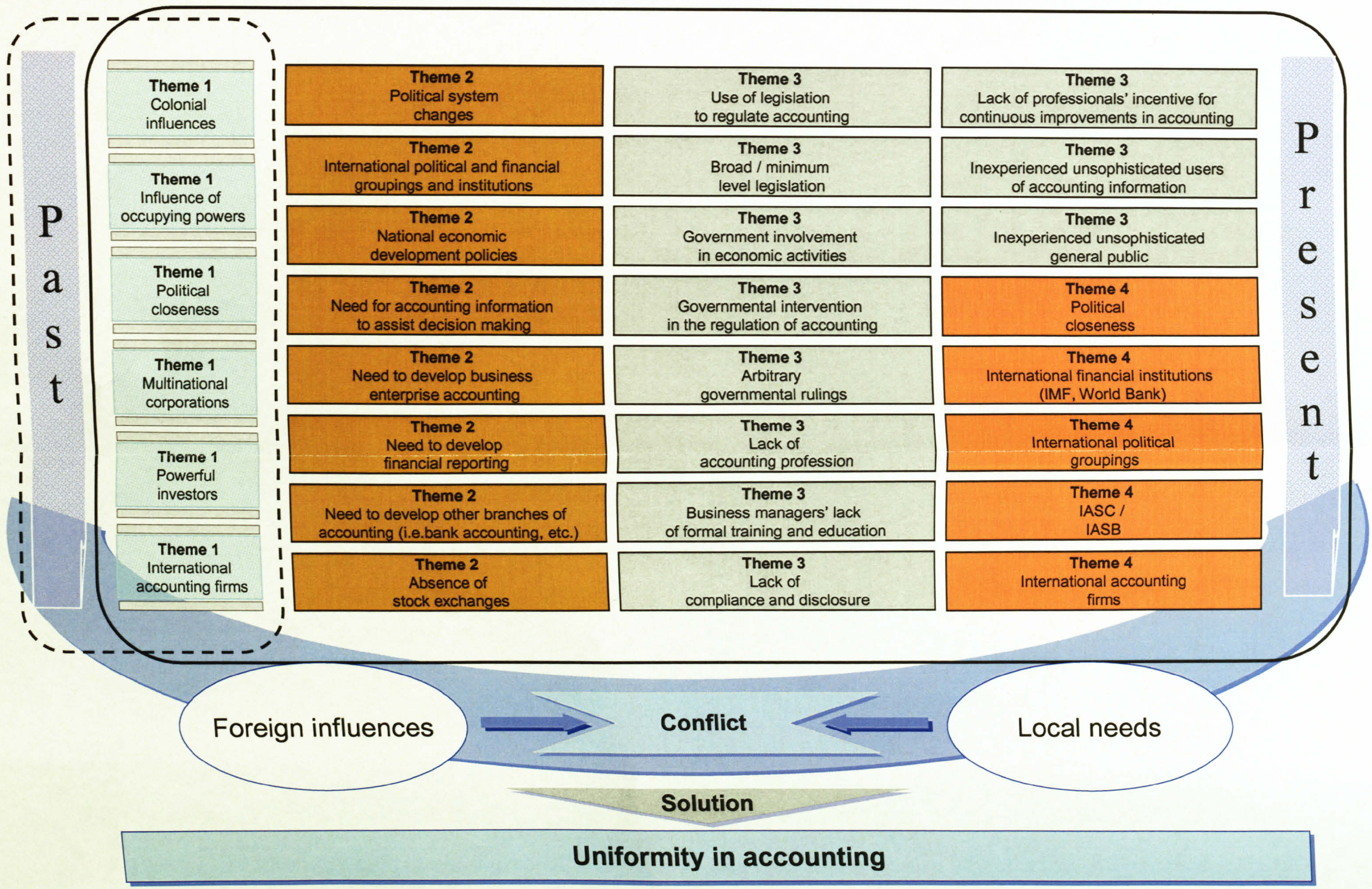
Based on the nature of information that respondents provided relevant information from each interview script or set of interview notes was also split into two major parts. One part of information collected during the interviews was of a descriptive nature. Interviewees provided information on Albania's accounting legislation (accounting law, general accounting plan and the manual of bank accounting), and on structure and tasks of Albania's accounting institutions (the National Council of Accounting, the Directorate of Accounting in the Ministry of Finance, the Institute of Authorised Chartered Auditors, the Association of Accountants of Albania, and the Professional League of Approved Accountants). This information of a descriptive

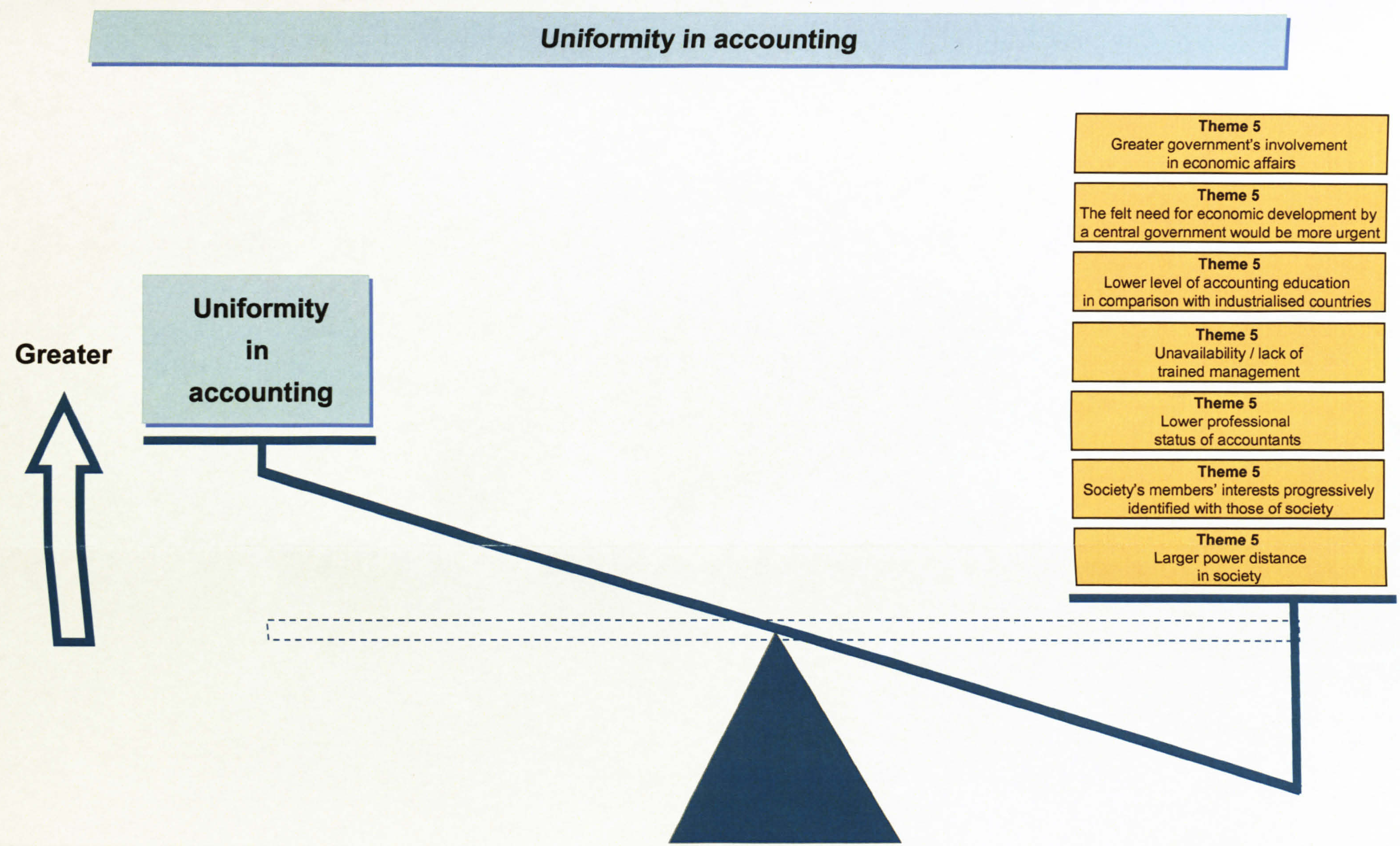
[3] Chapter Four - Research Methodology and Methods

nature was used to piece together an accurate profile of Albania's accounting system. It was important to do so because the research study had as one of its objectives the documentation of changes that Albania's accounting system had undergone. To ensure accuracy of information the researcher compared the interview data related to accounting legislation (accounting law, general accounting plan and the manual of bank accounting), and the interview data related to the tasks of Albania's accounting institutions (the National Council of Accounting, the Directorate of Accounting in the Ministry of Finance, the Institute of Authorised Chartered Auditors, the Association of Accountants of Albania, and the Professional League of Approved Accountants) with any publicly available information, press releases, internal statutes and documents (where available and most importantly obtainable). The other part of information was of an analytical nature and was gathered from asking the interviewees "why" and / or "how" types of questions.

As indicated throughout this research study, Perera's contingency-based approach was used to analyse accounting developments in Albania during the period 1992 - 2002. Perera's contingency-based approach is explained in details in Chapter 1, Section 1.4.1.1.. It is noteworthy recalling however, that Perera (1989, p. 141) argued that most developing countries had little chance to evolve accounting systems which would truly reflect the local needs and circumstances. He pointed out that existing accounting systems in developing countries were largely extensions of those accounting systems developed in Western capitalist countries, which meant that little consideration was given to the accounting needs of developing countries. This in turn had led to the problem of existing accounting practices in developing countries not being fully capable of satisfying in the most efficient manner all accounting information needs of those countries. Perera (1989) argued that the solution to the above problem would be the regulation of accounting through legislation and the use of a uniform system of accounting formulated to suit the local needs and circumstances of individual developing countries. There is thus an implicit underlying theory that accounting practices of each country are contingent upon various historical, international, political, institutional, economic, social and cultural factors. Although implicitly, throughout his article Perera referred to a number of contingent factors that have influenced or shaped accounting systems in developing countries as well as a number of issues related to accounting developments in those countries. For the purposes of this research study and data analysis all those factors and issues discussed in Perera's (1989) article were organised under five themes as illustrated by the diagram below.

Diagram 7.1.: Accounting environment - a contigency based approach




Uniformity in accounting
Greater
Uniformity in accounting
Theme 5
Greater government's involvement in economic affairs
Theme 5
The felt need for economic development by a central government would be more urgent
Theme 5
Lower level of accounting education in comparison with industrialised countries
Theme 5
Unavailability / lack of trained management
Theme 5
Lower professional status of accountants
Theme 5
Society's members' interests progressively identified with those of society
Theme 5
Larger power distance in society

The first theme focused on past patterns of accounting developments in developing countries. Perera (1989) pointed that the existing systems in these countries were largely extensions of those developed in other Western capitalist countries, imposed either through colonial influence or by powerful investors or multinational corporations.

Some "unique" features or characteristics of a country's accounting system can, indeed, be explained by "exogenous" historical factors unconnected with accounting. There are plenty of such examples in the international accounting literature like (i) the "import" of apparently unsuitable practices from colonial powers - if one compares, for instance, the former British and French colonies in Africa, (ii) the acceptance of "alien" accounting concepts and ideas by EU member states as part of political packages, and (iii) the influence of occupying powers (e.g. Germany on France, United States on Japan).

In some countries, accounting may be driven by the type of capital market and the nature of regulation. However, for a country that is heavily influenced by another because of a former colonial relationship or political closeness, this single factor may be the major influence on the style of accounting found in that country.

In the diagram above, the "past" and "present" are shown as overlapping simply to point out that quite a few developing countries (especially former British colonies) inherited some sort of accounting practices as a results of factors identified under the first theme.

Under this theme, interviewees were asked questions that aimed at (i) identifying factors such as colonial influences, powerful investors and political closeness that were responsible for past patterns of accounting developments in Albania, and (ii) stimulating relevant discussions related to the history of Albania's accounting.

The second theme focused on contemporary accounting developments in developing countries. Perera (1989, p. 144) reiterated the need of developing countries to establish and develop an accounting system which would accumulate all accounting information that could be used for decision making. In his analysis, Perera (1989) pointed out key features of accounting developments in developing countries as they struggled with the tasks of progressing politically, economically and socially and especially implementing continuous reforms that aimed at building a sound financial system and a functioning state administration. He also emphasised the importance of instigating the necessary changes to develop business enterprise accounting as well as improve and integrate all different branches of accounting (financial reporting, bank accounting, etc.). Another key point that Perera (1989) made in his article is that due to various historical, economic and cultural reasons the development of an active capital market in developing countries had not been always possible. Under this theme interviewees were asked questions that aimed at (i) documenting accounting changes that had taken place in Albania in the early '90s as well as (ii) identifying and discussing broad issues related to those changes.

The third theme focused on (i) using appropriate laws and regulations to promote the development of accounting in developing countries, (ii) the role of governmental institutions in regulating accounting in developing countries, and (iii) the state of accounting profession in those countries. Like Jaggi (1975) Perera (1989) also pointed out that the reliability of financial disclosures in developing countries was unlikely to reach any significant level unless legal disclosure standards were set. Furthermore, in the absence of regulation, business enterprises in developing countries would probably disclose varying amounts of accounting information in different formats. This in turn could confuse inexperienced unsophisticated users, and make accounting reports less credible in the eyes of the public.

Perera (1989) suggested not only the need for regulating accounting through legislation, but also the regulation of accounting by a governmental body. Many developing countries did not have an accounting profession which would be in the position to effectively regulate accounting and financial reporting, or any recognised professional associations. Thus, Perera (1989) argued for more governmental involvement in accounting regulation.

In many developing countries, government involvement in economic activities was also very evident. This meant that in many cases the government was the sole user of any accounting information. That is why Perera (1989) suggested that in developing countries accounting should assist the government in achieving its political objectives and economic development targets.

Another argument in favour of legislative control over accounting was the cultural orientation of many developing countries. Perera (19890 pointed out that as the majority of business managers were not likely to have formal education and training in management, they were not likely to be Western type professionals. The lack of formal training and education would affect the attitude of these business managers towards the disclosure of financial information, which in turn would lead to low reliability of information disclosed in financial reports.

Unlike Tweedie (1985) who saw governmental control over accounting standard setting as over-bureaucratic, unable to reflect the reality and arbitrary, and argued that as a result of governmental control accounting legislation would tend to be inflexible and either broad or set at a minimum level while professionals' incentive for continuous improvements in accounting practices would be reduced, Perera (1989, p. 148) pointed out (i) that government regulation of accounting was not necessarily over-bureaucratic and distant from reality, (ii) that in many developing countries very often financial statements neither complied with any accounting standards nor disclosed (hence the need for legal imposition of accounting legislation which would hopefully make accounting professionals comply with at least certain basic accounting standards), (iii) that legislative control over accounting aimed at reducing the number of possible reporting alternatives available to individual business enterprises and that despite its shortcomings a uniform mandatory reporting system -

as the experience of Germany had shown - could improve the overall usefulness of accounting information for decision-making process, (iv) that governmental involvement in accounting regulation would not weaken the incentives and the role of accounting profession because in developing countries the accounting profession was already weak and relatively small and these were precisely the reasons why the government had to have more regulatory powers to safeguard the interest of public, and (v) that it was impossible to isolate the government and the private sector from the pressure groups and that in any case the government was more likely to be insulated from private pressures and hence more objective in setting up accounting standards and procedures.

Under this theme interviewees were asked questions that aimed at (i) discussing legislative regulation of accounting, (ii) identifying the factors that have influenced the functioning of policy and decision making bodies and professional associations and their role in regulating Albania's accounting system, and (iii) stimulating relevant discussions related to possible ways of improving those areas of accounting system that needed improvement.

The fourth theme focused on activities of international political and financial groupings and institutions, international accounting associations and international accounting firms. As a matter of fact international political and financial groupings and institutions and international accounting firms have been influencing accounting developments in developing countries long before those countries were independent. This is the reason why the first theme includes factors such as colonial influences and international accounting firms. However, the impact of such international institutions and firms has been ongoing and worth investigating under a separate theme. The fourth theme however, refers to a latter point in time than the first theme. Furthermore, the role and impact of the above international institutions and firms on accounting in developing countries have been discussed widely in the international accounting literature. Under this theme interviewees were asked questions that aimed at (i) discussing the activities of international political and financial groupings and institutions, and international accounting firms, and (ii) stimulating relevant discussions related to possible ways of improving those areas of the activities of the above international institutions and firms that needed improvement.

With regard to some of the questions asked under the third and fourth themes it is noteworthy that "face" is important in many cultures, especially in that of Albania. More specifically, questions should not lead interviewees to lose face by, for instance, asking them to criticise their government or organisation directly. The appropriate balance between gaining relevant information, keeping the co-operation of interviewees and not avoiding important topics was of paramount importance. This implies that the way a question is put forward can be critical. On some occasions, rather than focusing on the reasons for malfunctioning of accounting institutions, the slow progress of accounting reform, or ineffectiveness of foreign financial and technical assistance for instance, the researcher found it easier and much more beneficial to focus on ways the functioning of accounting institutions could be improved, the progress of accounting reform could be accelerated or the effectiveness of foreign financial and technical assistance could be increased. This approach proved very effective because the reasons for malfunctioning of accounting institutions, the slow progress of accounting reform, the ineffectiveness of foreign financial and technical assistance etc., did emerge from focusing on possible ways of improving the areas that needed improvement. Furthermore, academic research is expected to be useful and focusing on possible ways of improving the accounting system can bring about that desired and expected usefulness of academic research.

The fifth theme focused on Perera's (1989) arguments in support of the use of a uniform system of accounting formulated to suit the local needs and circumstances of individual developing countries. In many aspects developing countries have been different from the developed countries. In addition, Perera (1989) also acknowledged the fact that different developing countries were characterised by different levels of accounting development which meant that developing countries were far from being a homogenous group. Nevertheless, he suggested that, "accounting practices based on the uniform approach might be the only alternative available to them." (Wallace, 1990, p. 23)

Perera (1989, p. 151) argued that the need for uniformity in accounting would be greater if (i) the government's involvement in economic affairs would be heavier (the more regulated or centralised the economy the greater the need to generate accounting on a uniform basis for purposes of economic planning), (ii) the felt need for economic development by a central government would be more urgent (uniform accounting reports would allow the central government to compare business enterprises in order to identify those that are lagging in efficiency and productivity), (iii) the level of accounting education in a country would be lower in comparison with industrialised countries (deficiencies in accounting education and training would mean that accountants would not be able to exercise mature judgements in accounting matters), (iv) the trained management would not be available (a well-designed uniform accounting system would offer inadequately trained management a greater prospect of success), (v) the professional status of accountants would be lower (if accountants would not enjoy a high social status and the trust of public then a uniform accounting system designed and monitored by the government would be a better alternative for the protection of public's interests).

In addition to arguing in favour of a uniform accounting system, Perera (1989) also explored the level of acceptability of such system. He reiterated Hofstede's (1983) argument that developing countries were highly collectivistically oriented[4]. This implied that

> "[t]he cultural orientations of most developing countries are such that their societal values would seem to favour uniformity [in accounting]." (Perera, 1989, p. 153)

---

[4] According to Hofstede (1983, p. 80) collectivism stands for a preference for a tightly knit social framework in which individuals can expect their relatives or other in-group to look after them in exchange for unquestioning loyalty. On the other hand, individualism stands for a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and their immediate families only. (ibid)

Perera (1989) pointed out that the acceptability of uniformity in accounting would be greater if (i) the members of a society would progressively identify their own interests with the interests of the society, and (ii) the power distance in a society is larger[5] (uniformity in accounting would lead to more authority for accounting system, and more emphasis on compliance as against disclosure[6]).

The discussion under the fifth theme aimed at (i) bringing together all the arguments that explain Albania's use of a uniform accounting system as well as (ii) the factors that have influenced such a choice of an accounting system.

Having identified and organised the above themes which were reflected in the questions that respondents were asked, the researcher then highlighted key issues and factors in the information gathered during interviews. The researcher did not use software to do content analysis of interviews. The type of study, the data collection method employed, the composition of interviewees' sample (interviewees' background, education, career path, current position and social status) and their responses did not lend themselves to the use of any software.

The researcher went back to passages, noting themes, issues or factors, making deeper interpretations of specific statements, casting parts of interviews into a narrative, and visualising findings in flow diagrams (Kvale, 1996). Identifying the factors that have influenced the development of accounting in Albania was very important. For instance, when discussing the constraints on Albania's accounting reform in the 1990s, the interviewees who were asked the question regarding this issue pointed to a lack of attention to accounting reform. The researcher noted that one of the interviewees explicitly mentioned the lack of attention to accounting reform and acknowledged that this phenomenon

---

5 "The power distance dimension relates to the extent to which the members of a society accept that power in institutions and organisations is distributed unequally." (Perera, 1989, p. 153)

Collectivist countries always show large power distances. (Hofstede, 1983, p. 80)
6 Gray (1985)

"was a strategic mistake, which was noticed not only in Albania but also in all other transition economies and which, in general, was understandable and acceptable. ... the aid which was received in the beginning of transition was ... for carrying out reforms at a macro level ... ."

Other interviewees said that,

"[A]t the moment the situation is very difficult because there are very powerful crisis, there are very big emergencies which take government's attention away from accounting reform."

or

"... Albania has faced an increasingly unmanageable energy crisis characterised by severe power cuts and erratic water supplies. The country has also lacked basic infrastructure such as good roads and reliable telephone connections. Understandably, problems in accounting and other areas of financial system have become second hand issues."

or

"... accounting and its reform are seen as second hand issues ..."

or

"... whoever comes to power does not pay attention to some issues which seem to be considered as secondary; accounting reform, development of national system of statistics, all these are neglected by everyone."

or

"... in the situation in which Albania, its economy and its institutions are, accounting reform is light-weighted ... ."

or

> " ... always, the key problem has been the government (i.e. the Ministry of Finance) which does not deal as it should with accounting and its reform ... ."

or

> "[o]ften, here, because of politics and other problems, there is lack of interest of government towards accounting reform ... ."

All the above passages referred to lack of attention to accounting reform. Researcher's deeper and more general interpretation of the issue in question was that indeed, the 1990s were characterised by issues of national emergency, macroeconomic stability, liberalisation of trade and privatisation which took precedence over the reform of accounting. This meant that there was lack of attention to accounting reform despite accounting's links with all other economic sectors. Lack of attention to accounting reform was indeed a factor that had constrained Albania's attempts to reform and develop its accounting system and this factor was included in the flow diagram below.

Such techniques [as noting themes and factors, seeing plausibility, making contrasts and comparisons that sharpen understanding, building a logical chain of evidence, etc. (Miles and Huberman, 1994)] were implemented - as explained above - upon all relevant interview scripts and interview notes, and the following tables highlight the issues and factors discussed by the respondents during interviews.

It is noteworthy that the language of the interview questions was kept as simple as possible. To some extent, the language used in a country does reflect the level of economic development of that country. In the case of Albania, the economic environment was very simple and this had to be reflected in the language used during the interviews.

Table 7.1.: Issues and factors discussed during interviews

		I1	I2	I3	I4	I5	I6	I7	I8	I9	I10	I11	I12	I13	I14	I15	I16	I17	I18	I19	I20	I21	I22	I23	I24	I25
Theme 1	Colonial influences																	√				√				
	- Political and economic regress																	√				√				
	Influence of occupying powers																	√				√				
	Political closeness (with pre WWII Italy & France & post WWII Soviet block)			√	√		√				√			√				√		√		√	√		√	
	- Educational links																	√				√				
	- Ideological influences			√	√		√				√			√				√		√		√	√		√	
	Multinational corporations																	√				√				
	- Entry of foreign capital																	√				√				
	- Introduction of Western accounting practices																	√				√				
	Powerful investors																	√				√				
	- Entry of foreign capital																	√				√				
	International accounting firms																									
Theme 2	Political system changes	√	√	√	√	√	√	√	√	√	√	√	√	√	√			√		√			√		√	
	International political and financial groupings and institutions	√	√		√	√	√	√	√	√	√	√	√			√	√			√	√					√
	- EU, IMF, World Bank, EBRD, etc.	√	√		√	√	√	√	√	√	√	√	√			√	√			√	√					√
	National economic development policies	√	√	√	√	√	√	√	√	√	√	√						√		√			√	√	√	
	- Reform process	√	√	√	√	√	√	√	√	√	√	√						√		√			√	√	√	
	- Privatisation			√	√	√	√	√	√		√	√						√		√			√		√	
	Need for accounting information to assist decision making	√		√	√	√	√	√	√		√	√	√	√	√			√	√			√	√	√	√	
	- Privatisation		√	√	√	√	√	√	√		√	√	√	√	√			√	√			√	√	√	√	
	Need to develop business enterprise accounting	√		√	√	√	√	√	√		√	√	√	√				√	√			√	√	√	√	
	- Accounting reform	√		√	√	√	√	√	√		√	√	√	√				√	√	√		√	√	√	√	
	- Lack of attention	√		√	√	√	√		√		√	√	√	√				√	√	√		√	√		√	
	- Political immaturity and passivity	√		√	√	√	√		√		√	√	√	√				√	√	√		√	√		√	
	- Formal adoption of rules alone	√		√	√	√	√		√		√	√	√	√				√	√	√		√	√		√	

		I1	I2	I3	I4	I5	I6	I7	I8	I9	I10	I11	I12	I13	I14	I15	I16	I17	I18	I19	I20	I21	I22	I23	I24	I25
Theme 2	- Inadequate law enforcement procedures	√		√	√	√	√		√		√	√	√	√				√	√	√		√	√		√	
	- Politicians' and public's perception of accounting	√		√	√	√	√		√		√	√	√	√				√	√	√		√	√		√	
	- Gaps in accounting legislation	√		√	√	√	√		√		√	√	√	√				√	√	√		√	√		√	
	- Accounting Law and General Accounting Plan			√	√	√	√	√	√	√	√	√	√	√				√				√	√	√	√	
	Need to develop financial reporting	√		√	√	√	√	√	√		√	√	√			√		√	√			√	√		√	√
	- Professional closeness with French accounting	√		√	√	√	√	√	√		√	√	√			√		√				√	√			
	- Tax driven accounting system	√		√	√	√	√	√	√		√	√	√			√		√	√	√		√	√		√	√
	- EU 4th Directive			√	√	√	√	√	√		√	√	√			√		√	√	√		√	√		√	√
	- Lack of knowledge and expertise on IASs	√		√	√	√	√	√	√		√	√	√			√		√	√			√	√		√	√
	Need to develop other branches of accounting (i.e. bank accounting, etc.)			√	√	√	√		√	√	√	√			√					√		√	√	√	√	
	- Banks as main provider of capital / financing			√	√		√		√		√				√					√	√			√		
	- Facilitating FDI		√	√	√	√	√	√	√		√				√					√	√			√		
	- EU accession		√	√	√	√	√	√	√		√	√			√					√	√			√		
	- Influence of international accounting firms	√			√	√	√	√	√		√				√									√	√	
	- Need for international convergence of bank accounting rules			√	√		√		√		√				√					√				√		
	Absence of a well functioning stock exchange			√	√		√	√	√		√		√	√		√		√	√	√		√	√		√	√
	- Historical			√	√		√	√	√		√		√	√				√	√	√		√	√		√	
	- Historic absence of any stock market			√	√		√	√	√		√		√	√				√	√	√		√	√		√	
	- Economic			√	√		√	√	√		√		√	√				√	√	√		√	√		√	
	- Slow pace of privatisation			√	√		√	√	√		√		√	√				√	√	√		√	√		√	
	- Lack of FDI			√	√		√	√	√		√		√	√				√	√	√		√	√		√	
	- Cultural			√	√		√	√			√		√	√				√	√	√		√	√		√	
	- Preference for sole proprietorships			√	√		√	√			√		√	√				√	√	√		√	√		√	

		I1	I2	I3	I4	I5	I6	I7	I8	I9	I10	I11	I12	I13	I14	I15	I16	I17	I18	I19	I20	I21	I22	I23	I24	I25
Theme 3	Use of legislation to regulate accounting			√	√	√	√	√	√		√	√	√	√		√	√	√				√	√	√	√	
	- Accounting Law and General Accounting Plan			√	√	√	√	√	√		√	√	√	√				√	√			√	√	√	√	
	- Tax driven accounting system	√		√	√	√	√	√	√		√	√	√	√		√	√	√	√			√	√	√	√	
	- One reporting alternative			√	√	√	√	√	√		√	√	√			√		√				√	√		√	
	Broad / minimum level of legislation			√	√	√	√	√	√		√	√	√					√	√	√		√	√		√	
	- Gaps in accounting legislation	√		√	√	√	√	√	√	√	√	√	√					√				√	√	√	√	
	- Need for new legislation and legislative coherence	√		√	√	√	√	√	√		√	√	√					√	√	√		√	√		√	
	- Tax accounting vs. Financial reporting (IASs)	√		√	√	√	√	√	√		√	√	√			√		√	√			√	√		√	
	- Functioning of stock exchange			√	√		√	√	√		√		√			√		√	√			√	√		√	
	- Increase in FDI			√	√		√	√	√		√		√			√		√	√	√		√	√		√	
	- Development of concept and class of shareholders			√	√		√	√	√		√		√			√		√	√	√		√	√		√	
	Government involvement in economic activities			√	√		√	√		√	√	√		√				√	√	√	√				√	
	- Managing privatisation process			√	√		√	√			√	√		√				√	√	√	√				√	
	Governmental intervention in the regulation of accounting			√	√	√	√	√	√	√	√	√	√					√		√		√	√		√	
	- NCA					√	√		√			√		√								√	√			
	- DA					√			√			√										√	√			
	- Lack / need of real power / authority				√		√		√		√	√	√	√				√	√	√		√	√		√	
	- No clear definition and division of tasks				√		√		√		√	√	√	√				√	√	√		√	√		√	
	- Lack of resources			√	√	√	√		√		√	√	√	√				√	√	√		√	√		√	
	- Lack / need of co-operation between various government agencies in charge of accounting regulation			√	√	√	√		√		√	√	√	√				√	√	√		√	√		√	
	Arbitrary governmental rulings	√	√								√		√					√	√	√		√			√	
	- Excessive fiscal control	√	√				√				√		√					√	√	√		√			√	
	Lack of accounting profession	√		√	√	√	√	√	√		√	√	√			√	√	√	√	√	√	√	√	√	√	√
	- IACA					√			√			√	√			√	√	√	√		√	√	√		√	√
	- AAA					√			√			√	√	√								√	√		√	
	- PLAA					√						√	√	√								√	√		√	

		I1	I2	I3	I4	I5	I6	I7	I8	I9	I10	I11	I12	I13	I14	I15	I16	I17	I18	I19	I20	I21	I22	I23	I24	I25
Theme 3	- Impact of activities of international account. firms	√		√	√	√	√	√			√	√	√	√	√			√	√			√		√	√	
	- Lack of / Need for co-co-operation between professional acc. associations			√	√	√	√		√		√	√	√	√	√			√	√	√		√	√		√	
	- Division of accounting profession along opposing political beliefs			√	√	√	√		√		√	√	√	√	√			√	√	√		√	√		√	
	- Need for accountability and transparency	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√		√	√	√	√	√	√	√	√	√
	Business managers' lack of formal training and education	√		√	√	√	√	√			√	√	√	√	√			√	√	√		√		√	√	
	- Lack of / Need for understanding of cost & management accounting	√			√	√	√	√			√	√						√	√	√		√			√	
	- Disappearance / re-introduction of internal audit			√	√	√	√	√	√		√							√	√	√		√	√		√	
	- Lack of / need for environmental accounting				√						√	√						√		√			√		√	
	Lack of compliance and disclosure	√		√	√	√	√	√	√		√	√	√	√	√			√	√	√	√	√	√	√	√	
	- Lack of / Need for law enforcement	√		√	√	√	√	√	√		√	√	√	√	√			√	√	√	√	√	√	√	√	
	- Tax evasion	√	√	√	√	√	√	√			√	√	√	√				√	√	√		√	√	√	√	
	- Corruption	√		√	√	√	√	√			√	√						√	√	√		√		√	√	
	- Grey economy	√		√	√	√	√	√			√	√						√	√	√		√			√	
	- Informal financial schemes		√	√	√	√	√	√			√					√			√	√		√		√	√	
	Lack of professionals' incentive for continuous improvements in acc.	√		√	√	√	√	√			√	√	√					√	√			√			√	
	- Lack of / Need for medium- / long-term strategic develop. plans (re SMEs, IT)						√			√		√						√	√	√		√	√			
	- Lack of / Need of exposure to international accounting / auditing experience	√		√	√	√	√	√	√		√	√	√		√				√			√	√	√	√	√
	- Further training and education	√		√	√	√	√	√	√	√	√	√			√	√	√	√	√	√		√	√	√	√	√

		I1	I2	I3	I4	I5	I6	I7	I8	I9	I10	I11	I12	I13	I14	I15	I16	I17	I18	I19	I20	I21	I22	I23	I24	I25
Theme 3	Inexperienced unsophisticated users of accounting information	√		√	√	√	√	√			√	√						√	√	√		√			√	
	Inexperience unsophisticated general public	√		√	√	√	√				√	√						√	√	√		√			√	
	- Lack of / Need for public debates & public's participation in public debates		√	√	√	√	√		√		√	√	√	√				√	√	√		√	√		√	
	- Lack of / Need for educational materials on accounting	√		√	√	√	√		√		√	√			√			√	√	√		√	.		√	
Theme 4	Political closeness	√	√	√	√	√	√	√	√		√	√						√	√	√	√			√		
	International financial institutions (IMF, World Bank, etc.)	√	√		√	√	√	√	√	√		√	√	√	√			√	√	√	√			√	√	√
	International political groupings	√			√	√	√	√	√	√		√	√	√	√	√	√	√	√	√	√			√	√	√
	- EU PHARE Programme				√	√	√		√	√	√	√			√	√	√	√		√	√			√		√
	- Full support for local organisations and expertise		√		√	√	√			√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
	- Training the trainers		√		√	√	√	√	√		√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
	- Maintaining political neutrality		√		√		√				√	√	√	√	√			√	√	√	√	√	√	√	√	
	- Objectives and processes as equally important				√		√				√	√	√		√			√	√	√		√	√		√	
	- Co-ordination to avoid policy sub-optimisation				√		√				√	√	√		√			√	√	√		√	√		√	
	- Considering local conditions when adapting account. models				√		√				√	√	√	√	√			√	√	√		√	√		√	
	- Respecting culture and moral values of recipients				√		√				√	√	√	√	√			√	√	√		√	√		√	
	- Ethnocentrism				√		√				√	√	√		√			√	√	√		√	√		√	
	- Assisting local partners in maintaining a long-term presence				√		√				√	√	√		√			√	√	√	√	√	√		√	
	- Transparency and accountability	√	√	√	√		√	√	√	√	√	√	√		√			√	√	√	√	√	√		√	
	- Fighting corruption	√	√	√	√		√				√	√	√		√			√	√	√		√	√		√	
	- Institution building		√	√	√		√				√	√	√		√			√	√	√	√	√	√		√	√
	- Sustainability		√	√	√		√				√	√	√		√			√	√	√	√	√	√		√	
	- Prepared to change professional partners				√		√				√	√	√	√	√			√	√	√		√	√		√	
	- Promoting the best experience				√		√	√			√	√	√		√			√	√	√		√	√		√	

Theme		I1	I2	I3	I4	I5	I6	I7	I8	I9	I10	I11	I12	I13	I14	I15	I16	I17	I18	I19	I20	I21	I22	I23	I24	I25
Theme 4	- Achieving the same level of development amongst different countries of the same region				√		√				√	√	√		√			√	√	√		√	√		√	
	- Not overestimating the results				√		√				√	√	√	√	√			√	√	√		√	√		√	
	- Planning on time and on budget the exit strategies				√		√				√	√	√		√			√	√	√		√	√		√	
	- Avoiding recipients' dependency and unnecessary downsizing				√		√				√	√	√		√			√	√	√		√	√		√	
	IASC / IASB				√	√	√	√	√		√	√				√		√	√			√		√	√	√
	International accounting firms	√			√	√	√	√						√	√			√	√			√	√	√	√	
	- Need for expansion into new markets	√				√	√	√							√			√	√			√	√	√	√	
	- Requests for services from intl. political & financial groupings and institutions	√				√	√	√							√						√					
Theme 5	Uniformity in accounting	√			√	√	√		√	√	√	√	√	√	√			√	√	√		√	√	√	√	
	Greater government's involvement in economic affairs			√	√		√		√	√	√	√		√				√	√	√	√	√	√	√	√	
	The felt need for economic development by a central government would be more urgent			√	√		√		√	√	√	√			√			√	√	√		√			√	
	- Managing privatisation process			√	√		√				√	√		√	√			√	√	√		√			√	
	Lower level of accounting education in comparison with industrialised countries	√		√	√	√	√	√			√	√	√			√	√	√				√	√	√		
	- Deficiencies in accounting education	√		√	√	√	√	√			√	√	√		√	√	√	√	√			√	√	√	√	
	- Inability to exercise judgements in accounting matters	√		√	√	√	√	√			√	√			√	√		√	√			√	√		√	
	Unavailability / lack of trained management	√		√	√	√	√	√			√	√			√	√	√	√	√	√		√	√	√	√	√
	Lower professional status of accountants	√		√	√	√	√	√			√	√			√			√	√	√		√	√		√	
	- Tax evasion	√	√	√	√	√	√				√	√			√			√	√	√		√	√		√	
	- Corruption	√		√	√	√	√				√	√			√			√	√	√		√			√	
	- Grey economy	√	√	√	√	√	√				√	√			√			√	√	√		√	√		√	
	- Informal financial schemes	√	√	√	√	√	√	√			√				√				√	√		√			√	

		I1	I2	I3	I4	I5	I6	I7	I8	I9	I10	I11	I12	I13	I14	I15	I16	I17	I18	I19	I20	I21	I22	I23	I24	I25
Theme 5	Members' interests progressively identified with those of society				√		√				√	√		√				√	√	√		√	√			
	Larger power distance in society				√						√	√						√	√	√		√	√			
	- Prevailing collectivist mentality				√	√	√				√	√	√	√	√			√	√	√		√	√		√	
	- Weak accounting profession	√		√	√	√	√	√	√		√	√	√		√			√	√	√		√	√	√	√	
	- Inability to oppose government's intervention in regulating accounting			√	√	√	√	√	√		√		√		√			√	√	√		√			√	
	- Lack of knowledge about alternative accounting systems	√		√	√	√	√	√	√		√	√	√	√	√	√		√	√	√		√	√		√	

Semi-structured interviews shared some common questions but each semi-structured interview was unique so as to shape and develop the unique "puzzle piece" that was needed. Furthermore, not all interviewees had adequate knowledge to answer all possible questions. The following quote from one of the interviewees exemplifies this situation.

> "I think that to some extent, the accounting reform has affected all sectors of economy. As I have been working in the banking system for the last 12 consecutive years, I am more familiar with the reform of bank accounting system. That's why I would like to focus on accounting reform in the banking sector."

In those cases it was necessary to decide very quickly which topics to cover. This explains the missing ticks in the above table. It is a waste of time to ask interviewees about topics of which they have no real knowledge and it is probably misleading as well, as some of them will most likely attempt to answer the questions anyway, possibly misdirecting the researcher. It is also illogical and irrational to expect every single interviewee to answer every possible question, discuss every single issue and identify all factors that have influenced the development of accounting in Albania especially when taking into account the composition of interviewees' sample (interviewees' background, education, career path, current position and social status).

It is noteworthy that certain issues or factors that emerged from the analysis of interviews were taken into account even though those certain issues or factors were discussed by very few interviewees. Although certain issues or factors were discussed by a statistically low number of respondents, the researcher deemed those issues or factors to be important enough to be included in the follow up analytical discussions, especially as those issues or factors have been discussed widely in and considered important by the accounting literature.

The following diagram places the issues and factors that emerged from the analysis of interviews onto Perera's contingency based approach.

Diagram 7.2.: Albania‘s accounting environment - a contigency based approach

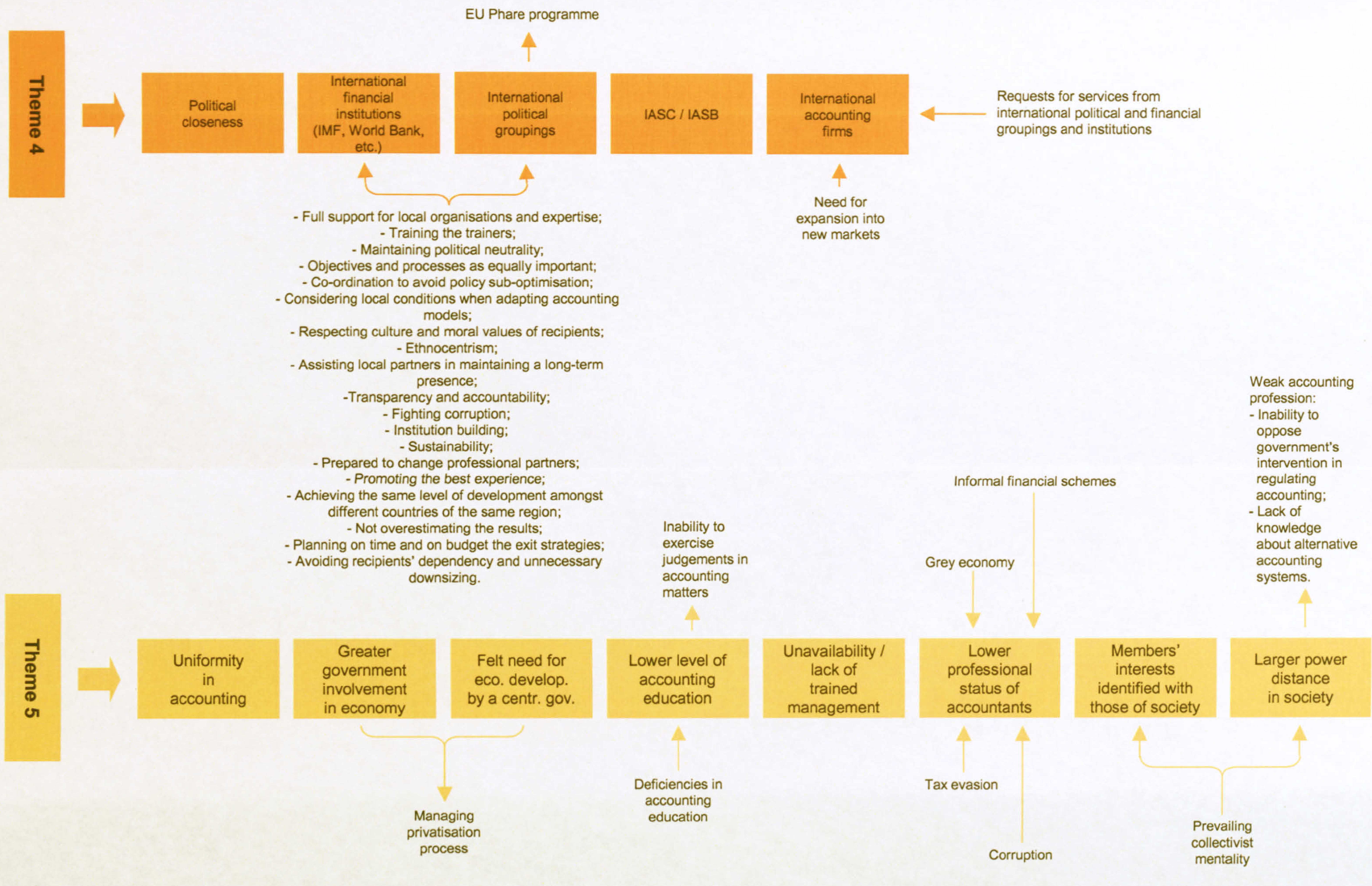
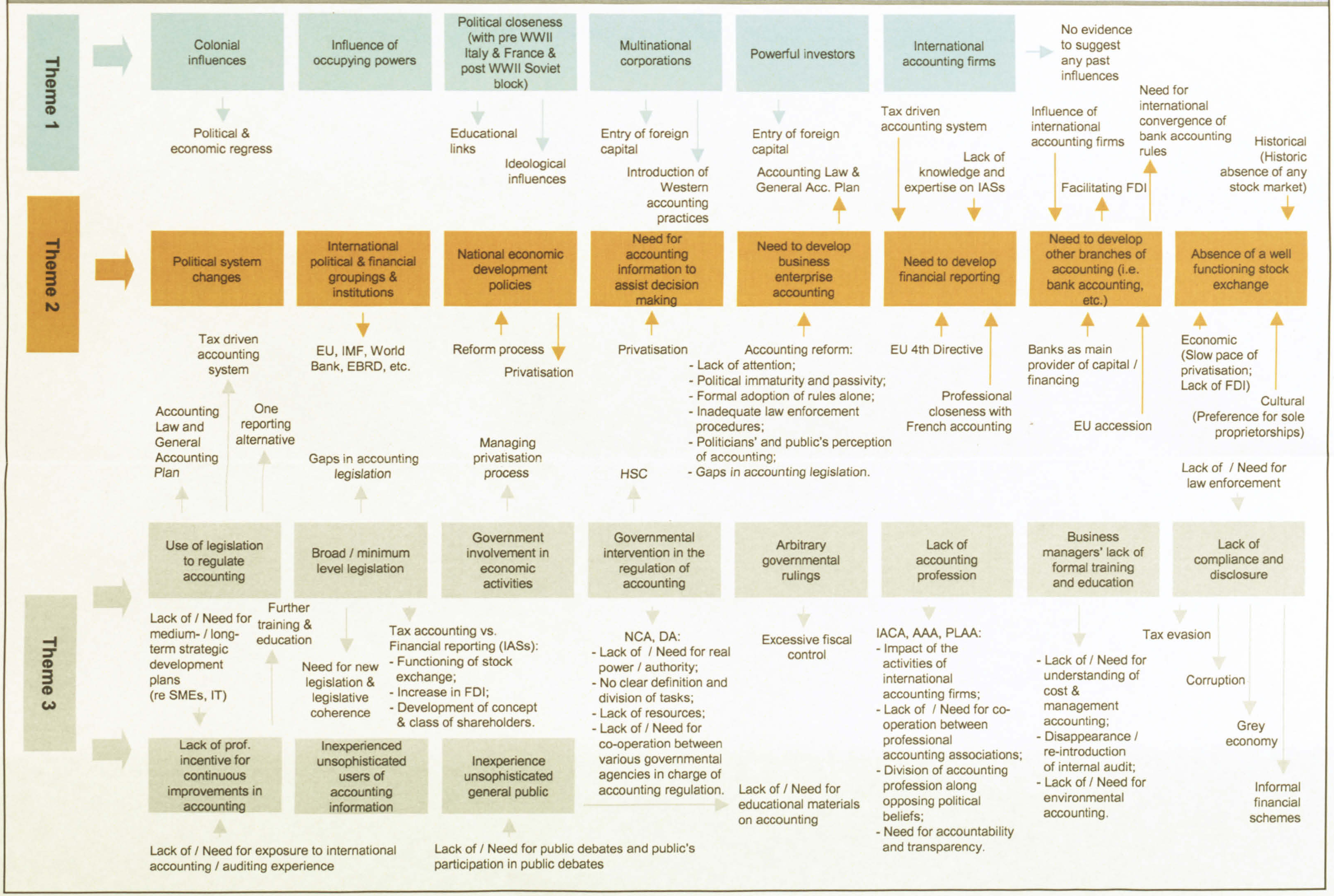


Diagram 7.2.: Albania's accounting environment - a contigency based approach



The following sections discuss the above diagram and provide a clear picture which was built from assembling the pieces and insights of the interviews into an overall coherent contingency based analysis of Albania's accounting system and change. Where possible quotations were used as they can be excellent for capturing the nuances and subtleties of a situation.

It is noteworthy though that, as explained in Chapter Four[7], confidentiality was an issue taken into consideration very carefully. All interviewees were assured that no explicit mentioning of them would take place in this research study. The interviewees were also told in advance (before the start of the interviewing process) that some parts of their answers might be quoted, but without disclosure of interviewees' identity. Permission to quote parts of responses was thus, required. However, despite many assurances that no direct reference would be made not all interviewees were content with the fact that some of their answers could be quoted. It is important to note that the average age of interviewees was above 40 years old. This meant that for the most considerable part of their life most of interviewees had lived under the communist regime during which the majority of Albanians lived in fear, and had to protect themselves from anything that could put them in danger. At that time, freedom of expression did not exist. The change of regime in the early 1990s brought about, formally, the freedom of expression. However, throughout the 1990s, freedom of speech had not always been respected, and most interviewees were very concerned that they could endanger their life and professional careers as a result of expressing their opinions during research interviews, and most importantly having parts of their responses quoted even anonymously. As indicated above however, throughout this research study confidentiality of interviewees' identity and responses had to be and was fully respected.

[7] Chapter Four - Research Methodology and Methods

7.3. The Past Pattern of Accounting Developments in Albania

7.3.1. Albania's Accounting Before WWII - A Look in the Past

Analysing the past of Albania's accounting is very difficult. There are not any written records that could be used and almost nothing is known about Albania's accounting in medieval times. The lack of information could be explained by looking at the history of this country. Albania was part of the Ottoman Empire for almost five centuries. During this period Albania suffered serious political and economic setbacks. The country was stripped off its economic resources and left geographically and religiously divided. Eexogenous historical factors like the total control exerted on Albanian lands between the 14th and the early 20th centuries by a colonial power such as the Ottoman Empire brought about political and economic regress which in turn explains the absence of an articulated accounting system and any information about it.

Albania won its independence from the Ottoman Empire in November 1912. However, for the best part of the remaining years of the second decade of the 20th century Albania was a battlefield and experienced severe devastation as a result of the two Balkan Wars and World War I. Then, in the early 1920s Albania experienced a power struggle between democratic progressive forces and a dominant clan of Southern landowners and Northern tribal leaders. Zog - a promising politician, exploited such a power struggle and managed to become president of the country (1925 - 1928), and then self-proclaimed himself King Zog I of Albania (1928 - 1939)[8].

It was during the reign of King Zog I that many concessions were made to powerful Italian, French, British, Dutch and U.S. investors.

---

8 Just days before the occupation of Albania by Italy on the 7th of April 1939, King Zog I, his family and some members of the royal court fled Albania and went in exile.

The country was in desperate need of foreign capital and investment and King Zog I allowed several Italian (Ferrovie dello Stato del Regno d'Italia, Montecatini), French (Syndicat Franco Albanais), British [Anglo Persian Oil Co. (APOC), Neylor Benzin Co.], Dutch (The Royal Dutch / Shell) and U.S. (Standard Oil Co. of New Jersey) companies to exploit Albania's economic resources especially its minerals, oil fields and agricultural land. Italian companies such as Società Italiana Miniere Selenizza (SIMSA), Società Anonima Italo-Albanese (SAMIA) and Azienda Carboni Italiani (ACI) invested heavily in the exploration and extraction of minerals such as bitumen, copper and coal. Other companies such as Azienda Italiana Petroli Albania (AIPA) and Azienda Generale Italiana Petroli (AGIP) were given Albania's oil fields, while Ente Italo-Albanese di' Agricultura (EIAA) and Italo-Albanese (ITALBA) enjoyed the right to use Albania's most productive agriculture land. The Royal Dutch / Shell group was also allowed to explore Albania's oil reserves. Furthermore, in March 1925, as a result of an agreement between King Zog I and a group of Italian financiers, the National Bank of Albania was established. It was the entry of foreign capital and the activities of various foreign investors and bankers (mostly Italian) that introduced for the very first time Western accounting practices to Albania.

As indicated above, there are no written sources of information on the past of accounting in Albania. The researcher had to rely on the information provided by two interviewees - one of them a former accounting academic and free-lance authorised chartered auditor, and the other one an accounting academic and consultant, who were the only ones who had some knowledge of accounting developments in Albania in the early twentieth century.

It is noteworthy that there is a considerable body of literature, mostly in Italian language (Calmes, 1922; Gulinelli, 1927; Frasca Polara, 1932; Shkoza, 1935; Toçi, 1937; Borgatta, 1940; Demaria, 1940; Di Fenizio, 1940; Di Nardi, 1940; Lorenzoni, 1940; De Toma, 1942; Giordano, 1942; Verani Borgucci and Ineichen, 1942; De Toma, 1943; Giordano, 1943; Pastorelli, 1967; Zoga, 1973; Fishta and Toçi, 1983; Roselli, 1986; Meta, 1999; Caselli and Thoma, 2000) that has discussed the activities of foreign investors (mostly Italians) in Albania in the early twentieth century. In addition, there is enough raw evidence (in the form of accounting statements of branches of the first bank opened in Albania in 1925 and other documents of a number of foreign companies operating in Albania before WWII) in the state archives and the archive of the central Bank of Albania to suggest that indeed it was the entry of foreign capital and the activities of various foreign investors and bankers (mostly Italian) that introduced for the very first time Western accounting practices to Albania

7.3.2. Influences on Socialist Accounting in Albania

After the end of World War II a communist leadership took power and ruled Albania until the early 1990s. During this period, Albania's economy was centrally planned and the accounting system provided information for the purposes of national economic planning. Furthermore, accounting practices were simply viewed as a set of mechanical techniques. Accounting statements of state-owned enterprises and farms did not reflect accurately the state of the affairs. The profit-making ability was not correctly estimated. In the case of the state-owned banking system improperly classified loans overvalued assets and obscured liquidity problems. Accountants had a very low social status. They were considered as bookkeepers or very ordinary clerks. Most interestingly, in the majority of state-owned enterprises it was the engineers who performed the duties of the accountants.

Accountants in Albania had to use an accounting plan which was a mixture of the French accounting plan with the Soviet accounting terminology. Until the late 1980s, although Albania's accounting system used Soviet terminology, the accounting system was mainly oriented along French-Italian lines, that is tax driven[9]. This was due to the fact that some of Albania's leading accountants until the end of the Cold War were technocrats who had graduated from French or Italian universities before World War II.

[9] However, both the French and Soviet accounting systems were based on the German-type structure of accounts that was designed in the 1920s.

During his reign (1928 - 1939), King Zog I sent many young individuals to study abroad especially in Italy and France. Perhaps the King had realised that educated people were the only ones who could bring progress to a country which was extremely undeveloped. His government at that time also provided scholarships to those who were studying abroad.

In one way or another some of these technocrats had survived the systematic elimination of intellectuals - especially those who had studied abroad before World War II - by the ruling communist regime. However, these accounting technocrats had to embrace the communist ideology and use the Soviet accounting terminology.

The French influence on Albania's accounting is noteworthy. Historically, many Albanians have disagreed with the French foreign policy in relation to the Balkans, and they have considered France as an ally of Albania's enemies - the Slav neighbours. During the First World War however, the French army operated in the Albanian territory. The French army offered protection to the locals and encouraged the establishment of a semi-independent republic in the Korça region - southeast of Albania. The French brought their culture and education and opened many high schools which would become very popular among Albanians. In the 1920s and 1930s the emerging elite of Albanian society considered France as the symbol of civilisation and French culture and language were highly regarded.

It is also worth pointing out that there are not many useful written sources of information on Albania's socialist accounting. The researcher had to rely on the information provided mainly by two interviewees (one of them is the same as the one mentioned earlier on) - former academics who used to lecture on socialist accounting.

7.4. Contemporary Developments - Albania's Accounting Reform in the 1990s

Political, social and economic changes that have taken place in Albania since the early '90s have also influenced the country's accounting system. As one of interviewees explained,

> "... accounting reform is a vital part of the overall economic reform. Accounting reform should reflect and follow changes in politics, legal and other socio-economic aspects of society. On the other hand, changes in accounting system should anticipate future economic developments of the country and provide the necessary rules for properly reflecting such future developments."

Albania's accounting reform was initiated as early as the end of 1991. The major objectives of the reform were to establish a new system of accounting that would meet the demands of a developing market oriented economy (where privatisation of state controlled assets was crucial) and international accounting standards, and create an independent accounting profession. Special emphasis was put on preparing an accounting legislation that would be in accordance with the European Union's directives on company law. This reflected Albania's desire to become a member of the European Union. As one interviewee pointed out,

> "... the right to become a EU member, or to become a candidate to become a EU member is best achieved by developing economically, creating social stability and having political constancy and consistency. But an important demand which is posed more formally and which is more necessary to meet is that of bringing national legislation closer to the EU legislation and undoubtedly part of this process are legislative changes in the area of accounting."

In January 1993 Albania's parliament passed the "Law on Accounting"[10]. The approval of this law has been considered as one of the most important aspects of accounting reform in Albania. The "Law on Accounting" lays the rules governing accounting practices that should be followed by all businesses in Albania. According

---

10 Law on Accounting no. 7661, dated 19.01.1993

to this law, all businesses should keep orderly accounts that are appropriate to their activity, and without prejudice to the requirements of special laws or regulations.

Bookkeeping practices might vary. Businesses could either have their accounts computerised and bind the computer spreadsheets in sequential order to form the obligatory accounting records, or keep their official bookkeeping records manually. In the latter case, entries are posted on a monthly basis in order to give a summary of all transactions. For recording purposes, the maximum time limit for grouping all transactions together is one month. Accounting entries should be posted in Albanian currency (lek).

The annual financial statements should give a true and fair view of the state of the business. The accounting principles that are taken into consideration while preparing financial statements are very much in line with the accounting principles used in member countries of the European Union. As a matter of fact Albania's accounting legislation has taken into consideration the Fourth Directive of the European Community.

Albania's "Law on Accounting" makes explicit reference to the going concern, prudence, historic cost, accruals, matching, consistency, and materiality. Furthermore, as stated in the accounting law,

(i) the value of fixed and current assets is estimated on the basis of consignment or production cost,

(ii) depreciation charges and the useful life of fixed assets are determined by the Ministry of Finance of Albania, and

(iii) intangible assets are amortised within a five-year period, unless it is otherwise specified in the General Accounting Plan (hereafter GAP). If GAP does not provide any guidelines on how to amortise intangible assets, then an amortisation guideline is prepared and approved by the Ministry of Finance.

In the case of limited liability companies, the general assembly of shareholders approves the annual financial statements, and declares whether there will be earnings distributable in the form of dividends. Distributable earnings are defined as net earnings of the financial year, decreased by any losses brought forward and the portion allocated to the legal reserve and/or any other reserve made mandatory by the law, and increased by any earnings brought forward. The minimum legal reserve required cannot be distributed in the form of dividends.

The annual financial statements include the balance sheet, the profit and loss account, and an appendix with the disclosure requirements. The preparation of the cash flow statement is not obligatory. The financial year usually corresponds with the calendar year. In general, the annual financial statements should be audited before they are lodged with the tax collection agencies. The audit of annual financial statements is not obligatory for those businesses that at the end of financial year, do not exceed two or more of the following three indices:

(i) a balance sheet figure of six million lekë;

(ii) total revenues of twelve million lekë;

(iii) an average of ten employees.

All businesses should lodge their annual financial statements with the tax collection agencies by the 31st of March of the following year.

In July 1993, the Albanian government approved the new "General Accounting Plan" which explains in detail how businesses should keep their accounts. Both the "Law on Accounting" and the "General Accounting Plan" were based on the French accounting for the following reasons. First, since 1947, there had been some experience in using the same type of accounting. Secondly, in the early 1990s, there was lack of knowledge and expertise about other accounting systems and the International Accounting Standards. Finally, annual financial statements prepared using continental accounting rules would provide the basis for tax calculations. This in turn would facilitate the development of Albania's infant fiscal system, as tax collection agencies would require less personnel and fewer resources that would have otherwise been employed to do all the calculations.

7.4.1. Albania's Bank Accounting and Stock Exchange Regulation

Albania's law on accounting laid the foundation for the accounting system of the banks of the second tier. Despite efforts to have in place a well-established and meaningful set of accounting rules, it would take five years before the gap that existed in relation to bank accounting would be addressed. In the meantime, banks - especially the state-owned ones - tried to create their own internal accounting systems. The manual of bank accounting - approved by the Decision of the Council of Ministers, no. 820, dated 30th of December 1998 - came into action on the 1st of January 1999. The purpose of the manual was to fill the gap that existed in relation to bank accounting, specify in a detailed way how banks should keep their accounts, and also offer explanations related to bank accounting practices. One of the interviewees highlighted some of the above key moments of bank accounting reform by pointing out that,

> "[t]here have been some efforts to improve the bank accounting. Some of these efforts did not produce great results. There were not clear accounting rules related to different aspect of banking operations, especially those related to foreign exchange transactions or overseas payments. For instance, no one knew exactly the banks' profit from foreign exchange transactions. All in all, from 1992 onwards not much was done with regard to bank accounting. I could say that there was a five-six year gap until when Ernst and Young prepared the new manual of bank accounting. This manual is already being implemented. Somehow, it is early to draw any conclusions with regard to the outcome of using this manual."

Accounting practices followed by Albania's banks of second tier are very similar to international practices with regard to bank accounting. This reflects Albania's aim to create a financial system that would encourage and facilitate foreign direct investments and at the same time comply with EU accession requirements.

Like any other business, banks apply the accruals principle. Branches of foreign banks are required to comply fully with Albania's bank accounting practices. Keeping accounts and preparing financial statements based on accounting legislation of more than one country have not been straightforward tasks. One interviewee explained,

> "Albania's current legislation requires that every bank, no matter whether it is foreign or domestic, should keep accounting records and prepare its financial reports according to domestic accounting rules. As a foreign bank, we should also prepare financial reports according to our headquarters' home country (in our case, XXX). Therefore, in theory we have to match every ledger account kept under the domestic accounting legislation with its XXX counterpart. Certainly, this is not easy and at the same time possible, as both countries have their own set of ledger accounts which are not necessarily the same. Thus, in certain cases, we can report only synthetically rather than analytically. As I said, this is because the XXX bank accounting system does not have some ledger accounts which we should keep under Albania's bank accounting legislation."

All banks of second tier are required to report to the (central) Bank of Albania and to the tax collection agencies. Reporting to the central bank is necessary so that the supervision of all banking activities is made possible. At the same time tax collection agencies require all banks of the second tier to report the taxable profit. All banks of the second tier are required to prepare a balance sheet, and a profit and loss account accompanied by auditor's report. All these documents should be lodged with the central Bank of Albania.

Albania has enacted legislation to facilitate the public trading of corporate securities but for quite some time the Tirana stock exchange has not been in operation. With the collapse of pyramid investment schemes fresh in the minds of the Albanian public, it would be essential that any company listing its securities adhere to the highest standards of corporate governance including the regular disclosure of relevant, reliable and timely financial information. However, as the table below exemplifies, most, if not all, Albanian commercial entities fall within the EU definition of "small enterprises" and hence would have only limited external reporting requirements (primarily taxation reporting).

Table 7.2.: Analysis of enterprise sector by revenue

Turnover in million lekë	Turnover USD '000	Number of enterprises	Average number of employees
< 4	28	28,384	47,399
4 - 20	28 - 138	5,758	27,017
20 - 50	138 - 345	957	15,503
50 - 100	345 - 690	304	9,259
100 - 200	690 - 1,380	148	10,791
> 200	> 1,380	127	38,034
Total		**35,678**	**148,003**

Source: INSTAT annual structural survey of economic enterprises 1999

7.4.2. Albania's Government and Treasury Accounting

Government accounting in Albania is performed by two different organizations. The line ministries (spending units) follow a modified accrual basis of accounting (i.e. they do not account for depreciation) and maintain their own accounting records in prescribed formats using a double entry system of accounting. The main purpose of accounting at the line ministries is to keep track of expenses vis-à-vis budget provisions although to a certain extent it does duplicate the accounting done at the Treasury. The Treasury follows a cash basis of accounting and maintains records of all revenues and payments. The financial statements prepared by the treasury are submitted to the Council of Ministers and the Parliament. Demonstrating compliance with the approved budget is seen as an important component of public accountability. Treasury is an integral part of the Ministry of Finance. Treasury maintains accounts on cash basis and records transactions as when treasury receives money or makes payment on behalf of a budget spending unit. Most of the operations in the treasury offices are handled manually. There is no recording of commitments in the treasury ledgers. The treasury produces periodic reports on the performance of revenues, expenditures, and fiscal deficit. The reports prepared by the treasury form the annual financial statements of the Government.

7.4.3. Constraints on Accounting Reform

According to the interviewees' responses, there have been various factors that have constrained Albania's attempts to reform the accounting system.

In the 1990s issues of national emergency, macroeconomic stability, liberalisation of trade and privatisation took precedence over the reform of accounting. This meant that accounting reform received less attention, despite its strong links with all other economic sectors. While discussing the lack of attention that accounting reform received in the early stages of transition from centrally planned to market driven economy, one of interviewees for instance acknowledged that this phenomenon

> "was a strategic mistake, which was noticed not only in Albania but also in all other transition economies and which, in general, was understandable and acceptable. ... the aid which was received in the beginning of transition was ... for carrying out reforms at a macro level ... ."

Groups within Albanian politics have time and again displayed signs of political immaturity. The speed of transition from plan to market has revealed a pattern of confrontational politics that is typical of a proto-democracy. Accounting reform has been conducted against a background of political instability and institutional immaturity that has made the transformation even more difficult. One interviewee argued that,

> " ... there were high intensity reforms undertaken, some of the most radical reforms that even the West itself had not tried at such short term cycles and with an almost complete absence of supportive institutions ... ."

Furthermore, as another interviewee explained,

> "For quite some time, very often the commitments of Albanian politicians towards reforms have been an outcome of the pressure from the international community rather than an outcome of the self-reforming will and reforming mentality of the politicians themselves.
>
> This is a phenomenon especially of the last four - five years, ..., Albanian politics is in a passive position towards reforms programmes that are undertaken."

When asked to explain the reasons for such a passive position, one of interviewees argued that this passivity,

> "... is a phenomenon that has happened in those countries in transitions, especially in countries which, as a result of historical factors, inherited a weak institutional basis especially of society, of democratic culture, and even of market economy; the second reason is that those countries had relatively immature political elites and this relative immaturity also brought about political instability; so during the last few years in those countries there have started to appear some symptoms and some phenomena which are disturbing indeed: the first one is the dependency phenomenon which has developed and which has become a typical phenomenon of undeveloped countries, not developing countries - in other words we have begun to turn into countries psychologically and financially dependent mainly upon foreign financial aid. Psychological dependency that has developed is more disturbing than financial dependency though; as I said politicians' entire reformist spirit is induced from abroad, it moves and it fluctuates according to the intensity of ... the pressure that donors exercise, thus losing almost all its initiative ..., and for me this is very worrying. No matter how serious reform objectives are - and undoubtedly they are serious - the respective assistance that comes from the donors can never match with, fully fit into the real context where a reform is taking place like it would have matched with, fully fitted into if that reform had been the outcome of politicians' own self reformist will.
>
> ... The government is not understanding yet that, for instance if we look at the problem from a different angle, it (i.e. the government) will not be able to create a sustainable source of public revenue if it truly does not improve and impose the accounting rules."

Policy makers have overemphasised the formal dimension of accounting reform. Its success has been judged by the formal adoption of rules alone. A lack of proper understanding of new accounting concepts and practices, in addition to inadequate law enforcement procedures, has not helped the situation. The following quotes from three different interviewees exemplify the above.

> "[w]hat has been noticeable during the overall transition has also been noticeable during the reform of accounting: the maximum the government has achieved has been the formal change of the old legislation, of the old system, and the formal establishment of the new substitutive legislation, of a new substitutive system. However, one feature of, one embryonic disease of the government has been its inability to regulate the game of economic agents, its inability to impose the regulation, especially its inability to perform its regulatory role especially in the economic sphere."

> "... the imposition of accounting plan as one of the basis of accounting regulation, the enforcement of accounting law, of the new accounting plan, and the enforcement of the use of accounting rules when managing businesses, have been almost inexistent, it has not been easy indeed ... ."

> "... I think the importance of enforcement of accounting legislation has not been understood; the importance of enforcement of accounting legislation - like many other issues - has not been emphasised enough by the Ministry of Finance which looks after accounting matters and enforcement of accounting legislation."

More importantly, inadequate enforcement procedures have hindered the full implementation of accounting and tax legislation, as exemplified by the case of the informal financial schemes some of which were operating as pyramid funds purely. For several years these schemes operated with no proper licenses, whilst paying exceptionally high monthly rates of interest. They were allegedly connected to improper activities, and never disclosed any information on their investment histories, let alone any accounting information.

Accounting officials, in addition to various ministries and the central bank, failed to raise the awareness of risks associated with the informal financial schemes, take any corrective actions or even enforce existing tax and accounting legislation. Certainly, these officials can in no way guarantee the success of a particular set of reforms.

What they can and should do is: create an environment in which legislation was fully implemented and, once implemented, carefully monitored.

No efforts have been made to fundamentally transform the mentality of politicians and the public. Accountants continue to be perceived as mere bookkeepers, and the role of accountants in the decision-making process has been largely overlooked. As one of interviewees emphasised,

> "... even at the highest level of state administration, there is a lack of understanding of the real role of, and of the importance of, accounting regulation and proper keeping of accounts in business activities."

7.4.4. Further Legislative Challenges

Interviewees acknowledged that despite the fact that important steps have been taken, accounting reform in Albania still faces an uphill struggle. Efforts to create robust accounting legislation must continue.

> "... accounting legislation is not fully complete yet. There was a gap of five-six years until the new manual of bank accounting was prepared and introduced. There are still parts of accounting legislation to be improved, updated or completed. There is a lot of work to be done with regard to accounting for the agricultural sector, insurance companies, the stock exchange, non profit organisations, tourism, etc.."

said one of interviewees.

Indeed, about 50 - 60% of Albania's population relies on income from agriculture. The following data exemplify the importance of agricultural sector to Albania's economy and society.

Table 7.3.: Output per sector in Southeast European countries (% of GDP)

	Agriculture		Industry		Services	
	1990	**2001**	**1990**	**2001**	**1990**	**2001**
Albania	35.9	50.2	48.2	23.4	15.9	26.4
Bosnia and Herzegovina	35.9*	14.8	25.9*	30.6	38.3*	54.6
Bulgaria	17.0	14.0	49.2	29.0	33.8	57.1
Croatia	10.3	9.3	33.8	32.7	55.9	58.0
Macedonia	8.5	10.9	45.6	31.1	45.9	58.0
Romania	23.7	15.0	49.9	34.6	26.3	50.4
Serbia and Montenegro	-	15.0**	-	32.0**	-	53.0**

- Data not available
* Data for 1994
** Data for 2000
Source: World Development Indicators database (2003)

Table 7.4.: Employment per sector in Southeast European countries (% of total employment)

	Agriculture		Industry		Services	
	1990	1999	1990	1999	1990	1999
Albania	24.1	-	44.7	-	31.2	-
Bosnia and Herzegovina	11.3*	18.8	47.5*	36.2	41.2*	45.0
Bulgaria	19.5	26.6	41.1	29.1	39.3	44.3
Croatia	5.3	16.6	44.8	30.6	50.0	52.8
Macedonia	8.3	21.9	50.0	31.8	38.9	46.3
Romania	29.8	41.8	39.9	27.6	30.3	30.7

- Data not available
* Data for 1990
Sources: World Development Indicators database (2003), Macedonian Labour Force Survey (1999), and World Bank report (2002) on Bosnia and Herzegovina

Yet a specific accounting plan for such a vital sector such as agriculture has not been formulated. The result has been a loss in tax revenue and the growth of unreported economic activity. Some estimates put the size of grey / informal economy at around 60% of Albania's annual GDP. Furthermore, there are also no specific accounting rules for the insurance companies as well as businesses operating in other sectors of Albania's economy, such as tourism, etc.. For instance, there are no special accounting rules or disclosure requirements for insurance companies. It is unlikely that general accounting principles applicable to trading companies will give sufficient guidance to insurance companies regarding the recognition of earnings and the accumulation of loss reserves.

In light of the growing trend of standardising and harmonising accounting practices, Albania faces more pressure to comply with the International Accounting Standards. The full endorsement of internationally accepted accounting standards, however, or any other set of accounting standards for that matter, is not a foregone conclusion. If fully adopted, a system of accounting standards would give Albanian accountants individual choice over which methods to use, and in which contexts. Such a situation would conflict with existing practice, where accountants follow detailed instructions provided mainly by the Directorate of Accounting of the Ministry of Finance. Accountants in Albania are not accustomed to using their own judgement, and switching to a system of accounting standards seems alien to them.

Further, as an interviewee explained,

> "... there are problems with the adoption and implementation of quite a few international accounting rules, practices, or conventions. For instance, the implementation of the 'going concern' convention is extremely difficult. There are so many businesses that start operating and suddenly go bankrupt or cease operating due to a variety of reasons or for no apparent reason. How could one implement the 'going concern' convention in those cases? The economic and financial environment in Albania is so volatile that it is extremely difficult to adopt even the most basic Western accounting rules or concepts."

Perhaps, as the same interviewee continued, preparing

> "... a set of national standards of accounting based on the International Accounting Standards could be the right thing to do. Every country has its own unique factors - political, legal, economic and social - which are different from those of other countries. An international accounting standard might be applicable to say, United States, but that does not necessary mean that this standard is also applicable to the context of Albania. Certainly, International Accounting Standards should be taken into account, but at the same time Albania should develop its own set of accounting standards taking into account those international accounting standards and experience."

While the government has the duty to broaden its reform of accounting system, the effective implementation of any decision requires efficiently run accounting policy making and administrative bodies, alongside professional associations.

7.5. Legislative Regulation of Accounting, the Role of Governmental Institutions and the Development of Accounting Profession in Albania

In early 1990s, a package of reforms based on the ideas and advice offered by international financial institutions and the European Union was introduced in Albania. Part of this package was the reform of the accounting system. It is noteworthy that accounting was considered important since it affects sectors such as banking and insurance, activities such as investment and trade, and provides the information required for tax purposes. Accounting is seen as playing a significant role in meeting the demand for reliable information from all sectors of the economy, and consequently it assists the government in the decision-making process. As one of interviewees pointed out,

> "... accounting in Albania is used for tax purposes. Genuine implementation of accounting rules would minimise tax evasion. This in turn would lead to greater state revenue which would reduce the budget deficit. On the other side, accounting provides useful information for business management. Financial reports help specialists in detecting any problems, and provide solutions to such problems. Finally, by respecting the rules of their profession, accountants and auditors could be role models for other members of society, and this in turn would support law enforcement and help fight corruption."

The reform of accounting was vital in the context of political and economic transformation. Albania's previous economic system had used accounting only as a tool only to satisfy national planning requirements. The record keeping developed for the purposes of central planning could not provide the information needed for the management of businesses in a market environment. Furthermore, it could not give an adequate valuation of the economy's assets - a prerequisite for their eventual transfer from the state into the private sector.

In January 1993, Albania's parliament passed the "Law on Accounting" that would govern the country's accounting system. In July of the same year, the government approved the "General Accounting Plan". Additional projects and specifications regarding accounting have also been outlined in several other governmental acts and decrees. As one interviewee indicated,

> "... the change of system, of the structure of enterprises, of the overall structure of economy, the introduction of market economy brought about the need for changes in accounting which were completed in 1993 with the re-working of the old accounting plan and the introduction of the new accounting plan, which, without a doubt, was an advance, constituted progress at that point in time."

7.5.1. Albania's Governmental Institutions of Accounting

A functioning accounting system requires appropriate institutions, such as policy- and decision-making bodies, standard setting and regulatory agencies, and professional associations. Through the latter, accounting rules can be proposed, and legislation drafted, implemented and, most importantly, monitored.

The "Law on Accounting" of January 1993 established the National Council of Accounting (NCA). The mission of the NCA has been to develop Albania's accounting policy and to oversee its implementation. It is worth pointing out that the NCA is attached to the Ministry of Finance and is considered a non-governmental consultative body only.

The mounting pressure for reform in accounting, and the total inactivity of the NCA between early 1997 and mid 1998 as a result of the crisis triggered by the failure of pyramid funds, led the government to establish a department of accounting within the Ministry of Finance. In early autumn 1998, the Directorate of Accounting (DA) started operating.

The Directorate of Accounting is expected to perform a wide variety of tasks such as:

(i) expanding the legislative framework of accounting in Albania;

(ii) offering advice regarding the resolution of conflicting interpretations of accounting rules;

(iii) preparing specific accounting plans for public-sector institutions; and

(iv) overseeing compliance with legal requirements relating to the preparation of financial reports in both the public and private sectors.

The Act of Albanian Council of Ministers on "The Organisation of the Auditing Profession", approved in 1995, provided an outline for the re-organisation of the auditing profession. In 1996, under the supervision of the Ministry of Finance, the Institute of Authorised Chartered Auditors (IACA) was created. This independent body has since taken over the task of establishing, organising and developing the audit profession in Albania.

According to the law on commercial companies[11], IACA's members conduct statutory audits[12] of all firms, banks and insurance companies in Albania, be they private or state owned.

The audit of finances of the public sector, including the central and local government, public institutions and non-governmental organisations is carried out by the High State Control (HSC). Albania's Constitution has established the High State Control as the Supreme Audit Institution (SAI) to carry out external audit of public finances. The Law on State Supreme Audit Institution enacted in December 1997, amended in April 2000, governs the working of the HSC.

The Law on State Supreme Audit Institution, defines audit to include legality, regularity, and performance, and provides a broad scope of audit to cover audit of state property and implementation of state budget. HSC has the right to audit entities

---

11 Albanian Law no. 7638, dated 19.11.1992 - known as the "Law on Commercial Companies", and Albanian Law no. 7953, dated 21.06.1996 - known as "For Some Changes in the Law on Commercial Companies"

12 Statutory audit means the examination of financial statements by an independent auditor to express an opinion on whether the statements taken as a whole present fairly the financial position, results of operations and cash flows in conformity with relevant and appropriate regulatory requirements.

in which the state either owns more than one-half of the quotas or shares, or guarantees their debts, credits and obligations. HSC also has a right to audit private organizations that receive funds from the state or via the state budget. The objectives of HSC as stated in the above law are to ensure "proper and effective use of public funds, the development of sound financial management, and the audit of orderly execution of administrative activities." Another objective clearly stipulated in the above law is to provide information to the public authorities and public through publication of an objective report.

In 2000, the Albanian government decided to allow foreign accounting firms to conduct statutory audits in Albania. Allegedly, the decision was taken in order to comply with the entry requirements for full membership in the World Trade Organisation.

The Association of Accountants of Albania (AAA) was established in February 1998. The main objective of this association is to bring together all accounting practitioners and academics, and to protect and promote their professional and social interests.

The association does not have any apparent membership restrictions. AAA believes that a strong accounting profession could play an important role in fighting tax evasion and corruption, and in supporting the overall economic development of Albania.

The Professional League of Approved Accountants (PLAA) was established in Spring 2000. Membership to the PLAA is conditional upon obtaining the license of an approved accountant issued by the Ministry of Finance. To obtain such a license, all candidates must undergo a number of training courses and exams organised by the Directorate of Accounting in the Ministry of Finance. The objective of the PLAA is to eventually become an Institute of Approved Accountants.

7.5.2. Problems of the Current Legal and Institutional Framework

The interviewees identified several problems associated with the current institutional framework. As one of interviewees summarised,

> "...the policy making bodies should ensure the drafting of a contemporary and complete accounting legislation, regulators should monitor the implementation of such legislation, and enforce it where needed, and finally the professional associations should offer a lot more support through training, updating their members on the latest world-wide developments in accounting and auditing, and penalising those members who do not comply with the law and ethics of profession. Most of the above has not taken place fully and properly in Albania. Accounting legislation is incomplete and its enforcement has been erratic, certain parts of the existing legislation require re-working, there has not been any professional associations which have been professional in the full sense of the word, we professionals have not been well-informed on any developments in the areas of accounting and auditing, and there has been a complete lack of information resources."

In turn, the above issues are analysed comprehensively. As outlined in section 7.5.1., the National Council of Accounting is only an advisory body. The authority to act upon the advice of the NCA rests entirely with the Minister of Finance. The NCA, therefore, possesses very little actual power. In addition, as it was highlighted by one of interviewees,

> "*De facto*, the National Council of Accounting has been an inexistent institution at times, its big impact has not been felt, at times it has existed only formally."

When asked to elaborate further on the reason(s) why the role of the National Council of Accounting has been so inexistent at times, the same interviewee explained that,

> "... first, it all depends upon how much the government respects such councils; despite the fact that it is known that such councils play a very important role as regulatory mechanisms, they (i.e. such councils) are ignored by politics. Politics does not understand the dimensions, the importance of such institutions and in general in Albania

> regulatory entities, including here the National Council of Accounting which one could see as a regulatory entity, are very weak, paralysed institutions, whereas in a real market economy where they are well institutionalised, regulatory entities are very powerful, really powerful, within the boundaries defined by the law. Here, such institutions are not able to fulfil even formally what the law demands let alone make a real impact. First, there is a non-consideration (of the NCA) by the state, by the government itself and the law. Secondly, in my opinion, there is NCA's internal organisation which is done routinely at a time when it is known that Albania has had a whole generation of authoritative accounting professionals some of which are still around and could have represented this high council of accounting in a dignified manner. I do not think the membership of NCA fully reflects the level of expertise of the class of accounting professionals. ... and Albania has had some really good accounting professionals."

Furthermore, members of the NCA have been willing to volunteer their knowledge and expertise in accounting matters, and have operated for quite some time without receiving membership dues. The NCA is a non-governmental non-profit organisation. Unpaid, voluntarily membership in an organisation, body or council may prove effective in developed countries where individuals' financial needs are fully met through full-time jobs and other sources of income, and where membership in advisory bodies or councils is considered more a matter of honour than an obligation. In the case of Albania however, where GDP per capita and the average wage of public sector employees remain among the lowest in Europe, unpaid membership schemes would certainly impair the efficient functioning of an institution, which would also suffer from the lack of incentive that such schemes may engender.

The Directorate of Accounting has found it hard to cope with the sheer quantity of work involved in accounting reform. The NCA has therefore had to undertake a considerable amount of assignments supposedly designated for the Directorate of Accounting. In practical terms, it is somewhat difficult to distinguish where the tasks of the NCA end, and those of the Department of Accounting begin. In addition, as one of interviewees explained,

> "… the Department of Accounting, as part of the Ministry of Finance, has been marginalized at times, or its impact has been very small."

Enforcing accounting legislation has proven to be one of the most difficult and challenging tasks. According to its internal regulatory document, the DA is in charge of overseeing compliance with legal requirements relating to the preparation of financial reports in both public and private sectors. Due to the very small size of their activities, some micro- or family businesses have their financial reports exempted from audit. Financial reports of all other businesses, however, are lodged with the tax authorities, and are also certified by authorised chartered auditors.

Has this arrangement worked in practice? To answer this question, it is worth re-emphasising that the enforcement of accounting legislation is only one of the many facing the DA. The greater the number of tasks the DA has to fulfil, the less resources and time it has to allocate to each task, including the enforcement of accounting legislation. Furthermore, tax authorities have been more concerned with completing their tax collection plans rather than enforcing accounting legislation. As one interviewee elaborated and emphasised strongly,

> "[e]verything is seen as a problem of simply increasing the fiscal control, the almost police-type fiscal control, and not of imposing the accounting rules and controlling or monitoring the imposition of these accounting rules … if accounting is respected well enough, and if control on how private businesses use accounting techniques is exercised then (i) automatically there is less tax evasion and more public revenue generation; and (ii) secondly, that almost punishing attitude which fiscal authorities have - like policemen - will fade away; in my opinion, fiscal authorities should not have such an attitude regarding private entities … gradually that kind of hostility that exists between the fiscal administration in general and the world of business should disappear. It is understandable that here we are not talking about a relationship that will always be sweet because when collecting tax revenue from private entities it is exactly the authority of the state that is being imposed, but in the end there is no reason why this imposition should be that hostile and arbitrary, as it is in many cases here in Albania."

The Institute of Authorised Chartered Auditors has also had to penalise several of its own members for professional misconduct. As one of interviewees explained,

> "... in general the authorised accounting experts are defence lawyers of private business entities, at a time when in fact their role should be very neutral. In fact the authorised accounting experts should not be defence lawyers of either the state, or the private business entities, they should be defence lawyers of the respective law and regulation they should implement; ... here, in the majority of cases, the authorised accounting experts have become defence lawyers of the private business entities."

Phenomena such as large-scale tax evasion, corruption scandals involving tax and customs officials and the growth of unreported and criminal economic activities are all the outcomes of an inadequate enforcement of accounting legislation. One of interviewees painted a rather dark picture of the outcome of inadequate enforcement of accounting legislation.

> "Some businessmen in Albania have become masters in tax evasion. They have become very sophisticated. The only thing they think of is how to evade taxes. They spent so much money, time and efforts in evading their tax liabilities that it is unbelievable. And this is the worst that could happen to an emerging business environment. Instead of investing their resources in improving their businesses, many businessmen only think of developing strategies on how to evade taxes. The cost of eradicating this problem (i.e. the tax evasion) is going to be enormous, and at the same time the process of eradicating the tax evasion itself will be very very difficult. On the other side, segments of tax and customs authorities have been found to be corrupted. The system is corrupted on both sides, businessmen and tax collectors."

Within the above context, the same interviewee partially blamed for the situation that existed in Albania the consequences of introducing prematurely the VAT and the heavy burden of business taxes that had been imposed on Albania's emerging businesses.

The accounting and auditing professions are still developing. They have had relatively little exposure to international practices, however, and whatever progress they make in the near future, it is going to be a very slow one. The decision of the government to allow the international accounting firms to provide statutory audit services in Albania, (although claimed to have been agreed in order to meet the entry requirements of the World Trade Organisation) might have negative consequences on the development of accounting and audit professions in Albania.

Furthermore, as one of interviewees explained while discussing the role of international accounting firms in the development of accounting in Albania,

> "... seeing them simply as big auditing and expertise companies, I do not believe that our environment is indeed an environment where they can make a big contribution. First of all, ... they are pure business entities; they are interested to enter Albania only in case when ... they have big clients, which, generally, in Albania are few. These companies cannot be the vehicles to spread, introduce and impose the rules of accounting ... ."

The above view was reinforced by several other interviewees. One of them pointed out that,

> "currently some of the big international accounting firms operate in Tirana, but the problem is that they operate in their own way, i.e., not very openly. For instance, Ernst and Young experts in charge of drafting the new manual of bank accounting used to visit us, ask a few questions and then leave - at that time I was working for the Department of Accounting of the Savings Bank of Albania. Only very few senior colleagues of mine had some knowledge of what these foreign experts needed or were doing. We could have learned from them if we were informed properly, explained what was to be achieved and offered to work together or asked to contribute to the task."

Because of their reputation however, big international accounting firms have already firmly rooted themselves in Albania's small audit market by taking over the audit of most banks and foreign companies. The possibility that local chartered auditors will gain exposure to international practices and thus amass more experience is almost non-existent. Furthermore, the organisation of authorised chartered auditors in local audit firms - a move that would help local auditors enter the audit market - has not happened.

There is ostensibly very little co-operation between the Association of Accountants of Albania and other institutions, such as accounting policy and decision-making bodies, or other professional associations. It appears as though political considerations have interfered with the profession. This has led to the fragmentation of professional accounting associations themselves, and a lack of co-operation between them. Country's accountants think and operate along different lines.

According to both local and foreign accounting experts working in Tirana, businesses in Albania keep records only because the law requires it. Neither managers nor accountants use the accounting information to improve the performance of their business. The importance of accounting information in the decision-making process is not yet fully appreciated. The role and scope of management accounting are thus largely undeveloped. As one of interviewees explained,

> "... we could say that, in general, in our firms, keeping of the accounts is done just for the sake of fulfilling formally a legal obligation. ... firms do not even try to keep accounts regularly, and secondly, which is even worse, firms do not understand that it is necessary to have an accounting system which signals problems, which provides information for a better management of businesses. The above are explained by the fact that our private sector businesses are still in an embryonic stage, and that their level of management is still very low. Great opportunities for quick profits have shadowed the fact that success in business results from high quality management rather than from exploiting the anarchy and chaos, so after years of transition we could conclude, and almost accept as truth, that accounting - in the best case scenario - exists formally, but *de facto*, it (i.e. accounting - researcher's explanation), at the level of the firm, as an information system which provides data used by the government, does not exist, at least in my opinion."

In the early 1990s, the collapse of most large- and medium-sized state-owned enterprises led to the disappearance of internal auditing as a control procedure. Since then, newly established and privatised companies have paid little attention to internal auditing, in part because relatively small-scale businesses do not necessarily require multiple internal controls. Another reason for the neglect of internal auditing is that there is a lack of understanding of its role in a market-driven economy.

The predominant economic activities in Albania are either family businesses, or small- and medium-sized companies. In both cases, due to the size of the business, internal auditing as a control procedure is rarely needed, since the management, control, and success of a company relies almost entirely on the entrepreneurial skills of its owner(s). Furthermore, not much is known about the benefits that internal auditing brings into business. Fraud detection, due diligence, control and consultancy all contribute significantly to the success of businesses.

One area of major concern is the current absence of environmental accounting and reporting. The development of environmental accounting and reporting is closely associated with the development of financial reporting as a whole. Financial reporting, as the term is understood in the West, is still in its infancy. Accountants report to the tax authorities only, who in the case of Albania, are not expected to worry about environmental issues or growing pollution levels. Environmental reporting, as such, does not exist.

Another explanation for the lack of concern over the environment, let alone environmental reporting, is that environmental issues have had no significant impact on the business community and the government. Matters of national emergency, macroeconomic stability, liberalisation of trade, privatisation, and the re-establishment of the rule of law have all taken precedence over environmental pollution, and the destruction of nation's forests and other natural resources. It could be well argued that the environment has received no attention at all in the last decade

(Fortuzi, 2001). Consumer groups do not exist, and non-governmental organisations seem too preoccupied with other issues.

In the mid-1990s, international organisations highly praised Albania's economic growth. However, such growth has been at the cost of a serious reduction in Albania's natural resources. The lack of public awareness about environmental problems may have serious ecological impacts in the not too distant future.

The absence of participation of accounting and audit professionals in public life or of any kind of debate on various economic issues has been strongly felt. The debacle of Albania's pyramid funds suggests that the economy cannot be satisfactorily run without the free expression of professional opinion. In addition, as one of interviewees emphasised,

> "through active participation in public life, accounting professionals would have made the general public more aware of the difficulties of transition to market economy."

The government, the opposition, academics, journalists and accounting professionals had all failed to raise the alarm about the risks involved in investing in pyramid funds.

There could be several explanations for the passivity of the accounting profession on this and other issues. Perhaps some professionals were too closely involved with the founders of some of the funds, or perhaps they simply had a financial interest in what was really a swindle. As one of interviewees elaborated,

> "[m]ost of informal financial schemes had their accounts prepared by local accountants. There were abuses with regard to valuation of assets of those schemes. In many occasions, the value of assets of schemes was overstated, and such overstatements led the public to believe that those schemes were quite powerful financially. This in turn channelled into the schemes enormous amounts of cash. In addition, these schemes had their financial reports certified by well-known local experts. If all those who served the schemes had been

> wary of what they were doing, then somehow, this could have made the public more cautious with regard to investing in those schemes."

Perhaps local professionals just did not know what was going on, or they found it too politically risky to challenge the legitimacy of the funds. Although not all professionals stayed silent, it is certain that the accounting profession did not have any public platform for expressing its own independent opinion, let alone taking action on that opinion. Some accountants believed that they held jobs as public servants on a political basis only, and that any expression of dissatisfaction related to governmental policies would endanger their position in the public administration.

Part of the agenda of any ruling political party is to remove critical voices within the administration and replace them with people loyal to them. Civil society ought to have provided a defence to accounting profession, but the development of Albanian society has lagged far behind that of the West.

7.5.3. Possible Improvements to Albania's Accounting System

Without a strong accounting system and trained professionals to police it, economic development might be slow. In order to strengthen the accounting system, and particularly the role of policy-making and administrative bodies and professional associations, several changes have to occur.

All interviewees who were asked, did point out the need for improving Albania's accounting system. There were interviewees who were content with the current set up of the system, but expected the existing system to function fully and efficiently. Some interviewees who were asked and were able and had the knowledge to elaborate on possible ways of improving Albania's accounting system, expressed views which were slightly different in parts to the views expressed by the rest of interviewees. Most of suggestions of the same nature on improvements to the NCA and DA were made by interviewees I8, I11, I13, I21, and I22 who were all members of the National Council of Accounting. I11 was also a high ranking official of the Department of Accounting of the Ministry of Finance in addition to being a member of the National Council of Accounting. Furthermore, these individuals were responsible for much of the drafting of the new legislation on accounting in addition to efforts to improve the organisational structure of, and arrangements and relationships between various parts of country's accounting system (a task which they had started working upon). Some views on improvements to the NCA and DA were also expressed by interviewees I17 (a former minister of finance) and I4. The discussion below reflects fully all the views expressed during the interviews, and contrasts where possible and available different views on possible improvements to Albania's accounting system. It is also noteworthy that this is a research study and not a policy paper.

One of the main concerns of interviewees was the lack of power that the National Council of Accounting was experiencing. They argued that the National Council of Accounting should be given real power in influencing accounting policy- and decision-making processes. The first step in this direction is to make the NCA dependent upon the Council of Ministers, whilst maintaining close working relations with the Ministry of Finance. While proposed legislative changes or improvements in accounting and tax issues should be submitted to the Council of Ministers through the Ministry of Finance, no such changes should be proposed without the prior written consent of the NCA. Such a procedure would significantly improve the technical aspects of accounting policies and decisions, and contribute to the more effective implementation and harmonisation of Albania's accounting and tax legislation.

While co-operation between the NCA and the DA is vital, there is also a need to define the powers of each of these two bodies. This would lead to a *de facto* separation of responsibilities between the NCA and the DA, which would improve their running efficiency, and help to organise those duties which both parties are expected to carry out independently. One of interviewees stated that

> "... more should be done in making everyone aware of its own duties and responsibilities. ... How could someone achieve the stated

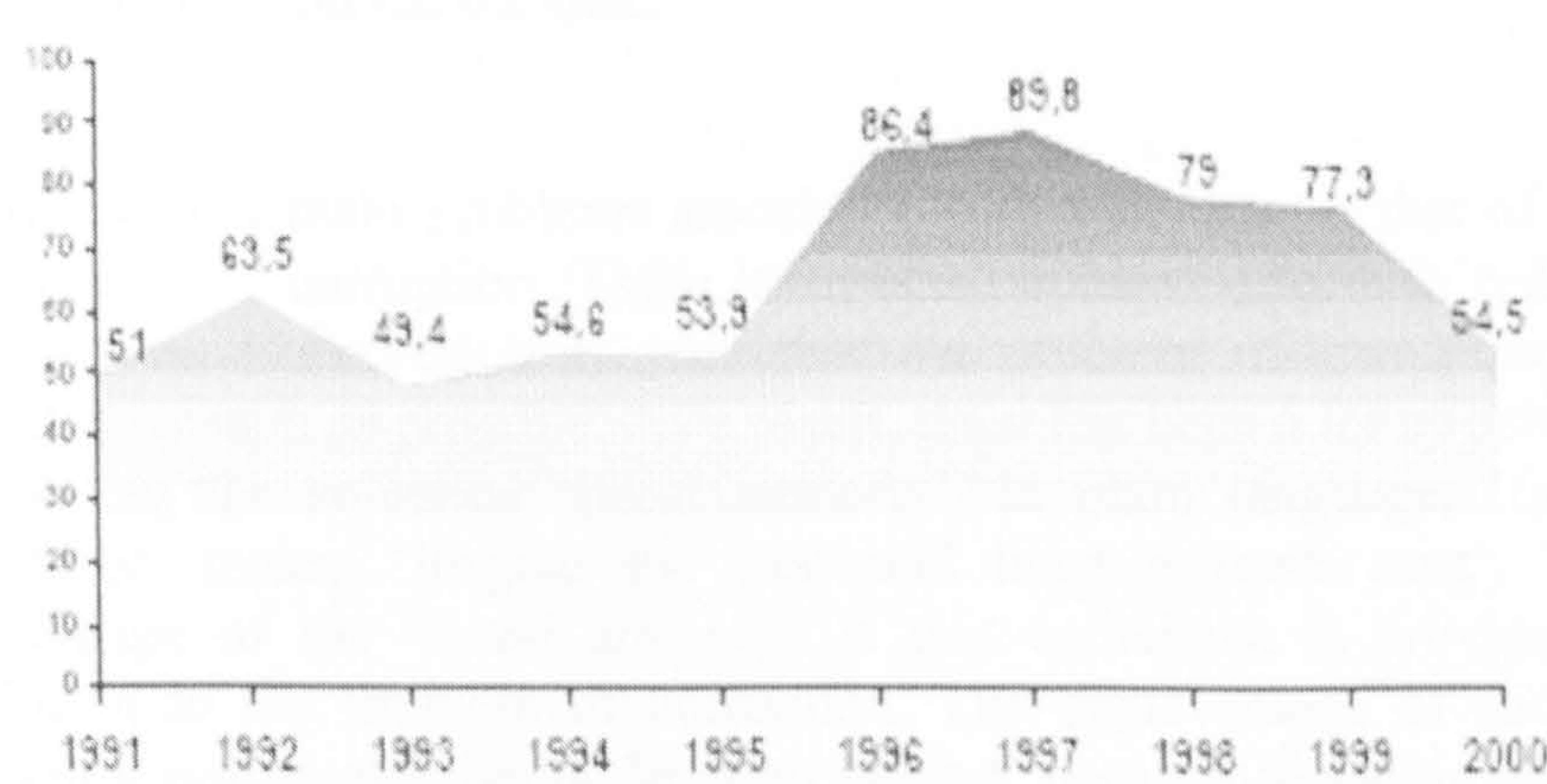
objectives if there are not any clear divisions of rights and responsibilities?"

The enforcement of accounting legislation still remains an extremely difficult task. As one of interviewees elaborated,

"… in fact … the imposition of accounting rules is a huge process. Its completion is only one of the objectives that would be achieved within the framework of a comprehensive plan which would aim at reducing the size of Albania's informal economy and increasing the size of its formal economy … . … reducing, in general, the size of informal economy is not just about the issue of enforcing accounting regulation, it is a much wider issue, it is an issue related to public order and safety, the ability of state to enforce the law, the strengthening of the justice system, the strengthening of financial system, etc., so it is a problem which, in itself, is multidimensional and undoubtedly it requires decades to be accomplished."

Indeed, Albania's informal economy has become a growing concern. According to calculations by Pasha et al (2002), throughout the 1990s the informal economy [that, as defined by Pasha et all (2002), includes all economic activities that evade taxes, avoid any regulatory requirements, ignore official reporting rules on foreign currency dealings, and fail to appear in national statistics, but excludes illegal activities] has on average amounted to 60% of Albania's official annual GDP.

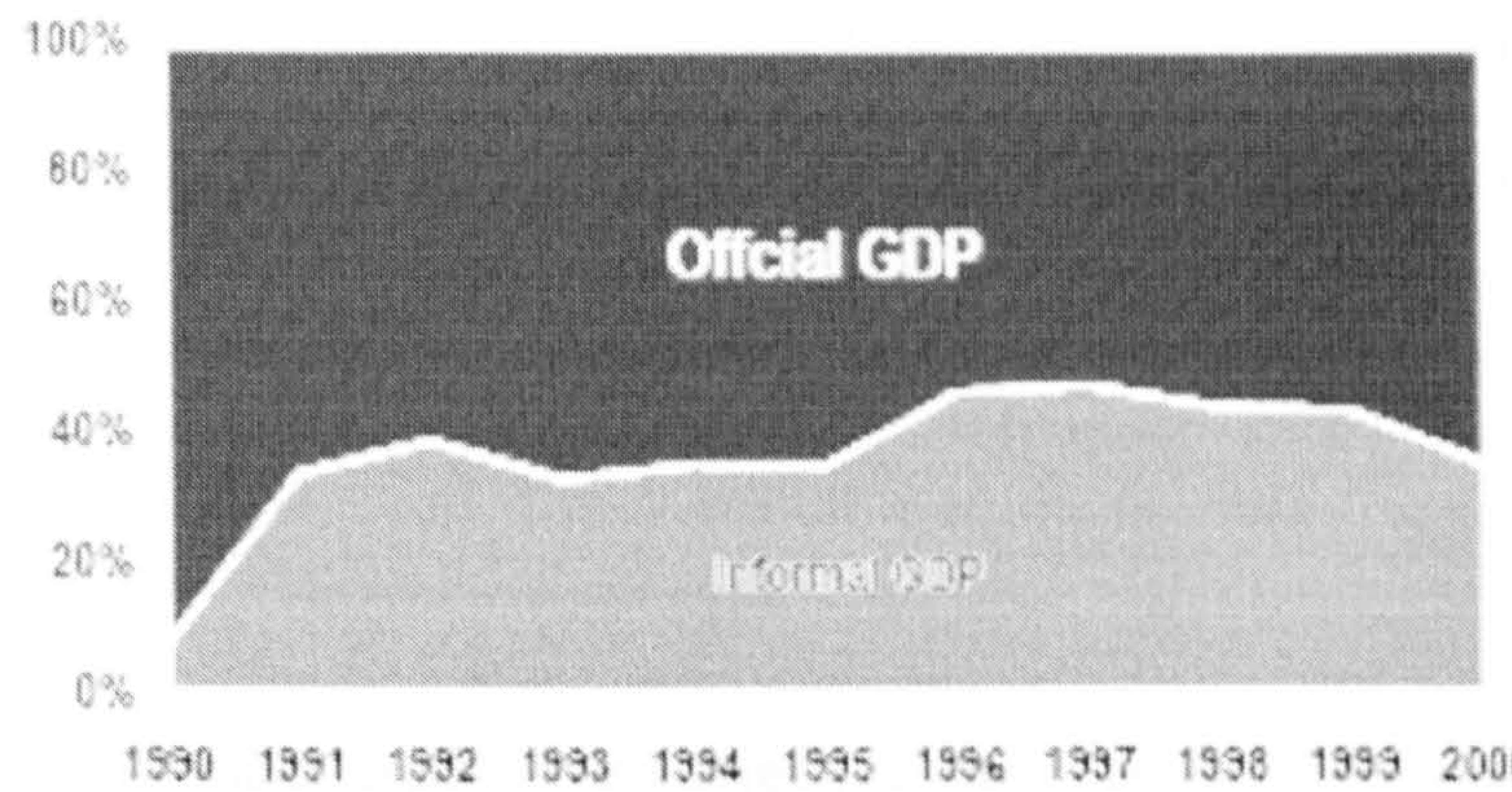
Graph 7.1.: Informal economy as % of GDP



Source: Pasha et al (2002)

The following graph illustrates the size of Albania's informal economy in terms of Albania's real GDP.

Graph 7.2.: Albania's informal economy



Source: Pasha et al (2002)

According to calculations by Pasha et al (2002), in monetary terms the informal economy for the year 2000 for instance, meant around USD 2 billion. This whole amount was fully untaxed. Furthermore, Pasha et al (2000) assert that translating the above figure into a lost budget revenue figure for the year 2000 would have meant an amount of approximately USD 460 million - quite significant for an economy the size of that of Albania.

Another interviewee pointed out that,

> "[o]ne of the main problems associated with transition is that of the high level of corruption. There have been fruitless efforts to reduce corruption. However, it is vital that the problem of corruption is tackled as soon as possible. As a result, there has been a lot of debate, regarding the so-called 'fiscal amnesty'. In plain language, 'fiscal amnesty' means 'forgive the past and have a fresh start'. The advantage of the 'fiscal amnesty' is that somehow, it provides a solution to the problem of corruption. The disadvantage of such a solution is that of it being far from perfect, because 'fiscal amnesty' would legitimise the money generated in illegal or criminal ways.

> In my opinion, there are three types of businesses in Albania: legal, illegal and criminal. Most of legal businesses are mainly state-owned. They represent a very small fraction of the total number of businesses. As it is already known, most of state-owned enterprises collapsed several years ago. The majority of businesses are, in one way or another, illegal in what they do. And the rest, are criminal businesses … . Since a good deal of businesses perform illegally in one way or another, the question raised is, 'What should be done to improve the situation?' My answer would be the 'fiscal amnesty'. In my opinion, there is no other way out of the vicious circle where Albania is at the moment. Some would disagree with me, but what would then be their solution. It is easy to say that my solution is wrong, but if one does say so, then he/she should also provide a better proposal than mine to improve the situation. Here, most of politicians spend their time arguing fruitlessly, and if they continue to do so, then they just lose time and the situation does not improve."

There is a need to either establish an effective enforcement body (empowered both legally and through the provision of adequate resources to secure full compliance with the accounting legislation), or for the DA, the IACA, and the tax and customs collections agencies to join forces in ensuring that all economic entities, be they public or private, fully comply with existing legislation. The first option - that of setting up a new enforcement body under the auspices of the Council of Ministers - may not fall into line with the IMF-inspired government programme of reducing the number of employees in public administration. However, the transfer of several NCA and DA members of staff to a new body that would be exclusively concerned with enforcing compliance with accounting legislation could overcome such an obstacle. The activity of such a body would certainly have to be regulated by law, meaning that amendments to existing accounting legislation are also required. Whilst working closely with the Ministry of Finance and all its departments and agencies, the enforcement body should be accountable to the Council of Ministers, rather than the Ministry of Finance. Such an arrangement would hand the enforcement body real power and professional independence.

One of interviewees however, expressed his concern related to the establishment of a new enforcement body as follows.

> "I do not think the solution to many problems, especially those of enforcing the rule of law, is reached through establishing additional regulatory bodies. As a matter of fact, any time we try to establish additional regulatory bodies, all we do is diminish the role of government; the responsibility is spread out, the co-ordination between bodies becomes more and more difficult; our state administration has not reached the phase where its responsibilities are divided amongst numerous bodies and at the same time its proper and coherent functioning is achieved."

The second option - that of more synchronised co-operation between the DA, the IACA and the tax and customs authorities - may not present anything new. Stated simply, every one of the institutions noted above must put more co-ordinated efforts into ensuring that accounting legislation is fully enforced. As one of interviewees put it,

> "... let regulatory bodies be what they are; we could regulate formally their role and coherent functioning, but these (i.e. their role and coherent functioning) should be consider priorities. The role and coherent functioning of existing regulatory bodies should be considered as priorities by the government, as well. Perhaps, we are exactly at that phase where the role and coherent functioning of regulatory bodies are becoming emergency issues; one could find justifications and arguments of any kind why during the first phase of the last decade there were many reasons to bypass, to underestimate such issues (i.e. the role and coherent functioning of existing regulatory bodies) and to have other issues as priorities. I think today we must re-visit this institutional issue - the coherent re-functioning of institutions ... ."

The lack of co-operation or poor co-ordination between various government departments, agencies, and public institutions is not an unknown problem. It stems from the differing agendas and interests of each government department, agency and public institution, and also from the conflicting egos of the officials who work for them. Nevertheless, the situation may be improved if all parties agree to tackle the problem of enforcing legislation, prepare a well co-ordinated plan on how to put accounting legislation into effect and offer total commitment to achieving planned objectives.

In close co-operation with each other, the NCA, the DA, the IACA, the PLAA and the AAA should prepare, at the very least, a medium-term strategic plan that outlines trends and perspectives in accounting developments in Albania, and indicates the directions that accounting will take in the near future.

As the audit profession develops, the exposure of local auditors to international audit practices is vital. While it may prove impossible to reverse government's decision to allow big international accounting firms to provide statutory audit services in Albania, the Albanian government, the IACA and European Union experts should encourage the organisation of authorised chartered auditors in local firms. In addition, exposure to international practices in the area of auditing would help the professional development of local auditors, and bring local audit practices closer to much desired international standards.

Local auditors face and will continue to face stiff competition from big international accounting firms. As one of interviewees pointed out

> "... only two firms - Deloitte and Touche, and KPMG - have permanent offices in Tirana. The other firms - PricewaterhouseCoppers and Ernst and Young - have been present in Albania while completing several assignments financed by the European Union but they do not have offices in Tirana yet. Primarily all big international accounting firms are here for the fees. At the same time, their enormous expertise in auditing, accounting, tax and consulting services and their admirable work style could influence the development of accounting and audit profession in Albania. However, ... anytime there is an important EU or World Bank sponsored assignment to be completed foreign experts representing these firms come around, ask a few questions and then leave, which means that these firms have yet to make a positive impact on the development of Albania's accounting and audit profession."

Within the above competitive environment chartered auditors who are members of IACA - the oldest and most firmly established professional institute - should seek to create an environment in which foundation for the growth of talent and commitment is fully laid. To achieve this, IACA must ensure that its training system and members' support services are working at the greatest efficiency, and help professionals to develop the right skills. Within this context, professionals' ability to communicate and market themselves creatively and effectively is crucial to success. IACA training programmes should also focus on the skills necessary to allow its members to achieve a greater degree of integrity and competency. As one interviewee stressed,

> "[m]ore education and training is needed to increase the level of professionalism."

Indeed, as another interviewee emphasised,

> "...there is a great need for continuous training of professionals in accounting and auditing issues, and for further improvements in accounting education."

If accountants and auditors are to contribute to the overall economic development in Albania, then politics should be left out of the profession at least for some time to come. All members of the professional community must overcome hurdles raised by their political allegiances and co-operate more closely with each other. Such a move would reduce the fragmentation of the professional community and increase co-operation between all parties. This in turn would enhance the contribution of accountants and auditors to the country's economic progress and the building of a strong civil society.

> "I would like to see professional associations where all accounting or auditing experts could get together, work and inform each other."

is what one of interviewees stated.

The accountability and transparency of accountants, auditors and their professional institutions, as well as their degree of independence and the need for governmental supervision of their activities were important issues that needed to be addressed. One interviewee explained that,

> "the establishment of the Institute of Authorised Chartered Auditors is an achievement indeed, however the Institute operates behind closed doors and I do not think we are at the phase where this Institute should indeed be so far away from the eye of the government ... . In my opinion, there should have been more governmental control and the Institute should have been accountable in front of someone, which is not the case. Actually, nowadays everyone trusts the Institute blindly, everyone trusts the Institute because it is headed by a distinguished person who is well known as an old accounting expert, as a good accounting theoretician, as a good accounting practitioner, but these are not adequate to fully trust the Institute as an institution."

Stated simply, the Institute should be more accountable and transparent while the government should have had, and should have more information and control on the activities and operations of the Institute (to ensure that it - the Institute, does fulfil its tasks) until it is proven that it (the Institute) is trustworthy as an institution indeed. In addition, as one interviewee stressed,

> "[e]very member of professional associations should remember that there will be penalties imposed if the law is not followed ..."

and especially,

> "[t]he Institute of Authorised Chartered Auditors should take actions against those who breach the ethical rules of profession." (ibid)

There have been efforts to draft a new law on accounting. These efforts however should continue because the accounting legislation needs improvements. As an interviewee pointed out,

> "the National Council of Accounting and the Directorate of Accounting of the Ministry of Finance should contribute much more towards the completion and the improvement of current accounting legislation."

Another interviewee reinforced the above by arguing that,

> "... it is necessary to look at the legal framework of accounting as it needs improvements, first of all the accounting law itself must be looked at, reviewed and adjusted. The accounting plan needs to be reviewed, looked at indeed. It is true that in order to improve in the area of accounting one should not just focus on accounting legislation only, but undoubtedly in other areas as well, in other laws such as the tax law, customs and excises law, and perhaps the law on commercial organisations, commercial code, bankruptcy law, etc..
>
> ... laws must be improved and be very precise, laws must be improved in the way one would improve a law, not in the way one deals with legal sub-acts."

The same interviewee made another important point on the importance of achieving legislative coherence.

> "*De facto*, a harmonisation or coherence between various laws, between various legal acts does not exist, but nowadays it is necessary to achieve a harmonisation or coherence of these laws in addition to improvements to each individual law that regulates the economic activity."

Within the above context the same interviewee added that,

> "the increase in awareness ... of the donors themselves - who have an authority, in the positive meaning of the word, an authority to impose and convince the Albanian government that the change of accounting law and accounting plan should be in the governmental agenda - is more than necessary ... . I did say that, in general, reform agendas are not the result of the evolved will of Albanian politicians; ... they are mainly lists that these politicians approve and accept for implementation, whereas primarily the incentive and the push to make a new reformative step always comes from abroad."

As one interviewee explained,

> "[a]ccounting system in Albania is tax-driven. In other words, financial reports are mainly prepared for use by tax collection agencies and government experts in charge of privatisation programme. Somehow, other users of such reports are almost nonexistent."

Though unlikely, legislators might be forced to consider moving away from a tax-driven accounting system. This would enable the accounting profession to view financial reporting as different from accounting for tax purposes, and it will also lead to the release of more financial information to other interested parties. Indeed,

> "[f]inancial reports should be seen as useful sources of information for both the successful management of businesses and potential investment opportunities." (ibid)

However, everything depends on an increase in the activity of Albania's infant stock exchange, an increase in foreign direct investment, the demand for financial information, and the development of the class of shareholders closely associated with the progress of the government's privatisation programme. The revitalisation of the Tirana Stock Exchange, the expansion of other forms of business ownership such as shareholding, and an increase in foreign direct investment may be the key to the effective development of financial reporting in Albania. While discussing the role of foreign direct investment in the development of financial reporting in Albania, one of interviewees pointed out that,

> "... naturally, the foreign investor has more chances, generally, to bring a mentality, a different culture of business ... , so, he / she is more committed to respecting the rules, because he / she has a different mentality, he / she comes from a different economic environment. ... usually, when mentioning foreign direct investment one looks at how much they influence on the GDP. But foreign direct investment can play an even greater role than just that of supporting the economic growth, which is the introduction of a new culture of doing business, of respecting institutions, ... actually, in countries like ours I would call this the most fundamental role when measuring and concerning about foreign direct investments."

It is noteworthy that Albania has attracted very little foreign direct investments. Indeed, throughout the 1990s Albania has experienced one of the lowest levels of foreign direct investments in Central and Eastern Europe. According to the World Investment Report 2000, foreign direct investment inflows to most Central and Eastern European countries reached 3% of Gross Domestic Product of those countries in 1998, a figure that was in line with the annual overall average ratio for all developing countries in that year, while foreign direct investment inflows in Albania in 1998 and 1999 were closer to 1% of country's GDP.

In the ever-changing environment of Albania, businesses and the government face increasing pressure to become more accountable and transparent. Accounting professionals need to position themselves well in order to take advantage of the available opportunities.

Small and family businesses currently dominate Albania's economy. According to legislation, such businesses are subject to very simple statutory reporting requirements. In practical terms, the annual revenue is all that small and family businesses are required to report to the tax authorities. Such simplicity is justifiable since the production of financial information can often be very costly and time-consuming. At the same time, simple statutory reporting requirements mean that small and family businesses may not need much support from accounting professionals. However, this does not mean that policy makers and professionals should overlook the small business sector, as it is the core of Albanian economy, and is also an important source of tax revenue. On the other hand, as one interviewee emphasised,

> "...there is a lot to be done to make businessmen fully aware of issues such as, the respect for the law, the consequences of tax evasion, and other related issues."

In addition, some small and family businesses may be in need of financing from banks, the main source of capital in Albania. Accounting professionals can assist small and family businesses in preparing financial statements required by banks for the processing of loan applications.

The NCA, the DA, the IACA, the PLAA, and the AAA should consider carefully the challenges brought about by the development of information technology. Albania currently has some of the lowest telecom and computer penetration rates in Europe. This is due to an extremely poor telecom infrastructure, and the lack of a clear strategy as to how to best develop telecommunications, let alone information technology. The existence of a state monopoly in the communications sector, which stifles competition, is also a major obstacle. (Pitt et al, 1998) However, it would not be too long before the situation changes. Improvements in the sector of information technology may result in many routine professional tasks, such as record keeping, preparation of basic financial and tax statements, and budgeting, being carried out by various accounting software without the need for advice from accountants. In practical terms, this means that, even in a country such as Albania where information technology is still in its infancy, it will not be long before technology replaces some of the labour needed to produce financial and tax statements. Such a trend may threaten the position of many accounting professionals working for small- and medium-sized businesses that are likely to continue dominating the Albanian economy. In response to such a potential threat, accountants should focus more on providing more professional advisory services, rather than performing basic routine activities. As gathering and processing accounting information becomes easier, accountants will be able to offer expert advice in interpreting and analysing information, identifying and solving problems, and supporting the decision-making process.

Internal auditing should receive more attention and must develop within the framework of Albania's new business environment. In a centrally planned economic system, internal auditing consists in rigid control procedures aimed mainly at assuring full compliance with the rules. In a new business environment, however, internal auditors can perform tasks such as risk assessment, due diligence and consulting. Although Albania's business environment is far from sophisticated, medium- and large-sized companies can use internal auditing procedures to ensure that their resources are employed more efficiently. In turn, an increase in efficiency could lead Albanian companies to occupy more effective positions in local and regional markets for products and services.

As noted earlier on, environmental accounting and reporting are alien concepts not only to the Albanian public and politicians, but also to the accounting profession itself. Environmental reporting may need quite some time to develop, but accountants and chartered auditors should, at the very least, raise the issue of the environmental protection. It may not be long before the mismanagement of Albania's natural resources in the last decade is admitted in all its immensity.

The participation of accounting and auditing professionals in public debate or round table discussions on various economic issues, and the free expression of professional opinion should be encouraged. In this way, political groupings and the general public will not perceive accounting as merely the craft of some petty clerk, while the role of accountants and auditors in society and the economy will come to be more fully understood. On the other hand, the profession itself ought to establish a platform to express its own independent opinion on matters of significant importance, and take a much more active role in public life. In order to achieve the above, as an interview pointed out,

> "[o]rdinary accountants from all regions of the country should be organised in or associated with professional organisations."

Educating future generations of Albanian professionals will be critical in developing an acceptance of accounting rules and practices and their consistent application across all levels of the Albanian economy. As one of interviewees emphasised,

> "... the Department of Finance and Accounting of the Faculty of Economics, their theoreticians, can contribute to the overall improvement of accounting system."

Indeed,

> "... a lot could be achieved through improving education and providing more training. ... there is further need for training and education in accounting. There is also no doubt that those with a

> proper accounting education have better chances of becoming real professionals."

said another interviewee.

The reform of accounting and especially the building of sound accounting policy- and decision-making and regulatory bodies as well as professional associations is a complex process that requires resources, expertise and time.

> "There are quite a few factors such as lack of political tolerance, insufficient understanding of democracy and other related concepts, lack of tradition in political pluralism, very weak law enforcement, long suppression of intellectuals, unsophisticated economic activities, and misunderstanding of the market rules that should be taken into consideration when building the above accounting institutions." (Ibid.)

7.6. The International Technical and Financial Assistance and International Accounting Firms

It is noteworthy that the European Union, World Bank and other international political and financial institutions have played a crucial role in reforming and developing Albania's accounting system. The international technical and financial assistance has been indispensable indeed, and this has given international political and financial institutions all the say in political and economic affairs of Albania. As an interviewee elaborated,

> "[t]he European Union, the World Bank and the IMF provide most of technical and financial support to Albania. This support has been accompanied by these institutions' own policy agenda. In other words, we have done what we have been told we should do no matter whether what has been "recommended" to us has been right or wrong."

The truth of the matter is that

> "Albania really needs financial and technical assistance from all international political and financial institutions. As a result, these institutions could impose on Albania anything they wish to. If Albania

> does not comply with their requirements, then there is no foreign assistance, and the country runs into serious difficulties very easily."

> "There have been quite a few foreign experts seconded to different ministries, banks or other institutions." (ibid)

In addition, and most importantly,

> "... institutions or organisations such as the EU, World Bank, EBRD and so on have provided not only technical but also financial assistance." (Ibid)

The first EU PHARE Programme supported the establishment of Albania's audit profession. Between 1996 and 1998, training was provided to those candidates that had passed the first set of professional exams. The team of trainers comprised the Accountancy Tuition Centre (ATC) London, which was assisted by the Institute of Chartered Accountant of England and Wales (ICAEW) and the Foundation for Accounting and Financial Management (FAFM). The objective of this program was to create the first group of Albania's auditors that would be able to perform statutory audit according to the legislation.

In October 1998, the Institute of Authorised Chartered Auditors of Albania received another two-year technical assistance within the framework of the EU PHARE Programme. This time a consortium of the Institute of Chartered Accountants of Scotland (ICAS) and the French Accounting Institute (CNCC/OEC) provided training and support. While the objective of the first EU PHARE Programme was to establish the audit profession, the second program aimed at improving further the audit profession and bringing it closer to the internationally accepted standards. Within this context, the establishment of a team of Albanian trainers that would train future candidates and provide further knowledge to existing auditors has been regarded as a great achievement of the EU technical assistance.

The activities of international accounting firms in Albania are also noteworthy. Almost all big international accounting firms started their activities in Albania by performing audit or consultancy assignments for or on behalf of international political and financial groupings and institutions. As one of the interviewees pointed out, indeed there has been an ongoing collaboration

> "... with most of the above organisations. The co-operation has taken different forms. We have either audited some of the projects funded by these organisations, or implemented different projects on their behalf or in co-operation with them. ... ... with regard to the auditing of projects funded by international organisations, all I can say is that they should be audited to make sure that international financial assistance has been properly and effectively used. The auditing is extremely important especially for those projects funded by the IMF, World Bank, United Nations, and EBRD. The outcome of those projects affects a large part of population in Albania. Thus, the auditing of those projects aims at ensuring not only the efficient use of international financial assistance, but what is more important here, assuring the use of funds according to the projects' objectives. In countries like Albania, where the law enforcement is extremely weak, anything could happen to international financial assistance. Moreover, those projects funded by international organisations always have an Albanian counterpart (different organisations / agencies / institutes within the government), and this increases the probability of the funds being misused."

When discussing the importance of the presence of international accounting firms in Albania, one of the representatives of one of those firms who the researcher interviewed pointed out to the contribution that these firms have made to the development of accounting in Albania as follows.

> "The first area where our firm has largely contributed is the transfer of international accounting knowledge through the training of local employees. Since 199X, I myself, have organised and provided training for all local employees of our firm. This training is compulsory and quite hard. Only one of our firm's employees has reached a satisfactory professional level, so far. Now, she is capable of preparing consolidated financial statements on her own. I should add that she has completed a part of her training ... (abroad). The rest of trainees should work much harder to reach a satisfactory level of competence. ...
>
> The second area where our firm has largely contributed is the transfer of international auditing expertise through the auditing assignments.

> When dealing with international clients ... our firm operates on the basis of international standards of auditing. The rest of businesses operating in Albania, including the local ones, are of a very small size. As a result, they cannot afford our fees. In addition, some of these small local businesses do not want to be our clients because, they know that we would not certify any financial reports prepared improperly. All in all, we try to bring to Albania as much international accounting and auditing knowledge and expertise as possible.
>
> The third area where our firm has largely contributed is the transfer of principles of professional ethic. I have personally been approached and asked to perform the audit of the financial statements of some local firms engaged in dubious activities. ... our firm has done its very best to respect the principles of professional ethic. This is extremely difficult when operating in a corrupted and highly volatile environment such as Albania. I personally, would never certify any financial reports prepared improperly. What would I tell my partners in ... if I would do something improper. As a result, all our services have been provided at the highest possible level of both quality and professionalism, and also according to international standards."

It is noteworthy though that the majority of those interviewees who were asked about the contribution that international accounting firms were making to the development of accounting in Albania did not agree with how the representatives of international accounting firms (like the one above) that were interviewed thought about their own firms' contribution. The majority of interviewees, mostly natives of Albania, saw international accounting firms as (i) purely profit making organisations who had taken over most of Albania's audit and consultancy market, and (ii) the biggest threat to the establishment of local audit firms and professional development of local auditors.

While there are, as usual, two sides to the same story what is important is that all interested parties, and especially international political and financial groupings and institutions should step up their efforts to support the professional development of local auditors.

7.6.1. Possible Improvements to the Results of the Activities of International Political and Financial Groupings and Institutions

The appearance of international political and financial organisations in Central and Eastern Europe following the break-up of the Soviet bloc was greeted with rather uncritical enthusiasm. As it gradually became clear that much of their assistance was devoted to organisations and experts outside the targeted countries, however, this enthusiasm turned to disillusionment, bitterness and in some cases hostility. No one could deny that Western assistance has been vital for new democracies in need of resources, skills and experience. Nevertheless, "the West" has just begun to learn how to best support reform initiatives in Central and Eastern Europe and other regions. The mistakes of Western donors over the past decade can provide some crucial lessons.

Based on their responses, interviewees who were asked about the drawbacks of activities of international governmental and financial institutions could be split into two groups. The first group consisted of those interviewees who either were foreigners working for such institutions, or natives who had observed the activities of these institutions from distance and simply were not knowledgeable enough about them. These interviewees stated that they were content with the way international governmental and financial institutions were operating. The second group, whose responses the researcher considered worth analysing, consisted of those interviewees, mostly natives, who while appreciating Western financial and technical assistance, were also critical of how Western donors had been operating. The researcher based the following analysis upon the second group of interviewees' responses on what international governmental and financial institutions could do differently.

In order to maintain integrity and make a lasting impact, interviewees pointed out that Western donors should invest the maximum amount possible in local organisations and expertise. The reasoning is simple. If local stakeholders understand that they are inheriting the outcomes, they will continue to ensure the greatest impact long after Western assistance has finished. The disenchantment among interviewees of Western assistance was largely due to the tendency of Western government and multilateral programs to provide from without rather than create from within, i.e. to promote or develop organisations based in donor countries rather than build the capacities of local organisations. Interviewees referred to "auto-consumption of assistance" which had been characterised by Western programs paying Western organisations and advisors, who often had undertaken "flying visits" spent mainly in hotels in the capital city, insulated from the realities of Albania's local life.

Furthermore, it is better if Western donors offer concrete ways for partners and grantees to develop their own training for effective and lasting implementation and local expansion. Interviewees pointed out that small-scale, ongoing, local training capacity tends to have greater long-term impact than occasional training programs for large groups of people. Moreover, training efforts that include a "train the trainer" component, could be conducted by qualified, well-trained, indigenous trainers and could be perceived as grassroots and adapted to local conditions could be much more successful in transforming attitudes and transferring the necessary accounting skills. As a matter of fact, as part of its efforts to improve further Albania's audit profession and bring it closer to the internationally accepted standards, the second part of the EU PHARE Programme had established a team of Albanian trainers that would train future auditors and provide further knowledge to existing auditors. Interviewees however, expected such an achievement to happen more often and in other areas.

While co-operation with central government actors is often necessary to ensure the success of an internationally funded program, there is a fine line between healthy co-operation with a variety of officials and excessive political involvement and party favouritism that undermines the credibility of a program. Interviewees pointed out that on occasions partisan assistance by key Western donors had contributed to a siege mentality among individuals within the power structure and had strengthened their resistance to change.

Another interesting point drawn out of interviews was that wrong habits could flourish when the focus of international assistance is concentrated on the ends at the expense of the means. In other words, as one interviewee put it,

> "... objectives should not be considered more important than processes."

The fact that much of accounting reform promotion lingo ("institution-building", "capacity-building", etc.) encourages impressions of monumental works in progress is no mistake. Success however, lies in the details of who controls the process of accounting change and how that process is being carried out.

Interviewees expected better and more co-ordination of Western donors' strategies before involvement to avoid policy sub-optimisations. As a matter of fact, improved co-ordination and communication between Western donors was proposed during a conference organised by the Swedish government in 1994. Interviewees pointed out that greater networking and co-ordination would help avoid duplication and waste, pool resources for major projects and urgent priorities, and diffuse knowledge about what works. Co-ordination of strategies had not quite happened in Albania and interviewees referred to a number of Western donors' funded programmes or projects implemented in the mid 1990s by various the then state owned banks of second tier in an effort to improve their internal accounting and reporting systems.

Those interviewees who had worked alongside foreign experts expressed concerns with regards to some Western foreign experts' presentation of themselves as the only source of the "right" ideas and correct methodology. There was a prevailing opinion amongst interviewees that local conditions should be taken into consideration when adapting accounting models. As one interviewee put it,

> "the most effective accounting initiatives are not ready-made, off-the-shelf packages for export, but are well-grounded in the local context."

There is no consensus on an optimal model of accounting system or accounting change, nor should there necessarily be one.

A few interviewees who had been working along foreign experts noted that some foreign experts were suffering from self-stereotyping. In other words coming from countries regarded as more efficient, some foreign experts operating in Albania were regarding themselves as more efficient and cleverer regardless of whether this was actually the case. As a matter of fact, culture and moral values are often considered products of a long historical development. Such values are reflected in a country's laws and institutions. Within Europe culture and moral values differ from one country to another. One of globalisation effects is the so-called "convergence" of cultures and moral values. Within this context, interviewees pointed out that Western donors and their representative need to know much more about differences in culture and moral values between Western Europe and Albania.

Known as ethnocentrism, the tendency of some foreign experts to regard their own culture and moral values as superior and to compare others' culture and moral values against this belief, had sometimes led to misunderstandings with the local accounting experts. Interviews pointed out that Western donors and the representatives of international accounting firms should assess and respect Albanian culture and moral values if they wanted to communicate effectively, conduct negotiations, implement plans, and achieve the desired objectives.

Following the collapse of the former Soviet Union, Western donors operating in Southeast European countries like Albania tended to deepen the "expectation gap" and the subsequent disillusionment by suggesting that their activities would help civil society and the economy to develop more quickly than was reasonable. Interviewees stressed that unrealistic visions of immediate improvement should be avoided and Western donors should also understand that the transition to a market based economic system is a long-term process that requires long-term and / or locally sustainable commitments.

Transparency in the decision-making process over policies and projects is an essential element of Western donors' accountability not only to the Western taxpayers and broad public, but also to Albania. Interviewees argued that from time to time, West's efforts to encourage values such as openness and accountability were undermined by the failure of Western actors themselves to demonstrate these values. International financial and technical assistance programs seeking to promote accounting changes or other economic reforms would ultimately fail if Western donors themselves were perceived as being closed and lacking accountability. As one interviewee emphasised,

> "... Western donors can hardly expect those they are assisting to live up to expectations when they fail to do so themselves."

The issue of corruption re-surfaced time and again throughout the interviews. It is widely accepted that corruption respects no borders, and can infect all governments and organizations including Western donors in Central and Eastern Europe. In most of developed and developing countries fighting corruption has moved to the top of political agenda because the impact of corruption on economic development, and political stability has become increasingly obvious. In the long run, neither Central and East European countries nor Western donors could afford the social, political and economic costs brought about by corruption. As such, interviewees argued, and due to the hiring of local staff that, for obvious reasons, would be more vulnerable to corruption, Western donors would have to play by stricter and tougher rules especially in a country like Albania. Western donors should lay out and monitor their funding procedures more carefully in order to make competition for local bidders much more fair and open. Interviewees argued that this would help Western donors in selecting the best local players whose activity will bring the contribution needed for re-building the country's economy and society. Fair and open tenders would enormously help to combat corruption, to improve ethical standards in the public sector, and to curtail money laundering. Only by implementing the above, Western donors would manage to contribute in building and preserving a corruption-free socio-economic system and institutions in Albania.

Institution-building efforts that improve and strengthen key institutions should be a major objective of any program seeking to better guarantee the success of accounting reform in Albania. Interviewees argued that Western donors should weigh the particular Albanian society's need for institutional balance between the state and organisations such as the Institute of Authorised Chartered Auditors and the possible long-term consequences of any financial and technical assistance.

Interviewees argued that by empowering local decision-making authorities, Western donors could ensure the best chance that the local community would continue to benefit from their program long after the funding had evaporated. In fact, local sustainability - meaning that something significant is left behind after support shifts elsewhere - is the clearest measure of success. Interviewees referred to examples such as improvements to the local government system of accounting where sustainability of improvements would be considered as a measure not only of survival but success.

After several years of transition in Albania, some of the individuals who were the only possible partners at the outset of accounting changes had still remained the only possible partners. Interviewees argued that international governmental and financial groupings and institutions had a tendency to stick with local partners even when they were no longer the real activists for change in their area for reasons such as convenience and maintaining good personal relations. Furthermore, Western donors and implementers should look very carefully at the evolving scene in any particular sector, identify who the real actors are, and be prepared to change partners.

Interviewees pointed out that international governmental and financial groupings and institutions had been providing financial and technical assistance to implement accounting changes in most of Central and East European countries. This fact would imply that these institutions had a full picture of accounting reforms, and were also aware of the problems and failures, achievements and mistakes. On the other hand, not all Central and East European countries were at the same stage of reforming their accounting systems, economies and societies. Thus, as interviewees argued, it should be easier for Western donors than anyone else to promote the best experiences, if and where applicable, to other countries that were lagging behind. This could help both local governments and Western donors in not repeating others' past mistakes.

The implementation of political and economic reforms had taken different approaches from one country to another. Differences were not only pronounced, but also tended to be highly dynamic and fluid. No two countries in Central and Eastern Europe had been exactly alike in any respect, and there could hardly be two national models of transition to market that were identical. In some cases, the reform involved a "great-leap" strategy, where the crucial economic changes constituted a shock to the previous communist system, either simultaneously or at relatively short intervals. In some other cases, the reform was more gradual, where economic changes and a traditional openness towards the West had been going on for a few decades. Yet, in some other countries, the response to the need for economic reforms, was different, often involving much more painful scenarios. As such, different approaches to the reform process, coupled with varying difficulties, and other local "situational" factors had led to a division and polarisation of Central and Eastern Europe. Interviewees argued that neither Western donors nor anyone else could flatten the differences between countries within a fortnight or by the stroke of a pen. However, as one interviewee elaborated,

> "Western donors should know that the lesser the differences in economic progress among Central and East European countries are, the easier the EU accession process will be."

Interviewees expressed their concern that often, international financial organisations had been careless while depicting the progress of reforms in Central and Eastern Europe and especially in Albania. The vocabulary used to describe the results of political and economic changes in some Central and East European countries had been too glossy and glorious. As one interviewee rightly pointed out,

> "[t]erms such as "success case", "special case", "remarkable progress", etc., have been loosely used by Western donors, giving the

> wrong impression about the reality and failing to point out the drawbacks of situation especially in Albania. Quite often, international financial organisations have been talking about economic growth while forgetting against what this economic growth is measured. In many cases, Western donors have failed to distinguish between economic growth and economic recovery. Macroeconomic stabilisation, or a zero inflation scenario do not necessary imply a successful political, social and economic reform. Economic progress and successful reforms encompass far more aspects and sectors than Western donors might think. Vital issues such as the increase in a country's national wealth, revival of local production, urban planning and environmental protection have been completely neglected in many case, and in some countries in Central and Eastern Europe, and especially in Albania. If they are to succeed, Western donors should do their best to avoid the "Africanisation" of certain parts of Central and Eastern Europe, and be more cautious when talking about the success of reforms."

Another important issue raised by the interviewees was that of envisioning early on the exit strategies and providing assistance to see them through. Indeed, serious and responsible donors would set clear timetables regarding the duration of programs, would agree on multi-year commitments from the outset, and would assist their partners in finding adequate alternative sources of funding when needed or at least would provide the necessary practical training to secure such funding. Once again, interviewees referred to the positive example set by the second part of the EU PHARE Programme which had envisaged the establishment of a team of Albanian trainers that would train future auditors and provide further knowledge to existing auditors as a possible exist strategy from involvement in developing Albania's audit sector.

Interviewees expressed their concern that to some extent, and at times, Albania had become dependent upon Western donors - financially and politically. At the same time, discontinuing funding for good, long-term programs without helping to ensure their future locally, even if this meant significant downsizing and reorganisation, was irresponsible and a waste of past resources. Interviewees argued that Western donors should preclude the formation and development of such perilous situations.

7.7. Uniformity in Accounting: Piecing the Puzzle Together

In this section the researcher discusses and summarises the evidence in relation to Perera's (1989) contingency based approach.

The researcher has argued that as a result of various factors such as,

(i) political: the ruling of a communist regime between 1944 and 1992,

(ii) social: the existence of certain individuals educated abroad, mainly France and Italy, and

(iii) economic: the influence of foreign powerful investors and multinational corporations in the 1920s and 1930s, and
the information needs of a centrally planned economic system that prevailed between 1944 and 1992),

Albania's accounting system has been consistently and largely based on the French model.

Even after the changes in the early 1990s, Albania's choice of accounting has been that of a uniform system regulated by the government. The use of uniform system of accounting might be seen as the best alternative available to Albania because of the serious doubts that can be raised about the relevance of the Anglo-American accounting principles and practices in an Albanian context. Accounting principles and practices developed in the U.K. and the U.S.A. are appropriate for countries with a large private sector and a well-developed capital market. The researcher has argued that due to various factors,

(i) historical: historic absence of any capital market,

(ii) economic: slow pace of privatisation process,
lack of foreign direct investments - throughout the 1990s, and

(iii) cultural: Albanians' preference for sole proprietorship type of business,

the development of an active capital market in Albania has not been possible. This has meant that the evolution of accounting in Albania has happened in an environment which has been quite different from that which existed in Western capitalist countries when they were developing.

Albania has managed - at least formally - to establish and develop an accounting system which accumulates accounting information from the private business sector. However, there is a need to develop a sound system of public sector accounting and integrate it with the other branches of accounting especially national income accounting, and balance of payments accounting.

Using appropriate laws and regulations to promote the development of accounting in Albania has been vital. Nevertheless, despite the existence of legal disclosure rules the reliability of financial disclosure in Albania has been very low. In the absence of regulation however, business enterprises in Albania would hardly disclose any information. Furthermore, the Albanian public has been unsophisticated and inexperienced in matters of accounting nature.

Accounting in Albania has been regulated by a governmental body - the Directorate of Accounting within the Ministry of Finance. The accounting profession in Albania has not been in the position to regulate accounting and financial reporting. Thus, governmental intervention has been crucial. As one of interviewees elaborated,

> "[f]irst, private sector regulation of accounting in Albania would be premature. Privately run institutions that perform activities which are in the interest of public at large do not thrive in Albania because of the mentality of individuals and society at large. Generally speaking, there is a huge gap and a big antagonism between the individual as a physical person or even as an economic entity, the government and the state, so for the time being it would be difficult to establish any co-ordination and co-operation between the individual, the government and the state which would aim at achieving the same objectives. Generally speaking, such privately run institutions in Albania deteriorate very quickly and are not successful; I would go for regulatory bodies established by the state, but which would have an economic status / power that would be adequate to enable them to perform their functions without being influenced by political or bureaucratic pressures. This is necessary and I think that in the end

> such bodies, even the existing Institute of Authorised Chartered Auditors should not be dissociated from the Ministry of Finance ... ."

Albania's economy has undergone a series of privatisation processes where the government has played a crucial role. This has meant that in most cases the government has been the sole user of any accounting information and that although inadequate and perhaps not very reliable, this accounting information has assisted various governments in achieving their political objectives.

The majority of business managers in Albania have had the courage to venture but not the formal education and training in management. The lack of formal training and education has affected the attitude of these business managers towards the disclosure of financial information, which in turn has lead to low reliability of information disclosed in financial reports. Then, low reliability of financial information has led to lack of public confidence and trust in companies. As one of interviewees explained,

> "... privatisation, free initiative, the existence of private economic activities has led to the establishment of the new class of Albanian businessmen which is not very professional; the only qualities this class has are the intuition for business, the courage to take risk, etc.. With regard to managerial, purely professional business abilities, our new class of businessmen is too young to have any, and we should not forget that the largest part of our economy consists of small businesses, often very small ones, ... single individual or one man businesses, single owner or family ones, ... the tradition of these individual businessmen to keep a minimum amount of records or registered accounting evidence, and to have a minimal understanding of the corresponding legislation in the field of business is very weak. We are dealing then with a huge ignorance, I would say, of Albania's business world towards fiscal law, accounting law, knowing, applying, respecting accounting techniques."

Legislative control over accounting has indeed reduced down to one the number of possible reporting alternatives available to individual business enterprises. This has been considered as helpful by many local accounting professionals.

Governmental involvement in accounting regulation has not weakened the incentives and the role of accounting profession because in Albania the accounting profession has already been weak and relatively small. As an interviewee pointed out,

> "[i]n general, in our society, one notices the existence of a social irresponsibility, be it of the individual or the groups of individuals. So, to think that accounting and the profession of accounting experts could be self-organised on voluntarily bases, in the form of a grouping out of a community, is not very advisable and very successful because, first of all, it is very difficult for the concept of community to exist. Secondly, even when the community is established as a result of a legal obligation, like in the case of the establishment of the community of accounting experts who are then obliged to establish an institution, the responsibility / accountability of the individual to the community is minimal. An individual feels responsible / accountable before a force which can penalise, such as the state, but would hardly feel the same before a community ... .
>
> ... the Institute of Authorised Chartered Auditors cannot achieve its objective, it is not able to impose on the community of authorised accounting experts a strong code of ethics and the concept of being responsible."

These have been precisely the reasons why the government have had to have - at least formally - more regulatory powers in order to safeguard the interest of public. Nevertheless, the case of informal funds shows that governments of the 1990s failed in their role as a guardian of public interest. Despite the failures of the 1990s

> "[s]ocieties such as that of contemporary Albania still need a high degree of governmental regulation in all areas of financial system, such as accounting, banking and insurance. Governmental regulatory bodies should ensure compliance with the law which nowadays is much desired."

said one of interviewees.

Albanian society is characterised by lack of awareness of the potential contribution that accounting could make to country's economic development. Interviewees gave mixed responses to the question on the role of accounting in Albania's economy and society. Even those interviewees, who identified certain areas where accounting could play a role, were not able to fully explain how accounting could have an impact on economy and society. Lack of awareness of the potential contribution that accounting could make to Albania's economic development characterises not only the accounting profession and the business environment, but also the political circles as well as the public at large. One of interviewees singled out three factors that could explain businessmen's and public's lack of awareness of the role of accounting in Albania's economic development.

> " ... there are ... materials missing in Albania, short summary documents, some sort of introductory and publicity means to make it easy and understandable for the individual, for an ordinary shopkeeper ... what is the minimum of accounting records that he ought to keep.
>
> Secondly, there is very little use of banking system; if we would channel business transactions through the banking system then naturally the channelling of monetary business transactions through the banking system will impose, in a necessary way, the keeping of accounts.
>
> Thirdly, it is a fact that our economy, over 60% of it, is an informal economy, so it has been conceptually and since the very beginning prepared not to go through this institutional framework of rules and rule obedience."

Another interviewee added that in order to explain and understand politicians', businessmen's and especially public's lack of awareness of the role and importance of accounting in Albania's economic development one ought to remember that throughout the 1990s

> "... Albania has faced an increasingly unmanageable energy crisis characterised by severe power cuts and erratic water supplies. The country has also lacked basic infrastructure such as good roads and reliable telephone connections. Understandably, problems in accounting and other areas of financial system have become second hand issues."

The same interviewee stressed that

> "... it is vital to change the mentality of ... politicians, businessmen and the general public towards accounting. This ... is difficult to achieve, and it will require a lot of time and efforts. Most people think that accounting is all about number crunching. ... the fact that accounting information can be used for more than one purpose is still unknown to politicians, businessmen and the general public."

Although a very lengthy, time consuming and difficult process, the change in mentality of politicians, businessmen and the general public towards accounting could be achieved by

(a) explaining them continuously that an inexistent or malfunctioning accounting system

   (i) leads to inadequate reporting of taxable profits which in turn leads to loss of tax revenue,

   (ii) fails to report business and economic inefficiencies as well as any improvements,

   (iii) creates a non-transparent and non-accountable economic environment that undermines the confidence of foreign investors which in turn leads to fewer foreign direct investments,

   (iv) is not compliant with EU accession requirements, and

(b) providing further specialist education and training for policy makers.

As one of interviewees pointed out,

> "[a]ll the above options could be used to change the mentality of politicians, businessmen and general public towards accounting and raise awareness of the role and importance of accounting in economy and society so that solving Albania's accounting problems becomes priority in agendas of economic policy makers. In my opinion, one of the most important options would be that of providing further specialist training especially for young policy makers."

In many aspects Albania has been different from other transitional economies of Central and Eastern Europe and the developing countries Nevertheless, Albania has faced challenges similar to those that other transitional economies and developing countries have had to face. Based on the views of interviewees, the researcher can assert that the problems faced by other Central and East European transitional economies while reforming the accounting systems - as identified by the literature - are also found in Albania.

Considering all arguments discussed above Albania's choice of accounting practices based on the uniform approach seems right. The need for uniformity has been supported by a number o factors such as

(i) the government's involvement in economic affairs - the case of privatisation;

(ii) the level of accounting education in Albania which - according to various interviewees (some of which were former accounting academics) remains low (deficiencies in accounting education and training have meant that accountants are still not able to exercise mature judgements in accounting matters);

(iii) the lack of trained management;

(iv) the professional status of accountants which still remains low (Albania's accountants do not seem to enjoy any public trust and confidence. Phenomena like tax evasion, corruption, grey economy, the debacle of informal financial schemes, etc. have undermined public's confidence in accountants.).

A uniform system of accounting has been accepted in Albania because the accounting profession is too weak to oppose governmental intervention and not knowledgeable enough to suggest alternative systems. In addition, the public is hardly involved in any debates on accounting matters.

Will Albania's choice of accounting remain the right one? Despite its very small area and population Albania is an integral part of the wider international economy and is therefore not exempt from the forces of globalisation that drive the harmonisation debate and the imposition of the International Accounting Standards, or immune from its effects. Accordingly, the researcher suggests that the central challenge facing Albania is one of striking the right balance between effective participation in the international harmonisation process, while at the same time retaining an accounting system that is useful and relevant to its domestic needs.

How do the above conclusions fit into the literature on Albania's accounting? As indicated earlier in the thesis there have been only two English publications on accounting in Albania - the researcher is the author of one of them. The other publication is by Godfrey et al (2000). These scholars use Lüder's (1992) contingency model to explain the diffusion of innovation in Albania's system of governmental accounting. In some aspects the researcher's study and Godfrey et al (2000) draw similar conclusions. However, while Godfrey et al (2000) have a more positive attitude towards the future of governmental accounting in Albania, the researcher has a more realistic attitude. Perhaps the difference in attitudes is due to the fact that Godfrey et al (2000) are not natives of Albania and they have observed governmental accounting developments from the position of foreign advisers.

7.8. Conclusions

This chapter has discussed accounting developments in Albania during the period 1992 - 2002. Current accounting reform can be considered a complex process of institutional innovation, the outcome of which depends on the interests and influence of different actors involved in the process, and on the constraints encountered during such a process. Political changes in the early 1990s and subsequent economic reform have led to an increasing demand for the creation of an accounting profession and the establishment of supervisory agencies that could enforce accounting and tax legislation. The state apparatus, however, should have been more responsive in creating the appropriate environment for enforcing accounting legislation and improving the functioning of existing policy and decision-making bodies, and professional associations.

Chapter Eight

Summary, Limitations and Future Research

8.1. Summary

As stated in the introductory chapter, this study has addressed the following research questions:

(i) What has the path of accounting development in Albania been like, and how does it compare with other countries' experiences?

(ii) What are some of the possible ways of improving Albania's accounting system?

(iii) How can Albania's accounting policy and decision-making bodies, and professional associations achieve more?

(iv) What should the international political and financial organisations do to be more effective in their efforts of supporting Albania's economic reform and more specifically changes in Albania's accounting system?

In order to answer such questions a broader understanding of accounting and its roles in economy and society in general, and developing countries in particular was required. The review of literature on this topic highlighted the need for more research and whether the developing countries should establish an accounting infrastructure that should suit their own special needs, rather than import accounting models established and used by developed countries in different economic contexts. Then Perera's (1989) contingency-based approach used to analyse the development of accounting in developing countries was explored because such an approach would form the framework that would be used to analyse the data collected during this study.

As Albania is a country in Central and Eastern Europe, the phases of accounting development in this region were analysed. The evidence documented in the literature showed that the German experience in accounting has had an enormous impact on accounting developments in Central and Eastern Europe. The researcher's main focus was on identifying and explaining the general trends of accounting developments rather than analysing each Central and East European country's accounting development in particular.

The political upheavals of 1989 - 1990 in Central and Eastern Europe brought about the need to change accounting, and one of the outcomes of accounting reform has been the preparation of a new legislation. Most CEE countries have tried to assimilate the EU Directives on company law into their own national legislation on accounting. This process has been characterized by the struggle to come to terms with the adoption and interpretation of some concepts of accounting used in developed Western countries.

Furthermore, while coming to terms with new accounting concepts the experience of some countries has mirrored each other. Fiscal influences on accounting practices still abound, and this will have a detrimental effect on accounting practices in Central and Eastern Europe for some time to come. Many CEE countries have chosen the path of following the EU Directives on company law and compiling a set of accounting standards that are also intended to be compatible with the International Accounting Standards. As a result, the accounting legislation in many CEE countries is compliant with many of the Articles of the Fourth, Seventh and Eighth Directives of the European Union and also with a number of International Accounting Standards.

Simply incorporating the EU Directives and the International Accounting Standards into national legislation on accounting cannot guarantee the success of accounting reform. Legislative changes have to be accompanied by the process of building sound accounting institutions - policy and decision-making bodies and professional associations that will create and maintain an environment in which the legislation is fully implemented, and once implemented, is carefully monitored.

After preparing the context in which this study would be placed, the researcher presented a detailed analysis of sources of information, and the research methodology and methods that were used. As this study was amongst the first of its kind on accounting change in Albania, the researcher aimed at being both exploratory and analytical. The case for qualitative research was made and data collection techniques were explored.

The feasibility of research depended upon access to various sources of information. The researcher had a rich body of contacts in Albania's professional and academic circles, and access to key policy influentials in Albania's financial sector. Furthermore, the researcher aimed at gathering information on accounting changes in Albania during the last decade (1992 - 2002).

Since early 1990s, Albania has experienced rapid change. Accounting reform has been part of a broader economic transformation. This transformation has required more than just formal changes if its promises are to be fully accomplished. Within this context, a weak embryonic financial system has acted as a major constraint to Albania's economic growth. Moreover, markets unaided do not provide sufficient discipline, particularly when dealing with relatively unsophisticated participants. Amongst others, regulation and supervision require the development of standardized accounting procedures, well-trained professionals who are both independent and expert in their advice, and also accountable to the law, sound and functioning accounting policy and decision-making bodies, professional associations and regulatory agencies, and a reliable regime of control and monitoring, which possesses sufficient authority to be effective in policing the system.

Against such background Albania's accounting developments during the period 1992 - 2002 were analysed using Perera's (1989) contingency-based approach. This study concluded that Albania's current accounting reform can be considered a complex process of institutional innovation, the outcome of which depends on the interests and influence of different actors involved in the process, and on the constraints encountered during such a process. Political changes in the early 1990s and subsequent economic reform have led to an increasing need for the creation of an accounting profession and the establishment of supervisory agencies that could enforce accounting and tax legislation. The state apparatus, however, should have been more responsive in creating the appropriate environment for improving the functioning of existing policy and decision-making bodies, and professional associations.

Albania has experienced challenges similar to those that other transitional economies of Central and Eastern Europe and other developing countries have faced while reforming and developing their accounting systems. Albania's current choice of accounting system seems to be right. The researcher concluded that if Albania is to be part of the international community then this country's accounting leadership should strike the right balance between effective participation in the processes of international harmonization of accounting, while at the same time retaining an accounting system that is useful and relevant to domestic needs.

8.1.1. The Relevance of International Accounting Standards to Albania

Striking the right balance between effective participation in the processes of international harmonization of accounting and retaining of an accounting system that is useful and relevant to domestic needs is probably easier said than done. During the last decade, policy prescriptions from abroad, supported by the arguments of foreign experts, have been "offered" to local politicians in countries like Albania, as the best ultimate choice. *De facto* this has meant that since early 1990s Albania - like many other developing countries - has been exposed to a high degree of pressure to consent to what has been thrown on the table.

Stated simply, failure in complying with foreign advice would automatically lead to an exclusion of Albania from Western financial support and expertise. Like quite a few other developing countries Albania inescapably needs the foreign monetary aid and technical expertise. In addition, integration with the West of Europe is rendered more arduous since the European Union has demanded from Albania (as well as all the other former communist countries of Central and Eastern Europe that aspire EU accession) (i) a close co-ordination of its national economic policies with foreign advice, and (ii) bringing of its national legislation in line with EU Directives as elementary conditions for any form of cooperation and EU accession.

Albania's accounting reform has been no exception to the above challenges as the EU endorsement of international accounting and financial reporting standards has meant that the principles on which such standards have been based are to be incorporated into Albania's accounting legislation, as well.

Albania's co-operation with the European Union has had some success in introducing new accounting practices to the business environment, helping to identify areas of weakness and gaps in the economic system and providing technical and financial support.

The national government and especially the officials in charge of accounting reform within Albania's governmental structures have made some progress in introducing a new accounting law and follow-up regulations in order to bring Albania's accounting experience more into alignment with international accounting and financial reporting standards and global best practices. One of the difficulties however, is that international accounting and financial reporting standards are subject to continuous updates and / or changes, and that global best accounting practices themselves are a moving target and require constant monitoring and regulatory and structural adjustments.

Furthermore, the applicability of imported international accounting and financial reporting standards has not always been an easy task and the relevance to developing countries of such standards has been questioned since the moment standards were incepted. If accounting is to remain useful and relevant, it needs to respond to, and reflect the cultural, social, economic and political conditions within which it operates (Choi and Mueller, 1992). The international accounting standards emerged in economically developed countries. The then IASC undertook several projects whose ultimate objective was the establishment of accounting standards that could be universally used by companies with cross-border stock market listings. In other words, the international accounting standards have aimed primarily at large, publicly quoted companies many of which also tend to be multinational in nature. Moreover, even within the developed world, the proportion of companies with stock market listings has been relatively small.

As Jouelle Le Vourc'h (1999) observes,

> "In the USA, for instance, the great majority of enterprises are only required to prepare tax returns, not based on accounting principles but based on tax rules. Therefore, the US GAAP (Generally Accepted Accounting Principles) principles quite often considered as a 'model', are applied only by no more than 20,000 enterprises, representing less than 5% of the total of US enterprises." (p. 2)

Consequently, one could seriously question the applicability and relevance of such international standards of accounting in a developing country like Albania where the majority of businesses are small size and run as family or private concerns, and the listing of local companies in the Tirana Stock Exchange has not really happened.

The following evidence (also mentioned in Chapter 7) supports the above arguments.

Table 8.1.: Analysis of enterprise sector by revenue

Turnover in million lekë	Turnover USD '000	Number of enterprises	Average number of employees
< 4	28	28,384	47,399
4 - 20	28 - 138	5,758	27,017
20 - 50	138 - 345	957	15,503
50 - 100	345 - 690	304	9,259
100 - 200	690 - 1,380	148	10,791
> 200	> 1,380	127	38,034
Total		**35,678**	**148,003**

Source: INSTAT annual structural survey of economic enterprises 1999

The number of Albanian businesses whose average annual turnover exceeds USD 1.5 million is very small indeed. The size of annual turnover of Albania's largest companies is also hardly large enough to make any of those businesses comparable to Western based medium or large listed companies.

Furthermore, Albania has already established key institutions such as the Albanian Securities Commission, the Share Register Centre and the Tirana Stock Exchange which are required for the development of a modest capital market. However, as indicated in Chapter 6, the functioning and further development of an active capital market in Albania have already stalled. The key questions that have been posed for quite some time now are whether the development and functioning of Albania's capital market can indeed happen and if so, when. Furthermore, would the desire to have a functioning capital market reflect Albania's current and near future economic development and reality?

As Babameto (2002) argues, Albania's current economic and social reality is a long distance away from being able to support the development and functioning of a capital market due to lack of full and proper understanding of concepts such as shareholding and corporation, absence of corporate governance and culture, significant tax evasion, and lack of transparency and accountability. As widely accepted in the West it is the financial health check and a company's current and future reported earnings that make that company valuable in the stock exchange. Unfortunately, there are not any Albanian companies in Albania that can be listed in the stock exchange and that regularly prepare all the mandatory financial statements required by the stock exchange and then distribute them to the public at large. Such a situation is a consequence of Albanian companies (i) being a long distance away from being able to meet basic listing requirements; (ii) lacking basic management skills and understanding of concepts such as corporate governance and transparency, and (iii) doing all they can to avoid the very heavy burden of business taxes.

Albania's private business sector is comprised of small and medium size enterprises, but businessmen and owners' understanding of shareholding and corporation concepts is still in an embryonic stage. According to Albania's Share Register Centre, there have only been a handful of companies with about 100 - 150 shareholders operating in Albania. These shareholding companies are of small and medium size and an outcome of the massive privatization process that took place in Albania in the 1990s. Each of these companies, as Babameto (2002) argues, are very tightly controlled by a small group of largest shareholders who are highly conservative and very secretive with regard to providing any information to their minority shareholders. Due to lack of understanding of concepts such as corporation and its lawful functioning and shareholders' rights to corporate information, the largest shareholders view their shareholding companies as their own possessions rather than as business entities on which a wider group of individuals have claims.

Another important issue related to existing shareholding companies is that of raising external finance. These shareholding companies, which operate mostly in Albania's food processing industry, do not have the need to raise additional finance from an alternative source of funds such as the public at large. Growth of their businesses is financed through investing of their retained profits, and / or bank borrowings. The largest shareholders feel that their control over business will be in jeopardy if new additional shareholders are invited in. Within this context it is noteworthy that all existing shareholding companies lack a proper finance department, as it is known in the West. The tasks of finance departments or offices of existing shareholding companies are reduced to simple tracking and recording of invoices, keeping of basic accounting records and preparing of tax returns. The lack of proper finance departments could be seen as another reason why existing shareholding companies rely on bank borrowings to meet their capital requirements. If these companies did have a proper finance director he / she would have been able to explain to all shareholders that bank borrowings are not always the cheapest way of raising external finance to expand the business.

As discussed earlier in this research study, Albania's businesses usually are only concerned with required reporting for tax collection agencies and / or respective ministries (in those cases where the state is the only owner or owns a substantial stake in the business). A switch to international accounting standards would impose significant resource limitations on any Albanian business especially as the majority of them are small or medium size. Excessive administrative requirements would seriously hinder the functioning of most businesses. Albanian businesses that are required to use international accounting standards may also be required to report based on their prior current tax accounting rules. Furthermore, having two sets of regulatory rules related to depreciation and amortisation which are often different for book and tax purposes, will cause serious confusion to accountants who are used to use only one set of rules approved by the Ministry of Finance. In the case of Albania it would be preferable to have a single set of reporting rules that would apply to all reporting requirements. However, due to Albania's current regime of tax collection and the way statistical data are collected and processed this may not be feasible. In addition, there is the problem of shortages in adequately trained tax and government officials in international accounting and financial reporting standards.

Currently, Albania has one type of accounting certification that complies with Albania's statutory accounting. The introduction of international accounting and financial reporting standards would lead to accounting certification being separated into more than one qualification due to the practical appearance of a dual accounting system, one in compliance with international accounting and financial reporting standards and the other in compliance with Albania's existing tax driven accounting certification. The same split might happen to audit certification so that there would be licensed auditors qualified to audit companies that would be exempted from using the application of international accounting and financial reporting standards as well as licensed auditors qualified to audit companies whose financial statements would be prepared on the basis of international accounting and financial reporting standards. Another possibility is that of training future auditors to audit financial reports of any companies. Whatever the future path, training and re-training of accountants and auditors as well as the long-term strategic transition to western accounting and auditing will be very costly and lengthy processes.

Furthermore, Albania's accounting and auditing professionals would have to realize that any companies that employ a large number of employees - if Albania is to ever have such large companies - (i) would not be important only to the government but also to the public at large, and (ii) would require financial reports prepared according to international accounting and financial reporting standards and an audit in compliance with international auditing standards. Such a realisation would represent an enormous and unequivocal shift in accounting and auditing professionals' mentality which, as current political, social and economic developments in Albania have shown, has not fully happened yet, and moreover has proved to be a very lengthy and difficult process.

In a country like Albania where law enforcement has been weak the implementation of international accounting and financial reporting standards should be accompanied by an introduction into Albania's legal system of a means of enforcing international accounting and financial reporting standards and a mechanism to address future amendment to these standards. The review, approval, and adoption of international accounting and financial reporting standards will have to come from an authorised and politically and professionally independent institution within Albania's current system of accounting. Such an institution will properly translate, introduce, and disseminate the standards to all parties concerned. Taking into consideration that Albania's National Council of Accounting and the Directorate of Accounting in the Ministry of Finance have an already overcrowded agenda, lack the resources and to some extent the knowledge and expertise on international accounting and financial reporting standards, an independent and professional accounting standards board should be established. This implies that Albania would have to commit significant human and financial resources to make the implementation of international accounting and financial reporting standards a reality. In a country like Albania where human and financial resources have been scarce for a long time it is difficult to see where additional resources would come from. Furthermore, could not these additional resources be used for more purposeful goals than the adoption of a set of accounting standards that would be relevant only to a handful of companies?

Another important argument that undermines the relevance of international accounting standards to countries such as Albania is that the IASB and its predecessor the IASC have also made little secret of the fact that its most important constituency is the group of industrially and economically advanced countries. This has been reflected in the appointment of those who run the then IASC and its successor the IASB. Throughout the years developing countries have had only a marginal role, at best, within the then IASC and its successor the IASB. For instance, as Nobes (1998, p. 75) notes, "nearly all the Chairmen and Secretaries General have been from countries using Anglo-American or Dutch accounting". To have expected such an organisation as the then IASC, or the current IASB to somehow be at the centre of addressing fully - through setting and promotion of international accounting and financial reporting standards - the multi-faceted accounting challenges facing developing economies may seem naive. The then IASC, and to some extent its successor - the IASB, have not been constitutionally, structurally or operationally designed as a vehicle for improving accounting practice in developing countries such as Albania. Rather, the intended primary beneficiaries have always been the developed countries, or interested groups within them (see Mason, 1976).

On the contrary though, international accounting and financial reporting standards have been very "popular" and widely adopted in developing countries. Commenting on the large number of developing and emerging economies that have adopted international accounting standards, Nobes (1998) is emphatic that "the clearest and most spectacular success for the IASC" (p. 75) is in regard to these two groups of countries. In reality, an increasing number of developing countries are being encouraged to adopt, and many are adopting, or have already adopted, international accounting and financial reporting standards. The IASB, the IMF and the World Bank, among others, have openly called for developing countries to embrace international accounting standards (see Ouattara, 1998). The rationale that is very often expressed for this "open call" is that many developing countries do not have the resources - financial and administrative, or the expertise to formulate, maintain and regulate their own standards (Nobes, 1998; Perera, 1985). Nobes (1998) in particular justifies the move on the basis that international accounting standards offer "a cheap" and "politically attractive alternative" for developing countries. With regard to developing economies of Central and Eastern Europe which are in transition from centrally commanded to market economies, Nobes (1998) suggests that international accounting standards offer "a quick fix" to their accounting problems.

For these reasons, it is seen as sensible for those countries to adopt international accounting standards which come ready made, and therefore seemingly cheaper and easier to implement. It is also argued, "Why reinvent the wheel?" It is worth pointing out though that arguments such as "low cost", or "immediate availability" are not strong enough to fully justify a country's decision to fully adopt international accounting and financial reporting standards. Most importantly, viewing international accounting and financial reporting standards as "the quick fix" that a country needs during its transition from centrally commanded to market economy is very simplistic, misleading and dangerous. In addition, having developing countries waiting for the

IASB to use its international accounting and financial reporting standards to address, or solve the accounting problems that those countries face will lead to the establishment of a dependency from overseas. This dependency from overseas will stall not only the development of accounting in developing countries such as Albania, but also the advancement of any other institutions that are related to accounting. Subsequently, developing countries such as Albania will continue to lack the expertise required to participate in any international debate on accounting and / or other economic affairs.

Despite the array of issues discussed above, some of basic accounting conventions on which international accounting and financial reporting standards are based as well as two specific international accounting standards have already been incorporated into Albania's accounting legislation. According to Albania's existing legislation entities such as banks and other financial institutions are allowed to use either national rules and regulations on accounting, or international accounting standards. A special chart of accounts that is fully compliant with IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" has already been prepared and is in use. Although the above may be considered as a step that has brought Albania's financial institutions closer to using international accounting standards, it is still early to claim that Albania's financial institutions apply in full international accounting standards because (i) full compliance with all requirements of IAS 32 and IAS 39 is not possible due to issues such as the absence of treasury shares (institutions' own repurchased shares), the very narrow range of financial instruments that these financial institutions issue, the establishing of the fair value of financial instruments, and disclosures about collateral since information about the value of collateral that the entity has received and is permitted to sell cannot be easily established because of instability of market prices and Albania's undeveloped markets, and (ii) the cost of minimum, partial or full compliance with international accounting standards is quite significant.

In order to attract foreign investors some of Albania's largest state - owned enterprises that the government has decided to privatise have had to prepare financial statements in accordance with international accounting and financial reporting standards as well as have these statements audited according to international standards of auditing. In addition, any foreign business entities that operate in Albania and are part of companies listed in overseas stock exchanges have to prepare their financial statements according to Albania's legislation on accounting as well as international accounting and financial reporting standards. In both cases above, the cost of compliance with international accounting and financial reporting standards has proved to be very high.

As discussed in Chapter 7, Albania has managed to establish a formal framework with regard to the audit of businesses' financial information. If Albania's businesses are to follow international accounting and financial reporting standards however, the quality of audits performed also has to improve. In addition, Albania's existing legislation needs to be re-drawn to assure that firms comply with the substance of the law and are not able to navigate around the form of the law. Navigating around the law is often a problem in statutory societies such as Albania. If international accounting standards IAS 24 "Related Party Disclosures" and IAS 27 "Consolidated Financial Statements" are to be adopted in Albania then navigating around existing legislation could be possible particularly with related party transactions and consolidations where control and influence of a related entity may exist in substance but not by regulatory law. If related party and beneficial ownership rules are inexistent or weak, then they will fail to capture conflicts of interest and as a result corresponding transactions will not be disclosed and businesses' funds might be diverted improperly.

Before international accounting and financial reporting standards are adopted in Albania the issue of liabilities and accrued interest on these liabilities that the government has no intent to collect from companies that were owned by the state or supported by state also has to be addressed fully.

Another important issue is that of financial statement netting which is related to cases where one company provides a product or a service to another and the other company provides services or a product back - a practice that is used quite often by businesses in Albania. It is already accepted that this netting distorts a full and fair presentation of the financial information and under international accounting standards netting is prohibited.

If adopted, IAS 16 "Property, Plant and Equipment" and IAS 36 "Impairment of Assets" have to be implemented carefully. Businesses' assets in Albania have been depreciated on the basis of relatively long depreciation schedules approved by the Ministry of Finance. Furthermore, a good deal of tangible fixed assets has been poorly maintained due to lack of resources. Such a situation may lead to a conflict between businesses' desire to maintain a healthy balance sheet and the requirement that businesses' financial statements give a true and fair value of businesses' assets.

Furthermore, (i) prior revaluation adjustments need to be fully disclosed if assets held for a long time by businesses have been revalued several times, (ii) the adoption of IAS 17 "Leases" may represent a waste of technical and financial resources because leases are hardly used by businesses in Albania while the enforcement of any contractual obligations still remains very weak, and (iii) despite its clarity on a number of issues and its very strict requirements, the implementation of IAS 41 "Agriculture" by the largest existing livestock farms and poultry incubators might run into difficulties with regard to the calculation of fair values for the breeding stock (bearer biological assets) and the value of live animal stock (consumer biological assets) which later will be culled for meat and skin exports, and other by products.

While discussing potential adoption and implementation of a number of international accounting standards in Albania, it is noteworthy that the issue of international accounting standards for small and medium size enterprises - forms of business ownership that prevail in Albania, is still unresolved worldwide. The European Union has fully endorsed compliance with international accounting and financial reporting standards by all EU listed companies. Furthermore, under the 4th and 7th Company Law Directives, EU member states have the option of granting small and medium size enterprises exemptions from certain financial reporting and disclosure requirements including the requirement of a statutory audit. The UK has introduced for a test period the financial reporting standards for small and medium size entities, the International Accounting Standards Board has on its agenda a plan to look at a simplified version of international accounting standards, the United Nations Conference on Trade and Development has issued a simplified accounting standard, and the American Institute of Certified Public Accountants is studying the possibility of a simplified standard for small and medium size enterprises in the United States. Against such a background the best course of action for countries like Albania would probably be to maintain, improve where possible and enforce the existing tax driven accounting legislation for small and medium size businesses. Preparation of a new set of international accounting standards for small and medium size enterprises requires careful thinking and adequate resources but most importantly any standard for these simpler types of businesses would have to be simpler.

As indicated many times throughout this research study Albania has been experiencing a lack of accountants and auditors who are qualified to prepare reports based on international accounting and financial reporting standards and audit them. If international accounting and financial reporting standards are to be adopted then Albania must have a critical mass of fully qualified professional accountants and auditors who understand these standard. The above could be accomplished by introducing international accounting and financial reporting standards into the accounting curricula of Albania's higher education institutions and providing full training to the existing licensed accountants and auditors.

Based on past and current developments as well as future trends, one can assert that international accounting and financial reporting standards appear destined to stay. Taking into consideration the fact that Albania is hardly a heavyweight in world or European politics and that as country Albania needs continuous technical and financial assistance - at least for a few decades to come - any requests to Albania from the European Union or any other intergovernmental and / or international financial institutions to adopt partially or fully, as the case might be, international accounting and financial reporting standards will be fully met. However, whoever will be involved in talks between intergovernmental and / or international financial institutions and Albania with regard to adoption of international accounting and financial reporting standards should remember that there is not yet a translation - official or unofficial, of international accounting and financial reporting standards into Albanian. 'International accounting and financial reporting standards' has become a buzz expression but without an officially approved translation and proper understanding of these standards any discussions on the relevance of international accounting and financial reporting standards to Albania may not be very relevant.

8.2. Limitations of the Study

Any study cannot be immune to limitations and this study is no exception. The limitations of those studies that use the contingency-based approach are well documents by Saudagaran and Diga (1999). As these two scholars point out, the most important limitations of contingency-based research are,

> "the static nature of the models used; their inability to specify the underlying process linking the variables, and their neglect of the role of human agency." (Saudagaran and Diga, 1999, p. 67)

Throughout this study however, the researcher tried to address these limitations especially by emphasising how the interactions between individuals and institutions have influenced developments in Albania's accounting system.

Another problem usually associated with case study research is the necessity to draw arbitrary boundaries on the research topic. This is a practical requirement over which the researcher has some control. In this case study, the boundaries were drawn by the nature of the research questions. That part of accounting domain on which this research is based is predominantly concerned with the financial accounting and external financial reporting system. As a result, some limitations exist due to the inadequate study of management accounting or the exclusion of the system of Albania's national accounting.

Confidentiality is another problem associated with case study research. In some cases it is possible to identify some of the interviewees. Where this is the case, the interviewees have been notified, and promise given not to make explicit mention of them.

As this case study is a detailed examination of accounting developments in one country, the majority of conclusions related specifically to Albania. This is a major limitation of the case study approach. However, the case study is presented in such a way that parallels could be drawn, in particular with the situation in other transitional economies of Central and Eastern Europe.

Snowballing - the method of sampling used in this study, has some obvious limitations. Usually as snowballing begins those individuals with a greater number of contacts within the population have a higher probability of being selected as a member of the sample. There is also the associated potential bias of people networking with individuals who have similar opinions to themselves. To minimise this potential bias, the initial contacts were taken from the widest possible range of sources.

Some of the problems with the interviewing technique are implicitly discussed in the section on field research in Albania in Chapter Four. However, it is worth pointing out that one of the key problems with semi-structured, open-ended interviews is how to strike the right balance in relation to open-ended discussions. Furthermore, the researcher had to use his judgment to decide where to ask further questions and where not. Sometimes, time constraints were also an issue.

Nevertheless, as indicated above, this study is presented in such a way that parallels could be drawn with other transitional economies especially Albania's neighbouring countries.

8.3. Exploring the Unknown: Future Research

It is important that Albania's accounting developments are studied further. Very little is known about management accounting practices not only in Albania but also in other Central and East European countries. The same applies to accounting for local government, national accounting, balance of payments accounting, etc.. These are unknown territories that need to be explored.

While there have been attempts to compare accounting developments of the most developed transitional economies of Central and Eastern Europe, no comparative research has been done on accounting in the least developed countries of the region. These countries could learn from each other, and research is needed to provide further data for comparison.

8.3.1. Some Reflections on Contingency Theory as a Framework for Research in International Accounting

In this study the researcher has argued that while there has been a mounting academic literature related to accounting developments in Central and Eastern Europe in the 1990s, most of the authors have mainly elaborated technical and legal changes in descriptive and largely uncritical terms. Such a literature has not adopted a critical approach and has only scarcely theorised accounting in terms of its complex interrelations, the way it is perceived and the various dimensions of its effects (Dosa et al, 1996). There has also been a particular concern that this literature has not critically analysed changes in accounting in a global context. Nor has it questioned trans-national influences upon accounting in Central and Eastern Europe. The above deficiencies have not just been apparent in the literature in English but in that in various Central and East European languages, too.

Furthermore, although the literature on accounting in countries such as Hungary, the Czech Republic, Poland, and Russia has been mainly descriptive, it has, at least, documented changes in accounting that have taken place throughout the 1990s. Accounting developments in other Central and East European countries such as Albania however, have not even been documented let alone critically analysed. When this research started in the late 1990s, there was a clear gap in the literature in both English and Albanian with regard to studies on accounting changes in Albania[1]. There was thus, a need not only to document but also to develop a substantive theoretical account of changes in Albania's accounting infrastructure. Within this context, it was also necessary to search, study and identify what was needed to encourage the development of a well-articulated and integrated fully functioning accounting infrastructure in a country like Albania.

In order to give an analytical account of the political economy of accounting change in Albania the researcher used a contingency theory based framework to analyse the information collected during semi-structured, open-ended, face to face interviews. As Schweikart (1985, p. 90) argues, a theoretical framework is useful because it provides motivation to conduct research - in this case in international accounting, it offers guidelines for designing effective research, and it establishes a sound method to interpret and summarise research results. To augment its credibility the theoretical framework should be drawn from an existing theory from another discipline, and preferably should have had some prior use in accounting or other related disciplines.

The contingency theory based framework used in this research study has indeed provided the motivation and guidelines for effective research and a sound method for interpreting and summarizing field research data.

---

[1] Since the start of reforms in Albania in 1992, there have been only two published articles, both in English, on accounting changes in Albania. The researcher is the author of one of them.

This framework has referred to a set of explanations regarding why a particular configuration of accounting system elements - such as a uniform system of accounting, has arisen in a country like Albania and how these system elements (accounting legislation, accounting policy and decision making bodies, accounting professional associations and accounting practices) have been transformed, maintained and could be improved. Furthermore, the contingency theory based framework used in this research study has been drawn from the existing contingency theory of management discipline.

The basic theme of contingency theory of management is that organisations have to deal with different situations in different ways. There is no single best way of management applicable to all situations. In order to be effective, the internal functioning of an organisation should co-relate to the demands of external environment. The managers must regulate the organisational functioning in harmony with the needs of individuals, i.e. members from within and customers and other externally.

When transferred to an international accounting domain the basic theme of contingency theory of management would imply that accounting reflects the unique environmental characteristics of a country, and as SyCip (1981, p. 86) argued,

> "[a]ccounting principles, standards, and practices are usually a direct product of the circumstances and influences of their environment and are most meaningful if viewed against such factors ... ."

As international accounting literature grew and international accounting became accepted as an important domain to be investigated, researchers attempted to identify key environmental factors which influenced and explained accounting diversity and also tried to classify different national accounting systems and practices.

There were studies by Mueller (1967), Radebaugh (1975), the American Accounting Association (1977) on classification of accounting systems, studies by Belkaoui

(1983), Puxty et al (1987), and Cooke and Wallace (1990) on the influence of environmental factors on accounting systems and factor analysis studies, such as those by Frank (1979) and Nair and Frank (1980) on the classification of accounting systems.

All these studies provided a useful initial starting point for examining accounting differences, accounting developments and accounting change in a number of countries. Furthermore, all these studies recognised the importance of environmental factors on the development of accounting systems.

This study follows the above trend in international accounting research. Implementing the work of the International Accounting Section Committee on Research Methodologies of the American Accounting Association (AAA, 1993) the contingency theory based approach used in this research study is similar to but more advanced than an environmental causal model. An environmental causal model is a unidirectional model characterised by a one-way flow between various factors and the dependent variables. According to the environmental casual model - Diagram 8.1. below, a number of particular environmental variables or factors in the national environment can explain the patterns or attributes of an accounting system (as in the case of this research study the development path of Albania's accounting system and the use of a uniform system of accounting).

It is noteworthy that environmental factors may vary across countries. These environmental factors can be of domestic and international political, economic, and socio-cultural nature and they influence accounting systems. Furthermore, this

Diagram 8.1.: Contingency theory framework

research study has also identified and analysed a number of institutional groupings, both international and domestic, whose activities and decisions influence a country's accounting system. These institutional groupings operate within a particular political, economic and socio-cultural milieu. As this research study has explained, it is the influence of environmental factors, the interactions between institutional groupings as well as decisions, be they forced or conscious, that such groupings make that determines the nature and characteristics of a country's accounting system (as in the case of this study the uniform nature and tax driven character of Albania's accounting system).

Unlike some of the research on factors influencing accounting systems which has been criticised because of lack of incorporation of the cultural, social, institutional and political environment on accounting systems and the lack of analysis of the dynamic nature of accounting and of accounting change, this study has addressed both these important issues.

The approach used in this study could have two implications for further accounting research. First any research similar to this study should attempt to analyse systematically the characteristics of each factor and grouping. Secondly, similar research should continue to emphasise and analyse the role and influence of institutional groupings. Any research based on a framework that ignores the role and influence of institutional groupings on a country's accounting system would be seen as research which assumes purely a deterministic relationship between environmental factors and a country's accounting system. Consequently, any framework used in such research would be seen as theoretically incomplete.

In this research study an issue that could have been emphasised more perhaps is that of linkages, interrelationships or interactions amongst certain environmental factors themselves and then between them and institutional groupings. These interactions are important because environmental factors can constrain the decisions made by institutional groupings [for instance, in the case of Albania, historical factors such as the historic absence of a capital market, or socio-cultural factors such as Albanians' preference for sole proprietorship types of businesses (which in itself could be explained by the tribal, closed nature of Albania's society as well as individuals' lack of trust in others used as a means of defence in a country ravaged by wars and divisions throughout its history) can and will probably delay a decision on the adoption of international accounting and financial reporting standards forced onto the country's parliamentary commission for economic matters and the directorate of accounting in the ministry of finance by the European Union and international financial institutions such as the IMF and the World Bank.

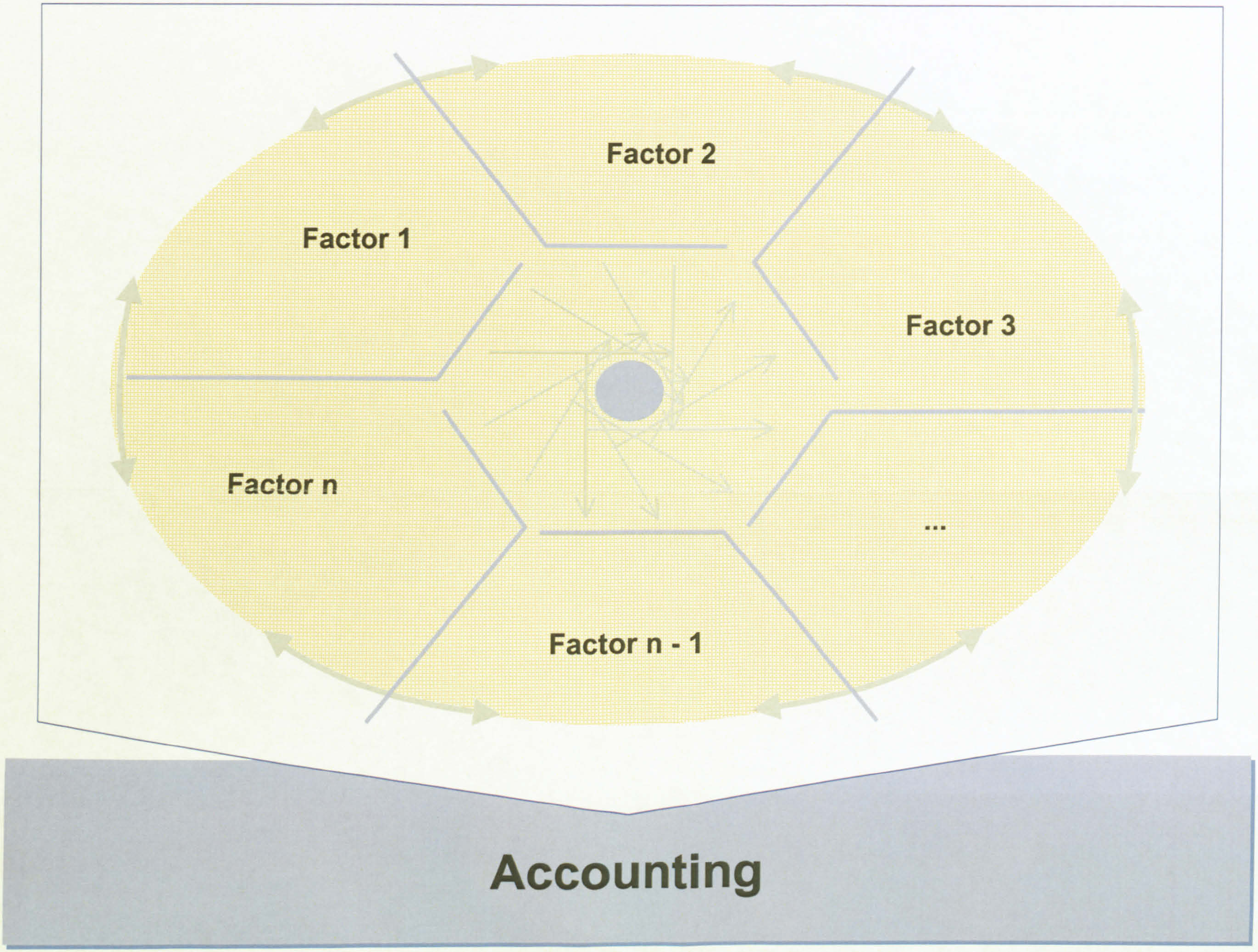
Taking into consideration the above remark, the model shown in Diagram 1 can be enhanced further by analysing the interrelationship(s) between the factors and groupings and then studying the impact of those interrelationships on a country's accounting system and accounting change, as shown in Diagram 2 below. Within the above context it is worth studying how any two or more factors, for instance culture and politics, interact with each other and what the impact of that interaction on a country's accounting system would be.

For instance, there have been many studies that suggest that a country's culture is an important factor that affects the accounting system. Jaggi (1975), Bloom and Naciri (1989), Violet (1983) and McKinnon (1986) have all researched culture and accounting. Gray (1988), following Hofstede, defined culture as the value system shared by major groups of populations. He suggested a theoretical framework linking accounting and culture within which the impact of culture on accounting values and accounting change could be assessed.

Furthermore, accounting is no longer viewed as purely an objective technique that neutrally portrays the performance of economic entities. Instead, accounting and accounting change are subject to political pressures and processes. Accounting is seen to be influenced by politics as follows: (i) the involvement of government (either implicitly or explicitly) in accounting regulation and accounting change, (ii) the involvement of parliament in accounting regulation and accounting change, and (iii) accounting regulation and accounting change being the outcome of the interactions of all parties interested in and affected by accounting.

As said above, a useful approach would be to study how the policy and decision makers, which formulate the regulations, operate within and are affected by the culture of the country, and then how such an interaction between culture and politics affects country's accounting system. Certainly, the greater the number of factors and groupings taken into consideration, the more insightful but complex the analysis.

Diagrame 8.2.: Proposed contingency theory framework



It would also be useful to extend this or any other research study of this nature by implementing a wider approach in the form of a recursive model that incorporates two aspects: the casual dimension which focuses on the link between environmental factors and institutional groupings and features of an accounting system, and the consequences dimension which focuses on how an accounting system, in turn, influences the environmental factors and institutional groupings. Such a wider approach would increase the comprehensiveness and coherence of both dimensions by recognising the reciprocal effects of environmental factors and institutional groupings and characteristics of a country's accounting system. As Saudagaran and Diga (1999, p. 62) aptly expressed,

> "theories that assume that the financial accounting system is only a passive recipient of change overlook the powerful capacity of the accounting system to influence the perceptions and behavior of social groups."

Despite its advantages as a framework for research in international accounting contingency theory has drawn criticism most notably by Saudagaran and Diga (1999, p. 67) who outlined the limitations of contingency theory based research frameworks as

> "the static nature of the models used; their inability to specify the underlying process linking the variables, and their neglect of the role of human agency."

The same scholars argue in favour of research based on other approaches. While any international accounting research based on other approaches could be very insightful perhaps it would be premature to discard contingency theory based research frameworks, or consider them as not very useful for further research into accounting change in other Central and East European countries. In many quarters of a region like Central and Eastern Europe, as well as the rest of world, change is the only certainty. Failing to understand change would lead to difficulties in controlling it. This last applies to changes in an accounting system which represents an outcome of interactions within a particular national environment.

The study of accounting reforms in Central and East European countries requires an analytical approach. Contingency theory is untroubled by changes in the environment. This is because its approach is pragmatic and open-minded. Contingency theory not only views an accounting system as a set of distinguishable, but interdependent and inter-related parts but also stresses the need to examine the relationship between the accounting system and the changing environment that surrounds it.

Bibliography

American Accounting Association (1977) "Report of the 1975 - 76 Committee on International Accounting Operations and Education", Accounting Review, Vol. 52 (Supplement), pp. 65 - 132

American Accounting Association (1993) Report of the Research Methodologies Committee of the International Accounting Section of the American Accounting Association (Sarasota, Florida: American Accounting Association)

Adler, P. A. (1985) Wheeling and Dealing: An Ethnography of an Upper-Level Drug Dealing and Smuggling Community (New York: Colombia University Press)

Ágh, A. (1998) The Politics of Central Europe (London, Thousand Oaks, New Delhi: Sage Publications)

Akerlof, G. (1970) "The Market for Lemons: Quality, Uncertainty and the Market Mechanism", Quarterly Journal of Economics, Vol. 84, pp. 488 - 500.

Al-Hashim, D. D. (1977) "Social Accounting in Egypt", International Journal of Accounting Education and Research, Vol. 12, No. 2 (Spring), pp. 127 - 141

Andor, L. and M. Summers (1998) Market Failure - A Guide to the East European 'Economic Miracle' (London, Chicago, Illinois: Pluto Press)

Antonelli, G. (1992) "Some Remarks Stemming from an Historical-Theoretical Economic Analysis" in G. Antonelli et al. DYNAMIS, Quaderno 13 / 92: The Transition to Market Economy in Albania, pp. 1 - 14 [Milan, Italy: Edizione (Fuori Commercio) di Instituto di Ricerca sulla Dinamica dei Sistemi Economici (IDSE)]

Aslund, A and O. Sjoberg (1992) "Privatization and Transition to a Market Economy in Albania", Communist Economies and Economic Transformation, Vol. 4, No. 1, pp. 135 - 147

Babameto, E. (2002) "Ready for Stock Market", Albanian Economic Review (Tirana: Institute for Development Research and Alternatives)

Bailey, D. T. (1982) "Accounting in Russia: The European Connection", International Journal of Accounting Education and Research, Vol. 18, No. 1 (Fall), pp. 1 - 36

Bailey, D. T. (1988) "Accounting Under Socialism - An Overview", in D. T. Bailey (ed.) Accounting in Socialist Countries, pp. 173 - 184

Bailey, D. T. (1988) "Accounting in the USSR", in D. T. Bailey (ed.) Accounting in Socialist Countries, pp. 133 - 156

Bailey, D. (1995) "Accounting in Transition in the Transitional Economy", The European Accounting Review, Vol. 4, No. 4, pp. 595 - 623

Bartol, K., D. Martin, M. Tein and G. Matthews (2000) Management: A Pacific Rim Focus 2nd ed. (Australia: McGraw Hill)

Bay, W. and H. - G. Bruns (1998) "Multinational Companies and International Capital Markets" in P. Walton, A. Haller, and B. Raffournier (eds.) International Accounting, pp. 336 - 355 (International Thomson Business Press)

Begg, D. (1997) "Monetary Policy During Transition: Progress and Pitfalls in Central and Eastern Europe, 1990-6", Oxford Review of Economic Policy, Vol. 13, No. 2, pp. 33 - 46

Belkaoui, A. (1983) "Economic, Political, and Civil Indicators and Reporting and Disclosure Adequacy: Empirical Investigation", Journal of Accounting and Public Policy, Vol. 2, No. 3, pp. 207 - 219

Berry, M. (1982) "The Accounting Function in Socialist Countries", International Journal of Accounting Education and Research, Vol. 18, No. 1, pp. 185 - 198

Bevis, H. W. (1958) "The Accounting Function in Economic Progress", The Journal of Accountancy (August), pp. 27 - 34

Blejer, M. I. et al (1992) "Albania: From Isolation Towards Reform", IMF Occasional Paper, No. 98 (September), pp. 41 - 45

Bloom R. and M. A. Naciri (1989) "Accounting Standard Setting and Culture: A Comparative Analysis of United States, Canada, England, West Germany, Australia, New Zealand, Sweden, Japan and Switzerland", International Journal of Accounting Education and Research, Vol. 24, pp. 70 - 97

Bogdan, R. and S. J. Taylor (1975) Introduction to Qualitative Research Methods (New York: Wiley)

Bond, R. R. (1970) "Emerging Nations and Emerging Institutions", International Journal of Accounting Education and Research, Vol. 6, pp. 83 - 90

Borda, M. (1992) "Hungary" in D. Alexander and S. Archer (eds.) The European Accounting Guide 1st ed. (London: Academic Press Ltd.), pp. 943 - 973

Borda, M. and S. McLeay (1996) "Accounting and Economic Transformation in Hungary" in N. Garrod and S. McLeay (eds.) Accounting in Transition. The Implications of Political and Economic Reform in Central Europe (London and New York: Routledge), pp. 116 - 140

Borgatta, G. (1940) Moneta e Credito in Albania (Milano - Padova: Cedam)

Borish, M. S., M. F. Long, M. Noel (1995) "Restructuring Banks and Enterprises - Recent Lessons from Transition Countries", World Bank Discussion Paper 279

Borish, M. S., M. F. Long, and M. Noël (1996) "Lessons from Bank and Enterprise Restructuring in the Transition Economies of Europe and Central Asia", in M. S. Borish and M. Noël (eds.) Private Sector Development During Transition - The Visegrad Countries, 39 - 62 (World Bank Publications / Blackwell Publishers Ltd.)

Boross, Z., A. H. Clarkson, M. Frazer, and P. Weetman (1995) "Pressures and Conflicts in Moving Towards Harmonisation of Accounting Practice: The Hungarian Experience", The European Accounting Review, Vol. 4, No. 4, pp. 713 - 737

Bose, M. (1977) "The Growth of Accountancy in India", Accountancy, Vol. 88, pp. 36 - 38

Boulding, K. E. (1977) "Economics and Accounting: The Uncongenial Twins" in W. T. Baxter and S. Davidson (eds.) Studies in Accounting (ICAEW), pp. 86 - 95

Brada, J. C., R. Schönfeld, and B. Slay (1995) "The Role of International Financial Institutions in Central and Eastern Europe", Journal of Comparative Economics, Vol. 20, pp. 49 - 56 (Academic Press. Inc.)

Brainard, L. J. (1991) "Reform in Eastern Europe: Creating a Capital Market", Working Paper Series S-91-11 (New York University Salomon Center, Leonard N. Stern School of Business)

Briston, R. J. (1978) "The Evolution of Accounting in Developing Countries", International Journal of Accountancy, Vol. 14, No. 1 (Fall), pp. 105 - 120

Briston, R. J. and M. Kedslie (1991) "The Internationalisation of Professional Accounting: The Role of the Chartered Association of Certified Accountants", Paper presented at the Third Conference on Interdisciplinary Perspectives in Accounting, University of Manchester - UK

Briston, R. J. and R. S. O. Wallace (1993) "Improving the Accounting Infrastructure in Developing Countries: A Self-reliance Approach" Research in Third World Accounting, Vol. 2 (London: JAI Press)

Brzezin, W. and Jaruga, A. A. (1981) "Development of Accountancy in a Centrally-Planned Economy", Working Paper No. 55, The Academy of Historians, February

Bryman, A. (1988) Quantity and Quality in Social Research (London, Boston, Sydney, Wellington: Unwin Hyman)

Buda, A., A. Kostallari, B. Dedja, D. Rusi, Dh. Shuteriqi etj. (1985) Fjalori Enciklopedik Shqiptar (Albanian Encyclopaedic Dictionary) [Akademia e Shkencave te Shqiperise (Academy of Sciences of Albania): Shtepia Botuese: "8 Nentori" (Shtypshkronja e Re) / (Publishing Hourse "8 November" (New Printhouse)]

Burchell, S., C. Clubb, A. Hopwood, J. Hughes, and J. Nahapiet, (1980), "The Roles of Accounting in Organizations and Society", Accounting, Organizations and Society, Vol. 5, No. 1, pp. 5 - 27

Burgess, R. G. (1991) In the Field: An Introduction to Field Research (London and New York: Routledge)

Burmaux, J. - M. (1995) "Establishing Financial Discipline: Experience with Bankruptcy Legislation in Central and East European Countries", OECD Economic Studies, No. 25, 1995 / II

Burrell, G. and G. Morgan (1979) Sociological Paradigms and Organisational Analysis (London: Heinemann)

Burrell, G. (1988) "Modernism, Post Modernism and Organizational Analysis 2: The Contribution of Michel Foucault", Organization Studies, Vol. 9, 221 - 235.

Bursal, N. I. (1984) "The Accounting Environment and Some Recent Development in Turkey", International Journal of Accounting Education and Research, Vol. 19, No. 2 (Spring), pp. 93 - 128

Calmès, A. (1922) La Situation Economique et Financiaire d'Albanie (Geneve)

Campbell, R. W. (1963) Accounting in Soviet Planning and Management, [Cambridge, Massachusetts (Russian Research Centre Studies - 45): Harvard University Press]

Caselli G. P. and G. Thoma (2000) "La Storia Economica Albanese 1912 - 39 e lo Stabilirsi dell'Egemonia Italiana", Materiali di Discussione N. 339, Facoltà di Economia, Dipartimento di Economia Politica, Modena, Italy

Centre for Co-operation with European Economies in Transition - Organisation for Economic Co-operation and Development (1991) "Accounting Reform in Central and Eastern Europe", Seminar Papers on Accounting Reforms in Central and Eastern Europe (OECD Publications), p. 7.

Chan, J. L., R. H. Jones, K. G. Lűder (1996) "Modelling Governmental Accounting Innovations: An Assessment and Future Research Directions", Research in Governmental Nonprofit Accounting, Vol. 9, pp. 1 - 19 (JAI Press)

Chandler, A. (1962) Strategy and Structure (MIT Press)

Choi, F. C., A. Frost and G. K. Meek (1999) International Accounting, 3rd ed. / International edition (Prentice Hall)

Choi, F. and R. Levich (1991) "Behavioural Effects of International Accounting Diversity", Accounting Horizons, Vol. 5, No. 2, pp. 1 - 130

Choi, F. D. S. and G. G. Mueller (1978) International Accounting (NJ: Prentice Hall, Englewood Cliffs)

Choi, F. D. S. and G. G. Mueller (1984) International Accounting (Prentice Hall)

Choi, F. D. S. and G. G. Mueller (1992) International Accounting 2nd ed. (New Jersey: Prentice-Hall, Englewood Cliffs)

Chossudovsky, M. (1997) The Globalization of Poverty, Impacts of IMF and World Bank Reforms (London: Third World Network, Penang and Zed Books)

Chua, W. F. (1986) “Radical Developments in Accounting Thought”, The Accounting Review Vol. 61, pp. 601 - 632

Ciancanelli, P., S. Gallhofer, J. Haslam and R. Watson (1994) “Accounting and the U.K. Government's Promotion of Profit-Related Pay: Developing a Critical Analysis”, Proceedings of the Fourth Interdisciplinary Perspectives on Accounting Conference, University of Manchester - UK, 11 - 13 July

Clunies-Ross, A. and P. Sudar (eds.) (1998) Albania’s Economy in Transition and Turmoil: 1990-97 (Ashgate Publishing Co.)

Cooke, T. E. and R. S. O. Wallace (1990) “Financial Disclosure Regulation and its Environment - A Review and Further Analysis”, Journal of Accounting and Public Policy, Vol. 9, No. 2, pp. 79 - 110

Cooper, R. and G. Burrell (1988) “Modernism, Postmodernism and Organizational Analysis: An Introduction”, Organization Studies, Vol. 9, pp. 91 - 112.

Coopers and Lybrand (1997) Central and Eastern Europe and the Former Soviet Union (Coopers and Lybrand Europe’s Central and Eastern European Knowledge Gateway Publication, December)

Copley, P. A. (1993) “An Assessment of the Potential Effect of Big Eight Firm Mergers on Competition in the Market for Audit Services”, Advances in Accounting, Vol. 11, pp. 185 - 205

Crozier, M. (1964) The Bureaucratic Phenomenon (Chicago: Tavistock Publications)

Daft, R. L. and N. B. MacIntosh (1978) “A New Approach to Design and Use of Management Information”, California Management Review (Fall), pp. 82 - 92

Dahmash, N. H. (1982) “Public Auditing Developments in the Arab States: A Comparative Study, The International Journal of Accounting Education and Research, Vol. 18, pp. 89 - 114

Danos, P. and J. W. Eichenseher (1982) "Audit Industry Dynamics: Factors Affecting Changes in Client-Industry Market Shares", Journal of Accounting Research, Vol. 20 (Autumn), pp. 604 - 616

Day, J. (1843) Algebra 48th ed. (New Haven: Durrie and Peck)

Day, J. F. S. (1986) "The Use of Annual Reports by UK Investment Analysts", Accounting and Business Research (Autumn), pp. 295 - 307

Delanty, G. (1997) Social Science Beyond Construction and Realism (Buckingham: Open University Press)

Demaria, G. (1940) Il Problema della Politica Economica Albanese e lo Sviluppo del Reddito Nazionale (Milano-Padova: Cedam)

Denzin, N. K. and Y. S. Lincoln (1994) Handbook of Qualitative Research (California: Sage)

De Toma, A. (1942) "Le Risorse Idroelettriche dell'Albania nel Quadro delle Esigenze dell'Industria Italiana e Mediterranea nel Dopoguerra", Rivista di Politica Economica, pp 507 - 517

De Toma, A. (1943) Il Commercio Estero dell'Albania nel Passato e i suoi Probabili Sviluppi nell'Avvenire con Riferimento all'Italia (Milano: Aracne)

Di Fenizio, F. (1940) Evoluzione Passata e Prospettive di Sviluppo per l'Industria Mineraria Albanese (Milano - Padova: Cedam)

Di Nardi, G. (1940) Le Finanze Pubbliche dell'Albania (Milano - Padova: Cedam)

Donaldson, L. (1995) Contingency Theory (Aldershot, England: Dartmouth)

Dosa, L., S. Gallhofer, and J. Haslam (1996) "Accounting's Location in a Transition Process: The Case of Hungary", Management, Vol. 1, No. 1, pp. 25 - 31

The Economist (1998) "The Lingering Tequila Hangover", The Economist (14 March), p. 19

EBRD, Transition Report, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002

Edwards, J. D. and J. H. Godwin (1995), "Why Sound Accounting Standards Count", Economic Reform Today: Banking and Financial Reform, No. 1 [Center for International Private Enterprise (CIPE) - US Chamber of Commerce: http://www.cipe.org/publications/fs/ert/e15/focus.htm]

Eijffinger, S. C. W. and J. D. Haan (1996) "The Political Economy of Central Bank Independence", Princeton Special Papers, No. 19 (May)

Enthoven, A. J. H. (1965) "Economic Development and Accountancy", Journal of Accountancy (August), pp. 29 - 35

Enthoven, A. J. H. (1969) "Accountancy for Economic Development", Finance and Development (September), pp. 24 - 29

Enthoven, A. J. H. (1973) Accountancy and Economic Development Policy (Amsterdam: North - Holland)

Enthoven, A. J. H. (1975a) "An Evaluation of Accountancy Systems, Developments and Requirements in Africa", Ford Foundation Study (University of North Carolina)

Enthoven, A. J. H. (1975b) "An Evaluation of Accountancy Systems, Developments and Requirements in Asia", Ford Foundation Study (University of North Carolina)

Enthoven, A. J. H. (1977) Accounting Systems in Third World Economies (North Holland)

Enthoven, A. J. H. (1981) Accounting Education in Economic Development Management (New York: North Holland)

European Community (1978) Fourth Council Directive, 78 / 660 / EEC

Feleaga, N. (1992) Problèmes du Choix et de l'Implantation d'un Nouveau Système Comptable Dans un Pays Qui Passe d'une Économie Planifiée et Centralisée à l'Économie de Marché, Congrès de l'Association Française de Comptabilité, Bordeaux

Filstead, W. J. (ed.) (1970) Qualitative Methodology: Firsthand Involvement with the Social World (Chicago: Markham)

Fishta, I. and V. Toçi (1983) Gjëndja Ekonomike e Shqipërisë në Vitet 1912 - 44: Prapambetja e saj, Shkaqet dhe Pasojat (The Economic Situation of Albania during the Years 1912 - 44: Its Underdevelopment, Reasons and Consequences) (8 Nëntori, Tiranë / Tirana: "8 November" Publishing House)

Fortuzi, A. (2001) "Dirty Secrets Revealed - The UN identifies five environmental disaster areas in Albania", Balkan Reconstruction Report (14 August) [http://balkanreport.tol.cz/look/BRR/article.tpl?IdLanguage=1&IdPublication=9&NrIssue=1&NrSection=1&NrArticle=1850&ST_max=0]

Frank, W. G. (1979) "An Empirical Analysis of International Accounting Principles", Journal of Accounting Research, Vo. 17, No. 2, pp. 593 - 605

Frasca Polara, P. (1932) "Il Commercio Estero e la Politica degli Scambi in Albania", estratto dalla Rivista di Politica Economica (Tipografia delle Terme)

Fry, M. J. (1977) "In Favour of Financial Liberalisation", Economic Journal, Vol. 104, No. 442 (May), pp. 754 - 770

Galbraith, J. K. (1973) Designing Complex Organisations (Addison-Wesley)

Gallhofer, S. and J. Haslam (1991), "The Aura of Accounting in the Context of a Crisis Situation: Germany and the First World War", Accounting, Organizations and Society, Vol. 16, No. 5 / 6, pp. 487 - 520.

Gandhi, N. W. (1976) "The Emergence of the Postindustrial Society and the Future of the Accounting Function", The International Journal of Accounting Education and Research (Spring), pp. 33 - 50

Garrod, N. and S. McLeay (1996) "The Accounting Implications of Political and Economic Reform in Central Europe" in N. Garrod and S. McLeay (eds.) Accounting in Transition. The Implications of Political and Economic Reform in Central Europe, pp. 1 - 11 (London and New York: Routledge)

Gernon, H. and R. S. O. Wallace (1995) "International Accounting Research: A Review of Its Ecology, Contending Theories and Methodologies", Journal of Accounting Literature, Vol. 14, pp. 54 - 106

Giordano, A. (1942) "La Rete Ferroviaria dell'Europa Sud Orientale e gli Interessi Italiani", Rivista di Politica Economica, pp. 543 - 549

Giordano, A. (1943) "L'Industrializzazione dei Paesi dell'Europa Sud Orientale e gli Interessi Italiani", Rivista di Politica Economica, pp. 397 - 399

Glaser, B. G. and A. L. Strauss (1976) The Discovery of Grounded Theory: Strategies for Qualitative Research (Chicago: Aldine)

Godfrey, A. D., P. J. Devlin and C. Merrouche (1995) "Governmental Accounting in Kenya, Tanzania, and Uganda", Research in Governmental Nonprofit Accounting, Vol. 9, pp. 193 - 208 (JAI Press)

Godfrey, A. D., P. J. Devlin and C. Merrouche (2000) "Government Accounting Development Within a Transitional Economy - Albania a Case Study", The Journal of Applied Accounting Research, Vol. 5, No. 3 (July), pp. 53 - 86

Gorelik, G. (1973) "Notes on the Development and Problems of Soviet Uniform Accounting", The International Journal of Accounting Education and Research (Fall), pp. 135 - 148

Grant, C. (1992) "Changes in University-level Accounting Education in Poland", The European Accounting Review, Vol. 1, pp. 407 - 412

Gray, S. J. (1985) "Cultural Influences and the International Classification of Accounting Systems", Paper presented at EIASM Workshop on Accounting and Culture, Amsterdam, June

Gray S. J. (1988) "Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally", Abacus, Vol. 24, pp. 1 - 15

Graves, O. F. and M. Berry (1989) "Accounting's Role in Successful Economic Development: Some Normative Evidence from the German Democratic Republic", The International Journal of Accounting Education and Research, Vol. 24, pp. 189 - 220

Gulinelli, A. (1927) "L'Albania ed il suo Riordinamento Monetario", Giornale degli Economisti

Haller, A. and P. Walton (1998) "Country Differences and Harmonization" in P. Walton, A. Haller and B. Raffournier (eds.) International Accounting, pp. 1 - 30 (International Thomson Business Press)

Harxhi, E. (1995) An Invitation to Albania: An Overview of Albania's Resources and Economy (BESA)

Hashi, I and L. Xhillari (1996) "Privatisation and Transition in Albania", Draft paper presented at the Conference "Albanian Economy Towards Free Market", Tirana, 13 - 14 December

Hashi, I. and L. Xhillari (1998) "Privatisation and Transition in Albania", Working Paper (Division of Economics, Staffordshire University, Stoke on Trent, UK, and National Agency for Privatisation, Tirana, Albania, January).

Haslam, J. (1994) "Comment on Expertise and the Construction of Relevance: Accountants, Science and Environmental Audit", by Michael Power, Proceedings of the Fourth Interdisciplinary Perspectives on Accounting Conference, University of Manchester - UK, 11 - 13 July

Hatfield, H. R. "An Historical Defence of Bookkeeping", Journal of Accountancy, 241 - 253, (April 1924), p. 241. Reprinted in W. T. Baxter (ed.) (1950) Studies in Accounting Theory (London: Sweet and Maxwell)

Hayes, D. C. (1977) "The Contingency Theory of Managerial Accounting", Accounting Review, Vol. 52, No. 1, pp. 22 - 39

Healey, N. (1996) "The Economics of Transition: From Marx to the Market", The Economic Review, Vol. 14, No. 1, pp. 4 - 9

Hercok, A. V. V. (1982) "The Role of Accountancy in a Socialist Society: The Czechoslovakian Example", Occasional Paper No. 48, School of Management, Deakin University, Gee Long Vic

Hercok, A. V. V. (1988) "Accounting in Czechoslovakia", in D. T. Bailey (ed.) Accounting in Socialist Countries, pp. 76 - 93

Hicks, H. G. and C. R. Gullett (1981) Management 4th ed. (New York: McGraw-Hill)

Hines, R. D. (1988) "Financial Accounting: In Communicating Reality, We Construct Reality", Accounting, Organizations and Society, Vol. 13, pp. 251 - 261

Hirschi, T. (1969) Causes of Delinquency (Berkerley: University of California Press)

Hoarau, C. (1998) "Accounting in France" in P. Walton, A. Haller and B. Raffournier (eds.) International Accounting (International Thomson Business Press), pp. 108 - 129

Hofstede, G. (1983) "Dimensions of National Cultures in Fifty Countries and Three Regions", in J. B. Deregowski, S. Dziurawiec and R. C. Annis (eds.) Expiscations in Cross-cultural Psychology (London: Swets and Zeitlinger), pp. 335 - 355

Holsti, O. R. (1969) Content Analysis for the Social Sciences and Humanities (Addison-Wesley Publishing Co.)

Holzer, H. P. and D. Tremblay (1973) "Accounting and Economic Development: The Cases of Thailand and Tunisia", The International Journal of Accounting Education and Research, Vol. 9, pp. 67 - 80

Ijiri, Y. (1992) "The Nature of Accounting Research", in Robert Sterling (ed.) Research Methodology in Accounting (Houston: Scholars Book Co.), pp. 59 - 69

Illés, K. P. Weetman, A. H. Clarkson, M. Frazer (1996) "Change and Choice in Hungarian Accounting Practice", The European Accounting Review, Vol. 5, No. 3, pp. 523 - 543

IMF (1997) International Financial Statistics (April)

IMF (1997) "Albania - Recent Economic Developments", IMF Staff Country Report (Washington, DC: IMF, April)

Jackson, M. (1994) "Critical Issues in Privatisation: the Central and Eastern Europe Experience; Privatisation in NACC Countries; Defence Industry Experiences and Policies and Related Experiences in Other fields", NATO Colloquium (Brussels: NATO Economics Directorate, June 29)

Jaggi, B. L. (1970) "A Review of the Accounting Profession in India", The International Journal of Accounting Education and Research, Vol. 6, No. 1 (Fall), pp. 35 - 52

Jaggi, B. L. (1973) "Accounting Studies of Developing Countries: An Assessment", The International Journal of Accounting Education and Research, Vol. 10, No. 1 (Fall), pp. 159 - 170

Jaggi, B. L. (1975) "Impact of Cultural Environment on Financial Disclosure", The International Journal of Accounting Education and Research, Vol. 10, No. 2 (Spring), pp. 75 - 84

Jaruga, A. A. (1990) "Accounting Functions in Socialist Countries", British Accounting Review, Vol. 22, pp. 51 - 77

Jaruga, A. A. (1993) "Changing Rules of Accounting in Poland", The European Accounting Review, Vol. 1, pp. 115 - 126

Jaruga A. A. (1996) "Accounting in Socialist Countries: The Beginnings of Reform" in N. Garrod and S. McLeay (eds.) Accounting in Transition. The Implications of Political and Economic Reform in Central Europe (London and New York: Routledge), pp. 12 - 27

Jaruga, A. and W. Nowak (1996) "Towards a General Model of Public Sector Accounting Innovations", Research in Governmental Nonprofit Accounting, Vol. 9, pp. 21 - 31 (JAI Press)

Jaruga, A. A., E. Walinska, and A. Baniewicz (1996) "The Relationship between Accounting and Taxation in Poland", The European Accounting Review, Vol. 5 (Supplement), pp. 883 - 897

Jaruga, A. and D. Bailey (1998) "Poland" in D. Alexander and S. Archer (eds.) European Accounting Guide, 3rd ed. (San Diego, New York, Chicago, London: Harcourt Brace Professional Publishing - A Division of Harcourt Brace and Company), pp. 1564 - 1595

Johnson, T. L. and M. Caygill (1971) "The Development of Accounting Links in the Commonwealth", Accounting and Business Research (Spring), pp. 155 - 173

Kaplan, A. (1964) The Conduct of Enquiry (San Francisco: Chandler Press)

Khandwalla, P. N. (1972) "The Effect of Different Types of Competition on the Use of Management Controls", Journal of Accounting Research (Autumn), pp. 275 - 285

Kitchen, J. and Parker, R. H. (1980) Accounting Thought and Education (London: ICAEW)

Knights, D. and D. Collinson (1987) "Disciplining the Shopfloor: a Comparison of the Disciplinary Effect of Managerial Psychology and Financial Accounting", Accounting, Organizations and Society, Vol. 12, No. 5, pp. 457 - 477

Kornai, J. (1995) "The Principles of Privatization in Eastern Europe", in Poznanski, K (ed.) The Evolutionary Transition to Capitalism (Boulder, Colorado: Westview Press)

Krzywda, D., D. Bailey and M. Schroeder (1995) "A Theory of European Accounting Development Applied to Accounting Change in Contemporary Poland", The European Accounting Review, Vol. 4, No. 4, pp. 625 - 657

Krzywda, D., D. Bailey and M. Schroeder (1996) "The Impact of Accounting Regulation on Financial Reporting in Poland" in N. Garrod and S. McLeay (eds.) Accounting in Transition - The Implications of Political and Economic Reform in Central Europe (London and New York: Routledge), pp. 61 - 92

Kuhn, T. S. (1962) The Structure of Scientific Revolutions, 2nd ed. (Chicago: Chicago University Press)

Kvale, S. (1996) InterViews - An Introduction to Qualitative Research Interviewing (Sage Publications, Inc.)

Lamb, M. (1999) "Taxation Research as Accounting Research", in M. Lamb and A. Lymer (eds.) Interdisciplinary Research in Taxation: Research Approaches and Bibliographic Survey (ICAEW)

Latour, B. (1987) Science in Action (Cambridge, Massachusetts: Harvard University Press)

Laughlin, R. (1995) "Empirical Research in Accounting: Alternative Approaches and a Case for 'Middle-range' Thinking", Accounting, Auditing and Accountability Journal, Vol. 1, 63 - 87

(Albanian) Law no. 7661, dated 19.01.1993 - known as the "Law on Accounting"

(Albanian) Law no. 7638, dated 19.11.1992 - known as the "Law on Commercial Companies"

(Albanian) Law no. 7953, dated 21.06.1996 - known as "For Some Changes in the Law on Commercial Companies"

Lawrence, P. R. and J. W. Lorsch (1967) Organisation and Environment: Managing Differentiation and Integration (Homewood, Illinois: Richard D. Irwin, Inc.)

Lee, C. - W. J. (1987) "Accounting Infrastructure and Economic Development", Journal of Accounting and Public Policy, Vol. 6, pp. 75 - 85

Lengyel, S. J. (1949) "Standardised Accountancy Considered Internationally", Accounting Research, Vol. 1

Le Vourc'h, J. (1999) "Accounting Towards a Global System", Paper presented at the Emerging Issues in International Accounting Conference, Niagara University, USA (August)

Liberman, L. V. and A. M. Eidinov (1995) "The Development of Accounting in Tsarist Russia and the USSR", The European Accounting Review, Vol. 4, No. 4, pp. 777 - 807

Lipton, D and J. Sachs (1990) "Privatization in Eastern Europe", Brookings Papers on Economic Activity, Vol. 2, pp. 293 - 341

Lofland, J. (1971) Analysing Social Setting: A Guide to Qualitative Observation and Analysis (Belmont, California: Wadsworth)

Lorenzoni, G. (1940) L'Albania Agricola, Pastorale, Forestale (Milano - Padova: Cedam)

Lűder, K. (1991) "Comparative International Governmental Accounting", Paper presented at the 3rd Biennial Conference on Comparative International Accounting Research, University of Birmingham - UK

Lűder, K. G. (1992) "A Contingency Model of Governmental Accounting Innovations in the Political Administrative Environment", Research in Governmental and Nonprofit Accounting, Vol. 7, pp. 99 - 127 (JAI Press)

Lűder, K. G. (1993) "The 'Contingency Model' Reconsidered: Experiences from Italy, Japan and Spain of Governmental Accounting Innovations in the Political Administrative Environment", Paper presented at the 4th Biennial Conference on Comparative International Governmental Accounting Research, University of Saint Gallen, Switzerland (March 25 - 26), pp. 1 - 15

Mackevicius, J, J. Aliukonis and D. Bailey (1996) "The Reconstruction of National Accounting Rules in Lithuania" in N. Garrod and S. McLeay (eds.) Accounting in Transition - The Implications of Political and Economic Reform in Central Europe, (London and New York: Routledge), pp. 43 - 60

Macintyre, S. (1979) Single and Pregnant (London: Croom Helm)

De Marchi, B. (1995) "Uncertainty in Environmental Emergencies: A Diagnostic Tool", Journal of Contingencies and Crisis Management, Vol. 3, No. 2 (June), pp. 103 - 112 (Blackwell Business)

Mason, A. K. (1976) "International Financial Reporting Standards: The Problems and Prospects, Particularly in the Area of Accounting for Inflation", ICRA Occasional Paper, No.13, University of Lancaster - UK

Mathews, M. R. (ed.) (1984) Readings in the Development of Accounting (Palmerston North: Dunmore)

McKinnon J. L. (1986) The Historical Development of the Operational Form of Corporate Reporting Regulation in Japan (New York: Garland)

McKinnon, R. (1993) The Order of Economic Liberalization - Financial Control in the Transition to a Market Economy 2nd ed. (Baltimore and London: The Johns Hopkins University Press)

Melloan, G. (1998) "Fear of the Unknown is the IMF's Secret Weapon": Global View, The Wall Street Journal Europe (21 July), p. 11

Merton, R. K., M. Fiske, and P. L. Kendall (1956) The Focused Interview (Glencoe Illinois: Free Press)

Mepham, M. J. (1977) "The Accountancy Profession in Jamaica", The Accountant's Magazine (November), pp. 468 - 470

Meta, B. (1999) Politika Tatimore e Shtetit Shqiptar 1925 - 1939 (Taxation Policy of Albanian State 1925 - 1939) (Shkenca, Tiranë / Tirana: "Science" Publishing House)

Meyer, J. (1986) "Social Environments and Organisational Accounting", Accounting, Organisations and Society, Vol. 11, No. 4, pp. 345 - 356

Miles M., and A. Huberman (1994) Qualitative Data Analysis: An Expanded Sourcebook 2nd ed. (Sage Publications)

Miller P., and A. G. Hopwood (1984) Accounting as Social and Institutional Practice (Cambridge: Cambridge University Press)

Mintzberg, H. (1973) "An Emerging Strategy of Direct Research", Administrative Science Quarterly, Vol. 24 (December), pp. 582 - 589

Minyard, D. H. and R. H. Tabor (1991) "The Effect of Big Eight Mergers on Auditor Concentration", Accounting Horizons, Vol. 5 (December), pp. 79 - 90

Mirghani, M. A. (1982) "A Framework for a Linkage Between Micro Accounting and Macro Accounting for the Purposes of Development Planning in Developing Countries", The International Journal of Accounting Education and Research, Vol. 18, No. 1 (Fall), pp. 57 - 78

Mochrie, R. (1997), "CEE Getting Their Act Together", The Scottish Banker (February), 16 - 17

Montias, J. M. (1994) "Financial and Fiscal Aspects of System Change in Eastern Europe" in J. P. Bonin and I. P. Székely (eds.) The Development and Reform of Financial Systems in Central and Eastern Europe (Edward Elgar), pp. 9 - 40

Morgenstern, O. (1963) On the Accuracy of Economic Observations 2nd ed. (Princeton, NJ: Princeton University Press)

Most, K. S. (1961) Uniform Cost Accounting and the Classification and Coding of Accounts (London: Gee and Company)

Most, K. (1984) International Conflict of Accounting Standards (Vancouver: Canadian Certified General Accountants Research Foundation)

Mueller, G. G. (1965) "International Experience with Uniform Accounting", Law and Contemporary Problems (Autumn)

Mueller, G. G. (1967) International Accounting (New York: MacMillan)

Nair, R. D. and W. G. Frank (1980) "The Impact of Disclosure and Measurement Practices on International Accounting Classifications", Accounting Review, Vol. 55, No. 3, pp 426 - 450

Nasif, E.G., H. Al-Daeaj, B. Ebrahimi and M. Thibodeaux (1991) "Methodological Problems in Cross-Cultural Research: An Updates Review", Management International Review (Germany), No. 1, pp. 79 - 91

Nobes, C. (1998) "Harmonisation of Financial Reporting" in C. Nobes and R. Parker (eds.) Comparative International Accounting (London: Prentice Hall)

Ndubizu, G. A. (1984) "Accounting Standards and Economic Development: The Third World in Perspective", The International Journal of Accounting Education and Research, Vol. 19, No. 2 (Spring), pp. 181 - 196

Nuti, D. M. (1988) "Perestroika: Transition from Central Planning to Market Socialism", Economic Policy: a European Forum, Vol. 3, No. 2, pp. 353 - 389 (Cambridge University Press, October)

Offe, C. (1996) Varieties of Transition: The East European and East Germany Experience (Polity Press)

Ohmae, K. (1990) The Borderless World: Power and Strategy in the Interlinked Economy (Harper Business)

Ouattara, A. (1998) "Opening and Liberalising Markets in Africa - A Response to Globalisation", Brown Journal of World Affairs, Vol. 1 (Winter / Spring)

Parker, R. H. (1972) "Britain into Europe: Some Accounting Consequences", Paper presented at AUTA Conference, Manchester - UK

Parker, R. H. (1981) "The Want of Uniformity in Accounts: A Nineteenth Century Debate", in D. M. Emannel and I. C. Stewart Essays in Honour of Trevor R. Johnston, University of Auckland and the New Zealand Society of Accountants

Parker, R. H. and C. W. Nobes (1994) An International View of True and Fair Accounting (Routledge)

Pasha, A., A. Mançellari, B. Dumani, E. Babameto, and D. Salko (2002) "Determinants of Growth - Albanian Case", Paper prepared by the Institute for Development Research and Alternatives in the framework of the Global Research Project "Explaining Growth" supported by Global Development Network

Pashko, G. (1993) "Obstacles to Economic reform in Albania", Europe-Asia Studies, Vol. 45, No. 5, pp. 907 - 921

Pastorelli, P. (1967) "Italia e Albania 1924 - 27. Origini Diplomatiche del Trattato di Tirana del 22 Novembre 1927", Biblioteca della Rivista di Studi Politici Internazionali

Perera, M. B. H. (1985) "International Accounting Standards and the Developing Countries: A Case Study of Sri Lanka", Research Report, Department of Accounting and Finance, Glasgow Business School

Perera, M. B. H. (1989) "Accounting in Developing Countries: A Case for Localised Uniformity", British Accounting Review, Vol. 21 (June), pp. 141 - 158

Pitt, D. C, N. Levine, and M. Manxhari (1998) "Albanian Telecommunication Reform - The Road Less Travelled", Telecommunications Policy, Vol. 22, No. 6, pp. 519 - 539

Power, M. (1994), "Expertise and the Construction of Relevance: Accountants, Science and Environmental Audit", Proceedings of the Fourth Interdisciplinary Perspectives on Accounting Conference (11 - 13 July), University of Manchester - UK

PriceWaterhouse (1997) Converging Cultures: Trends in European Corporate Governance (Price Waterhouse Publication, April)

Prifti, P. R. (1978) Socialist Albania since 1944: Domestic and Foreign Developments (Cambridge, Massachusetts and London, England: The MIT Press)

Public Accounting Report (1989) "Small-Business Owners Believe that Mergers Will Do Them No Good", Public Accounting Report, Vol. 12 (October 15)

Puxty, A. G., H. C. Willmott, D. J. Cooper, and T. Lowe (1987) "Modes of Regulation in Advanced Capitalism: Locating Accountancy in Four Countries", Accounting, Organizations and Society, Vol. 12, No. 3, pp. 273 - 291

Quershi, M. A. (1974) "Private Enterprise Accounting and Economic Development in Pakistan", The International Journal of Accounting Education and Research, Vol. 11, No. 1 (Fall), pp. 125 - 141

Radebaugh, L. H. (1975) "Environmental Factors Influencing the Development of Accounting Objectives, Standards and Practices in Peru" The International Journal of Accounting Education and Research, Vol. 11, No. 1 (Fall), pp. 39 - 56

Radebaugh, L. H. and S. J. Gray (1993) International Accounting and Multinational Enterprises, 3rd ed. (New York, Chichester, Brisbane, Toronto, Singapore: John Wiley and Sons, Inc.)

Raffournier, B. and P. Walton (1998) "Accounting Differences and Financial Statement Analysis" in P. Walton, A. Haller, and B. Raffournier (eds.) International Accounting (International Thomson Business Press), pp. 429 - 448

Raiser, M. (1995) "Lessons for Whom, from Whom? The Transition from Socialism in China and Central Eastern Europe Compared", Communist Economies and Economic Transformation, Vol. 7, No. 2, pp. 129 - 157

Rama, S. A. (1997) "Failed Transition, Elite Fragmentation and the Parliamentary Elections of June 29, 1997", International Journal of Albanian Studies, Vol. 1, No. 1

Rayburn, J. M. and L. G. Rayburn (1991) "Contingency Theory and the Impact of New Accounting Technology in Uncertain Hospital Environments", Accounting, Auditing, and Accountability Journal, Vol. 4, No. 2, pp. 55 - 75

Richard, J. (1998) "Accounting in Eastern Europe: from Communism to Capitalism" in P. Walton, A. Haller and B. Raffournier (eds.) International Accounting (International Thomson Business Press), pp. 295 - 323

Richardson, A. J. (1987) "Accounting as a Legitimating Institution", Accounting, Organizations and Society, Vol. 12, No. 4, pp. 341 - 355

Roberts, C. P. Weetman, and P. Gordon (2001) International Financial Accounting - A Comparative Approach 2nd ed. (Financial Times / Prentice Hall)

Root, A. and C. Emmanuel (1992) "Clash of Culture Makes it Hard to Figure", Accountants Magazine (July), p. 28

Rose, N. (1977) "Fetishism and Ideology: A Review of Theoretical Problems", Ideology and Consciousness (Autumn)

Roselli, A. (1986) Italia e Albania: Relazioni Finanziarie nel Ventennio Fascista (Bologna: Il Mulino)

Ryan, B., R. W. Scapens, and M. Theobald (1992) Research Method and Methodology in Finance and Accounting (Academic Press Limited)

Ryan, B., R. Scapens, and M. Theobald, (2002) Research Method and Methodology in Finance and Accounting 2nd ed. (London: Thomson)

Rydell, F. (1963) The Accounting Profession in Pakistan, India, Burma and Thailand: A Comparative Study (Institute of Business Administration, University of Karachi) pp. 155 - 176

Sametz, A. W. (1993) "The Role of the Financial Sector in the Reform and Reconstruction of East European Economies", Working Paper Series S-93-9 (New York University Salomon Center, Leonard N. Stern School of Business)

Samuels, J. M. (1990) "Accounting for Development: An Alternative Approach" in R. S. O. Wallace, J. M. Samuels and R. J. Briston (eds.) Research in Third World Accounting, Vol. 1, pp. 67 - 86 (London: JAI Press)

Samuels, J. M. and J. C. Oliga (1982) "Accounting Standards in Developing Countries", The International Journal of Accounting Education and Research, Vol. 17, No. 1 (Fall), pp. 69 - 88

Scapens, R. W. (1990) "Researching Management Accounting Practice: The Role of Case Study Methods", British Accounting Review, Vol. 22, pp. 259 - 281

Saudagaran, Sh. M. and J. G. Diga (1999) "Evaluation of the Contingency-Based Approach in Comparative International Accounting: A Case for Alternative Research Paradigms", Journal of Accounting Literature, Vol. 18, pp. 57 - 95

Schiro, J. J. (1998), "The Trends in Tatarstan: Solving Business Problems in Emerging Markets", PricewaterhouseCoopers Publication (PricewaterhouseCoopers).

Schöpflin, G. (1993) Politics in Eastern Europe: 1945 - 1992 (Blackwell Publishers)

Schroeder, G. E. (1969) "The 1966-67 Soviet Industrial Price Reform: A Study in Complications", Soviet Studies, Vol. 10, No. 4 (April)

Schumpeter, J. (1962) Capitalism, Socialism and Democracy 3rd ed. (New York: Harper and Row)

Schweikart, J. A. (1985) "Contingency Theory as a Framework for Research in International Accounting", International Journal of Accounting, Vol. 21, No. 1, pp. 89 - 98

Scott, G. (1968) "Private Enterprise Accounting in Developing Nations", International Journal of Accounting, Vol. 4, No. 1 (Fall), pp. 51 - 66

Scott, G. (1970) Accounting and Developing Nations (University of Washington Press)

Seal, W., P. Sucher, and I. Zelenka (1995) "The Changing Organisation of Czech Accounting", The European Accounting Review, Vol. 4, No. 4, pp. 659 - 681

Seidler, L. J. (1967) The Function of Accounting in Economic Development - Turkey as a Case Study (London: Fredrick Praeger)

Seiler, R. E. (1966) "Accounting Information Systems and Under-developed Countries", Accounting Review, Vol. 41, pp. 652 - 656

Shama, A. and C. G. McMahan (1990) "Perestroika and Soviet Accounting: From a Planned to a Market Economy", The International Journal of Accounting Education and Research, Vol. 25, No. 3, pp. 155 - 169

Shkoza, H. (1935) Financat e Shqipnis 1839 - 1934 (The Finances of Albania 1839 - 1934) (Shtypshkronja Nikaj / Nikaj Printing House)

Siebert, H. (1991) "The Transformation of Eastern Europe", Working Paper Series S-91 - 14, New York University Salomon Center, Leonard N. Stern School of Business

Silverman, D. (2001) Interpreting Qualitative Data: Methods for Analysing Talk, Text and Interaction 2nd ed. (London: Sage Publications Ltd.)

Simunic, D. A. (1980) "The Pricing of Audit Services: Theory and Evidence", Journal of Accounting Research, Vol. 18 (Spring), pp. 161 - 190

Sloam, J. (2003) "Learning from the West: West European Social Democracy as a Model for Policy Transfer", Paper Presented to the PSA Annual Conference (April)

Smith, M. J. (1998) Social Science in Question (London: Sage)

Sochaka, R. and J.- L. Malo (1996) "Emerging Capital Markets, Securities Regulation and Accounting: A Systems Perspective" in N. Garrod and S. McLeay (eds.) Accounting in Transition. The Implications of Political and Economic Reform in Central Europe (London and New York: Routledge), pp. 28 - 42

Solomons, D. (1950) "Uniform Cost Accounting - A Survey", Economica, Vol. 17, (August and November)

Solomons, D. (1978) "The Politicization of Accounting" The Journal of Accountancy, Vol. 146, No. 5 (November), pp. 65 - 72

Sucher, P., W. Seal, and I. Zelenka (1996) "True and Fair in the Czech Republic: A Note on Local Perceptions", The European Accounting Review, Vol. 5, No. 3, pp. 545 - 557

Sudar, P. (2002) "Forgotten Corners of a Global World: Albania's Accounting Institutions", SLOVO - An Interdisciplinary Journal of Russian, Eurasian, Central and East European Affairs, Vol. 14, pp. 97 - 111

Sudman, S. (1976) Applied Sampling (New York: Academic Press)

Stern, N. (1998) "The Future of the Economic Transition", EBRD Working Paper, No. 30 (European Bank for Reconstruction and Development)

Steele, J. (1995) Eternal Russia (London: Faber and Faber)

Stewart, I. (1989) Does God Play Dice? (Oxford: Basil Blackwell)

SyCip, W. (1981) "Establishing and Applying Standards in Diverse Economic and Social Environments" in J. Burton (ed.) International World Accounting Challenges and Opportunities, pp. 82 - 89 (New York: Arthur Young Professor's Roundtable)

Thomas, A. P. (1986) "The Contingency Theory of Corporate Reporting: Some Empirical Evidence", Accounting, Organisations and Society, Vol. 11, No. 3, pp. 253 - 270

Thompson, J. D. (1967) Organizations in Action: Social Science Bases of Administrative Theory (New York: McGraw-Hill, Inc.)

Toçi, V. (1937) Ndërhyrja e Kapitalit të Huaj në Shqipëri dhe Qëndrimi i Qarqeve Demokratike (1921 - 1925) [The Intervention of Foreign Capital in Albania and the Reaction of Democratic Groups (1921 - 1925)] (Tiranë / Tirana)

Tonge, S. D. and C. W. Wootton (1991) "Auditor Concentration and Competition Among the Large Public Accounting Firms: Post-Merger Status and Future Implications", Journal of Accounting and Public Policy, Vol. 10 (Summer), pp. 157 - 172

Turku, I. and N. Garrod (1996) "The Adaptation of International Accounting Rules. Lessons from Slovenia" in N. Garrod and S. McLeay (eds.) Accounting in Transition. The Implications of Political and Economic Reform in Central Europe (London and New York: Routledge), pp. 141 - 162

Turner, J. N. (1983) "International Harmonization: A Professional Goal" Journal of Accountancy (January), pp. 58 - 66

Tweedie, D. (1985) "Accountant: A Crusader or a Prisoner of the Past? - Financial Reporting in the Late 1980s", 75th Anniversary Invitation Research Lecture, New Zealand Society of Accountants, Wellington, New Zealand

Yin, R. K. (1989) Case Study Research: Design and Methods revised ed. (Sage)

Yin, R. K. (1994) Case Study Research: Design and Method 2nd ed. (Thousand Oaks, CA: Sage)

Yan, X., N. Levine, and D. Pitt (1996) "Touching Stones to Cross the River: Evolving Telecommunications Policy Priorities in Contemporary China", Journal of Contemporary China, Vol. 5, No. 13, pp. 347 - 365

Vaknin, S. (2000) After the Rain - How the West Lost the East (Prague and Skopje: Narcissus Publications in association with Central Europe Review / CEENMI)

Van Hulle, K. (1993) "Truth and Untruth about True and Fair: A Commentary on 'A European True and Fair View?' by David Alexander", The European Accounting Review, Vol. 2, No. 1 (May), pp. 99 - 106

Verani Borgucci, P. and G. Ineichen (1942) "I Petroli dell'Albania", Rivista Italiana del Petrolio

Vickers, M. (1995) The Albanians: A Modern History (London, New York: I.B. Tauris)

Violet W. J. (1983) "The Development of International Accounting Standards: An Anthropological Perspective", The International Journal of Accounting Education and Research (Spring), pp. 1 - 12

Walker, R. (1985) "An Introduction to Applied Qualitative Research" in R. Walker (ed.) Applied Qualitative Research (Aldershot: Gower), pp. 3 - 26

Wallace, R. S. O. (1990) "Accounting in Developing Countries - A Review of the Literature", Research in Third World Accounting, Vol. 1, pp. 3 - 54 (JAI Press Ltd.)

Warren, C. A. B. (1980) "Data Presentation and the Audience: Responses, Ethics, and Effects", Urban Life, Vol. 6, No. 3, pp. 282 - 308

Weber, M. (1961) General Economic History (New York: Collier Books)

Welch, C., R. Marschan-Piekkari, H. Penttinen and M. Tahvanainen (2002) "Corporate Elites as Informants in Qualitative International Business Research", International Business Review, Vol. 11, pp. 611 - 628

Whittington, G. (1977) "Accounting and Economics" in B. Carsberg and T. Hope Current Iissues in Accounting (Philip Allan Publishers), pp. 197 - 220

Whyte, W. F. (1984) Learning from the Field: A Guide from Experience (Beverly Hills, California: Sage)

Wilmott, H. C., A. G. Puxty, K. Robson, D. J. Cooper, and E. A. Love (1992) "Regulation of Accountancy and Accountants: A Comparative Analysis of Accounting for Research and Development in Four Advanced Capitalist Countries", Accounting, Auditing and Accountability Journal, Vol. 5, pp. 32 - 56

Wilmott, H. C. (1993) "Breaking the Paradigm Mentality" Organization Studies, Vol. 14, 681 - 719.

Wootton, C. W., S. D. Tonge, and C. M. Wolk "Pre and Post Big 8 Mergers: Comparison of Auditor Concentration", Accounting Horizons, Vol. 8 (September), pp. 58 - 74

Zeff, S. A. (1971) Forging Accounting Principles in Five Countries (Stipes Publishing Company)

Zeff, S. A. (1978) "The Rise of 'Economic Consequences'", The Journal of Accountancy, Vol. 146, No. 6 (December), pp. 56 - 63

Zelenka, I. (1993) "Historical Development of Accounting in Czechoslovakia", Unpublished Working Paper, Prague School of Economics

Zelenka, I., W. Seal and P. Sucher (1996), "The Emerging Institutional Framework of Accounting in the Czech and Slovak Republics" in N. Garrod and S. McLeay (eds.) Accounting in Transition - The Implications of Political and Economic Reform in Central Europe (London and New York: Routledge), pp. 93 - 115

Znaniecki, F. (1934) The Method of Sociology (New York: Farrar and Rinehart)

Zoga, K. (1973) Krediti dhe Bankat Bujqësore në Shqipëri prej 1888 (Credit and Agricultural Banks in Albania since 1888) (Tiranë / Tirana)

Appendix

Semi-structured questions / issues asked / discussed during the open-ended, face to face interviews:

1. The history of accounting in Albania until the beginning of the 20th century
2. The history of accounting in Albania during the first half of the 20th century
3. Accounting during communism / trend and problems
4. Accounting reform in the 1990s / trends and problems
5. Accounting legislation / problems
6. Accounting policy and decision-making bodies / functioning and problems
7. Suggestions for future improvements in Albania's accounting system
8. The importance of accounting
9. The role of accounting in Albania's economic development
10. The role of international governmental and financial institutions in the economic / accounting reform