

***“Arab Management Accounting Systems
under the Influence of their Culture”***

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by
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Abstract

Due to globalization, business opportunities can be established in new countries more than ever before. The Arab countries are gaining more attention as emerging markets in global business. Applying managerial accounting on a global basis requires an understanding of the cultural aspects of the countries. Arabic culture has a long history on the one hand and contradicts the Western cultures sharply on the other hand.

Research on comparative management accounting (CMA) emerged in the early 1990s. Recently, research on transitional economies is focusing on management accounting practice in these emerging markets, but only a small proportion of this research deal with some aspects of Arab management accounting and control systems. Thus, the relative lack of attention paid to Arab culture in relation to management accounting is quite significant. The research explores the characteristics of management accounting systems in the Arab World. Thus, this research explores the role of management accounting in Arab companies in decision-making, strategic planning, control, and performance measurement. In addition, this research examines the impact of Arab culture on their MASs. Furthermore, the Anglo-American countries have a particular importance and significant influences on the Arab World. Hence, this research compares some aspects of Arab MASs with Anglo-American MASs.

A qualitative field study is an essential part of the research methodology in order to identify the scope of management accounting and generate evidence from the field. The data is gathered through open-ended, face-to-face interviews from three different Arab countries. In addition, an in-depth case study is conducted on a Sharia-compliant company, which represents a special kind of Arab companies. Furthermore, the cross-sectional data analyses are based on different dimensions derived from the theoretical framework.

The results reveal that the finance department in Arab companies carries out financial and managerial accounting tasks. Arab companies can be also characterized by short-term budgeting. In addition, Arab companies use traditional instruments in management accounting and performance evaluation. The empirical results show the limited role of management accounting in Arab companies, especially in terms of strategic decisions. The findings affirm that culture is an ultimate factor shaping Arab MASs. Furthermore, the findings indicate that Arab management accounting practice is influenced by the Anglo-American MA knowledge and institutions. The study also points to the influence of organizational culture on MASs in Arab companies. Importing international knowledge and improving the education and training in field of MA will help Arab companies in developing their MASs.

Key words: Comparative management accounting, Arab world, culture, qualitative field study, Sharia-compliant companies, decision-making, accounting information system, reporting system, performance evaluation, Anglo-American management accounting.

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List of Abbreviations and Acronyms

AAOIFI: Accounting and Auditing Organization for Islamic Financial Institutions

ABC: activity based costing

AIS: Accounting information system

ASCA: Association of Syrian Certified Accountants

BoD: board of directors

BSC: balanced scorecard

CMA: comparative management accounting

Co.: company

CFAC: cross-fertilized Arab companies

Exp.: expert

FDI: foreign direct investments

GCC: the Gulf Cooperation Council; and also known as the Cooperation Council for the Arab States of the Gulf (CCASG)

GDP: gross domestic product

GNP: gross national product

HO: head office

IMA: Institute of Management Accountants

IAIE: International Association for Islamic Economics

IFSB: Islamic Financial Services Board

IIIF: International Institute of Islamic Finance

KIB: Khalifa Islamic Bank

LDCs: less developed countries

MA: management accounting

MAS: management accounting system

MC: management control

MCS: management control system

MENA: the Middle East and North Africa region

MIS: management information system

OS: organizational structure

PAC: pure Arab companies

PM: performance measurement

ROE: return on equity

ROI: return on investment

ROS: return on sales

RPLA: Resource-poor and labor-abundant countries

RRLA: Resource-rich and labor-abundant countries

RRLI: Resource-rich and labor-importing countries

RQ: research question

SA: Sharia adviser

SB: Sharia Board

SD: Sharia department

SMA: Strategic management accounting

UAE: United Arab Emirates

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Chapter 1: Introduction

Due to globalization, business opportunities can be established in new countries more than ever before. Settling down in new emerging markets requires from foreign investors or managers in addition to determining a market entry strategy, locating, and organizing the business units, to be also aware of the influences and interrelations of the external forces that affect and occur in the workplace, primarily cultural differences. Managers must have a well understanding of the foreign culture in an international environment (Lichtenberger et al., 1998).

Increasing globalization is a salient economic force for most international business organizations. Any organization must be able to cope with the external factors in a new market. Starting business in a new, emerging market is combined with a lot of opportunities and challenges. These companies need to be keenly informed about all of the conditions in the new domestic market, e.g. potential customers, regional trading systems and groups, governmental regulations including tariffs and taxation, and the level of the technological development. Internal organizational aspects include choosing the strategy, designing the organizational structure, developing the technical qualities, integrating the organizational units, securing human resources and improving the knowledge of the staff.

1. 1. Globalization and Business in the Arab World

The increase of global organizations places emphasis on managing and controlling diversity in turbulent and variety environments. The growth of information technology raises the need for adjustments in management practice as in organizing tasks, roles, authority relations and responsibilities (Redding, 1994).

Applying managerial accounting on a global basis requires an understanding of the cultural aspects of the countries. Having a certain awareness of the economic, political, and particularly cultural environment should be developed prior to establishing new organizations or subsidiaries in the Arab World or going into partnership with Arab

proprietors. Hence, “Countries that not so many times ago were conservatory are opening the doors of international affairs ... Arabian countries, where the distance toward the power is higher, have an average economic liberty that offers possibilities to expand despite cultural differences that exist.” (Herciu, 2006, p. 6).

As mentioned, these different aspects that surround organizations in global business can be summed up as the following:

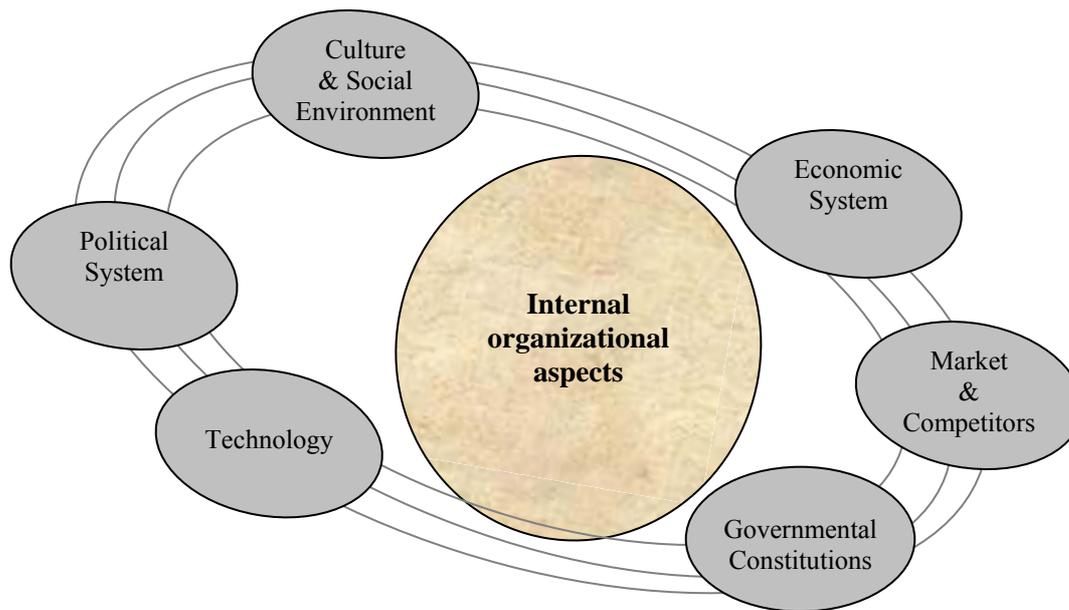


Figure (1): Forces and factors behind globalization

The Arab World extends over a large, diverse area from the Arabian Gulf to the Maghreb at the shores of the Atlantic. Most countries in the Middle East are Arab. To the people in that region the differences and diversity are obvious, but to an outsider this aspect may take some time to notice. Arabs identify themselves with their nationality, ethnicity, religion, and family rather than with their identity to any geographical location known as the “Middle East” (Walker et al., 2003). Therefore, a foreigner should be conscious of this diversity and should know that, for example, doing business and dealing with Saudis is a bit different from doing business with Egyptians.

Doing international business is not only confined to managerial work such as leading, planning, commanding, and controlling, but on the top of that is interacting with other people abroad and understanding their cultural norms. Managerial activities comprise management and continuity for work processes. Moreover, they are rife with contradictions

and conflicts (Thomas, 2002). While in the past some business managers preferred to concentrate on their domestic markets, in today's business environment they are forced to deal with the international competition which they are facing domestically. Cultural heritage is largely invisible and differentiate between nations. These invisible cultural customs consist of values, norms, and assumptions that determine to large extent the organizational environment and individuals interaction (Bjerke, 1999).

To succeed in doing business in a foreign country is more challenging and difficult than doing it in one's home country (Denton & Al-Shamali, 2000). Managerial accounting plays a part and supports in planning, controlling, and decision-making. Culture influences individuals' interaction, decisions, and performance in organizations and in some cases it can be the basis of understanding their behaviors. Culture may also impact organizational performance and effectiveness.

Culture includes social norms, ritual and values, but it is a scheme or way of perceiving, thinking, and feeling in relation to the organization's group. Culture is a product of social interactions among group members and that certainly influenced management thinking (Schneider, 1990).

1. 2. Motivation of the Research

Arabic culture has a long history on the one hand and contradicts the Western cultures sharply on the other hand. Thus, the relative lack of attention paid to Arab culture in relation to management accounting is quite significant. Due to the currently rapid economic growth of many markets in the Arab World that stretches over more than 14 million square kilometers, many experts predict an appreciable business development in Arab countries. Hence, it is also widely accepted that Arab culture and management practices are quite different from those in other countries.

Research on comparative management accounting (CMA) arose in the early 1990s. Much research examined the influence of culture on the design of management accounting and control systems in different nations around the world. First, Bhimani (1996) gave insights on European management accounting. Chapman et. al. (2007) presented management

accounting around the world and examined management accounting research done on France, Italy, Portugal, Spain, China, Britain, German-speaking countries, U.S., and Japan.

Further research examined several aspects of management accounting and control practice across nations, in addition to the above mentioned countries, such as, India, Korea, Malaysia, Singapore etc (Joshi, 2001; Sulaiman et al., 2004). One of the missing parts in this global research is the management accounting system in the Arab World.

Most research studied management accounting practice in advanced countries (Joshi et al., 2003). Recently, there has been an increase in the contemporary research on management accounting and control systems in less developed or transitional countries. The Arab countries are gaining more attention as emerging markets in global business. Recently, only a small proportion of this research dealt with some aspects in management accounting and control in few Arab countries (Ismail, 2007; Kattan et al., 2007). Thus, this research identifies a gap in the existing literature and provides an initial study on Arab MASs.

Furthermore, research on transitional and emerging markets focuses on different aspects of management accounting practice. Many companies operating in these economics are using traditional management accounting techniques on the one hand (Joshi, 2001), but certain companies especially manufacturing are looking to adopt modern management accounting instrument and techniques (Anderson & Lanen, 1999; Morakul & Wu, 2001).

Importing management accounting knowledge and techniques from developed countries particularly Anglo-American countries to transitional and emerging economics can not be undertaken without challenges and difficulties. Sulaiman et al. (2004) referred to the limitation of utilization of modern Management Accounting techniques in transitional countries. Lack of expertise, technology, education, lack of awareness of the new techniques, the support of top management, and potential high costs of implementing new contemporary MA techniques are important factors to be considered when examining the MA change in these changing emerging markets.

However, there has been little research, which has attempted to look into the management accounting practices in Arab companies (Dik & Hoffjan, 2008). Despite the limitation of available research on management accounting in the Middle East, this research investigates

management accounting systems in several countries throughout the eastern and western regions of the Arab World. More specifically, the possibility of improving the role of management accounting in Arab companies in decision-making, control and performance management as applied in the Anglo-American¹ countries will be also discussed.

Focusing this research on management accounting in the Arab World will add significant value to future studies in this field. A comparative analysis of management accounting between Arab countries and on the other hand of the existing practice in the Anglo-American countries will add new perspectives and assist in improving the recent concept of management accounting in the Arab World according to the approach of management accounting in the Anglo-American countries.

1. 3. Purpose of the Research

The significance of management accounting and its role in strategic and performance management is increasing nowadays. Yet, research on management accounting in the Arab World is still quite limited. This research explores the characteristics of management accounting systems in Arab countries and the use of accounting information in decision-making, strategic planning and management control. The main focus is on the concept of management accounting in relation to first of all culture, also accounting information systems and performance management in several kinds of companies.

Although there is relatively little empirical research on the conception and construction of management accounting in the Arab World, some research and working papers have touched on management accounting systems in the Arab World. Research performed on the Middle East recommended further investigation on management accounting in the region (Elshahat & van Triest, 2006). The increase in demand for further research on management accounting and previous research encourages more empirical studies in order to reveal the magnitude of global homogenization of management accounting practices (Granlund & Lukka, 1998). This emphasizes the need for supplementary research in this field especially on transitional and emerging economies (Ezzamel & Xiao, 2009).

¹ The Anglo-American countries have a particular importance and significant influences on the Arab World. This will be presented in the following chapter. Great Britain, USA, Australia, and Canada are meant as Anglo-American countries in this research.

Nevertheless, this research has a twofold purpose and holds considerable value. First, it is well worth considering for international management research when conducting business with Arab countries. With increasing globalization, many Western companies are establishing international operations with Arab countries. Thus, it has become a crucial matter to be able to operate their management accounting and control practical knowledge in different cultural environments or to adapt their management accounting and control system to the respective Arab culture. Secondly, it enhances comparative management accounting research specifically on the Arab World. Researching management accounting systems around the world has become an increasingly important issue in contemporary management accounting research.

Culture has drawn the attention of management accounting research and also its influences on management accounting practices. Cross-cultural studies on management accounting and control systems had covered many countries all over the world, but very little research has investigated Arab management accounting systems. Therefore, this research will focus and analyze MASs in the Arab World.

Arab culture is quite noteworthy as a culture of long history dominating a large portion of the world's population and area. In the last few decades and particularly in recent years the Arab World experienced considerable growth in trade, specifically international business. A notable, rapid economic development particularly occurred in the Gulf region (World Bank, 2006 b). In addition, the culture of the Arab World entirely differs from Western culture in many aspects (Hofstede, 2001). Thus, this research has great potential to enrich cross-cultural studies on management accounting and control systems, as the lack of attention paid to Arab culture is relatively appalling for this research area.

Furthermore, Arab companies embrace a special type of companies that varies from the common conventional companies in the world related to their religious concept, namely the Sharia-compliant companies. The growth of the oil industry in the Middle East has a positive impact on the Islamic finance industry. This created an incentive for dominant Anglo-American companies especially in the Gulf region to provide different investment and financing options to meet this demand (Ainley et al., 2007). Very well known Anglo-American and European banks contribute to Islamic finance through their networks in the

Arabian Gulf, Malaysia, and Indonesia, etc. (Wilson, 2007). Research on the influences of Islamic law on MASs in Sharia-complaint companies has been seldom conducted in international management accounting research. Hence, this research will touch on this issue.

As the research on the characteristics of Arab MASs has been seldom addressed in the management accounting studies especially cross-cultural research on management accounting and control systems, this research describes the recent standard of management accounting in several Arab countries and evaluates the function and effectiveness of the existing MASs. Thus, this research will examine specifically the impact of Arab culture on their MASs. In addition, the lack of focus and attention in cross-culture research on management control systems is significant, as the contemporary research area on implementing effective control practice cross nations with respect to Arab culture does not accompany the growing global business with the Arab World especially in the Gulf states. This research also explores the concept of management control in Arab companies.

Moreover, Anglo-American management accounting practice has been a major focus in comparative management accounting research since the early 90s (Harrison & McKinnon, 1999). The adoption of Anglo-American expertise and techniques in transitional and emerging economies has been also examined by many researchers (Morakul & Wu, 2001; El-Ebaishi et al., 2003).

Hence, this research will compare some aspects of Arab MASs with Anglo-American MASs due to the fact that most Arab countries specifically the Gulf States as well as Egypt and Jordan are influenced by Anglo-American countries especially the United States of America and Great Britain. Some Arab countries particularly the Maghreb countries may still be influenced by French culture. But generally, in many Arab countries the educational system, professional institutions and practical training are influenced by Anglo-American knowledge and institutions². Hence, in certain aspects within the research, there will be some comparison between Arab and Anglo-American countries with respect to this special relationship.

Ultimately, the major aims of this research in general can be summarized as follows:

- to investigate the characteristics of Arab MASs.

² Particularly American, British, Canadian and Australian.

- to examine the impact of Arab culture on their MASs.
- to determine the influences of Anglo-American MA practice on Arab companies and its role in the development of Arab MASs.

1. 4. The Structure of the Research

This research examines the characteristics of Arab MASs and focuses on the role of their cultural dimensions in shaping Arab management accounting practice. The following figure illustrates a map of the major components of this research:

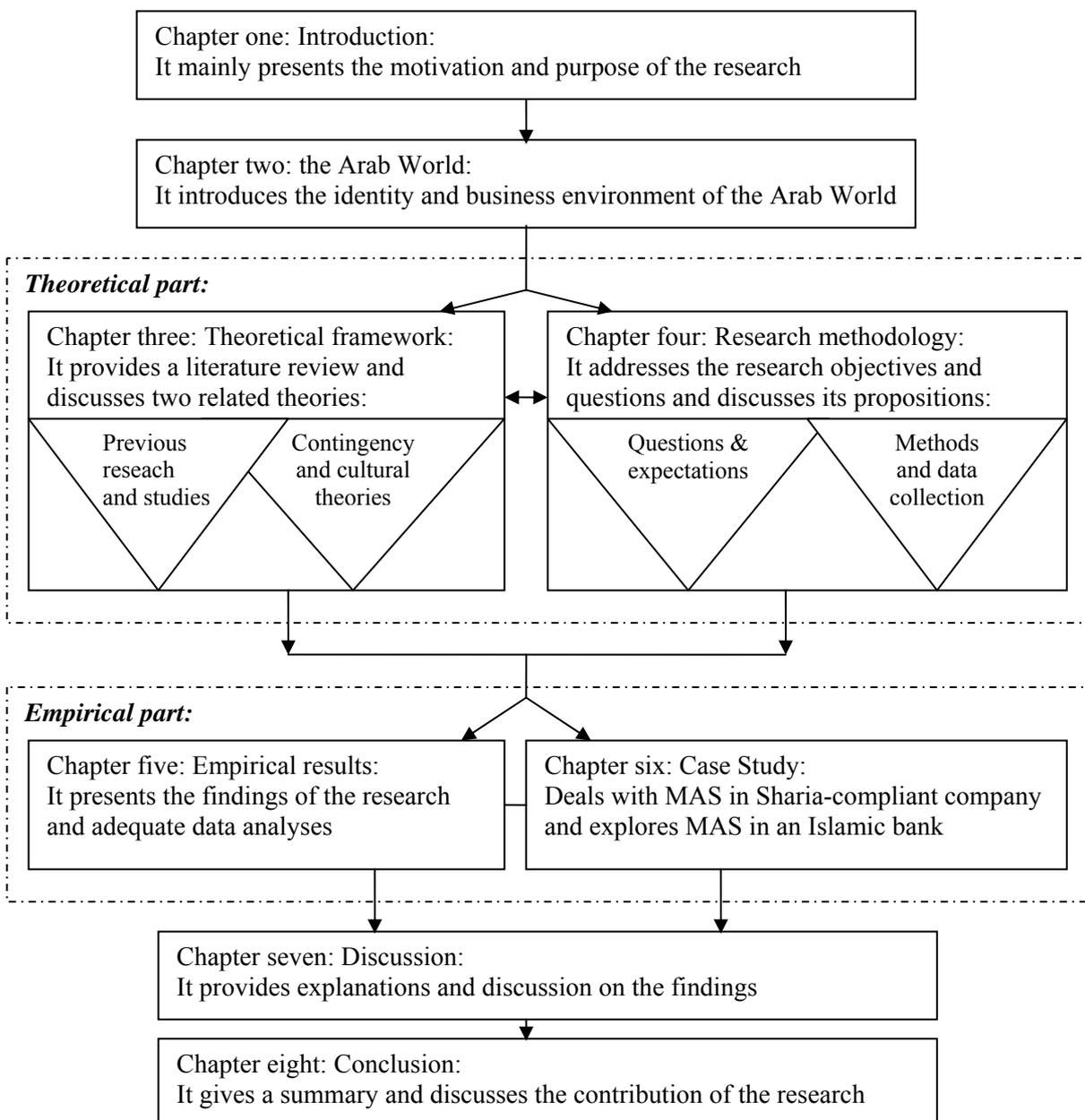


Figure (2): Structure of the research

As shown in the figure, the chapters are organized to present the sequential stages of this doctoral research. Thus, the dissertation is structured as follows:

This research focuses mainly on MASs in the Arab countries. Thus, chapter 2 will provide an adequate description of the identity of the Arab World with reference to its history and territories. In addition, chapter 2 elaborates on the factors surrounding the business environment in the Arab World that deal with economic conditions in the Arab countries and Arab customs and norms.

Chapter 3 presents the theoretical framework of the research. The third chapter will first describe and compare the definitions and understanding of management accounting in theory between Arab and Anglo-American countries. Secondly, literature on comparative management accounting research will be also discussed. In this chapter, the theory that this research is based on will be introduced. In addition, this research examines the influences of Arab culture on MASs in Arab companies. Thus, chapter 3 outlines the culture theories and studies in connection with the Arab countries.

The research objectives and methodology will be presented in chapter 4. First, a conceptual, theoretical model for the research, which is based on the previous studies and theories, will be discussed and then the research questions will be addressed. In addition, the fourth chapter deals with research approaches and methods. Overall, the chapter is intended to explain how this research is established. The fourth chapter also focuses on the sample of this research, the data collection of the empirical part, and the approach of the data analysis including the coding process.

Chapter 5 explores the results of collected data through the empirical part. In addition, chapter 5 provides an exhaustive analysis of the results with further elaborations. The chapter will also provide sub-analyses of the results based on three different criteria derived from the theoretical framework. Chapter 5 discusses the reliability and the validity of the data and its analysis in this research. In addition, it presents the limitations of the research.

Chapter 6 extends the empirical part and explores a special aspect of Arab culture namely religion. The chapter is intended to present the MAS in a certain kind of Arab companies.

Therefore, chapter 6 discusses a case study on the management accounting system in Sharia-compliant Companies.

Chapter 7 provides explanations and discussion on the findings of the research. Chapter 7 explores the correlations and relationships among the factors derived from the theoretical, conceptual framework. Moreover, the chapter discusses the findings of the research and analyzes cultural influences to reveal and determine the impact of Arab culture on the MASs specifically.

Finally, chapter 8 provides a conclusion and summarizes the main results of the research. In addition, Chapter 8 presents the contributions of this research. It also discusses some critical assessments of Arab MASs. Finally, Chapter 8 gives best recommendations for the practice and suggestions for further research.

Chapter 2: The Arab World

There are many forces for increasing globalization and making companies engage in international business such as expanding sales, acquiring resources and investments. The Arab World is rich in natural resources particularly agricultural products and raw materials such as gas and oil especially in the Gulf region. Since these countries supply oil to the Western world, they serve as an important source for energy.

Moreover, revenues from these resources have become a sure, steady source of income for several Arab countries. They are an outlet for technological high-quality products. In the past decades, some of these countries have not solely depended on mineral resources for national income, but rather they developed other sectors of the economy to increase the national income. For example, in the United Arab Emirates non-oil sectors like tourism and real estate contribute to 64% of the national GDP³.

This chapter provides an adequate description of the identity of the Arab World that refers to its history and territories. The environment in the Arab countries embraces economic, political, and social conditions. This introduction on the environments of Arab countries will touch only on economic and societal situations, as the political situation in the Arab World first of all varies among the Arab countries and is also bounded by widespread ramifications. Hence, this chapter elaborates on the factors surrounding the business environment in the Arab World that deal with economic conditions and Arab customs and norms.

2.1. Identity of the Arab World

The Arab World consists of 22 countries: Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen. The Arab

³ See: <http://www.emirates.org/about.html>. Accessed on 01/02/2010.

World often referred to as MENA (Middle East and North Africa) combines countries from the Middle East as well as from the north of the African continent.

The Arab World is spread over an area of more than 14 million square kilometers, which is larger than Europe (10.4 million square kilometers). Hence, it is crucial to mention here that these Arab countries certainly have a lot in common. First of all, they share the same language (Arabic) and culture including religion. While European countries have different languages, cultures, and histories, Arab countries own the same culture, but they have some differences in economic wealth standards and in the historical, political level.

The following figure illustrates how the Arab World spreads out between African and Asian continents:



Figure (3): The Arab World

In order to obtain more comprehensive results for this study, these countries will be divided into four groups or territories according to their different economical, political, religious, and social aspects.

As the Asian part of the Arab World is called the Mashreq, the African part is called the Maghreb. The Mashreq contains Saudi Arabia, Oman, Qatar, etc. These countries have closer cultural and economic associations. The middle of the Arab World, also known as Middle East contains countries such as Syria, Jordan, and Lebanon. In the past, they had a strong political connection. In the west of the Arab World lies the so-called the Maghreb

which consists of countries such as Tunisia, Egypt⁴, Morocco, Sudan and Mauritania. These countries agreed to unionize in 1989 for the purpose of economic and political collaboration.

To understand another aspect of the distinction between Arab countries later in chapter four, it is important to understand the political history of the Arab World. Egypt, Iraq, Jordan, and Palestine were at various times under British Mandate and the United Kingdom controlled most of the Gulf states in the eighteenth century. Syria, Lebanon, Egypt, and the Maghreb were under French mandate (Barakat, 1993). Moreover, the Gulf States, after the Gulf war, became more influenced by the Americans in the first place and by the British and Canadians in the second place. Thus, the Anglo-American countries have an important position in the Arab World and also great influences on Arab companies, economies, investments and on Arab countries in general.

The Gulf Cooperation Council (GCC) was founded in 1981 in the Middle East as a consortium of local security policy.⁵ It encompasses the eastern part of the Arab World namely the Arabian Gulf⁶ through the United Arab Emirates, State of Bahrain, Kingdom of Saudi Arabia, Sultanate of Oman, State of Qatar, and State of Kuwait. These countries developed an alliance for an economic security policy in the region to further economic collaboration. All GCC countries assent to proposals for coordinations of their monetary, banking and financial policies in cooperation with finance ministries and central banks. Furthermore, these members States are planning to launch a single joint currency⁷ and recently they have been assessing whether this currency should be pegged to US dollar or to a basket of currencies⁸. Hence, the Arabian Gulf countries are considered as an important marketing region (Rice & Mahmoud, 2000).

The Arab World forms an important emerging market for foreign investments although it consists of 22 developing countries with different economic levels. In recent years, Arab countries have improved their investment possibilities and growth perspectives (Dik & Hoffjan, 2008). The economy is expanding in this region and the market is offering

⁴ Sometimes, Egypt can be included in the Mashreq.

⁵ See: <http://www.gcc-sg.org/Foundations.html>. Accessed on January 08, 2010.

⁶ Known as "Persian Gulf" in the United Nations and some western countries.

⁷ Source: Gulf Council Cooperation: <http://www.gccsg.org/eng/index.php>. Accessed on January 09, 2010.

⁸ Source: Kuwait Times, 2009. "Gulf may peg joint currency to basket". Published date: November 18, 2009. Internet: http://www.kuwaittimes.net/read_news.php?newsid=NzI3OTgzMjk2. Accessed on February 05, 2010.

business chances in a variety of economic sectors, e.g. banking, real estate, natural resources investments, and industries with high technology.

As Arab countries are still developing, yet they are improving their economies and some of them have even become important business partners with several western countries. In addition, the less economically strong countries among them are still developing their economic environment by transferring technology from the more developed countries, enhancing their trade laws, monetary system, and infrastructure, and increasing the type of companies in different sectors. An example of this would be encouraging industries with high technology to work as joint ventures with leading international companies.

A high technical and managerial know-how is available in developed countries. Foreign companies that are settling or working in the Arab World with or without an Arab business partner, need an exhaustive understanding of the business work dynamic in companies in this region. Therefore transferring Western management theory, knowledge, and techniques including accounting and management accounting to these developing countries⁹ requires them to take a deeper look into the management and management accounting systems within the organizational context used in the Arab World.

Minimizing risks in international business requires an understanding of the environmental factors. Thus, international business is connected to the social, economic, political, legal and financial environment. On the one hand, the economic environment embraces several elements of the economic conditions in international business. Multinational companies look when going global into gross national income, labor costs, trade, unemployment and poverty, inflation, FDI, productivity, diffusion of the economic sectors, economic freedom and the market. On the other hand, the financial environment involves taxation, governmental intervention, foreign-exchange markets [flexible exchange (currencies) rate versus fixed (by government)], competitors and market conditions.

Moreover, the political and legal environment covers political ideology, types of legal systems and bases of rules. Governmental influence should be considered in operating in foreign international market. Governmental intervention can affect many economic aspects

⁹ As the economic conditions (degree of liberalization and economic development) vary among the Arab countries, the majority are considered as developing countries with exception of Kuwait, Bahrain, and United Arab Emirates.

through trade, economic and trade laws, tariffs, industry and economic relationships with other countries. The following sections will describe the economic and social environments in the Arab World.

2.2. The Business Environment in Arab World

The Arab World spreads over a large area and offers significant opportunities for many foreign investments and international firms. The Arab World with its rich natural sources and emerging markets in several countries and areas forms a potential economic environment for different kinds of business.

Several factors make the business environment of the Arab World more appealing. Many Arab countries improved their business and economic conditions by improving their infrastructure and transportation system, eliminating many trade barriers, implanting modern technology, and strengthening many efficient industries.

The following sections will present the economic and social backgrounds of the Arab World. These two environments include important aspects for a better understanding of the market in the Arab World. On the one hand, the description of the economic environment in the Arab World will reflect the economic conditions of the markets in Arab countries. This environment is quite important for the companies operating in these Arab emerging markets. On the other hand, presenting the social environment clarifies the societal, cultural atmospheres of Arabs in general whether managers, accountants, or workforce in particular.

2.2.1. Economic Environment in the Arab World

The Arab countries share the same culture and language (Arabic). It is worthy to also mention here that Arab countries have a lot in common, but there are some noticeable variations among them in terms of political situation and especially economic development.

In term of business environment, the Gulf States can be considered the most liberal countries for foreign investments, in terms of commercial law facilities, logistics, etc. “The GCC countries have embarked on deeper reforms that promise to ... accelerate their integration with the global economy. They have established a US\$335 billion customs union, which will allow them to forge a larger common market with lower trade barriers to

the rest of the world.... The goal is to form a homogeneous unit to ... attract foreign investment.” (World Bank, 2003, p. 12). Moreover, all GCC have already pegged their currencies to the US dollar.

In the other part of the Arab World, Maghreb countries show also considerable changes in their business environment for substantial improvements. These measures contain stabilizing macroeconomic conditions, integrating their ongoing trade with the European market as well as the global market and improving economic reforms. All these significant changes caused, in recent years, a good economic growth and notable rise in the income per capita (World Bank, 2006 b). In addition, many Arab countries in the last two decades have been shifting their economic environment from socialist economy towards a mixed economy or social market economy. Furthermore, some Arab countries are recently making considerable economic reforms to achieve a liberal or open economy like the countries in the Gulf region.

According to World Bank, MENA¹⁰ has been divided on basis of natural resources and labor force into resource-poor and labor-abundant countries (RPLA), resource-rich and labor-abundant countries (RRLA) and resource-rich and labor-importing countries (RRLI). The RPLA countries include Djibouti, Egypt, Jordan, Lebanon, Morocco and Tunisia. RRLA includes Algeria, Iraq, Syria and Yemen. RRLI includes Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia and United Arab Emirates.

The economic growth varies between the Arab countries. Table (1) shows the variation of GNP per capita among 15 Arab countries, which ranges from \$1,000 to over \$40,000 in the Gulf area:

Region	Country	Population (millions)	GDP per capita (US dollars)
Gulf region	Kuwait	3.31	33,759.99
Gulf region	Bahrain	0.764	24,137.60
Gulf region	Qatar	0.93	76,373.73
Gulf region	Oman	2.743	14,725.17
Gulf region	United Arab Emirates	4.488	40,147.12
Middle East	Lebanon	3.751	6,677.17
Middle East	Syrian Arab Republic	19.405	2,089.95
Middle East	Jordan	5.723	2,971.43
Middle East	Iraq	29.584	2,108.67

¹⁰ MENA refers to Middle East and North Africa.

North Africa	Egypt	73.574	1,771.64
North Africa	Algeria	34.4	3,934.40
North Africa	Libya	6.089	11,474.69
North Africa	Tunisia	10.225	3,433.59
North Africa	Morocco	31	2,423.09
North Africa	Sudan	37.159	1,252.20

Table (1): GDP per capita of some Arab countries from the year 2007¹¹

In the last few years, the economic environment in the Gulf region has improved remarkably. As can be noticed in table (1), contrary to Sudan¹², Qatar as a small country, rich in natural gas resources, has the highest income per capita among the Arab countries and one of the highest in the world.

Several factors are behind the notable differences in the level of economic growth between Arab countries. Hence, assessing the stage of development of the Arab countries requires a deeper look at the country's macroeconomic environment, efficiency and liberalization of the market, banking and financial system, education, technology, infrastructure system and commercial regulations especially in regards to foreign investments.

After the discovery of oil in the Gulf region, the Gulf countries started to collaborate, since 1981, and to focus on their economic development. Several measures have been taken since then to strengthen and integrate their economy into the global market (Kubursi, 1984). The rapid economic growth of the Gulf region can be attributed to radical changes in the economic and business environment in several areas that can be summarized in five fields as follows.

First, changes in law and commercial regulations eased the establishment of foreign investments and brought foreign expatriate workers into these countries. Secondly, considerable adjustments have been made to the finance and banking systems which allow specifically flexible commercial transactions between companies. Thirdly, complete transformation has been also undertaken in the educational system and vocational training for the labor force and particularly the national. By facilitating the presence of international universities and professional agencies, the quality of the higher education has been

¹¹ Source: IMF, 2009. World Economic Outlook Database. Date: October 01, 2009. Internet: www.imf.org. Accessed in January 13, 2010.

¹² Sudan has GDP average which is also close to other North African countries at the southern edge of the Arab World as like Mauritanian, Djibouti, and also the republic of Yemen.

improved and that enables great benefits for the business sector. Fourthly, serious changes have been made in adopting modern technology in the several economic and industrial sectors. Finally, substantial development to the infrastructure systems in all Gulf States has been accomplished recently (World Bank, 2006 b).

Diversity in the economic standard can be also noticed in the average of foreign direct investment among Arab countries. The following figure also illustrates the diversity between some Arab countries in terms of direct foreign investments:

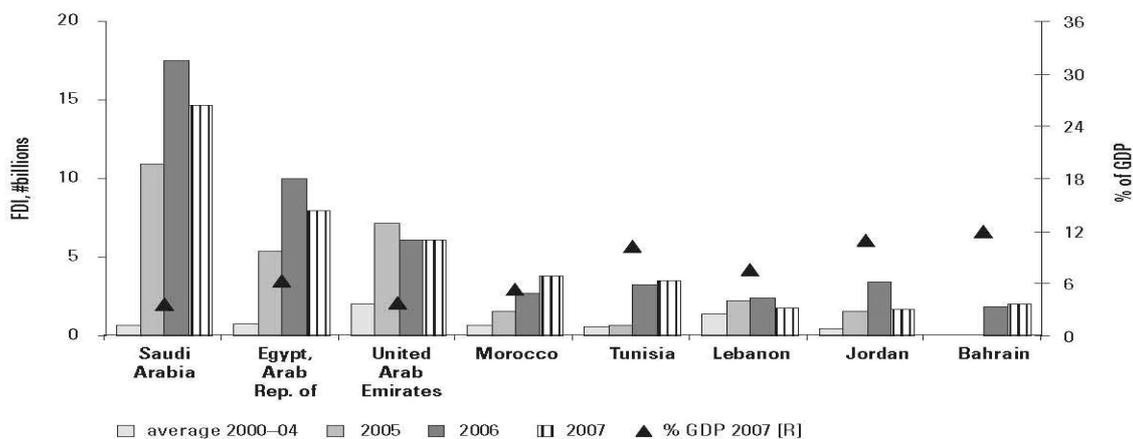


Figure (4): Foreign direct investment in selected Arab countries between 2000 and 2007¹³

After the discovery of oil in the Gulf region, there has been even a greater difference between the terms poor and rich Arab countries. The oil-producing countries witnessed a rapid economic change and that influences the societal development.

The GCC¹⁴, in particular among the MENA's countries, maintain an open and business-friendly trade environment and investment policies. Increasing liquidity in the region supports the real estate sector and banking system. Since the mid-1970s the Gulf States started to plan and enhance their economic policies, industrial sector and particularly non-oil sector, technology, infrastructure and education (Kubursi, 1984).

Nowadays, a lot of Arab countries are implementing important changes to ensure better business environment for investments. Although the foreign investment in the Arab World

¹³ Source: World Bank, 2009 "2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness". World Bank, Washington, DC. Internet: www.worldbank.org. Accessed in January 15, 2010.

¹⁴ GCC refers to the Gulf Cooperation Council and also know as the Cooperation Council of Arab States of the Gulf (CCASG).

increased, especially in Gulf region, over the last decade, most Arab countries have yet to develop and improve their financial sector. These changes and improvements should also cover economic reforms, trade policies, governmental regulations, liberalization, bureaucracy, transparency and the banking system in most Arab countries (Hakimian & Moshaaver, 2001).

Moreover, other obstacles are facing the foreign investment in several Arab countries (Karshenas, 2001; McCall, 2004). Insufficient diversification of the economy, underdeveloped capital markets and unstable political situation in the region, are considerable barriers in the Middle East, in addition, the high rate of poverty and unemployment¹⁵. Unemployment rates varied with only 1.7 percent in Kuwait. Meanwhile, the Sultanate of Oman had an unemployment rate of 7.5 percent, in Egypt 10.7 percent, 14.2 percent in Tunisia and 29 percent in Iraq. It was also reported that unemployment rates had reached alarming levels in the West Bank and Gaza (Hamdi, 2008).

2.2.2. Social Environment in the Arab World

The Arab World with a population of over 300 million spreads over more than 14 million square kilometers. In addition, Arab culture varies to a great extent from Western culture. Thus, Arab society can be distinguished from Western culture by the strong social relationships particularly contact with one another (Al Bahar et al., 1996).

The social and cultural environments of the Arab World affect international business operating in any of the twenty-two countries. Overcoming cultural differences in global business entails dealing with social and behavioral factors. Many factors may play a role in shaping the social and cultural environments surrounding companies that are conducting business in Arab countries. First of all the people factor, in addition, issues in social stratification, religion, relationship preferences, collectivism versus individualism, risk-taking behavior, work motivation and communication¹⁶.

Arab culture can be noticed in Arab society. Arab people tend to conform to their customs and each individual will tend to belong to an in-group. In addition, an Arab, as an element of the society, has to remain in harmony with the group that he or she belongs to (Piggott,

¹⁵ The investment climate also depends on the infrastructure, as a lot of Arab countries should improve their transport and logistic channels.

¹⁶ These lastly mentioned factors also affect the work environment in the organization.

2005). Arab society is a hierarchically organized society and even children are taught to respect their parents, teachers and elders. Family is the center element of Arab society and the success or failure of an individual member becomes success or failure for the family as a whole (Barakat, 1993).

Furthermore, higher education in Arab society enjoys a high level of prestige and reverence. In general, education is provided for free in state schools and even in most universities in all Arab countries. The increasing social demands on education, in particular, considerable increase in university enrollment, can be the main problem of the public education in those countries. The educational system is not almost the same all over the Arab World. Some universities follow the graded course system and others follow the credit hours system widely known in American universities. In addition, on the one hand there is still some teaching in French at universities or even schools in the Maghreb countries (north African) that were formerly under the French mandate, but on the other hand a considerable amount of courses in Arab universities are instructed in English.

Modern education is relatively new in the Arab World. Besides teaching some courses¹⁷ in English language, universities and institutions of higher education in the Arab World encourage and support undertaking research in order to develop knowledge in the country (Morsi, 2003). In addition, the amount of foreign universities, above all American and British, in the Arab countries has been increasing in the recent years. Hence, there is more focus on best education and training especially in Gulf States like in UAE (Wilkins, 2001).

Due to Islamic religion and to old customs, Arab society can be considered as a conservative society. Women even now hold great responsibilities towards their children and families. Nowadays, the economic development and the social changes in Arab society have changed the role of Arabic women and the structure of an Arab family. With the new generations in the Arab World, various alterations have taken place in Arab society, which affects the position and the role of women in society (UNDP, 2002).

Some of the changes in women's life are in the field of education, profession and employment, as the number of educated female employees is increasing especially in governmental institutions. Women in the Arab World yet play a significant role in the

¹⁷ Especially in postgraduate studies.

economic sector (as well as in professions, education whether in schools, colleges or universities), but their role is still limited. The low proportion of working women can be linked to Arab culture and Islam in which the traditional role of a woman is still confined to family and society. Therefore, women in general are hardly found in leadership positions in companies or organizations as ministers or members of parliament.

The Islamic religion in the Arab World can be traced back to the early 7th century AD. Outside the Arabian Peninsula, almost in all cities of the Arab countries there are inhabitants of either Jewish or Christian communities. The majority of Arab people are Muslims, but in the tenth century the Islamic world was extended to also include countries in the European and Asian continents (Hourani, 1991).

While Arab countries are all countries where Arabic is the official spoken language, Islamic countries are those where the Islamic religion is the dominant religion in the country. Hence, Arab nations are different from Islamic nations. In different words, there are Arab Islamic countries as like Egypt, UAE, Syria, etc. and non-Arabic but Islamic countries as like Iran, Turkey, Indonesia, Malaysia, etc. The majority of the Arab countries share the same religion namely the Islam, but it is crucial to refer that only one country in the Arab World is defined as a Christian Arabic country, that is Lebanon.

It is an essential here to clarify that this research focuses only on the Arab countries and not on Islamic countries, in order to exclude non-Arab countries as they have a different language, history, and cultural norms. In addition, this research mainly deals with the influences of Arab culture on managerial accounting systems in the Arab World and will concisely touch upon Islamic religion as one of the aspects belonging to Arab culture and society.

The following chapter discusses the theoretical background of the research and presents different cultural studies in management as well as in management accounting. The third chapter also provides adequate knowledge on Arab culture and its influences on business in general and on managerial accounting in particular in the Arab World.

Chapter 3: Theoretical Framework

This chapter presents the theoretical framework of this research and is organized as follows. The first section provides the definition of management accounting in Arab countries based on management accounting textbooks and also compares it with the theoretical concept of management accounting known in Anglo-American countries.

The second section presents a literature review of international management accounting research. It presents the literature on comparative management accounting and cross-culture research on management control systems. In addition, the second section also discusses the conception of culture and the literature on cross-culture studies in general.

The third section introduces contingency theory as a part of the theoretical background that this research is based on. As it is quite essential to describe the cultural aspects of the Arab World, the fourth section outlines the culture theories and studies in connection with the Arab countries. Finally, a short summary will be presented.

3.1. Terms and Definitions of Management Accounting

Comparative management accounting compares management practices and principles between countries and cultures in order to initiate discussion, and to highlight best practices, innovations and efficiencies in management accounting. Managers can also achieve competitive advantages by applying innovative management accounting techniques from other countries or cultures (Amat et al., 1999).

This research investigates the concept of management accounting in theory and in practice. To determine the variation in management accounting characteristics between its understanding in theory and application in practice, the theoretical terms of management accounting construction will be described followed by the exploration through interviews of real implementation of management accounting systems in the practice.

Management Accounting Definitions in the Anglo-American Countries

In Anglophone literature, it is evident that various terms are used for management accounting. Labels like “internal accounting,” “enterprise reporting”, and “managerial accounting” are widely used as synonyms for management accounting (Zirkler, 2002). In addition to these different labels of the same basic concept, it has also been observed by Amat et al. (1999) that “the term management accounting implies different meanings across national boundaries”.

One perspective defines management accounting from a narrow point of view, such that the term refers mainly to internal cost accounting and internal calculations. Furthermore, it is noteworthy that the definition includes non-management reporting for regulatory purposes as a part of management accounting. Management accounting is therefore an integral part of the management process. It can be regarded as an umbrella term for the general managerial process of planning, evaluating and controlling, as well as of reporting.

Another label that is commonly applied in both the U.S.A. and U.K. is the term “*controller*”. Willson et al. (2003) observed that, for the chief accounting officer (CAO) particularly in large companies, “the most common title used is controller.” The authors also acknowledge that, while various titles can be applied to the position of the CAO, the title *controller* may be an unfortunate one, because it emphasizes the aspect of “control” more than other relevant responsibilities like reporting, management and planning.

Merchant et al. (2003) refer to the relationship between planning and the budgeting system (as a part of the management accounting system) to the control system. They also demonstrate how important the aforementioned factors are for decision-making, performance measurement, coordination and motivation in companies. Management accountants should develop a cost management information system for managers that makes the firm more competitive while simultaneously helping them with strategic management, planning and decision-making, operational control and the preparation of financial statements (Blocher, 2005).

As the aim of the research is to explore the MASs in the Arab World, the main conception of management accounting has been taken from the most well-known management and cost accounting textbooks of the Anglo-American literature, like Horngren, Bhimani, and Drury.

According to Bhimani et al. (2005) and Drury (2005), the concept of MA covers the following parts:

- I. Management accounting fundamentals: this part includes a notion of the common understanding of management accounting.
- II. MA and information for decision-making (instruments of MA): this part discusses the information system and its relevance for decision-making with partial focus on the important role of the management accountants.
- III. Planning and budgetary control systems (budgeting, variance analysis (favorable vs. unfavorable variance)): this part emphasizes the assistance of managerial accounting outcomes (in terms of instruments, budgets and information system, etc.) in planning for the future as well for control.
- IV. MCS and Performance measurement: this part shows the relation between internal accounting information system and performance measurement and also to examine the used methods and calculations to evaluate performance within the organization.
- V. Strategic MA: this part discusses the links between management accounting and control system with strategic managerial accounting. Hence, it examines to what extent and how managerial accounting techniques and information are used in supporting the organization's strategic decisions. Balanced scorecard (BSC) is a strategic technique for evaluating the achievement of the mission of an organization.

The description of these themes that formulate the management accounting philosophy in the Anglo-American countries is essential as theoretical basis for this research. The Anglo-American management accounting textbooks have a significant importance in the managerial accounting knowledge worldwide generally, and in the Arab countries particularly. The research will be based on this conception of management accounting. Hence, management control, accounting information system, as well as performance measurement will be considered in this research as related components which complete the examined management accounting systems of Arab companies.

Management Accounting Definitions in the Arab Countries

Management accounting textbooks represent the theory of management accounting in several Arab countries. Safi (1996) defines management accounting in his book as the following:

“Management accounting comprises a group of manners and instruments that enable the management in an economic organization to plan efficiently, choose the right substitutes and achieve control through performance measurement”.

Usually the Controller or Chief Financial Officer is the individual responsible for financial and managerial accounting in most companies (Thaher, 2002). Abd-Alrahim et al. (1990) discuss the functions of management accounting and state that management accounting should provide the management team with the required information for decision-making and performance evaluation.

A very similar definition and concept of management accounting can be seen in English management accounting textbooks. Bhimani et al. (2005) state that information from management accounting reports help managers in fulfilling the goals of the organization. Management accounting should allocate costs and provide information to assist managers with making decisions, planning, control and performance measurement (Drury, 2005).

Here we can observe, that the definitions and descriptions of management accounting differ depending on which foreign books the Arabic management accounting textbooks are translated from. For example, Abd-Alrahim’s book is translated from English management accounting textbooks, but Safi’s book is translated from French management accounting textbooks. On one hand, the term controller might be common in the Francophone countries in the Arab World. On the other hand, the term Chief Financial Officer might be influenced by the Anglo-American practices. The difference between the two kinds of management accounting textbooks is that the French term emphasizes the role of management accounting in monitoring and controlling the enterprise, while the English term focuses on the role of management accounting in decision-making and strategic management.

3.2. Literature Review

This section discusses the conception of culture and the literature on cross-cultural management studies in general. In addition, it introduces cross-cultural research on management control systems and the literature on comparative management accounting. As presented earlier, the conception of management accounting from both Arab and Anglo-

American points of view gave an insight into the theoretical understanding of managerial accounting in both nations. Due to lack of research on Arab management accounting in respect to culture, this research is based on different sources of literature to form a theoretical background that allows a comprehensive basis for the analysis and following discussion of the research results.

It is important to mention that in this research the terms cross-cultural research on management accounting, comparative management accounting research, and international management accounting research refer to all research and studies that examined management accounting systems and its components in one country or nation as well as between two or more countries.

Research on comparative management accounting (CMA) emerged in the early 1990s. CMA research investigated the management accounting and control systems in many countries and nations thus far, such as the US, Japan, Canada, the UK, China, Taiwan, India, European countries, South Africa, Singapore, Malaysia, and Egypt. The MASs in Anglo-American and European countries have been widely studied and the MAS of Japanese firms had been deeply examined (Jones et al., 1993; Bhimani, 1996; Chapman et al., 2007).

It is notable that very little research had been investigating into the Arab management accounting and control systems. Therefore, this research is fulfilling the literature gap by studying and examining the MASs in the Arab World.

There is still little research dealing with comparative management accounting (Hoffjan et al., 2007). Some comparative MA research deals with and compares budgeting, MCS, PM between companies from different cultures (nations). Thus, this section will first discuss international management accounting research that compares MA techniques and practice between different countries and then focus on management accounting and control research that investigates culture across nations.

However, this research focuses on a part of the CMA and bases the literature review on three major dimensions: cross-cultural management and management accounting research, CMA research particularly on Anglo-American countries, and management accounting

research on emerging markets¹⁸ in transition economies with special focus on the Arab World.

Thirty-five studies have been identified to be of high relevance to the concept of this research and to the criteria of the literature review, mainly in the three categorized groups. As some of these studies touch on more than one criteria, the mark (✓) in each field refers to what the research deals with. The following table shows the categorization of the literature review:

¹⁸ Emerging markets refer to nations with rapid business growth and industrialization. These countries are considered to be in an economic transitional phase. Emerging markets embrace several regions in the world such Middle East, China, India, Latin America, Eastern Europe, Southeast Asia, etc.

Reference source (chronologically)	CMA (culture)	CMA (Anglo-American)	CMA (transition)	Research subject
Shields et al. (1991)		✓		U.S. vs. Japanese firms' management accounting practices
Harrison et al. (1994)	✓	✓	✓	Organizational design and control systems in Anglo-American vs. East Asian nations
Gul & Chia (1994)			✓	Effects of MASs, environ. uncertainty and decentralization on manage. performance (Singapore)
Merchant et al. (1995)	✓	✓		Performance evaluation and performance-dependent rewards in Taiwanese vs. US firms
Sheridan (1995)		✓		Different approaches in management accounting between Great Britain and continental Europe
Chow et al. (1996)	✓	✓		Organizational controls and data manipulation in Japanese vs. U.S. firms
Andreson & Lanen (1999)	✓		✓	Economic transition, strategy and the evolution of MA practices: the case of India
Chow et al. (1999)	✓	✓	✓	The importance of culture in the design of management controls for multi-national operations
Wijewardena & Zoysa (1999)	✓	✓		Comparative Analysis of Management Accounting Practices in Australia and Japan
Ahrens & Chapman (2000)		✓		Identity of management accountants in Britain and Germany
Lau & Buckland (2000)	✓	✓	✓	Budget participation & task difficulty: effect of cultural diversity (Norway/ Australia/ Singapore)
Pistoni & Zoni (2000)		✓		MA Education in Europe including UK
Joshi (2001)	✓		✓	Management accounting practice: the case of India
Luther & Longden (2001)		✓	✓	MA in companies adopting to structural change in transition economies: a south Africa study
Morakul & Wu (2001)	✓		✓	Cultural influences on the ABC implementation in Thailand's environment vs. USA
Uddina & Hopper (2001)			✓	Privatization, accounting, and regimes of control in a less developed country (Bangladesh)
El-Ebaishi et al. (2003)			✓	The use of MA techniques in Saudi manufacturing companies
Joshi et al. (2003)	✓		✓	Budget planning, control and performance evaluation in Bahrain
Vamosi (2003)			✓	The role of MA in a company in transition from command to market economy
Abu-Musa (2004, 2006)			✓	The security controls and threats of CAIS in emerging economies (Egypt & Saudi Arabia)

Reference source (chronologically)	CMA (culture)	CMA (Anglo-American)	CMA (transition)	Research subject
Sulaiman et al. (2004)	✓		✓	MA practice in four Asian countries: Singapore, Malaysia, China and India
Waweru et al. (2004)	✓		✓	Management accounting change in South Africa
Hassan (2005)			✓	Management accounting and organizational change: an institutional perspective (Egypt)
Elsahhat & Van Triest (2006)	✓		✓	costing systems in Egyptian firms and the use of cost information in strategic management
Hoffjan & Wömpener (2006)		✓		Strategic Management Accounting in German and English general MA Textbooks
Ibrahim (2006)			✓	Impact of institutional & technical factors on the adoption of standard costing system in Syria
Kamla et al. (2006, 2007)			✓	Accounting education and role of education in training the Syrian accountants
Macarthur (2006)	✓	✓		Cultural Influences on German versus U.S. Management Accounting Practices
Alawattage et al. (2007)			✓	Management accounting in less developed countries
Ismail (2007)			✓	Performance evaluation measures in the private sector: Egyptian practice
Kattan et al. (2007)			✓	Reliance on management accounting under environmental uncertainty: The case of Palestine
Moilanen (2007)	✓		✓	Knowledge Translation in MA & Control: a multinational firm in former Soviet Union
Soobaroye&Poorundersing (2008)			✓	The effectiveness of management accounting systems in a developing country
Alattar et al. (2009)			✓	Management accounting information in micro enterprises in Gaza
Hopper et al. (2009)			✓	Management accounting in less developed countries: what is known and needs knowing
Total	15	13	26	35

Table (2): CMA research with a major focus on culture and transitional economies

3.2.1. Cross-Cultural Research on Management Accounting

Understanding the influences of culture on managerial accounting requires an understanding of culture values and their impacts on business organization. In addition to the management accounting research in relation to culture, cross-cultural research deals with the conception of culture in different economic, political, and social contexts. For decades, researchers have been investigating and conceptualizing culture and its impacts on design and functions in organizations and the people related to it, and their ways of reaction. "Culture is a phenomenon that neither management scholars nor practitioners can afford to ignore when facing the realities of today's business world, regardless of where they are physically located, where they conduct their work". (Sackmann & Phillips, 2004, p. 370). Before discussing cross-cultural research on management accounting and control systems, the following paragraphs will first commence with cross-cultural research in management.

Kelley and Worthley (1981) presented in their study two important models that describe the affect of culture in management principles. The Farmer-Richman model (1965) described culture as a major variable in affecting management practice, as like planning, control and policies, and in determining both managerial and organizational effectiveness. The Negandhi-Prasad model (1971) described management attitude as a major independent factor and emphasized contextual factors like organization size, technology and market. They compared both and as a result proposed that culture plays a role in the formation of managerial attitudes.

In the late 1970s, cross-cultural studies emerged to examine the implications of management practice and organizational structure. These studies investigated the effects of culture on the attitudes and values expressed by organizational members and on structural aspects within the organization, for example the reward structure (Tayeb, 1988).

Internationalization means increased multiculturalism within the organization and increased interaction between employees and managers with varied culture values (Adler, 1983). She recognized that the cross-culture management research, published in American management journals between 1971 and 1980, heightened the awareness of the importance of international and cross-cultural issues in order to help managers to understand the behavior of individuals in multinational and transnational organizations.

How one-culture organizations should adapt to other cultural environments and what the beneficial organizational practices that can be transferable from one culture to another in international business are, were central questions raised by Redding's research (1994) about managing multi-cultural organization. In order to avoid culture being a purely residual black box, it is necessary to identify in advance the cultural characteristics of a country. Culture remains an essential part of the explanation for international variations in organizations. Several issues should be considered in this regard, like: (a) inter-cultural relations, (b) human-resource management, (c) behavior and management (d) motivation/attitudes/values, and (e) organization development and corporate culture.

Sackmann and Phillips (2004) also conducted a study on the conception of culture shaped by different economic, political, and social contexts. They proposed that the multiple cultures perspective was then shaped by the radical changes in the societies and business world during the past few decades as a result of globalization and induced by technological advancements.

The discussed cross-culture management research presented the importance of culture in shaping organizational structure and managerial behavior in organizations. Likewise, international management accounting research discusses the factors that influence the management accounting systems across nations and focuses on cultural dimensions.

Bhimani (1999) reviewed cross-national studies of management control systems and discussed their conceptual approaches, which were adopted by researchers also investigating diversity in management control practice across countries. In the essay, he suggested "... the "new" history frame of reference opens up the possibility for a conceptually substantive approach to comparative cross-national management control research. This particular view is concerned with the exploration of the conditions which may underlie management control ..." (Bhimani, 1999, p. 434).

Cross-cultural research deals with many aspects and fields related to management accounting practice around the globe. A large number of previous studies have studied cross-national differences in management accounting practices, including organizational

structure, budgeting, planning, performance evaluation, decision-making process, and management control.

Budgeting is an important part in planning and control of the MAS of an organization. The budgeting system that is related to the organizational context, including the size and decentralization, has a significant impact on the managerial motivation and attitudes, and the organizational outcome reflected in performance (Merchant, 1981).

Culture may also moderate budgetary participation. Lau and Buckland (2000) examined the interaction between budget emphasis, budgetary participation, and tasks that may affect managerial performance. Their study focused on the Nordic culture. They relied on prior studies of Brownell and Dunk (1991) on Australia and of Lau, Low and Eggleton (1995) on Singapore, and discussed to what extent the previous results of these studies can be generalized to Norwegian environment. As Norway has a low level of power distance and moderate level of individualism (according to Hofstede's study, 1980), they found that the Norwegian managers' participation range from medium to high. Their findings indicate that in all three countries there is a significant two-way interaction between budget emphasis and participation affecting managerial performance. Hence, managers operating in low task difficulty situations, perform best when budget emphasis and participation are both high (Lau and Buckland, 2000).

Examining the differences in performance measurements across countries has been a focus of many international management accounting research. Another cross-cultural study conducted by Merchant et al. (1995) explored differences in evaluating and rewarding profit center managers between U.S. and Taiwanese companies. They identified seven factors explaining differences in performance evaluation between the management control practices of the firms in the two countries. These factors are: the education and experience of senior managers, the company's stage of economic development, managers' beliefs about the stock market, the company's type of business, the nation's labor force mobility, the company's pattern of growth and the use of consultants.

Studying management control systems across different nations draw the attention of many researchers in this field. Researchers exploring the relationship between culture and management control system tend to view the influence of cultural values on the

environment and individual behavior, beliefs, and decisions as basis for their cross-nation comparative studies.

Harrison and McKinnon (1999) examined cross-cultural research in management control systems from 1980 to 1996. Their study investigated the cultural effects on MCS design. They reviewed these cross-cultural studies in management control systems over 15 years and analyzed their theoretical and methodological frameworks. The four weaknesses that their review identified in the research studied during that period were lacking the consideration of the totality of the cultural domain, no explicit consideration of the differential intensity of cultural norms and values across nations, simplistic treatment of culture and a restricted conception of culture.

Harrison et al. (1994) conducted a study on the national cultural dimensions of power distance, individualism, and Confucian dynamism in order to predict and explain differences in approaches to organizational design and management planning and control systems in Australia and the US representing Anglo-American nations, and Singapore and Hong Kong representing East Asian nations. Their findings indicated that differences in the cultures of Anglo-American and East Asian nations are associated with differences in organizational design characteristics and the design characteristics of planning and control systems. They found that cultural values in Anglo-American companies are associated with a greater emphasis on decentralization and quantitative, analytical techniques in planning and control, on contrary to the influences of the cultural values of East Asian companies which place a greater emphasis on long-term planning and on group centered decision-making.

“When a firm operates across numerous national boundaries, comparability across organizational sub-units for planning and control is another factor that can increase the perceived costs of culture-based MCS tailoring” (Chow et al., 1999, p.457). The purpose of their comparative study between Japanese, U.S., and Taiwanese firms was to understand how national culture affects preferences for and the design of MCSs. Thus, the results as a whole are consistent with Taiwanese national culture being an important determinant of the MCS designs used by the Japanese and U.S. firms in their Taiwanese operations.

However, some limitations and weaknesses have been identified in these discussed studies. In regard to cross-cultural research, several points and problems have been discussed on methodological issues in cross-cultural management research, such as (i) acceptable theory that helps explain the relationships and impact of cultural on managerial aspects of the organizations, (ii) a clear definition of culture, and (iii) cultural factors are considered as explanatory variables without any explanation of their origins in the social history of a society (Redding, 1994; Lim & Firkola, 2000). In addition, cross-cultural research should overcome methodological problems such as the sample size and data collection (Nasif et al., 1991).

Likewise concerning cross-cultural research on MCSs, there is a great tendency in this research to be selective among the cultural dimensions and to treat the cultural dimensions equally important across nations without paying attention to the more complex issue of the differential centrality or intensity of cultural norms and values across societies (Chenhall, 2007). In addition, the majority of the existent cross-cultural research on management control system generally has assumed that culture affects or interacts with MCS in isolation from other factors, including economic variables of competition and markets, and technological, regulatory and political circumstances (Harrison & McKinnon, 1999).

3.2.2. CMA Research on Anglo-American Countries

Anglo-American countries have significant roles and influences on Arab business in general and on Arab management and management accounting practice in particular. Thus, this section presents the CMA research that examined MASs in the Anglo-American countries. The discussion will focus on the most important research that illustrates management accounting practice in these countries. Thus, only the characteristics of Anglo-American management accounting systems will be presented.

The United States of America is the world's leading economic power and thus, of fundamental significance with respect to management accounting. Many countries have been, and are still influenced by new developments in American management accounting (Sheridan, 1995). Therefore, the inclusion of the U.S.A. is considered essential in this comparative study. To a lesser degree, this also applies to the United Kingdom. Furthermore, both the U.S.A. and the U.K., continuously influence management accounting

developments in other countries, since English is the dominant language in the world of business (Pistoni & Zoni, 2000).

As research on CMA started in the early 90s, Shields (1997) indicated in his review on 152 American management accounting studies, which were conducted and published in the 90s by North Americans in leading international journals. Only five articles of this Anglo-American management accounting literature in that period (first half of the 90s) dealt with international and cross-cultural research in management accounting and control systems. These five studies provide modest evidence that national culture has a significant effect on the preference for and the design and use of management controls. Shields (1997) referred to the need for further research which investigates management accounting in businesses that have multinational, international, or global organizational designs and operations in consideration of the differences in markets, organizations, culture, and labor.

Management accounting practice in the U.S. firms have been characterized as having less strict control than in Japanese firms (Chow et al., 1996). Their results support the contention that differences in national culture affect individuals' preferences for and reactions to controls. They suggested the need to identify key cultural dimensions, namely which national cultures differ and how these cultural differences influence individuals' reactions to controls.

U.S. firms tends to rely in their management control system on return on investment or profit rather than on sales (Shields et al., 1991). They compared management accounting practices between the US and Japan. They studied the similarities and differences between U.S. and Japanese firms' management accounting practices. The research covers six topics: cost accounting system design, short-term decision-making, capital budgeting decisions, operational budgeting, operational control and management control. They also identified the specialization of accountants in U.S. firms in accounting knowledge obtained by universities. Less attention given to the organizational context, process, and goals of a firm's management accounting practices can be considered as limitations of their study.

Similar to Shields' study, Merchant et al. (1995) explored through their field study main differences between U.S. and Taiwanese companies in measuring, evaluating and rewarding profit center managers. Their research based on differences in Hofstede's cultural

dimensions between the two nations, specifically power distance, individualism, uncertainty avoidance and masculinity. In their study, they examined whether cultural differences between the U.S. and Taiwan affect the firms' practices for measuring, evaluating, and rewarding profit center managers. One of their propositions was supported by their findings, but they reveal further influential variables. Their findings suggested that the cultural dimensions are not among the most significant variables affecting the use of these control-related management practices.

The utilization of management accounting techniques and its objectives as well as the training and qualifications of the management accounting profession are distinctive aspects in CMA that can be compared across countries (Blake et al., 2003). Management accounting is considered as a profession in the Anglo-American countries with the appropriate approach (Sheridan, 1995). Management accountants in Anglo-American companies gain their knowledge through their academic study as well as through considerable professional qualifications or certifications¹⁹ (Wijewardena & Zoysa, 1999; Ahrens & Chapman, 2000).

Wijewardena and Zoysa, (1999) conducted a survey on large manufacturing firms in Australia and Japan during 1997. Their study provided insights into the differences in management accounting practice of Australian and Japanese manufacturing companies. The study also examined the management accounting tools, the use of cost accounting data and budgets in both Australian and Japanese firms, and the performance measurements that are used to evaluate the performance of the individual managers at all studied firms. Their results indicated the different objectives of the utilization of MA tools such as budgets (in the first place), historical accounting statements, and standard costing, which are important for planning and controlling costs as well as for preparing financial statements in Australian companies. By contrast, the Japanese companies rely more on cost reduction for planning the design stage of new products. Budgets were considered as an important tool in both countries, but Australian companies prepare primarily annual and monthly budgets as opposed to biannual budgets prepared in Japanese companies. Their findings also indicated the great reliance on ROI in Australian companies which may lead to short-term decision-

¹⁹ Such as certified public accountant (CPA), certified management accountant (CMA), chartered financial analysts (CFA) and so on.

making and affect their performance evaluation, in comparison to the use of ROS which incentive long-term decisions and performance in their managerial accounting analyses.

Furthermore, a valuable book that also presented management accounting approaches in different European countries was written by Bhimani (1996). He provided a collection of essays, which focus on understanding of management accounting practices in Europe including the United Kingdom. His book "Management Accounting: European Perspectives" presented variety of European approaches to research accounting practice and diversity of conception of management accounting that is grounded in a wider understanding of the economic and organizational functioning of the enterprise. The book included eleven essays and presented worthy aspects on MA practices from eleven European countries with different languages, history and cultures. These countries are Belgium, Denmark, Finland, France, Germany, Greece, Italy, The Netherlands, Spain, Sweden and the United Kingdom. The eleven articles examined differences in management accounting practices and control approaches between these European countries in several themes. These studies focused on the following main subjects: cost accounting (incl. ABC), budgeting, performance measurement, technology, strategic cost analysis, planning and control. Bhimani showed the convergence among European countries in the terminology and techniques of management accounting, but the differences in the purpose and way of using these techniques (Shields, 1998).

Moreover, Hoffjan et al. (2007) compare the characteristics of management accounting in Germany, the USA, and the UK. They explore the concept, objectives, and instruments of management accounting in relation to culture, education and economic background. In addition, they touch on the fields of activity and the role of management accountants.

Another study that deals with management accounting Education in European countries including Great Britain was done by Pistoni and Zoni (2000). Their study investigates how education shapes management accounting theory in Europe. In terms of MA education, Hoffjan and Wömpener (2006) and Hoffjan et al. (2007) provided important research in which they compare and contrast management accounting in Anglo-American with Germanic countries. Hoffjan and Wömpener (2006) discuss strategic management accounting through analyzing management accounting textbooks in German and English speaking countries. Their study indicated differences in MA textbooks across national

boundaries. For example, they found that American MA textbooks have less weight on strategic component than the German MA textbooks. Generally, strategic plans deal with major, long-term issues associated with much more uncertainty (Macarthur, 2006). His examination of the variations between German and American MASs suggested that the differences in the national cultural characteristics between the United States and Germany lead to differences in their management accounting approaches. For example, high precision in German companies minimize the uncertainty inherent in decision-making, on contrary to the companies in the United States, as their MASs tend to be much less refined and comprehensive and provide more aggregated and less detailed information.

In the aforementioned research on Anglo-American management accounting there is still a need for more studies that especially focus on firms in emerging markets and cover additional countries in the world (Shields, 1997).

3.2.3. Management Accounting Research on Transitional Countries

A growing interest recently is drawing the attention towards more research on transitional and emerging economies to investigate accounting and management accounting practices (Ezzamel & Xiao, 2009). In addition, research on accounting in LDCs has been growing over the past twenty years, but there is still a gap in management accounting research focusing on these countries (Hopper et al., 2009).

Management accounting systems in transitional economies have many limitations and may function differently. Medium and large manufacturing companies in India use more traditional management accounting techniques in comparison with Australian companies (Joshi, 2001). In addition, Sulaiman et al. (2004) compared the use of traditional Management Accounting techniques such as traditional budgets, cost volume profit, and variance analysis with the use of modern Management Accounting techniques such as activity based costing, target costing, and quality management in China, India, Malaysia and Singapore. Their study indicated the limitation of utilization of modern management accounting techniques in all four countries and the great reliance on budgets (a traditional instrument) in India, Malaysia and Singapore.

Furthermore, budgets are considered one of the traditional management accounting tools. In Indian companies, budgets were the most used instrument for planning (Joshi, 2001). In

terms of performance evaluation, financial measurements such as ROI and budget variance analysis were heavily used as opposed to non-financial information such as customer satisfaction and team performance. In addition, the Indian companies showed relative slowness in adopting new management accounting techniques. Joshi (2001) attributed the differences between Indian and Australian companies to culture differences between both countries.

However, the transition into market economy has been seen as a reality that forces the company and its MA practice in LDCs to undergo great changes (Vamosi, 2003). He studied the role of management accounting in a company in transition from command to market economy in Hungary. The role of management accountants becomes more essential. The management accounting focuses more on market-oriented information for the management.

Recently, characterizing the changes in management accounting practices in transitional and emerging economies drew the attention of many researchers. Anderson and Lanen (1999) examined the adaptations to MAS of 14 Indian firms from private sectors in a more market economy. Their results indicated that the planning process has become more decentralized in these firms and also a greater involvement in and understanding of the strategic goals and plans by managers, especially finance and marketing, and employees widely. Various types of information, especially on customer expectations and satisfaction, have gained more importance, as inputs to strategic planning and business process improvements. Hence, organizational performance measures have been expanded to qualitative data, and to include more external perspectives such as customer satisfaction. Their findings also showed consistency with the basic premise of contingency theory and suggested that changes in the external environment associated with economic reforms prompt changes in organizational strategy and structure as important elements represented by management accounting practices.

The competitive and technological environments can be considered as a key factor in MA change (Luther & Longden, 2001; Waweru et al., 2004). Luther & Longden (2001) conducted a comparative study on MA change in South Africa over a period of 6 years in comparison to MA in the United Kingdom. They proposed that the social-political and economic uncertainty in South Africa as a contingent variable might impact organizational

structure, planning, and management accounting. Their findings showed that the importance and adoption of different management accounting techniques have been increased over time in both countries. They also identified the advances in information technology, increased competition in output market, availability of competent staff, and the changes or removal of some trade restrictions and barriers as the most important factors among several other causes for the MA change in South Africa. They also indicated that management accounting change in South Africa will take longer time as well as previously discussed on India by Joshi (2001).

Furthermore, Waweru et al. (2004) studied industrial companies in South Africa (4 in-depth case studies) and their findings supported the view that internal and external environmental factors have "knock on" impacts on management accounting systems. They also found that the "no need for change" attitude among employees and fear of change were the dominant factors that hindered MA change in the studied companies.

The adoption of modern and international management accounting techniques in transition economies have been researched to a limited extent so far. For example, the implementation of ABC in transitional countries as an important instrument of MA techniques has been studied by Morakul and Wu (2001) in companies in Thailand. Thai culture is characterized with high power distance collectivism, and saving one's face. They provided a comparative case study on three Thai organizations that have attempted to implement US cost-accounting concepts (ABC). The results indicated a higher level of empowerment and more improvement in job effort after the implementation of ABC, but no change in performance measurement in all three organizations. In addition, their finding referred that the Thai companies showed different resistance levels towards the adoption of ABC.

Furthermore, transferring Western experiences and practices into companies in transition economies is usually faced with various challenges (Moilanen, 2007). Her case study indicated that the translation and embeddedness of Western knowledge in accounting and management accounting affect organizational structure, information channels, reporting system, and managers' knowledge towards a recognizable development in management accounting and control system of the examined Eastern European company.

The role of governmental, transitional bodies and economic factors as drivers of management accounting change in LDCs remains limited and ineffective (Uddin & Hopper, 2001). The nature of ownership, especially family ownership, indicates a significant role in limiting the managerial information and accounting practice in the examined Bangladeshi company. Furthermore, Alawattage et al. (2007) indicated that accounting research in less developed countries should deal with poverty reduction, corruption, community involvement, history, culture, and politics and cover a wide range of organizations from households to non-governmental organizations.

The previous discussion presented management accounting practice in transitional economies. Most of the Arab companies are considered transitional economies, but classified as emerging and developing countries²⁰. As mentioned earlier, management accounting research on Arab countries is still limited. Few researchers examined management accounting and control in some countries of the Arab World such as Egypt, Bahrain, Saudi Arabia, Palestine, United Arab Emirates, and Syria.

Many studies examined and reported on management accounting practices in advanced countries, but less on the developing countries, in particular on Arab countries (Joshi et al., 2003). This research also engaged in the impact of culture on management accounting and strategic management. The content of some of these studies involves many aspects of management accounting and control systems. Merchant (2003) claims that national culture affects management control systems directly, because control problems are behavioral problems. The characteristics of Arab culture dominate their managerial thinking and behavior (Al-Faleh, 1987). Douglas et al. (2007) indicated that the national culture of the country where the headquarters is located seems to have an influence on the budgetary design and variables.

Moreover, Joshi et al. (2003) examined the budget planning, control and performance evaluation in listed and non-listed companies in Bahrain. Their findings indicated that all surveyed companies prepare annual budgets and long-range plans. In addition, most of the

²⁰ The terms “transitional economies” and “LDCs” are a board and general conception. Some of the Arab countries are less developed than Malaysia or India, for example. As the economic conditions (degree of liberalization and economic development) vary among Arab countries, the majority are considered as developing countries with exception of Kuwait, Bahrain, and United Arab Emirates.

studied, particularly listed, companies use monthly and quarterly variance reports in their performance measurements.

In less developing countries particularly, there is a direct and positive relationship between the quality and level of sophistication of MAS on managerial performance (Soobaroye & Poorundersing, 2008). Similar to the study of Joshi (2001) and Sulaiman et al. (2004) on Indian, Chinese, Malaysian, and Singaporean companies in transitional economies, El-Ebaishi et al. (2003) conducted a study on the use of MA techniques in Saudi manufacturing companies. Their study indicated the use of 15 different MA techniques in Saudi companies. Traditional MA techniques such as master budgets were viewed as very important and were used heavily. Somehow, ABC as a modern technique is used to a limited degree. Their findings suggested that the use of MA techniques is correlated with company size.

Not only level of sophistication of MAS matters for companies in LDCs, but also the level of sophistication of performance evaluation measures. The lack of database system technologies (computerized system) and information may be one of the major obstacles to the adaption of sophisticated PM systems in Egyptian management accounting practices (Ismail, 2007). His study revealed the wide use of financial measures and somehow non-financial information (such as customer satisfaction) in the studied Egyptian companies. The findings indicated the widespread use of a non-traditional MA instrument, namely BSC in the Egyptian companies surprisingly.

Furthermore, Hassan (2005) focused on management accounting change also in Egypt in particular. His study examined the potential role of management accounting during a public hospital organizational change within a developing country in transition, namely Egypt. The study used institutional isomorphism theory based on three isomorphisms which are coercive (illustrated by the influence of the state, regulations, executive regulations and laws), mimetic (the force that drives organizations to mirror other organizations that seemed to be both successful and worthy copying) and normative (stems from professional organizations). The empirical findings of his research suggested resistance to management accounting change within the case study.

Accounting is perceived as "bean-counting" rather than for management information (Kattan et al., 2007). They studied the reliance of management accounting under environmental uncertainty in Palestine. One reason for the changes in the MAS is the changes in the education of the managers and accountants of the case company. Their findings indicated that although the use of non-financial data has recently increased in the studied Palestinian company, the MAS still does not support the strategic leadership of the company. When perceived environmental uncertainty is high, managers will require more information. A management accounting system that provides more sophisticated information in terms of scope and aggregation will enhance the decisions of the managers and also promote higher performance. Hence, organizational structure has important implications for the ability of the organization to gather and process information needed for the managers involved in making decisions (Gul & Chia, 1994). Furthermore, competition and unstable or uncertain environment conditions increase the need and use of management accounting information (Alattar et al., 2009).

Syrian researchers observed the accounting, accounting education, and cost accounting procedures in Syria. This research is more or less related to management accounting approach within the country. Kamla et al. (2006, 2007a, 2007b) shed some light on accounting education and referred to the non-practice oriented role of education in training Syrian accountants, enabling them to work in companies particularly on the international level. Thus, the Association of Syrian Certified Accountants (ASCA) offers seminars to accountants to make them more familiar with recent issues in the field. Another researcher from Syria explored the impact of institutional and technical factors on the adoption of standard costing systems in public manufacturing companies (Ibrahim, 2006). His study found a relative change in cost accounting standards implemented in these companies. The findings also indicate that coercive pressure is a necessary condition of using the system, but it is insufficient condition for conformity. However, the combination of this factor with other intra-organizational and environmental factors may have made management accounting change possible. The study suggested a consideration of both institutional and contingency theories and making a use of the set-theoretic tools, to capture the complexity of management accounting change as social phenomenon.

The information that a costing system provides is important for strategic management, planning, and management control (Blocher et al., 2005). Elshahat and Van Triest (2006)

researched costing systems in Egyptian firms and the use of cost information in general management, strategic management as well as in decision-making. They point out that the cost accounting system in Egypt is still in a developing phase and Activity Based Costing is unknown among Egyptian firms as an instrument of management accounting.

Furthermore, information technology has become worthy for most organization and business survival as well as financial gain. It depends nowadays on the adequacy of their computerized accounting information system (Abu-Musa, 2006). He conducted two studies on the adequacy security controls implemented in the Egyptian and Saudi companies in order to preserve the confidentiality, integrity and availability of the companies' data. Abu-Musa (2004, 2006) indicated that manufacturers need an adequate computerized information system to remain competitive rather than having it as a luxury. In addition, he suggested that service organizations required computerization more than ever before in order to improve their costs reduction, customer satisfaction, and performance.

However, two major limitations and weaknesses have been identified in this international management accounting research on transitional and emerging economies. First, most of these studies considered only a small number of settings or factors in management accounting and control systems. For example, the case study of Kattan et al. (2007) is not able to be generalized to a wider environment, but it gives insights into the internal and external environmental influences on MA in less developed countries in general, and Palestine in particular. The study did not discuss the influences of further factors such as culture, technology, and economic environment surrounding the company.

Similarly, the study of El-Ebaishi et al. (2003) did not investigate the relationship between the use of various MA techniques and organizational characteristics such as size, type of business, or level of competition. In addition, Ismail's study (2007) did not examine the impact of organizational culture on the performance evaluation, as there is direct and positive correlation between the quality and level of sophistication of MAS on managerial performance.

Secondly, this research on transitional and emerging economies investigated the design and characteristics of management accounting systems in limited and certain kinds of companies. The majority of them focused on large and manufacturing companies. For

example, the study of Soobaroye and Poorundersing (2008) has a significant limitation as it focused only on manufacturing companies and its findings may not be applicable for other types of business, such as service companies. In addition, Waweru et al. (2004) only focused on MA practice in specific industries (retail sector) in South Africa. They conducted only four case studies on international enterprises. Hence, their findings may vary between different industries and different company sizes.

Furthermore, Vamosi (2003) studied a government-owned company that had been privatized. This change in ownership caused a change in the internal organizational factors such as structure and decentralization. In addition, the study focused on economic environment (market) as a key factor in MA change, but did not consider the internal organizational factors which might also influence the role of MA and the type of information required for decision-making.

This research takes into consideration the limitations and weaknesses of the previous three groups of international management accounting research. Thus, this research will provide a clear description for the definition and understanding of Arab culture. As Arab cultural dimensions will be considered as explanatory variables, this research will provide further explanations on their origins in the Arab society.

Furthermore, culture will not be examined in isolation from other factors, but this research will consider additional variables such as environment and technology. Thus, not only cultural theories will be considered, but also all contingent factors. In addition, a large range of Arab companies and more variant themes will be considered to enhance the sample and data collection.

This literature review focuses on international MA research that dealt with transitional and emerging economies, as the Arab World belongs to this category. This triangulation in the literature review, which is a major part of the research framework, enriches the theoretical background of this research.

The literature review allows further examination of the research methods and theories used in the discussed research. Concerning the research methods, the conducted studies used different methods to collect their data. The majority of them used surveys as like Ismail

(2007) and Abu-Musa (2004). Field studies were also common, as well as case study research. In addition, some of these studies were experimental, archival, or narrative research.

International management accounting research in this literature review examined the effects of national culture on the design, use and effectiveness of management accounting and control systems. These types of research examined management accounting and control practice in international companies or companies cross nations. It is also notable that these studies examined management accounting control practices across countries with quite different cultural and environmental aspects. For example, they compared well-developed vs. less-developed countries or countries with differences aspects of the market, organizations, cultural values and customs, language, labor.

A lot of these cross-cultural management accounting studies were based on contingency theory to examine and explore the relationships between culture and organizational process in structuring management control systems (Bhimani, 1999). Moreover, researchers that conducted CMA studies used contingency theory to examine the relationships between a variety of contextual factors and management accounting practices (Pistoni & Zoni, 2000; Joshi, 2001; Luther & Longden, 2001; Waweru et al., 2004).

In general, the most used theories in the above reviewed literature, in particular the cross-cultural research on management control and cross-country comparative management accounting research, are contingency theory and cultural theory. The literature review reveals that many of these comparative management accounting studies based on Hofstede's cultural dimensions in order to discuss the difference in management accounting practice. In addition, CMA research may base on psychology theory and institutional theory as the case of Hassan's study (2005). Some of this reviewed research used no theory and constrain the theoretical background by a literature review on relevant studies.

Different theoretical framework was presented by some empirical researchers in management accounting, particularly on budgeting and performance evaluation that was also based on social psychology theory and cognitive psychology theory (e.g. Shields et al., 1991 and Merchant et al., 1995). Cognitive, motivation, and social psychology theories are subfields of psychological theory. Psychology theory deals with individual, behavioral,

psychological aspects rather than organizational, objective phenomena such as quantities of organizational size and technology. Cognitive and social psychology theories study the psychological processes that influence individual knowledge, thinking, judgments, decisions, and how individuals' behavior may be influenced by other people. These studies used this theory to explain the influences of an organization's social environment on the individual characteristics such as stress, motivation and performance.

Briefly, psychology theory depends on individual's mental representations in relation with the management accounting practice. In 1952, Argyris presented (human-relation) psychological theory that is now called industrial and organizational psychology theory, that examined how the social context of budgeting (e.g. group dynamic) impacts employees' behavior (e.g. their motivation, interpersonal relations). Other *primitive* research dealt with psychology theory in looking at the effects of management accounting practice. Moreover, Stedry (1960) used motivation theory to study the effects of imposed budget goal difficulty on individual performance. Hopwood (1972) also used social psychology theory to investigate how superiors' use of accounting information to evaluate subordinates influences subordinates' stress and relations with other employees (Birnberg et al., 2007). In 1972, Barefield and Mock et al. used the cognitive psychology theory and studied how and how well individuals subjectively process accounting information to make planning and control judgments and decisions. Much research has applied psychological theory to investigate the influences of budgeting and performance evaluation and their organizational context on the decisions, judgment, and satisfaction.

Concerning institutional theory, CMA research uses institutional theory when examining the change of management accounting practice due to institutions and regulatory circumstances. The growing pressures of globalization, economic factors, competition in the markets, and technology are affecting MASs around the globe. However, the study of Hassan (2005) did not support institutional isomorphism variables that are reflected in the regulations, competition and technology, and professional organizations to explain management accounting change.

Ultimately, this research focuses on cultural influences on the management accounting and control system in the Arab World, which has specific cultural features that particularly vary from the Western culture and society in terms of market, environment, labor, language,

norms and values. Hence, this study is established as an exploratory research based on qualitative field study, as the field research gives an image about management accounting practice of the special area of the Arab countries. More explanations and reasons will be discussed in chapter four.

As this research is focusing on cultural dimensions on Arab MASs, contingency theory will be used as a base of the theoretical background of this research. In addition, this study is an explanatory research based on cultural and contingency theories, which fit with the concept of this exploratory, cultural based study on management accounting system of the Arab World. This research does not use psychology theory (including social psychology theory) for the theoretical framework, as this theory is often used for experimental research on management control systems in order to examine individuals' behavior within the organizations, e.g. interaction of subordinators with their superiors (specifically in respect of budgeting, as discussed earlier).

As the research questions as well as the interview guideline of this study only examine certain influential aspects of the Arab World on MAS such as culture (mainly), economic and social environment, technology and education, the study will focus mainly on these factors. It will also discuss to some extent the individuals' attitudes behavior within the organization in the Arab countries, rather than specific and detailed examination of the individuals' interactions and behavior. Thus, the theoretical framework is based on contingency and cultural theories and will be presented and discussed in the following sections. On one hand the contingency theory will help to explain the influences of several factors beyond the organization level (e.g. environment, organizational size, technology, etc.) on MAS in organizational level. On the other hand the cultural theories will help in explaining the influences of cultural aspect on MAS within organization.

3.3. Contingency Theory

A framework of contingency theory was developed in the mid 1960s in the organization theory (Otley, 1980). Many studies were interested in examining the organizational structure such as centralization (hierarchical level), formalization (number of departments and functions) and complexity within the organization. Contingency-based research that looks into management control systems have emerged since the early 1980s (Ahrens &

Chapman, 2007). Contingency-based research also has a long tradition with Cross-national studies of management control systems.

Waterhouse and Tiessen (1978) initiated contingency-based research on management accounting systems. They utilized contingency theory to develop a model for comparative analysis of organizations, and to identify control mechanisms of various types of organizations in relation with management accounting system design issues.

Contingency theory research deals with exogenous and endogenous factors. The theory focuses on two exogenous factors that have been examined in relation to management and control practices are the environment and national culture. The endogenous factors frequently examined in relation to management accounting practices are firm strategy, technology, and organizational culture (Anderson and Lanen 1999). A lot of research is based on contingency theory in order to examine the management control types that fit for an organization's size, structure, technology, environment and national culture.

Contingency-based research focus on contextual factors, considered as affecting dimensions such as environment, technology and organizational size. Understanding these factors enable the organization to deal with the functional relationships and design management control system usefully, within the environment in which they exist (Bhimani, 1999). The key concept of organizational theory is that an organization maximizes its efficiency by matching between structure and environment. Otley (1980, p. 413) pointed out that:

“The contingency approach to management accounting is based on the premise that there is no universally appropriate accounting system which applies equally to all organisations in all circumstances. Rather, it is suggested that particular features of an appropriate accounting system ‘will depend upon the specific circumstances in which an organisation finds itself. Thus a contingency theory must identify specific aspects of an accounting system which are associated with certain defined circumstances and demonstrate an appropriate matching”.

Contingency theory deals with several contingencies of environment, culture, organizational size, and strategy and examines the relation between these core elements together. A contingency is any variable that modifies the impact of an organizational characteristic on organizational performance. Technological development and market change in the

environment of an organization affects its mechanistic structure (i.e. hierarchical). The size of an organization, that is, the number of its employees, affects the level of centralization and the degree to which its structure is bureaucratic.

A small, simple structured organization is centralized, because top management can make almost all decisions personally and effectively. In contrast, a large organization seeks to use bureaucratic, divisional, decentralized structure in order to prevent its top management being overwhelmed by the huge number of decisions that should be made. The strategy contingency affects the organization's divisional structure and the diversity of its activities and products. However, there are other contingencies of different organizational characteristics, such as leadership, human resource management, and strategic decision-making processes (Donaldson, 2001). Hence, the design of a management accounting system depends on the organizational structure in relation to specified contingencies.

The contingency theory of organization proposes that organizational characteristics such as size, structure and technology shape the best management accounting practices that fit for a certain organization (Luft & Shields, 2007). The theory is used to explain the effectiveness of MAS by looking into the contextual variables such as organizational size, structure, and strategy (Ittner & Larcke, 2001) as well as environment, technology, and national culture. The optimum performance of the organization can be achieved when the organization adapts and responds to the environment that it operates in. In other words, the organization can reach an optimum effectiveness by matching between structural characteristics and environmental factors.

The relation between the contingent factors and the design of management accounting system can be shown in the following figure:

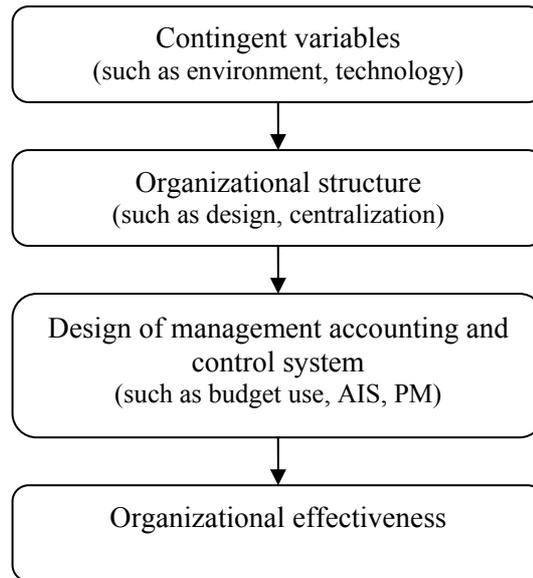


Figure (5): Contingency framework for MAS design²¹

Contingency Factors

The main variables that can be derived from this theory are organizational structure and size, environment, culture and technology. These contingent variables will be briefly discussed in the following paragraphs.

Organizational structure:

Organizational structure indicates the formal hierarchical specification of different roles and duties of organizational members to carry out the complete organizational activities. Organizational structure affects information flow, management accounting and control system, efficiency of the work, motivation and interaction (participation) of the individuals.

The shape of the structure can differentiate between (mechanistic), which involves decentralizing authorities, or integrated (organic), which involves fewer rules and standardized procedures, in order to manage uncertain environment (Chenhall, 2007, p. 180).

Organizational structure is a crucial factor in understanding the MAS design (Gerdin, 2005). The focus of the research on organizational structure is to the role of various structural units and conflicts within organizations in the process of decision-making.

²¹ Source: see Otley (1980), p. 420.

Organizational size:

The organizational size is an important factor in shaping the organizational structure and management control. The size can be a major predictor of the degree of organizational centralization, formalization and also complexity (Donaldson, 2001). The most widely accepted criteria to judge an organization's size are profit, sales volume, assets and number of employees.

Increasing the size of the organization affects and extends hierarchies, specialization of roles and functions, and decentralization (Chenhall, 2007). The larger the size of an organization, the greater is the need for efficient management accounting and control system. Managers have to deal with greater quantities of activities, documentation, information, etc.

Environment:

Environment is an important aspect of the contingency theory. The environment incorporates all relevant factors and dimensions that surround organizations. The macro environment is the general cultural context of a geographical area. These factors have significant influences on organizational characteristics. Many researchers emphasize that organizations have to adapt to their environment in order to retain and increase their effectiveness. Through their theoretical and empirical work, they focus on uncertainty and unpredictability (Tayeb, 1988).

The external environment is an important aspect, which focuses on environmental uncertainty, to determine the appropriate organizational design as well as management accounting and control system of an organization. Environmental uncertainty also affects decision-making in organizations, facing external pressure from the surrounding environment that they are operating in. For example, it influences budgets (flexibility), traditional budgetary controls as well as performance evaluation (Hayes, 1977).

Environmental uncertainty is defined as a lack of information regarding the environmental factors associated within a given decision-making situation, not knowing the outcome of a specific decision (Fisher, 1998).

“The more hostile and turbulent the external environment, the greater the reliance on formal controls and emphasis on traditional budgets.” (Chenhall, 2007, p. 173). Hence, companies in changing and uncertain environments may tend to have a mechanistic, bureaucratic structure and process with high centralization and formalization, while firms in stable environment may have an organic, flexible structure with low degree of centralization and formalization. Furthermore, in regard to budget use and management controls with respect to environment, Otley (1978) pointed out that the use of budgetary information in evaluating managerial performance vary between tough operating environment and a liberal one.

Culture:

Culture is a part of the external environment. The relationship between MAS and national culture has been studied by much management accounting research, while a portion of them is contingency-based research. Cultural dimensions of the country have become more important in international business.

The culture characteristics affect individuals, management and MAS style like decentralization, budgetary participation, and reliance of accounting performance measures. Thus international companies attempt to redesign their management accounting and control system to fit the cultural aspects of the domestic market that they are operating in. Culture is all the aspect related to belief, morals, habits, knowledge, and any capabilities of individuals in the society. This contingent factor will be discussed in the following section.

Technology:

The first understanding of technology embodies techniques of production and the complexity of the system in order to ensure high performance for the organization (Waterhouse & Tiessen, 1978). Researchers now consider that technology, in general, refers to the organization’s operating system, which includes hardware, materials and software.

A relation between technology, size and structure of the organization can be as influential as the technology that impacts the design of the organization’s structure as well as management controls and also the size of the organization. For example, production techniques and the complexity of the process impact the internal cost accounting and information system (Otley, 1980).

Other contingent variables that also impact management accounting and control system are strategy and industry. In brief, these factors impact the design of management control system of the organization. Industry, as a contingent variable, is worthy of consideration with the contingency framework. The age and type of the industry impact the organization's standing with the market, competition, governmental economic and industrial policies. A relation also connects industry with organizational structure and further with environmental uncertainty. Strategy is also a contingent variable that impacts the organization's structure and has a strong relationship with environment. The organization follows a strategy to perform in a certain environment and adapts their structure and technology to it (Tayeb, 1988).

The contingency theory discusses valuable factors that help in understanding the organizational effectiveness through studying the relationships and interactions between the organization, environment, structure and the design of its management accounting and control system. Although this theory merged from organization theory with new factors (variables), contingency theory has been criticized for its simplicity. Moreover, research based on contingency theory examined broad aspects of organizational structure and management controls (Bhimani, 1999).

The factors that were pointed out by contingency theory with respect to management control system suffer from lack of clarity, specification, and deeper analysis of their implications. In addition, culture as an important element of environment especially across cultural boundaries, was not discussed sufficiently within the contingency framework.

The literature review indicates the impact of culture on management accounting and control systems in many countries worldwide. As Arabic culture varies from Western cultures, the research focuses on the Arabic culture as a key factor influencing Arab MASs. The following section discusses culture elaborately as a major contingent variable in shaping the Arab management accounting. The subsections present culture theory in terms of culture anthology, and discuss various cultural studies in relation to management and management accounting across nations in general and on Arab countries in particular.

3.4. Cultural Theories and Dimensions of Arab Culture

Culture can be described as an iceberg. Like an iceberg, with approximately one-tenth of its volume above the surface of the water, culture embodies a small, visible, and traceable part made of tangible manifestation of a culture. In business world, this part can be perceived in, for example, organization structure, procedures, reports, communication and language. However, culture, like an iceberg, contains a large invisible part that blends values, thought patterns, and many aspects of societal life. In the business world, this part can be inferred from, e.g. values and norms, time consciousness, mental process and learning, and work habits including concepts of teamwork, performance, hierarchy, etc. (Laroche, 2003).

Definition of Culture

The term “culture” has a broad meaning and has been defined in a variety of ways. It is quite crucial to define culture explicitly, “one of the earliest widely cited definitions, offered by Edward Tylor..., defined culture as that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of a society” (Ferraro, 2006, p.19).

As mentioned earlier, culture includes social norms, ritual and values, but it is a scheme or way of perceiving, thinking, and feeling in relation to the organization’s group. Culture is a product of social interactions among group members and that certainly influenced management thinking (Schneider, 1990).

The success or failure of a company’s international business in respect to management, marketing or negotiating, depends on how effectively it can deal and understand cultural differences and similarities when operating in the global marketplace. Research has shown that failures in international business can be most frequently attributed to the inability to understand and adopt to foreign ways of thinking and acting rather than to technical or professional incompetence (Ferraro, 2006). In global business, companies in domestic markets can also embrace different cultures of their employees. Multinational companies have a kind of universal culture. The following figure shows how cultures of different nation come across with each other to form a universal culture within the organization:

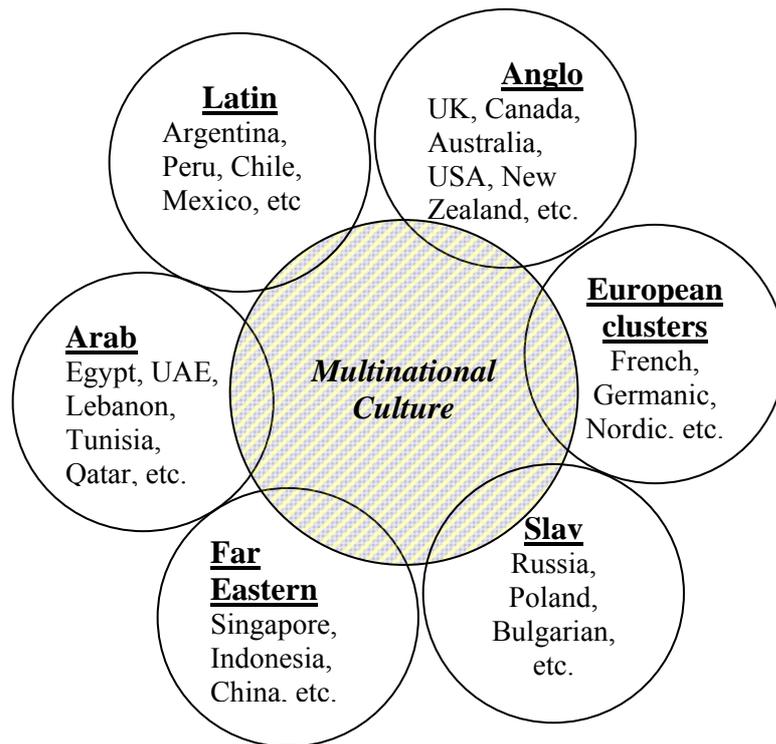


Figure (6): Emerging of cultures in global business

As mentioned before, in certain aspects in this research there will be some comparisons between the culture of the Arab and Anglo-American countries, as the most of Arab countries specifically Gulf States are influenced by Anglo-American countries especially United States of America.

The recent cultural theories and studies in relation to management, leadership and control can be attributed to well known studies of Hall, Hofstede, Trompenaars, House, Adler, etc. Their cross-cultural research provides a useful framework for exploring the cultural dimensions differences across nations and examining the relationship between culture and organizational aspects such as management, control, and interactions among the organizational members.

In brief, the above mentioned scholars studied the relationships of various dimensions of culture within the environment and society, people, and time. In the 1980's, Hofstede examined the influences of five cultural dimensions across 50 nations, namely power distance, uncertainty avoidance, individualism vs. collectivism, masculinity vs. femininity, and long versus short-term orientation. Hall & Hall (1990) classified cultural dimensions mainly according to language and communication style (high context and low context) and

to time (monochromic and polychromic). In the late 1990's, Trompenaars and Hampden-Turner conducted cross-cultural studies in 20 countries and examined the influences of cultural features on doing business and management. Adler (2002) also examined cultural influences on organizational behavior cross-nations. Adler's study focused on human activity and nature in relation with the organization, group (individualist vs. collectivist) and time (past, present and future). These cultural theories and studies explore the relationships between culture and organization in terms of control, hierarchy, uncertainty avoidance, etc. They also explain the relationships among people within the organization in terms of social interaction, collectivism, communication style, time, effectiveness, trust, etc.

Most comparative management accounting studies consider culture to be a momentous factor in shaping the design and disposition of management accounting systems. Management accounting research that uses the contingency theory to identify the relationship between contingent variables and the characteristics of management accounting systems looks at culture as one of the contingent variables. Thus, studying the differences in management accounting between several countries requires also a deep investigation into the culture.

In this chapter, culture is explored as an influential factor in shaping the characteristics of the Arab management accounting activities. In order to explain the main features of the management accounting system in the Arab World, it is essential to outline some of the particular characteristics of Arab culture and business environment in relation to managerial accounting practice. A brief comparison of the characteristics between the Arab and the Anglo-American managers will be presented and discussed in certain aspects.

The following section elaborates on cultural dimensions of the Arab World and is divided into four parts. The first one includes Hofstede's cultural dimensions for the Arab World. As this research does not rely only on Hofstede, the second and third parts present deeper and richer social and cultural studies and research on Arab nations from Hall, Trompenaars and Hampden-Turner. The fourth part deals with Adler, Walker and others researcher who dealt with cultural aspects of the Arab World.

3.4.1. Hofstede's Cultural Dimensions

Hofstede looked into the impact of culture in international business. Culture can affect decision-making; e.g. if a manager goes to another country and make decisions according to how people operate a company in his country, that may lead him to make some very ineffective decisions. Thus, differentiation in culture between countries has an impact on the constitution of management accounting on the international level. Hofstede studied the variances of national culture on several samples of IBM's employees across more than 50 countries and identified five independent dimensions of national culture differences (Hofstede, 2001). Bhiman (1999) pointed in his review on cross-national studies of management control systems that the results of Hofstede's study have been used by many researchers "... as a basis for undertaking cross-cultural comparative analyses of management control practices" (Bhimani, 1999, p. 418).

The five dimensions of culture according to Hofstede are: power distance, uncertainty avoidance, individualism vs. collectivism, masculinity vs. femininity, and long versus short-term orientation. Hofstede derived the following indices from aforementioned dimensions of culture; they are: Power Distance Index (PDI), individualism (IDV), masculinity (MAS), uncertainty avoidance Index (UAI), and long-Term orientation (LTO) and then applied them to several countries.

This research examines these indices and looks into their relationship within management accounting in the Arab World. This research investigates to what extent Arab management accountants in low hierarchy levels in an organization have power, in addition to how the distribution of employee roles in Arab organization between genders operates. It will also examine whether Arab managers follow a long-term or short-term strategy.

Hofstede examined the five cultural dimensions in seven Arab countries (Egypt, Iraq, Kuwait, Lebanon, Saudi Arabia, and the United Arab Emirates). The results of Hofstede's analysis on the Arab World were the following:

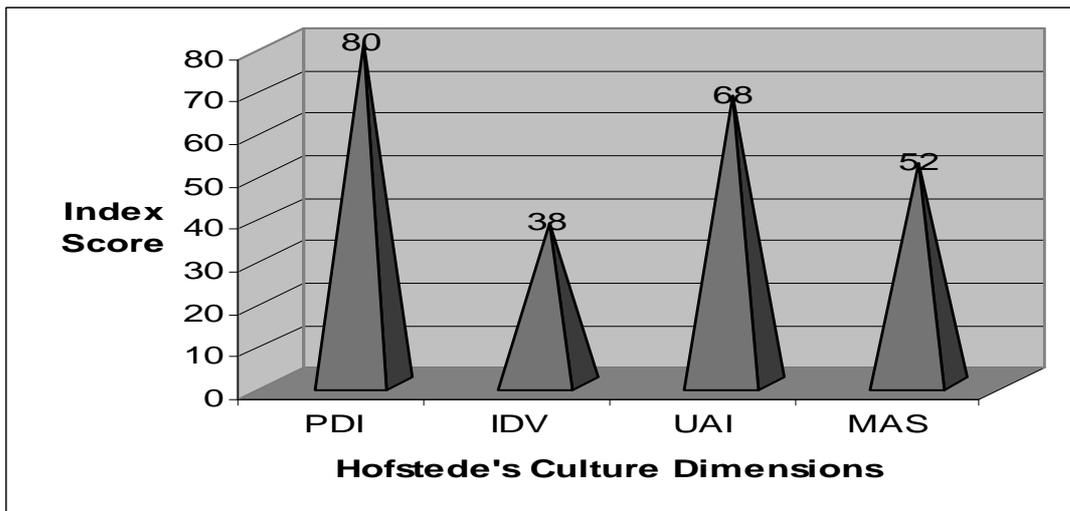


Figure (7): Hofstede's dimensions for the Arab World

According to Hofstede's analysis there is a large power distance in Arab countries. This means that power and authority are ultimately restricted to those who hold leadership positions. Thus, there is a high level of inequality in power and competent authorities within the enterprise. The high uncertainty avoidance in the Arab World means that managers in leadership positions develop the rules and maintain control, while those on the lower level of the hierarchy are rule-oriented in order to reduce the amount of uncertainty. The masculinity index is the third highest dimension among Hofstede's study of management accounting systems in the Arab World. The small amount of female employees can be linked to Arab culture and the Islam religion in which the traditional role of a woman is still confined to family and society. Therefore, women in general are rarely found in leadership positions in companies or organizations.

Comparing the low power distance and high individualism culture of the Anglo-American countries to Arab culture with high power distance and low individualism will reveal interesting aspects on the impacts of these cultural dimensions on their managerial style and MASs. Furthermore, one of the most significantly present characteristics in English culture, which has a bearing on English business climate and approach to management, is individualism (Tayeb, 1993). Hence, figure (8) compares the cultural aspects of characteristics of management accounting in the Anglo-American and Arab countries (Hofstede, 2001). This helps when trying to understand the difference in culture dimensions between Arab countries and some Anglo-American countries.

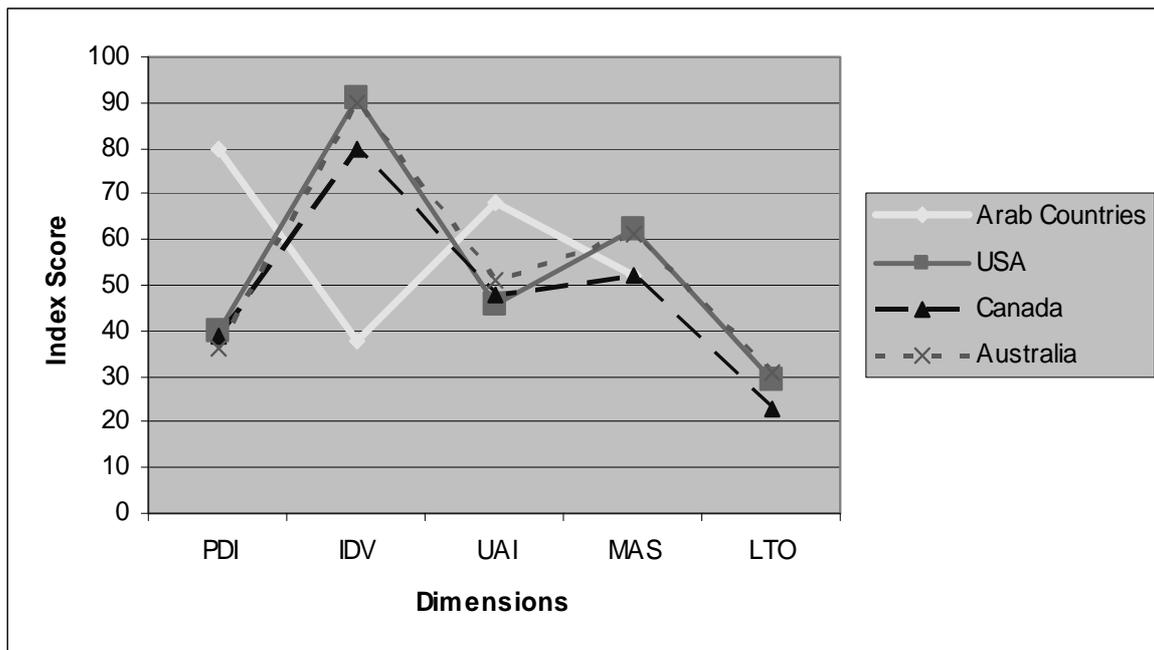


Figure (8): Hofstede's dimensions for the above mentioned countries²²

As showed in the figure, power distance, individualism vs. collectivism and uncertainty avoidance indicate the most major differences between Arab culture and Western culture. For this reason, this research will mainly discuss and focus only on these three dimensions of Hofstede' study.

Here the specifics of Arab management and management accounting can be observed. The chart created above shows how Arabs have a very high power distance ranking compared to Anglo-American countries. Conversely, some of the Anglo-American countries have a high individualism ranking compared to countries in the Arab World. It is important to note the fact that Arabs are more influenced by Islam, in which the role of the women is restricted to the family. The chart shows no great difference in masculinity versus femininity between Arab and Anglo-American countries.

Furthermore, Arab management is also influenced by culture. Management decisions are made by individuals whose understanding and experiences are influenced by their respective societal environment, beliefs, and norms. Arab management books are translated and influenced by western countries. Several Arab managers adopt western management approaches in thinking and practice (Ali, 1995).

²² See Hofstede's Index score (2001), p. 499.

However, Hofstede's study has been criticized in literature. Hofstede dimensions are very widely used in international management accounting research, but his data is now over 30 years old and was obtained from only one firm (IBM) (Merchant et al., 1995). Hence, that nature and impact of cultural dimensions within these nations can be quite different now. Recent studies on cultural dimensions around the globe such as House et al. (2004) reveal different findings or results and vary in some aspect from Hofstede's study. In addition, Hofstede's study avoided a crucial question about the relationships between different levels of culture (Lowe, 2001). Hofstede sent questionnaires to IBM employees in different countries in regard to organizational behaviors and economic performance and did not plan in advance an investigation into effects of culture on organizations and their members (Lim & Firkola, 2000).

2.4.2. Hall's Cultural Dimensions

The following section describes culture dimensions of Hall (1990). It is divided into two parts - monochronic versus polychronic, and high- versus low-context culture.

Monochronic vs. Polychronic

An important aspect that differentiates between the characteristics of Arabs and Anglo-Americans is the "Monochronic and Polychronic Time". Monochronic time signifies doing only one thing at a time and completing tasks or duties in a linear way. On the contrary, polychronic time signifies being involved with many things or duties at the same time. While Americans, as well as Swiss and Germans, are dominated by an iron hand of monochronic time, Arabs, as well as Mediterranean people present examples of polychronic time (Hall & Hall, 1990).

Time is seen as unlimited, simultaneous or polychronic in Middle Eastern culture. Hence, managers in these countries may think that several tasks can happen concurrently (Schneider & Barsoux, 2003). The next figure compares some aspect of monochronic and polychronic people:

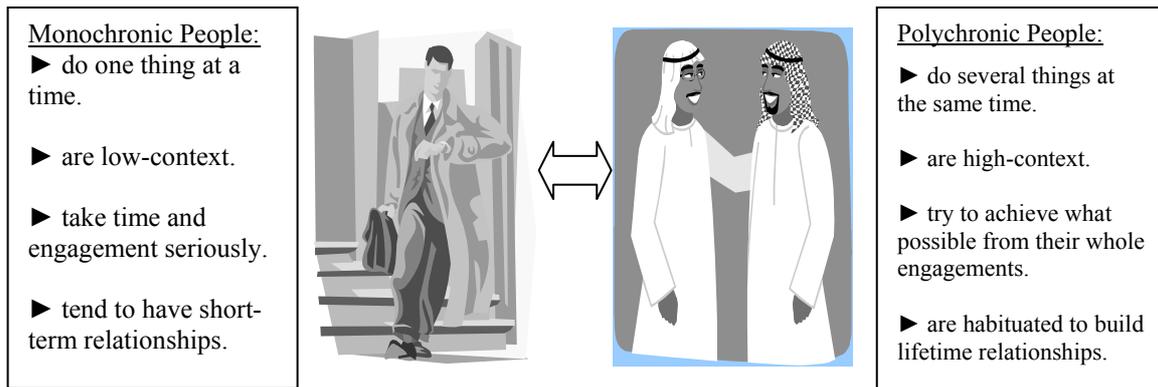


Figure (9): Monochronic and Polychronic Individuals

Source: Hall & Hall, 1990.

Monochronic people concentrate on one job and prefer not to be disturbed, while polychronic people work on different tasks at once, are elastic, and don't get annoyed by interruption. To conduct business in an accustomed way in Arab countries, it is necessary to note how serious or how important time commitments are in forms of meetings or schedules. In monochronic time cultures, deadlines and schedules are taken very seriously. On the contrary, in polychronic culture, each time commitments considered to be a target that should be achieved, if possible (Hall & Hall, 1990). Accordingly, interactions between monochronic and polychronic persons might be very stressful, if the both groups could not understand and decipher the sense behind the other's language of time.

Arabs are inclined to do multiple tasks and several assignments at the same time, in contrary to a linear, step-by-step manner that the western Europeans and North Americans dispose in achieving their planned duties. In addition, the concept of time for them is fluid and flexible and it can not be managed precisely. For example, timelines for meetings are assumed to be approximate. Furthermore, doing business and socializing can occur any day of the week, including the weekend (Walker, 2003).

High- and Low-Context Culture

Another significant factor which clarifies some differences between Arab and Anglo-American culture is context. "Context is the information that surrounds an event; it is inextricably bound up with the meaning of that event." (Hall & Hall, 1990, p. 6). Accordingly, a nation's culture can be classified as low or high context culture. The following figure categorizes on the context scale some nations around the world according to this criterion:

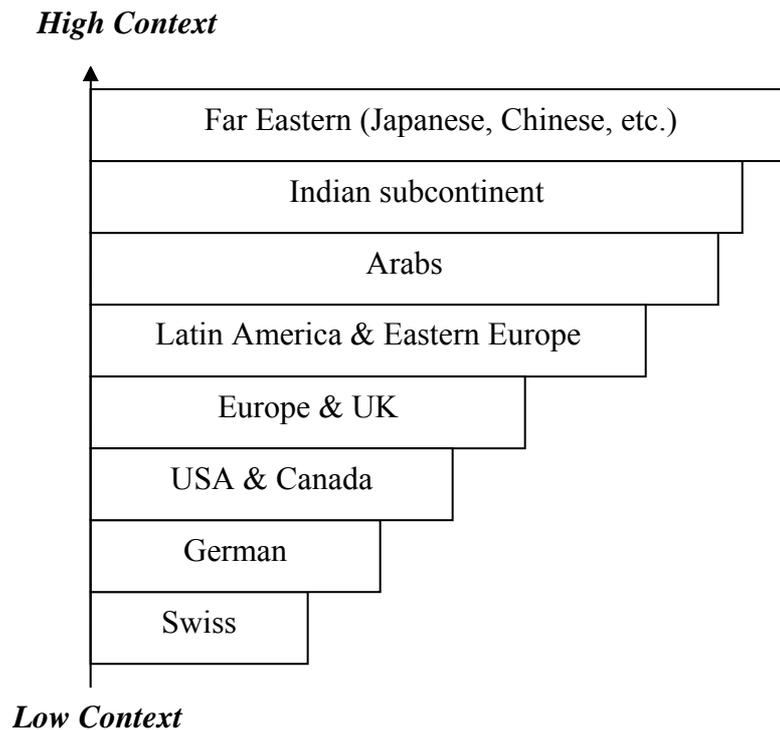


Figure (10): High- and Low-context cultures

Source: Adapted from Thomas, 2002 & Laroche, 2003.

Arabs belongs to high-context culture and have substantial close personal relationships and information networks among friends, colleagues, and clients (Weir, 2000). Arabs, as polychronic people, are committed to people and relationships rather than to the job and can be more concerned with closely related persons like family, friends, and close business associates. Arabs also tend to build lifespan relationships with their colleagues and clients and like to be in close proximity of one another.

Context influences also the manner of communication between individuals. In high-context culture, verbal messages are interlinked with emotions, body language, and tone of voice. Context includes the social and cultural conditions that surround the event. In low-context culture people provide information when needed (Laroche, 2003).

Hence, the communicated messages in those cultures include various volumes of verbal and non-verbal elements. On the one hand, the verbal part includes the spoken words, and on the other hand the non-verbal part represents gestures, facial expression, and tone of voice. The following figure distinguishes between the mass of the two parts of the delivered message in high- and low-context cultures:

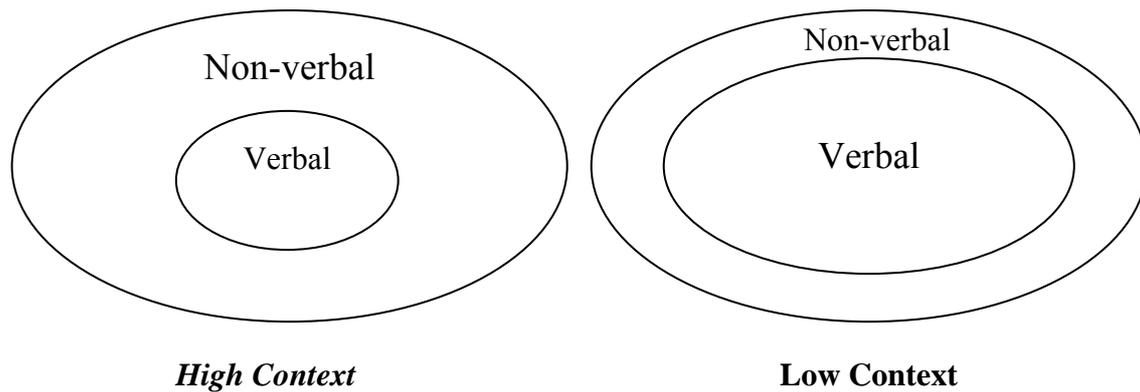


Figure (11): Communication manners of high- and low-context cultures

Arabs belong to a polychronic and high-context culture and tend to live in a sea of information. While in high-context culture information flows and sweeps speedily between individuals, information does not spread freely and is very focused and restricted in low-context countries, such as the United States and Switzerland (Hall & Hall, 1990).

3.4.3. Trompenaars' Cultural Dimensions

In the late 1990's, Trompenaars conducted cross-cultural studies in 20 countries and examined the influences of cultural features on doing business and management. His studies, were focused on several European countries, primarily France, the UK and the Netherlands. The studies were based on some of Hofstede's dimensions in certain aspects, namely individualism and collectivism.

Trompenaars and Hampden-Turner (2007) with their well-known book "Riding the Waves of Culture: understand cultural diversity in global business", examined the impacts of culture as an environmental aspect on the organization and the relationships between culture and the people's attitude within the organization.

They examined different cultural dimensions such as universalism vs. particularism (rules versus relationship), communitarianism vs. individualism (the group versus the individual), neutral versus emotional (the range of feelings expressed), diffuse vs. specific (the range of involvement), and achievement vs. ascription (how status is accorded). The authors have also studied affectivity and the relationship of national culture with time (attitudes to time and environment).

Trompenaars and Hampden-Turner (2007) did not include the Arab World in the study specifically like Hofstede did, but they includes in some aspects results from some Arab countries like Egypt and Bahrain. Thus, the following paragraphs will touch only on the examined cultural dimensions with respect to Arab countries.

Universalism vs. Particularism

In universalist cultures, rules have special obligations and come first. On the contrary, particularist cultures give more attention to the obligation of relationships and friendships. American²³ culture is a universalist culture and its rule-based behavior tends to be abstract. Thus, in the universalistic, e.g. American and Canadian, societies rules and law apply to everyone and must be upheld at all times and circumstances (Adler, 2002).

A person belonging to particularist culture may start to make exceptions of the rule-system for persons of a certain importance based on friendship or relationship. Moreover, Egypt was among the respondents of one dilemma proposed in regard to universalism vs. particularism and it was ranked in particularist culture (Trompenaars & Hampden-Turner, 2007).

This characteristic can be also applied for whole Arab countries. In term of international business, a contract, for example, is an agreement that includes certain principles and rules that each party should keep to. In different words, a deal is a deal. But in particularist culture, a contract may be change in unique circumstances. Hence, rule-based behavior may not function when the company is operating in a particularist culture, for example, with Arab people.

Communitarianism vs. Individualism

“Do people regard themselves primarily as individuals or primarily as part of a group?” (Trompenaars & Hampden-Turner, 2007, p. 8). Here it is important to notice what to consider - the individuals or the community first. In communitarian culture, individuals consider their goals to do the group a service.

²³ Germany and Switzerland are also considered as rule-based society.

This cultural dimension affects individuals' behavior in the nations with respect to decision-making. For example, individuals of communitarian culture seek to negotiate in groups and need much longer time to reach a common view shared by the majority (Trompenaars & Hampden-Turner, 2007).

Neutral versus Affective Cultures

This dimension indicate whether in relationships, people show emotions (be affective) or not (be neutral in their approach). People from neutral culture do not easily express what they think or feel, though showing emotions openly is considered normal in affective cultures (Hoecklin, 1995). According to the study of Trompenaars and Hampden-Turner, Arab countries such as Kuwait, Egypt and Oman were classified as affective cultures. Communication is an essential resource for exchanging information. Trompenaars and Hampden-Turner (2007) also distinguish between verbal (language) and non-verbal (body language) communications²⁴.

Diffuse versus Specific Cultures

This dimension can also be related to people's public and private spaces. People from specific cultures tend to have large public areas and small private areas and tend then to separate between work and private life. People from diffuse cultures tend to have small public areas and large private areas and tend also to link between their work and private life (Hoecklin, 1995). Diffuse and specific cultures are also so-called low and high context. This cultural aspect can be related to the previous one (neutral vs. affective cultures). Trompenaars and Hampden-Turner (2007) classified Arabs as well as Latin and Southern Europe to a diffuse-affective culture.

Three of the most well known cultural studies in management and widely used in management accounting and control research have been discussed previously. The next section describes the specified characteristics of Arab culture with respect to business, management and behavior. The following part presents study of researcher (e.g. Adler, Walker and others) who dealt with cultural aspects of Arab World.

²⁴ Hall's study also dealt with verbal and non-verbal communication cross cultures.

3.4.4. Further Features of Arab Culture

The first part of this section delineates the general characteristics of Arab work manners of managers as well as of employees. The second part also characterizes the Arab managers in leadership and Arab typical work attitudes. The last part touches on two cultural aspects of Arab society, which are tribalism and religion.

Characteristics of Arab Managers and Employees (Stereotype)

The cultural complex of a society reflects the interaction of values, attitudes and behavior shown by its members. Values are relatively general beliefs that reflect explicitly or implicitly preferences and desires of individual or group and influence actions. An attitude expresses values and compels an individual to act and react in a certain way. Any human action towards a certain matter is a behavior.

These cultural components impact managerial style, organizational behavior and managerial accounting approaches. For example, cultural values and attitudes impact superior-subordinator relationships, communication, decision-making, performance judgment and conflict resolution (Adler, 2002). In some cultures, like Arab and Japanese, employees' loyalty may be considered in evaluating performance and issuing rewards, but in other cultures, like American culture, the employees' performance is measured by their qualifications and achievements. The dominance of individual loyalties has a greater impact on organizational behavior than organization based relationships (Elgamal, 2000).

Arabic culture is influenced by traditional Arab norms, Islamic religion, and somewhat the western culture in some modern Arab countries. To some extent traditional Arab norms are derived from their tribalistic time (Gellner, 1990; Hilder, 2004). Muslim faith affects the people's behavior in the Arab World (Hofstede). Nowadays, some Arab countries are trying to open their market and modernize their trade system or even westernize it by adopting for example some western management theories (Ali, 1990, 1993). This section outlines the traditional Arab attitudes towards their profession.

In cross-cultural research, there are many clarifications for cultural differences, but little understanding of the individual's cultural values and attitudes. Culture interacts with other components in the society, like family, religion and education. Language also has a relationship to culture and in many cases, language reflects the culture. The influence of

culture can be seen in used vocabulary. A language mirrors a culture's basic value. For example, the extent to which a culture values the individuals vs. the group is usually reflected in its language and linguistic style (Ferraro, 2006).

These mentioned points can be assigned to Arab culture. One can often notice the influence of Arab culture on their language and speech. For example, Arab culture emphasizes collectivism versus individualism as examined by many culture researchers, primarily Hofstede. Thus, the Arab World can be considered as a group-oriented culture and Arabs often stress the "we" instead of "I" to speak about their interest for the good of the larger group such as family, community, or the whole society.

Moreover, Arabs are affected to some extent by their belief, which is rooted in Islamic theology. Most of them are raised religiously and that can be noticed in their language and speech. As other religious Christians as well as Jews, Arabs often mention the name of God (in Arabic: "Allah"). However, a very confusing statement or response which Arabs often say is "Insh'Allah" which means "God willing". This response may lead to irritation for the foreigners, but it can be gauged. To gauge the seriousness and intention behind this response there are two possibilities. If the response is "yes, insh'allah" that means "yes", but if the response is "insh'allah" that means "maybe" or "probably not". However, Arabs do not say "No, insh'allah". Their belief that God has the higher authority, power, and control over humanity is behind this Arabic attitude (Walker et al., 2003).

Work Attitudes

The culture of the individual can not be isolated from that of the whole society. An individual is connected to the place and to the community where they grow up in (Eliot, 1962). Arabs have a high sense of collectivism and belonging to a society. The individualism index (IDV) of the Arab World ranking at 38 is the lowest dimension among Hofstede's study compared to the world average of 64 (Hofstede, 2001, p. 499). Hence, Arabs represent collectivist cultures.

According to Humphreys' comparative cross-culture survey between British principals senior managers and principals of Egyptian three-year technical schools, 63 per cent of the questioned Egyptians see working in a cooperative environment as of utmost importance, compared with only 29 per cent of the British sample. Moreover, this attitude of the

Egyptian participants extends to a higher degree of collectivism represented in their belief to take the opportunity to serve one's country. The largest difference between the two samples was in response to the statement. Willing to serve one's country was seen by 60 per cent of the Egyptian sample as of the utmost important, compared with only 3 per cent of the UK sample.

In addition, the British and Egyptians were asked about their view on rules and conflicts. While 53 per cent of Egyptian sample agreed that it would be better to eliminate conflicts in the organization, 27 per cent of the British respondents do think so. However, 54 per cent of the Egyptian respondents believe that rules at the organization should not be broken, even when the employee thinks it is in the company's best interest, but only 25 per cent of the British sample has such a view (Humphreys, 1996).

From the previous results, general statements can be derived, such as Arab employees dislike conflicts at work and avoid confronting each other directly. Arabs hardly criticize the decisions made by their managers. Additionally, they tend to create harmonious work environments.

Arab Manager as a Leader (leadership style)

Arab managers supposed to behave like fathers according to their tribal traditions (Thomas, 2002). According to Islamic religion, a manager who is leading and supervising a group of people should be as custodial figure or sponsor for them²⁵. That is, Arab managers are somehow responsible for their employees as well as for their business and they should show those employees some care and charity. Foreign managers should consider this aspect and look at the leadership through the eyes of their Arab employees who see a manager as high authority and at the same time a kind of benevolent leader.

When going back to the tribal period of the Arab World, one can notice that this tribalism emphasizes and deepens the importance and respect for the rank of hierarchy especially for tribal leaders in the ancient Arab society. In addition, Hofstede implies the high rank of power distance in the Arab World as an important aspect that refers to the tight hierarchical structure of the society as well as enterprises in which highly hierarchical managers provide

²⁵ According to Hadith of the prophet "كلكم رعاة و كل راعي مسؤول عن رعيته", which means "each leader should be as custodial figure and sponsor for his group". The translation is not literal.

explicit directives to employees who are expected to follow them exactly. On that basis, Arab employees learn to do what the boss says, or to ask for permission from the manager before doing anything.

To Arabs God has the highest, ultimate authority and control, but that concept of authority can be also extended to the human society. Therefore, Arab employees tend to be prepared to receive instructions, orders, and assignments come from higher authorities (Walker, 2003).

It is also important to describe how the superiors in high ranked positions can be seen, or are supposed to interact. As mentioned, Arabs employees and colleagues dislike conflicts and avoid sharp criticism towards their superior. Humphreys (1996) also pointed out in his comparative research to the type of managerial style is preferred by Egyptian and British respondents. While 71 per cent of the UK sample would prefer to work under a manager who consults with subordinates before reaching a decision, 68 per cent of the Egyptian sample indicated that they prefer to work under a manager who calls a meeting of subordinates and accepts the majority viewpoint as the decision.

Arab culture can be considered as a relationship-oriented culture like the Latin American, Asian and Southern European cultures. These societies are more interested in people. On the contrary, task-oriented cultures such as American, German and Swedish are more interested in tasks. For example, when setting up an organizational structure and job description, as Arab managers as well employees can be gripped by the people that might be involved. Americans will then start by outline the jobs' tasks, describe them and finally designate the staff (Adler, 2002).

This manner of interaction between a group of the superiors and subordinates has a basis in the Islamic religion or even to the tribalism time. Tribal leaders usually meet to discuss an issue and then make a decision according to the majority. In addition, "Majles Al-Shura" which means "consultative council" was formed in the past to inquire and discuss a matter among a group of people²⁶. The people of council deliberate until a consensus is reached.

²⁶ According to Hadith of the prophet "وأمركم شورى بينكم", which means "your matters should be resolved among a group through mutual advice". The translation is not literal.

Culture can be rooted to the history and old society of the nation. In the previous sections, Arab attitudes, religion and old customs were often discussed in many aspects. Hence, in order to understand the social background of Arab culture the following paragraph describes the Arab society and tribalism since ancient times.

Tribalism

Tribalism in the Middle East can be traced back to the early 1st century BCE. The tribes of Arabs can be rooted to Qahtani²⁷ that lived in Arabian Peninsula in the 4th century AD (Hourani, 2002; Saleh, 1995). The first recorded inscription with Arabic alphabet was written in 512 AD in Syria. Most of the Arabian tribes (called also Bedouin tribes) lived between the Arabian Peninsula and the Syrian Desert²⁸.

Arabs tribes lived in tough desert environmental conditions and needed strong social bonds and certain personal qualities to tackle the hardness of their lives in order to survive. They were known for their specific characteristics, morals and customs such as, gallantry, honesty, generosity, loyalty, magnanimity, hospitality, etc. In addition, hierarchy is quite notable within the Bedouin tribe. Each tribe has a tribe chief or so-called “sheikh²⁹” who is chosen by elders of extended families according to reverential qualifications such as wisdom, hospitality, bravery and honesty (Saleh, 1995). The modern Arab society today is still engulfed in many of these norms and customs such as generosity, loyalty and hospitality. In terms of hierarchy, Arabs nowadays still have respect for elders in the society and also for superiors in business.

“The patriarchal social structure of the tribal Arab society placed a great value in collectivity, allegiance, obedience, harmony and oral modes of expression.....Yet, the individual in secular Arab culture could not live on his own, outside the boundaries of collective tribalism. When left alone, he often feels lost and unable to survive in the middle of a harsh nature. The individual’s hopes for strength and power lay in his/her co-operation with, and service to others. ” (Ayish, 1998, p. 36&40). Hence, collectivism was a necessary attitude in Arab tribalism in order to survive in tough desert conditions (Hilder, 2004).

²⁷ A Semitic branch or group of people that can be traced to ancestry from Arabian Peninsula, particularly from Yemen.

²⁸ Few Bedouin tribes also lived in Egypt and the Maghreb.

²⁹ Sheikh is a leader and the head of Arab tribe, village, etc.; The word “sheikh” can also be used to refer to a leader in a Muslim community or organization, but nowadays, the term “imam” is often used to refer to the head of a religious society.

Furthermore, major decisions for the tribe are primarily made, in a forum, by the sheikh and male elders of noble families. Respect for leader(s) and loyalty towards their tribe (group) and their *sheikh* are essential attitudes of the Bedouin's norms. The extensive hierarchy within the tribe in association with loyalty and solidarity (group feeling) make one's belonging tends, even nowadays in the Arab society, towards hierarchy of group institutions as like family, tribe group and lastly nation (Piggott, 2005). In addition, "Tribal members recognized themselves as part of widening concentric circles of corporate groups with varying degrees of responsibilities and duties...Honor and loyalty to the tribe were other important characteristics of this pattern of life. Loyalty of tribesman has traditionally resided first in the family, then in the tribe, and finally in the confederation." (Saleh, 1995, p. 551).

Religion

Islam in the Arab World can be traced back to the early 7th century AD. Outside the Arabian Peninsula, almost in all cities, there are inhabitants of either Jewish or Christian communities. However, the majority of Arab people are Muslims. Several characteristics and moralities were emphasized by Islam such as honesty, charity, solidarity, etc. The Qur'an³⁰ asserted for Muslims in clear terms the necessity of equity, justice and kindness in dealing and interacting with people (Hourani, 1991).

It is important to mention that Trompenaars and Hampden-Turner also related some cultural aspects to religion, as Hofstede related masculinity vs. femininity in the Arab World to Islamic religion. In addition, Trompenaars & Hampden-Turner (2007) found that the Catholics score (of communitarianism) higher on group choices and Protestants significantly lower as in USA, Germany, Canada. Thus, this research will discuss Islamic religion as an aspect belonging to Arab culture.

However, Islam urged Muslims to be good humans and that was mentioned in the Qur'an many times. Collectivism was also emphasized in the Islamic society, as Islam considered grouping and its relationships among Muslims an important issue. In addition to previously mentioned Hadith, in Qur'an collectivism was also emphasized in terms of consultation, as mentioned in the following verses of the 42nd chapter (Ali, 1948):

³⁰ The Qur'an is the holy book of the Islamic religion. The Quran consist of 114 chapters so-called "sura". Each sura includes several verses (so-called ayat) of varying length.

“36. So whatever you have been given is but (a passing) enjoyment for this worldly life, but that which is with Allah (Paradise) is better and more lasting for those who believe and put their trust in their Lord38. And those who ... perform the prayer and who (conduct) their affairs by mutual consultation...” (Sura 42: Ash-Shura, ayat: 36-38).

Furthermore, it is essential to mention that there is additionally an Islamic law (Sharia) which also influences commercial law in certain fields of business and companies. Much more detailed information about Sharia-compliant companies will be discussed in chapter five.

While Arab countries are all countries where Arabic is the official spoken language, Islamic countries are those where the Islamic religion is the dominant religion in the country. Hence, Arabic nations are different from Islamic nations. In different words, it is important to distinguish that there are Arabic Islamic countries like Egypt, UAE, Syria, etc., Arabic non-Islamic countries like Lebanon, and non-Arabic Islamic countries like Iran, Turkey, Indonesia, Malaysia, etc.

As mentioned in the previous chapter, this research is focusing only on the Arab countries and not on Islamic countries in order to exclude non-Arab countries as they have different language, history, and cultural norms. In addition, Islamic religion is an important, notable aspect belonging to Arab culture and society. Nevertheless, religion is traditionally seen as a key factor in shaping ethical behavior such as honesty and justice, but it extends to a deeper degree in business and financial affairs in the Arab World especially for the companies working in compliance to Sharia. Hence, this research is mainly dealing with the influences of Arab culture on managerial accounting system in the Arab World, but a case study about on the influences of Sharia (Islamic law) specifically will be presented and described in sixth chapter. This specific case company will illustrate the impacts of Islamic law (Sharia) on managerial accounting.

Therefore, the following sections will briefly discuss some review on research and literature on Sharia-compliant companies. The following presentation on studies and topics related to Sharia-compliant companies will provide a theoretical background for the case study of this research.

Sharia-Compliant Companies

Nowadays, the proportion of Sharia-compliant companies has been growing in the Arab World rapidly. In the last three decades, the number of Islamic financial institutions has risen worldwide from one in 1975 to over 300 today (El-Qorchi, 2005). While the size of the Islamic financial market is estimated to be around US\$230 billion with growing rate of 12% to 15% per year (Sadeghi, 2008).

Many companies are operating and conducting business according to Sharia in response to certain customer demand. Sharia (Islamic law) deals with many aspects of Arabs' life particularly Muslims and regulates ethical, social, criminal, trade, and civil jurisdictions (Lewis, 2001). Many Arabs prefer to work with companies conducting business according to Sharia as a part of their culture and religion. Hence, before discussing the research on Sharia-compliant companies, the following section will first describe what are the Sharia-compliant companies and how do they function.

Definition of Sharia-Compliant Companies

Sharia in Arabic is the Islamic law, which consists of principles and rules. Sharia for Islamic-compliant companies is the law that should be taken into consideration in financial transaction in order to be acceptable in the Islamic financial system.

The most popular forms of these companies are Islamic banks that emerged in the 70s in the Gulf region. In 1974 Dubai Islamic bank was established, followed by the Kuwait Finance House in 1977, and the Bahrain Islamic bank in 1978. These Islamic banks were involved in Islamic trade finance with Western banks based on "murabaha". Murabaha is an Islamic banking service product which means that the Islamic bank purchases an imported good on behalf of the client and then resells it to the client (importer) for a certain sum that consists of the purchasing price plus a margin representing the Islamic bank's profit (Wilson, 2007).

Nowadays, Sharia-compliant companies and investments are quite common in the Arab World. These companies cover financial Islamic banks, real estate Sharia-compliant companies and insurance companies.

Islamic-compliant business is different from conventional business. Sharia-compliant companies and banks should follow Islamic law (Sharia) in financial areas (financial Islamic standards). The Sharia-compliant companies as well finance would not be involved in businesses dealing with alcoholic liquor, gambling, conventional financial services, drugs, pornography, armaments, etc. The Sharia-compliant companies emphasize moral obligations towards their society that shapes the structure of their deals and procedures (Lewis, 2001). Source of public confidence in Sharia-compliant companies can be attributed to the fact that many religious Muslim people want to do their financial affairs and business in an Islamic way. For example, trust in Islamic banks in the Arab World is mainly related to the adherence to Sharia and also the quality (strength) of their financial information.

Islamic Finance

Major Islamic finance principles and standards are crucial key points derived from Islamic law (Sharia). The Islamic accounting policy and standards should also go along with the Sharia and Islamic finance. This section will briefly describe the key principles of Islamic finance. Two essential points in Islamic accounting and finance are “riba” and “zakat”. The explanation of Islamic accounting and finance standards will help to understand some accounting and financial aspects of the case company.

In Islamic law (Sharia) “riba” refers to the premium that a borrower pays to the person (lender) who lent him or her for any reason a certain amount of money (Sulaiman, 2003). A broader meaning of riba includes any unfair commercial transaction that contains an extra payment added to a basis rate and based on non-fair activity or no activity. As Islamic religion call for justice and fairness, thus it is not allow to make unfair profit (riba) by just lending (without making any effort) money to somebody who is in need for a finance (Dik et al., 2009). That will increase the gap between the rich and poor people in the society. Therefore, riba is clearly forbidden, in the Quran, as stated in the following ayat “Al-Baqarah” in Chapter two and section thirty-eight (Ali, 1948):

“275....And Allah has allowed trading and forbidden usury³¹. To whomsoever then the admonition comes from his Lord, and he desists, he shall have what has already passed, and his affair is in (the hands of) Allah.....276 Allah does not bless usury, and He causes charitable deeds to prosper.....”

³¹ “Riba” in Arabic means usury.

Hence, particularly for the clients of Sharia-compliant companies, it is extremely important to deal according to their Islamic law. A portion of people in the Arab countries expects from the Sharia-compliant companies that they are investing their money and working in a way close to their religious beliefs. Islam forbid the *riba* (interests) in financial transactions, but it provides a new economic system which is different from conventional systems and based on fairness in that the lender shares the money with the borrower's business and should accept a loss as well as a profit. Thus, Islamic banks do not charge interest, but rather participate in the yield resulting from the use of the funds. That means the Islamic financial institutions let the depositors share with the profit (get a charge) and let the lenders pay share (fees) for borrowing money.

The second important principle of the Islamic finance and accounting is "zakat". Zakat is a certain amount of money (usually a percentage of one's possession in case of surplus wealth fare) given by a Muslim to charity, which distributes the zakat between poor and destitute people (Lewis, 2001).

Financial statements of the Sharia-compliant companies in particular Islamic banks are important for depositors, investors and regulatory agencies (like Zakat agency). Thus, the financial accounting standards determine the rights and obligations of all interested parties in accordance with the principles of Sharia and ensure through their reports the enhancement of managerial and productive capabilities of this kind of companies. These reports provide useful information to users in order to enable them to make legitimate decisions on their dealings with the Sharia-compliant companies. The reports, issued by the finance and Sharia departments of the Sharia-compliant company, give information about the capital, investment risks, liquidity and cash flows, the extent of compliance with Sharia, and Zakat assessment and disbursement.

Research and studies on Sharia-compliant companies

The wealth in the Middle East has increased the demand on the Islamic banking and finance industry and created an incentive for dominant Anglo-American companies, especially in the Gulf region to provide different investment and financing options to meet this demand (Ainley et al., 2007). Banks such as UBS, Barclays capital, Deutsche Bank, and HSBC are providing Islamic deposit facilities and housing financing using Sharia-compliant structures

and developing Sharia-compliant management services in the Arabian Gulf in cooperating with many local banks there such as Dubai Islamic Bank, Kuwait Finance House, and Emirates Islamic banks (Wilson, 2007).

Compliance to regulation affects the business process and activities of companies. It also influences their financial, managerial, and legitimate aspects. Literature on compliance deals with the compliance of business processes to legal regulations, governance guidelines, and strategic business to ensure the control on business behavior. Hence, it is a broad, general area and does not address the aim of the case study to examine the influence of Islamic law on management accounting and control systems in Sharia-compliant companies rather than examining the compliance of these companies to Sharia. This is a brief presentation for studies and research related to Sharia-compliant companies and their conceptions and processes in connection with management, accounting, and managerial accounting.

Companies operating under regulatory laws face an increasing complexity in both managing regulatory knowledge and compliance enforcement on business processes. Hence, compliance management has to include experts and mechanisms to enable dealing with such complexity (El-Kharbili et al., 2008). Hence, Sharia-compliant companies should have a Sharia supervisory board to ensure the compliance to Sharia. This Sharia supervisory board comprises of eminent religious scholars who are independent advisers and have authority to reject any proposals deemed to be against the Islamic law (Dar & Presley, 2000). Therefore, Sharia compliance based on Islamic principles in making rules or decisions, known as fatwa, should be issued by the Sharia board (Solé, 2007).

Sharia-compliant companies are based on Islamic finance in their transactions. Islamic banks offer two types of financing, namely debt-based and profit sharing financing. Debt-based financing³² may seem to be similar to financing in conventional banks, but in this case the Islamic banks base on selling and buying concept to receive a fixed return. In different words, the Islamic bank first buys the asset and then sells it to the customer with added mark-up. Profit sharing is based on investment concept. The bank in this case will finance the needed money of the customer's business venture and then share the profit of the venture with the customer according to an agreed ration (Hudayati & Auzair, 2009).

³² Some of these products are murabaha, ijarah, istisna, etc.

Sharia compliance influences several aspects in Arab companies. There are two major principles in Sharia compliance: first the Riba³³ and secondly the fairness and welfare. The Sharia compliance emphasize the fairness for individuals and wealth for the society. The prohibition of Riba is a key factor ruling the Sharia-compliant companies' activities and decisions (Ainley et al., 2007). Sharia-compliant companies rely on different types of risk management (Islamic insurance), financing and liquidity management (Islamic banking and mortgages). This research should look into the impacts of Sharia compliance on financial accounting and managerial accounting for example on the accounting standards (e.g. financial reports and statements), reporting systems, and decisions in Sharia-compliant companies.

Developing investment strategies that comply with Islamic banking principles is distinct from the strategies used for conventional investments (Walsh, 2007). Compliance with Sharia should meet certain objectives such as efficiency, accountability, stewardship, etc. In addition, the Islamic accounting standards board emphasizes the achievement of these objectives by the Sharia-compliant companies. Thus, Sharia-compliant companies focus more on providing information about how the management has discharged its stewardship to shareholders for the use of the enterprise resources according to Islamic principles and with certain considerations towards social responsibilities (Yaya, 2004, Dik et al., 2009).

Furthermore, Sharia-compliant companies may have different control mechanisms. Sharia compliance emphasizes fairness and trust (Alaudin et al., 2010). They referred in their case study that management control mechanism of the studied Islamic bank embraces, in addition to budgetary control, an ethic control through Islam belief through examining the adherence of transactions and dealing with customers according to Sharia principles. Also, the study suggested that the use of additional key performance indicators different from the common indicators used in conventional companies, namely the Sharia compliance. In addition to profit, assets growth, deposit growth, and asset quality, they found that the compliance to Sharia is one of the performance measurements used in the Islamic bank.

As mentioned earlier, Sharia-compliant companies are working under Sharia law and regulations. Many of these companies especially Islamic banks are operating under the

³³ Riba in Arabic means interest (finance).

regulation and supervision of several Sharia compliance bodies. Several international institutions are working to set Sharia-compliant standards and harmonize them across countries. The Islamic Development Bank is playing a key role in developing standards and procedures in different Muslim countries particularly. Further institutions and bodies include the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Islamic Finance Service Board (IFSB), the International Islamic Financial Market, and the International Islamic Rating Agency (El-Qorchi, 2005; Solé, 2007).

These institutions provide guidelines for Sharia-compliance companies in many aspects of their work and transactions, e.g. in halal investments. In addition, some of them provide information on code of ethics for accountants and auditors working for Sharia-complaint companies tailored for them and their profession (Graiss & Pellegrini, 2006). Hence, the case study in chapter six will look into the role of these institutions and provide further information on their functions and role.

3.5. Conclusion

With the growing business around the globe, momentous issues arose regarding conducting and managing business with people in other countries. Each company should be able to cope with its internal and external environment in any country. Interactions within the organization are connected with individuals' behavior and culture. On the one hand external environmental factors are here the cultural and social aspects, but on the other hand internal factors deal with organizational effectiveness and indivisible behavior. In order to achieve organization's objectives on an internal level, these factors and variables should be grasped separately and as an ensemble interacting, influencing, and shaping the characteristics of management accounting in an organization.

In contrast to individualism of the Western society, a major cultural feature of Arab organization is collectivism, which influences the decision-making approach. For example, Arab managers may debate a proposed solution for a certain problem through the board members and subordinators in the company and they may then rediscuss the decision until the majority of them, above all the chairperson, agree on the final decision.

“The manner of discussion and making decisions at the executive and top-level management is according to the majority. In case of disagreements between the

board members, we then ask for consulting from the managers of the departments, till we reach the final decision". (CEO, Co.1)

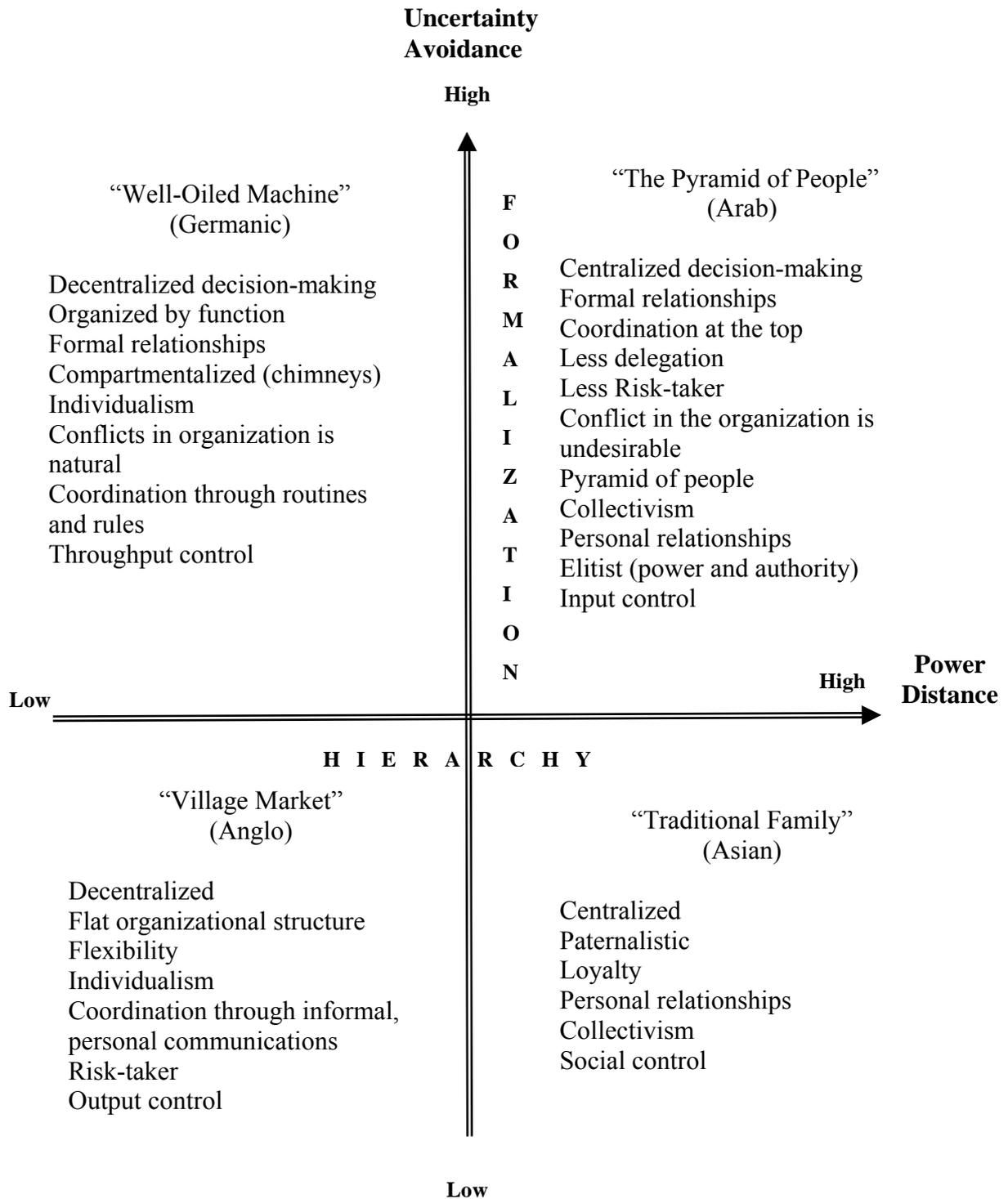
Moreover, the theoretical background showed that in the Arab World all organization members, especially in small firms, are considered as a family and support the company philosophy. That brings each individual employee closer to the organization and makes them identify themselves with their company. In different words, Arabs have collective decision-making and leadership in respect to managerial accounting.

Hierarchy in high power distance culture is built to formalize inequity. Hence, the cartelization of power in the high hierarchical levels leads to centralization of decision-making in the hands of the superiors (Lau & Buckland, 2000).

The previous studies indicated that power distance in the Arab culture is namely high. That means Arabs respect people's position and hierarchy in Arab society sometimes according to their tribe (Bjerke, 1990). Therefore, there is probably a low degree of subordinates' participation as well as management accountants in decision-making on the top hierarchical management level. Furthermore, on contrary to monochronic persons who stick religiously to their plans, polychronic people often and easily change plans (Hall & Hall, 1990). As a result, decisions can be negotiable. Thus, additional modifications and changes can be expected.

Moreover, in a high-context team, setting up some relationships between team members is of vital importance in teamwork. In addition, polychronic people tend to build lifetime relationships. Therefore, Arab employees have a strong tendency to socialize with their colleagues. That means, a lot of information, work problems, and decisions can be exchanged in an unofficial way. In other words, Arabs leans to verbal communication in addition to the nonverbal messages like written letters.

Nevertheless, many management accounting research based on contingency theory also dealt with organizational characteristics such as structure, centralization, formalization, and complexity within the organization. Based on literature review of cross-cultural research on management control and cultural studies, the following figure illustrates the combination of culture characteristics across nations and their influences on the organizations:



Figure(12): Interaction of cultural dimensions on organizational structure and MAS

Source: Adapted from Hoecklin, 1995; Hofstede, 2001; Adler, 2002; and Schneider & Barsoux, 2003

As shown in the figure, low power distance levels with high level of uncertainty avoidance like in the Arab countries are associated with centralization and formalization on contrary to the Anglo-American countries.

Hence, the power distance symbolizes the acceptance of hierarchy and uncertainty avoidance symbolizes the desire for formalized rules and procedures. In countries with high uncertainty avoidance, organizations would tend to have more formalization evident in a greater amount of written rules and procedures. In countries with a high collectivist orientation, there would be a preference for group as opposed to individual decision-making. Consensus and cooperation would be more valued than individual initiative and effort. Rewards are based on being part of the group (loyalty and tenure).

As shown in the table, Countries that ranked high on both power distance and uncertainty avoidance (Arab) would be expected to be more 'mechanistic' or what is commonly known as bureaucratic. In the opposite quadrant (Anglo), countries, which ranked low on both power distance and uncertainty avoidance, are expected to be more 'organic' - less hierarchic, more decentralized, and having less formalized rules and procedures (Schneider & Barsoux, 2003). As power distance is higher in the Arab countries than in the Anglo-American countries, thus the organizational structure in Arab companies should be tall.

In culture with low power distance, we can find less centralization (decentralization), flatter organization pyramids. In addition, superiors and subordinates consider each other as equals and that leads managers to make decisions after consultation with subordinates. Also, they have close supervision which is often negatively evaluated by subordinates. On contrary, cultures with high power distance have great centralization and steep organization pyramids. In addition, superiors and subordinates consider each other as unequal (hierarchy here is important), thus managers make decisions on their own autocratically and paternalistically. Also, they have close supervision which is often positivity evaluated by subordinates.

Concerning “collectivism/individualism” in the countries, we can notice in the figure that when there is high power distance (hierarchy) there is also collectivism and when there is a lower power distance, there is practically individualism.

Moreover, this summary also outlines the major expectations on the characteristics of MASs in the Arab World. The theoretical background and previous research produce a primary understanding of the factors shaping the MAS in the Arab countries. The studies indicated that culture is an important determinant of the MAS designs in Arab countries.

This chapter discussed previous research on international management accounting. In addition, it presented the theories that outline the theoretical background of this research. The next chapter focuses on research methodology and clarifies the methods used in conducting this research.

Chapter 4: Research Questions and Methodology

The chapter is structured as follows. The first section presents the conceptual framework of this research, based on different angles of different reviewed studies and theories on culture and managerial accounting research. It also suggests pattern to link aspects of national culture with management accounting and control systems. The second section introduces the research objectives, questions and hypotheses.

The research methodology will be discussed in the third section. A qualitative field study is an essential methodology to answer the research questions and generate evidences from the field, thus the research methods will be discussed in the third section. The third section also outlines different parts of the interview guideline. Detailed data on the interviews will be presented in the same section. The fourth section will describe the analysis procedure of the collected interviews' data. The fifth section of this chapter discusses the reliability and validity of the research. Finally, the last section presents the limitations of this research.

4.1. Conceptual Framework

Based on the theoretical background presented in the previous chapter, this section discusses the impacts of culture specifically and also other contingent variables. As mentioned earlier, some of the previous studies also explored the social, organizational, and cultural characteristics of the management accounting phenomenon. In addition, this section analyzes the impact of the cultural differences on managerial accounting when doing international business in the Arab World.

In general, factors influencing management accounting systems can be divided in two groups. First, the external factors that deal with the surroundings are out of an organization's influence. Human actions and interactions are influenced by culture and environment (Birnberg & Snodgrass, 1988). Cultural aspects like collectivism and individualism, power distance, monochronic and polychronic time cultures as well as high- and low-context cultures have been expounded on in the last chapter.

Besides having well knowledge about the type of culture whether e.g. high-context or low-context culture, it is very essential when doing business abroad to understand the norms, values, and attitudes of the society where the company is settled into. As described in the previous chapter, cultural dimensions can affect to some degree the manner of work, communication, and interaction as well as the approach of commitments and relationships among individuals of the organization. The cultural factors in addition to social aspects like family, social background and education should be amply recognized by the organization in order to enable its leadership to handle their human resources' operation. Hence, this section also explores the extent to which the Arab employees or management accountants are involved in decision-making, planning, etc.

Secondly, internal factors influenced by the organizational leadership are dependent upon the organizational effectiveness (Jaeger, 1990, p.4). An organization's success in handling individuals' performance can be embodied in its structure, strategy, technology, and human resources training. Developing this effectiveness will have an effect on performance, motivation, and interaction of the organization's members. The following model illustrates the link and correlations between internal and external factors including cultural aspects on different aspects of management accounting:

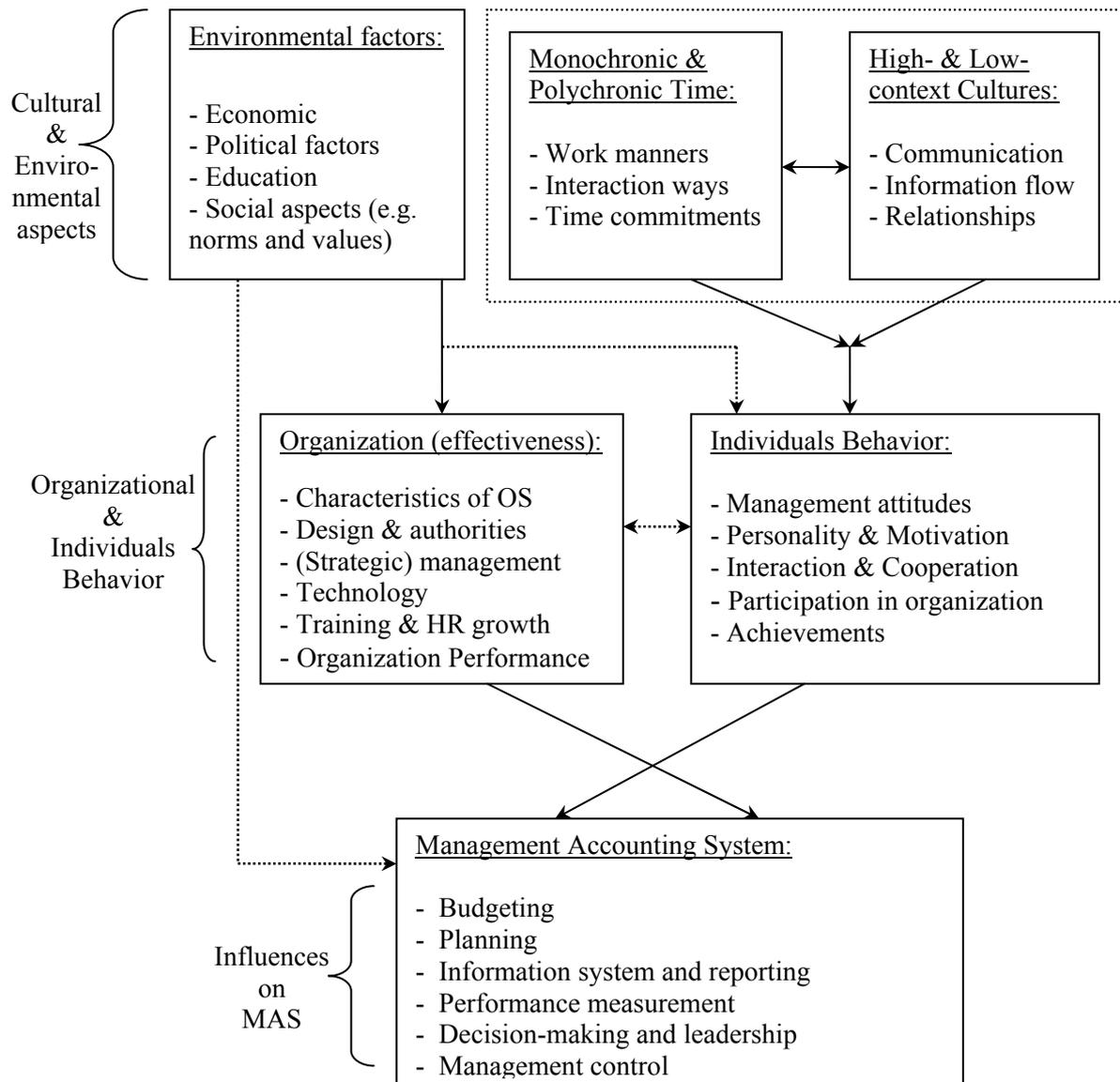


Figure (13): Conceptual framework of the research

The influences of the mentioned cultural factors on management accounting can be outlined mainly into four aspects, which are decision-making, performance management, control and strategic management accounting. Isolating the influences of culture from other environmental factors is also problematic in cross-cultural studies, as it is quite difficult to specify to what extent culture influences management accounting practices across nations. But this research will investigate this aspect in order to identify the cultural influences on Arab companies.

Therefore, cultural effects can be seen on two levels, macroeconomic and microeconomic phenomena. In general, cultural manifestations across nations impact the way in which

economic and management issues are addressed. The macro-level factors of an economic environment that have a relationship to culture are economic growth, innovation, technology and techniques. On the microeconomic level, culture plays a role in impacting the organizational strategies, behavior (including the individuals' norms, values and interaction) and characteristics, the management style, managerial accounting, management control (Morosini, 1998).

Therefore, the influential factors that impact MAS, as shown in the chart, are divided into two levels, environment-level and organization-individual-level. On the one hand, factors surrounding the organization presented in economic and social environment (derived from the contingency theory) affect the conditions in which the organization operates and particularly how the MAS functions and reacts in response to them. In addition, culture as a crucial part of the external environment impacts the characteristics of the organization's members and their actions with respect to managerial accounting (their judgment and analysis in regard to decision-making).

On the other hand, aspects inside the organizational environment such as organizational characteristics and individuals' behavior influence the managerial accounting structure and techniques. These aspects affect, for example, organizational design, organizational effectiveness, individuals' interactions and performance. As shown in the figure (13), overall factors and circumstances shape the management accounting system in the organization with respect to budgeting process, planning and strategies, kinds of reports, decision-making and control mechanisms.

According to the theories and studies that this research is based on, different factors and variables can be derived from this conceptual framework. Culture is the main variable derived from anthropological cultural studies and theories. Culture has important impacts particularly on individual characteristics such as attitude, beliefs, knowledge (way of thinking in respect to decisions and judgments), interaction (relationships), performance and motivation. More independent variables such as environment, organizational size, and technology are attributed to the contingency theory. Management accounting variables capture the major characteristics of management accounting system such as budgets, planning, reporting, and control.

The adoption of contingency and cultural theories in this research helps in formulating the propositions and also in interpreting the results. Hence, this research does not only examine what Arab culture is, but also what and how does culture impact management accounting and control systems in the Arab World. Arab culture values form, in this study, the basics for differences in the characteristics of management accounting systems in Arab countries. These above mentioned factors (variables) deal with for example: How much impact the environment has on the managerial accounting practices in Arab countries?; Do the management accounting instruments vary according to the size of Arab companies?; Do cultural characteristics of Arab employees and managers shape management accounting practice in regard to decision-making, reporting and communication manners (information exchange)?; What is the relation between the implementation of modern technology and management accounting techniques?

Eventually, all previously discussed studies and research lead to formulate a theoretical understanding of the aspects and factors specifically culture which plays a role in shaping Arab management accounting system and also lead to make some predictions and assumptions which may be confirmed or not by the data and empirical results. These questions and assumptions will be discussed in the following section.

4.2. Research Objectives and Questions

A major aim of most organizations is to increase performance rating. Performance management essentially depends on management accounting techniques particularly the accounting information system, decision-making and strategic planning.

Organizations are continually seeking to reduce costs and improve their products. The management accounting department is a basic and integral part of an organizational structure. An effective management accounting structure should be able to make the organization reach its objectives, control the efficiency and performance, provide effective feedback for the decision makers and give warning signs at the right time to avoid risks and losses (Drury, 2005).

First of all, a major question has been raised. What is the intellectual puzzle that this research will explain? In different words, what are the intellectual and theoretical

contributions of the research? Thus, this intellectual puzzle contains different sets of assumptions and questions that need to be explained and discussed.

Thus, the research will explore the substance of management accounting in the Arab World. In addition, how accounting information systems in Arab companies serve management accountants and also how management accounting assists managers in decision-making, planning, control, and performance measurement will be investigated in this study. The interviews and the analyzed results from the interviews should identify and answer all of the above mentioned issues.

Five objectives have been set for this research. The first objective of this study is to present the scope of management accounting in the Arab World. Analyzing the shape of management accounting systems in Arab countries and then looking into the instruments used in management accounting is the second objective. The third objective of this study involves exploring the impact of some factors on management accounting such as the economic environment, culture and management accountants' education.

The fourth objective is to understand the role of management accounting in the decision-making and strategic planning process as well as in the performance measurement in several kinds of enterprises. The identification of problems and weaknesses in management accounting systems, proposing some suggestions to improve the quality and efficiency of management accounting systems in the Arab countries and discussing resolutions related to some critical issues in the Arab management accounting systems will be the fifth and the major objective of this thesis.

As mentioned before, Arab countries have special economic environment, political and governmental policies, and mainly culture. Nevertheless, these aspects also vary between many countries in the world whether Western, developed, or developing countries. The theoretical framework focuses on these factors in relation to management accounting systems. Management accounting systems embrace budgeting, MA instruments, reporting, decision-making, etc. (as also previously mentioned in Anglo-American management accounting textbooks).

Further questions are based on cross-cultural studies in regard to management accounting practice and they are derived from previous research on comparative studies on management accounting and control systems across nations. Thus, the research questions and the hypotheses are in accordance with the theoretical framework.

As the research questions emerged from the theoretical background, overall questions were first formulated. These questions embrace four main parts, which are derived basically from English management accounting textbooks (for further information see MA definition in Anglo-American countries in chapter three). Three broad areas of management accounting typically deal with planning and control, cost management, and performance appraisal (Anderson and Lanen, 1999). Therefore, it is important to clarify that the major parts of these research questions as well as the interview guideline³⁴ deal with the following sub-topics:

- I.** Management accounting fundamentals: this section is intended to provide a notion of the common understanding of management accounting in Arab companies. This area covers the definition of management accounting and differences in the understanding of management accounting in comparison to financial accounting. It also deals with the functions of management accounting.
- II.** MA and information for decision-making (instruments of MA): this part discusses the information system and its relevance for decision-making with a slight focus on the important role of management accountants in the examined companies. This section also examines the requisite managerial accounting information for decision-making. It touches upon several management accounting instruments such as cost-volume-profit analysis, activity-based costing and profitability analysis.
- III.** Planning, budgetary, control systems and performance measurement: this section emphasizes the assistance of managerial accounting outcomes (in terms of instruments, budgets, information system, etc) in planning as well as for control in Arab companies. Hence, this section looks into planning and control processes. Planning involves future decisions that bring the company to its goals and control is the process of measuring the actual performance of to ensure that the company follows its plans. A traditional managerial accounting instrument which has multiple functions in planning, controlling, and performance evaluation is namely budgeting.

³⁴ The main parts and questions of the interview guideline will be elaborately presented in the following section of this chapter.

In regard to MCS and Performance measurement, the aim of this part is also to show the relation between internal accounting information system and performance measurement and also to examine the used methods and calculations to evaluate performance within the companies in Arab countries. This part considers the implementation of managerial accounting mechanisms in control process and performance evaluation. This part will touch upon variance analysis (favorable vs. unfavorable variance) as a part of cost control system.

- IV.** Strategic management accounting: in this part, particularly the elements of strategic management accounting will be identified. The aim of this part is to examine the role of management accounting in formulating and supporting the overall strategy of a company. This part should also cover an important tool in strategic MA which is the balanced scorecard in respect with performance measurement.

As mentioned earlier, this research is based on the conception of MAS taken from Anglo-American management accounting textbooks. Hence, in this research management control, accounting information system as well as performance measurement are considered as important parts related to Arab management accounting systems.

Based on the previous research and studies, the research questions investigate several points in order to gain a more detailed understanding of management accounting systems in the Arab World. The literature review indicates the low rate of management accounting research on Arab countries. Therefore, the important aim of this research is to investigate:

RQ (1): How do MASs in the Arab World look?

The literature review raises interesting topics in comparative management accounting research on transitional economies. In addition, it discusses and deals with important issues in relation to cultural dimensions and Anglo-American management accounting practice.

Thus, the research questions will focus on specific topics. Previous research indicated the use of certain instruments in companies operating in transitional and emerging economies. Hence, in regards to Arab countries:

RQ (2): Which management accounting instruments are used within organizations in Arab countries?

Furthermore, management accounting role and functions in decision-making, control, and leadership are important inquiries of this research, as discussed earlier in the research model:

RQ (3): How sufficient is the role of MA in Arab organizations in terms of budgeting, planning and PM in general and does it serve decision-making and strategic planning in particular?

Cross-cultural research on management accounting and control systems as well as CMA research on Anglo-American countries discussed the role of technology as well as the role of education in shaping the organization's MAS. In addition, contingency factors, presented in the theoretical background, impact MASs of the companies. Thus, this research looks into the influences of these factors:

RQ (4): To what extent do the external contingent factors (e.g. technology, education, governmental constitution, and culture) affect Arab MASs?

Culture is an important determinant of the management accounting and control systems designs in terms of budgeting, planning, control and performance measurements (Chow et al., 1999; Lau and Buckland, 2000). Concerning Arab culture, management accounting in Arab companies might be heavily influenced by their unique cultural attributes and norms. Hence, the fifth question can be formulated as follows:

RQ (5): What are the characteristics of culture that shape Arab MAS? In different words, what are the cultural implications for managerial accounting practice?

The application of Western management accounting techniques to LDCs has been researched by various cross-national management accounting research (Morakul and Wu 2001; Sulaiman et al., 2004; Waweru et al., 2004). Anglo-American countries are important partners and investors in the Arab World. In addition, Anglo-American countries present Western-type culture. As the literature review also indicates some influences of Anglo-American management accounting understanding on some MA techniques in the studied Arab companies (Ismail, 2007; Kattan et al., 2007). Hence, the sixth research question is:

RQ (6): Do Anglo-American MA techniques influence Arab management accounting practice? In different words: can we see similarities or similar development in Arab emerging markets despite Arab cultural dimensions?

Previous research also hints to the development of management accounting practice in some Arab countries such as Saudi Arabia, Bahrain, and Egypt. Thus, this research will investigate:

RQ (7): What are the triggers of management accounting change in Arab countries?

Furthermore, the theoretical background has been taken to construct some theoretical propositions and expectations about how management accounting systems would function in Arab firms.

Propositions

As this research is a primary study that explores MAS in the Arab countries, fifteen propositions have been formulated. These propositions are expectations or perceptions based on the theoretical framework and conceptual model of the research. Hence, these assumptions are as follows:

Proposition (1): Arab managers tend to follow detailed short-term budgeting and planning.

The high level of uncertainty avoidance implies that Arab managers will follow short-term plans to deal with the environmental uncertainty surrounding the markets. Due to uncertainty avoidance, Arab companies will tend to prepare flexible budgets contrary to the companies in the United States as their MASs tend to be much less refined and comprehensive and provide more aggregated and less detailed information (Macarthur, 2006).

Proposition (2): Arab companies use traditional management accounting techniques.

This proposition is based on previous studies that indicate the wide use of traditional management accounting techniques in transitional and emerging countries, contrary to Anglo-American countries (Joshi, 2001; El-Ebaishi et al., 2003; Sulaiman et al., 2004).

Proposition (3): Management accounting in Arab companies is only based on financial information rather than non-financial, external information as common in Anglo-American countries.

This proposition is based on the literature review, as management accounting literature in the Arab World still deals with basic topics of managerial accounting such as cost accounting and financial accounting. Previous research indicated the high use of traditional

management accounting instruments in Arab companies (El-Ebaishi et al., 2003; Joshi et al., 2003; Kattan et al., 2007).

Proposition (4): Arab companies are highly centralized in terms of leadership and decision-making. Thus, they have a high level of formal control and strict description of the functions of their (management) accountants in the managerial hierarchy.

This proposition is based on three arguments and two cultural aspects. The first is a high level of “power distance” which has been characterized for Arab culture and secondly, a high level of “uncertainty avoidance” in the Arab World. As Arab countries have a relatively high level of power distance, hierarchy is needed to determine the responsibilities and mainly the authorities in the company. Finally, due to the organizational size (contingent variable) and leadership style (from tribalism), the company should have a great leader(s) on the top management level.

Proposition (5): Arab management accountants have little participation in budgeting as well as planning and a limited role in the Arab companies, on the contrary to Anglo-American companies. In addition, they lean towards avoidance of conflicts.

This proposition reflects the low participation of Arab management accountants in their budgeting and that leads to less performance, due to power distance. This proposition is also based on previous studies that showed the limited role of management accountants in companies of transitional economies (Shields et al., 1991; Wijewardena and Zoysa, 1999).

Proposition (6): Arab MAS is functioning to deliver and provide information to assist in decision-making. Hence, management accounting in Arab companies play a role in strategic planning.

This proposition is based on two main aspects. First of all, on the cultural dimension namely “power distance” determined by Hofstede and on the aspect of centralization in Arab organization as discussed by previous cultural studies.

Proposition (7): Performance measurement in Arab companies is based on financial indicators and specifically on profit rather than sales, similar to Anglo-American MA practice.

This proposition is based on the findings of previous studies on performance evaluation in Arab companies (Joshi, 2001).

Proposition (8): Arab employees use more verbal communication for delivering information. In addition, they lean towards collective decision-making especially in terms of management accounting.

This proposition is derived from Hofstede and Hall studies. As Arabs have a high rank of collectivism and belong to a polychronic and high-context culture, the expectation is that the individuals tend to use verbal communication within the group to exchange information. That affects the managerial decision-making process and the reporting and information systems.

Proposition (9): Level of sophistication of Arab MASs has a positive correlation to the company's size and industry.

This proposition is based on the contingency theory, as the concept of “fitness” depends on organization's size and type of industry.

Proposition (10): Culture influences MA practice in Arab companies to a very great extent.

This proposition is based on the culture studies on Arab countries that reflect the specific characteristics of old, traditional Arab culture and their influences on managerial behavior.

Proposition (11): Management accounting in Sharia-Complaint companies is influenced by regulations related to Islamic law to a limited extent.

This proposition is related to Islamic religion as a part of Arab culture. It is based on previous studies discussed in chapter three and mainly on (Dar & Presley, 2000) as well as (Solé, 2007).

Proposition (12): Arab companies have a limited utilization of technology.

This proposition is based on previous studies of Abu-Musa (2004, 2006).

Proposition (13): Arab MA practice is influenced by Anglo-American techniques, which can be considered as drivers of management accounting development in Arab companies.

This proposition is based on the findings of previous studies on management accounting change in Arab companies (Ismail, 2007; Kattan et al., 2007; Moilanen, 2007).

Proposition (14): Education and knowledge of management accountants at Arab companies have insufficient roles in developing the management accounting systems of their respective companies.

This proposition is based on a previous study of Kamla (2006, 2007a, 2007b).

Proposition (15): Role of governmental and professional institutions is still limited in the Arab countries.

This proposition is based on previous research that referred to the insufficient role of governmental bodies in implementing, developing and changing MASs in transition economies (Uddin & Hopper, 2001).

In order to examine these research questions and propositions, a qualitative approach has been chosen for this research. The next section will provide more detailed information on the research methodology.

4.3. Research Methodology

Qualitative research has been of interest to management accounting researchers over the years. Qualitative research does not embrace numbers as in quantitative research, but rather it usually comes in the form of words and interpretations. Qualitative research provides descriptions and explanations of events and processes, and seeks vivid, concrete data. Through qualitative research, researchers may reveal the notions of social realism. They argue for a realist approach to provide a better understanding or explanation of the substantive research phenomena. Within qualitative approach, researchers adopt an interpretive perspective in their study of social phenomena in order to understand, explain and describe the reality that is emergent, subjectively created and objectified through human interactions (Silverman, 2005; Elharidy et. al., 2008).

In terms of management accounting, qualitative research can give meaningful insights into everyday practices. Merchant et. al. (1995, p. 621) proposed that “This method emphasizes depth of situational understanding and provides opportunities for following up on unexpected findings and revelations, thus enhancing opportunities for new theoretical developments and refinements”.

Qualitative research is based on methods of data production, which are generated from real life or natural practice context. Qualitative research is also based on methods of analysis and explanation that aims to produce holistic understanding on complexity, detail, and context of the data (Mason, 1996).

This research will first focus on finding the characteristics of management accounting in the existing management accounting systems in Arab companies. This research can be considered one of the initial studies on Arab MASs. Thus, this research is an exploratory research and an explanatory study, as it will look into the interactions and relations of many related factors that influence MAS in the Arab companies. However, fieldwork will enable gaining insights and data on Arab management accounting practice. The following section will present the selected research methods that enable achieving the research aim and answering the research questions.

4.3.1. Research Methods

Fieldwork as a qualitative method refers to entering a field or practice and gathering data through interviews or observations. As the quantitative research depends on large samples and uses the frequencies of certain components and the statistical relations of these variables as evidence, contrary to qualitative research which looks into explanations, reasoning and argumentations that make sense of the phenomenon based on qualitative analysis (Alasuutari, 1995).

Thus, a qualitative field study is an important part of the methodology as a way to know the field in reality (Ahrens and Chapman, 2006). In addition, field research allows greater contextual understanding and basically the results should give an idea of the definition, tasks and role of management accounting within Arab companies in the Middle East. "It is unusual in research generally for exploratory work to be conducted using the survey method. Typically, this method is invoked later in the development of a research area as relationships among variables and phenomena at issue are better understood through field or experimental methods" (Harrison and McKinnon, 1999, P. 504).

Hence, a field study is essential to answer the research questions and generate evidence from the field. The issue of how to gain access to the companies in the field is critical in qualitative research. Two crucial questions regarding how to encounter the research are:

how to secure the collaboration of the potential interviewees of the study, and to achieve that the participants do not only express their willingness, but also that their participation also leads to concrete evidence and data (Flick, 2006).

There is certainly no unified set of techniques or strategies that represent qualitative and field research. Thus, the data is primarily gathered through open-ended, in-depth interviews, observation in some firms over a period of time, and through the analysis of some legal, official reports. Merchant et al. (1995) expressed in their study the importance of in-depth field study in their exploratory research. This method enables great opportunities in revealing unexpected findings and revelations, and provides enhancing opportunities for theoretical development and refinements.

An alternative research method to field study would be to conduct a (questionnaire) survey, but the hindrances of using surveys in doing qualitative research on the Arab World include the particularly low response rate and the cultural impact on the interaction of Arab managers with electronic mailing questionnaires. Elshahat and van Triest (2006) truly gave hint to this when they emailed their questionnaire to 100 firms in Egypt (in both the private and public sector). They received only two responses after four weeks. Due to these reasons, the interviews will be conducted face to face. It is likely that some managers will not respond to electronic mailing surveys.

As Harrison and McKinnon (1999) noted, through their examination of cross-cultural research in management control systems from 1980 to 1996, survey questionnaires were highly employed in the most of research during that period. A survey would not provide exploratory data and detailed explanations (Yin, 2009), such as the “hows” and “whys” in the Arab management accounting practice. In addition, during a face-to-face interview, the researcher would have the opportunity to build up a better relationship with the interviewee based on transparency, trust, and confidence.

Qualitative researchers should be aware of boundaries and settings of conducting fieldwork especially based on the culture of the group of people who might be interviewed (Holliday, 2002). In reality, Arab companies are not used to dealing with field researchers and especially not with sensitive information in terms of management, managerial accounting techniques, their internal financial statements, and strategies. Due to the restrictions and

limitations on companies' business and economic data³⁵ of business markets in most of the Arab countries, Arab companies are cautious about giving any information publicly or to an external person.

Therefore, this fieldwork includes a major part that embraces conducting face-to-face, in-depth interviews on Arab management accounting practice, in addition to observation and documentary collection. As this research also investigates the function and shape of management accounting in a special kind of Arab companies, namely Sharia-compliant companies, a case study will be also a part of the research methods to provide descriptions of management accounting system and to discover how it functions in this kind of companies. Moreover, case studies have become quite common in accounting research, especially in management accounting. Case studies offer us the possibility of understanding the nature of accounting in practice, in terms of the techniques, procedures, systems, etc. which are used, and the way in which they are used (Ryan et al., 2002).

Therefore, in order to thoroughly address the research objectives and questions, the interviews will be conducted in several Arab countries from the eastern region, namely the Gulf region, to the western part, Maghreb. The interviews will be tape recorded, if possible.

Furthermore, sampling and decisions about where to conduct the research and whom to include are essential parts of research methods (Maxwell, 2005). Hence, the interviews will be conducted in Arabic with managers, management accountants, accountants and controllers working in Arabic firms by the researcher personally, who is a native Arabic speaker. Conducting this study by researcher who is familiar with the societal and cultural background of the countries has a great advantage of expediting the research process. That is also emphasized by Lim and Firkola (2000, p. 141) "...it is probably more efficient to access a culture with which the researcher is already quite familiar...To access a culture that is not so familiar to the researcher may open up a different genre of difficulties and biases". The following section discusses the main points presented in the interviews and included in the interview guideline.

³⁵ Business and economic information on companies is difficult to obtain in most Arabic companies, only if they are listed in the stock exchange market or forced by governmental, regulatory institutions to submit their financial or business data. Competition is heavy in most of the Arabic markets and companies lean to collect required data by its R&D or marketing departments or rather by using a service of special companies that are specialized in collecting data on the market and competitors and selling it to the companies needed this information.

4.3.2 Interview Guideline Design

The interview guideline was developed in three steps. First, the research questions were defined and formulated. After the formulation of the research questions, many detailed questions emerged from the major research questions and enquiries about MAS secondly. These questions were then divided into sub-topics. The interview guideline includes ten sections. Finally, the interview questions were reviewed and refined in order to implement the interview guideline's content. These steps were taken to put a comprehensive interview guideline for the selected interviewees in the targeted companies.

The interview guideline reflects the research questions. Some of the included questions were derived from the mentioned inquiries in previous comparative management accounting research. Others were written to get the information needed that enable this study to shape management accounting in the Arab World and then fulfill the thesis' interests, questions and objectives. The interview guideline contains 50 enquires [48 closed- and open-ended questions and 2 appendixes (magnitude questions)].

Open-ended questions allow for more exploratory information that can be obtained by extending the question and asking about further details, like how and why that would occur. Face-to-face interviews also allow for trust between interviewees and researchers. In the first 5 to 10 minutes, the researcher should be able to introduce herself and explain the research project, in order to built trust relationship for the interview.

The following table presents and links the main parts of the interview guideline with the research questions:

Research Questions	Interview guideline parts & questions	Explanation
First research question: Common understanding of management accounting in the Arab countries? (Part I)	Company profile; number of branches; company's hierarchical structure, etc. (section 1+2+3)	The interviewees' answers will provide data on the organizational size and structure.

Second question: which MA instruments are used within Arab organizations? (Part II)	Budgeting approach, implemented techniques and instruments in MA. (section 4)	This part will provide data on the common applied budgeting approaches in the Arab countries.
Third question: What is the role of MA in Arab organizations? (Part II) (Part IV)	Fulfillment of the three major functions of MA; role of MA in decision-making; role of MA in strategic decisions, strategic plans, and techniques. (section 5+6)	The replies on this point will reveal the efficiency and the role of the MAS in companies. This part will allow the interviewee to give an opinion or make a judgment about the status of strategic MA.
Questions (four to seven): How do influential external factors especially culture impact the Arab MASs? (Part V)	Influences of culture, governmental institutions and technology on the MAS. (section 8)	When discussing this point (topic) with the interviewees, they will discuss the influence of culture, institutions, education and technology on MAS.

Table (3): Chart of linking research questions and major parts of interview guideline

The following section present in details the main parts of the interview guideline used to conduct the field study.

Interview Protocol

The interview protocol starts with an introductory page for the interviewee that describes briefly the research aim and the researcher's request for cooperation and provision of detailed information about managerial accounting.

As mentioned earlier, management accounting is concerned with appropriate information for decision-making, planning, control and performance evaluation in relation to internal reporting, analyses and financial measurements. The structure of the interview questions can be divided into the following parts:

Part I: Company, Interviewee profile, and organizational structure: this part presents some information about the companies where the interviews are conducted, and also provides further information about the interviewees and their characterizations.

Part II: Instruments of MA with main focus on budgeting process: this part investigates into the implemented instruments in managerial accounting. This part mainly focuses on budgeting in general and on the approach, use, and period in particular.

Part III: Functions and role of MA (in decision-making, strategic planning, PM, and MC): this part explores the function of managerial accounting inside the companies in terms of planning, decision-making, information, control, and strategy. It also looks into the role of management accountants towards the management team and the problems that may emerge, for example, conflicts.

Part IV: This part of the interview guideline should examine the reporting and information systems.

Part V: The last part looks into further influential factors on MAS such as culture, technology, governmental institutions, and education.

The open-ended questions allow the researcher to reveal interesting information and ideas that may arise during the interview and also to explore, through the discussion, more underlying explanations and interpretations of the interviewees' answers.

The interview also includes the following major questions (for complete, detailed interview guidelines; see appendix I):

The first part of the interview, which includes three sections, provides relevant information about the type of companies and their characterization. In addition, the third section looks into the organizational structure of the company. The following chart presents the major questions of the first part of the interview protocol:

Questions	Justification & cultural determinants
<p><u>Section 1: company profile:</u></p> <p><i>1.1. Name of the company and location:</i></p> <p><i>1.2. Field of activity and products:</i></p> <p><i>1.3. Size of the company:</i></p>	<p>These questions introduce the company where the interview takes place and give additional information about the company.</p>
<p><u>Section 2: Interviewee profile:</u></p> <p><i>2.1. Name:</i></p> <p><i>2.2. Job position and responsibilities:</i></p> <p><i>2.3. Academic grad (from which country):</i></p> <p><i>2.4. Training and professional certifications:</i></p>	<p>This part provides further information about the interviewees and their job position and qualifications at the company.</p>

<p><u>Section 3: company structure:</u></p> <p>3.1. <i>Is there a separate, functioning management accounting department?</i></p> <p>3.2. <i>At what level is the management or financial accounting department in your organization? Please provide an organizational chart?</i></p>	<p>Also, these questions give an idea where to expect the management accounting division in the organizational hierarchy (structure) as a contingent variable.</p> <p><u>Culture determinants:</u></p> <p>- Power/hierarchy</p>
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The forth section explores first the use of budgeting in managerial accounting and then the additional used instruments. The questions in this section should provide information about budgeting procedure, details, and use. Here are some major questions of the forth section of the interview guideline:

<p><u>Section 4: Instruments of MA:</u></p> <p>4.1. <i>What is the general direction of budgeting procedure: (bottom-up, top-down, mixed-approach)!</i></p> <p>4.2. <i>What costs are estimated? How are they estimated?</i></p> <p>4.3. <i>Are the prepared budgets detailed? Do you prepare flexible budgets? How is uncertainty in the budgeting process handled?</i></p> <p>4.4. <i>Does budgeting follow short- or long-term?</i></p> <p>4.5. <i>Does budgeting support strategic planning (budget use)?</i></p> <p>4.6. <i>Which problems exist in the budgeting process from your point of view? Which improvements should be made or have been done recently?</i></p> <p>4.7. <i>Which of the following instruments do you use in management accounting: CVP; ABC; BSC; Tableau de bord; Target Costing (TC); Customer Profitability Analysis (CPA); SWOT-Analysis; Benchmarking; ROE & ROI; EVA; others.</i></p>
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This section explores the periods of budgeting (short- vs. long-term) and then the use of budgets in planning and strategies.

The culture determinants of this section are:

- Power/hierarchy
- Uncertainty avoidance
- Individualism vs. collectivism

Furthermore, the forth section touches upon the problems of budgeting. In addition, it discusses the relation between budgeting and planning. The last question in this section looks into the used managerial accounting instruments in the company.

The fifth part of the interview guideline examines the tasks of management accounting within the company, namely, whether they are functioning as financial accounting in terms of numbers or not. It Also examines, the functions of (management) accountants as information providers or consultants and finally, if managerial accounting supports planning, strategy, and control.

Section 5: Function and role of MA:

5.1 What are your daily tasks? What are your responsibilities?

5.2 Which of the following functions is fulfilled by the MA department? Others?

- Allocates costs (for internal and external profit reporting)*
- Provides information for decision makers*
- Supports planning, control and performance measurement*

5.3 Do you (financial manager or Management Accountant) participate in making decisions? What decisions Management Accountant is involved in?

5.4 How does (management) accounting support the managers? What is the involvement of management accountants in strategic decision-making?

5.5 How does the company (CEO) deal with the conflicts in making decisions between the (management) accounting and management departments?

*5.6 Is the management (company) following a short-term or a long-term planning?
[Short-term = 1-2 years ; long-term = from 5 years ; medium=3-5]*

This section considers the understanding of managerial accounting in the companies and explores the role of management accounting in the planning and decision-making process as well as in strategic decisions and planning.

Cultural determinants for this section are:

- Power/Hierarchy
- Individualism vs. Collectivism
- Monochromic Time vs. Polychromic

This part of the interview guideline should also reveal the difficulties, which (management) accountants may face with the management team members.

In order to meet the challenges of the recent dynamic in the business environment, the companies are looking to implement modern MA techniques. These techniques should be more appropriate for their MAS and should allow the use of accounting measures to evaluate the performance in order to be more efficient. Hence, companies also need to focus on non-financial accounting measures (Sulaiman et al., 2004). The sixth section provides further information about the reporting system. The questions in this section should provide information about internal reports, the reporting periods, and information of the reports. Here are some major questions of the sixth section of the interview guideline:

Section 6: Information system: Reporting:

- 6.1 *Does (management) accounting department report to management? How often are reports prepared (annually, semi, quarterly, etc.)? Which reports are relevant to management (in terms of decision-making and control)?*
- 6.2 *Is MA department responsible for cost reduction, pricing, quality and customer satisfaction? Does MA provide financial information as well as non-financial information?*
- 6.3 *Which department (financial, HR, operations) provides a performance-evaluation for the whole company (activities) and for each department incl. the managers? See indices?*

This section discusses the variance analysis reports with respect to performance evaluation. These questions give an insight into whether management accounting in Arab countries plays a significant role in performance evaluation.

Cultural determinants for this section are:

- Power/hierarchy
- Individualism vs. Collectivism
- Monochromic Time vs. Polychromic.

The sixth section also investigates the involvement of managerial accounting in non-financial matters such as pricing, customer satisfaction, etc. Additionally, this section investigates the role of MA in strategic decisions (e.g. benchmarking).

The new, modern, computerized accounting information systems allow accounting tasks to be accomplished more accurately and quickly (Abu-Musa, 2006). Hence, these computerized systems enable better information exchange and more sufficient financial

reports within the company. As this research looks into the information and reporting systems, the seventh section can also be related to the reporting system. The seventh section of the interview should provide detailed information about the ways of communication among employees in the Arab companies. The questions of this section are structured as follows:

Section 7: Information system: communication:

- 7.1. How do you gather information from all other departments? Do you get written letters which report about a situation in another department or do you find this information electronically imported into the enterprise data base?*
- 7.2. Do you have the opportunity to regularly meet employees from other departments? Do you gather the information personally from departments?*
- 7.3. Which kinds of communication are preferred in your company? Do you use oral communication (to confirm something)?*

This part of the interview guideline examines how the information can be exchanged between the organization members besides the reports. In addition, this section investigates whether the Arab companies may or may not have a computerized accounting information system. The questions of the seventh section should also indicate the influences of culture on information and communication systems in the Arab companies.

Cultural determinants of this section are:

- Power/Hierarchy
- Individualism vs. Collectivism
- High versus Low Context

The eighth section provides further information about several factors that may also impact the management accounting system in the Arab World. The rapid change in technology and computerized information system arouses the companies' desire to implement modern and up-to-date computerized systems (Abu-Musa, 2006). The questions of the eighth section deal with certain elements such as culture, governmental institutions and use of technology. These questions are formulated as follows:

Section 8: Further influential factors on MA:

8.1. Culture:

- 8.1.1. Do the foreign managers have another notion of MA? What exactly?*

8.2. *Governmental Intervention: Is the governmental constitution strict? Does this governmental intervention impact the MAS?*

8.3. *Technology: What kind of Software do you use (SAP, Oracle, others!)?*

This part of the interview looks into further aspects that may also play a role in shaping the management accounting system in the Arab countries. These factors are derived from the contingency theory.

Section nine gives the interviewee a free space to comment on certain issues, to suggest a solution for the discussed matter within the interview or to add an idea or remarks for further improvements in Arab MASs. The last part of the interview guideline, namely section ten, includes two appendices. The first appendix enquires into decision makers of certain aspects in managerial accounting. In the second appendix, the interviewees have to grade the magnitude of certain issues in relation with management accounting and control according to their views (for more detailed information, see appendix I.1. and I.2.).

4.3.3. Data Collection

This section will first mention preparation procedures and clarify the manner of establishing the contacts with the potential interviewees before the travel to each country. In addition, this section will also provide detailed information on the sample, interviews, companies and interviewees.

A particular method for gathering data has been determined and designed for this research. Interviews are to be conducted with professionals and experts. The chosen professionals are persons who work in the practice. Normally, selected experts in social research are top managers, but the experts for this research are academic lecturers or consultants with special knowledge. The researcher's judgment identifies certain people as experts and describes the relevance of the exclusive knowledge of this expert to the area of research (Bogner et. al., 2009). Therefore, on one hand, professionals will provide information based upon their experience and work in the practice. On the other hand, interviewing experts will reveal information from their academic and consultative experience through dealing with clients and professionals in field of management accounting. Consequently, accessibility is

an important issue that should be taking into consideration while looking for these experts with special qualifications³⁶.

Expert interviewers give researchers conducting empirical investigations effective means of obtaining good results quickly. When carrying out exploratory research, the expert is also able to provide and reflect a particularly accurate demonstration of the reality. Frequently, if the expert and researcher share a common scientific background, the expert's motivation can increase to participate and interact in the interview (Bogner et. al., 2009).

Interviews with practitioners who are employees dealing with management accounting in Arab companies, will yield data on the shape, function, and use of the MA in Arab companies. Selecting a person as an expert in respect to the profession can be quite appropriate. Thus, expert interviews with consultants or academics will report from different externals' views and experiences on the conception of managerial accounting in Arab companies. These experts with worthy qualifications will provide further knowledge for deeper understanding of the functions and effectiveness of the Arab MAS. The experts may also draw attention to contemporary weaknesses and problems of the management accounting system in the Arab countries.

This combination between the practitioners and experts can provide the opportunity to look at the Arab MASs from all sides. In other words, each group will demonstrate a figure on each side of the reality of the existing MAS in the Arab World. This allows for better comparison in the implementation of management accounting in theory and practice. A combination and comparison between the interview's data obtained by both groups with different points of view will help to build up a broader picture of the functioning MAS in the Arab countries.

Hence, data main-sources in this research are mainly the interviews with practitioners, who are employees dealing with management accounting in Arab companies. Another data source are, expert interviews with professionals like consultants who work in the practice with these practitioners. The interviews with instructors who provide academic background information from their work experience at educational institutions like universities can be considered as a data main source. Documentary analyses of materials obtained from the

³⁶ For example, Boston consultancy refused to give an interview with any of their consultants.

interviewees are also another data source. Finally, public data like financial information published on companies' websites provide a source of data.

As this research examines the Arab MASs, the data was collected from different places in the Arab World. The selected countries were Egypt, UAE, and Syria. This group of countries has been chosen so the sample selection covers the entire Arab World. The United Arab Emirates represents the Gulf States, Syria the Mashreq, and Egypt the western part (North African) of the Arab World.

In general, Egypt and Syria are still developing economies and emerging markets for foreign investment. As they also represent typical business environment of the Arab countries that have their unique cultural attributes and norms, UAE represents a western-type economy that is heavily influenced by American style. The targeted interviewees were managers, professionals and instructors at management accounting. Selected companies were service, manufacturing, or academic organizations.

Preparation

Planning for the interviews started in May 2008 and the conduction of the interviews was done as follows:

The interview guideline included a request letter in English and was associated with the letter of recommendation from the academic advisor. The interview guideline was completed in September 2007 and refined after the first research trip to Egypt in October 2007. In Egypt, six interviews were conducted (in five companies and additional one with an Expert).

The companies were contacted before the research visit to Egypt. Some companies that were contacted through "cold calls" refused to give any interview through their employees. Flick (2006) refers that doing qualitative field research in certain institutions (e.g. counseling service) can be complicated. The problem in accessing such institutions can occur for two reasons, either the persons may be held responsible especially in case of difficulties for authorizing an external researcher or the persons will not invest their time and knowledge into the research.

Therefore, companies (corporate companies) with shares owned by Egyptian public institutions were requested through formal applications. They were rejected (by the head office), not giving any approval for allowing the researcher to make an interview within the company. Nevertheless, access to the Egyptian companies was only gained through personal contact. The interviewees gave their approval and willing to contribute, but no exact time was fixed before the travel for any interview.

The minor changes in the interview guideline after the first research trip to Egypt were in the reformulation and reconstruction of some questions. For example, a question inquires as to how the company deals with conflicts in decision-making between the (management) accountants and the management team?

Due to the nature of Arab culture, the most interviewees in Egypt felt uncomfortable talking about conflicts or fights within the management team. As pointed out earlier, Arab employees prefer to have harmony in the work atmosphere rather than quarrels. Thus, the word “conflicts” had been changed to “disagreements”. Afterwards, the interviewees then did not reject the question and discussed how the company deals with any disagreements in decision-making between the (management) accountants and the management team pleasantly. In addition, some of them even gave some evidence and recollections from what happened in the company before.

The next research trip followed in May 2008 to United Arab Emirates. In the UAE, a large number of interviews (19) were conducted namely in 18 organizations³⁷. Fifteen interviews³⁸ were conducted with CFOs, CEO, chief accountants, etc. in 14 different companies and four interviews with experts (three interviews were conducted with consultants and one with a professor). Some companies were contacted mainly via e-mail before the research trip to the UAE and others were contacted through personal means. Some of the chosen Emiratis companies have been also selected from the listed companies in the website of the stock exchange markets. It turned out that companies (whether local or international) in UAE are used to being contacted by researchers and academicians, as a lot of international, particularly American and British universities, are operating in UAE and their researchers conduct several studies within private organizations there.

³⁷ Companies and academic institutions.

³⁸ Two of these 14 interviews were conducted via telephone, due to time limitation of the interviewees during the researcher stay in UAE.

The third trip was to Syria in August, 2008. In Syria, twelve interviews were conducted in eleven organizations³⁹. Ten of the conducted interviews were with professionals in nine companies and with two Syrian experts (a consultant and an academic). Access to these Syrian companies was gained through personal contact. Some of the Syrian companies have been also selected from the listed companies in the homepages of the stock exchange markets or ministry of commerce. The interviewees were contacted by phone calls, but as field research is still not common in Syria, many of them rejected giving any interview or even information.

It is also important to mention here that some of the companies which have Syrian public institutions as a main shareholder (over 50% of its share) and were also requested through formal application (letter) for the conduction of an interview. Most of requests were rejected by the general manager. In the end, eleven interviewees gave their approval, but also due to Arab culture a lot of the arranged interviews (appointments) were rescheduled once or even twice.

Sample

In order to have a representative sample and valid results, the data was collected from different sources (different kinds of interviewees and data sources) in different types of Arab companies in different countries that cover and effectively represent the Arab World.

The data was collected from several Arab countries between October 2007 and February 2009. As mentioned before, the selected countries are Egypt, United Arab Emirates, and Syria. Interviews were conducted using open-ended questions. Some interviews were tape-recorded. In addition, the interviewees were first transcribed verbatim and then sent to the interviewees for feedback. Forty interviews were conducted; thirty-seven face to face interviews and three telephone interviews, were all conducted in 35 organizations⁴⁰ in 3 different countries, namely Egypt, United Arab Emirates, and Syria.

³⁹ Whether companies or academic institutions.

⁴⁰ Whether companies or academic institutions.

Companies' Data

In order to control the effects of national culture, company size, and industry as important contingent variables, the criterion for choosing the companies are as follows:

- The company should be located in an Arabic country and operated or managed by Arabs.
- The size of the companies needed for the study should include small, medium-sized and big companies.
- The selected company should be a manufacturing or a service company. This criteria excludes some kinds of companies, such as non- profit organization.
- The company should have been operating for a while in the business - minimum of 4 years. This criterion is required to avoid new established companies with new MAS in terms of budgeting, planning, and reporting.

The following table provides further information about the interviewees:

Category	Country	Industry	Size of the Company	Interviewee
company 1	Egypt	Service	medium (local)	CFO / CEO (together)
company 2	Egypt	Service	medium (local)	CFO / Executive manager/ internal controller (separately)
company 3	Egypt	manufacturing	medium (local)	vice chairman (in the presence of internal controller)
company 4	Egypt	Service	large (international)	Branch deputy manager
company 5	Egypt	Service	medium (local)	Chairman of the board
company 6	UAE	Service	medium (local)	CFO & manager of budgeting division (together) / head of Sharia department (separate)*
company 7	UAE	Service	large (international)	Management accountant
company 8	UAE	Service	medium (local)	CFO
company 9	UAE	Service	small (local)	CFO
company 10	UAE	Service	medium (local)	CFO
company 11	UAE	manufacturing	medium (local)	CFO
company 12	UAE	Service	medium (local)	Chief accountant
company 13	UAE	Service	medium (local)	CFO
company 14	UAE	Service	medium (local)	CFO / GM (separately)
company 15	UAE	manufacturing	medium (local)	Branch manager
company 16	UAE	manufacturing	medium (local)	CEO
company 17	UAE	Service	medium (local)	CFO
company 18	UAE	manufacturing	medium (local)	Manager Corporate Accounts

* This interview was conducted via telephone on 24th of December, 2009.

company 19	UAE	manufacturing	large (international)	Finance Manager
company 20	Syria	manufacturing	medium (local)	Deputy financial manager
company 21	Syria	Service	small (local)	CEO
company 22	Syria	manufacturing	medium (local)	CFO/financial analyst (together)
company 23	Syria	manufacturing	medium (local)	CFO
company 24	Syria	Service	medium (local)	Internal Audit Manager
company 25	Syria	Service	medium (local)	Branch manager
company 26	Syria	Service	medium (local)	CEO / Chief accountant (separately)
company 27	Syria	Service	small (local)	CEO
company 28	Syria	Service	medium (local)	Chief accountant
Total	28			33 interviews

Table (4): Information on the selected companies

The size of the companies varies between small (local), medium, and big (international) companies. This variation in company size has the advantage into figuring out whether there is a relationship and impact of company size on the MAS and its level of development. As mentioned earlier in the theoretical background in chapter three, company size is an important contingent that impacts the management accounting and control techniques in the organizations.

Table (4) shows on the one hand that the studied companies follow the three essential criteria which make the sample representative to Arab companies and on the other hand also embrace most kinds of Arab companies. It is important to refer that the majority of the studied companies are service companies, which reflect the situation in the Arab business markets where a small proportion of companies are manufacturing companies.

Interviews' Data

In regard to the interviews, some of them were recorded. The duration of interviews varies according to the time given by the interviewee⁴¹.

The following table gives detailed information about the interviews:

Category no.	Country	Date	Duration (approx.)
Company 1	Egypt	21. 10. 2007	1H (not recorded)
Company 2	Egypt	22. 10. 2007	3H (not recorded)
Company 3	Egypt	23. 10. 2007	2.5H (not recorded)

⁴¹ The duration of an interview may often depend on the interest, interaction and cooperation of the interviewee.

Expert 1	Egypt	26. 10. 2007	1H (not recorded)
Company 4	Egypt	30. 10. 2007	1.5H (not recorded)
Company 5	Egypt	30. 10. 2007	2.5H (not recorded)
Company 6	UAE	05. 05. 2008	4.5H (recorded*)
Company 7	UAE	06. 05. 2008	1.5H (recorded)
Company 8	UAE	10. 05. 2008	1H (recorded)
Company 9	UAE	11. 05. 2008	1.5H (recorded)
Company 10	UAE	12. 05. 2008	1.5H (recorded)
Expert 2	UAE	13. 05. 2008	1.5H (not recorded)
Company 11	UAE	13. 05. 2008	1H (recorded)
Expert 3	UAE	13. 05. 2008	1H (recorded)
Company 12	UAE	15. 05. 2008	1.5H (recorded)
Company 13	UAE	15. 05. 2008	1H (recorded)
Expert 4	UAE	15. 05. 2008	1.5H (recorded)
Expert 5	UAE	18. 05. 2008	1.5H (not recorded)
Company 14	UAE	19. 05. 2008	1.5H (recorded)
Company 15	UAE	19. 05. 2008	1H (not recorded)
Company 16	UAE	20. 05. 2008	1.5H (recorded)
Company 17	UAE	20. 05. 2008	1.5H (not recorded)
Company 18	UAE	03. 01. 2009	1H* (not recorded)
Company 19	UAE	01. 02. 2009	1H* (not recorded)
Expert 6	Syria	13. 08. 2008	1H (recorded)
Company 20	Syria	14. 08. 2008	1.5H (recorded)
Company 21	Syria	17. 08. 2008	1H (recorded)
Company 22	Syria	18. 08. 2008	1H (recorded)
Company 23	Syria	19. 08. 2008	1.5H (not recorded)
Company 24	Syria	20. 08. 2008	2H (not recorded)
Company 25	Syria	21. 08. 2008	1H (not recorded)
Company 26	Syria	24. 08. 2008	1.5H (not recorded)
Expert 7	Syria	25. 08. 2008	1.5H (recorded)
Company 27	Syria	27. 08. 2008	1H (recorded)
Company 28	Syria	30. 08. 2008	1H (not recorded)
Total	35		52 hours

Table (5): Information on the conducted interviews

Interviewees' Data

As mentioned earlier, field study is the main approach to generate data from the field in order to answer all questions of this exploratory, explanatory research. Thus, the data is

* The first half was recorded, but the second interview was not recorded, because it is a telephone interview.

* Telephone interview

* Telephone interview

gathered primarily through interviews, which were then conducted with managers, management accountants, chief accountants, and controllers working in Arab firms. Additionally, experts' interviews were conducted with instructors at academic universities with considerable education and consultants with valuable practical experience in working with Arab companies.

The criterion for selecting the professional interviewees:

- The interviewee should have a job position related to management and finance, such as finance manager, accountant or executive manager.
- The interviewee should have a knowledge and experience in management accounting and control

Detailed information about the interviewees at the companies is as follows:

Category	Interviewee	academic grad	country of education	professional certifications
company 1	CFO / CEO	MBA (CFO)	Egypt	-
company 2	CFO / EM/ IC	B.Sc. (all)	Cairo/Egypt	CPA
company 3	vice chairman	B.Sc.	Egypt	-
company 4	branch deputy manager	B.Sc.	Egypt	-
company 5	Chairman	B.Sc.	Egypt	-
company 6	CFO / manager of budgeting division / head of Sharia dep.	B.Sc./ M.A./ Ph.D.	UAE/Canada/ US	CIPA / CMA
company 7	Manage. accountant	B.Sc. + MBA	Jordan/UAE	CMA
company 8	CFO	MBA	Lebanon	CPA
company 9	CFO	B.Sc.	Jordan	-
company 10	CFO	B.Sc.	Jordan	Preparing for CMA
company 11	CFO	B.Sc.	Jordan	-
company 12	Chief accountant	B.Sc.	Lebanon	-
company 13	CFO	B.Sc.	Jordan/ Lebanon	-
company 14	CFO / GM	B.Sc. (both)	-	ACPA (CFO) / CIA+CISA+CFE+FCCA
company 15	branch manager	M.B.A.	Bristol/UK	-
company 16	CEO	B.Sc.	-	certifications in management distribution and logistic supply chain
company 17	CFO	B.Sc.	Jordan	CMA

company 18	Manager Corporate Accounts	B.Sc.	Oman	CMA
company 19	Finance Manager	B.Sc.	Egypt	CMA
company 20	deputy FM	B.Sc.	Syria	-
company 21	CEO	M.Sc.	Syria	-
company 22	CFO/financial analyst	B.Sc./ M.Sc.	Syria	-
company 23	CFO	B.Sc.	Syria	CFC
company 24	Internal Audit Manager	M.Sc.	Jordan	-
company 25	branch manager	B.Sc.	Syria	Certified insurance agent
company 26	CEO / Chief accountant	B.Sc.	Syria	Certified Customs Clearer (CEO)
company 27	CEO	B.Sc.	Syria	-
company 28	Chief accountant	B.Sc.	Syria	-
Total	33			

Table (6): Further information about the interviewees in the companies

It is important to refer that only one of the interviewees has a job position described as “management accountant”. This interviewee works in Co. (7) which is an international company with American headquarter. The concept and term of management accounting exists in the theory in the Arab World as discussed in the third chapter, but in the Arab management accounting practice, a management accountant might be called as chief accountant, financial analyst, controller, or manager corporate accounts. Thus, this research will use one term, namely “management accountant” to refer to any of the mentioned job titles.

In addition, fifty per cent of the interviewees have a professional certification in management accounting such as CMA, CPA, and so on. It can be claimed that these certificate holders may influence the results, as they have a special professional knowledge in addition to their university education. However, the counter argument is that many Arab financial managers and management accounts earned these certificates for the sole purpose of advancing their careers. In addition, Arab companies are also considering it mandatory for one to obtain a management accounting professional certificate, especially international one, in order to recruit and fulfill the job position as a CFO or management accountant, as well as to enrich their career with knowledge and experience (Albrechtson, 2006). Thus, these interviewees represent a good sample of Arab financial managers and (management) accountants.

Further Data on the Experts' Interviews

The chosen experts for this research are academic lecturers or consultants with special knowledge. The criteria for choosing these persons as experts are determined by their profession, their special knowledge on certain aspects of managerial accounting (theoretical and practical aspects) and their career, which is relevant to the Arab management accounting practice and research theme. On one hand the first profession, the consultant should be specialized in managerial accounting and control consultancies and should have worked with Arab-owned companies. On the other hand, the second profession as academic should be a lecture or (associate) professor in accounting, or management accounting and control and should have a good experience working with Arab-owned companies through academic activities (like research, excursions, certain examinations or studies , etc.). Details about the experts' interview can be summarized as the following:

Category	Country	Field of Activity	Economic Sector	Type of the Institution	Interviewee
Expert 1	Egypt	academia	service/ education	national private university	Associate professor
Expert 2	UAE	auditing & consulting company	service/ consulting	local medium size company	Chief consultant
Expert 3	UAE	auditing & consulting company	service/ consulting	international company	Consultant
Expert 4	UAE	auditing & consulting company	service/ consulting	international company	Consultant
Expert 5	UAE	academia	service/ education	international university (American)	Professor
Expert 6	Syria	consulting company	service/ consulting	local small size company	Consultant
Expert 7	Syria	academia	service/ education	national university	Associate professor
Total	7				7 interviewees

Table (7): Information on the experts' interviews

4.4. Data Analysis and Coding Approach

Content analysis is a research technique with systematical mechanisms for identifying specified characteristics and making valid inferences within text. Content analysis is at an

advantage when analyzing and operating on communication text or transcript of interviews to assess relationships among economic, social, and cultural aspects (Weber, 1990).

As a scientific research technique, content analysis gives new insights, expounds particular phenomena, and informs practical actions. In principle, data analysis should be made entirely valid. Therefore, a conceptual framework for content analysis should serve and answer given research questions (Krippendorff, 2004).

This qualitative research depends mainly on field observations converted into filed research notes and interviews. The results of the data analysis should fulfill the terms of reliability before they can be used as data for the research and the hypotheses. Thus, the provided, obtained data should remain constant and independent of the measuring event, instrument, or person (Franzosi, 2008).

Developing the concepts of qualitative data analysis demands careful considerations. The construction of the data analysis in a theoretical scheme is to some degree a resolution made by the research in accordance to certain conditions and scientific interests (Morse, 2007). Data analysis then should be constructed and linked within the theoretical structure of the research and should be also derived from the literature.

Data Analysis

The analysis process embodies all collected data through interview transcripts, field notes on observation, and documentary sources.

Data analysis procedures can be followed in two different alternatives. Either as completely free-coding, unconstrained by prior theory, or with strict use of codes based on theoretical constructs. A very well-known theory that supports this coding is the grounded theory which was first introduced in the 1960s by two sociologists, Glaser and Strauss, in their book "The Discovery of Grounded Theory" in 1967. The aim of grounded theory is to generate theory from the data. The data collection comes first and then the primary data should be analyzed. That will then lead to further data collection and analysis until the research is complete and a theoretical understanding is developed to explain the studied phenomenon (Elharidy et al., 2008). However, it is unusual for accounting researchers to enter the field without preconceptions or prior theory.

Miles and Huberman (1994) refer to that when theory guides the research inquiries. It is efficient and feasible to begin with the conceptual framework. As this research based on theoretical background that embraces different theories, the grounded theory does not entirely fit as a base of the coding process of this exploratory research. The research used comparative management accounting literature, surveyed earlier in chapter three, as a coding and analysis guide. Moreover, primarily literature review on existing management accounting and comparative studies across cultural boundaries allow pre-knowledge, ideas and expectations of what data is to be collected and in which manner. The interview guideline of this research reflects the research questions and forms sub-topics of the research area. Therefore, the major parts of the interview protocol create the main categories and its sub-topics form the subcategories.

Qualitative data analysis is a research method not only to analyze text data and its contextual meaning or to count words to examining language intensely in order to classify large amounts of text into categories that present similar meaning, but also for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns (Hsieh & Shannon, 2005; Bryman, 2007). Then, three approaches of data analysis were presented namely conventional, directed, and summative. The process and steps of the data analysis approach that have been followed in this research can be prescribed as follows:

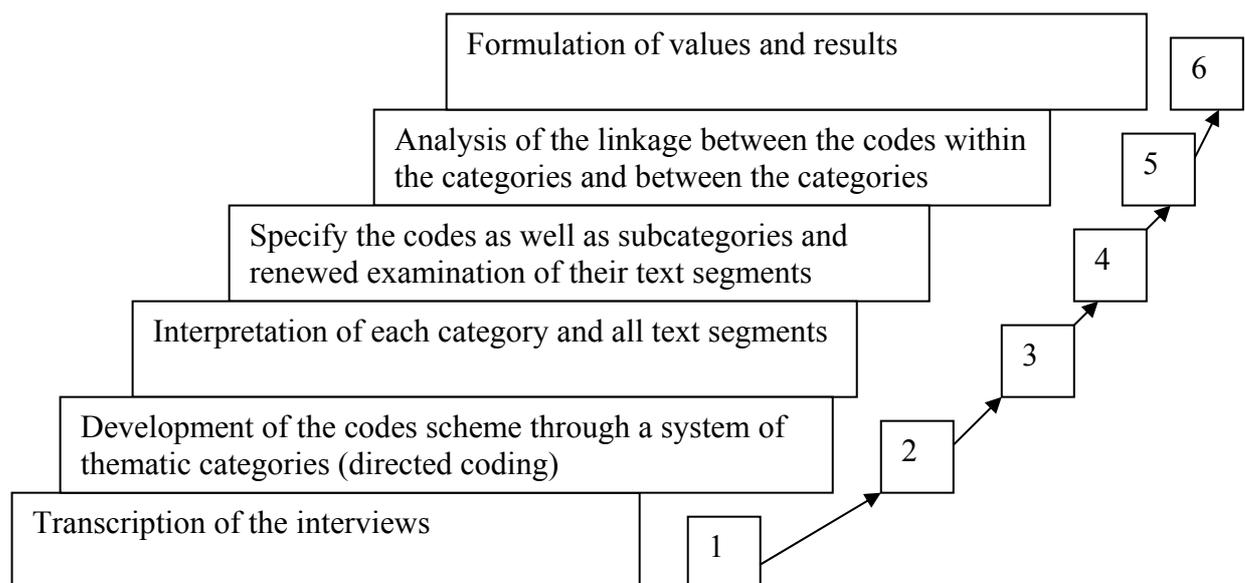


Figure (14): Process and steps of the data analysis

This section presents steps 1,2,3 and 4, but steps 5 and 6 will be discussed in the first sections of the next chapter.

Coding is the transcribing, recording, categorizing, or interpreting of given units of analysis into the terms of a data language so that they can be compared and analyzed (Krippendorf, 2004, p.220). The research method of this thesis is based on directed content analysis. According to this approach, the theoretical framework and the theory that lead to the research questions are the base of putting the variables of interest and determining the coding scheme and the relationships among the variables and codes. This deductive reasoning of using the existing theory or previous research helps directed data analysis to identify key concepts or variables as primary coding categories.

While coding helps to index the data, computer-aided methods of qualitative analysis help to manage complex textual data. The structured coding scheme serves as a basis for the data analysis and developing the theoretical concepts. The categories are constructed on the basis of theoretical reasoning (a theory-derived system of categories).

“In qualitative analysis, coding usually does not mean fitting the data into a predefined coding scheme, but the coding scheme is either developed from scratch during coding or a rough preliminary coding scheme is used and modified in the line with emerging theory”. (Kelle, 1995, p. 62 & 63).

Hence, the technique that is used in this research to analyze the interviews is content analysis software named ATLAS.ti. Actually, Atlas.ti is a program for analyzing qualitative data and constructing links between any elements of the database, like text segments, codes, and memos. The networks and type of linkages between the codes can be qualified and constructed through the program.

Hence, with seven categories, depending on the research questions, coding was set about. The network frames hierarchical and non-hierarchical relations of the codes. The following figure shows the initial coding scheme:

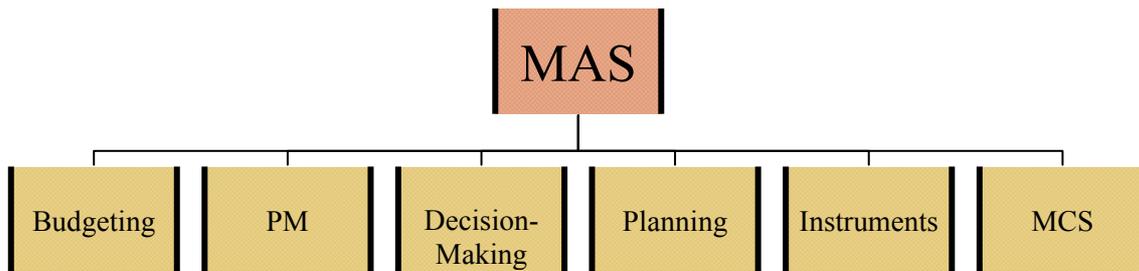


Figure (15): Basic coding scheme for the construction of MAS

Furthermore, each interview transcript has been read and all relevant texts were highlighted. The coding process started with highlighting text segments using the initial predetermined codes. Basing on research questions and goals, if any data or text could not be categorized with the introductory coding scheme, it would then be given a new code in a new category or a subcategory of an existing code. As the interview guideline includes a lot of open-ended questions, this directed coding is the appropriate approach that provides more codes and categories.

The purpose of coding is to translate the meaning of textual data in the transcripts into the theoretical frame. Data analysis is an intermediate step to combine the data with the theory through coding. That helps in shrinking the data and focusing on the most interesting relevant parts to the theoretical framework of the research. In addition, coding allows for classifying the data and demonstrating the conceptual model of the code scheme as well the categories and their connections and relationships.

Linkages between codes and text segments have been formed during the analysis. These linkages are employed to construct networks that demonstrate the relations between categories and subcategories within the theoretical framework of the analysis. Hence, categories are linked and structured hierarchically (Kelle, 1995).

Linkage analysis helps in building the theory. As linkage refers to the connection between any elements, codes, and categories of the qualitative data, linkage analysis is looking for patterns or regularities of the codes in terms of correlation or even causality between the information of the text segments of the codes in the qualitative database.

Analyzing the linkage and the context of the codes has been made through searching for the distance of the codes and its text segments within particular category or even with other

categories. Text segments of a certain code can overlap with text segments of another code, or a code may be nested (included) into another code. Codes may also have a sequential order and can be recognized as certain codes are often following each other. Some codes may have transitive or symmetric relations between each others. In the most cases, code segments for decision-making is similar to the text segments of power distance or centralization.

Coding Approach

Organizing categories hierarchically build so-called “trees”, because of their one-way branching nature, even if it is downwards rather than upwards. The single category at the top of a hierarchy is called “root” and all the categories linked to the given category immediately below it are called “children”. Hence, all the children of a certain category are called “siblings” (Kelle, 1995).

Developing hierarchical code scheme is based on the categories derived from the theoretical framework of the research and the empirical data. The first resource of building the categories and code scheme is the research questions as well as the theoretical background discussed in chapter three. Further subcategories are also derived from the collected empirical data, mainly through interviews.

Henceforth, the following coding trees, which present the categories and subcategories in this research have been formulated. The most important trees will be presented in the next paragraphs. At the beginning, 35 code categories have been determined. At the end, there were about 47 codes present. The companies’ data has been compared in each section of the interview guideline, and also each group of data belonging to each company has been compared as a block with other countries.

Main Trees

First budgeting:

The section that explores the use of budgeting in managerial accounting and additional instruments, deals with questions about budgeting procedure, details, and period. In the forth section of the interview guideline, major questions investigated into the implemented costs and accounting systems. Other questions deal with the budgeting process - whether bottom-up, top-down, or mixed approach. Another question involves the characteristics of

planned budgets whether detailed, or flexible in respect with uncertainty. The interview guideline also should provide information about the use of budgeting in relation with planning.

The following figure illustrates the first emerging categories for one part of the collected qualitative data, namely about budgeting:

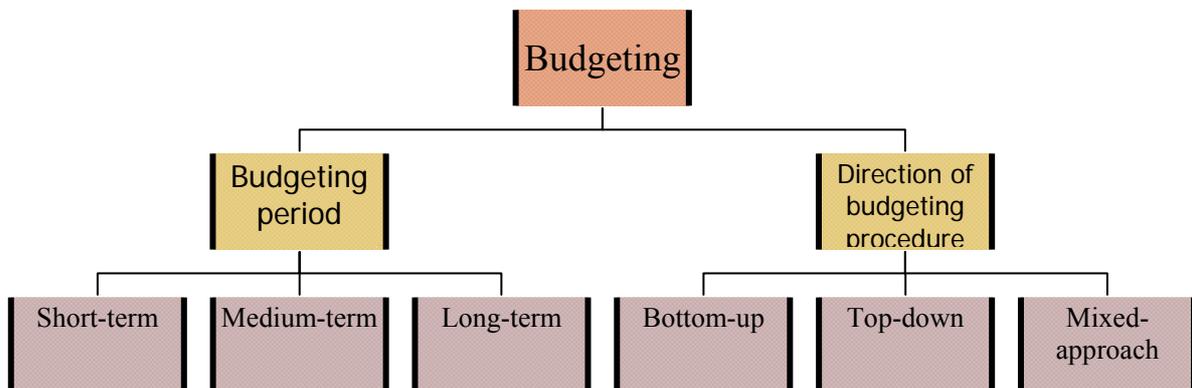


Figure (16): Coding tree of the budgeting category

Besides, different codes related to culture were identified in the fourth part of the interview transcript, such as “Power distance” in terms of centralization vs. decentralization and “uncertainty avoidance” in regard to budgeting.

Role and function of management accounting:

The first question of the fifth part deals with daily and general tasks of interviewed accountants, management accountants and finance managers. The task of management accountants has been considered as a category within the category of role of MA. The answers to this question provided further subcategories. For example, the role of management accountants were classified in *following up* the company’s work particularly in financial term, *providing* the executive management team with *financial information* as well on daily bases, *controlling* the adherence of budget and company’s goals and so on. These answers form the subcategories of the main category “role of MA”.

In the transcripts, the interviewees’ judged the role of management accounting in their companies as to whether it is functioning as financial accounting in terms of numbers, whether the (management) accountants are working as information provides, or whether managerial accounting supports planning, strategy, and control. Hence, the following figure shows this codes’ family:

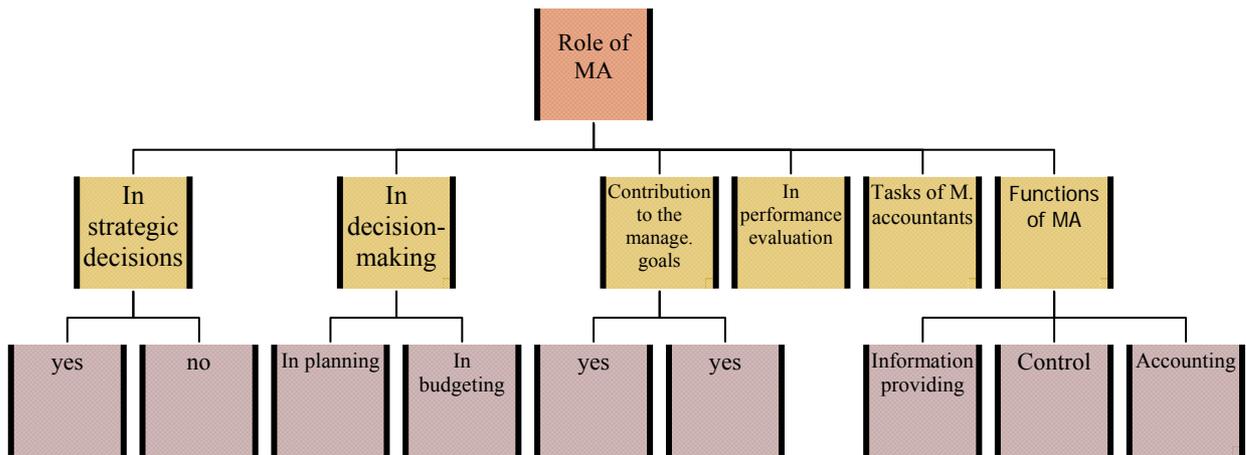


Figure (17): Coding tree of the functions of MA

Other subcategories also emerged during the analyzing and coding of the data in this section of the transcripts, and were related to the questions about the role of management accounting in the decision-making process. Moreover, in this part of the interview, the interviewees were asked about the kinds of conflicts between management accounting (finance) department and management team. Several reasons were subcategorized under the code “conflict”.

Some questions as like “*What is the involvement of management accountants in strategic decision-making?*” and “*Whether the management accounting of (finance) department contributes to the management in order to enable the company to successfully achieve its goals and objectives?*”, were answered with “yes” and “no”.

Furthermore, the question about planning investigates into the period that the Arab companies follow in their planning, as shown in the following figure:

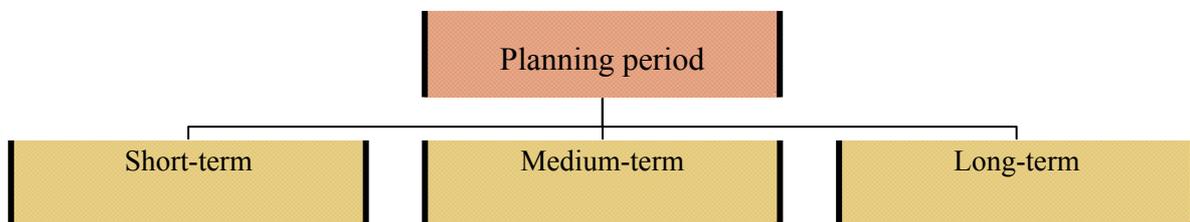


Figure (18): Coding tree of the planning category

A tree of codes related to the reporting system is also formed according to directed coding. The sixth section of the interview protocol provides further information about the reporting system. The questions in this part of the interview reveal information about internal reports,

reporting periods, and information from the reports. Hence, subcategories appeared from the answers of some major questions.

For example, regarding the question “*What type of reporting do you have in the (management) accounting department?*”. Several subcategories of report types appeared in form of financial reports such as profit & loss report, performance evaluation reports such as variance analysis, and routine reports about the daily and monthly work of the finance department. Another example is about the period of reports, in relation to the question “*How often are reports prepared?*”. In the transcripts, different subcategories emerged as follows: daily reports, weekly, monthly, quarterly, semi-annual, and annual reports. In addition, to each of these subcategories, different codes were also arranged based on the data that was stated by the interviews to each kind of the aforementioned mentioned reports.

The interview part about the reporting system provides information about internal reports, reporting periods, and information of the reports. The coding tree for this part is as follows:

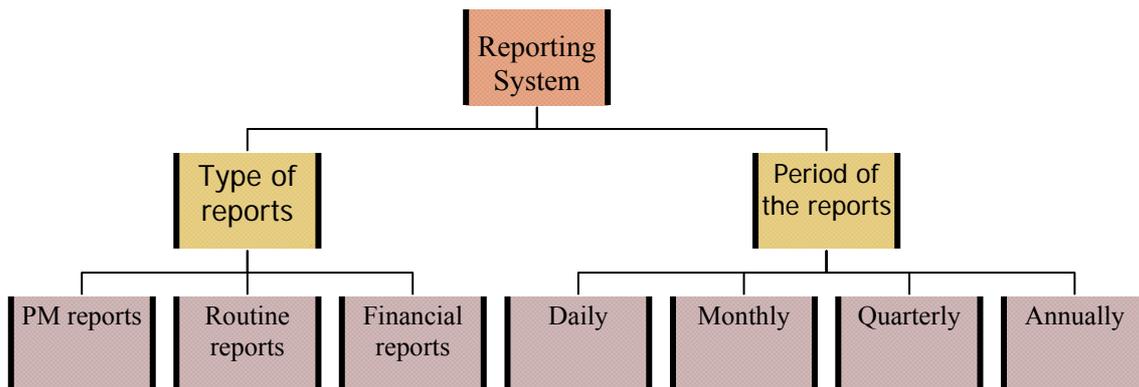


Figure (19): Coding tree of the reporting category

On one hand, some questions in the interview transcript, such as “*Is MA department responsible for cost reduction, pricing, quality and customer satisfaction?*” and “*Do your reports include variance analyses (comparing the standard with the actual numbers)?*” or “*Does MA provide financial information as well as non-financial information?*”, were also answered with “yes” and “no”. Also, the sixth section investigates the involvement of managerial accounting in non-financial matters such as pricing, customer satisfaction, etc.

On the other hand, the answers of the open-ended questions, such as “*How does the company deal with negative variance?*” and “*Which department (financial, HR, operations) provides a performance-evaluation for the whole company (activities) and for each*

department incl. the managers?”, were categorized under another code. For example, as the sixth section of the interview discusses the report of variance analysis with respect to performance evaluation, the interviewees’ answers gave an insight as to whether management accounting reports play a significant role in performance evaluation in Arab countries. Thus, the performance evaluation report is a code of the subcategory “type of reports” and the answers that provide information on performance evaluation report were put under the subcategory “performance measurement” of the main category “role of MA”. Besides, different codes related to culture were identified in the sixth part of the interview protocol, such as “Power distance” and “uncertainty avoidance⁴²”.

In regard to the information system which was also included in the seventh section of the interview guideline, the data also provided information about the methods of communications among employees in the Arab companies. In addition, this part of the interview protocol examined whether the Arab companies may have a computerized accounting information system and its role in managerial accounting.

As mentioned earlier, certain categories were determined by the researcher according to directed coding. In this part, several codes formulated subcategories, also according to directed coding. The codes for this part of the interview protocol were set up from the interviewees’ answers on how they gather and exchange information within the Arab companies. In the transcript, the data reveals insight about the manners of communication and methods of exchanging managerial information among company members in the Arab countries. For example, when the interviewees were asked “*Which kinds of communication are preferred in your company?*”, the first two identified categories were verbal vs. non-verbal communication. Then, under each category several pieces of data on how the interviewees practice these manners whether in meeting or through their computer system, were aligned.

Moreover, as the seventh part of the interviews’ transcript indicates the influences of culture on information and communication systems in the Arab companies, different codes related to culture were identified in the seventh part of the interviews protocol, such as “collectivism” and “high versus low context”.

⁴² Uncertainty avoidance was mentioned in the sixth part of the interviews’ transcripts in regard to SWOT-analysis and benchmarking reports.

Influential factors:

This section of the transcript provides further information about several factors that may also impact management accounting systems in the Arab World. The eighth part of the interview protocol deals with certain elements such as culture, governmental institutions and use of technology. The first categories emerged when the interviewees indicated in their interview protocol whether the culture of the employees affects managerial accounting practices. Furthermore, categories were set up for contingent aspects such as technology and environment (governmental institutions).

The coding tree for this part is formed as follows:

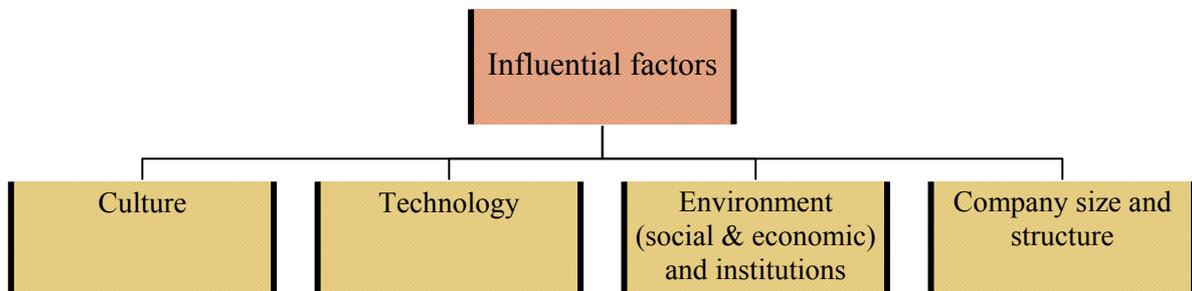


Figure (20): Coding tree of the influential factors

While analyzing the data, tables and matrices are drawn in order to gain an overview and additional information. In addition, they allow comparing the results as well as its interpretations more easily. Furthermore, the frequencies of the categories are considered to find certain relations or connections between particular codes, text segments, and categories.

4.5. Reliability and Validity of the Research

The following section discusses the validity and reliability of this qualitative field research. Deciding the quality of the qualitative research relies on the theoretical sophistication, methodological rigor, and solid data. Three major criteria or tests that should be considered in qualitative and case study research are: reliability, validity, and generalizability (Mason, 1996). Recently, there have been several new, alternative criteria in literature to evaluate the quality of the qualitative research. Yin (2009) referred to construct validity, internal

validity, and external validity. Mills and Huberman (1994) presented the connection of traditional and alternative criteria as follows:

- objectivity/ confirmability;
- reliability/ dependability/ auditability;
- internal validity/ credibility/ authenticity;
- external validity/ transferability/ fittingness;
- utilization/ application/ action orientation.

Increasing the three main criteria (reliability, validity, and generalizability) of a qualitative research requires several tactics for dealing with them. The following parts of this section provide several arguments and discuss the tactics used in this qualitative field research. In addition, they demonstrate reliability of this research.

Reliability/ dependability

The quality of the data should be high in qualitative research. It is important to know that the researcher has adopted appropriate and reliable research methods and procedures in qualitative and case study research. This is known as procedural reliability (Ryan et al., 2002). Reliability refers to the degree of consistency with which instances are assigned to the same category by different observers or by the same observer on different occasions. For reliability to be calculated, it is incumbent on the scientific investigators to document their procedure and to demonstrate that categories have been used consistently (Silverman, 2005, p.224).

Nevertheless, there are three types of reliability in content analysis of the interviews' transcripts which are the stability, reproducibility, and accuracy (Krippendorf, 2004). Stability (sometimes called intracoder reliability) is the extent to which a coding procedure yields the same results on repeated trials over time (Roth, 2005). That means stability can be determined when the same content is coded more than once by the same coder.

Secondly, reproducibility (sometimes called intercoder reliability) refers to the extent to which coding yields the same results when the same text is coded by more than one coder (Neuendorf, 2002). Conflicting in coding usually result from cognitive differences among the coders. In this case, the coders should have a training or similar knowledge and experience in coding (Bryman, 2007). Finally, accuracy refers to the extent to which the

coding corresponds to a standard or norm and yields what it is designed to yield (Weber, 1990).

As this doctoral research is an individual work, the researcher is the coder of the data. Hence, in order to insure the intracoder reliability (stability) of the coding, the researcher reread, recategorized, and reanalyzes the same transcript after some time has elapsed. Hence, the second coding occurs two months after the first coding and produced the same results as before in the first coding. In addition, to assess accuracy or reliability of the content analysis process by the computer, the researcher corrected and revised codes, memos, and codes networks done by the software.

Validity

Similar findings derived from multiple sources increase confidence in the validity and the theoretical generality of relations between them (Bryman, 2007, p. 191). In order to increase the construct validity, multiple sources of evidence have been used. An explicit data collection plan was formed to carefully assemble accurate, reliable information from the field. These sources of evidence of this research embrace interviews, documentation⁴³, and field notes. This triangulation of the evidence during the data collection increases the construct validity of this research.

The keyword “triangulation” is used to name the combination of different methods, study groups, local and temporal settings, and different theoretical perspectives in dealing with a phenomenon (Flick, 2006, p. 389). Hence, this research attained data triangulation and combined different data sources and diversity of interviewees. This strategy allowed this research to a better assessment of the generality of the explanations and to find out and minimize particular sources of error or bias that might exist during the data collection.

In regard to the interviews’ data, the reliability of the collected information (sometimes called respondent validation) should be also considered. Respondent validation is the single most important way of ruling out the possibility of misinterpreting the meaning of what participants say and do and the perspectives they have on what is going on, as well as being

⁴³ The documentations provided variety of information on the organization through internal organizational documents and reports as well as other types of documents available through internet such as financial statements and annual reports.

an important way of identifying your own biases and misunderstandings of what you observed (Maxwell, 2005, p. 111).

Hence, in order to increase the respondent and content (interpretation) validity of this research, the following tactics have been followed. The researcher tried to collect the same information from two different interviewees at the same company and compare the answers. As it was permitted by the company to interview one specific person, the researcher rephrased or reformulated important questions at several points during the interview. Hence, in this case of single interviewee, the researcher tried to ensure reliability of the answers and to avoid any misunderstanding of the information. In addition, the researcher sought to gain soliciting feedback from the interviewees after the transcription of the interviews and the most of them did send his or her remarks or conclusions. In addition, the coding schemes and trees discussed before make tracing back the interpretation and analysis more coherent and transparent.

Internal validity/ credibility

Internal validity emphasizes the process of checking, questioning, and theorizing the data analysis, not the strategy for establishing a correspondence between the findings and the field. The main question that can rise is: Are the findings of the research credible?

Especially in explanatory qualitative research or case studies, internal validity is of concern to the researcher who is trying to explain how and why the data is linked or related together. In addition, the internal validity extends to a broader issue of making inferences, when the researcher infers that a particular conclusion resulted from some earlier events and data based on interview or documentary evidence. Is the inference correct?; Are all factors and possibilities considered?; Different tactics can be considered to increase the internal validity such as pattern matching, explanation building, addressing rival explanations, and using logic models (Yin, 2009).

Therefore, this research provides meaningful and context-rich descriptions and explanations for the findings. The triangulation among data sources and studied groups produce coherent conclusions (Miles & Huberman, 1994). In addition, the presented results are well linked to the categories of prior theoretical framework. The research also provides an analytic

examination of the data and evidence through explanation-building and logic models. Thus, the concepts are systematically related and the findings are internally coherent.

In addition, the analysis combines on the one hand interpretative analysis of the qualitative data, and statistical analysis of numerical data on the other hand. Thus, the interpretation of the context and meaning of the answers in the transcripts is considered qualitative. The elements, which are numeric data or codes and are allocated to the text segments and categories, can be considered as quantitative analysis. The statistical analysis is an important part of this comparative analysis in order to illustrate and clarify the results of the qualitative analysis. Lukka and Kasanen (1995) argued about the problem of generalizability in accounting research, that when trying to generalize from the sample to the population, there is often insufficient analysis regarding the relationships between observations and the base population. There may even be no statistical reasoning, which may assure that the assumptions underlying the chosen statistical procedure will hold in the future.

Nevertheless, the research presented an analytic strategy for data analysis in order to explain “how” and “why” a phenomenon or result happened and to presume set of causal links about it. This explanation-building eases the theory building of this research. This analytic strategy in analysis was as follows: First of all, the evidence that addresses the research questions was identified. Matrices of categories and the matching evidence were made with the assistance of the Atlas.ti program. The relationships between these bits of data were examined. Then, theoretical statements have been made, revised and compared among the categories as well as the studied groups and along with the research propositions. Thus, rules used for confirmation of propositions were made explicit.

Generalizability/ external validity/ transferability

This principle investigates to whether the results of a study can be transferable to other contexts. Most qualitative approaches share a fundamental methodological claim. They are more concerned with generation new insights or developing new theoretical concepts than with testing hypotheses derived from already existing theories”. (Kelle, 1995, page 105).

A main problem of generalization in qualitative research in general and case studies particularly is that its statements provide analyses of the relations, conditions, and processes

for a certain context or specific case. The central points to consider are first, the analyses, and secondly, the steps taken to arrive at more or less general statements. Generalizing the findings then requires to find out whether the findings are valid independently of, and outside specific contexts (Flick, 2006).

In contrast to quantitative research based on relatively large sample in order to examine the generalizability of finding, qualitative researchers have to always work with small samples as they are not concerned in general with statistical generalizability, but with revealing new phenomena through in-depth examination. Hence, qualitative as well as experimental researchers rely on analytical generalization rather than on statistical generalization of surveys or large archival research (Yin, 2009).

The sample selection is a key element in determining the generalizability of the research. Hence, this research considered the way in which the sampling was done. The sampling in this research offers a way of designing the variation of the conditions under which a phenomenon is studied as broadly as possible. Therefore, the sampling is theoretically diverse enough to encourage broader applicability. In addition to the several criteria of selecting the research sample based on the theory, the sampling also combined a variety of companies with different sectors and practices to cover the diversity in the Arab business markets.

However, generalizability of the results is somehow limited by the sample size. The small sample size may reduce the external validity of the research findings and may be considered one of research limitations, but the research sample is representative for almost all kinds of Arab companies. Hence, the results are representative for most Arab companies operating in the Arab World.

As the findings are connected to prior theory and congruent with prior similar studies, they include a very good description for readers to assess the potential transferability. Generalizing the results to other setting needs to be viewed with caution. Nevertheless, the findings of this research can be generalized on broader contexts and on nations with similar cultural dimensions and environmental conditions such as, first of all, country's level of development, market conditions and competition, etc.

4.6. Limitations of the Research

This section presents some limitations of the research. First, the research provides qualitative and quantitative analysis of the data. “Qualitative analysis requires an absoluteness that differs from statistical research. One has to be able to explain all reliable pieces of information known to belong to the figure or mystery being solved in such a way that they are not in contradiction with the interpretation presented” (Alasuutari, 1995, p.11&12). As the number of observations in this research is somehow modest, it is difficult to say that the results would be statistically significant or sensible. This can be considered one of the limitations of this research.

In addition, the small sample size as the number of the companies might not epitomize for all Arab companies, but the criterion for choosing these companies embrace several types, sizes, and business activities. Small sample size reduces external validity (Merchant et. al., 1995), but the sample size of this research is quite representative and typical of many of Arab companies. In other words, the selection enhances the diversity of the selected Arab companies and enables gaining a sufficient number of companies. In order to achieve an adequate sample size for this qualitative field research, the data was collected from 28 enterprises and 7 organizations in three Arab countries with different industries and sizes. In addition, qualitative field research is known for the small sample size, contrary to quantitative research and surveys.

Secondly, it can be argued that one can not treat the whole Arab World as a single unity as there are many countries. Although the Arab World extends from the North African countries to the Arabian Peninsula, these countries share same language, culture and religion. Splitting the Arab World into three territories simplifies the study and groups similar countries which have somehow same economic, political, and business environmental conditions.

Thirdly, it can be claimed that the sample is not one-one matched between the countries. One can argue that this criterion is not quite necessary, as all the studied companies were selected from the same business type - either manufacturing or service.

Fourthly, the research examined and studied many aspects of Arab MASs. It would be more comprehensive to provide detailed, explicit information and examination on each part of Arab MASs, as one-hour interview will not allow the gathering of too much information. Hence, the propositions deal somehow with general aspects about Arab MASs. Thus, it would be better to obtain detailed information separately on, for example, budgeting procedure, reporting system, decision-making process, or even on strategic decisions.

Fifthly, it can be claimed that the interviewees are top-level managers with high education and professional experience (having CMA), therefore making the explanations different than when the interviewees are at lower levels. The counter argument is that those managers have the most knowledge and valuable experience, contrary to accountants who may have limited experience and role in Arab companies.

Ultimately, it is quite momentous to refer to the difficulties of doing this research in order to be taken into consideration when conducting comparable research topics on areas alike.

Here are some details on the constraints of conducting this research in the field:

- Comparative management accounting research is a new topic especially in the Arab World. In addition, Arab companies are still not used to having or dealing with field researchers. Hence, conducting field research in the Arab World is quite uncommon for the organizations or institutions there, which can produce considerable difficulties in carrying out field studies.
- As mail survey questionnaires are cost efficient in the conducting of cross-cultural management accounting and control systems research, conducting qualitative field research impose constraints of time and cost. In different words: undertaking international research is difficult and expensive.
- Low rate of responses: a large number of potential interviewees in many companies and institutions were contacted, in terms of getting as many interviewees as possible, but few gave permissions to an interview. The reason behind that is due to uncomfortable feeling for letting somebody enter the privacy of the company. A lot of contacted companies either via telephone calls or mails rejected giving any interview, as field research in general is still not common in most of the Arab countries. To tackle this problem a person who recommended the interviewer to the manager at the company is needed. That means personal relationships are crucial.

- Data accessibility: it is difficult to access to the companies, as mentioned in this chapter (section about the sample). Personal contact is needed to great extent. In addition, attending practitioners' conferences or forums is highly recommended. Attending such conferences provides access to potential interviewees (professional) in the field and allows networking with many management accounting and finance professionals.
- Mistrust and uncomfortably during the interview: As mentioned, Arab managers and accountants have no experience dealing with field researchers. As most of them were fairly prudent and circumspect during the interview, it was quite apparent. In addition, some interviews with managers were done cooperatively by the financial analyst or chief accountant. This kind of collectivism even in giving interviews for field researchers ensure their caution of giving any sensitive information especially financial facts that might be misused in the market or by competitors.

Despite these imperfections, the research gives relatively valuable insights into the management accounting practice of the Arab World.

Chapter 5: Results

The aims of this empirical study are to identify the scope and understand the approach of management accounting as well as to obtain data from the selected Arab countries. A semi-structured questionnaire has been prepared for the empirical section. As mentioned earlier, some of the included questions were derived from inquiries mentioned in previous comparative management accounting research while others were written to get the needed information to fulfill the thesis' questions and objectives. This chapter presents the data collected through the fieldwork and deals with the cross-sectional analyses. This chapter also compares the results and reveals the similarities and differences among the collected data.

Before discussing the results of the conducted interviews, a short summary of the three major components of the questionnaire will be beneficial. The first part asks about the organization, interviewee profile and the organizational structure. The second part looks into the scope, function, and role of management accounting in the enterprise. The last part touches on the instruments used and explores management accounting and management control while simultaneously looking at the external factors that influence the shape of management accounting such as culture, governmental and professional institutions, and technology. Looking into these factors gives an overview regarding the influence of contingent variables from the contingency theory on management accounting and control and performance measurement.

5.1. Empirical Results of Arab MASs

Theorizing management accounting practice enables us to understand the uses and the changes of managerial accounting solutions. According to the interview guideline derived from the theoretical framework, the results give a general insight of the MAS in the Arab World. The data analysis reflects and answers the research questions in 10 different points: budgeting, instruments of MA, role of MA, decision-making, planning, reporting, information system, culture, education and technology.

Hence, the first section of the interview guideline looks into the organizational structure. The organizational structure is an important factor in understanding the structural units and the process of the decision-making. In addition, organizational structure as a variable of contingency theory indicates the distribution of roles and duties, information flow and control paths.

The research investigates first whether there is a separate department for management accounting. Almost all studied companies do not have a separate management accounting department, but a finance department:

“We don’t have a separate management accounting department. Analyzing the financial data is carried out by finance department”. (CFO, Co.1)

From the twenty-eight companies, only two companies have a separate management accounting division related to the finance department. Therefore, 92.86 % of the companies only have a finance department. The CFO of company (22) stated:

“We don’t have a separate, functioning management accounting department, but we only have the financial department”.

In addition, some of the examined companies have a division within the finance department, which carries out managerial accounting tasks. This division can be responsible for budgeting, reporting, control, etc. The following table shows the divisions that might be subordinated to finance department in the Arab companies:

CO.	Probable divisions in finance department	Note
2	accounting and control	
3	accounting and internal control	
6	budgeting & reporting and control	
8	finance and control	Sometimes, two separate departments
9	finance and control	
10	planning and budgeting	
14	accounting section, reporting section, budgeting section, and treasury	
20	accounting, expenditure, cost accounting, budgeting, and auditing	
22	accounting, budgeting, auditing and control	
24	accounting, budgeting & planning and finance control	

Table (8): Subordinate divisions to finance department

The table shows that although the most of Arab companies do not have a separate department for management accounting, but a finance department. This finance department embraces several divisions, which carry out different tasks including managerial accounting. Ex. (2) has emphasized that as follows:

*“In Arab companies, we can’t find a separate, functioning management accounting department, but within the finance department we can find accountants, controllers, financial analysts, and management accountants. In big companies, there is separate division or department for financial accounting, internal control, and internal auditing, according to the need of the company”.*⁴⁴

As shown in table (8), the finance department contains financial and managerial accounting in addition to internal control. *“However, in some of the Arab companies we may also find management accounting and financial control as an integrated part of the finance department”.* (Exp. 4)

Therefore, the finance department in general is responsible for multilateral assignments. The finance department of most Arab companies conducts financial accounting, cost accounting, managerial accounting, internal control, and so on.

“The finance department at our company is responsible for MA in addition to financial accounting”. (GM, Co. 14)

Also, Expert (1) expressed that as follows:

“In my experience, there is no separate functioning MA department, but the financial accounting department does tasks in managerial accounting through its sectors; e.g. planning section, budgeting section, internal control section, and cost accounting section”.

The first investigation into the existence of a separate, functioning management accounting department shows that managerial accounting is practiced by the finance department in the Arab companies. As a result, the researcher looks into management accounting functions and techniques through the finance department. The second enquiry in this part of the research is about the positioning of the management accounting division in the organizational structure.

⁴⁴ The majority of the interviews were in Arabic. The quotations are translated by the researcher into English.

5.1.1. Organizational Hierarchy in Arab Companies

Most Arab companies do not have a separate management accounting department, but rather a management accounting section that is integrated in the finance department. Thus, the research looks into the rank of the finance department in the organizational structure.

The organizational charts of the examined companies have in general a more longitudinal than flat shape. The vertical hierarchical relationships within the organization give the top-level management the greatest authority over the company business. The following diagram illustrates the organizational structure of an Arabic company:

Organizational Structure of CO.3



Figure (21): Organizational structure of Co. (3)

The figure demonstrates the tall hierarchical structure of the Co. (3). The top-managers concentrate in the first three hierarchy levels and are responsible for various departments until the bottom of the organizational structure.

Power distance is one of the well-known characteristics for Arab countries, as discussed in Chapter 3. The second question in the interview guideline is about the position of finance department in the organizational structure, as the finance department in the Arab companies carries out financial and managerial accounting. The following table shows the level in the organizational hierarchy in which the finance department is located in the studied Arab companies:

Co.	Level ↓	Note	Co.	Level ↓	Note
1	↓↓↓		15	↓↓ !	
2	↓↓↓	1.Chairman, 2.GM, 3.CFO	16	↓↓↓	
3	↓↓↓	1.Chairman, 2.deputy chairman, 3.CFO	17	↓↓ !	
4	↓↓↓		18	↓↓↓	
5	↓↓	1.Chairman, 2. CFO	19	↓↓	1.Chairman (in addition to BoD), 2. CFO
6	↓↓		20	-	
7	↓↓		21	↓↓	
8	↓↓↓		22	↓↓↓	
9	↓↓↓		23	↓↓↓	
10	↓↓		24	↓↓↓	
11	↓↓↓	1.Chairman, 2.deputy manager, 3.CFO	25	-	
12	↓↓		26	↓↓↓	
13	↓↓↓	1.Chairman, 2.GM, 3.CFO	27	↓↓↓	
14	↓↓↓		28	-	

Table (9): Level of the finance department in the OS of Arab companies

↓↓ Second level / ↓↓↓ Third level

In the majority of the Arab companies, the finance department is ranked in the third level. Here, it is important to mention that the Board of Directors, which is considered to be the

highest authority in the organization, is not counted as a level. The first hierarchical level in the companies starts with the chairperson. In addition, the CFOs are members of the BoD in all Arab companies.

This research examines the utilized management accounting instruments and techniques in Arab companies. The second section of the interview guideline inquires on the use of budgeting and other instruments in managerial accounting in the studied companies.

5.1.2. Accounting Systems in Arab Companies

Accounting system impacts the cost allocations, budgets, and reporting system. The used accounting systems in the Arab companies vary between national accounting standards and international accounting standards.

On the one hand, the CFO of the Egyptian Co. (2) declared the following about using an Egyptian accounting system in financial and managerial accounting:

“We are applying the Egyptian Accounting Standards. In addition, we are applying BIMS (Broker investment management system) which is a customized accounting system for brokerage firms. Our budgets and the whole accounting system at our company are according to the Egyptian accounting system”.

On the other hand, some companies use international accounting standards such as IFRS:

“We are implementing international financial reporting standards (IFRS) in terms of accounting and cost accounting system”. (CFO)

Moreover, the CFO of Co. (14) also stated that

“We are implementing IFRS in our company which is the most common and used system in the UAE”.

The following table summarizes the implemented accounting systems in the finance department of the studied Arab companies:

Co.	Accounting system	Co.	Accounting system
1	Egyptian accounting standards	15	-
2	Egyptian accounting standards	16	IFRS
3	GAAP	17	IFRS

4	-	18	IFRS
5	-	19	IFRS
6	IFRS + Islamic financial accounting	20	IFRS
7	IFRS	21	Syrian unified accounting standards
8	IFRS	22	Syrian unified accounting standards
9	local financial accounting standards	23	Syrian unified accounting standards
10	IFRS	24	IFRS
11	local financial accounting standards	25	-
12	IFRS	26	Syrian unified accounting standards
13	GAAP + Hotels' unified accounting standards	27	Syrian unified accounting standards
14	IFRS	28	IFRS

Table (10): Accounting standards in the studied Arab companies

As the accounting system influences budgets and reports, the second part of section (4) of the interview guideline looks deeper into the budgeting procedure in these Arab companies.

5.1.3. Budgeting and Planning in Arab Companies

Budgets are traditional managerial accounting instruments that exist and are utilized in most companies. Thus, in this section the research inquires about the basic instruments of managerial accounting and also the more advanced techniques used in Arab companies. In general, budget is an essential tool for the finance department and the management team especially for decision-making and strategic planning. In addition, budgets are also important for measuring performance and controlling the achievements of the targets through the comparing of the values. The CFO of Co. (10) argued that budgets are important for several parties in the company:

“The budget is the main instrument for us to measure performance and it is the main instrument for the management to make their plans and goals”.

Moreover, the internal audit manager of Co. (24) explained the significance of budgets as follows:

“Budgeting is the most important thing at the finance department and for the bank as well. Budgets reflect the strategic planning of our bank and they are internal

control instruments that enable us to follow up the achievements of our goals, month by month and department by department for the whole bank units”.

Budgets as an instrument of management control, which is commonly used in Arab companies, has been also expressed by the Exp. (2):

“Budgets can be used as an instrument in controlling the performance of the whole company and its department”.

The third part about budgeting investigates into the general direction of budgeting procedures in Arab companies, whether top-down, bottom-up, or mixed-approach. The approach of budgeting indicates the power distance and reveals the decision makers in the Arab companies. The top-down procedure in preparing the budgets is that the top management team sets the figures and sends them to the finance department to finalize the budgets. That has been also seen through the interviews in the branches where the finance department of this branch received fixed figures and numbers in budgets from the head office.

The second approach, “bottom-up”, was somehow uncommon for Arab companies as only 4% of the 28 studied companies used a bottom-up approach in budgeting. The mixed-approach has been found to be a widespread procedure among the Arab companies.

“The departments including the finance department prepare the primary budgets and sent to the BoD to be discussed. In the BoD meeting the numbers should be discussed and determined. The final numbers and recommendations which reflect the management decisions should be considered and adjusted by the departments before the final budgets are confirmed”. (CFO, Co. 6)

On the one hand the departments and divisions may put the primary budgets and the management team adjusts them. On the other hand the top-level management may also suggest and declare the first numbers as stated by the internal audit manager of Co. (24):

“The management puts broad plans strategically and then each department including the finance department should plan their budgets. All the planned budgets should be reviewed by the finance department and internal auditing department in order to check the figures. Afterwards, they should be sent to the board of directors to be confirmed”.

The following figure shows the approaches of budgeting in Arab companies in percentages:

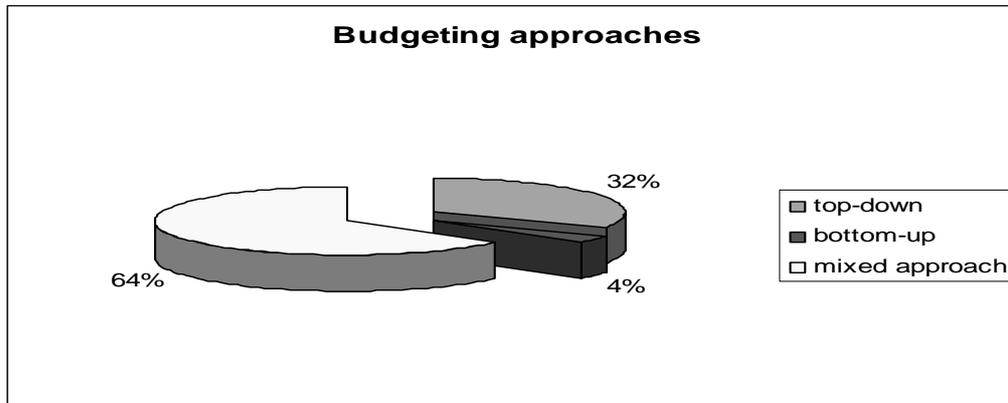


Figure (22): Budgeting approaches in Arab companies

Afterwards, the interviewees were asked if the final budgets are detailed. In addition, the interviewees were requested to discuss whether the budgets are flexible or not in relation with uncertainty avoidance. The results can be summarized in the following table:

Category no. (date)	detailed budgets	flexible budgets	uncertainty avoidance
company 1	yes	yes	-
Company 2	yes	yes	Yes
Company 3	yes	no	yes
Company 4	yes	no	-
Company 5	yes	yes	-
Company 6	yes	yes	yes
Company 7	yes	yes	no
Company 8	yes	yes	-
Company 9	no	yes	yes
company 10	yes	yes	yes
company 12	yes	no	yes
company 13	yes	no	yes
company 14	yes	yes	yes
company 16	yes	yes	yes
company 17	yes	yes	yes
company 18	yes	-	yes
company 20	yes	yes	yes
company 21	no	yes	-
company 22	yes	no	yes
company 23	yes	yes	yes
company 24	yes	yes	yes
21	19/yes (90.48%) + 2/no (9.52%)	15/yes (75%) + 5/no (25%)	15/yes (93.75%) + 1/no (6.25%)

Table (11): The rate of detailed and flexible budgets among Arab companies

The table shows that most of the companies prepare detailed and flexible budgets. Although the Arab companies try to stick to their budgets, but sometimes they have to adjust their budgets according to market. That was the case of Co. (24) as follows:

“We do budgeting according to IFRS and our budgets are very detailed, but they are flexible as well, because sometimes we have to adjust the planned budgets according to the economical, political changes in the market conditions or according to the changes in the governmental law. For example, a change in the trade law of foreign currencies leads to a change in the figures of the budgets related to foreign currency”.

The CFO of Co. (14) also gave further examples and said:

“Our budgets are as well flexible according to the changes in the market. For example, some factors affect the prepared budgets such as interest rate change, foreign exchange rate, and debts risk”.

Due to Arab culture, the majority of Arab companies tend to avoid uncertainty and risks. That has been declared in many companies, as shown in the previous table (11). For example, the CFO of Co. (17) elaborated how their budgets should keep pace with the situation of their business and the market.

“On the one hand our budgeting is flexible. Once the budget is confirmed (at the beginning of the year), it can't be changed easily, because these numbers should be our targets and we should try to achieve them. Thus, in our finance department there is a budgeting section, which is responsible for adjusting and controlling budgeting adherence. But, as a financial manager, I allow all departments to have no more than 4 changes in their budgets during the whole year. These changes can be done at the end of the quarter and for reasonable reasons. On the other hand, our budgets are very detailed and each number or cost item is clarified. With this approach we try to avoid, if possible, uncertainty and risks in the future”.

Avoiding risks and uncertainty had been also emphasized by the CFO of the Co. (23):

“On the one hand, our budgets are detailed, especially the very important and essential main parts, but on the other hand they are flexible and can be changed

according to the markets' situation. Hence, avoiding uncertainty is a very important principle and we take it into consideration while budgeting".

During the interviews, the interviewees were subsequently asked about the company bases in budgeting. The question was asked to learn whether Arab companies deal with historical costs or future oriented costs in budgeting.

Seventeen interviewees discuss this issue. Two groups were identified, the first group (35.29%) that bases on historical numbers from previous year and the second group that considers historical and future oriented costs based on market study (64.71%). For example, on the one hand company (1) depends on historical costs in budgeting as follows:

"We estimate the budgeting numbers according to the numbers and figures from previous year (e.g. previous sales) and then we add a certain profit margin".

On the other hand, company (24) depends on historical and market oriented numbers to prepare its budgets and plans:

"In our assessments of the budgeting's figures, we depend on the recommendations we got from the management according to the bank's policy and strategy and we also based on previous numbers from last years. In addition, we take into consideration the recent studies for the markets and customers".

Further topics have been discussed with the interviewees, in regard to budgeting periods. The interviewees were requested to classify the period that the budgets cover whether short-term, medium-term or long term. Short-term in this research and in the interview guideline was defined 1-2 years; medium-term from 3 to 4 years; and long-term as from 5 to 10 years.

According to the analyzed results, the majority (78.57%) of Arab companies follow short-term budgeting. Only 14.29% of the companies follow medium-term, and barely 7.14% prepare long-term budgets. The following figure illustrates the results:

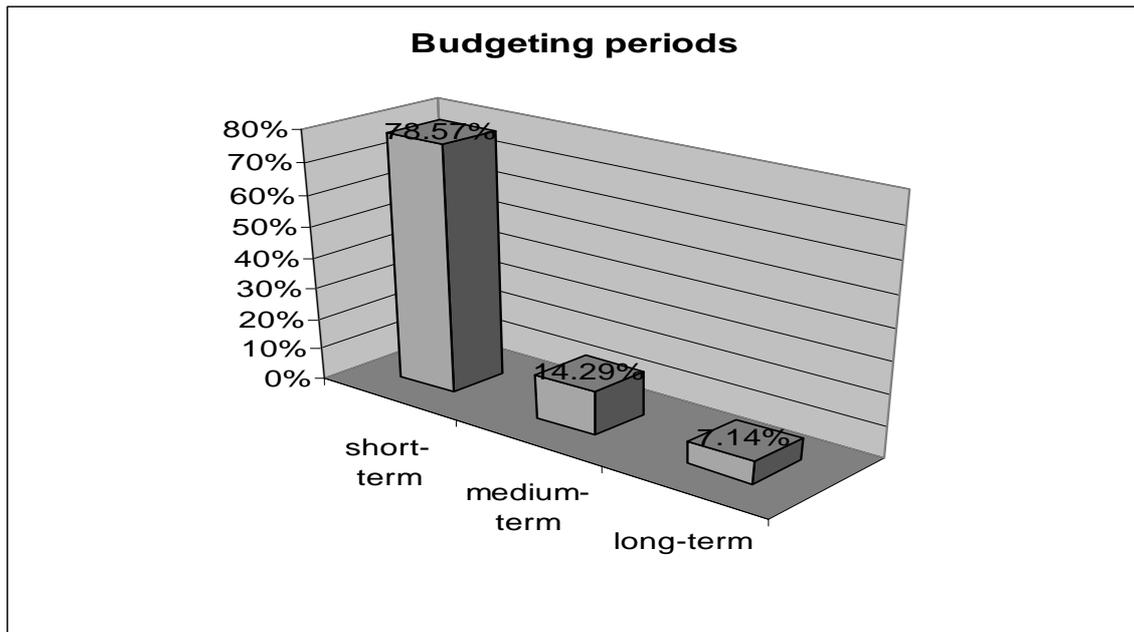


Figure (23): Budgeting periods among Arab companies

The short-term budgets are mostly yearly budgets divided into 12 months. The medium- and long-term budgets are rolling budgets and especially long-term budgets embrace broad fields and rough numbers.

“Budgeting in our company is usually for one year, but we do have rolling budgets for 5 years. However, they should be updated every year”. (Manager Account Corporate, Co.18)

This result can be attributed to Arab culture and the economic environment (market) in the Arab World. The periods of budgets can be also linked with uncertainty avoidance. Budgets are considered to be a crucial management accounting tool for planning and controlling the organization business. Therefore, the interviewees discussed their participation in budgeting and the role of budgets in strategic planning.

Planning

The interviewees discussed the planning process and periods in Arab companies. The interviewees were requested to classify the period that their plans cover whether short-term, medium-term or long term. The results of the planning periods vary among Arab companies and the following figure illustrates the percentages:

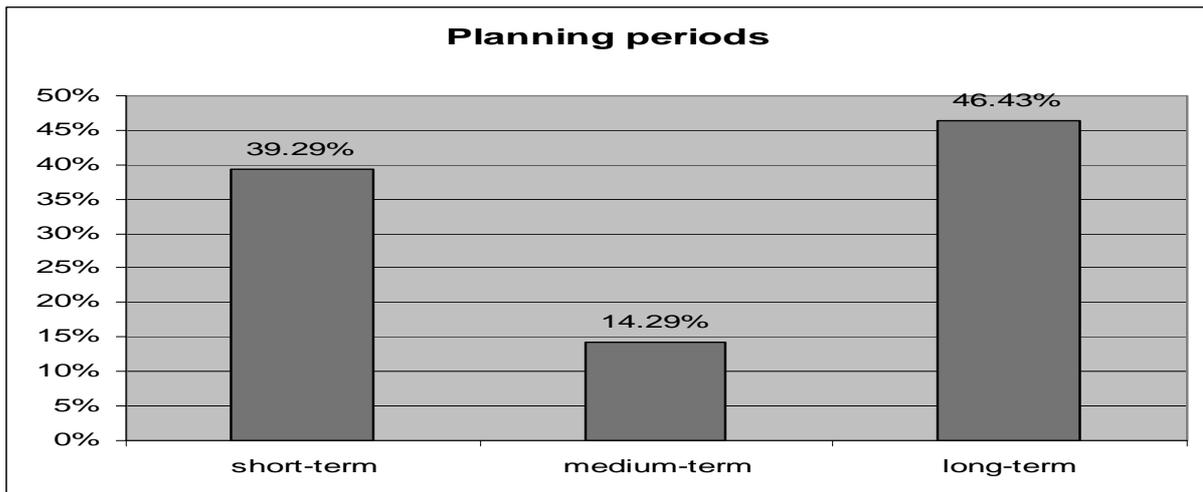


Figure (24): Planning periods among Arab companies

Through the investigation, budgets were discovered as a key instrument that reflects the objectives, strategy, and goals in most of the Arab companies:

“Budgets reflect our strategic plans and make us aware of our suppliers, our foreign markets, and our branches”. (CEO, Co. 16)

The finance department takes part in strategic planning through participation in budgeting and financial plans or studies. The CFO of Co. (10) gave an example of the participation of the finance department in strategic planning:

“We take part in strategic planning. For example, in case of taking on a new project or opening a new subsidiary in a new market. We then make a study (financial-wise) for the management in order to provide the needed financial information”.

What does the participation of employees of the finance department look like? Several interviewees have depicted that. The deputy finance manager of Co. (20) described his role as follows:

“My participation in budgeting is in examining the figures, calculating the numbers and checking if all numbers are right, accurate and according to our plan”.

Reviewing and checking the numbers of the budgets are the main task of the CFOs and finance department’s workers during budgeting procedure.

“My main task in budgeting is to check and control the figures and also to fix the numbers before forwarding the budgets to the management”. (CFO, 23)

Moreover, *“We participate in estimating the figures after we get information from other departments and also in delivering these figures to the management team members as they have to settle the final figures”*. (CFO, Co. 22)

The Manager corporate accounts of Co. (18) also described his role in preparing the budgets as follows:

“In the budgeting process I’m as well responsible for collecting the first estimated budgets from the departments and for checking them till forwarding the budgets to the GM”.

During the discussions the interviewees were asked to talk about the problems that may occur in the budgeting process. Some problems were identified through the conversation. The main problem in most Arab companies is in overestimating or underestimating the budget’s numbers. Not only the estimation of the costs and budget’s figures a problem, but also the companies sometimes have to settle and finalize the numbers of the budgets in agreement with all departments.

“The difficulty we are facing while budgeting is getting all required information in order to estimate and put the figures of the budgets. Sometimes we have problems with the departments. Either because the departments cause a delay in delivering the information, or because the delivered information is not accurate enough for budgeting, or because the departments don’t agree on the numbers and figures of the budgets”. (CFO, 22)

Furthermore, the most difficult thing in the budgeting process in Arab companies is to estimate the numbers. For estimating the numbers, the company may depend on the numbers from previous years, but also it may then have a difficulty in preparing a study for the recent situation in the market and predicting the changes of the market in the future.

“The main difficulty that we may face with the HO is estimating some numbers for them to do budgeting. That is due to the lack of information about the local market, customers, and competitors”. (Branch manager, Co. 25)

In addition, the finance department of the studied Arab companies may get into difficulties during budgeting with the top-level management or the head of some departments. Arguing

and negotiating with the top-level management members is the most difficult work that the finance department has to struggle with. Due to great authority and power of the management team, it makes it more difficult for finance manager and accountants to defend and argue for the estimated budgets.

“Sometimes we find problems in settling the figures, for example for investment. In general, it is also difficult to make the budgeting process bottom-up, sometimes because of the management”. (Finance manager, Co. 19)

As a summary, *“the problems of Arab companies in terms of budgeting and planning are difficulties in planning for future activities, lack of technical competencies and poor understanding of market forces and competition”.* (Exp. 4)

Budgeting has been discussed with the interviewees elaborately. The final question of this section of the interview inquires about the used instruments of management accounting in the Arab companies. The research inquires into which of the following instruments might be implemented in managerial accounting in these companies. The instruments are: cost-volume-profit (CVP), activity based costing (ABC), balanced scorecard (BSC), target costing (TC), customer profitability analysis (CPA), SWOT-analysis (for strategic planning), benchmarking, ROE & ROI (for performance measurement), EVA (economic value added), and/or others.

5.1.4. Instruments of Management Accounting in Arab Companies

“A lot of these instruments are implemented in several Arab companies. Some companies are using 2 or 3 of them; it is up to financial manager to decide which instrument should be implemented”. (Exp. 1)

The following figure illustrates the percentages of each used instrument among the examined Arab companies:

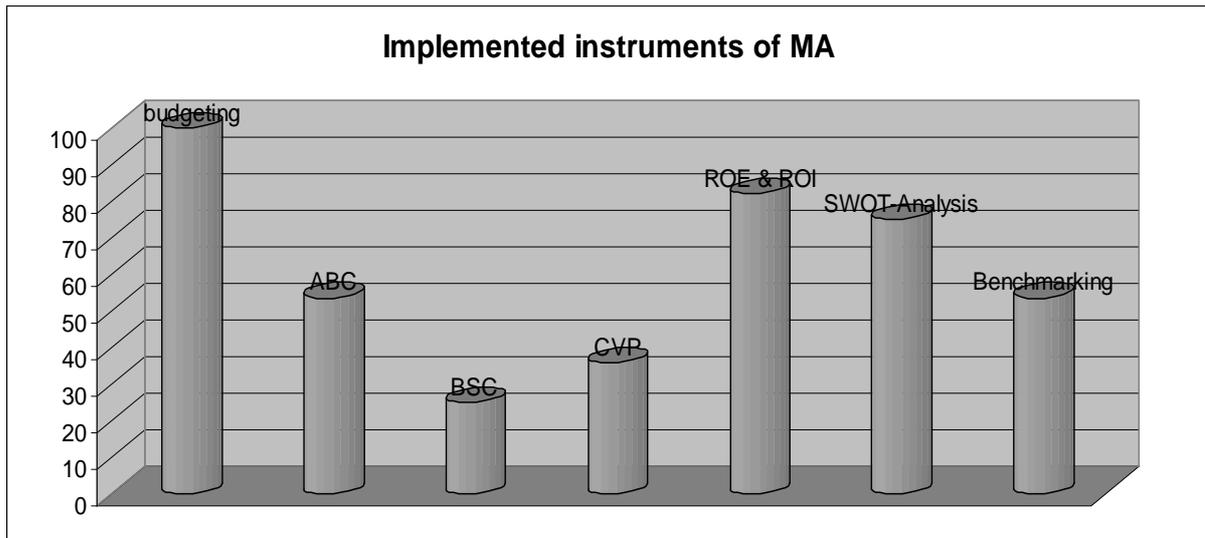


Figure (25): The used instruments of management accounting in Arab companies

As shown in the figure, the most known and widely used instrument in managerial accounting is budgeting. In the second place, ROE and ROI are quite utilized by the most Arab companies. On the contrary, the balanced scorecard is relatively not known or implemented in the Arab companies.

“In the GCC region: Budgeting is the most used instrument, but the companies in this region are not aware of the benefit of applying BSC”. (Exp. 5)

The fifth section of the interview guideline looks into the functions of management accounting department and the role of managerial accounting in the Arab companies.

5.1.5. Role and Functions of MA in Arab Companies

One of the research objectives is to study the role that management accounting may play in Arab companies and how sophisticated that role is. Thus, the research looks at the role which management accountants, CFOs or even CEOs play in connection with management accounting and control.

First of all, the interviewees were requested to explain the role of management accounting carried out by the finance department in the whole organization. Afterwards, the interviewees were asked to classify, according to their opinions, the functions of management accounting in three different groups. First, whether the management accounting in finance department is seen as financial accounting and if the function of the finance department does not exceed bookkeeping. Secondly, if the finance department

carries out financial and managerial accounting, does it provide information for decision-making at the company? Thirdly, does the management accounting carry out management control in the Arab companies?

The finance department in Arab companies is considered as an important department for the management team. In addition, the finance department generally carries out the budgets, cost accounting, cash flow, reports and financial statements. The management depends on those reports and calculations in making decisions, especially investment and planning decisions.

The CFO of Co. (11) outlined the functions of the finance department in connection with managerial accounting and control.

“The tasks of our department can be summarized as follows:

- 1. Accounting: the cost and financial accounting is done by the software according to the double entry system.*
- 2. Controlling the daily work at the factory: through checking the accounts in our computer system.*
- 3. Providing information: every department has the planned figures and knows what to work on, according to the budgets. Their work should be then saved in the computer system in order to figure out their achievements.*
- 4. A role towards the management: the department has to work on these saved data and prepares reports, which provide the management with all information they need for decision-making and leading the company”.*

The finance department in most of the studied Arab companies conducts managerial accounting. In addition, the finance department provides through managerial accounting several reports and analyses for decision makers. Internal control also belongs to the responsibilities of the department. Furthermore, *“The financial department also evaluates the performance of the workers and all divisions of the factory. The department including the internal controller then delivers several reports to the management about the recent statue”.* (CFO, Co. 3)

The following figure shows the classification of managerial accounting functions carried out by the finance department of Arab companies:

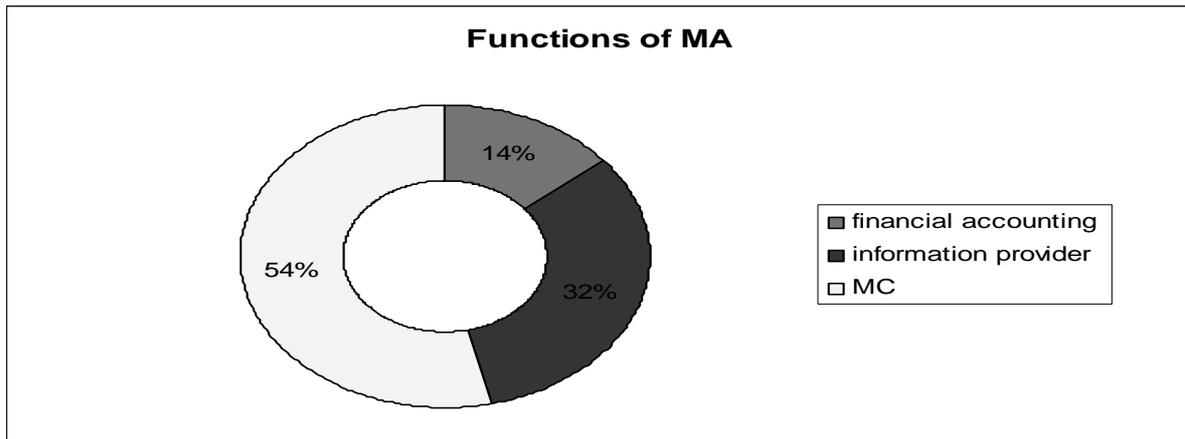


Figure (26): Functions of management accounting in Arab companies

As shown in the figure, 14 % of the companies declared that managerial accounting functions as financial accounting. *“Actually, our financial department is doing bookkeeping. Their work is restricted to entering figures to the ledger and recording the expenses and earnings”*. (Chairman, Co. 5)

According to the interviews’ results, in 32% of the questioned companies the finance department performs financial accounting and also provides information to the management for decision-making. *“The finance department makes the accounting and provides information for the management”*. (Branch deputy manager, Co. 4)

Finally, in 54% of the Arab companies, the finance department runs financial accounting and management control in addition to providing information for decision makers. That has been stated by the CFO of the Co. (14): *“Those three aspects are the core of the finance department’s tasks. The finance department especially should be very productive and efficient in providing the needed information for the decision makers”*. Management control is a key task of the finance department and especially of the CFOs. In addition, *“this third task can be fined in the companies that have a sufficient internal control system”*. (Exp. 1)

Moreover, the interviewees discussed the role of the finance department in non-financial issues such as pricing policy, quality, or customer satisfaction. In most of the studied companies, financial and managerial accounting is kept at a distance from these non-financial issues to some extent. Hence, *“These tasks are not relevant for the finance department. The management team usually makes decisions for the pricing and sales in*

addition to customer satisfaction. Thus, we don't provide or present any non-financial information or issues".(CFO, Co. 1)

This view of the accountants has been verified by the management, as stated by the CEO of Co. (27):

"Accounting department is responsible only for financial issues and decisions, but non-financial issues are related to the management". Besides the management, the pricing policy, the quality and customer satisfaction might be related to the sales & marketing department.

Nevertheless, nine interviewees (about 32%) declared that the finance department intervenes through management accounting in non-financial issues to a certain degree. *"In some companies, the finance department provides non-financial information on operational and administrative functions. The MA or finance department's responsibilities include highlighting major deviations or changes in market or business conditions". (Exp. 4)*

The finance managers or (management) accountants may *sometimes* step in non-financial issues or if the executive management team asks for their recommendations. Two interviewees emphasized that and one of them being the branch manager of Co. (15) has mentioned that as follows:

"The finance department deals with financial and non-financial information. In addition to financial statements, it sometimes prepares non-financial analysis like a market study of the recent situation and the recent new automotive products".

After the interviewees described the role and functions of management accounting in their organization, the role of the accountants, the CFOs and even the CEOs in connection with management accounting and control has been discussed in the interviews. Therefore, the chief finance managers in the Arab companies are responsible for financial and managerial accounting. Their tasks include budgeting, reporting, and management control:

"My main tasks are to prepare the budgets (yearly and quarterly), to determine the financial targets and goals, and then to make variance analysis in order to compare the planned with the actual values. My daily tasks are to supervise and control my employees and also to follow up our financial statue in cooperation with the stock market committee". (CFO, Co. 2)

Furthermore, the daily duties of CFOs are usually to follow up and supervise routines and everyday work.

“My daily tasks can be summarized as follows:

- *Following up the work of the finance department*
- *Controlling the accountants*
- *Preparing some reports for the management*

But monthly, I have to control the achievements of the budgets and compare the actual with the planned in order to make the monthly report”. (CFO, Co. 6)

In addition to internal control through variance analysis and performance evaluation, the chief finance managers also carry out internal auditing.

“It’s difficult to determine all of my daily tasks, because everyday I have different work to do. In general, it is more checking, following up, auditing of the company’s work.

In general, I am responsible for revising the financial statements and reports. I check the whole financial issues in addition to the internal financial auditing for the company and the subsidiaries”. (CFO, Co. 11)

Nonetheless, the accountants of the finance department are responsible for financial accounting and preparing some reports for the chief finance officer.

“My daily tasks as a chief accountant are all related to financial accounting and bookkeeping like checking the treasury, invoices, salaries, and tax station”. (Chief accountant, Co. 26)

On the contrary, the chief executive officer in Arab companies holds great responsibilities and authority. *“The CEO is responsible for monitoring the whole activities in the company and for the sales (customer sales and branch sales)”. (CEO, Co. 1)*

The CEOs of the studied Arab companies perform an important role in leading and supervising the whole company.

“My daily tasks can be divided between controlling and following up the work of the factory and the branches with the main focus on the achievements and performance. The most important thing is to control the factory and its financial issues”. (CEO, Co. 16)

Subsequent to explanations by the interviewees of their tasks in relation to managerial accounting, they have been asked to define management accounting according to their understandings and perceptions.

5.1.6. Scope and Definition of Management Accounting in Arab Companies

The answers can be divided in two groups - on the one hand the understanding of the finance managers and on the other hand the perceptions of the executive managers. As a start, here is the definition of MA stated by the management accountant of Co. (7):

“MA is an essential part of the finance department. Managerial accounting should help in making decisions, controlling the work, and monitoring the performance. Management accounting division is the main center in whole department and the connecting force for all departments”.

This understanding has been partially defined by other interviews. The general view of the interviewees considers managerial accounting as a tool in the finance department to help the management.

“The main aim of the finance department is to help the executive managers to make decisions. Thus, through management accounting we regularly provide them with budgets, reports, numbers and detailed accounts”. (CEO, Co. 1)

Therefore, managerial accounting functions as instructions and guidelines provided by the finance department for the benefit of management.

“The MA is concerned with the provisions and use of accounting information to managers, to provide them with the basis to make informed business decisions that will allow them to be better equipped in their management and control functions. It handles future instead of historical issues; and we need it to see the road ahead, it is like the head lights in the car, shows the way ahead”. (CEO, Co. 16)

5.1.7. Decision-Making in Arab Companies

At the end of fifth section, the intervention of managerial accounting in decision-making was examined. The interviewees were requested to explain whether management accounting plays a role in making decisions or even strategic decisions. In addition, the interviewees discussed the situation in case of conflicts with the top-level management.

The answers vary between yes, no and sometimes. In general, the finance department carries out financial matter and presents financial information for all other departments in the company, especially for the management team. Therefore, the workers in the finance department of the Arab company such as financial analysts, accountants, and chief accountants lead by the CFO prepare financial statements, analysis and reports.

One group of the interviewees stated that the finance department only conducts studies and provides suggestions to the management, but its employees do not make decisions.

“We don’t really intervene or participate in making decisions. The management and the board of directors are responsible for making those decisions”. (Deputy financial manager, Co. 20)

Even, if the Arab executive managers view finance department and its employees as important key and part of the company, they do not participate in decision-making.

“The finance department is one of the most important departments in our company, because it gives regularly an overview about our financial situation and provides us with all financial indicators to help us in leading the company. The role of the finance department is to prepare the information and to assist by delivering this information to us, but we (the management) make the decisions”. (CEO, Co. 21)

Hence, the accountants are supposed to provide their recommendations and suggestions on certain matters to the management team that makes the decisions. A management accountant or a financial manager in some Arab companies is not a decision maker, but their insights lead the management to make the right decisions in these important matters.

The second group of the interviewees claimed that the finance department may participate partially in decision-making. The view of this group is that the finance department represented by its manager is responsible for financial issues and may make decisions in this field, but the matters related to the work of the whole company should be lead by the management.

“As a finance department, we provide the management with financial information. Sometimes the management agrees on our recommendations for certain issues and takes them into consideration in making decisions”. (CFO, Co. 22)

The CFO of Co. (11) also declared that his partial participation in decision-making is only on financial issues:

“I do participate in decision-making, mainly in financial issues. In addition, each department manager is responsible for the activities and matters related to their department work”.

Expert (4) also reported that *“in most cases, (management) accountants provide support services. However, making recommendations and effective suggestions to the management is very limited. The decision-making process is controlled by the owner and executives”.*

The third group of the interviewees believes that the finance department and its employees have a genuine role in decision-making. They consider the finance department as an important part and that it plays an essential role through budgeting, financial reports, analytical studies, and variance analyses, which give recommendations to the management.

“The finance department has a key role in the bank and it gives warning signals for the management. The management should take our recommendations seriously and pay attention to our suggestions in order to solve recent matters and problems. We usually discuss the matters with the management and then according to the majority of the votes, we make the final decision. It’s quite common that they take our decision. That means, we participate and make decisions”. (Internal audit manager, Co. 24)

The management accountant of Co. (7) emphasized that management accountants in her company participate in making decisions and consider it as a vital role:

“Management accountants attend all meetings related to decision-making in the finance department. Therefore, management accountants make decisions which should be delivered to BoD through CFO (controller)”.

In regards to the participation of the finance department in strategic decisions, the opinions of the interviewees vary from the previous discussed question. Here, three groups can be classified, but the percentages of the groups are different from the previous question. That will be shown next in the figure (27).

The first group thinks that the top-level management is the only authority in company that is responsible for the strategic decisions and planning. That means the management holds the whip in the strategy of the organization.

“Our involvement in strategic decision-making is in providing the necessary information. In addition, we provide the management with monthly reports, but we send them warning signals when the issue is very urgent and should be tackled immediately”. (CFO, Co. 9)

The view of the branch manager of Co. (15) can be structured around the first group of interviewees who said “no” for the participation of the accountants, management accountants, and finance managers in making strategic decisions. The reason given by most of these interviewees is that strategic decisions belong only to the top-level management activities:

“The financial department at our company is only responsible for accounting and budgeting. Although budgeting reflects the strategy of the company, strategic decisions and planning are in the hands or on the responsibilities of the management”.

The second group of the interviewees thinks that the finance department presented in the finance manager may be involved in strategic decision-making.

“As a finance manager, I take part in decision-making, but in terms of strategic decisions the finance department may sometimes participate in making these decisions, but actually we have less influence in this regard”. (CFO, Co. 8)

Moreover, the CEO of Co. (16) also thinks that the finance department may take part in making strategic decisions together with the top-level management team. According to his view, the management accountant can participate by providing information and giving solutions as a strategic partner to the management.

“A finance manager or a management accountant has a dual reporting relationship. As a strategic partner and provider of decisions based on financial and operational information, they are responsible to the management team while at the same time reporting and also holding responsibilities to the corporation's finance organization”.

Hence, *“Participation in strategic goals exists to a very limited extent”* (Exp. 5). The last group believes that finance department should play a role in making strategic decisions. *“Participation through budgeting for example can be considered as taking part in strategic decisions and planning”*. (CFO, Co. 23)

The CFO of Co. (22) was one of the few interviewees who declared that finance department should participate in making strategic decisions.

“We do take part in making strategic decision. As we provide reports, recommendations, and useful suggestions to help the management make the decisions in that regard”. (CFO, Co. 22)

The following table presents the answers of the interviewees on the two previously discussed questions; whether or whether not the finance department participates in making decisions or even strategic decisions in Arab companies. The answers have been classified in three groups: no, only the management makes the (strategic) decisions; sometimes or partially; or yes, we do participate:

Co.	Decision-making	Strategic decisions	Co.	Decision-making	Strategic decisions
1	management	management	15	management	management
2	sometimes	sometimes	16	partially	partially
3	-	management	17	management	management
4	management*	management*	18	partially	management
5	management	management	19	yes	yes
6	yes	yes	20	management	management
7	Yes	-	21	management	-
8	Yes	sometimes	22	sometimes	management
9	management	management	23	yes	yes
10	-	management	24	yes	yes
11	Partially	management	25	partially	management*
12	management*	management*	26	partially	management*
13	Yes	management	27	partially	management
14	Yes	management	28	partially	management*

Table (12): Participation of the finance department in decision-making and strategies

* HO management

As shown in the table, twenty-six respondents answered these two questions. Concerning decision-making, nine interviewees answered that finance department does not participate in making decisions, nine answered with “sometimes or partially”, and eight answered with “yes”. But in regard to strategic decisions, four interviewees answered with “yes”, three answered with “sometimes or partially”, and 19 interviewees answered that finance department does not participate in making strategic decisions

Here, the percentages of the groups of each question are different. Thus, the following figure illustrates a good overview on the variation in the interviewees’ answers in this regard:

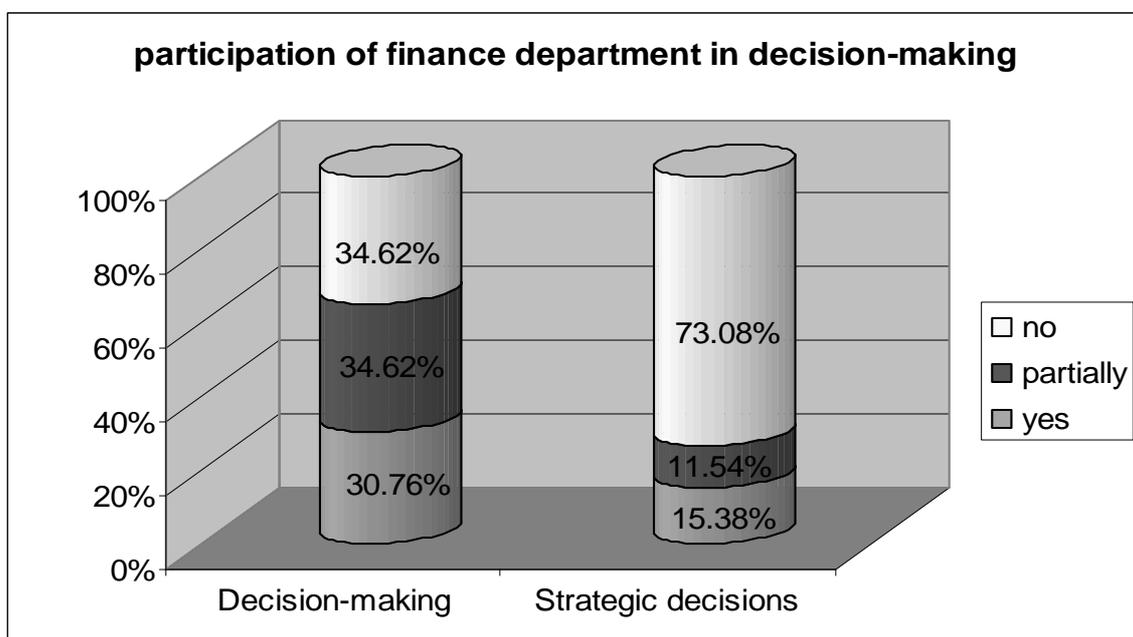


Figure (27): Participation of the finance department in decision-making (in percentage)

Concerning strategic management accounting, the interviewees elaborated on benchmarking in addition to SWOT-analysis. In most of the studied Arab companies, either the sales & marketing department or the R&D department conducts benchmarking or SWOT-analysis. These analyses should be then provided to the executive management team.

“Our R&D department in association with the marketing department makes all market analyses for the company. Then, they provide the collected information about the market to the executive department in order to assist us in making strategic decisions”. (Executive manger, Co. 2)

Only seven⁴⁵ respondents declared that SWOT-analysis should be done by each department of their companies including the finance department. Hence, only in about 25% of the studied companies the finance department is involved in benchmarking and SWOT-analysis.

“Through the KPIs we can compare our company with the other competitors. Therefore, each department provides its own SWOT-analysis and then we assemble the data for the whole company”. (Manager corporate accountants, Co. 18)

After discussing the participation in decision-making with the interviewees, a question that looks into the conflicts between the management and the finance department has been attached to the end of the aspects of this fifth section of the interview. It is worth it to refer to that, due to Arab culture, as Arabs avoids conflicts and try to harmonize, the word “conflicts” has been replaced with “disagreements” after the first two conducted interviews.

In Arab companies, conflicts with the management over decision-making present difficult situations for finance department’s employees (CFO, chief accountant, and management accountants).

“The ordinary problems in the factory or in the production sides should be solved immediately, but the real problems should be reported to the management. The management then should solve the problems and correct the mistakes”. (Vice chairman, Co. 3)

In the most of Arab companies, the management team is the key authority in terms of leadership. Thus, problems and conflicts go to the top hierarchal levels especially in serious matters.

“In case of disagreements on daily based issues the departments discuss the matters with each other. In case of a serious conflict, the matter should be reported to the management supported with the required documents in order to explain the problem, and then the management makes the decision”. (CFO, Co. 10)

On the one hand in some Arab companies, the interviewees think that conflicts with the top-level management team, which has the greatest power in the company, should be avoided.

⁴⁵ Companies (10), (11), (16), (18), (19), (23) and (24).

“We usually don’t discuss too much with the management, because we have to carry out their wishes”. (CFO, Co. 9)

On the other hand, when disagreements occur with the top managers, people in the company (managers and the employees) consult the issue together. The manner of discussion and making decisions in some Arab companies can be considered as democratic and during meetings to the matters should be discussed and then decisions might be made according to the majority.

“Sometimes we face disagreements between the finance department and the management in terms of decision-making. In general, the finance department judges the matters or decisions whether they are profitable or not. That does not always match with the management’s view. The solution in case of disagreements is to convene a meeting with the management in order to discuss our recommendations and suggest the possible solutions”. (CFO, Co. 23)

Moreover, in certain Arab companies with sophisticated finance departments, the accountants struggle with the management for their decisions.

“In case of conflicts, we discuss the matter with the management or the board of directors. We (as internal audit manager or financial manager) try to approach in our opinions and convince them of our solution”. (Internal audit manager, Co. 24)

That has been also emphasized to a high degree by the management accountant of Co. 7 as follows:

“In case of conflicts, management accountants should convince the CEO about their solution by providing reasonable, justifiable information. The winner! It depends on CEO’s strategy”.

5.1.8. Information Systems in Arab Companies

The sixth section of the interview guideline deals with internal reporting systems in Arab companies. In addition, this part investigates the manners of information exchange in these companies.

First, the interviewees were requested to describe how the information is exchanged within their companies. As a result, two resources were recognized. The information in these Arab

companies can be exchanged either through reports or through the software. In addition, information can be swapped between the finance department and other departments on demand through letters or e-mails.

Financial information is provided to the finance department regularly through reports.

“The entirety of the required information that is related to financial issues and numbers flows from the other departments. Each department should send reports related to financial issues, but if we need further, deeper information from a certain department about a certain subject, we ask them to send this required information in a separate additional report”. (Chief accountant, Co. 12)

In addition, financial and non-financial information can be obtained through the software implemented in most Arab companies. Access for getting information from the databank can be limited to some extent according to the department’s need and activities.

“We have our computer-based system (ERP system) for exchanging information. Moreover, internal reports are also available to all departments. In addition, we may get the information directly from departments in form of emails or oral communication”. (CFO, Co. 8)

In some Arab companies, the finance department uses both resources to get financial and non-financial information. The CFO of Co. (10) explained that they get the information from reports, databanks or by direct request at certain authority.

“Our software does the accounting and provides us with the reports. In addition, all information is saved in the company’s database. Therefore, we can get all the information we need from the system and if we need additional information, we have to ask for it from a certain department or subsidiary”.

Exchange of information also occurs during regular meetings within the departmental level. In general, meetings in Arab companies are held once a month. *“Meetings occur monthly with all departments in order to discuss the matters and exchange information”.* (Management accountant, Co. 7)

Also, *“there are weekly meetings for the managers of the departments and monthly meetings within the division (department)”.* (Manager corporate accounts, Co. 18)

Accounting Information System

In this part of the interviews, the respondents were asked to talk about the accounting information system in their company. As the most of the studied companies have an accounting information system, the system functions through the implemented software.

“We do have an accounting information system. The whole accounts and values are available through the computer system to the all of the departments according to what kind of information they need”. (Chairman, Co. 5)

This software is connected between all departments. Each department is authorized to get only the information it needs. Thus, the software allows each department to get its required information. In the case that finance department needs further detailed information, the head of the department can request for the needed information.

Regarding accounting information, the interviewees discussed whether the management in Arab companies views accounting information as essential or important. Few interviewees expressed their opinion on this regard. In general, accounting and managerial accounting information are considered to be valuable in these Arab companies.

“Yes, we do view the accounting information as important for our work especially for decision-making. Thus, the financial statements and reports affect our decisions and work”. (CEO, Co.26)

Nevertheless, even though the accounting information is considered to be important, but only this information produced by the finance department is seen so helpful:

“We can not say that the finance department is the most important one for the management, but the most essential information and important reports are prepared by our finance department”. (CFO, Co. 23)

Furthermore, the interviewees elaborated on the common manners of communications as a way of exchanging information.

Manners of Communications

Asking the interviewees “which kinds of communication are preferred in their companies?” produced the following results presented in this figure:

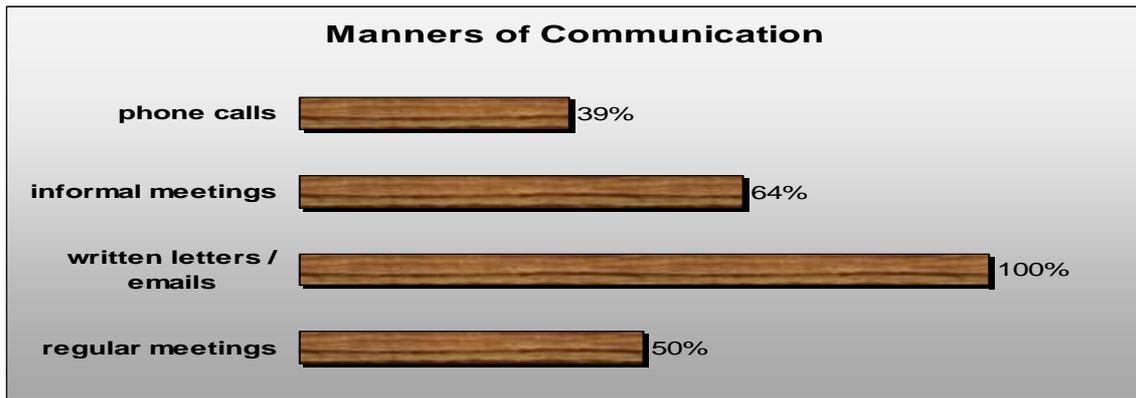


Figure (28): Manners of communication in Arab companies

As shown in the figure, all interviewees declared to use written letters and e-mails as formal ways of communicating within the companies. *“The manner of communication is written letters and reports officially”*. (Vice chairman, Co. 3)

Half of them also agreed that regular meetings are another kind of formal communication in order to exchange information.

“The common way of communications at our hotel are written letters and e-mails, but we may discuss the issues and exchange information during our daily and monthly meetings”. (CFO, Co. 13)

Two informal ways that exist in Arab companies are oral communication either through phone calls or coincidental informal meeting between the company’s employees. *“In general, the ways of communication are non-verbal such as written letters and e-mails; which can be considered very official. Oral communication does exist in Arab companies and it is used very often”*. (Exp. 6)

The opinion of the Exp. (6) has been emphasized by several interviewees. The CFO of Co.(11) said:

“We use written letters and e-mails, but in most cases we are using oral or verbal communication”.

In addition, the flow of information can coincidentally occur in Arab companies as explained by the CFO of Co. (9):

“In general, we use all kinds of communication very often like phone calls; in addition to meetings from time to time. Sometimes we can exchange information by meeting accidentally in corridors”.

The seventh part of the interview guideline deals with the reporting, control and performance measurement.

Reporting Systems

The interviewees were asked about the periods of reports prepared by their finance department. The interviewees described the types of reports issued by the departments and the content of some of them. The following figure gives an overview about these reports:

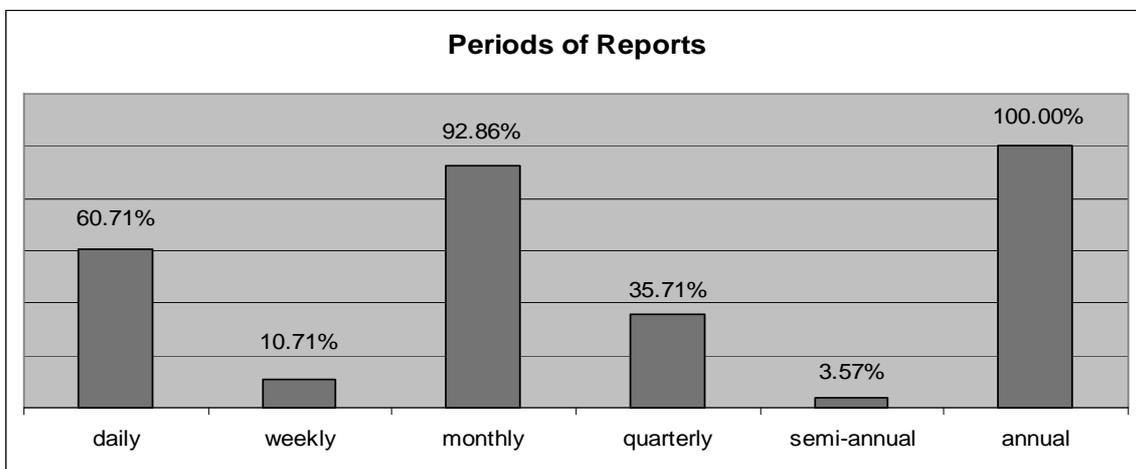


Figure (29): Periods of reports at the Arab companies

As shown in the figure, the most common reports among these Arab companies are the monthly and annually reports. On the one hand, monthly reports deal with cash flow, earnings and expenses reports, trail balance, and variance analysis. On the other hand, annual reports in general contain financial statements and reports. *“The most companies make monthly reports for the cash flow, sales, and customers. In addition, yearly reports at the end of the year which are the financial statements”.* (Exp. 6)

What the expert stated was also confirmed by the CFO of Co. (11) as follows:

“We prepare monthly reports (about the company and the subsidiaries) like trial balance that gives detailed information about all accounts, activity, and achievements for the whole month. In addition, yearly reports which are the financial statements for the whole year”.

In addition, the interviewees confer about the attachments of some documents to the reporting package. The interviewees mentioned that sometimes documents might be attached to the reports if necessary. These documents explain and provide further analysis.

“Regarding the attachment to the reports, it depends on the report that we are sending and in most cases we attach some documents and materials in order to help explain the reports for the management”. (CFO, 10)

These documents present further information in details and may include some analyses and graphics. In big companies, reports of the finance department may consist of 10 to 20 pages in which the reports details are first presented and then the explanations and recommendations that clarify the numbers.

5.1.9. Performance Evaluation & Management Control in Arab Companies

Performance evaluation in Arab companies depends on different tools and criteria. The respondents elaborate on the methods of measuring performance in their companies. Performance is evaluated through, for example, income and production rates during the year. The evaluation is formulated in form of reports that indicate the achievements of the departments. In addition, the achievements of the departments in the present year may be also compared with the accomplishments of previous years in order for the management to view the developments or the improvements in the departments' work.

Two main indicators are important in evaluating performance in Arab companies. First, the company may look through the finance department at the earnings and profits that the departments achieved. Secondly, the actual (achieved) values may be compared with the planned ones (according to the budgeting) or with the achieved ones from previous year(s). Expert (3) explained that as follows: *“Arab companies have a performance evaluation based on their profit and assets. Usually, the finance department sends this performance evaluation to the management to decide the bonus for the employees and departments”.*

Hence, companies may also utilize KPIs (Key Performance indicators) in order to evaluate the performance.

“Management accountants prepare evaluation materials depending on the set of reports (e.g. net income, profit, etc.), BSC, KPIs, etc. In addition, they compare

achieving determined targets and strategic goals between the departments and evaluate their performance.

Then all these reports should be delivered to the management and they evaluate the performance of these managers (of all departments) and determine rewards and bonus for the employees as well". (Management accountant, Co. 7)

Moreover, an employee's evaluation might be also done by the HR department, which includes scores and points for job skills, productivity, and achievements. The finance department also prepares a performance evaluation based on financial indices for the whole company and departments. Then, managers determined the bonuses and rewards. *"In general, performance measurements that are commonly used for Arab companies include, ROE, ROI, profit ratios, gross margin, inventory turnover rate, liquidity ratios, debts ratio, and equity ratio. In most cases, management considers profit as the key indicator for performance". (Exp. 4)*

Nevertheless, few of the studied companies mentioned using non-financial indicators. In addition to the profit as a financial measure, turnover ratios as non-financials may be taken into consideration in order to determine the performance of the department and the company.

"We also look at different items mainly at the net profit. In addition, we also look at non-financial numbers like the number of accounts the departments have and the number of credits they gave during the whole year. That gives us an idea how active and successful was this department during the year. Furthermore, shareholder value (share price) is important mainly for the shareholders, but it is also an important indicator for us and for the public". (CFO, Co. 6)

In terms of management control, the interviewees were asked about an additional role of managerial accounting in following up the achievements of the organization. In general, the finance department is not responsible for achieving all targets and strategic goals of the company, but it is definitely responsible towards the management for accomplishing the financial targets such as net profit.

"Yes, we have to check the achievements of all of the company's departments in comparison to their planned goals and targets. In addition, we have to mention that in our reports to the management". (CFO, Co. 19)

Through its manager and accountants, the finance department plays a sufficient role in some Arab companies. The department takes overall responsibility for the company's accomplishments and control the pursuing of the planned goals.

“The finance department is supposed to follow up the achievement of targets in terms of control, but following up the work of other departments in the factory is a task for the management through internal control division”. (Vice chairman, Co. 3)

Furthermore, variance-analysis reports serve as tools for measuring performance and also for controlling the activities and work of the whole organization and its departments. The interviewees were asked to discuss how variance analyses are prepared and handled in their companies. The following table summarizes the answers of the respondents:

category no. (date)	monthly	quarterly	yearly	category no. (date)	Monthly	quarterly	yearly
company 1	x			company 15**	-	-	-
company 2	x			company 16	X		X
company 3		x		company 17	X	x	
company 4*	-	-	-	company 18	X		
company 5	x			company 19	X		
company 6	x			company 20	X		
company 7	x		x	company 21			X
company 8	x			company 22	X		
company 9			x	company 23	X		
company 10		x	x	company 24*	X		X
company 11	x			company 25*	-	-	-
company 12		x		company 26*	-	-	-
company 13	x			company 27			X
company 14	x	X		company 28*	-	-	-

Table (13): Frequency of variance-analysis reports in the Arab companies

** : the interviewee of this company didn't gave a specific answer on this point through the discussion during the interview.

* : these interviewees declared that their organizations as a branch of a company don't prepare variance analyses, but the HO does. As stated by the branch deputy manager of Co. (4):

“We don't prepare any variance analyses, but the headquarters in Cairo do. In the case of default in the branch's accounts, the branch manager should make a decision and react to overcome this default, but he still has to report to the internal controllers as well as to the headquarters”.

As shown in table (13), 73.91% of the studied companies prepare monthly variance-analysis reports and 21.74% prepare them quarterly. In addition, 30.43% of the interviewees declared that the finance department in their companies performs variance analyses annually.

Moreover, five interviewees stated that the finance department prepares variance analyses twice a year. That forms 21.74% of the studied companies. Actually, the size of the company's business may play a role in how often these analyses are required. That has been mentioned by the Exp. (4) as follows:

“Usually, most medium and large companies prepare variance analyses monthly or quarterly and also yearly”.

The final point that the interviewees talked about regarding variance analyses is how their companies deal with variances. The CFO of Co. (2) explained how they deal with it:

“We usually compare the planned with the actual values and then we look for the causes and reasons for that. And then we have to prepare a special report to the management”.

Furthermore, the internal audit manager in Co. (24) explained in detail how the variances are handled in his companies as follows:

“In case of positive variance, the achievements and performance were higher than the planned figures. When we have a negative variance, the planned figures are unrealistic and beyond our performance. First, we investigate into the cause of the problem (variance). If the reason is an external factor (something out of the control of the bank), we should mention and report that to the management. But if the cause is due to negligence of any department or manager or due to unrealistic planning, we should then analyze the problem, the reasons, and the figures of the budgets. We may then have to change the figures of the budget for the rest of the year. Hence, we do this variance analysis every month in order to check the budgets, make our work realistic and fit to the recent situation in the market. In case of negligence from any manager or department, they should be questioned by the management of the bank”.

Negative variances have special attention in all of these companies. The majority of the interviewees stated that negative variances should be reported to the executive management team in order to be tackled.

“In case of negative variance, we should first report and then explain the matter to the management. In addition, we should propose recommendations or a plan to solve the problem. For example, if it is in terms of profit, we have to think how to increase the revenue or decrease the costs”. (CFO, Co. 13)

The management then asks for explanations and clarifications in order to figure out the cause and the justification for the problem. The management should then solve the matter and reprimand for any negligence. The Exp. (6) also emphasized that as follows:

“After the finance department compares the planned figures with the actual numbers, they prepare a report on variance analyses including the reasons and causes of the differences. Then, they provide their recommendations to the management to react as necessary and required”.

Nevertheless, in few Arab companies the finance department may also and react to fix the problem and adjust the differences in terms of managerial accounting.

“We make variance analysis monthly (which is a comparison between the actual and the planned figures in the budgeting). In case of negative or unusual variances, we take a look at the problem and we investigate into the reasons. Then, we review or change the budgets”. (CFO, Co. 8)

In regard to performance evaluation, the interviewees were asked to talk about the measurements used in their companies. The indicators and their percentage used among the studied companies can be outlined as follows:

	Net profit / ROI & ROE	ROS	KPIs	Budget adherence (variance analyses)	Non-financial indicators
Responses:	91.30%	34.78%	39.13%	65.22%	39.13%

Hence, profit is the major indicator of performance in Arab companies. On one hand, profit for Arab companies is a measure of success and variance analyses on the other hand shows the development of the work in a period of time and comes in the second place. The CFO of Co. (1) explained the following in this regard:

“Profit or ROI is important, because this instrument is useful to evaluate the performance of different departments and that enable the management to correct the work in the lagging department”.

As a summary, all implemented instruments and techniques in management accounting and their percentages of use among the studied Arab companies can be outlined in the following figure:

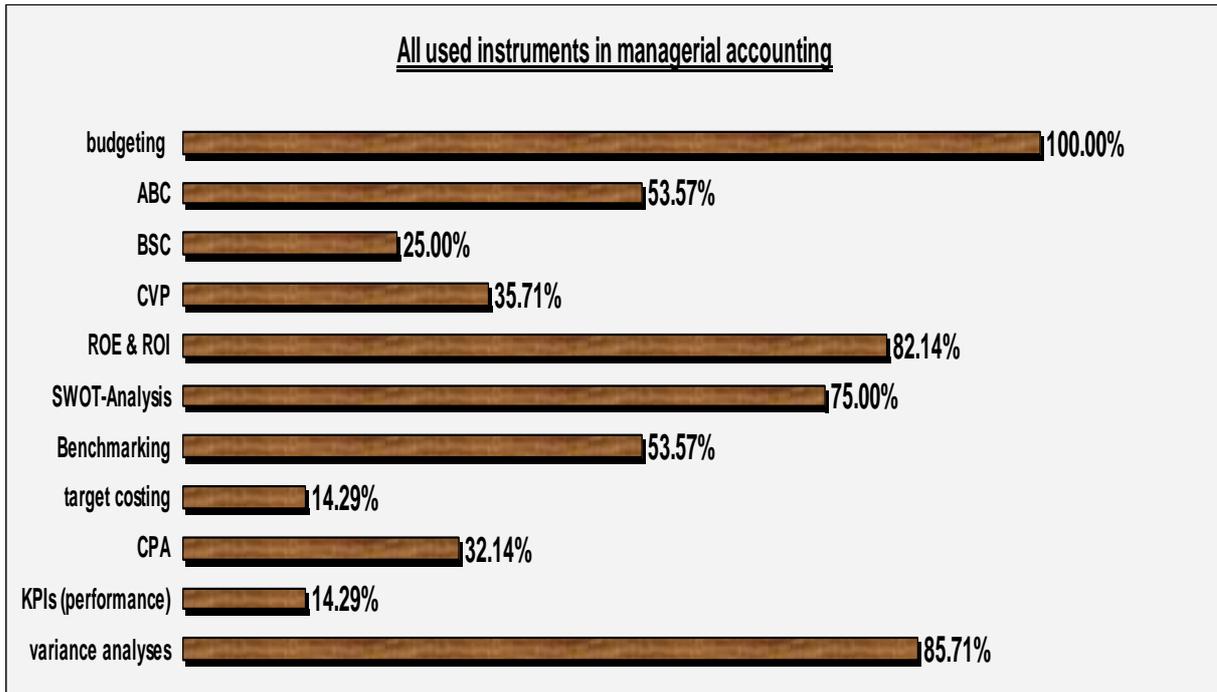


Figure (30): All instruments of MA used in Arab companies

The figure (30) demonstrates the implemented instruments and techniques in management accounting and control in the Arab companies.

5.1.10. Further Influential Factors

In the last part of the interview, the respondents discussed the influences of further cultural and environmental factors on the management accounting system in their companies.

Culture

The interviewees talked about the foreign force working at their companies and the impact of their culture on managerial accounting. First, they stated that the most of foreign workers in the Arab World, especially in the Gulf region, are from India, Pakistan, and the Philippines. In addition, experts from foreign countries may also visit and conduct special

work, consulting or training in different Arab companies. These foreign experts are usually from the USA, the UK, Germany, Japan, France, Korea, Italy, etc. The CFO of Co. (23) expressed that as follows:

“We had some foreign employees, but they didn’t work as normal employees but as experts. They usually work for temporary periods in order to add their knowledge and experience to the company and raise its performance”.

Secondly, the interviewees elaborated upon the understanding of the foreign work force in the Arab companies and their notion of managerial accounting. They expressed their views that non-Arab workers have different ways of thinking and analyzing the matters in terms of management accounting. The management accountant of co. (7) explained what the culture influence in the companies does:

“Cultural impacts on MA and our work can be seen in:

- *way of finding a better solution (during a brainstorming session)*
- *way of thinking (perspectives)*
- *way of communication”*

Most of the interviewees stated that there are foreign workers in the Arab companies from all over the world, but majority of them especially in the Gulf region are from India. They admitted that Indians have a different manner in making decisions, communicating, achieving their targets, and performing. The CFO of co. (17) expressed that as follows:

“The main differences between the foreigners’ approach (Indians who are educated by the British, Europeans, and Canadians) and our approach (Arabs) are in the following fields:

- *Dealing with deadlines: they take the deadlines very seriously, but we (Arabs) are too flexible and having delays is acceptable.*
- *Strictness: they stick to numbers and targets they confirmed and decided to achieve them.*

In addition, flexibility: Once they made or fixed something (number or decision), it is then fixed. But we (Arabs) are more flexible and our decisions and some issues are negotiable”.

In this part, the interviewees actually referred to the same cultural issues that had been presented and discussed in the theoretical background in chapter three.

Hence, the cultural differences impact the work attitudes and manners. Expert (3) discussed the influences of cultural aspects on managerial accounting in terms of numbers:

“Arabs are not fact- or number-oriented and they follow their intuition in making decisions. On the contrary, Indians are more number oriented”.

Here Indian culture is a non-Arabic culture (foreign) and is similar to western culture in terms of number- and fact-orientation, which Arabs don't have. Thus, this attitude can be considered similar to the Anglo-American way.

Finally, the interviewees were requested to evaluate, according to their views, the importance of culture on a scale from 1 to 5⁴⁶. Twenty-one respondents evaluated the culture in the first three ranks. About 28.57% of them considered culture as very important factor in the organization and ranked it with one. The second group (52.38%) considered culture as an important aspect. The third level has been chosen by 19.05% of the respondents.

Technology

Technology as a (contingent) factor has been discussed with the interviewees. The interviewees talked over the software implemented in their companies and its functions.

First, the respondents described the software utilized for financial and managerial purposes in their companies and their branches. The utilized software in these Arab companies is either Oracle, SAP, or customized software (computer program) according to the activities and needs of the company. The interviewees named the used software as follows:

Co.	Software	Co.	Software
1	customized software (Oracle based)	15	SAP
2	customized software	16	customized software (Info-Tec software)
3	customized software (Oracle based)	17	customized software (Navision)
4	customized software (MI-BAS)	18	Oracle
5	customized software (RS Works)	19	customized software (BPCS, HFM)
6	Oracle	20	customized software

⁴⁶ The scale includes numbers from 1 to 5: (1) means very important; (2): important; (3): normal; (4): not important; (5): not relevant.

7	SAP	21	customized software (AL-Ameen)
8	SAP	22	customized software (Affaq)
9	accounting computer program (+ Excel)	23	customized software (Oracle based)
10	customized software (e.promise)	24	customized software (Oracle based; CCS)
11	customized software	25	customized software
12	customized software (Oracle based)	26	customized software (FAS)
13	customized software (SUN)	27	Accounting computer program (+Excel)
14	Oracle	28	customized software (Oracle based; I.C.B.S.)

Table (14): The implemented software in Arab companies

The majority of these Arab companies in general utilized customized software (Oracles based). As stated by the CFO of co. (23):

“We do have software. The software is based on Oracle, but it’s customized by a Syrian software company according to the different kinds of our activities”.

The software in these companies carries out financial and managerial functions. It assists in budgeting and provides reports and financial statements.

In addition to the software, some CFO admitted using Excel to prepare some financial and managerial accounting analyses and reports. The CFO of co. (10) expressed that the software is an important tool for conducting management accounting, but in order to get certain financial ratios he uses Excel:

“This software does the accounting and provides us with the reports. In addition, we prepare sometimes some reports through Excel”.

Secondly, the interviewees recounted how the companies’ information system (AIS & MIS) functions. Their information system carried out is through the networked computer system. Some interviewees mentioned the implementing of ERP in their companies as an important tool in this regard. In addition, about 21.43% admitted that the information system is authorized according to each department in their company.

“We are using a computer based information system which provides us with all needed information for the whole departments and enables the departments to get only the information they need”. (CFO, Co. 2)

Implementing effective software at any company is an essential requirement. Hence, *“Using opportune software has an influence on the efficiency of the financial department and on the performance for the whole management”*. (Exp. 2)

Finally, the interviewees were also requested to evaluate (on a scale from 1 to 5), according to their views, how important the software is for managerial accounting. Twenty-three of them subordinate the importance of technology in two levels. On one hand, 69.57% considered technology very important for the companies as stated by the General Manager of co. (14):

“Developing the software system is very important to increase the efficiency of its work in terms of controlling and following up what is going on in other subsidiaries”.

On the other hand, 30.43% of them considered the utilization of effective technology (software) as important.

Institutional Intervention

The last part of the interview guideline touches on institutional intervention either governmental, non-governmental (private or professional) or educational institutions.

The governmental intervention, through law and regulations in the fields of manufacturing, real estate, and brokerage, affects day-to-day transactions and decisions.

“In general, governmental regulations do not impact the management accounting system that much, but they actually impact our accounting system, e.g. right now banks are forced in UAE to deal with Basel II”. (CFO, Co. 8)

There is no great intervention from the government that affects managerial accounting, but only this intervention formed in terms of taxation and financial law.

“The governmental intervention in our work is very limited. But for example, in terms of expenses, like increasing the salary of the employees or determining the monthly health insurance rates”. (Chief accountant, Co. 27)

Nevertheless, governmental intervention might be seen in some financial aspects in relation with managerial accounting. *“Governmental constitutions and accounting associations*

affect the work of the financial department in certain aspects like in budgeting or in internal control". (Exp. 2)

In addition, the governmental accountant committee in the UAE forced the finance department of certain companies, especially the companies registered in the stock exchange, to use IFRS. Exp. (4) talked over this subject and gave an example of the governmental intervention in certain kinds of companies, namely Sharia-compliant companies, as follows:

"Governments in this region have limited impacts on the manner or operating style of the enterprises. Accounting regulations in most Arab countries in the region enforce the companies on one hand to adopt IFRS to prepare their financial statements. On the other hand, regulators require that publicly listed companies to provide quarterly financial statements.

Moreover, in Sharia-compliant companies, there is a Sharia board that approves all products and services which should be Sharia-compliant. They provide recommendations to companies regarding new instruments and products that are in compliance with Sharia law. But they do not participate in making decisions directly".

Sharia-compliant companies follow Islamic law and specific regulations. That also has an impact on their financial and managerial accounting. The case of Sharia-compliant companies will be presented and discussed in the next chapter thoroughly.

Finally, the interviewees were asked to evaluate on a scale from 1 to 5, according to their views, the importance of institutional intervention to their companies. Twenty-three respondents answered and the results were as follows:

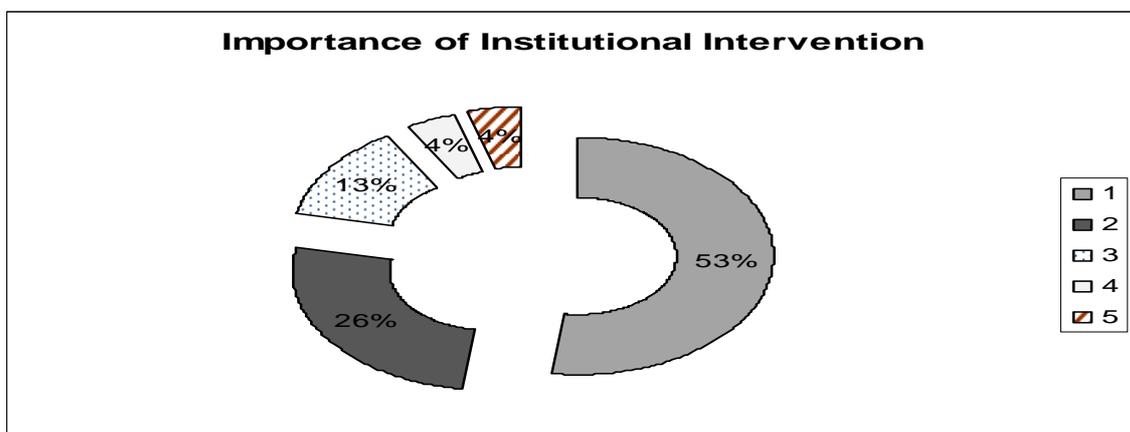


Figure (31): The importance of institutional intervention to Arab companies

In addition, the interviewees also evaluated the importance of economical environment to their companies in relation to managerial accounting. Twenty-one respondents classified the importance of the economic environment in three levels. About 57.14% believe an economic environment as very important for Arab companies. Additionally, economic environment is considered as necessary and important by 23.81% of the interviewees and only 19.05% of them considered it as normal or neutral.

Education

This research looks into the link between education and management accounting systems existing in the Arab World. Bhimani (1999, p. 422) noted in his review on cross-national studies of management control systems that “Control practices might thereby be seen to be influenced by the availability of suitable recruits which in turn is influenced by external institutional systems of education and training”.

The interviewees, in particular the experts from academic field, elaborate upon the role of institutions in providing and developing Arab management accounting systems. However, the experts referred to the limited role of education in the evolution of management accounting and control in the Arab countries. Exp. (5) referred to the weak relationship between educational and professional institutions in spreading the knowledge about management accounting and control techniques.

“Managerial accounting course is imposed from the Emiratis ministry of education, but the accounting associations here do not offer or cooperate with academic universities in order to apply this knowledge in the practice”.

Hence, universities are not providing the potential Arab accountants with comprehensive and advanced education in accounting, especially with specific courses on all related subjects to management accounting. Expert (4)

“There is a broad view in the Gulf Region that foreign financial managers, particularly Indians, have better knowledge of MA (academic knowledge, training, certified license), good English, and better understanding of IT than the locals do. That explains why there are a large number of Indian management accountants working in the Gulf region”.

Finally, through examining the data of the interviewees on education, quite interesting results were revealed by comparing the differences sources of education and knowledge in field of management accounting in the studied Arab companies. Non-Arabic, foreign (particularly Anglo-American) knowledge in terms of professional education, certificates, and experience has been recognized in 14 companies. That means 50% of the studied companies in the sample have Anglo-American influences in their knowledge and understanding of the management accounting. That will be also discussed later in chapter 7.

In addition, 45.45% of the interviewees have a professional certificate besides their academic degrees such as B.Sc., M.Sc., or MBA. That indicates the importance of professional certificates that are issued, in most cases, by the most famous Anglo-American professional institutions namely IMA and CIMA for Arab companies in field of managerial accounting.

5.2. Cross-Sectional Analyses

The analysis of all collected data from different kinds of companies in three Arab countries gave an insight into the Arab management accounting systems. In addition, the overall analysis of the data reveals initial information and knowledge about the Arab management accounting practice.

As the size of the company and its field of activity (industry) are important contingent variables, the analysis will be expanded to deal with these factors. Furthermore, Chow et. al. (1999) supported this idea and suggested in their comparative study on Japanese, American and Taiwanese firms that it might seem appropriate to test for the effects of national culture on MCSs by comparing samples from different national cultures without examining other factors such as firm size and industry, though they can reduce the reliability of the findings significantly.

Eventually, the data had been first analyzed in general for all Arab companies, but the following subsections provide three in-depth data analyses (cross-sectional) based on different measurements or dimensions derived from the theoretical framework:

- Cross-country analysis, which considers the environment and yields comparison between the companies according to country.

- Cross-industry analysis, which compares the data of the companies according to their field of activities.
- Cross-size analysis, which provides comparison between the companies' data according to their size.

5.2.1. Cross-Country Analysis

Cross-country analysis will reveal the differences between the studied countries and indicate homogeneity or heterogeneity among these Arab countries. As mentioned previously, Egypt represents the North African countries, the United Arab Emirates has been chosen to represent the Gulf countries and Syria represents Middle Eastern countries of the Arab World.

The following sections analyze the data gathered from the interviewees of Egyptian, Emiratis, and Syrian companies separately.

5.2.1.1. Organizational Structure

None of the Egyptian companies have a separate, functioning management accounting department. The finance department of these companies carries out financial and managerial accounting.

As discussed in the overall data analysis, the finance department of the Egyptian companies can be found in the third level of the organizational structure. The finance department has been only found in company (5) in the second level.

As mentioned, there was on the one hand no separate, functioning department for MA in twenty-six Arab companies (from the twenty-eight companies), but on the other hand two companies (Co. 6&7) in the UAE have a separate section for MA integrated in their organizational structure. The management accountant of Co. (7) stated that as follows:

“Our management accounting section is integrated into the finance department”

In addition, the Emiratis interviewees were asked to talk about the rank of the finance department in the organizational structure of their companies. As a result, in 50% of the studied companies in UAE have the finance department in the second level of the organizational hierarchy directly after the chairperson.

5.2.1.2. Budgeting and Planning

First, concerning accounting systems, most of Egyptian companies apply local reporting and accounting standards. Only company (3) applies GAAP installed in the company's software. In this section, the Emiratis interviewees were also asked first to elaborate on the accounting system. The analysis shows that about 15.38% use Emiratis accounting standards and 7.69% follow GAAP. In addition, about 84.62% of the studied Emiratis companies implement IFRS as an accounting system.

“Many companies in the UAE (for example shareholder public companies, banks, insurance companies, and listed companies in the stock market) are obligated by the central bank and the stock market committee to implement IFRS”. (Exp. 2)

The CFO of Co. (10) also stated that

“We are using IFRS (since we were listed at the stock exchange market). Our software does the accounting and provides us with the reports”.

That has been also emphasized by the CEO of co. (16)

“We do have “IFRS”, which is recommended and imposed from the Emiratis government to apply the IFRS in the manufacturing sector. In addition, we do use Oracle and Info-Tec software for the accounting system. Our software system connects all the departments together with the management as well”.

Secondly, the Egyptian interviewees were asked to elaborate on their budgeting approach, process, and periods. The budgeting approach in most Egyptian companies is a mixed approach in general, as the finance department, other departments, and the management teamwork on finalizing the budgets.

“Budgeting is important for executive managers. The (operating) budgets (with the forecasted earnings and expenditures) are made by finance department. The finance department then sends them to the board of directors (executive team) and then they have to make their decisions”. (CFO, Co. 1)

The following figure illustrates the percentage of Egyptian, Emiratis, and Syrian companies that follow either top-down, bottom-up or mixed approaches in budgeting:

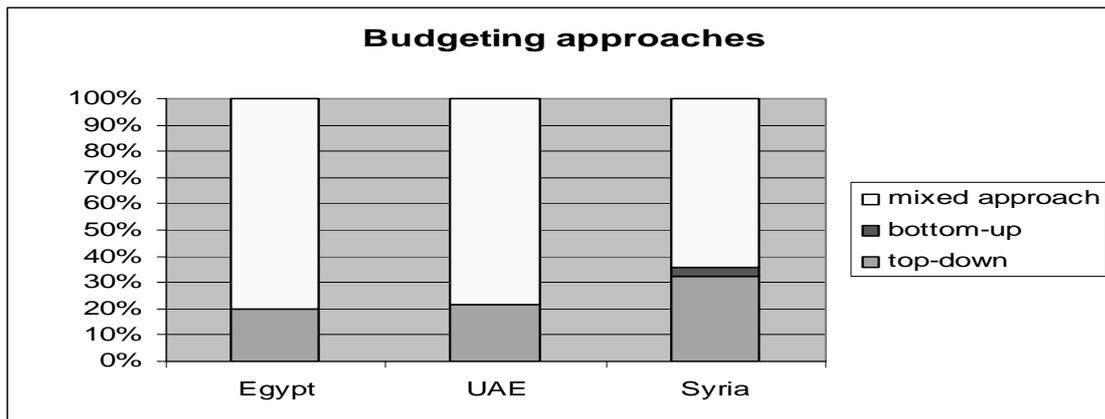


Figure (32): Budgeting approaches according to company’s country

Finally, concerning periods of budgeting and planning, all of the Egyptian interviewees declared that their companies follow short-term planning and budgeting. That has been stated by Exp. (1) as follows:

“In general, most kinds of companies in Egypt follow short-term planning”.

However, the interviewees also talked about the periods of the budgets and plans prepared at their companies in the three different countries. In term of budgets, the results are as follows:

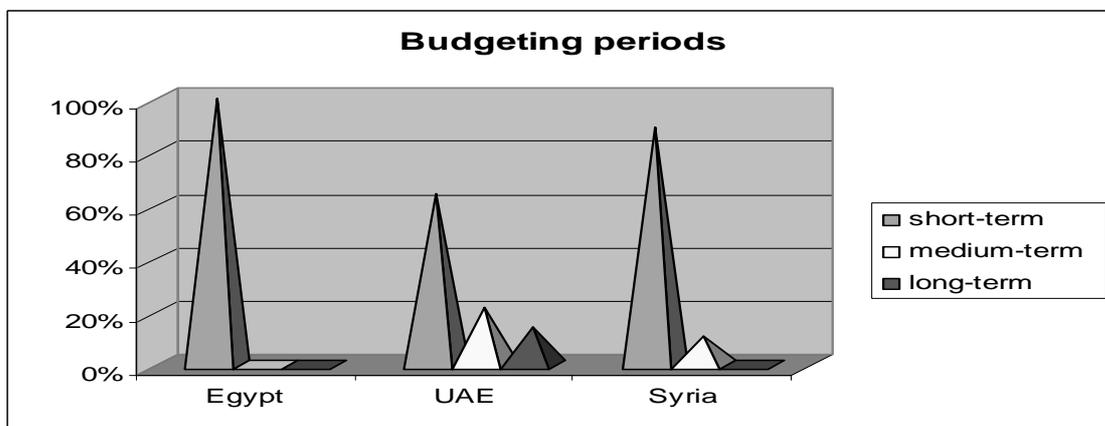


Figure (33): Budgeting periods according to company’s country

The main difference between the three countries is in long-term budgets. As some of the studied Syrian companies referred to following medium-term budgeting, none of the examined Egyptian companies have medium-term budgets (3-4 years).

But in terms of planning, the periods of planning in the Arab companies are calculated and presented in the following figure:

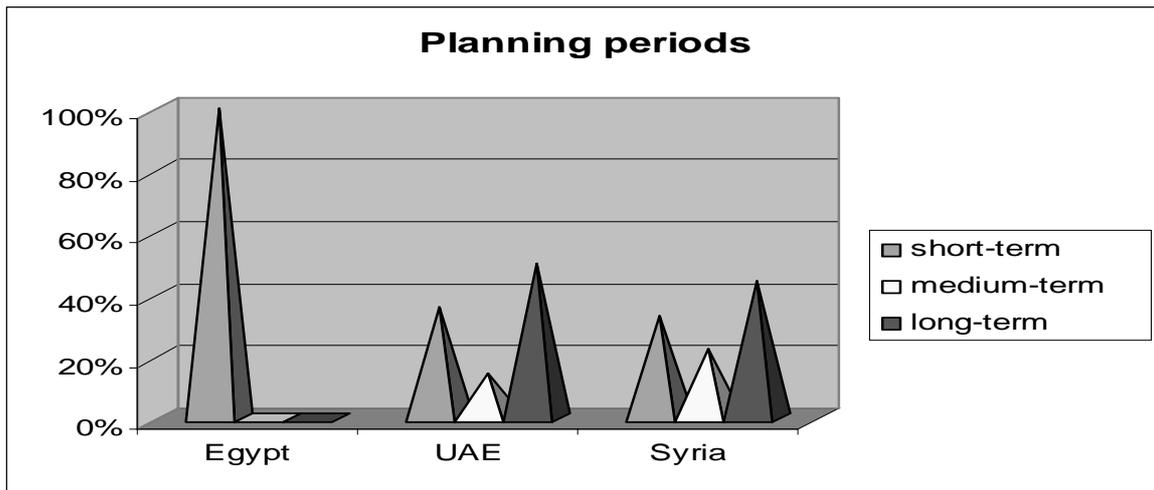


Figure (34): Planning periods according to company's country

The results on planning periods vary from the ones on budgeting periods. As shown in this figure, the highest percentage of the companies in the UAE follows long-term planning.

5.2.1.3. Role and Instruments of MA

The role and functions of the finance department in terms of managerial accounting cover budgeting, planning, management control, and evaluating performance.

The following table gives further information about the used management accounting instruments among the studied companies in the three Arab countries. Numbers are in percentage terms:

All used instruments in MA	Egypt	UAE	Syria
budgeting	100%	100%	100%
ABC	20%	64.29%	55.56%
BSC	0%	35.71%	11.11%
CVP	20%	50.00%	22.22%
ROE & ROI	60%	85.71%	88.89%
SWOT-Analysis	60%	85.71%	66.67%
Benchmarking	20%	71.43%	44.44%
target costing	60%	7.14%	0%
CPA	20%	35.71%	33.33%
KPIs (performance)	0%	14.29%	22.22%
variance analyses	80%	100.00%	66.67%

Table (15): Implemented MA instrument according to company's country

As shown in the table, on the one hand, budgets are the major instrument in managerial accounting in all of these countries. On the other hand, some instruments such as BSC have not been found in any of these studied Egyptian companies.

5.2.1.4. Information Systems

The empirical study enables better understanding of the information exchange and system in the Arab companies. This empirical investigation deals with mainly the reporting system and manners of communications in these companies. This section presents the differences in information systems between the companies of the three, separate Arab countries.

Reporting System

Reports are a crucial part in exchanging information in order to enable the decision-making and leadership of the Arab companies. The research looks into the link between the reporting systems in these Arab companies with their managerial accounting and control systems. The empirical data clarifies the reporting conducted by the finance department in the Arab companies. The examination of data country-based shows differences in the kinds and periods of reports prepared in Arab companies. The following figure illustrates these differences:

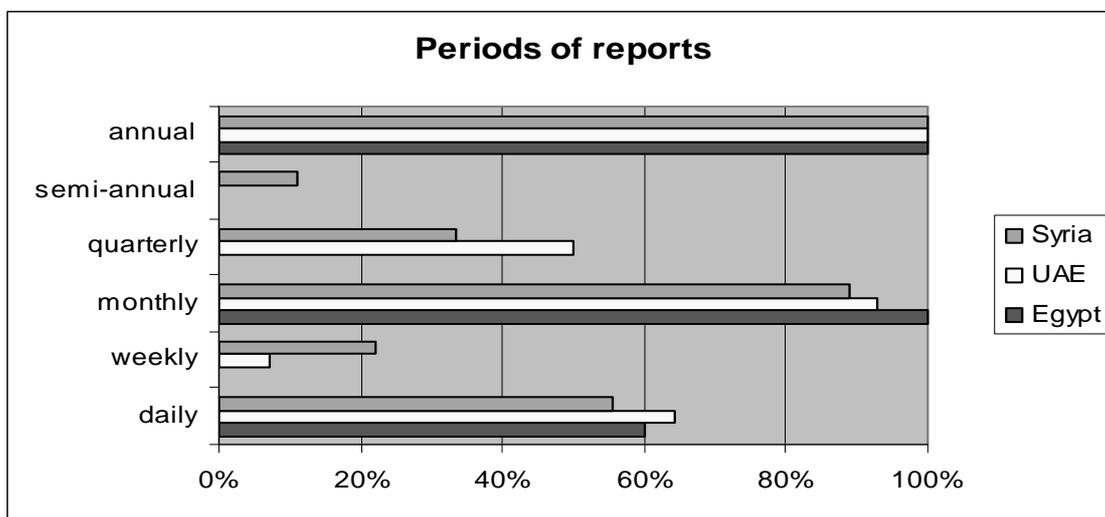


Figure (35): Periods of reports according to company's country

The data indicates the sophistication of reporting systems of the Arab companies in the three different countries. Obviously, the Emiratis companies issue many more reports during the financial year. The CFO of Co. (10) declared the following in this regard:

“We issue monthly, quarterly, and annually financial statements and reporting package. Our software does the accounting and provides us with the reports”.

In addition, the accounting system followed by most of the Emiratis companies impacts their reporting system. The CFO of Co. (6) stated:

“We are using IFRS in our financial reporting. We do have monthly, quarterly and annual reports which also include all financial statements”.

Manners of Communication

According to the gathered data about manners of communication, there is no big difference between the Egyptian, Emiratis, and Syrian companies.

All interviewees in the three Arab countries ensure that they communicate through written letters in a formal way, but about 60% of the companies are pursuing verbal communication whether face-to-face or by phone in order to exchange information and make decisions. Moreover, few percentages of the companies in all three Arab countries see formal meetings as a manner of communication or exchanging information and views.

5.2.1.5. Further Influential Factors

The research looks into further influential factors derived from the contingency theory discussed in the second chapter. The cross-country analysis examines the differences between the three Arab countries in three aspects or factors namely technology, institutional intervention and education.

Technology

As discussed in the previous section (1.1.10), technology is receiving more attention over the recent years in the Arab countries, but the empirical data shows the great implementation of the modernist software, produced by the leading software and programming companies in the world such as Oracle and SAP, in Emiratis companies. Detailed information was presented in table (15)⁴⁷.

⁴⁷ See page 184.

Institutional Intervention & Education

In general, institutional intervention, particularly governmental, does not largely influence managerial accounting and control systems in the Arab companies.

The influences of governmental, professional, and educational institutions in Egypt on expanding the knowledge and the development of management accounting, are still limited. The same results have been found through cross-country analysis concerning Syria.

Institutions in the UAE have greater roles in developing management accounting and control techniques among the companies in the region. In the UAE, most accountants aspiring to become managers or deputy managers of finance departments pursue a professional education and training programs that consist of themes in finance and managerial accounting such as CMA, CPA, etc.

5.2.2. Cross-Industry Analysis

In this analysis, the twenty-eight companies have been divided into three separate groups according to their economic sectors. These groups are manufacturing (factories), financial (banks and insurance), and service, commercial companies (hotels, real estate, etc.).

5.2.2.1. Organizational structure

The field study manifests the variation in organizational structure and hierarchical level of the finance department according to the kind of companies. The empirical data indicates that service companies have less complex organizational structures than factories and banks. In addition, the finance department has more divisions and tasks in manufacturing companies and banks. These tasks embrace financial accounting and internal auditing and control.

5.2.2.2. Budgeting and Planning

The cross-sectional analysis looks into the budgeting and planning according to the kinds and activities of the companies. Variations in the budgeting and planning between the three different types of companies have been perceived through the analysis. The accounting system varies between these kinds of companies.

Cost & accounting system

Exp. (2) referred to the differentiations in the cost and accounting system in Arab companies. This system may vary according to type of company or the Arab country as discussed previously.

“Regarding the cost accounting system, we can find good accurate systems in the industrial companies, in particular manufacturing companies, because they want to have accurate calculations for their costs”.

The accounting system also affects the features and structures of budgets and plans. The empirical data indicates that 60% of the studied service companies use the country local accounting standards as well as 33% of the manufacturers. In addition, all of the examined banks use IFRS in accounting, auditing, and reporting, but only 56% of the examined manufacturers and 30% of the service companies confirmed using IFRS as standards for their cost and financial accounting. GAAP has been found in about 10% of each the manufacturing and service companies.

Budgeting

The empirical study examines the budgeting approaches and periods in the Arab companies. The budgeting approach indicates the formalization and power (authority) in these Arab companies. Only 10% of the examined manufacturing companies follow a bottom-up approach in budgeting. The majority, namely 70% of the manufacturers, 71% of banks and insurance companies, and 73% of commercial, service companies have a mixed approach in budgeting. However, the cross-sectional analysis reveals the top-down budgeting approach in 20% of the manufacturers, 29% of banks and insurance companies, and 27% of commercial, service companies.

The analysis of budgeting periods according to the field of activities also reveals the differences between the companies. The following figure illustrates the empirical data on budgeting periods collected from each kind of Arab companies:

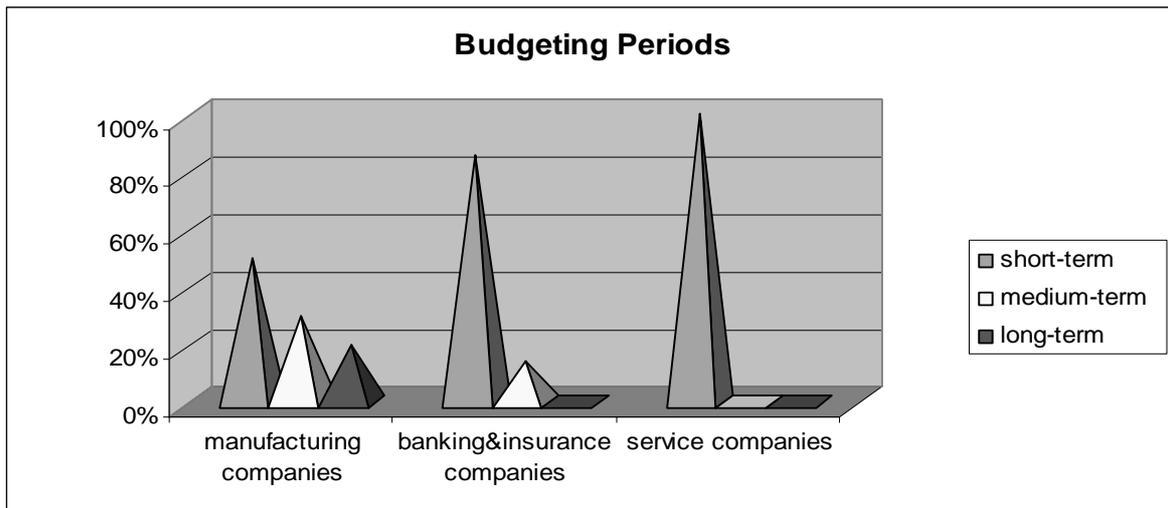


Figure (36): Budgeting periods according to company's type

It is obvious that medium-term budgets were found in banks and manufacturers on the one hand, but only manufacturers in the three types of selected Arab companies have long-term budgets on the other hand.

The results on planning periods according to the types of companies vary from the ones on budgeting periods. The analysis indicates a high rate of short-term plans in service companies. The analysis also indicates a low rate among banks and insurance companies for short-term planning, but a high rate for medium-term plans. Moreover, long-term planning has great importance in manufacturers, banks and insurance companies. The following figure clarifies these differences:

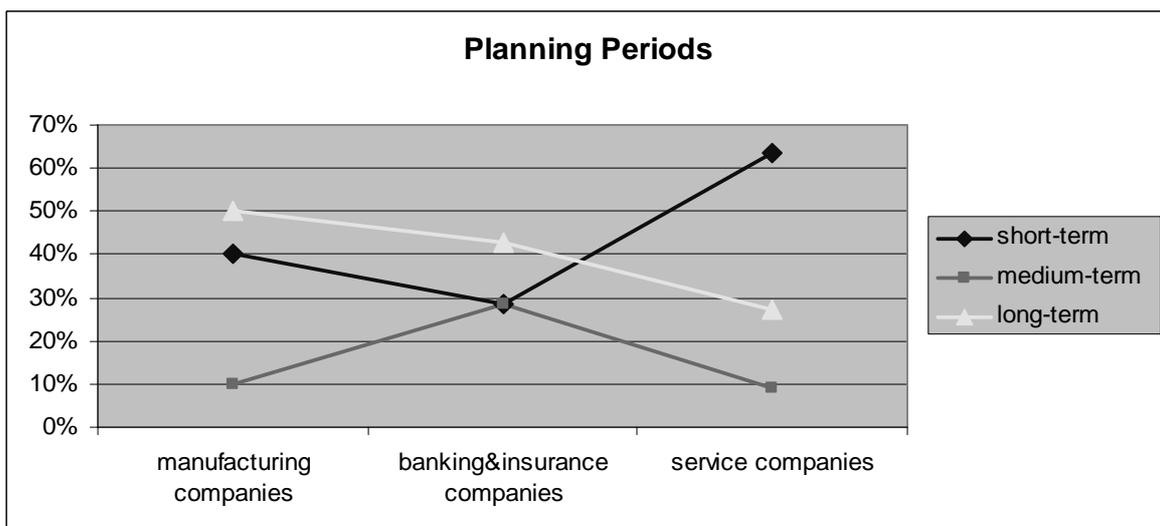


Figure (37): Planning periods according to company's type of business

5.2.2.3. Role and Instruments of MA

This in-depth field study clarifies the role and functions of management accounting in Arab companies. This cross-sectional analysis looks into the differences in the role, functions, and implemented instruments of Arab management accounting on economic sector base.

Concerning the instruments of Arab management accounting, the empirical data designates the differentiation between manufacturers, banks and service companies in the utilization of management accounting and control techniques. First, budgets are the crucial instrument in all types of companies. In the second rank, ROE & ROI (profit) are major measures in managerial accounting and performance evaluation in Arab companies. The portions of the utilization of managerial accounting instruments among the three types of companies are:

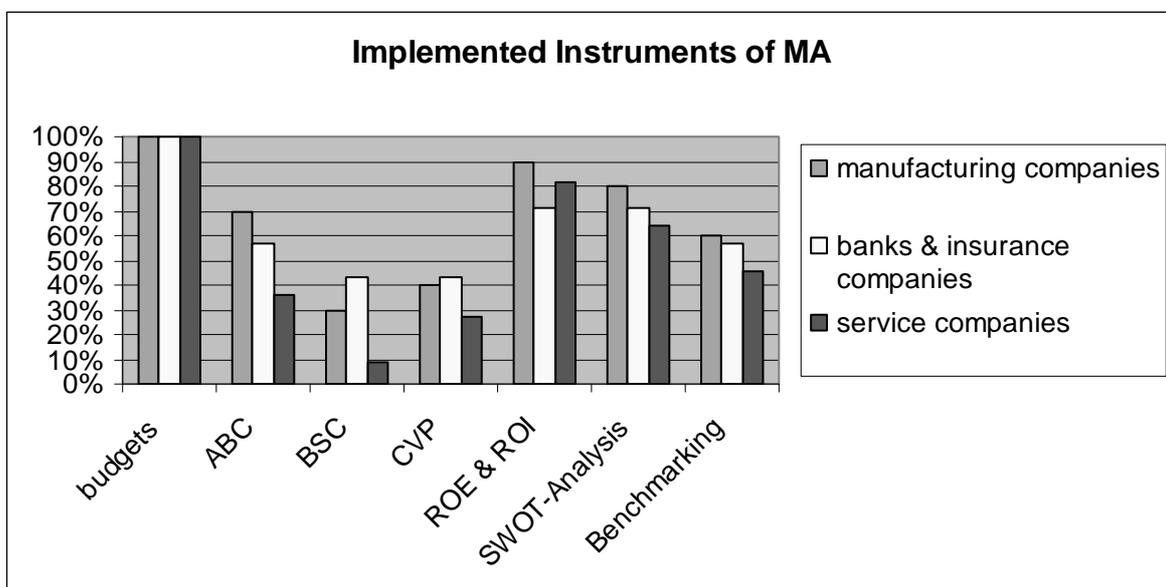


Figure (38): Implemented MA instruments according to company's type

BSC makes a major difference between the three types of Arab companies. As shown in the figure, banks are in the first rank in implementing BSC in their MAS and the manufacturers come in the second rank among the studied companies.

5.2.2.4. Information System

As mentioned before, this study examines the information exchange channels and systems. Thus, this research focuses on two main issues, which are the reporting system and manners of communication.

Reporting

The cross-sectional analysis indicates variances in the kinds of reports between the three types of Arab companies. The following figure gives an idea about the diversity of reports prepared by each type of companies:

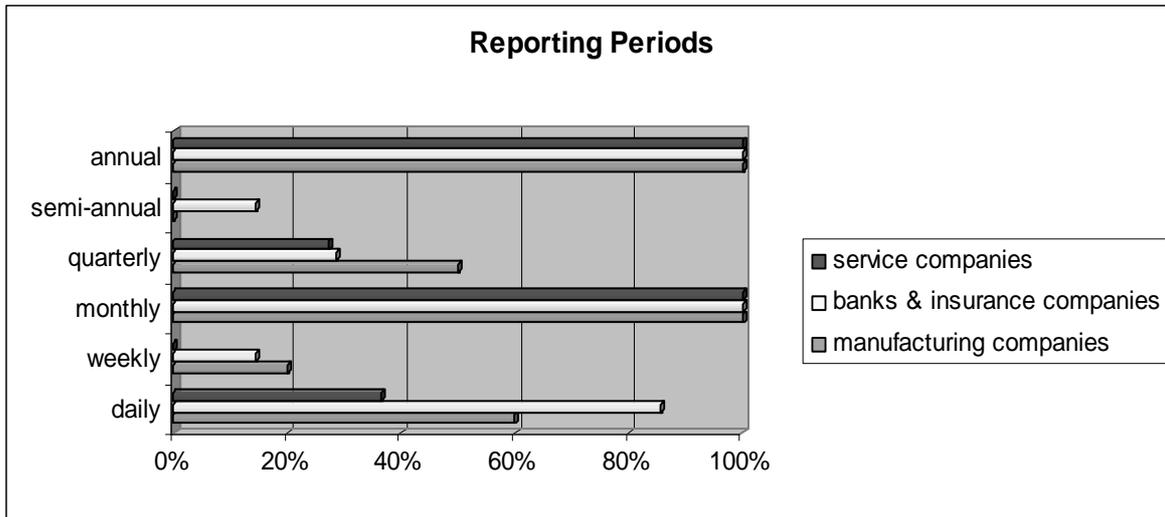


Figure (39): Reporting periods according to company's type

The empirical results affirmed that the finance departments of all types of Arab companies issue monthly and annual reports. However, the finance departments of manufacturers and banks prepare much more sufficient reports. In most of these companies, the finance department sends daily or weekly reports to assist the management in decision-making particularly.

5.2.2.5. Further Influential Factors

Some factors have been examined in this section. These aspects are technology and institutional interventions.

Technology

Concerning technology, the cross-sectional analysis indicates the importance of technology to manufacturers and banks. The CFO of the manufacturing company no. (16) declared the following in this regard:

“The technical aspects and developments play an important role in our work and in developing our company. We bought software for our work and we customized it in order to make it fits with all our kinds of activity”.

Institutional Intervention

The empirical data reveals the great influence of institutions, governmental in particular, on banks especially in terms of accounting, auditing, and control. That has been stated by the internal audit manager of a Syrian bank (co. 24):

“There is a great intervention from the governmental institutions especially from the Central Bank of Syria. The governmental constitutions are absolutely strict in the banking sector. The governmental regulations impact our work especially the finance and internal audit departments’ work”.

5.2.3. Cross-Size Analysis

Company’s size is an important contingent variable. This in-depth analysis examines the data according to the Arab company’s size. The studied Arab companies have been categorized in three groups: small-sized, medium-sized, and large companies. The comparison of this analysis is also structured according to subjects.

5.2.3.1. Organizational Structure

The analysis of the interviewees’ description and the collected documents shows notable differences in the organizational structure between small and large-sized companies. In addition, the analysis of the data indicates the differences in the hierarchical level of the finance department in the organizational structure between the different sizes of the Arab companies.

Large Arab companies have a more flat rather than the tall organizational structure as in the small-sized Arab companies. Hence, the organizational structure as well as the hierarchical level of the finance department depends on the size and the complexity of the company’s business.

5.2.3.2. Budgeting & Planning

Three main issues were examined in this section. First, there is a remarkable difference in the used accounting systems between local Arab companies and international Arab companies. The Exp. (2) expressed that as follows:

“Small companies use the local accounting standards. If the company wants to follow the development of the market and to be international, it should work and report according to IFRS”.

The differences of the implanted accounting systems among the three kinds of companies can be presented as follows:

Accounting Standards	Large companies	medium-sized	small-sized
IFRS	100%	43%	0%
GAAP	0%	14%	0%
local ASs	0%	43%	100%

Hence, the percentages indicate the high rate of use of international accounting standards in large companies in comparison to the small-sized companies. On contrary, the small-sized companies showed a high percentage of use of the local accounting standards of the country where the companies are operating.

Secondly, the data analysis on the budgeting approach in each company’s size displays that the followed procedure varies among the Arab companies. A high proportion of the mixed-approach budgeting was found in large Arab companies. In addition, the small-sized companies showed a high proportion of the top-down approach in budgeting. The results can be demonstrated as follows:

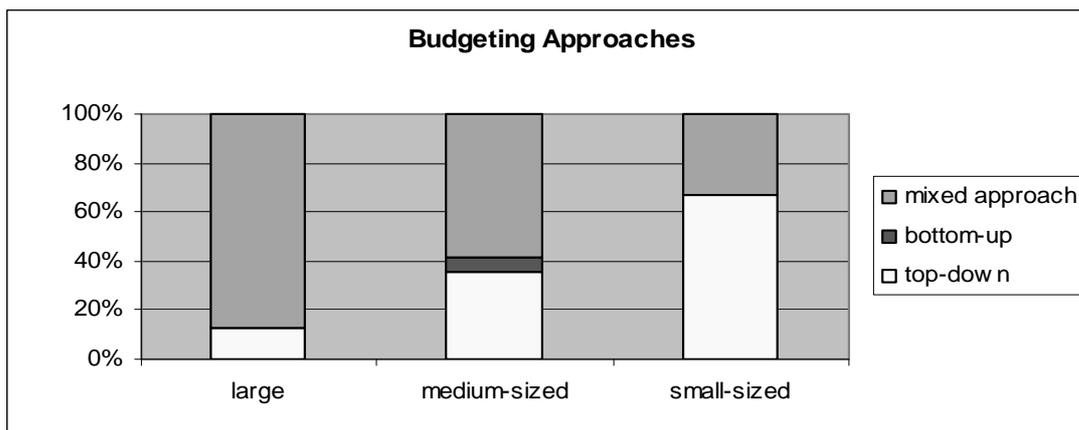


Figure (40): Budgeting approaches according to the company’s size

Thirdly, the comparison between these three kinds of Arab companies in terms of budgeting and planning periods indicates that no long-term budgets (from 5 to 10 years) were prepared in any of them. The next figure illustrates the results as follows:

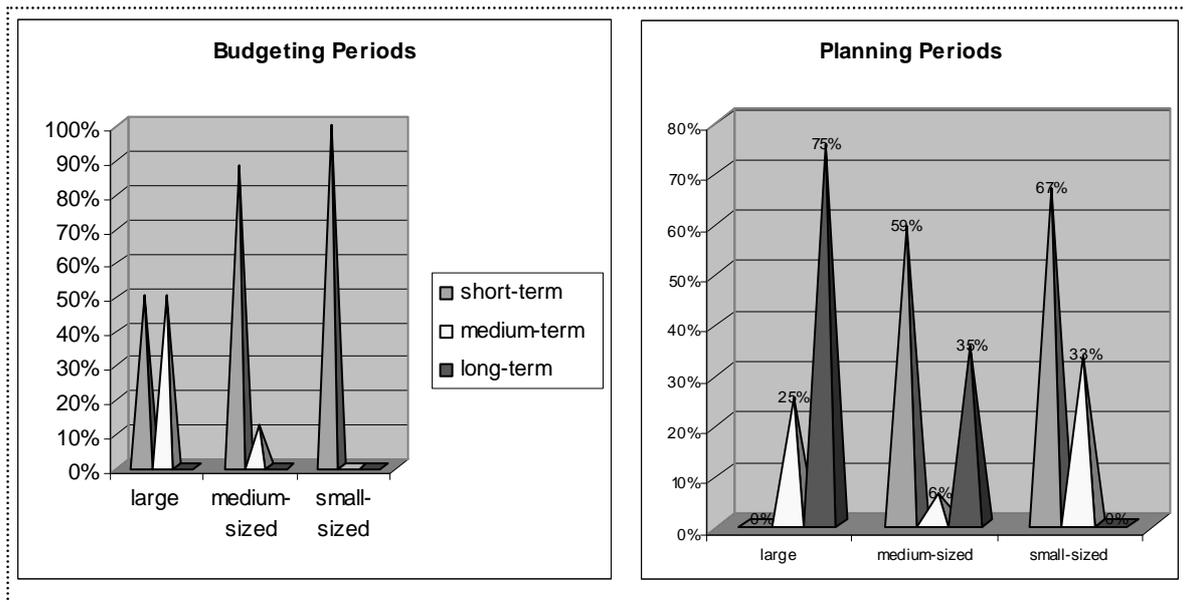


Figure (41): Budgeting and planning periods according to the company's size

The figure shows the notable differences between the data according to the company's size. Concerning budgets, we can notice that small-sized companies rely only on short-term budgets in general, on the contrary to medium-sized and large companies. Planning periods extend to cover medium terms (3 to 4 years) in the small-sized companies and to long-terms in large companies particularly and in medium-sized companies to a certain degree. Therefore, we may see two, different planning periods in small-sized and large companies and the three types of planning periods among the Arab medium-sized companies.

5.2.3.3. Role & Instruments of MA

Management accounting roles in Arab companies vary among the different sizes of the studied companies. Interviewees from small-sized companies consider management accounting as a unit in the organization for providing information for the executive managers. But the medium-sized companies see that management accounting has a role in financial accounting, providing information, and controlling the activities in the company. A different view was gained from large companies. On the one hand, management accounting in large companies have a key role mainly in management control over the company and also in delivering important information to assist in the decision-making process. On the other hand, the accounting division is usually responsible for financial accounting, as large companies have several specialized divisions and differentiate between accounting and management accounting in their finance department. The following figure clarifies these differences:

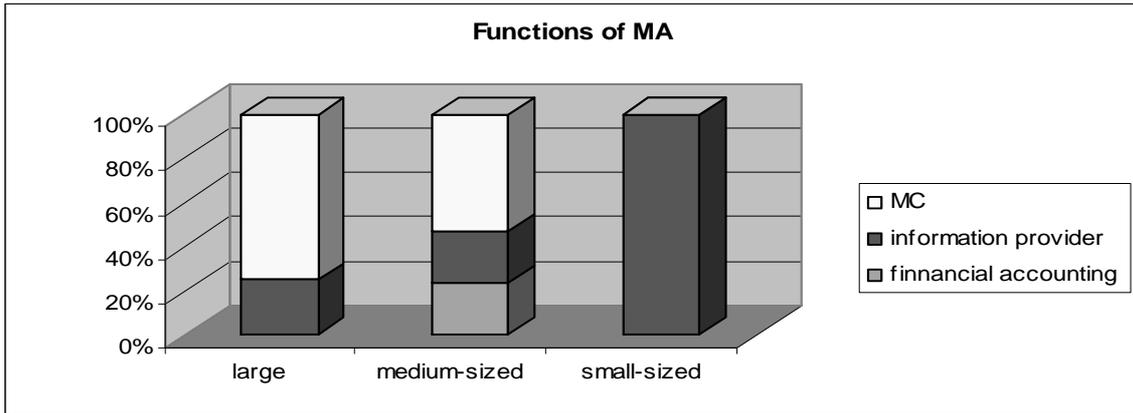


Figure (42): The role of MA in Arab companies according to their size

Furthermore, this data analysis indicates relative differences in the utilization of management accounting instruments in the three different groups of Arab companies. The comparison refers to the various rates in the use of several traditional and modern management accounting techniques besides budgets, as shown in the following figure:

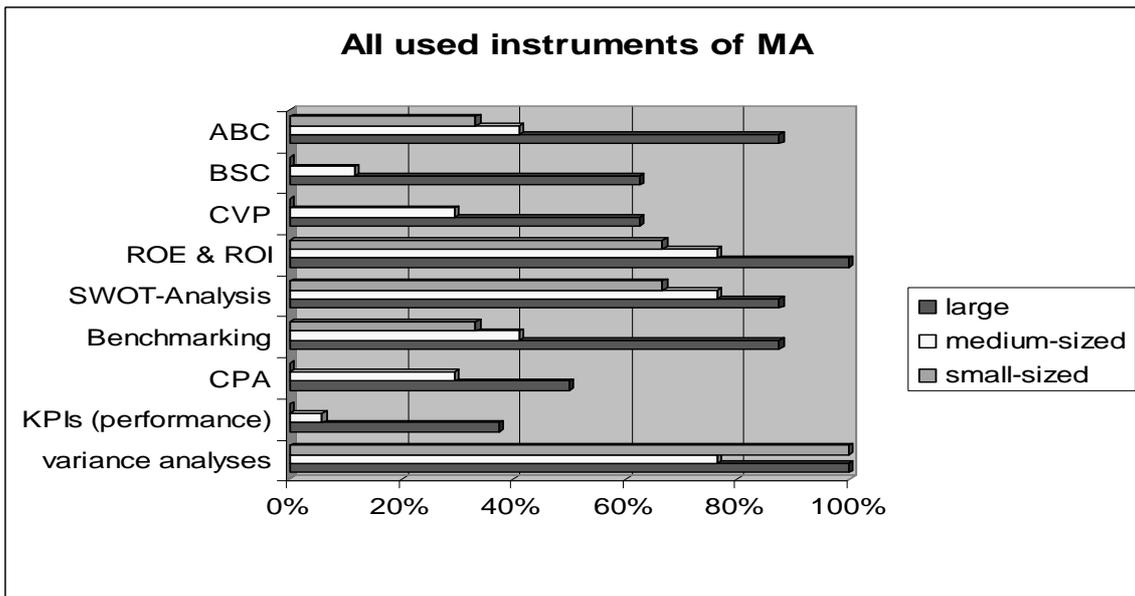


Figure (43): The used MA instruments according to the Arab company's size

The chart shows the high rate of using of ROI and variance analysis in managerial accounting, specifically in performance evaluation in small-sized companies, though medium-sized and large companies have higher rates of use of KPIs and BSC for performance evaluation and management control. Hence, the use of MA instruments is positively correlated with company size. The study indicates that the large companies implement many more modern management accounting techniques.

5.2.3.4. Information System

The data analysis of the used information in the studied Arab companies according to their size indicates that 75% of large companies and only 17.65% of medium-sized companies use non-financial data in their reports and management accounting analyses. None of the studied small-sized Arab companies used non-financial information. In addition, 87.50% of the large Arab companies deliver quantitative as well as qualitative information for the management to assist in making decisions. None of the small-sized companies referred to the qualitative data in their reports or analyses, but 58.82% of the Arab medium-sized companies did.

Furthermore, differences were also discovered in the periods and frequency of the issued reports and information, as demonstrated in the following figure:

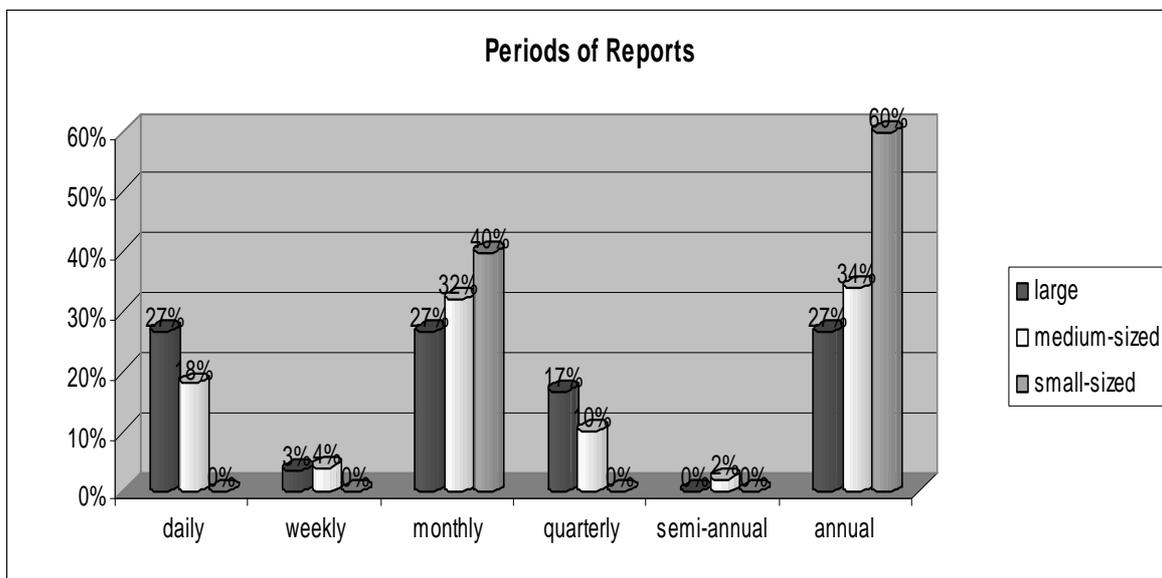


Figure (44): The frequency of issued reports according to the company's size

Arab small-sized companies rely on monthly and annual reports to serve management accounting and control in the organization. On the contrary, Arab medium-sized and large companies showed higher rates of frequency in issuing further daily, weekly, and quarterly reports.

5.2.3.5. Further Influential Factors

The differences in this section were identified in two themes: technology and culture. In regard to technology, on one hand 50% of the Arab large companies have high technological licensed software from SAP or Oracle and only 11.76% of the medium-sized

companies have them. Small-sized companies have no original international software, but only customized software implemented to meet their moderate needs.

Concerning culture, the data analysis indicates that large Arab companies create their own culture and work attitudes. That has been pointed out by the management accountant of Co. (7) as follows:

“The organizational culture of our company is established in a way that shows us how to deal in this business. For example, deadlines are fixed, fixed solutions and orders are binding, reaction to the matters should be quick, and timetables should be taken seriously. Thus, the employees have to react in this way and not according to their own culture”.

5.4. Summary

This chapter presented the empirical results collected through the fieldwork, as this research is designed to explore management accounting practice in the Arab World.

In almost all of the studied Arab companies there was no separate department for management accounting. Management accounting in Arab companies is integrated with financial accounting. Hence, the finance department performs financial accounting tasks in addition to those in management accounting such as budgeting, reporting, variance analyses, and performance measurement in order to help the management.

Arab companies can be characterized by short-term budgeting. Most of the Arab companies follow short-term budgeting and planning except large or manufacturing companies or even banks. The results obtained from the field showed that Arab companies still rely on budgets in their managerial accounting. In addition, Arab companies use more traditional instruments in management accounting, including performance evaluation, and some of those companies use modern techniques such as ABC or BSC.

The finance departments in Arab companies provide the executive management with regular reports in an effort to support planning, strategic decisions, and performance measurement. In addition, the department obtains information from other departments and provides the management with the required information through a computerized internal

network. The examination of the accounting information systems displays that Arab companies rely more on monthly and annual reports. The empirical results show that finance departments in Arab companies are responsible for financial accounting, and in terms of management accounting, for producing required information for decision-making and management control.

The results indicate that managerial accounting is somehow separated from management. That means strategic decisions are still limited to the executive managers as well as to the board of directors. Many interviewees especially the subordinates expressed an interest in obtaining more independence and authority in the decision-making.

The last part of the field study looks into additional factors that can influence the management accounting approaches in Arab companies. The empirical data refers to the importance of technology for Arab companies and the high rate of utilization of modern techniques in terms of management accounting.

Moreover, the data indicates that governmental constitutions do affect the duties of the finance department in certain aspects. For example, sometimes the department is required to emanate special reports for public governmental institutions. In addition, some governmental intervention through laws prevents managers from making strategic decisions in specific fields. For example, the managers of the stockbroker company are bound by the law at times to change their decisions regarding where and how much money to invest in shares. In addition, education plays a key role in the level of sophistication in management accounting in Arab countries. Hence, the roles of institutions including educational services vary according to the country and field of activity.

The empirical results indicate that the collected data varies among the Arab companies, according to country, type, and size. Although the Arab World is considered as one unit with Arab culture and language, these countries are heterogeneous, for example in their level of development and market conditions. This means the role and function of MA, the use of MA instruments and the performance measurements differ from country to another.

Chapter 6: Case study

Management Accounting and Control Systems in the Sharia-Compliant Companies: A Case Company from UAE

This case study is focusing on the MAS in the Arab countries and on Islamic religion as an important, notable aspect belonging to Arab culture and society. Hence, a case study about a Sharia-compliant company, specifically an Islamic bank, will be presented and described in this chapter. The first section explains the definition and functions of Islamic banks. The second section will present the characteristics of MAS in this kind of company. The third section discusses the results and the findings on the case. The last section provides a summary.

The Arab World is rich in its natural resources, particularly agricultural products and raw materials like gas and oil in the Gulf region. As the majority of Arab people are Muslims, Islam in the Arab World can be traced back to the early 7th century AD⁴⁸. The Islamic World had come into existence by the end of the tenth century and united many countries by a common religious culture (Hourani, 1991). Muslims consider the holy book “Qur’an”, the literal words of God. Sharia is considered to be the Islamic law for Muslims. The Islamic law is derived from the Qur’an and Sunnah⁴⁹ and formed by well-known Islamic scholars. The Sharia contains rules for all aspects of Muslims’ life. Thus, the Islamic law covers social and commercial aspects such as marriage, charity and trade. Islamic principles also embrace truth, justice, fair, goodwill, benevolence, honesty, etc.

In the Arab countries, the most of the business organizations are working according to conventional business and management approaches as in the Western countries, but some companies in the Arab World are also working according to Sharia (Islamic law). In addition, Islamic religion is a part of Arab culture and society. Islamic finance is developing

⁴⁸ Islamic religion emerged first in the Arabian Peninsula and particularly from Saudi Arabia, as prophet Muhammad preached to the people of Mecca initially.

⁴⁹ Sunnah refers to the binding rules derived from the Prophet's teaching and sayings so-called “*hadith*” and the exegeses of the Qur’an.

at a remarkable speed. They are concentrated in the Middle East and Southeast Asia, as Bahrain and Malaysia can be considered the biggest hubs (El-Qorchi, 2005).

As mentioned earlier, not much research has focused on the impact of religion upon management accounting and control system. This research is examining the influences of Islamic law on MASs in one specific group of Arab companies, namely Sharia-compliant companies. Therefore, this specific case company will illustrate the impacts of Islamic law on managerial accounting in Sharia-compliant companies. As the case company represents an Islamic bank, the following paragraph gives brief insights into Islamic banks.

6.1. Islamic Banks

Islamic banks are not only increasing in Islamic countries, but these banks are also appearing in Western countries like in the UK. As the Islamic banks provide financial services to Sharia-compliant business, it is expected that these banks work in accordance with Islamic principles (Sulaiman, 2003). Thus this way of conducting business would be expected to affect the accounting, management accounting and control practices. In Sharia-compliant business, certain rules that impact the accounting and managerial methods and techniques have been developed as guidelines for good practice in conducting business and financial services according to Islamic law (Sharia).

As mentioned, the Islamic banks were the first financial institutions to deal with Western banks according the Islamic trade finance based on “murbaha”. These banks created a financial system for the Muslims who were seeking to conduct their financial affairs in accordance with the Islamic Sharia. Therefore, it is of importance to understand the business structures and approaches of Islamic banks. Thus, this section briefly presents the main business features of Islamic banking.

Hence, public trust in Islamic banks as well as in all Sharia-compliant companies is placed in individuals (depositors/ investors). This trust in Islamic banks is related to the quality of their work⁵⁰, the degree of adherence to Sharia (the identity card of Islamic banks), and their financial strength (quality of the public information).

⁵⁰ A work or a manner that fits to the Islamic way.

Islamic banks accept “deposits” and offer “financings” plus other banking and investment services. As mentioned before, the prohibition of interests (riba) influences the products. In most cases, the bank shares the profit with the companies receiving lending (the credits) like “musharaka”⁵¹.

In general, financial statements of the Islamic banks should reflect the effectiveness and performance of the bank. In general, the financial statements embrace (Maali, 2006):

- Report on financial position
- Statement on income.
- Statement on cash flow.
- Sharia advisory report
- Report on Zakat
- Statement on changes in owners’ equity.

According to the Islamic accounting standards, the balance sheet of the Islamic banks contains the following accounts (Maali, 2006):

Assets side includes: physical assets plus interest-free financial assets: Murabaha, Ijara, Istisnaa, Mudarabah, Musharakah etc.

Liability side includes

- I. Liabilities: interest-free demand deposits, interest-free saving deposits and non-fixed return term deposits.
- II. Unrestricted investment accounts: the Islamic alternative of term deposits.
- III. Profit

6.2. Case Study (KIB)

The Islamic finance industry is growing exponentially nowadays. Islamic banks have always blossomed in the UAE (United Arab Emirates yearbook, 2009). The United Arab Emirates is considered one of fast growing economies in the world.

The primary information on this company was first collected during the second research trip to UAE in May 2008. This Sharia-compliant company provided exceptional information and presented unusual data comparing with the information and data collected from other

⁵¹ Musharaka in Arabic means: to share.

Arab companies. As this group of companies can be considered as special, interesting and exceptional cases, the data was then extended to a second investigation through a second interview with the company members in order to establish a representative case study on management accounting and control systems in Sharia-compliant companies.

The case has three main aspects to discuss. First, one of the case objectives is to study the role of Sharia in day-to-day business practice. Secondly, through in-depth interviews and investigations in the company, the case also focuses on the impact of Sharia on the management accounting system in this Sharia-compliant company. Finally, the case presents cultural and especially religious aspects to thoroughly understand the functions of managerial accounting techniques such as reporting, as well as management control in Sharia-compliant companies particularly in Islamic banks.

The case study investigates the characteristics of MAS in Sharia-complaint companies. The case also looks into the interactions between the Sharia compliance and managerial accounting in these companies. This case study is structured as follows. The first section will present the organizational structure in this type of company. The second section explains the scope of management accounting in the case company and examines the used instrument in the managerial accounting. The third section will discuss the role and functions of the management accounting system within the Sharia-compliant company. The forth section will deal with the influences of Sharia compliance on the management accounting system in general and the intervention of the Sharia board in the case company. The fifth section presents the information system in relation to Sharia compliance and finally the sixth section discusses further factors that also impact MAS of the case company.

First, the following paragraphs present the company and its products, which represent in general Islamic financial products of the Islamic banks, as well as the interviewees' profile.

The Company

The Khalifa Islamic Bank⁵² (KIB) is one of the third best Islamic banks in the United Arab Emirates (UAE). Six Islamic banks are operating thus far in the UAE. Dubai Islamic Bank is considered to be the first Islamic bank in the world. The KIB is also considered to have the best policies in sharing and distributing the profit among the shareholders in the UEA.

⁵² Due to confidentiality issues, the real name of the Emirati Islamic bank has been withheld.

The Khalifa Islamic Bank (KIB) was launched in 2004 to provide high quality Islamic banking services across the UAE. The bank offers a range of Sharia-compliant products and services conforming to the highest standards of Islamic finance. All activities of the KIB are overseen by a Sharia board comprising of several prestigious scholars of Islamic law.

The bank's head office is in Dubai. In addition, the bank has up until now twenty-four branches all over the UAE. Moreover, the bank had 929 employees at the end of 2007. The KIB's vision is to be the leading provider of high standard Shari'a compliant innovative financial products, quality service and superior value for its customers, shareholders, employees and the community. In addition, the bank mission is to provide innovative, high standard financial products and services governed by Islamic Shari'a provision to enrich the society.

Interviewees' Profile

Two interviews have been conducted with three managers in the company. The first one is a face-to-face interview and was conducted in Dubai (HO) with the Chief Financial Officer (CFO) of the bank as well as with the manager of budgeting & reporting division. Due to constraints of time and travel costs, the second in-depth interview is a telephone interview. The second interview was conducted with the head of the Sharia department of the KIB.

The interviewees have different academic degrees. The CFO has a Bachelor's degree, the manager of budgeting & reporting division has a MA degree, and the head of the Sharia department has a PhD. In addition, the interviewees received training and obtained several international certificates in their field. The CFO is a certified Islamic professional accountant (CIPA). He received the CIPA from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The manager of budgeting & reporting division has a M.A. in Economics and business from Canada. In addition, he is a Certified Public Accountant (CPA).

Products of the Khalifa Islamic Bank (KIB)

- Murabaha: An agreement whereby the bank sells to a customer a commodity or a property which the bank has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and

conditions. The bank first buys the wanted item for the customer and then sells it again to the customer. In this case, the customer selects the wanted item and asks the bank to buy it for him. The selling price comprises of the cost of the commodity and an agreed profit margin. According to the Islamic way, the customer must know (for transparency) the purchase price; that means he/she knows the bank's profit margin.

- Ijarah: It is similar to the leasing. The bank is the lessor. It offers two kinds of Ijarah:
 - Financing: An agreement whereby the bank (lessor) leases an asset to a customer (lessee), for a specific period along with certain rent installments. That means the bank finances the purchasing of the asset for the customer. This Ijarah ends once the customer receives the transfer deed and owns the asset.
 - Operating: That means the bank owns the asset, even after the Ijarah period.
 - The difference between normal leasing and Islamic leasing (Ijarah) is that the asset stays in bank's ownership. That means the bank carries all the risks of that customer asset. However, in normal (conventional) leasing, the ownership or property of the asset will be transferred to the customer from the first day.

- Mudaraba: An agreement between two parties; one of them provides the funds and is called "Rub-UI-Mal", and the other provides efforts and expertise and is called "Mudarib", who is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of profit as "Mudaraba" fee. That means Rub-UI-Mal has the money and Mudarib has the expertise and puts forth the effort. The Mudarib may invest some of his/her money into the Rub-UI-Mal's money (after permission). All saving depositors are Rub-UI-Mal and the bank as Mudarib makes the deal and shares a certain percent of the customer's profit (this percent should be fixed in the contract with the bank). In case of normal loss, Rab-UI-Mal would bear the loss of his funds while Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, the Mudarib would bear the losses. But, if the default is because of natural normal reasons, the Rub-UI-Mal carries out this loss and the bank (Mudarib) loses its effort. That means in case of negligence or

violation from the bank, the bank (Mudarib) then carries out the whole loss (the money of the customer and its work and effort).

- Istisnaa: An agreement between the bank and a customer, whereby the bank develops and sells a property to the customer according to agreed upon specifications. That means according to the customer order for manufacturing the wanted products like airplanes, factories, special privileged buildings, etc., the bank arranges the whole procedure with sub contractors. For the customer, the bank is the manufacturer and the customer should pay the bank the complete manufacturing costs in addition to a profit margin.
 - Note: In case of buying a building, the customer should take the Murabaha product.

- Wakala: An agreement whereby the bank provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). That means the Wakala is similar to Mudaraba, but the difference is that the bank and the agent agree from the beginning on a certain fee (a fixed number, usually a lump sum of the invested capital) that should be included in the contract and not a percent of the expected profit. Usually, Wakala is recommended for huge projects and the bank takes financial guarantees from the agent from the beginning on to insure getting its certain fee (usually a huge sum) in return for their work in the whole project.

The following sections will discuss the shape of the management accounting system existing in the Sharia-compliant company, namely the Islamic bank. As mentioned, this case study looks into five parts of the management accounting and control system in KIB.

Those aspects examine:

1. the organizational structure
2. scope and instruments of MA
3. functions and role of MA
4. intervention of the Sharia Board
5. information system (reporting and communication)
6. further influential factors

6.2.1. Organizational Structure of KIB

The organizational structures of the Sharia-compliant companies have a special key component. This extraordinary component in comparison with conventional companies includes members who are specialists in Islamic law (Sharia). During the interview at the company, an organizational chart was provided.

First, the structure of the finance department of the bank will be briefly presented. The following chart illustrates the structure of this department, which is not directly influenced by Islamic law. As shown in the figure, the finance department is split in three divisions: financial policy & control, budgeting & financial reporting, and information system office:

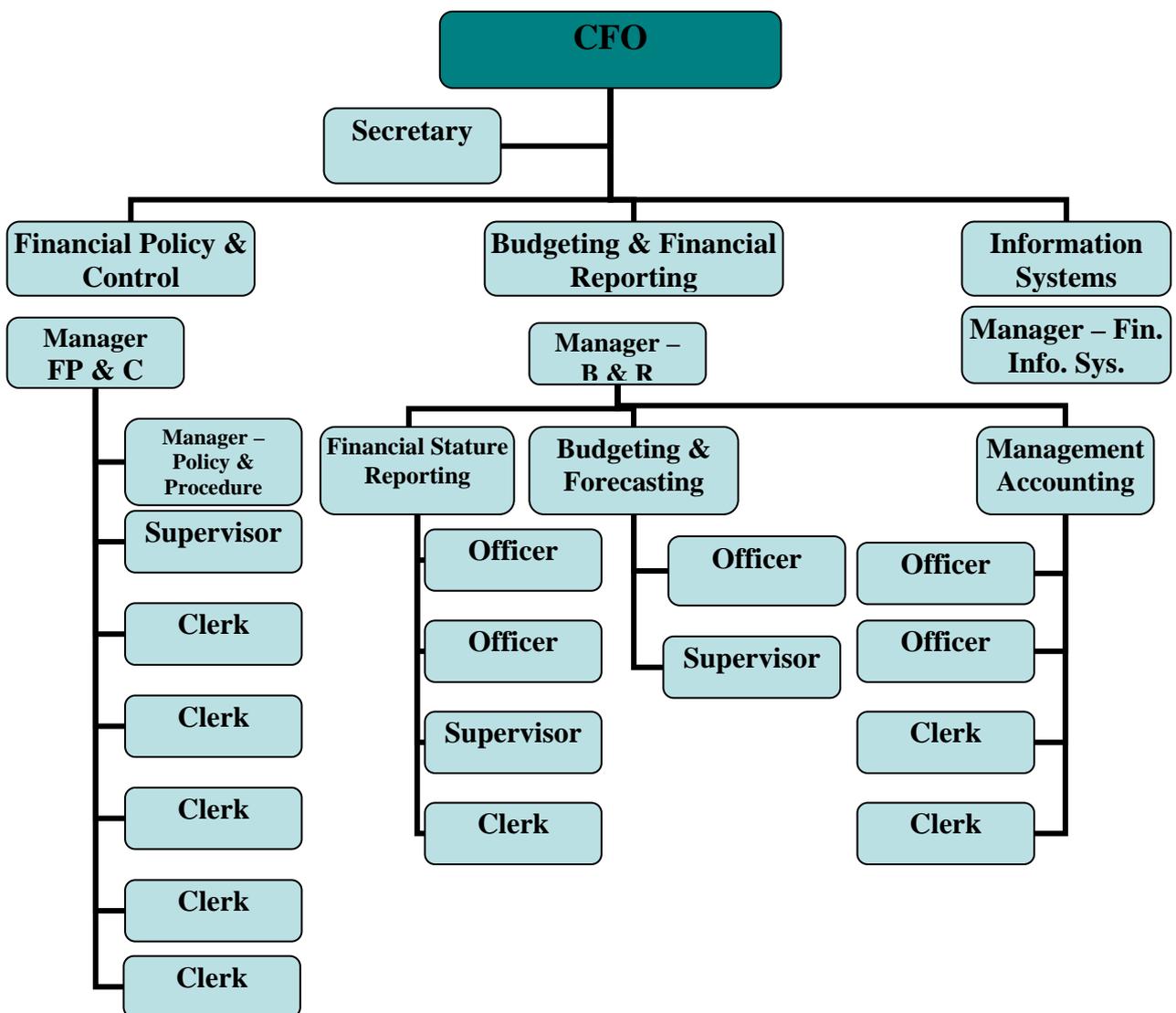


Figure (45): Structure of the finance department of KIB

As shown in the figure (45), in the company there is a division for management accounting. This division is a part of the finance department. The organizational structure of the finance department in this bank is quite sophisticated and similar to western and international companies. As mentioned in the previous chapter, that is due to the education and experience of one of the managers in the finance department who studied in Canada and has a CPA certificate.

The Islamic law and regulations impact the organizational structure of the Sharia-compliant companies, as this group of companies should have a Sharia board (SB) and Sharia department (SD). The differences between the Sharia board and Sharia department are that the first one is a group of Islamic scholars working for the benefit of the bank, though these members are not employees of the bank. On the contrary, the Sharia department consists of bank employees who should not necessarily be Islamic scholars, but experienced in Islamic finance.

Therefore, the Sharia department is an official department existing in Sharia-compliant companies. A Sharia board should be also determined for this type of companies. That was also emphasized by the head of Sharia department:

“Sharia board members (so-called Sharia scholars or advisers) are not employees by the bank, but they are imposed and hired for this position. Thus Sharia board is an independent group of Islamic scholars working for the benefit of our Islamic bank”.

The following figure presents the main components of the organizational chart of this Islamic bank. It is clear that Sharia department is an integrated part in the organizational structure. This is a main difference between conventional and Sharia-compliant companies. The Sharia-compliant company has to have a Sharia department, a Sharia board⁵³, and Islamic scholars in order to ensure that it works in accordance with the Islamic law (Sharia):

⁵³ Sharia board might be also called as “Fatwa and Sharia’s supervisory board”

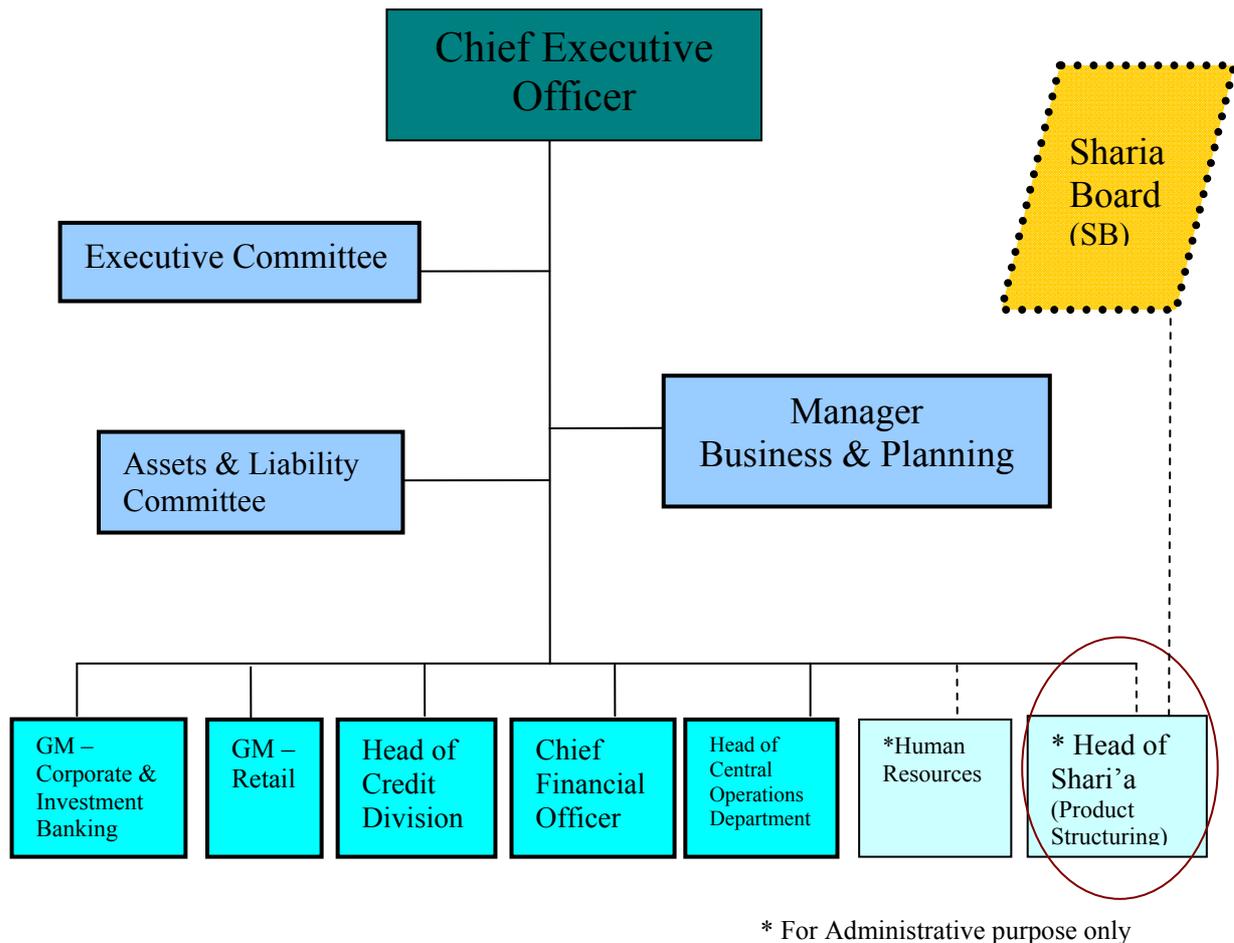


Figure (46): The organizational structure and hierarchy of KIB

As shown in this figure, the Sharia department within the bank has a direct connection to the Sharia board, who is working for the benefit of the bank. In the Sharia department of KIB, there are 21 employees⁵⁴ from different specializations and majors, namely engineering, business, law, as well as Sharia degrees. The employees have different backgrounds and education, but some of them are only working for support and administrative issues.

Therefore, the Sharia department is the connection between the company executive management team presented by the CEO and the Sharia board presented by the Sharia board chairman. The Sharia department does not communicate directly with other departments in the bank, but when any department submits a request on a certain issue to the SD, it then forms a proposal to the SB for getting allowance or certification (so-called “fatwa”).

⁵⁴ Three of them have a Ph.D.

Nevertheless, the functions of the Sharia board were briefly described by the head of the Sharia department:

“The Sharia board has two major functions or tasks of setting the policy of the bank with respect to Sharia and ensuring that the bank complies with Sharia in terms of documentations (based on what is legal and the Fatwas⁵⁵). In addition, Sharia department technically reports to SB which its chairman only gives advice (responsibilities and coordination are shared with him), but administratively we report to CEO”.

Two examples of *fatwas* from the Islamic bank were given by the head of the Sharia department:

First example: The bank has a standard product called “Murabaha”. If the bank enters the Murabaha, it has to follow certain steps normally. First the bank purchases the goods or products from the supplier for a certain price. Once the bank receives the goods, it has to sell them to the customer for a price that includes cost and profit. However, if the customer asks to receive the goods directly from the supplier on behalf of the bank, this action then requires a *fatwa* from the SB.

Second example: If a customer wants a certain finance (that varies a bit, for example, in conditions from the ordinary bank’s products) on a certain project, the SD has to study the proposal and discuss it with the SB in order to agree on *fatwa* based on Sharia aspects. Thus, the SB has to review the proposal and its related transactions (trade and financial transactions in connection with the bank) in order to issue a *fatwa* with approval or rejection in terms of “halal” (lawful) or “haram” (unlawful). In this case, the SD is connecting and coordinating between the bank (management) and the SB, which is not an authority from the bank.

The following section describes the scope of management accounting that was examined in the Islamic bank (KIB). The second part of it deals with the implemented managerial accounting instruments and techniques. In addition, the section also looks into the impact of the Sharia advisors (board) on the implementation of managerial accounting instruments.

⁵⁵ Fatwa in Islam is an opinion concerning a matter issued by an Islamic scholar and based on Islamic law and his Islamic knowledge and learning.

6.2.2. Scope and Instruments of Management Accounting

As discussed in the first part, this Islamic bank has a division for managerial accounting within the finance department. In this case, the managerial accounting division is subordinated to finance department. This division is responsible for mainly budgeting and reporting. As mentioned in the previous chapter, in the finance department of the Arab companies, the managerial accounting tasks and activities usually are mixed with the financial accounting. However, this extraordinary structure of the finance department in this bank can be related to education of the budgeting & reporting division manager who has a M.A. degree in Economic and business from Canada and a CMA.

Concerning the accounting system, this Islamic bank uses IFRS especially for some financial reports and Islamic finance (Islamic accounting standards) especially in preparing the financial statements particularly for the balance sheet in the annual reports. The intervention of Sharia advisers concerning the bank's computerized accounting system is only through checking and controlling it in regard to Islamic finance and accounting. The following figure gives a brief overview about the impacts of Islamic products and accounting standards on the structure of the balance sheet (for further information on the impacts of Islamic accounting standard on loss & profit statement and Zakat calculations see the appendix II and appendix III) :

<u>ASSETS</u>	<u>LIABILITIES</u>
Cash, and balances with U.A.E. Central Bank	Customers' accounts
Due from banks	Due to banks
Due from Group Holding Company, net	Other liabilities
Financing receivables	Zakat payable
Loans and receivables	Investment Wakala
Investment securities designated at fair value	
Other investments	TOTAL LIABILITIES
Investment properties	SHAREHOLDERS' EQUITY
Investment properties under development	Share capital
Prepayments and other assets	Statutory reserve
Fixed assets	General reserve
	Fair value reserve
	Revaluation reserve
	Mudaraba pool reserve
	Retained earnings
	TOTAL EQUITY ATTRIBUTABLE TO
	SHAREHOLDERS
	MINORITY INTEREST
	TOTAL EQUITY
TOTAL ASSETS	TOTAL LIABILITIES AND EQUITY

Budgets

The manager of the budgeting and reporting division answers the most questions related to budgeting. Budgets are in general important to the finance department as well as to the bank management, especially for making decisions and strategic planning.

The estimation of costs and preparation of the budgets in the Islamic bank are first done by each department. Usually each department estimates its numbers from its previous calculations and numbers with a main consideration on the recent status of the bank and the market. Thus the direction of budgeting procedure in this Islamic bank is a mixed-approach, as stated by the manager of budgeting and reporting division:

“The budgeting process at our company is as follows: departments including the finance department prepare the primary budgets and send them to the BoD to be discussed. The BoD members meet in order to discuss and determine the figures. The final numbers and recommendations that reflect the management decisions should be also considered and adjusted from the departments before the final budgets are confirmed”.

As declared, the CFO participates during the budgeting and discusses the determined numbers. That means the CFO as the head of the finance department takes a part in making decisions. In addition, the SD and SB also play a role in reviewing the financials, the distribution of the costs and profits, and what the bank will give to the shareholders. But the SB does not intervene in the detailed financial issues such as planning or estimating the costs in the budgets:

“It’s important to refer here that the SB doesn’t tell the bank management what to do. It’s actually a function of the executive board”. (Head of Sharia department)

As discussed in the previous chapter, most of the respondents emphasized that the budgets in the Arab companies are flexible. That was also declared by the CFO of the bank. The bank budgets are detailed. In case of deficits or losses, the budget should be revised and changed.

“The budgeting should be accurate and detailed in order to avoid uncertainty. If differences between the actual and the planned occur between 5 % and 10 %, that is

fine. But if the difference is more than that, the numbers should be changed and justified”.

The Islamic bank operates in a great competitive environment (among other banks whether conventional or not) in the UAE. The head of Sharia department expressed his opinion concerning uncertainty avoidance as follows:

“Banks can be different from other companies, as banks may set their budgets up to 3-5 years. Nobody knows what the future will be, but the bank can’t turn a blind eye to what will happen in the future and what should it do. The bank has, for sure, responsibilities towards the shareholder, but the bank also has to plan and follow a strategy (in connection with risks). Thus, uncertainty could provide a room of risks in the future and in getting into troubles”.

Furthermore, the used managerial accounting instruments and techniques in this Islamic bank were mentioned by the CFO and the manager of the budgeting & reporting division, as follows:

- ABC
- CVP
- BSC
- CPA
- SWOT Analysis
- Benchmarking
- ROE and ROI

As previously mentioned, the influence of Sharia advisers (SA) on budgeting can be seen in different matters, but the intervention of the Sharia department is somehow limited in this issue. That was also declared by the head of the Sharia department.

“SB members do not get very involved in budgeting, as it is left to BoD and executive board. They only intervene if something may run counter to the Sharia”.

Finally, it is important to mention that the Sharia-compliant companies may work according to lunar year. That affects the accounting system and might be confusing for western companies that are dealing with the Sharia-compliant companies. However, the KIB follows the Christian calendar, as stated by his CFO:

“Here in the UAE, we are working according to the Christian calendar (A.D.), in contrary to Saudi Islamic banks that consider and prepare their financial according to Islamic calendar⁵⁶ (lunar calendar)”.

The following section will discuss the functions of management accounting in the KIB. This section also examines the role of MA in decision-making, planning and control.

6.2.3. Role and Functions of Management Accounting

One of the case objectives is to study the role that management accounting may play in this Sharia-compliant company. Thus, the case first looks at the role of the CFO in connection with management accounting and control. It also looks at the functions of Sharia advisers (scholars) in the company as well as in connection with management accounting and control.

The main daily tasks of the chief executive officer in KIB are following up the work of the finance department, controlling the accountants and preparing reports for the management team. In addition to the financial statements, another major task, which the CFO of the bank should undertake monthly, is to control the achievements of the budgets (adherence) and compare the actual with the planned in order to make the variance analysis reports. In response to the question about the three core functions of the finance department, the CFO stated that the finance department allocates costs, provides information for decision makers and supports planning, control as well as performance measurement. Therefore, the responsibilities undertaken in the finance department of the bank embrace financial and managerial accounting.

The case study also focuses on the functions of the Sharia department in the bank in general and in connection with management accounting. As mentioned earlier, the major role of the SD is to ensure the communication and connect the SB with the management of the bank. In addition, the head of the Sharia department enumerated his daily tasks as follows:

- daily work and tasks received from the bank,
- working on the responses (fatwas) from the SB,

⁵⁶ Islamic calendar (Hijri calendar) is based on 12 lunar months. A year is 345 or 355 days. The first Islamic year started when the prophet Muhammad moved in 622 AD to the city of Medina in Saudi Arabia, known as *year of Hegira (A.H.)*.

- ensuring and following up if the bank follows the fatwa or what did it on that issue,
- reporting at the end of the day, what happened in the bank to the SB,
- documenting and reviewing the documents, proposals and transactions of everyday work,
- administrative issues (within the department).

Moreover, the main responsibilities and obligations of the SD are towards the SB. The Sharia department of the bank should ensure the implementation of the fatwas (decisions of SB) in the bank and check the procedures.

“From our experience and knowledge in this field, we can implement directly in a certain case, but the SB is actually the main authority for those issues related to Sharia”. (Head of the Sharia department)

In addition to issuing and signing the fatwas, the SB has certain tasks and should intervene in certain issues. For example, at the beginning of the bank activities, the standard products (including its related documents and procedures), should be approved once by the SB for the first time. For exceptional cases, a proposal will be submitted to the SB. Then, the SB should issue a fatwa and sign an approval or a rejection for the proposal.

Planning and Strategic Planning

The budgets of the bank reflect future plans. The finance department prepares budgets for one and for three years. Thus, the bank follows short- and medium-term planning from one to three years. In regard to strategic planning, the finance department of this Islamic bank supports the management in strategic planning. The manager of budgeting & reporting division gave an example:

“In case of examining the possibility of offering a new product, after confirming that this new product is compliant to Sharia from our Sharia Board, the finance department starts a study about the profitability of adding this product and then provides its view and recommendations to the management (BoD), either to offer this new product or not”.

Moreover, the finance department of the bank does not only intervene in strategic decisions, but also in non-financial matters. Besides the financial work, the finance department looks

into the customer satisfaction and the range of products. For example, by evaluating the banks products based on profit of each product or risks contained, the finance department delivers to the management a warning signal, and explains to them the expected risk in this activity in order to enable them to make the right decision for the related issue.

6.2.4. Intervention of the Sharia Board

The case study also focuses on the role of Sharia advisers (scholars) in decision-making, control, planning and strategic planning.

Decision-making

The Sharia board or department intervenes in decision-making to some extent. The standard transactions and products in the bank have standard procedures, unless the bank has a special case, then the SB has to approve (clearance) the transaction and the procedure. In this case, the SB may accept the proposal or reject it and then the bank has then to change the procedure or the decision on this issue.

Moreover, the Sharia board can also intervene in investment decisions. The members of the SB do influence the investment decisions especially in regard to forbidden interests and certain activities. In different words, the bank can not deposit the shareholders' money in any conventional bank and receive the interest (so-called *riba*) at the end of each period. In addition, the Islamic bank can not also invest money in unlawful business (from Sharia perspective). For example, the Islamic bank is not allowed to finance any kind of business that involves gambling, alcohol, prostitution, etc. Thus, the SD as well as the SB will definitely intercede with the bank's management team in order to permit what the bank can do or can not do in this case.

The Sharia board intervenes in the bank's business and activities in compliance with Sharia. The Sharia board deals essentially with the forfeit expenses and earnings. For example, if the bank gets interests for its account in another conventional bank (abroad), the Sharia board asks the bank to dispense this kind of earnings and to give them to a charity. The CFO gave an example of an unlawful activity that will be rejected by the SB, as follows:

“All activities that has something to do with alcohol will not be accepted and certified from the Sharia board, but if the bank decides to go through any kind of

forbidden activities (according to Sharia), the Sharia board will hold the bank responsible for breaching the Islamic law”.

In addition, if the bank sells an Islamic banking product for a client in a wrong way that is not compliant with Sharia, the Sharia board has the right to change and adjust the procedure and the entire order of the bank. For example, in “Murabaha” the customer should know the purchase price. Thus, if the Sharia board finds that the bank (finance department) did not mention that to the customer, the Sharia board considers this deal as invalid and therefore it should be adjusted again in order to make it compliant with the confirmed Islamic way and Islamic product.

Furthermore, the Sharia board intervenes and prevents the bank from risking the shareholders’ money, if the bank or the finance department decides to invest in high-risk projects or finance.

Planning and strategic planning

Concerning planning and strategies, the SD doesn’t intervene in the bank’s strategies directly, but the SB may intervene to some extent. The involvement of the SB might be to a certain level in terms of products or plans where the bank is going. As the SD has financial analysts, it can make opinions and recommendations on any financial issue.

Moreover, in terms of non-financial matters such as hiring employees, the SD and the SB do not really step in in recruiting or hiring new people. Hiring people for the SD or the related costs of employment is usually done in coordination with HR department. Moreover, hiring non-Muslims is not forbidden in KIB, but dress code (such as headscarf and the abaya) is an important part of the culture of the business in KIB. Code of conduct and behavior in the bank (except dress code) is not important to the management of the bank. This can be considered in terms of customs in this bank rather than behavior.

Management control

The finance department follows up the work of the bank and its achievements. The finance department controls the effectiveness and success of the bank based on several aspects. The most important one is the adherence to budgets. Thus, the finance department is concerned with comparing the actual values with the planned ones.

The Sharia department on behalf of the SB also controls the bank's work and actions in connection with Islamic law (Sharia). The SD looks into files of the transactions and into the archive of the bank. In addition, the SD also gets information from the bank's computer system and sometimes the e-mails. Furthermore, the SB through the SD reviews the procedure, prelaunch of production, pre-execution, and post-execution. Thus, an essential function or role of the SD or SB can be considered as control or so-called Sharia auditing. The SD members can be considered as controllers by reviewing some actions and transactions of the bank and giving opinions and recommendations in reports.

The SD's recommendations may change or influence the actions in the bank, in terms of Sharia aspects. The SD's review (similar to auditing) is done on some transactions and documents that the department chooses.

“As if we consider ourselves as a business partner of the bank! Actually not, because we do not directly intervene in the bank business, only in what is related to Islamic law (Sharia). But in terms of control, after the SB made a decision (fatwa) and recommendations, the SD follows up whether the bank did so”. (Head of the Sharia department)

For example, in case of a new branch where employees may still not be familiar with all cases, products or procedures in certain areas (where there is a great possibility for mistakes), the SD reviews every single transaction.

In regard to performance evaluation as a part of the control system, the finance department makes performance evaluations for all departments in the bank according to several measures. First, the finance department of the Islamic bank looks at the earnings and profits that the departments achieved and investigates how each department invested the money.

Secondly, the finance department also compares the actual (achieved) numbers with the planned ones (according to the budgets). Through this comparison, the finance department can figure out if the departments adhered to the planned budget. Thirdly, in addition to financial considerations such as the net profit, the finance department also looks into non-financial numbers like the numbers of accounts the departments have or the number of

credits the department gave during the whole year. These indicators give the financial department an idea of how active and successful is each department during the year.

“In addition, the shareholder value (share price) is not only important for the shareholders, but it’s also an important indicator of the bank performance for us and for the public. In addition, there is annual rating for the bank”. (CFO)

The Sharia department also conducts a performance evaluation report for their employees, as each manager evaluates his subordinators and employees at the department. The head of the department based the performance evaluation of the employees of the SD on function, quantitative and qualitative issues.

Within the department, on the one hand the quantitative measures are what and how much the employees did or worked. On the other hand, qualitative indicators are the evaluation of their “crisis-management” and the quality of their work. Here it is important to acknowledge that especially for the employees of the Sharia department, the increase in their knowledge and learning (from previous cases) in Sharia issues can be taken into consideration in the evaluation. The Sharia department may also step in in evaluating employees or the departments of the Islamic bank, if they conduct their work against the Islamic law. The Head of the Sharia department added:

“In regard to the employees of bank, I can give a special case. For example, in case we noticed or have been informed that an employee or a group of them runs counter to Sharia and if they redo the mistake again, a decision can be then made by the SB in negotiation with the CEO. This is a special case when SD counts certain mistakes of the employees and intervenes in firing him or her in worst case”.

In addition, the head of the Sharia department classified (according to interview guideline) the role and intervention of the Sharia adviser in certain issues, as follows:

Activity	Sharia adviser	Notes
1. preparing the budget	No	
2. determine products	Yes	SA has to review whether permitted or not.
3. marketing & pricing	Yes	SA has to check marketing techniques to ensure that there is no

		Sharia violation. Pricing (e.g. fees) should be determined and permitted by the SB.
4. hire and fire employees & workers (according to cost)	No	Not in our bank (there is a guideline for an employment of the right candidate).
5. determine the cost system	No	
6. strategic planning & policy	Yes	To some extend
7. determine performance (Index: share price, ROI, sales rate,...!)	Yes	To some extend
9. compare planned goals with what actually done	No	

Table (16): Fields of intervention of the Sharia adviser

As shown in the table, the Sharia adviser does influence important aspects in day-to-day business of the Islamic bank. The SA intervenes, in general, in planning policies and strategies of the bank as well in launching new products, pricing and marketing policies. In regard to management accounting and control, the SA impacts decisions of the finance department in terms of costs, payments and revenues. Moreover, the SA reviews the work of all departments including the finance department of the bank and controls the compliance with Sharia.

6.2.5. Information System

This case study focuses on the reporting system in the Sharia-compliant company. The following section presents the reports that the finance department issues and particularly the reports that the Sharia advisers (scholars) prepare and issue. The case also examines the information that these reports provide and how often are these reports prepared.

Reporting System

The finance department of the bank uses IFRS in their financial reporting. The department issues monthly and quarterly reports, which include financial statements:

“The financial reporting deals with the financial statements and discusses the financial aspects and status of the bank, but the MA reporting is about variance

analysis and performance evaluation". (Manager of the budgeting & reporting division)

As mentioned earlier, this case study focuses on the reports issued by the Sharia department and board. Thus, several and special kinds of reports had been identified in this field. As the Sharia department functions as a connector between the SB and the CEO, it reports directly to the SB on a daily basis and also sends some reports to CEO. In regard to other departments, the Sharia department also exchanges reports, for example, with the finance department, HR department, etc. The departments also submit a request in a form of proposal to the SB through the SD to get allowance or certification (so-called fatwa).

Therefore, the Sharia department reports about all daily transactions done by the department directly to the SB and also reports on certain matter in order to get a fatwa. Reports issued by the SD can be summarized as follows:

- reports to CEO on new resolutions in order to communicate on certain matters
- reports for certain transactions
- daily report to the SB: that the SD checked and reviewed the transactions of the bank (it includes that they reviewed the accounting and information systems).

The SD may not report to the finance department regularly, but only annually through budgeting reports. But as discussed earlier, cost estimation or budgeting does not apply for the SD (is not included in the department responsibilities), but the SB is only interested in the general strategy, and plans that nothing may contradict the Sharia.

In addition, there are some financial reports that the SD receives from the finance department. They are:

- quarterly reports on financial issues
- some reports on the costs and revenue to get certified from the SB
- annual reports on the budgets and financial statements (especially profit & loss statement) in order to determine the Zakat.

Here, it is important to observe that the SD does not deal with variance analyses.

The reports that this Islamic bank issues at the end of the year are as follows:

- Board of Directors' Report
- Fatwa & Sharia Supervisory Board's Report
- Shares' Zakat
- Independent Auditors' Report
- Consolidated Statement of Income
- Consolidated Balance Sheet
- Consolidated Statement of Cash Flows
- Consolidated Statement of Changes in Shareholders' Equity
- Notes to the Consolidated Financial Statements

These reports are in general the standard accounting reports of Sharia-compliant companies, particularly Islamic banks. The most important, special reports are the "Fatwa & Sharia Supervisory Board's Report" and the "Shares' Zakat". Both reports are related to the Sharia compliance.

In regard to the Fatwa & Sharia Supervisory Board's Report, the board should ensure in the report that all transactions and documents of the company have been reviewed. In addition, the SB should acknowledge the adherence and compliance to Sharia. Moreover, the KIB branding is:

"Shari'ah compliance is and will remain our guiding philosophy!"

As mentioned earlier, trust is an important aspect for the bank. Thus, in the annual report of 2007, the KIB stated:

"Adherence to the Shari'ah guidelines is reflected in our fee structure, where no interest is charged on any of our financing products. Islamic profit-sharing structures and Islamic investment funds also enable us to share profits and risks so as to help establish a viable Islamic economic model".

Manner of Communications

This section looks at the kinds of communication that are present at the bank and how the departments exchange the information among each other.

As the information system of the Islamic bank is computerized, the accounting information system at the finance department includes all data from the whole departments and sectors in the bank. Thus, if the finance department needs certain information, the IT department usually provides them with it.

Concerning the Sharia department, it collects particular information from other departments. The head of the Sharia department declared that:

“We look into files of the transaction and into the archive. We also get information from computer system. The SD’s role is first to deliver information to SB about certain issues and enquires. Thus, we collect information from other departments”.

The recommended manner of communication in the bank is through official written letters or e-mails. In the Sharia department, all kinds of communication are present, namely through phone calls, e-mails, and verbal communication. Usually formal and official documents, e.g. financial approvals, are written letters (documents). Regular meetings between the head of the Sharia department and the chairman of the Sharia board are quite essential to confer about serious issues where discussions and explanations are needed. The head of the Sharia department elaborated on the way of correspondence between him and the SB:

“I meet with the members particularly the chairman of the SB personally once in a week or maybe every 2-3 days in order to discuss several matters and we may communicate through phone calls and e-mails. But fatwas should be definitely written documents. And even if Sharia board chairman said a fatwa during a phone call, I have to write it done. Fatwa does not apply if there is no written document. In addition, in our bank the Sharia department communicates with other departments in English, but the SB communicates (usually with us, the SD) only in Arabic”.

Finally, the next section deals with several influential factors that impact the management accounting system of KIB. These factors are derived from the theoretical background of the research and contain culture, technology, governmental intervention and institutions. Thus, the case study focuses on the cultural aspects that might influence the managerial accounting techniques and the behavior in the bank.

6.2.6. Further Influential Factors

The first factor that this case study brings into focus is culture. Culture embraces norms, values and interactions. This case study also examines the impact of religion as a part of the Arab culture, specifically in Sharia-compliant companies.

As a lot of foreigners are living and working in the UAE, there is some resulting unbalance in the diversity of the population between the locals' and the foreigners' communities. In the Islamic bank, there are many foreign workers, Emiratis and non- Emiratis, Arabs and non-Arabs, Muslims and non-Muslims, but the most of them are originally from India. These foreign workers have different manners of thinking, communicating and interacting in the bank. These manners of thinking and behaving influence their decisions and resolution.

“In terms of management accounting, foreign employees have a different way of thinking and analyzing the problems or the matters”. (CFO)

The Sharia department didn't stress the importance of the employees' behavior or interaction in connection with the Islamic law. However, religion is an essential cultural aspect in influencing the bank's work, managerial decisions, and managerial accounting. Some of the Arab cultural values are derived from Islam. These norms also play a role in the organizational culture, decision-making and control techniques.

It is important to acknowledge here that the fatwas are decisions made by the SB for certain matters and issues proposed by the bank and put in front of the Sharia scholars. Therefore, Islamic rules and laws affect many aspects of the bank's effectiveness and performance. Though, fatwas can not be on everything, for example on a behavior in the bank. The head of the Sharia department gave a good description of the impact of religion on the bank's activities and decisions:

“As the Sharia is the base of our work, Islamic morals like fairness (justice), collectivism and loyalty are important. We do not directly control the morals of employees, but e.g. in terms of transaction, if the bank charges a customer for a certain issue additional fee and the customer claims or the SB knows about it and see that it's unfair, the SB can intervene and ask the bank to fix the matter”.

In addition, the head of the Sharia department refers to further cultural aspects in the Islamic bank that are related to religion such as dress code and parties (no alcohol inside the bank). These two examples are more about organizational behavior, but referring to them gives an idea to what extent the Islamic culture in this type of companies may shape the organizational culture and affect the very small details in the everyday work.

Technology

In regard to technology, the bank has an IT department and a customized software. From the beginning of July 2008 the bank implemented software from Oracle. For the Sharia department, technology (computer system) is only important to communicate and get information on what is going on in the bank.

Governmental Intervention and Institutions

The central bank of the UAE regulated the bank industry, including the Islamic banks. The intervention of other governmental institutions in the UAE is quite limited. According to the commercial law in the UAE, companies do not have to pay taxes, but just fees for the governmental institutions against their service.

For the Sharia department, there is no direct governmental intervention, as the SB can include members from different nationalities. Only accounting standards should be agreed upon and accepted by the central bank.

“In addition, according to UAE central bank, Sharia scholars of the Sharia board are not employees by the Islamic bank, but they are imposed and hired for this position”. (Head of the Sharia department)

The members of the SB are like “muftis”. Therefore, it is crucial to mention that the criterion for choosing SB members are that they had to have studied Sharia (had a degree in it) and to be able to issue a fatwa, as the Islamic scholar should have grand knowledge in Islamic law.

Regarding institutions, there are some international organizations and associations that are relevant for Sharia Scholars who may work as Sharia advisers. Thus, there are certifications for working as a Sharia board member issued by such organizations.

International Islamic Institutions

The most famous organizations and associations in the Arab World are: the Islamic Financial Services Board (IFSB), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the International Institute of Islamic Finance (IIIF) and the International Association for Islamic Economics (IAIE).

Regarding these associations, it is important to explain the functions and the roles of such association in Islamic finance industry. Thus, the next paragraphs will give some insights on the conception of these organizations and discuss its functions and the international certifications issued by them in connection with Islamic law.

First, the Accounting and Auditing Organization for Islamic Financial Institutions (AOIFI) was established in 1990 the 26th of February, in Algeria. It was registered on March 27, 1991, in Bahrain⁵⁷. AAOIFI is an Islamic international autonomous non-profit corporate body that prepares accounting, auditing, governance, ethics and Shari'a standards for Islamic financial institutions. In addition, the AAOIFI contributes to the professional development for Islamic finance industry through professional qualification programs and provides two certificates "CIPA" and "CSAA".

Secondly, the International Association for Islamic Economics (IAIE) was established in 1984 as an educational and professional organization with the objective of promoting the study and application of Islamic economics, banking and finance⁵⁸. The majority of the members of the IAIE council are located in Saudi Arabia.

Thirdly, the Islamic Financial Services Board (IFSB) is an international standard-setting organization that promotes and enhances the stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors.

The IFSB was officially inaugurated on November 3, 2002 and started its operations on March 10, 2003. The IFSB is based in Kuala Lumpur, Malaysia, the host country of the IFSB, has enacted a law known as the Islamic Financial Services Board Act 2002, which

⁵⁷ Resource: AAOIFI: www.aaoifi.com; date 05.02.10.

⁵⁸ Resource: IAIE: www.iaie.net; date 09.02.10.

gives the IFSB the immunities and privileges that are usually granted to international organizations and diplomatic missions⁵⁹.

As in November 2009, the 193 members of the IFSB including 49 regulatory and supervisory authorities as well as the International Monetary Fund, World Bank, Bank for International Settlements, Islamic Development Bank, Asian Development Bank and the Islamic Corporation for the Development of Private Sector, Saudi Arabia, and 138 market players and professional firms operate in 39 jurisdictions.

Finally, the International Institute of Islamic Finance Incorporated (IIIF Inc.) is an offshore company based in Kuala Lumpur, Malaysia and engages its operation worldwide⁶⁰. The IIIF provides and introduces professional development programs for institutional and corporate clientele as well as for the general public, focusing on the Islamic financial services and products. In addition, the IIIF aspires in contributing to the creation, enhancement, and dissemination on Islamic Finance knowledge and aims to spread the knowledge and practice of Islamic Finance globally.

Moreover, these organizations offer certificates and courses to develop human resource capabilities in Islamic Finance worldwide. The certification programs are designed to equip candidates with the requisite technical understanding and professional skills on accountancy for international Islamic banks and financial institutions. In addition, these certificates and courses are meant to certify relevant human resource sectors in the industry of Islamic Finance according to a certain standard.

The IIIF Inc. offers in collaboration with relevant authorities, several certification programs to certify personnel in the following areas:

- Islamic accounting (Accountants)
- Islamic Auditing (Auditors)
- Shari'ah Certification (Shari'ah advisers)

Likewise, the AAOIFI presents two qualification programs to equip candidates with the requisite technical understanding and professional skills on accountancy for international

⁵⁹ Resource: IFSB: <http://www.ifsb.org>; date 06.02.10

⁶⁰ Resource: IIIF Inc.: www.iiif-inc.com; date 09.02.10.

Islamic banks and financial institutions. Mainly, two certificates are offered by the AAOIFI, the “CIPA” and "CSAA".

The CIPA means certified Islamic professional accountants. The program contains the following topics:

- Objectives and concepts of financial accounting for international Islamic banks and financial institutions.
- Accounting rules and treatments for international Islamic banking and finance transactions.
- General presentation and disclosure for financial statements of international Islamic banks and financial institutions.
- Application of Sharia for international Islamic banking and finance products and services.
- Effective governance and Sharia-compliant structures in international Islamic banks and financial institutions.

The second certificate CSAA offered by the AAOIFI refers to the Certified Sharia Adviser and Auditor. This program provides knowledge in the following areas:

- Roles and functions of various Sharia compliance and review processes in financial institutions.
- Correlation between a financial institution’s Sharia Supervisory Board (SSB) and its internal Sharia compliance and review processes.
- Mechanism to ensure Shari’a compliance in accordance to resolutions and fatwas (Scholars’ rulings) issued by SB.
- Technical review of banking and financial operations to determine Sharia compliance.
- Establishing the foundations to gain stakeholders’ trust and confidence in a financial institution’s adherence to Sharia.

Recently, the CIMA started offering a certificate in Islamic finance (Cert IF). This certificate is the first qualification offered by an international professional chartered accounting body that focuses on the fast growing sector of Islamic finance industry. The Cert IF course gives unique knowledge and skills in Shari'ah compliance and it is also recognized internationally.

6.3. Discussion

The Sharia department in Sharia-compliant companies can be described as the link between the CEO and Sharia board. In addition, the Sharia board intervenes in the bank business and activities in connection with Islamic law (Sharia).

As mentioned previously, the influences of Sharia advisers on management accounting and control systems in Sharia-compliant companies can be described in different aspects:

Influences of Sharia advisers on		Remarks
Accounting system	✓	It is checked (transactions) and controlled by the Sharia board. Annual reports should cover several areas of the bank's activities and ensure adherence with Sharia.
Budget	✗	Not to a great extent
Instruments of MA	✗	
Decision-making	✓	Especially investment decisions
Planning	✗	
Strategic planning	✓	In general, the SB superintends the strategy drawn by the management team (including new products and branches).
Reporting system	✓	Financial reports are prepared according to Islamic accounting standards (including Islamic banking products). The finance department has to issue special reports on <i>zakat</i> . In addition, the SB also issues a particular report for the shareholders.
Management control	✓	To some extent. The SD controls all banks' transactions, products, costs decisions and behavior.

Table (17): Influences of SA on MAS

In term of control, the Sharia adviser can be considered as a compliance officer only in terms of compliance to Sharia (Islamic law). The head of the Sharia department stated:

“Sharia adviser might be similar to compliance officer only in terms of Islamic law. As the Sharia board has two major functions or tasks of setting the policy of the bank with respect to Sharia and ensuring that the bank complies with Sharia in terms of documentations (based on what is legal and the fatwas)”.

The Sharia board has an important relationship to general assembly shareholders. The SB has responsibilities and obligations toward the shareholders to ensure that the bank does the business according to Sharia (Islamic law). The SD prepares the annual report for the shareholders, which should be signed by the SB. The report should include information about the tasks of the SB and what it has done and reviewed (through the SD) in the bank during the whole year.

“At the end of the report, the SB members have to give an opinion about how the bank did in the financial year and they also have to evaluate the actions of the bank whatever their evaluation might be. In addition, the SB should report about the Zakat”. (Head of the Sharia department)

The Islamic bank, as a Sharia-compliant company, has to pay Zakat yearly, which is imposed upon the bank according to Sharia law and regulations. The CFO of the bank explained the calculation of zakat as follows:

“It is 2.5775 % of the shareholder equity (capital + reserves + retained earnings) and the Zakat should be paid after one year of profit above 5000 AED. According to year of the Hegira (A.H.), Zakat is 2.5 % which is applied in Saudi Arabia but here in UAE we are working according to the Christian calendar (A.D.)”.

Therefore, the SB reports should ensure the adherence to Islamic law in the bank. Moreover, if the bank is going through activities and deals that include a lot of risks and affect their earnings, the Sharia board has the right to intervene and prevent the bank from risking the shareholders' money. As mentioned earlier, Arabs avoid very risky projects and uncertainty in business deals. Thus, their decisions are based mostly for the near future. The reasons for that can be attributed to the conditions of the Arab markets and religion. Muslims also believe in the supernatural and that God knows what will happen in the future. In addition, there is another special reason for Sharia-compliant companies, namely Gharar. Gharar is a word that means, “to make a business or deal with excessive risk like

selling a baby camel while it is still in the camel's womb". Gharar is somehow forbidden in Islam and avoided in Islamic finance.

As a summary, the head of the finance department as well as the head of the Sharia department determined the importance of the following elements:

Subject/element	(1)	(2)	(3)	(4)	(5)	Remarks by the Head of the SD
Cost reduction	✘		✓			Only 3, but not wasting the money of the bank
Sales growth					✓	
Profit margin	✘	✓				That impacts or refers to how much the bank distributes to depositors and shareholder
Budget adherence	✘			✓		
Following the technology	✘		✓			
Culture of the employees (time, communication, etc.)		✓				
Islamic organizations & its regulations (associations, institutions, bodies, etc.)	✓					
Economic environment		✓				That affects the fatwas
Shareholder value		✓				To some extent, because the SB is not only interested in the revenue of Shareholders, but also in the manner of getting the earnings or revenues of the bank
Compliance to Sharia	✓ ✘					

Table (18): Importance of some managerial accounting aspects to KIB

(1): very important; (2): important; (3): normal; (4): not important; (5): not relevant

✘: Answered by the manager of budgeting & reporting division (importance to finance department)

✓: Answered by the head of the SD (importance to Sharia department)

As shown in the table, profit margin and budgeting adherence are quite important for the finance department. In addition, the governmental institution represented in the central bank is the most authorized establishment, which legislates for the banks in the UAE.

Shareholder value is very important for the bank and several parties (mainly shareholders, public, and customers) as an indicator of the bank's performance and success. But for the finance department, the net profit is the essential indicator for the performance.

In regard to compliance to Sharia, the manager of the budgeting and reporting division stated that:

“We have to comply with the Islamic law (Sharia). That is evident to everyone especially our customers. Hence, that goes without saying, because it is one of our fundamental principles”.

That was also emphasized by the head of the Sharia department:

“The SB has a great, ultimate responsibility towards shareholders and the society, because these organizations (Sharia-compliant companies) should have great reliability for public opinion in terms of Sharia compliance”.

Finally, it is important to state that the wide range of these used management accounting instruments in KIB can be attributed to the education and knowledge of the managers in the finance department, which were gained in Anglo-American countries.

As discussed earlier, the responsibilities undertaken in the finance department of the bank are comprised of financial and managerial accounting. As the effective function of the finance department can be related to the type of companies, one may expect that in banks there is more functioning finance department in terms of financial and managerial accounting.

However, the differences between Sharia-compliant companies and conventional ones on several aspects of management accounting and control can be described in the following points:

Conventional	Vs.	Islamic aspects of MAS
• Accounting period: according to Christian Calendar	≠	• Accounting period: according to lunar calendar
• Based upon modern commercial law	≠	• Based upon ethical law (Sharia)
• Individualism-oriented (individuals interests)	≠	• Society-oriented (social interests)
• Accounting is according to IFRS, GAAP	≠	• Accounting is according to Islamic Accounting Standards (IAS)
• Controlled by group of individuals represented in the management executive team	≠	• Controlled by the Sharia advisory board besides the management executive team
• Business concern: maximizing profit	≠	• Business concern: adherence with Sharia and reasonable profit
• Reliable internal information system and measurements for decision-making	≠	• Fataws fulfillment and internal information system and measurements for decision-making
• Decision makers: management executive team	≠	• Decision makers: management executive team besides Sharia advisory board
• Public accountability: reliable external reporting system	≠	• Public accountability: Sharia advisory and Zakat reports besides reliable external reporting system
• Performance public indicators: share price, net profit, etc.	≠	• Performance public indicators (trust): adherence with Sharia, amount of Zakat
• Profit distribution among the shareholders	≠	• Profit distribution to the shareholders and society (through Zakat as an obligation to God)

Table (19): Differences between conventional and Sharia-compliant companies

6.4. Summary

Nowadays, the Islamic finance industry is rapidly growing and expanding, not only in the Arab countries, but also in some Western countries, for example in the UK (Ainley et. al.,

2007). Sharia-compliant companies and banks follow Sharia (Islamic law) in conducting business and financial affairs. The Sharia-compliant companies as well as finance are not involved in businesses dealing with conventional financial services, alcoholic liquor, gambling, drugs, etc.

The chosen company is an Islamic bank from the UAE. The KIB was established in 2004 to provide innovative, high standard financial products and services governed by Islamic Sharia provision. The bank offers a range of Sharia-compliant products and services conforming to the highest standards of Islamic finance. This in-depth study of the Islamic bank reveals the existence of special parts in Sharia-compliant companies, so-called Sharia supervisory board.

According to the Islamic finance regulations and standards, the Sharia-compliant companies have to integrate a Sharia department in the organizational structure and hierarchy. This department is subordinated to the Chief executive officer. In addition, a Sharia supervisory board should be engaged for the Sharia-compliant company's benefit. On the one hand, the Sharia board should consist of a group of Islamic scholars working full- or part-time for the Sharia-compliant company, though these members are not employees of the bank. On the other hand, the Sharia department contains employees who may have certain knowledge in Islamic law and Islamic finance standards.

The bank management team is responsible for the whole bank's activities and for investing the money in the offered Islamic products in accordance with Sharia. The Sharia board members are expert people in the concept of Islamic law (Sharia). The most of them should study Sharia law (usually at university) and should be specialized and habilitated for implementing compliance with the Sharia law. The Sharia board should be chosen from the shareholders general assembly after a nomination. The Sharia department is created inside the Islamic bank and its role is to deliver information to the SB about certain issues and enquires. Thus, the SD collects information from other departments and in addition, it is the link between the bank's management and the SB.

Hence, the Sharia-compliant companies have a remarkable factor influencing the management accounting and control system. The Sharia advisory board and the Sharia department are key elements in these companies. Hence, Arab culture and Islamic religion

are important aspects shaping organizational structure, decision-making, company's activities and the control techniques in the Sharia-compliant companies.

As the Sharia board does only exist in Sharia-compliant companies, the Sharia board does intervene in decision-making of the Sharia-compliant company, whether in financial or non-financial issues and even in strategic decisions.

In terms of management control, the SB plays a role in controlling the achievements of the Islamic bank, which may also be related to financial and managerial accounting. Sharia advisers should ensure that all financial activities in the Sharia-compliant company are carried out in accordance with Sharia principles:

“The Sharia board influences the bank. Our CEO is an honest straight Manager. Hence, controlling the activities is important for Islamic institutions, but maybe other institutions might be different from ours in terms of control (strict or flexible; tight or loose)”. (Head of the Sharia department)

Finally, it is important to suggest that Islamic finance industry is a new industry and there is a shortage of people with great expertise in Islamic finance and banking in the Islamic world. However, the Sharia board is a good committee in the Sharia-compliant companies, but there is still a lack of Sharia Scholars for banks. The head of the Sharia department acknowledges that:

“We should keep in mind that doing business in compliance with Sharia is a new area and people are still learning about it. There are still a lot of problems in this field; It is still a fluid picture. But it would be more efficient, if the Sharia scholars (at the Sharia board) could issue their fatwa for the company in matter of minutes and be able to go with changes in economy”.

In addition, the standards and practice need to be developed and extended in this area. Nevertheless, the aim is to bring professional knowledge in this new area, in order to avoid uncertainty and uncomfortable issues.

Chapter 7: Discussion

The empirical results presented in the previous two chapters characterized the management accounting and control systems in the Arab World. The analyses described the scope, role and functions of management accounting in the Arab companies.

The theoretical background of this research embraces contingency and culture theories. Hence, on the one hand the contingent variables such as environment, organizational size, and technology will help to explain the influences of these factors beyond organization or, in different words, the surrounding environment. On the other hand, the cultural theories associate in explaining the influences of cultural aspects on the individual and organizational level. Particularly, the contingency theory clarifies the relationships between organizational size, used MA instruments, implemented technology and level of sophistication of the reporting and control systems. The cultural studies expound the influences of individual characteristics on management accounting practice. For example, collective decision-making, relatively short-term planning, centralization, verbal communication and information exchange in connection with Arab cultural attitude, beliefs, thinking, and interaction.

This research was intended to be an exploratory research on the characteristics of Arab MASs. The conduction of the field research illustrates the existing MAS in the Arab companies and Sharia-compliant companies and additionally provides an explanatory study on the influences of Arab cultural dimensions on MAS. Moreover, this field research explains some aspects of the implanted methods and techniques in the management accounting of the Arab companies. Different explanations and interpretations have been formed in the light of the interviewees' views collected through this field research.

However, the theory-based framework and the empirical data were utilized in order to explain and discuss the research results. The empirical results illustrate the shape of the management accounting and control systems in the Arab countries and shows differences between these countries. These features and differences can be discussed by basing on the theoretical background based on contingency and culture theories.

The data analysis reveals the characteristics of Arab MASs and provides details on the differences in the collected data depending on three differences' bases. The results vary between the companies according to cross-countries, cross-industry, and cross-size analyses.

This chapter will first present an evaluation of the results, as this research tends to provide an explanatory study on the MASs in Arab countries. The second section explains the correlations between the different elements and factors that play roles in shaping Arab management accounting system. The third section discusses the findings of the research in connection with the theoretical framework. The fourth section explores and determines the trace of Arab culture in shaping management accounting practice in Arab companies. The last section will provide a short summary.

7.1. Evaluation of the Results

The empirical results of this research indicate the characteristics of Arab MAS. The existing MAS is influenced and shaped by the specific cultural values in the Arab World. Thus, the research examines these cultural values and their interactions with the mechanisms, processes, and operations of Arab management accounting system. On the one hand, the research explores the existing management accounting system in the Arab countries and on the other hand explains the major differences in techniques and attitudes between Arab and Western managerial accounting.

Managerial accounting research should focus on developing and testing theories explaining observed practice (Ittner & Larcke, 2002). This exploratory, explanatory, comparative research on the management accounting system in the Arab countries recognizes observable and assessable influences of Arab culture as important dimensions that shape the management accounting and control systems in the Arab countries.

Hence, these explanations on the findings of the research will be discussed in connection with the theoretical framework. The following discussion looks into which cultural attitudes correlate with the management accounting practice in Arab countries. A possible explanation of the findings is structured similar to the interview guideline design.

Organizational Structure

The findings of this empirical research showed the position of the department or the division responsible for management accounting within Arab companies. In addition, the findings clarify the components of the organizational structure and the power distance of Arab companies' hierarchy.

The hierarchical organizational structure in Arab companies reflects the social structure of the Arab society, which can be derived from the Arab culture. In general, the companies are structured in terms of very precise status hierarchies (categories). The findings indicate that Arab companies generally have taller rather than flatter organizational hierarchies and their levels have specialized and limited functions. The deeply-rooted cultural values influence the internal organizational relationship of the Arab companies in the form of a strong sense of community and great respect to the superiors.

Moreover, centralization and power distances belong to the hierarchical society and culture in the Arab World. As mentioned before, power distance specifically affects organizational structure in shape of centralization and also managerial accounting in terms of decision-making. The impacts of power distance on management accounting and control can be noticed in different aspects in Arab companies and will be also discussed in the following paragraphs. A centralized organizational structure is seen as restricting the flow of information to prescribed channels. Thus, a combination of high environmental certainty and centralized organizational structure is inappropriate and unlikely to contribute to MASs, as well as the performance of Arab companies.

Accounting System

The implemented accounting systems in the Arab companies impact their budgeting, reporting and information systems. Hence, the examination of the accounting standards provides an idea about the financial and managerial accounting systems in Arab companies.

In cross-country analysis, the analysis of the results shows the higher proportion of utilization of IFRS among Emiratis companies and lowest among Egyptian companies. According to the cross-sectional analysis, studied companies operating in certain economic sectors such as manufacturers and banks confirmed using IFRS rather than their local

accounting system. Hence, the economic development of these countries and level of liberalization of the markets in these Arab countries can explain this result. In addition, this difference in the implemented accounting systems of these Arab companies can be explained by considering the field of activity (economic sector) and level of internationalization, according to the size of the company.

Budgeting & Planning

The empirical study deals with budgetary system in Arab companies. Budgeting and planning are essential parts of managerial accounting in Arab companies. In regard to the budgeting approach, the results show the dominance of mixed-approach in budgeting in all Arab countries and in all economic sectors. The low rate of bottom-up procedures in Arab companies can be attributed to the culture theory discussed in the theoretical framework. The top-down approach exists in the Arab companies and relatively in all the studied countries and economic sectors. The percentage among the companies may vary, but the existence of this budgeting approach can be also attributed to Arab culture. Centralization and power distance belong to the hierarchical society and the culture of the Arab World, as proposed by Hofstede (2001) and Walker et al. (2003).

In addition, the data analysis shows the great involvement of executive managers in budgeting and planning and the less involvement of the department managers. Moreover, quite a limited participation in budgeting and planning of the subordinators was seen in most of the studied Arab companies. This finding is consistent with the expectation of the research formulated in proposition (5).

According to the theoretical framework of the research, Arab companies should be following short-term budgeting and planning. The results show that budgeting periods in Arab companies cover a short-term, but planning periods cover even a long-term as from 5 to 10 years. Besides, medium-term budgeting can be found in manufacturers and banks rather than in service companies. In addition, medium- and long-term budgeting and planning have been found in Emiratis companies rather than Egyptian and Syrian.

Hence, the Arab culture and environment influence the companies' budgetary system in terms of procedure, participation, and period. In general, short-term budgeting and planning among the companies in the Arab World can be explained twofold, due to the Arab culture

first and secondly to the environment. Due to a relatively high level of uncertainty avoidance in the Arab World according to Hofstede (2001), a low level of long-term budgeting can be recognized in most of the examined companies. That means Arab managers avoid very risky projects and uncertainty in their business deals due to their culture. Thus, their decisions are mostly for the near future. That can also be attributed to another reason namely religion, as Muslims believe in the supernatural and that God knows what will happen in the future. In addition, planning is of a great importance to a culture that defines time as a linear function (Hall & Hall, 1990) and value it as a future concept. On the contrary, the results show the tendency of Arab managers to follow short-term budgeting and planning. Hence, this outcome is entirely consistent with proposition no. (1).

With respect to environment as a contingent variable, estimating the development of the market for several years is quite difficult in most of the Arab countries. The grounds are the changeable market conditions at times and the lack of market studies and information specifically on competitors. In addition, the market is unpredictable, sometimes due to economical and political conditions that are unstable. Hence, managerial accounting in many Arab companies plays a key role in preparing the budgets and planning, but still has an insufficient role in terms of managerial decisions as well as strategic planning. This discussion and explanation answer the inquiry of the third research question.

Role & Functions of MA

The study demonstrates the functions of managerial accounting in Arab companies. The definition⁶¹ of management accounting in Arab countries embraces accounting in the first place and providing information (as an instrument for budgeting and planning) and in addition it emphasizes control. The CFO of Co. (22) clarified the concept of managerial accounting and the tasks of management accountants in the finance department:

“My daily tasks are split between reviewing the work of the accountants, in terms of ledger, accounts, and budgeting and controlling the work the whole department in relationship to other departments in terms of financial matters”.

Moreover, the findings of the field study according to the interviewees' views reflect the understanding of MA in the Arab companies. The interviewees of Arab companies, regardless of the specific country or industry, generally comprehend management

⁶¹ See chapter three, p. 24-25.

accounting as a tool to provide information and control the business of the company. Exp. (4) commented on the question concerning the definition and tasks of MA as follows:

“In my opinion, the first two functions are the most traditional tasks of finance department actually in doing bookkeeping and providing information, but the third function is fulfilled in large companies and sometimes in medium size companies”.

Hence, this empirical study explains the general understanding of management accounting concepts in the Arab World. In addition, it investigates the implemented MA instruments in Arab companies. The results show a greater use of budgets in all Arab companies as an important financial and managerial accounting tool within the finance department. Other financial analyses such as ROE & ROI, profit and variance analyses come in the second rank among Arab companies. Hence, in response to the second research question, the results indicate the great use of traditional management accounting instruments in many Arab companies.

Nevertheless, certain managerial accounting techniques and tools like BSC, target costing and CPA have been observed in specific industries like manufacturing companies and banks and more in specific countries like UAE rather than Syria and Egypt. Reasoning for this finding can be clarified in the light of contingent variables (size and environment) discussed in chapter two. Exp. (4) elaborated on these factors

“I think, ABC is used in manufacturing industry. In addition, ROE & ROI are utilized in most Arab companies like real estate and investment Companies. in regard to BSC, it is most likely implemented in banks and publicly listed companies”.

The implementation of BSC in banks has been emphasized by the management accountant of Co. (7) as follows:

“Budgeting is like a blind tool; it gives all the needed information, but you can not rely on it completely. One of our most important managerial accounting instruments is BSC. It is a very good indicator in terms of variance analysis”.

Besides the functions and tasks of MA in providing information and controlling the activities in Arab companies, the empirical study investigates the role of managerial accounting in making decisions and managing these companies.

Decision-Making and Strategic MA

The longitudinal structure of the organizational structure and the vertical hierarchical relationships that were found within the examined companies can be ascribed to cultural factors, namely power distance. The empirical study shows the restrictions of the management accounting role presented in finance department in most of the studied Arab companies. The interviewees agreed that the executive management is mainly responsible for making-decisions in these companies. However, the management might be the sole party in decision-making as stated by the CFO of Co. (2) as follows:

“The management is the only authority that is responsible for making decisions in our company”.

In addition, certain characteristics of Arab culture also impact the managerial accounting and specifically, the decision-making process. For example, the Arab firms are generally characterized by collective decision-making and whole concern for the team (group).

Furthermore, the interviewees elaborated on the case of conflicts in Arab companies. The data analysis and interpretation indicates the dominance of top managers in high hierarchical levels over decision-making at Arab companies.

“In case of conflict or disagreement with the management executive team, our opinion and suggestions remain as a sort of recommendation, but at the end the management is responsible for making decisions and taking responsibility for the leadership of our company”. (Manager corporate accounts, Co. 18)

Nevertheless, cultural research and theories, discussed in the theoretical framework, disclose the tendency of Arabs to avoid conflicts and confrontation in their companies⁶². The empirical study reveals these cultural attitudes in Arab companies. Due to Arab culture, individuals in high organizational hierarchies have great power on one hand and individuals in lower levels show timidity in conflicts on the other hand.

In some Arab companies, the interviewees think that conflicts with the top-level management team, that has the greatest power in the company, should be avoided. These findings affirm proposition (5) and show the limited role of Arab (management)

⁶² See Humphreys' comparative cross-cultural study, chapter three, p. 68-69.

accountants as a counter-party in front of the management in order to get their points through and convince the management with their input and decisions. Hence, “*Arab employees in general and accountants specifically don’t often come into conflicts, because they are cooperative with the management and their role is somehow limited, for example, to accounting and reporting. Therefore, the owners in Arab companies decide and make decisions*”. (Exp. 3)

In regard to strategic planning as well as decisions, the empirical investigation proved the diminishing contribution of management accountants in strategic decisions. Expert (6) commented on this issue as follows:

“The finance department may take part in strategic planning. It makes the study for the strategic planning and then provides recommendations for the executive management, but that does not mean that the management should accept these recommendations or implement them. In other words, they are not binding”.

Moreover, the restriction in decision-making in the Arab companies has been identified very clearly in small family-owned Arab companies. In addition, less involvement in making decisions has been seen between headquarter and branch of an Arab company, due to power distance. The management of the head office enforces a kind of centralization in terms of budgeting, planning, decision-making, and so on. Hence, the analysis of the interviews’ data indicates a kind of tension between the head office and branch’s management. That has been also declared by the branch deputy manager of Co. (4):

“The head office is responsible to supply all branches with the financial information in order to enable them to do the financial analysis. The operating budgets, which come from the headquarters in Cairo, are very important for us and the basic for our work. In addition, it is also important for the head quarter to control our activity or performance and to control achieving the targets and to compare the values”.

In addition, the decision-making is in the hands of the management in the most of the Arab family-owned companies. The fieldwork indicated that the founder or sometimes the owner of these companies is a well-known businessman from a well-known elite family. Thus, in most cases, the employees including department managers provide information for the owner(s) who make(s) the final decisions.

“Every department manager gives his opinion and recommendations, but the management presented in the chairman (the owner) has to make the final decision. He has the last word to say on the subject”. (CFO, Co. (11))

It is also important to refer to a further cultural feature discussed in the theoretical background, namely the loyalty to the organization and the impact of employees' loyalty towards their managers, as leader a in different interpretation. In term of power distance, loyalty affects the behavioral managerial attitudes and makes the employees obey rules and take orders from their superiors. The CFO of Co. (9) mentioned this point during the interview:

“We usually don't discuss too much with the management, because we have to carry out their wishes”.

In addition, low rank of individualism for the Arab countries has been affirmed by Hofstede. Thus, Arab decision-making methods tend towards collectivism and usually their decisions can be made in group. For example, a finance manager may consult the managerial accounting solution on a certain problem with the GM or even with his deputy finance manager and then may reach a decision based on the group opinions and arguments. This result is consistent with proposition (8). In different words, it seems as if Arab employees and managers are not able to individually make a decision on their own. Collectivist as cultural attitudes in the Arab World can be attributed to Arab tribalism, as Arab tribes were living in groups led by a sheikh. Moreover, that was emphasized by Islamic religion additionally, in Majels Al-shoura “deliberation body” where decisions and solutions may be discussed in a group of juridical people.

Accordingly, cultural values have a significant effect not only on the low participation in decision-making process, but also on planning and budgeting in Arab companies. On one hand, Arab countries are ranked with a high level of power distance, which can be covert into rather authoritarian relationships between the superiors and subordinators in the organizations. That has an impact on the personal dependency of the Arab employees towards their managers in the top level of the organizational hierarchy. On the other hand, Arab societal values that come from their tribalism and were emphasized by Islamic religion, has an impact on restricting the decisions to the top executive managers and

leaders of the company. Thus, with a high level of power distance, leadership attributes can be then formal and tight with respect to control.

Thus, these results affirm expectation (4) that Arab companies have a high level of centralization in decision-making and also strict, formal control and leadership.

Information and Reporting System

The findings indicate the great use of financial information in managerial accounting in Arab companies. But the results also showed the use of non-financial information to some extent in reporting and decision-making in some Arab companies, which depends on the Arab company's size and industry. Hence, this result is not consistent with proposition (3). Due to the high degree of environmental uncertainty, the greater is the need for external, non-financial information to be obtained and used in management accounting by Arab companies.

Moreover, kinds of communication that were revealed in the Arab companies, above all, the high rate of verbal communication, have an impact on managerial accounting practice, as the use of informal communication and coordination in budgeting, planning, and decision-making processes. Arabs prefer face-to-face communications. This high score of verbal communication that was found in Arab companies can be also connected with two cultural dimensions: high-context and collectivism, which were discussed in the cultural studies and theories of Hofstede, Trompenaars and Hall in chapter three.

Therefore, the information in high-context and collective cultures disseminates easily and very fast. In regard to decision-making, information can be exchanged between top executive managers quickly through informal talking, and then a final decision is made. Consistently with Alattar et al. (2009), the generations of management accounting information in Arab companies rely to a great extent on oral communication. This result is consistent with the expectation (8) of this research and support the theoretical description of the cultural dimensions of Arab World.

Performance Measurement and Management Control

The findings indicated the great reliance in Arab companies on ROI as a financial indicator. This may lead to short-term decision-making and affect their performance evaluation.

Therefore, decision-making and planning tend to be short-term plans and targets in Arab companies. These findings affirm the expectations of the research expressed in propositions number (1) and (7). In addition, the data analyses indicate that KPIs were found in very specific industries such as banks, factories, and large companies, and were mostly known in the UAE.

Cultural dimensions such as collectivism do impact performance measurement in Arab companies. As Arab society is ranked with high level of collectivism, work is carried out in the name of group. Furthermore, the findings indicate that sometimes performance evaluation in some companies is measured according to group scores of achievements.

Further example of the influence of cultural values on MAS in connection with performance evaluation, is the performance of the subordinators, who are expected to be highly committed to their work and to obey the instructions of their bosses, is then measured according to certain financial information, but also evaluated by the superiors. In some Arab companies, the evaluation of the superiors as like to head of the department is much more important for the bonus and reward system rather than the financial aspects. Therefore, the accountants, for example, cooperate with the others in solving certain problems even in forms of socializing with work colleagues and exchanging ideas and opinions. This affirms collectivism stated in proposition (8) even in performance measurement. Sometimes the bonuses also depend upon the company's success, thus the employees identify their success through the success of the company. That can be attributed to Arab culture in terms that a person identifies him or herself with the group and maintains loyalty to the team as well as the organization. In return, the organizational superiors are also expected to show distinctive patterns of leadership in terms of care and concern for the labor force and sense of accountability for the subordinators.

The results indicate the high degree of control in Arab companies either through budget variance analysis or through routine examination of the finance department on the work and accomplishment of the employees and other departments. Arab culture characterized with power distance makes management control system in Arab companies tighter. The importance and emphasis of MA on following up and controlling the activities in Arab companies support the theoretical understanding and definition of the MA in Arabic MA textbooks.

Further Influential Factors (contingent variables)

As discussed in chapter three, further factors derived from the contingency theory have also a great impact on management accounting and control systems. The following section is discussing and explaining many aspects on the internal and external contingent variables such as technology, education, and culture that may affect Arab MASs, in order to answer the forth research question. Thus, this cyclic network derived from the theoretical background of the research can be formed as follows:

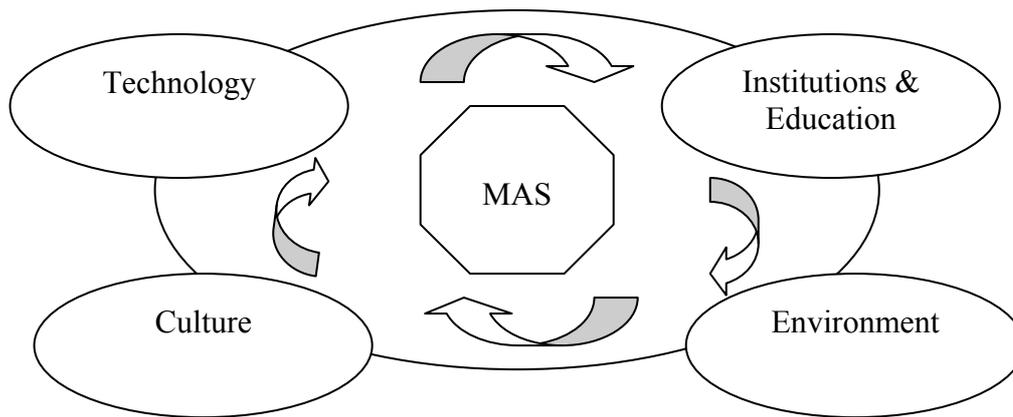


Figure (47): Cyclic network of the further influential contingent factors

Before discussing these factors, the importance of them for the Arab companies derived from the interview materials will be briefly presented. As the interviewees had chosen the level of importance of these influential factors on a scale from 1 (very important) to 5 (not relevant), the results can be summarized as follows. While 69.57% of them ranked the technology in the first place, 30.43% ranked it in the second place. Concerning the regulations and institutions, 13.04% consider it neutral, referring to no role or impact on them and surprisingly, 8.70% consider it not important and irrelevant to their work and managerial accounting. That indicates the limited role of these institutions and the weak reliance on their regulations in Arab companies. In regard to the economic environment, 57.14% of the studied Arab companies consider the economic conditions very important, 23.81% see the economic conditions as important, and 19.05% consider their influences as normal.

Technology

The empirical study conveys the importance of technology for Arab companies. The findings indicate that the use of the modern technology (software) in Arab companies is

associated with the level of sophistication of the MAS. The implementation of modernist technology matters in these developing countries. The cross-sectional analysis of the empirical data reveals the wide utilization of technology in the management accounting and control system in terms of budgeting, reporting, planning, etc.

Most companies in the Arab region are moving forward to using modern technology and integrating sufficient software in their businesses. This result contradicts the expectation of the research expressed in proposition (12). The Manager corporate accounts of Co. (18) pointed up the importance of technology to their company and said the following:

“Following the technology is one of our first strategic priorities. Our CEO and GM do not only insist on having a sufficient intranet system, but also on being up to date in terms of technology and software”.

Many companies in the Gulf countries are rich in capital. Most of the companies in UAE implement Oracle and SAP software in managerial accounting. However, the companies in Gulf region want to follow technology without furnishing their personnel with knowledge and training in this field. *“In some cases, a company could afford buying a sophisticated software, but sometimes their employees do not understand and see the real benefits of using and implementing such software”.* (Exp. 4)

The CFO of Co. (11) touched on the disadvantages of implementing the recent technology and how complicated this software to ordinary employees in general and accountants specifically:

“We are implementing to some degree some of these instruments that are available through our software, but we don’t have much knowledge about what are implemented (e.g. the functions of the software)”.

In addition, the results show that large Arab companies and specific industries such as banks also acquire most modern and efficient computer systems. Hence, size of the companies plays also a role in the implantation of technology and that has been affirmed by Exp. (6) as follows:

“Nowadays most of the Syrian companies especially large companies (factories) are paying more attention to the software and technology”.

Institutional Intervention

Based on the data analysis, institutional intervention plays a modest role in managerial accounting in Arab companies. Institutions such as governmental or professional ones impact to some extent the implemented management accounting and control techniques. For example, in the UAE banks are obligated to implement IFRS, which influence their reporting and financial reports. Further institutional interventions affect education. Thus, a brief discussion on education follows.

Education

Educational and professional institutions have an important influence on management accounting conception in the Arab countries. In addition, the foreign consultancies provide the Arab companies with solutions tailored to their type of business and the market, but the most of the consultants received their education and training in the Western countries like the UK, Germany, the U.S., etc. As a result, the western management accounting and control methods are partly implemented in Arab companies.

Arab managers who studied in developed countries like in the U.S. or UK, import their knowledge and implement it in their companies. That has been also stated by the Exp. (2):

“As the financial managers in big companies are mostly educated abroad, they try to implement the most of these modern instruments, which they learned during their study, in order to raise the efficiency of the finance department in the company”.

In addition, Arab managers, CFOs, and chief accountants in 20 companies have received at least a training course in management or accounting (including management accounting)⁶³. That means 71.43% of the studied companies emphasize professional training in addition to academic education.

Thus, it was clear that managers, CFOs, or accountants who received considerable education and knowledge in Anglo-American countries will tend to introduce Anglo-American management accounting instruments and techniques to their companies. This analysis answers the sixth research question and explains how the gained knowledge from Anglo-American countries and the adopted managerial accounting instruments influence

⁶³ For further information, see section 5.1.10 in regard to education, p. 179.

Arab MA practice, and similar developments in MA can be seen in the Arab companies in different countries (markets).

Culture

The intangible dimensions of culture, beliefs, values, ideas and so on, can have crucial effects on people characteristics, attitudes and interaction. This research is interested in the cultural influences and impacts on managerial accounting within the companies.

Power distance, centralization, verbal communications taken from culture theories and studies of Hofstede and Hall are related to the cultural aspects founded in the empirical data. In addition, the empirical investigation gives more detail on issues discussed in theoretical framework. For example, the interviewees confirmed the differences between Arabs and foreign employees at their companies in terms of work manner and attitudes. As the most of the foreign workforce in the UAE are from India, the CFO of co. (10) gave some examples in this regard:

“Indian people are very strict to achieve their tasks and work. Therefore they are well organized in arranging their work in a systematic order and steps to do all what they have to do (they are used to get the orders in a form of 1, 2, 3 steps). On the contrary especially the Egyptians (from the Arab nations) are very flexible in their work and they don’t take the deadlines seriously. In addition, their decisions and work can be negotiable”.

Furthermore, the CFO of Co. (14) referred to influences of culture on managerial thinking and behavior, but also emphasized the importance of organizational culture in shaping the mold in which the company should operate and function. He stated:

“On the management leve, we have foreigners from India. Sometimes we can sense some differences in opinions and the way of making decisions. In the departments, we can notice differences in the manner of working and interaction between the foreign and Arab employees.

But the company should impose its culture and manner of work and interaction on its employees. In order to achieve that the company should make its strategy and desired attitudes of work clear and evident to the whole managers (foreigners and locals)”.

Finally, an important aspect makes this research different from previous cross-cultural studies on management accounting practice in several nations. Previous research of, for example, Shield and Chow depended on Hofstede and culture studies in formulating propositions and hypotheses, but these studies did not explain the cultural interactions and influences on management accounting and control systems. In addition, this research also roots the cultural influences on management accounting practice back to ancient Arab culture and history including religion. Furthermore, the findings of the research and all of these explanations give a comprehensive characterization of Arab management accounting systems, in respond to the first research question. In addition, the discussion of the results and its explanations also provide further details and descriptions on management control and performance evaluation as well as on strategic MA in the Arab countries.

7.2. Correlations of Arab MA Characteristics

The following section demonstrates the correlations, causal relationships and the links between the main components of Arab management accounting system in connection with contingent variables. These links deepen the understanding of culture influences on Arab MAS and of the variant factors discussed in the theoretical model discussed previously in chapter two. As mentioned in the third chapter, the seven categories, depending on the research questions and the coding scheme were set up. The network of these categories frames hierarchical and non-hierarchical relations of the codes.

Nevertheless, the data analysis dealt with these factors (categories) and highlighted the relationships of the Arab management accounting features. Based on the data analysis, the following figure (octagon) shows the relationships between these categories and variables:

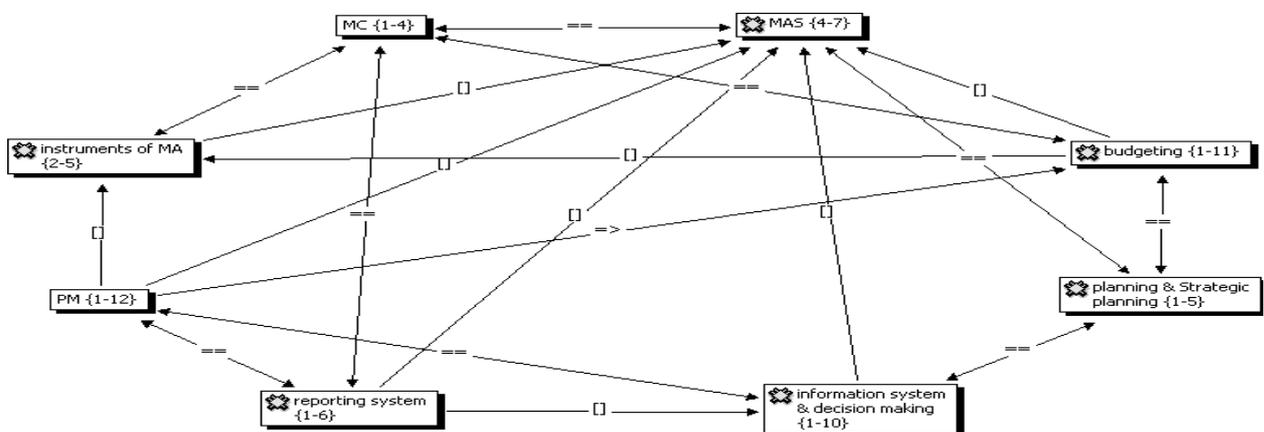


Figure (48): Network relationships between the features of MAS

This octagon illustrates the links between the major features of MAS in the Arab companies in the light of the conducted field research. The shape is drawn by the data analysis software (Atlas.ti). The variables (categories) are linked together. The symbols mean the following: \square the category is a part of another category (code); $=$ is associated with; \Rightarrow is cause of.

Moreover, the variables derived from contingency and culture theories have been primarily formulated. Based on the data analysis, the influences of these contingent variables on Arab MAS can be sketched as follows:

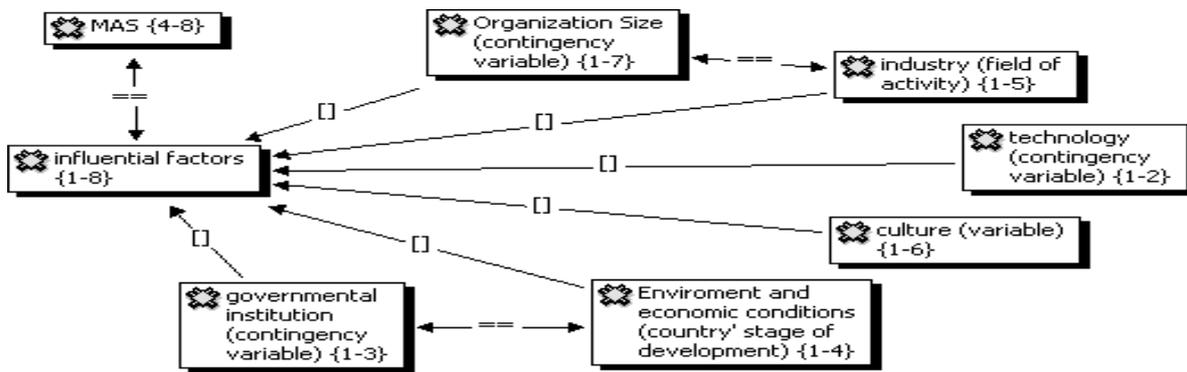


Figure (49): Network relationships between contingent variables influencing the MAS

The analyses show that level of sophistication of MAS in Arab companies is positively correlated with Arab company’s size and industry. The study indicates that the large companies implement more management accounting techniques and have more sufficient systems. The bigger an Arab company’s size and more complicated its field of activities, the more sophisticated the management accounting and control system is. This result is consistent with the expectation of the research expressed in proposition (9).

Economic environments and market situations including level of competition among the Arab companies have a positive relationship on level of development of MAS. The more developed the market in an Arabic country and higher the competition among its companies, the more developed the MAS of this company is. Hence, in competitive, open market economies there is greater need to use management accounting in decision-making, leadership, and strategic planning in a more rational manner. The same positive relations were identified in terms of technology and roles of institutional regulations. Finally, culture has a great impact on Arab MASs and will be discussed in the forth section elaborately.

7.3. Interpretation of the Results in Relation to the Theoretical Background

This research was designed to examine the influences of Arab culture on their MASs. The research looks into the relationships between contingent factors, especially between culture and management accounting systems in the Arab World. The findings of this research indicate that Arab culture is a dominant factor in influencing their management accounting systems. The first group of the MA literature on cross-cultural studies discussed the role of culture on management accounting and control systems. On the one hand, Harrison et al. (1994) and Chow et. al., (1999) suggested that the national culture is an important determinant of the MCS designs used by the Japanese and U.S. firms in their Taiwanese operations. On the contrary, Merchant et al. (1995) claimed in their study that cultural dimensions are not among the most significant variables affecting the use of these control related management practices on the other hand.

The data analysis of this research shows the great role of Arab culture in many aspects of the management accounting system. This result affirms the expectation formed in proposition (10). The findings show that cultural dimensions such as power distance and uncertainty avoidance impact Arab management accounting systems to a great extent. For example, consistent with the finding of Lau and Buckland (2000) that managers perform best when budget emphasis and participation are both high, the findings indicated that Arab managers in lower hierarchical positions under the executives (department manager, division manager, or branch manger) have low participation in the budgeting procedure, due to power distance and that leads to less performance.

In addition, the findings on Sharia-compliant companies in relation to Islamic religion as a part of Arab culture, show the great impact of Sharia-compliance on MA not only in terms of regulations, but also in terms of accounting system, decision-making and reports. The case study indicates the great role of the Sharia advisory board as well as the department on managerial accounting, which form a body within the Sharia-compliant company that function as a controller. This result is not consistent with proposition (11). These influences of culture mainly (including religion) will be also elaborately discussed later in this section when analyzing the influences of Arab culture on their MASs in response to the fifth research question.

The second category about relevant studies on Anglo-American management accounting indicated that Arab management accounting practice is influenced (especially in terms of leadership) by the Anglo-American knowledge, companies, and institutions. Management accountants in Anglo-American companies gain their knowledge through their academic study as well as through obtained considerable professional qualifications or certifications (Shields et al., 1991; Wijewardena & Zoysa, 1999). The data analysis also showed the great reliance on management accounting professional certifications in the Arab companies, especially those issued by Anglo-American institutions and bodies. This result is consistent with previous studies of Ismail (2007) and Kattan et al. (2007) and supports proposition no. (13) that expected the influences of Anglo-American knowledge in managerial accounting in many aspects of Arab MASs.

These studies also pointed to the great use of ROI rather than on ROS in Anglo-American companies. Consistently, the findings refer to the great use of ROI in performance measurements in Arab companies. Broadly, the findings of the research pointed to cultural factors influencing these measurements in Arab companies. As mentioned previously, performance measurements in some Arab companies are according to group scores of achievements, which can be attributed to the high rank of collectivism in Arab nations. The great reliance on profit as a performance measure rather than sales, supports proposition (7).

As the literature review focuses on CMA research on transitional and emerging economies, this study indicates similar and conflicting findings on the characteristics of MA in Arab countries in comparison with previous studies on transitional countries.

Medium and large manufacturing companies in LDCs use more traditional management accounting techniques such as budgets in comparison with Anglo-American companies (Joshi, 2001; Sulaiman et al., 2004; Kattan et al., 2007). The findings reveal to a certain extent similar results on the implemented management accounting instruments in the Arab companies. Hence, the findings consistent with proposition no. (2) and indicate that Arab companies use more traditional management accounting techniques generally, but new modern instruments such as BSC were surprisingly found in some Arab companies.

Literature on CMA research in transition economies also suggested the shape and factors of management accounting changes in these countries, such as considering financial and non-

financial information (Anderson & Lanen, 1999; Luther & Longden, 2001; El-Ebaishi et al. 2003; Vamosi, 2003). In order to deal with environmental uncertainty and complexity, especially during the last two decades, organizations prefer to use new management accounting systems techniques and have different sources as well as make different uses of the information (in particular, non-financial information). The findings indicate the reliance of non-financial information in some Arab companies. Furthermore, proposition (6) stated that MASs in the Arab companies only provide and deliver information to assist in decision-making and strategic planning. The findings reflected the function of MAS in Arab companies in decision-making to some extent and also in following-up and controlling the achievements of the companies. Hence, this result is only partially consistent with the proposition (6) in regard to providing information for decision-making, however it contradicts this proposition in terms of strategic decisions.

In addition, the role of management accountants is currently shifting from traditional control-type to business analysis and organizational consultancy (Yazdifar & Tsamenyi, 2005). The findings of the research indicate the limited role of management accountants in Arab organizations and thus support proposition (5). In addition, the findings suggested the role of Arab management accountants' education and knowledge in developing their MASs. This evidence contradicts with proposition (14). High rate of Arab management accountants obtain international professional and educational certifications, which have a positive impact on developing and implementing new techniques in their companies. As mentioned earlier, most of those professional certifications are issued by Anglo-American institutions and bodies.

The findings of this research refer to the changes in Arab management accounting systems in certain aspects. In addition, previous MA research on transitional economies noted the resistance to management accounting changes (Morakul & Wu, 2001; Hassan, 2005). Consistently, this study found this resistance and indicated further factors in the development of Arab management accounting systems. The findings also identify several obstacles to the changes in Arab management accounting practice: companies' strategy and process of developing and improving management accounting, managers' lack of experience or ability in this field, and employees' resistance and lack of interest (e.g. due to low rate of involvement and participation). In addition, a final obstacle is the weak role of governmental or institutional bodies in developing management accounting practices in the

Arab countries, which is consistent with the expectation of the research formulated in proposition (15). Hence, this research also presents a broad overview on many features of Arab management accounting systems.

As a summary, the following table shows the consistence (✓) or contradictions (✗) of the findings with the research propositions:

No.	Findings	No.	Findings
Proposition (1)	✓	Proposition (8)	✓
Proposition (2)	✓	Proposition (9)	✓
Proposition (3)	✗	Proposition (10)	✓
Proposition (4)	✓	Proposition (11)	✗
Proposition (5)	✓	Proposition (12)	✗
Proposition (6)	✓/✗ (partly)	Proposition (13)	✓
		Proposition (14)	✗
Proposition (7)	✓	Proposition (15)	✓

Table (20): Linking the findings with the research propositions

Concerning proposition (6), the findings are partially consistent with this proposition. The findings affirm that Arab MA provides needed information in order to assist the executive management team in decision-making, but contradict that management accountants in Arab companies have a role in strategic decisions. Thus, proposition (6) could be split in two expectations, one related to decision-making in general and another about the involvement of Arab management accountants in strategic decisions.

Finally, the contingent factors and their influences discussed in chapter three such as culture, economic environment and technology support the findings of this research and were a good base of the revealing and reasoning of the features of Arab MASs and the variations between Arab and Anglo-American management accounting practices.

Therefore, the results are consistent with the contingency theory, that differences in the external environment prompt differences in organizational strategy and management accounting systems among Arab countries. This research reveals through the exploratory field research several factors and variables that have an important role, besides national culture, in explaining differences and similarities between firms' management accounting

system practices in Arab countries. These factors are: (i) the country's stage of economic development, (ii) the company's type of business (complexity of the business), (iii) the managers' and accountants' education and experience, (iv) the company's age and growth (size), (v) the proportion of international, commercial companies and business management consultancies that are operating in the country, (vi) the nation of labor force and its beliefs and attitudes towards working with foreign company.

The research aims to explore the factors influencing the characteristics of management accounting systems in the Arab companies, as expressed in the third objective and fourth research question presented in chapter 4. Hence, this research comprehensively explains reasons for the existing conception of management accounting and control systems in the Arab World. The impacts of these six factors in shaping Arab management accounting system can be shortly discussed as follows:

- (i) The higher the country's level of economic development is, the more stable and developed the companies business and management become. A clear example can be derived from the observed difference between the three Arab countries where the grand economic and political stability of the business market in the UAE, have a great impact on managerial accounting in terms of budgeting (period) and planning. In addition, the level of liberalization of the market plays a role in the sophistication of MAS in an Arabic country. Due to high competition, the companies in the liberal opened market, like in the UAE, increase the efficiency of their management accounting and their performance in the market through adopting new techniques and improving the output of their MASs regularly.
- (ii) The larger and more complex the company's type of business, the more developed its management control procedures and measurements are. This result can be derived also from the data analysis, as considerable management accounting and control instruments and measurements were noticed in certain types of companies like banks, factories, automotive, oil refineries, etc.
- (iii) The higher the managers' and especially accountants' education and experience in management accounting and control, the more sophisticated the used management accounting and control instruments and techniques are. A plain example can be derived from the data analysis where developed managerial accounting methods and instruments were implemented by finance managers

with higher education and specific professional certificates (as like CMA, CPA), especially those obtained in Western countries.

- (iv) The larger the operating age and growth of a company (size) is, the more sophisticated and complex the utilized management accounting and control techniques are.
- (v) The more extensive the amount of international companies that are operating in the country, the more modern the management accounting and control practice is. In addition, the greater the presence of business and management consultancies in the country, the greater the knowledge of management accounting approaches is. That has been noticed through the interviewees' answers that demonstrate the advanced knowledge of the conception of MA among the managers and accountants of the companies in the UAE.
- (vi) The more sizeable the portion of one-culture labor force, the greater the influence of the one-culture labor force on the proficiency and managerial attitude within the company is. A lucid explanation can be seen in Co. (7) where a standard attitude is applied in the multicultural employees of the finance department. Thus, organizational culture is an important aspect affecting MAS in Arab companies.

Although a lot in common was identified between Arab MA practice and Anglo-American MA practice, the study reveals great differences in the role, functions, and efficiency of MA between Arab and Anglo-American practices. The high rate of use of MA techniques, technological development⁶⁴, and the high influence of Anglo-American knowledge in terms of education or professional institutions do not mean that management accounting in these Arab companies is similar to Anglo-American's.

Globalization, economic transition, and competition of the Arab business market do force management accounting to develop and go along with the changes in the economic environment. However, these factors are not the key factors in MA change in the Arab World. This study indicates the crucial role of Arab culture in the existing MASs in Arab companies. Although many of the studied Arab companies have quite developed MA instruments such as BSC and are implementing the most modern MA technological programs such as Oracle or SAP software. In addition, they may have CFOs who obtained

⁶⁴ Especially in Emiratis companies.

higher education and professional certificates from Anglo-American countries and institutions. However, their MASs with its functions, role of management accountants, reporting system and so on are not sufficient enough for their management and are not as efficient as in Anglo-American companies.

In addition, the moderate Arab management knowledge and understanding of management accounting in the Arab companies limit its implications for the benefits of these companies. Even if the management knowledge of an Arab company could become modern and comprehensive, their accountants may not understand the new modern MA conception and techniques and may show resistance towards these changes.

Finally, not only the global competition, regulations, and institutions have an influence on MA practice in the Arab countries. The study shows the influences of crucial factors such as economic environment and type of business in general, and culture in particular on the level of management accounting sophistication and development in Arab companies. In addition, the study indicates the role of organizational culture in the level of efficiency of MA practices in these Arab companies. Hence, global competition, international business and economic regulations⁶⁵, foreign investors, and international professional institutions⁶⁶ especially Anglo-American⁶⁷, can be seen as triggers of MA development and change in the Arab countries. In general, the influences of those professional institutions are still weak. In addition, their influences are not as strong as the cultural and environmental⁶⁸ dimensions, as Arabs have a rich long history and are steeped in their own tradition and culture.

Hence, management accounting change in the Arab World will, for sure, take longer, as Arab companies seem to be late adapters to innovations in their management accounting systems. This result emphasizes what was previously discussed that management accounting change in transitional and emerging economies with strong cultures such as India and South Africa are more difficult and slower than developed countries such as Australia and U.K. (Joshi, 2000; Luther and Longden, 2001).

⁶⁵ Such as IFRS.

⁶⁶ Such as international auditing firms and consultancies.

⁶⁷ Such as IMA and CIMA.

⁶⁸ Environmental factors embrace especially economic and political conditions.

Nevertheless, the institutional isomorphism theory does not support and explain the findings of this research. It may capture, to a limited extent, the management accounting change in specific industries in the Arab World such as banks and manufacturing companies or in specific sizes such as large and even international Arab companies⁶⁹. However, it does not illuminate the complexity of management accounting change in the Arab companies in general⁷⁰. Hence, there is rather a need to consider the contingent and cultural elements when examining management accounting change in the Arab World.

Ultimately, the findings of this research support the results of previous research indicating that the adoption of Anglo-American or Western management accounting and control practices and theories can not be simply transferred to transitional economies such as China, Thailand, and Malaysia without considering the cultural dimensions in the country (Vance et al., 1992; Tsui, 2001). As mentioned earlier, the Arab culture plays a great role in characterizing management accounting systems in the Arab World.

The following section will provide a special discussion on the impacts of the Arab culture on management accounting systems in the Arab companies. Finally, the last section will briefly summarize the main issues discussed in this chapter.

7.4. Discovering and Understanding Culture

“Studies of cultural effects are complex undertakings in poorly charted waters” (Chow et al., 1996, p. 189). Hence, in order to determine the influence of Arab culture in shaping their MASs and analyze the influences of Anglo-American knowledge and culture on Arab management accounting systems, the studied Arab companies have been divided into two groups: pure Arab companies and cross-fertilized Arab companies. Measuring culture is quite challenging in cross-cultural studies on management accounting and control systems. Thus, the following section examines the influences of Anglo-American conception in terms of management accounting on Arab MASs. That will enable tracing culture and specify Arab culture influences on shaping their MASs, in response to the fifth research question.

⁶⁹ These specific types of companies are somehow related together, as industry sometime influences the size and they also do not represent traditional Arab companies in general. These kinds of companies usually operate under globalization pressure and high competition in the market.

⁷⁰ This includes general Arab companies, especially the local and traditional companies.

Pure Arab Companies vs. Cross-Fertilized Arab Companies

The group of “cross-fertilized Arab companies” includes all Arab companies that have Anglo-American influences directly in their management accounting systems in regard to the understanding or conception, professional knowledge or experience, and academic education. First, the companies were examined and then arranged according to the three criteria, as follows:

Education in foreign countries	Professional certifications & knowledge	International
-	Co. (2)	-
2x Co. (6)	2x Co. (6)	-
-	Co. (7)	Co. (7)
-	Co. (8)	-
-	Co. (10) ^{*71}	-
-	Co. (11) ^{**72}	-
-	2x Co. (14)	-
-	Co. (13) ^{**}	-
Co. (15)	-	-
-	Co. (16)	-
-	Co. (17)	-
-	Co. (18)	-
-	Co. (19)	Co. (19)
-	Co. (23)	-
-	Co. (24) ^{**}	-
-	Co. (25) ^{***73}	-
-	Co. (26) ^{***}	-

Table (21): Companies influenced by Western, particularly Anglo-American knowledge

The second group, so-called “pure Arab companies”, includes only companies with pure Arab knowledge and education in managerial accounting without any influences of any Anglo-American knowledge. This group should present the Arab MAS under the influence of their own culture.

Secondly, the studied companies were categorized in two groups in order to detect the influences of Arab culture on one hand and the impacts of Western (Anglo-American)

⁷¹ * the CFO was preparing for sitting the CMA exam at the time of the interview (12.05.2008).

⁷² ** these companies that receive Anglo-American professional consulting services from famous international professional consultancies such as McKinsey, Ernst & Young, Boston consulting group, etc.

⁷³ *** these managers have a practical professional certificates, but not related directly to management accounting. Thus, these companies will be excluded from the group.

knowledge and culture on the MASs of the Arab companies on the other hand. As a result, the twenty-eight companies were exactly split fifty-fifty coincidentally, as follows:

cross-fertilized Arab companies (CFAC)	Pure Arab companies (PAC)
Co. (2)	Co. (1)
Co. (6)	Co. (3)
Co. (7)	Co. (4)
Co. (8)	Co. (5)
Co. (10)	Co. (9)
Co. (14)	Co. (11)
Co. (15)	Co. (12)
Co. (16)	Co. (13)
Co. (17)	Co. (20)
Co. (18)	Co. (21)
Co. (19)	Co. (22)
Co. (23)	Co. (24)
Co. (25)	Co. (27)
Co. (26)	Co. (28)
14	14

Table (22): Splitting of the studied companies according the cultural influences

The comparison between the two groups and the analysis indicates several differences among them. Ten major differences distinguish the characteristics of MASs of the pure Arab companies from the cross-fertilized Arab companies and will be briefly discussed.

First of all, a separate department for management accounting was found in the two companies from the CFAC. Secondly, top-down budgeting approach was observed in PAC rather than CFAC, where a more mixed-approach in budgeting was followed. Thirdly, the PAC were characterized to have short-term budgeting and planning, on the contrary to CFAC that have medium-term budgets and long-term planning. Fourthly, in PAC only partial participations of MA in decision-making process were declared opposite to CFAC where CFOs, management accountants, or chief accountants took part in decision-making and strategic decisions. Fifthly, concerning the implemented MA instruments, the CFAC showed a higher rate of utilization of more modern and efficient techniques such as ABC and BSC.

Sixthly, as the APC base on local accounting standards in their financial accounting and reporting systems, the CFAC integrated the international accounting standards in many aspects of financial and managerial accounting. Seventhly, notable use and implementation of non-financial and qualitative information were seen in the CFAC. Eighthly, management accounting in PAC has to provide only information and carry out financial accounting, but in CFAC it extends to cover planning, control and strategies. Ninthly, no performance measurements or limited efficient measures (based on profit) were used in PAC to evaluate performance, but the CFAC referred to the use of more efficient performance evaluation and to the integration of KPIs in their analyses. Finally, on one hand the CFAC have more modern and efficient technology in terms of software, programs, and ERP. On the other hand, the PAC have more moderate technologies and customized software.

Here, it is important to mention that there are some exceptions in both groups. For example, a company of CFAC that works with Anglo-American consultancies still has inefficient MAS, and a company from PAC may have developed MAS due to the industry sector or due to high qualified and educated financial managers working in them.

These top-ten differences can be attributed to many factors, above all of them, is the Arab culture. The high degree of power distance, uncertainty avoidance, and centralization can be considered as crucial elements affecting Arab MASs. In addition, education and economic environments have a key role in influencing the sophistication of management accounting and control systems in these Arab companies. Hence, this analysis and discussion proved the great role of Arab culture in shaping their MASs.

Furthermore, the analysis suggests that organizational culture has an influence on MAS of an Arab company. A strong organizational structure can dominate national culture in the work situation (Chenhall, 2007).

If the management accounting system is developed in an Arab company, it can be due to the development of the used MA instrument, software, or information (reporting) system. In this case, this company has quite efficient MAS in terms of decision-making and leadership. In addition, the role of management accountants were considered as very important in some of the studied Arab companies and that can be attributed to the view and understanding of the management of managerial accounting. Hence, the organizational culture represented in

the formal and informal information and decision-making methods, is a key factor in the efficiency of the MAS and the leadership in the Arab companies.

Whether the results on Arab management accounting can be generalized to similar cultures, is an important inquiry. But cultural similarity among nations can not explain why the MA practice might be contrary or different, because the examination should look into further economic and environmental factors that also influence the design of MAS in the country. Specifically, whether Arab management accounting can be generalized to similar nations in transitional and emerging economies or not, depends on further environmental factors such as technology, institutions, and education as well as level of internalization in the country.

One additional important part of the discussion will be on religion as a component belonging to Arab culture elaborately discussed in the case study in chapter 6. Hence, the following section will analyze and discuss the results obtained by the in-depth study of the Sharia-compliant company (KIB).

Discussion on the Case Study (Sharia-compliant company)

The case study shows that Sharia-compliant companies have a special ruling group so-called Sharia board. The Sharia board plays a key role in setting the policy of the Sharia-compliant company with respect to Sharia and in ensuring its compliances with Sharia.

El-Kharbili et al. (2008) declared that Sharia-compliant companies have to develop strategies and mechanisms to deal with the Sharia-compliance to all the company activities. The findings indicate the impact of Sharia-compliance not only on the managerial style, but also on many aspects in management accounting.

Furthermore, the findings reveal that in Sharia-compliant companies decision-making in general and managerial accounting decisions in particular are constrained by the Sharia board, which may accept or reject the proposals in the light of Islamic law. Hence, the SB is a key element in decision-making and influencing managerial as well as financial decisions.

The Sharia board is comprised of independent religious scholars and is based on Islamic principles in making rules or decisions, known as fatwa (Dar & Presley, 2000; Solé, 2007).

The case study indicates that the decisions of the Sharia board influence managerial and strategic decisions.

The prohibition of Riba impacts the decisions and activities in Sharia-compliant companies (Ainley et al., 2007), mainly investment decisions and planning. Thus, Sharia-compliant companies focus more on ensuring the compliance of Sharia and on providing information on the company's stewardship to the shareholders for the use of the enterprise resources according to Islamic principles (Yaya, 2004; Alaudin et al., 2010). *“As the SB has responsibilities and obligations toward the shareholders, it also attends to ethical standards. During the Sharia audit, if there is any negligence from an employee, the SB will refer to that and may intervene in the case”*. (Sharia adviser, KIB)

Thus, the Sharia board influences the bank's financial and non-financial decisions. An example that illustrates the impact of SB on managerial accounting decisions is as follows: if the bank (finance department) decides to reduce the shareholder's divisions in an unfair way, the Sharia board intervenes and works against this decision in order to make it compliant with the Sharia fairness principle and insure the property of the shareholders.

Hence, this case study refers to the key role of the Sharia board in following up and controlling the compliance with the Islamic law in all activities of the Sharia-compliant company. The examination of the influences of Sharia-compliance also indicates the impact on the reporting systems in these companies.

In terms of management control, the case study indicates that Sharia-compliant companies have several assemblies to ensure internal and external control. The findings state that the Board of Directors (executive managers), Sharia Board, and internal auditors are the key internal control bodies. In addition, external control is held by shareholders, external auditors, central bank (financial regulator), and Islamic accounting standards board over the studied Islamic bank (KIB).

In terms of reporting, the findings indicate that in addition to financial and auditing reports, the Sharia-compliant company (KIB) has to publish reports on the compliance with Sharia even on financial and accounting affairs.

Lack of experience of the Sharia board in business and managerial accounting knowledge and focusing on the legitimacy of the decisions and transactions have disadvantages to these banks. It is a new field and there is a need for more and better regulations on the Islamic bank industry.

“We should keep in mind that doing business in compliance with Sharia is a new area and people are still learning about it and there are still problems in this field. But it would be more efficient, if the Sharia scholars (at the Sharia board) could issue their fatwas in matter of minutes in the company and be able to go with changes in economy”. (Sharia adviser of KIB)

7.5. Summary

The aim of this research was to explore the characteristics of MASs in the Arab countries. The study examined the influences of several factors on shaping Arab MASs. Fifteen propositions were discussed in chapter three and only ten were completely supported.

The study indicates that management accounting plays a limited role in Arab companies. In addition, MASs in Arab companies still rely more on traditional instruments and techniques in managerial accounting. The research refers to several factors influencing Arab management accounting systems such as economic development of the Arab country, company's size, company's activity, and level of internationalization.

Due to globalization, international companies around the world have a strong tendency towards homogenization of management accounting practices within the developed industrial countries. Granlund and Lukka (1998) referred to the role of various factors such as global competition, development of the implemented technology, or global professional consultancy in the convergence of management accounting practices around the globe. Thus, the following table briefly presents and compares the characteristics of MASs between the Arab companies with those used or known in the Anglo-American countries:

Characteristic of MAS	In Anglo-American companies	In Arab companies
Budgeting and planning	Anglo-American as well as international companies follow long-term planning and budgeting.	MASs in Arab companies provide short and medium-term planning & budgeting.

Instruments of management accounting	The modern Anglo-American MA techniques such as ABC, BSC are widely used in their companies as well as in international companies (Luther & Longden, 2001; Morakul & Wu, 2001)	Arab companies still implement more traditional techniques in managerial accounting.
Performance measurements	U.S. firms tend to rely in their management control systems on return on investment or profit rather than on sales (Shields et al.,1991; Wijewardena & Zoysa, 1999).	Arab companies rely also on profit and return on investment in their performance evaluation.
Uncertainty avoidance	The MASs of the companies in the United States tend to provide more aggregated and less detailed information (Macarthur, 2006).	Arab companies tend to have more detailed information and budgets, due to high uncertainty.
Role of MA in strategic decisions	Strategic management accounting is known in the Anglo-American management accounting textbooks and practice. MA should have a great role in strategic decision-making (Anderson and Lanen, 1999; Kattan et al., 2007).	Management accounting in the Arab companies have a very limited role in strategic decision-making as well as planning.
Education and knowledge of management accountants	Management accountants in Anglo-American companies gain their knowledge through their academic study as well as through obtaining professional certifications (Wijewardena & Zoysa, 1999).	Obtaining considerable professional qualifications or certifications are also essential for (management) accountants in the Arab companies.

Table (23): Convergence and divergence between Arab and Anglo-American MASs

As a summary, the high level of development and sophistication among studied Arab companies in the three Arab countries were recognized in this research with following characteristics:

- Companies operating in Arab countries with less trade barriers and better economic and business regulations like in the Gulf states.
- Companies operating in Arab countries with a great portion of foreign investors.
- Companies with large growth and complex business activities.
- Companies working in cooperation with international professional institutions in accounting, auditing and management accounting.
- Companies with qualified and well-educated and trained staff in field of accounting and managerial accounting.

Triggers for MA development among the Arab companies in several Arab countries particularly in Gulf region can be attributed to global competition, business and economic regulations in transition, foreign investors, and/or professional institutions especially Anglo-American accounting and management accounting institutions. This answers the seventh research question on management accounting change in the Arab countries.

Globalization put pressure on all companies especially in emerging markets to adopt and implement effective modern techniques in all their organizational aspects in order to improve their managerial and financial performance. Management accounting techniques are important for management in terms of decision-making and strategies and for finance in terms of accounting and financial reporting. Hence, the management accounting is becoming worthwhile for most companies in the Arab World, as they see the benefits of applying sophisticated MAS in their organizations.

New business and economic regulations in Arab transitional economies also enforce the changes in management and management accounting practice on the Arab companies. The results of this research showed that the new regulations⁷⁴ in the Arab countries influence the managerial style and management accounting techniques in many Arab companies, especially banks (in the first stage), manufacturing firms, stock exchange listed firms as

⁷⁴ Many of the Arab countries are implementing new regulations in the process of transition, liberalization, and privatization of their market that affect several economic sectors especially banking systems. For example, Syria has recently made significant changes and developments in its banking sector, investment law, and stock exchange market, but it is still considered in the march of progress.

well as brokerage firms. For example, banks in the three studied Arab countries generally have to prepare their financial statements according to IFRS in order to submit them to the regulatory bodies (e.g. central bank). That affects their reporting systems as well as internal accounting information system, which also affect their decision-making and strategic planning according to the efficiency of their financial data and reports.

Besides, foreign international investors and professional institutions especially Anglo-Americans⁷⁵ have a considerable role in extending the modern knowledge and techniques in field of management and managerial accounting in the Arab World. Even these institutions are playing a great role in influencing and changing the organizational culture of Arab companies in terms of ethics, transparency, beliefs and norms, corruption, etc.

Ultimately, this research reveals that Arab companies operating in transitional economies have transitional management accounting systems. Anglo-American management accounting techniques are important factors in the development of Arab management accounting. Nevertheless, Anglo-American managerial accounting knowledge and practice can not be transferred entirely to the Arab companies, but the adoption of these conceptions and techniques should be reshaped and tailored to fit the Arab companies' capacity and needs in connection with the surrounding economic environment and cultural aspects of the Arab World.

⁷⁵ Such as McKinsey, Ernst & Young, Boston Consulting Group, etc.

Chapter 8: Conclusion

This chapter provides a concluding summary that draws together key parts of this research. Thus, the first section summarizes the main results of the research in relation to the research questions and objectives. The second section discusses the contribution of the research to international management accounting literature. The third section reveals some critical assessments on Arab management accounting systems and provides as well recommendations for best practice. The last section will provide suggestions for further research.

8.1. Summary

Management accounting is developing rapidly nowadays and the research on international, comparative management accounting is becoming more interesting and significant. Little research has dealt with comparative management accounting. Some of these studies presented and compared management accounting approaches between different European countries. In addition to these studies, other research covered countries such as the U.S.A., Canada, Australia, China and Japan. Yet, research on management accounting in the Arab World is still rare. Furthermore, very little empirical research has studied management accounting in the Middle East as well as in transitional countries while simultaneously discussing the management accounting structure and the cost accounting systems in several Arab countries like Saudi Arabia and Egypt.

The rapid economic growth of many emerging markets in the Arab World makes an appreciable business environment for many international investments in general and Anglo-American companies in particular, as many of them are operating in some Arab countries, especially in the Arabian Gulf region. Hence, it is also widely accepted that the Arab culture and management practices are quite different from those in other countries, which makes the investment and business operations more challenging in the Arab World. Previous studies on Arab management accounting are still insufficient to shape the management accounting approach in the region. Demand for more research in comparative management accounting increases and previous research encourages additional empirical field studies.

This research gives insights into the management accounting system according to the Arab scope and discusses the role and functions of management accounting in the Arab World.

The second part of this research provided a description of the business environment in the Arab World. Recently, Arab countries have been making considerable economic reforms to shift their markets to an open competitive environment for business, like in the Gulf States. However, notable differences can be identified in the level of economic growth between Arab countries. In addition, Arabic culture can be noticed in the Arab society, which can be distinguished from Western culture by the strong social relationships, particularly contacts with one another.

The theoretical definition of management accounting in the Arab World refers to the group of manners that enable management to plan, control, and achieve their goals. It should also be observed that this definition (description) of management accounting in the Arabic management accounting textbooks differs depending on the original, foreign books that the Arabic management accounting textbooks are translated from. In addition, the third part of this research presented the theoretical framework of the research and summarized previous studies related to international management accounting research.

Culture is a key part in Arab society as well as business. Thus, the third part, which also provided a short comparison on the cultural dimensions between the Arab and Anglophonic countries, gave an impression regarding how the Arab dimensions differ from those in the Anglo-American, based on several cultural theories of Hofstede, Hall, and Trompenaars. That leads to an understanding of how several factors play a role in shaping the management accounting approach in the respective countries.

The fourth part of the research discusses the research objectives and questions. In order to examine these research questions and propositions, a qualitative approach has been chosen for this research. This qualitative field research undertakes a comparative study and provides detailed insights on management accounting practices in three Arab countries. The main goal of this research was to investigate the characteristics of Arab management accounting systems. Hence, this research explores Arab management accounting systems and explains how those systems function. The findings discuss and answer all the research questions and elaborate on various aspects of Arab MASs. In addition, this exploratory,

explanatory research identifies best practice and explains the determinants of existing management accounting practices in the Arab World.

Consequently, this research takes into consideration the lack of available literature and undertakes several objectives. This study's objectives include: understanding the scope of management accounting in the Arab World in theory as well as in practice, analyzing the role and functions of management accounting in strategic management, exploring the factors impacting Arab management accounting systems, presenting the differences in management accounting systems between Anglo-American and Arab countries, and finally identifying the problems and weaknesses of management in Arab countries. As a summary, the following table briefly links the findings with the research questions:

RQs	Keywords
1) What do MASs in the Arab World look like?	This research reveals that Arab companies operating in transitional economies have transitional management accounting systems.
2) Which management accounting instruments are used within organizations in the Arab countries?	The findings indicate the great use of traditional management accounting instruments in many Arab companies.
3) How sufficient is the role of MA in Arab organizations and does it serve decision-making and strategic planning in particular?	Managerial accounting in Arab companies plays a role in preparing the budgets and planning, but it still has an insufficient role in terms of managerial decisions as well as strategic planning.
4) To what extent do the external contingent factors affect Arab MASs?	Economic environment, culture, and implemented technology are crucial elements influencing Arab MASs in addition to education and to company's type of business in the Arab World.
5) What are the characteristics of culture that shape Arab MAS?	"Power distance", "collectivism", and "low-context culture" are the most important cultural dimensions influencing and shaping Arab MASs.
6) Do Anglo-American MA techniques influence Arab management accounting practice?	Yes, these techniques do influence Arab MA practice and even the Anglo-American MA knowledge is also transferred sometimes by Arabs.
7) What are the triggers of	Global competition, business and economic

management accounting change in the Arab countries?	regulations, foreign investors, and professional institutions especially Anglo-American accounting and management accounting institutions can be considered as the most important triggers.
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Table (24): Linking the findings with the research questions

Additionally, an empirical study through conducting interviews in the field is an essential part of this research. This field study provides important insights into MASs existing in the Arab companies and reveals many aspects of the role and functions of management accounting in these companies. The first result was that management accounting does exist in Arabic management accounting textbooks theoretically, but the term management accounting seems to be less unknown in the Arab companies. That means, there is no independent management accounting department, but the finance department is responsible for financial and managerial accounting tasks. The following table briefly summarizes main results that reflect the characteristics of Arab MASs in general, classified according to the main elements of MAS discussed in the theoretical background:

MAS	Findings (in general)
1) Organizational position	Management accounting is integrated in the finance department in the majority of Arab companies.
2) Budgeting and planning	Arab companies lean towards following short-term budgeting. They also rely on more traditional MA instruments. In addition, Arab companies often follow short-term and medium-term planning.
3) Function of MA	MA in Arab companies essentially provides financial consultancy and serves top-level management with needed information.
4) decision-making	Centralization in Arab companies affects the role of MA in terms of decision-making.
5) Information and reporting systems	Reporting system in Arab companies tends towards financial information. MA provides a sea of information, which can be exchange formally as well as orally in order to make decisions.
6) Performance measurement	Arab companies still use traditional indicators in managerial accounting to measure performance, mainly financial one.
7) Management control	MA in Arab companies emphasizes most control purposes. It serves with strict control overall the company’s units.

Table (25): Major characteristics of Arab MASs

It is important to mention that detailed information about the characteristics of Arab MASs was elaborately presented in chapter five through the general data analysis and cross-sectional analyses.

Furthermore, in this research, the Arab World was divided into three territories, the Gulf region (Mashreq), middle part (Middle East), and the Maghreb (North African Arab countries). Three countries presented the three territories namely, UAE for the gulf region, Syria for the Middle East, and Egypt for the Maghreb. The analysis in the fifth part of this research indicates differences between these three countries or territories. The findings refer to the high level of development in management accounting practices in the companies operating in the UAE which reflects the fastest growing economy in the region. In addition, further analyses revealed that the importance of industry and company size in shaping the level of sophistication of MAS in Arab companies.

The research provided evidence that Arab culture plays a key role in shaping management accounting systems in the Arab countries. In addition, this research focuses on the Islamic religion as a key component of Arab culture, as well as countries. Hence, the six part of the research provided a special case study on Sharia-compliant companies. The findings referred to the specific conditions and factors that interact with the management accounting systems in this type of companies.

Hence, cultural dimensions have an influence on the characteristics of Arab management accounting systems, especially on the decision-making process in an organization. Arabs are inclined to have a high power distance. That means the top hierarchical management level has the highest responsibilities and authorities. The research explores the relationships among different factors or variables, such as how the level of the country's economic development influences the sophistication of management accounting or how culture affects management accounting practice in the Arab World, and so on. The seventh part of the research discussed the influences of these factors on shaping the characteristics and sophistication of Arab MASs with a brief comparison with Anglo-American management accounting practice. Eventually, there is still much to learn yet about the relationship between national culture and management accounting practice.

8.2. Contributions of the Research

This research makes distinctive contributions through primarily increasing the knowledge about management accounting practice, specifically on the Arab World. In addition, this research reveals the nature of Arab culture and its implications on Arab management accounting practice.

Furthermore, it deepens the understanding of the cultural influences on Arab business in general and management accounting practice in particular. It also identifies the differences of management accounting systems among Arab companies. The research provided evidence on the role of management accounting in the leadership of Arab companies. In addition, it discussed the impact of cultural dimensions on the managerial style and strategies in Arab companies in relation to managerial accounting. Hence, this research contributed to a limited extent to cross-cultural management research.

This research can be considered as an initial research on Arab management accounting systems. This research contributes by providing significant insights into the characteristics of management accounting practice in the Arab countries. The field study reveals better understanding and provides evidence on Arab management accounting systems from the reality. Hence, this research examined ten different fields in Arab management accounting practice. This research also discusses the external factors surrounding Arab MASs of the studied companies.

The adoption of contingency and cultural theories in this research allows examination of the propositions and helps in interpreting the results of the empirical data of this research. In addition, this research is based on three different cross-sectional data analyses to reveal considerable results and explanations on the conception, characteristics, and functions of Arab MASs.

Hence, the research examined MASs in the Arab companies as a component of a companies' total management system and in relation to the environmental factors surrounding these companies, because the characteristics and role of Arab MASs cannot be

fully understood without considering their organizational, economic, and environmental contexts, especially culture.

Furthermore, this research reveals additional factors that influence the management control systems of the studied companies. Consequently, some new results of this research contribute to development of the theory in cross-cultural studies and comparative management accounting research.

There is a great need for more comparative studies covering various aspects of management accounting practices in different countries or across nations and with a special focus on transitional and emerging economies (Wijewardena & Zoysa, 1999, Hopper et al., 2009, Ezzamel & Xiao, 2009). Hence, this research mainly makes three important theoretical implications to the management accounting literature. It contributed to the cross-culture research on management accounting, CMA on Anglo-American countries, and management accounting research on transitional and emerging economies.

This research provides a significant contribution to cross-cultural research on management accounting in studying the influences of culture on management accounting systems across nations. It provides a rich study on Arab World with deep examination on the impact of cultural dimensions on Arab management accounting systems. In addition, the findings indicate the influences of Arab culture on their managerial accounting and provide important explanation on the specific cultural aspects and their effects in shaping Arab management accounting systems.

Previous cross-cultural research on management accounting systems relied on cultural studies of Hofstede, Hall, or Trompenaars without searching for explanations of the fundamentals of the studied culture. Thus, this research is based on cultural studies and theories which form the theoretical background, and the findings are also traced back to Arab ancient society, history and religion. In addition, this research provides some important theoretical implications to cross-cultural research on management control systems, as there is a limited number of studies on Arab management control systems.

Little comparative management accounting research contrasts Anglo-American with Arab management accounting practices. This research provided some comparisons between

Anglo-American and Arab management accounting systems. In addition, the research refers to the influences of Anglo-American management accounting practices on Arab companies. Hence, this research provides some theoretical implications to Anglo-American comparative management accounting research.

This research also contributes significantly to the small but increasing literature on transitional economies. The research is conducted on Arab countries, which are gaining more attention and importance as notable emerging economies. The research also provides significant insight on the current state of Arab management accounting systems and also discusses the development of Arab management accounting practice. Hence, this research also makes important theoretical implications to management accounting research on transitional and emerging economies.

In addition, this research examines the shape of the management accounting system in the Arab World in respect with management control and information systems. As previous management accounting research on transitional economies failed to embrace a study on the whole system of managerial accounting, this research explores management accounting techniques and instruments, budgets, decision-making, planning, reporting, control and performance evaluation. Thus, it also contributes to management accounting research on transitional and emerging economies concerning management control and performance measurement.

Moreover, this research provides an initial study on the role of Islamic law on MASs in Sharia-compliant companies. The case study revealed many aspects on the impact of Sharia on management accounting decisions. Previous research studied only limited sides of the role of Sharia-compliance on MASs. This research indicates the key role of the Sharia board in following up and controlling the compliance of Islamic law in all activities of the Sharia-compliant company such as planning, strategic decision-making, reporting and so on.

Studies on Sharia-compliant companies are widely discussed in international accounting research. This research usually focused on the impact of Islamic law, such as the prohibition of Riba on financial accounting. Hence, this research has made a significant contribution to management accounting research on Sharia-compliance by providing important insights into management accounting and control systems in this special group of companies.

Therefore, the research demonstrates management accounting practice and shows the used techniques in management accounting and control in Sharia-compliant companies.

Ultimately, within the changing external environment in the Arab World, the research examines cross-sectional differences in management accounting practices of Arab companies that have different organizational contingencies and factors, in response to criticism on the contingency-based research. Hence, the research considers a broad range of management accounting characteristics and studies various kinds of Arab companies to examine the differences in Arab management accounting practices. As the contingent variables are too general, the research indicates various factors that also play a crucial role in shaping Arab management accounting systems and thus extends the knowledge of their effects even with high complexity or correlations between these factors.

8.3. Practical Implications

This research provides significant insight into management accounting and control systems in the Arab countries. This section will touch on some critical assessments of Arab MASs and provide further practical implications especially for Arab companies in order to enhance their MASs and provide further helpful guidance for them.

8.3.1. Critical Assessments of Arab MASs

This section reveals some critical assessments on Arab management accounting systems. These critical assessments are derived from the interviews' material and data analyses. The following discussion shows some weaknesses and limitations of management accounting systems in the Arab countries.

The research identifies seven main problems and weaknesses in Arab MASs. First, the Arab companies suffer from low involvement of managerial accounting in decision-making in general and in planning and strategic decisions in particular, due to power distance and centralization. In many cases, in small or family-owned Arab companies, a sort of one-macho manager controlling and leading the business activities and operations is visible.

Secondly, a limited function of management accounting has been seen in many of the studied Arab companies. The function of MA is restricted in some companies to financial

matters and does not interact with the managerial issues. As a result, the performance and output of finance department in many Arab companies is seen as poor. Because of the high competition in the markets, Arab companies should develop more sophisticated management accounting and control systems. That means in order to improve the efficiency of the finance department in many Arab companies, management accounting should shift from the traditional financial matters towards modern attitudes of interaction to assist the management in leadership and long-term strategies. That will increase the reliance of the management in the Arab companies on management accounting in terms of planning, reporting, controlling, and so on.

Thirdly, many of the Arab companies are still using traditional instruments and techniques in managerial accounting. Thus, there is a need for change and implementation of the modern international techniques in their managerial accounting system, in order to develop the efficiency and performance of these companies.

Fourthly, the analysis reveals the limited role of management accountants in Arab companies. On one hand, the accountants working at the finance department in Arab companies perform their ordinary accounting job, prepare reports and then do variance analyses similar to management accountants in western companies. On the other hand, the role of management accounting in many Arab companies generally is limited to serve bookkeeping and taxation instead of serving the management in decision-making, planning, and leadership. Hence, the management accountants in Arab companies should increase their knowledge and what they deliver in the field of managerial accounting, in order to convince the management of their supportive role in leadership. This will also increase their interest in improving and developing the management accounting system in their companies.

Fifthly, the research indicates the lack of experience and knowledge in Arab companies in terms of technology. There is a need for the companies in the region to think about computerizing their financial accounting systems. Arab companies should pay more attention to implement customized software that fit best to their field of activities and provide more sufficient managerial accounting information and analyses. Implanting modern technology should be supported with additional knowledge provided to managers, management accountants, and accountants working on this new software.

Sixthly, the investigation of this research also indicates a lack of education and training in the field of management accounting. In many Arab companies, the lack of knowledge and experience of management accountants has a negative impact on their company. Due to this lack of knowledge in field of managerial accounting, there should be an increase in the educational knowledge and professional training in order to make management accountants able to participate in decision-making and also to gain the trust of their management team.

Finally, the seventh limitation of Arab MASs is related to economical environment (uncertainty) which affects many aspects of their systems in terms of planning and strategies. The market in many Arab countries is unpredictable in the long run, due to political and economical conditions. When the environmental uncertainty is high, managers will require the obtaining of more information provided by sophisticated management accounting systems (Gul & Chia, 1994). In this case, there is a greater need to gain additional information and more frequently. This additional information should include non-financial information (e.g. on customer satisfaction or preferences) and external information (e.g. on the economic conditions and the market). The findings indicate the limited role of Arab MASs in providing adequate information for the management in many Arab companies. However, some Arab companies (in certain industry and size) referred to a sophisticated MASs in providing information and assisting in the decision-making process, even on long-term basis.

8.3.2. Practical Guidelines

The study is very beneficial for Arab companies as well as for international companies operating in the Arab World. In addition, this research is of the interest of Arab governmental organizations and international institutions of accounting and management accounting in terms of a better understanding of management accounting practices in the Arab World. This study can also benefit those institutions in how to develop these systems in a variety of companies.

This research provides significant insights into the Arab management accounting practice. In addition, it helps in assessing to how sophisticated the Arab management accounting practice is. It can also determine how likely Arab management accounting practices are to succeed with its management accounting and control systems in various settings. These

following recommendations are designed to help the many, different companies operating in the Arab countries. These companies are advised to work on:

- Distinguishing between financial accounting and management accounting. That means, giving a clear placing for management accounting in the divisions of finance departments, and also a clear definition for the tasks of management accountants.
- Considering the organizational structure with lower power distance and high involvement and participation of subordinates, particularly financial managers and accountants in lower organizational levels.
- Considering that the development in management accounting systems will have a great impact on the companies in the Arab World. That means, making the management accounting change in a proactive rather than reactive manner in order to improve the effectiveness and performance of these companies.
- Considering management accountants as key players and analysts that can provide essential information to assist the management in leadership and strategic decision-making of the company. That requires more involvement of management accountants in managerial issues of the Arab companies.
- Providing training to improve the qualifications of managers and accountants in the field of management accounting. It is quite important to increase the knowledge in the field of managerial accounting in the Arab companies. Thus, it is necessary to encourage the accountants attend professional training courses in order to keep them up to date with the recent developments in management accounting techniques and their implications.
- Having a better understanding of international and Western management accounting techniques and accounting standards, and a better use of modern technologies in Arab companies to serve management accounting in terms of budgeting, planning, reporting and so on.
- Focusing on the organizational culture to minimize the dominated role of Arab culture that influences their managerial behavior, decision-making style, and the utilization of management accounting techniques
- Ensuring a better adoption of Western management accounting techniques und a better understanding of the use of them in connection with their culture and environment.

Further more, the study also gives some advices and recommendations for Arab governmental organizations and local institutions of accounting and management accounting. In general, these institutions are requested to make further efforts for:

- Considering a development of regulations and standards concerning accounting and management accounting.
- Easing trade and business barriers to allow more international institutions to develop the knowledge in management accounting in the Arab countries.
- Introducing management accounting instruments and techniques, and their implications for Arab companies in order to increase their performance and efficiency.
- Taking measures to improve the management accounting profession in the Arab World.
- Providing better education in the universities by offering adequate courses in management accounting and control that are close to modern knowledge in management accounting that are being taught in Anglo-American universities.
- Connecting management accounting practice and academic education together. The knowledge of the business students especially in term of managerial accounting, at the universities in Arab countries, should be increased in order to make them efficient management accountants and ready for the practice.
- Offering professional training for accountants to improve their knowledge and qualifications in management accounting.
- Introducing the modern technologies and software in field of management accounting in order to improve the efficiency of Arab companies as well as the qualifications of management accountants and enable them to use these techniques more efficiently in many aspects of managerial accounting such as preparing budgets, reports, analyses, and so on.
- In addition, offering training in using advanced accounting and management control programs as well as in performance management should be offered especially to management accountants in Arab companies.

Lastly, the study also provides some practical implications for international organizations especially professional institutions of accounting, auditing, and management accounting, in

particular Anglo-American. These practical implications are also to managers in Anglo-American countries who are interested in understanding the management accounting and control systems in Arab countries. Hence, it is recommended to consider:

- Gaining more understanding of Arab culture,
- Studying the external environmental factors when designing the management accounting systems that fits to the company operating in a specific Arabic country.
- Being aware of the interactive relationships between different factors and aspects that enable the company to identify a feasible design of the management accounting system appropriate to meet these different contingencies.
- Introducing better tailored Anglo-American management accounting techniques that fit to the culture and environment in the Arab countries.
- Using tailored techniques as an incentive for change in Arab management accounting practice.
- Increasing the knowledge through working with Arab local professional institutions in accounting, auditing, and management accounting.

Moreover, culture can provide a fundamental knowledge of understanding business leadership in different countries and nations. Establishing business in new emerging markets requires the foreign investors or managers to have profound understanding for the culture of the foreign market. Culture embraces tangible part and unpredictable dimensions. Therefore, when doing business in the Arab countries it is highly recommended to set up an office with a local representative and also the key to success in communicating at the beginning is to build trust and plausibility. In addition, it is important to demonstrate respect for local customs and common attitudes.

Furthermore, Arabs belong to a polychronic high-context culture, which explains the manner of their work, interaction, and behavior. Thus, they tend towards a non-linear manner of doing their duties. In addition, time commitments are not strict for them. Hence, one can expect delays, especially in the decision-making process. In this case, it is well advised for foreign investors to be flexible, friendly, and patient regarding frequent delays. Moreover, Arabs represent a great, typical example for collectivist culture. Therefore, decisions and activities are more often done in groups.

8.4. Further Research

This research investigated the characteristics of Arab management accounting systems and explored how those systems function. The research elaborately discussed the influences of Arab culture on their MASs.

Nevertheless, there is certainly a need for even more systematic comparative studies examining management accounting practices in different Arab countries. As mentioned earlier in the limitations of the research, this research examined many aspects of Arab MASs. Thus, the propositions were somehow general and testing them was difficult. Hence, it is highly recommended to explicate the concept of managerial accounting in the Arab World and to focus on specific parts of Arab MASs. Further research could explore the budgeting process in Arab companies in connection with planning and strategic management or study the use of information and reporting systems in decision-making. In addition, the hypotheses should be more specified to deal with one aspect or characteristic of the existing MASs in the Arab companies.

It also is highly recommended to conduct in-depth research on the budgeting process in Arab companies and to which extent their detailed, flexible budgets may face environmental uncertainty. In addition, it is very valuable to examine how sophisticated the budgets are as a major instrument of the MAS in the Arab companies and how to achieve changes in their managerial accounting instruments and techniques.

Hence, practice-oriented research is needed in the Arab World to improve and develop management accounting practices in the Arab countries, as this practice-oriented research is quite low on Arab companies. In addition, providing surveys that embrace larger number of Arab companies can be recommended to provide detailed information on certain aspects of Arab management accounting practice in certain kinds of Arab companies.

In addition, this research also dealt with MAS in Sharia-compliant companies. The case study indicates that the Sharia board influences decision-making even on managerial accounting issues. In addition, the Islamic financial services take a form of contracts in Sharia-compliant companies (between providers and users of Islamic funds). Hence, it is recommended to conduct further studies on the risk management in Sharia-compliant

companies in relation to the characteristics of their MAS. Furthermore, the role and influences of Sharia-compliance regulatory bodies and their law on the MAS of Sharia-compliant companies should be of interest for further research.

Moreover, Anglo-American countries are considered as important trade partners to many Arab countries. The findings of this research indicate the influences of Anglo-American techniques on Arab management accounting practices in many countries. The research touches on the convergence and divergence between Arab and Anglo-American management accounting practices theoretically in certain aspects. Hence, it is recommended to conduct further comparative research on the convergence and divergence in management accounting practices between the two nations to gain more understanding on the specialty of the features of their management accounting systems. As this research refers to the complexity of the factors influencing the shape of MASs in the Arab companies, further in-depth studies could compare similar companies with matched variables, such as management accounting systems in Arab and Anglo-American manufacturing companies or the differences and similarities in management accounting techniques of large international Arab vs. Anglo-American companies.

As global pressures lead to similar contemporary management accounting practices across countries (Grandlund and Lukka, 1998), it is highly recommended that future research should study specific triggers and factors of management accounting change in the Arab companies. In addition, further studies should explore the reasons why Arab companies are not implanting modern and developed management accounting techniques. What are the obstacles of adopting such techniques?

Furthermore, it would be recommended to examine management accounting changes in Arab companies with more focus or consideration on specific industry or size. This study indicates that the level of development of management accounting in the Arab World varies according to country, industry, companies' size mainly, and ownership. Thus, there is a great difference in the management accounting change, including all its related factors and aspects, between Arab manufacturing companies and service companies or banks. In addition, the process of management accounting change in large or listed companies will vary from the process in medium-sized or even family-owned companies as well as between public and private companies. That would be an excellent research topic in management

accounting to accompany the rapid increase in foreign international investment and the rapid change in Arab management accounting practices.

Ultimately, the complexity of management accounting changes in the Arab companies requires great consideration of the contingent and cultural elements. Hence, it is quite challenging to investigate whether culture is a predominant factor and why, when examining management accounting change in the Arab World. In addition, examining how and what may accelerate Arab management accounting change forward, will enhance Arab MASs and provide further helpful guidance for Arab companies. Hence, it is recommended to conduct further research on Arab management accounting change over a certain period of time, e.g. as Luther and Longden (2001) did. Consequently, the management accounting practices similarities with the global scope of MA across countries are certainly worthy of examination in the Arab World, in terms of management accounting change.

Appendices:

Appendix (I):

Interview Guideline

Interview-Nr.:
Date:
Time:

1. Organization Profile:

1.1. Name of the enterprise:

1.2. Field of activity and products:

1.3. Location (Head Office & subsidiaries or branches):

1.4. Size of the enterprise:

1.5. Number of employees (of the whole organization):

2. Interviewee Profile:

2.1. Name:

2.2. Job position and responsibilities:

2.3. Academic grad (from which country): B.Sc. B.A. M.Sc. M.B.A. Ph.D.

(tick one or more boxes as appropriate)

<input type="checkbox"/>				
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Training and professional certifications:

3. Organizational Structure:

- 3.1.** Is there a separate, functioning management accounting department? Or is it mixed with (financial) accounting department or even with management (control) department?
- 3.2.** At what level is the management or financial accounting department in your organization? Please provide an organizational chart?

4. Instruments of MA (Budgeting):

- 4.1.** Which kind of (cost) accounting system does the company use? Is the accounting system computerized?
- 4.2.** Is budgeting important for the accounting department as well as for the management?
- 4.3.** What is the general direction of budgeting procedure: (bottom-up, top-down, mixed-approach)!
- 4.4.** What costs are estimated? How are they estimated?
- 4.5.** Does cost accounting support budgeting process and decision-making?
- 4.6.** Are the prepared budgets detailed? Do you prepare flexible budgets? How is uncertainty in the budgeting process handled?
- 4.7.** What information does the budgeting provide to the managers (budget use)? Do you use computer-based financial planning models in preparing the budget and some analyses?

- 4.8. How does your participation in budgeting look like? How high do you think is your participation?
- 4.9. Do you prepare the budgeting for short- or long-term (rolling budgeting)? [For how many years]?
- 4.10. Does budgeting support strategic planning (budget use)? Would you please describe your (budgeting) planning and controlling process?
- 4.11. Which problems exist in the budgeting process from your point of view? Which improvements should be made or have been done recently?
- 4.12. Which of the following instruments do you use in management (accounting) and management control (incl. strategic management & performance measurement):
Cost-Volume-Profit (CVP); Activity Based Costing (ABC); Tableau de bord; Balanced Scorecard (BSC); Target Costing (TC); Customer Profitability Analysis (CPA); SWOT-Analysis (for strategic planning); Benchmarking; ROE & ROI (for performance measurement), (EVA: economic value added); others.

5. **Functions and Role of (management) accounting:**

- 5.1. What are your daily tasks? What are your responsibilities?
- 5.2. Which of the following functions is fulfilled by the MA department? Others?
- Allocates costs (for internal and external profit reporting)
- Provides information for decision makers
- Supports planning, control and performance measurement

- 5.3. Can you define MA? What are the functions and objectives of MA in your company?
- 5.4. Do you (financial manager or Management Accountant) participate in making decisions? What decisions Management Accountant is involved in? Describe the steps of decision-making process?
- 5.5. How does (management) accounting support the managers? What is the involvement of management accountants in strategic decision-making?
- 5.6. How does the company (CEO) deal with the conflicts in making decisions between the (management) accounting and management departments?
- 5.7. How does the accounting (information) contribute with the management to enable the organization to successfully achieve its strategic goals and objectives?
- 5.8. Is the management (company) following a short-term or a long-term planning?
[Short-term = 1-2 years ; long-term = from 5 years ; medium=3-5]

6. Information System: Reporting:

- 6.1. Does (management) accounting department report to management? How often are reports prepared (annually, semi, quarterly, etc.)? Which reports are relevant to management (in term of decision-making and control)?
- 6.2. What do your internal reports look like? What type of reporting relation do you have with other departments?
- 6.3. Do your reports include variance analyses (comparing the standard with the actual numbers)? For what cost items variances are computed? How does the company deal with negative variance?

- 6.4. What information do the reports provide? What documents are associated with the reports?
- 6.5. Is MA department responsible for cost reduction, pricing, quality and customer satisfaction? Does MA provide financial information as well as non-financial information?
- 6.6. Which department (financial, HR, operations) provide a performance-evaluation for the whole company (activities) and for each department incl. the managers? Indices?
- 6.7. Which department is responsible for the SWOT-analysis or Benchmarking reports (to study and give reports about the market and the competitors especially for production and marketing departments as well as for managers)?

7. **Information System: communication:**

- 7.1. How do you gather information from all other departments? Do you get written letters which report about a situation in another department or do you find this information electronically imported into the enterprise data base?
- 7.2. Do you have the opportunity to regularly meet employees from other departments? Do you gather the information personally from departments?
- 7.3. Do you have an accounting information system?
- 7.4. Which kinds of communication are preferred in your company? Do you use oral communication (to confirm something)?
- 7.5. Does the management or any other department views the (managerial) accounting information as essential and important?

8. Influential Factors on MA:

8.1. Culture:

8.1.1. How many foreign employees and how many foreign managers (number and percentage of the whole manages team) work in the company? What countries are they from?

8.1.2. What other manners of communication and interaction do these foreigners have that may be attributable to culture?

8.1.3. Do the foreign managers have another notion of MA? What exactly?

8.2. Governmental Intervention: Is the governmental constitution strict? Does this governmental intervention impact the MAS?

8.3. Technology: What kind of Software do you use (SAP, Oracle, others!)?

9. Further Comments or Suggestions to Improve and Develop the MAS (in several aspects):

X.

*Thank you very much
for your support*

Appendix I.1.:

Please choose the field of responsibilities that each manager should carry out:

(tick one or more boxes as appropriate)

	CEO	CFO	Management accountants	HR Manager	Product. Manager	Planning Manager	Sales Manager
1. preparing the budget							
2. determine production requirements & equipments							
3. marketing & pricing							
4. hire and fire employees & workers (according to cost)							
5. determine the cost system							
6. strategic planning							
7. measure performance (Index: share price, ROI, sales rate,...)							
8. strategic planning & policy							
9. compare planned goals with what actually done							

Appendix I.2.:

Please determine the importance of the following elements to the company:

(tick one or more boxes as appropriate)

Subject/element	(1)	(2)	(3)	(4)	(5)
Cost reduction					
Sales growth					
Profit margin					
Budget adherence					
Following the technology (IT)					
Culture of the employees (manners of communication, time, uncertainty avoidance, etc.)					
Governmental regulations & organizations (associations, exchange market committee, etc.)					
Economic environment (International market)					
Shareholder value					
Compliance to Sharia					

(1): very important; (2): important; (3): normal; (4): not important; (5): not relevant

Appendix (II):

Consolidated Statement of Income

INCOME	Note	AED'000
Income from financing activities, net	4	-
(Loss)/income from investment securities designated at fair value	5	(-)
Income from other investments	6	-
Income from short term Murabaha with Group Holding Company, net	7	-
Property related income, net	8	-
Commissions and fees income, net	9	-
Other operating income, net	10	-
TOTAL INCOME		<u>X</u>
EXPENSES		
General and administrative expenses	11	(-)
Depreciation of investment properties		(-)
Allowances for impairment net of recoveries	12	(-)
TOTAL EXPENSES		<u>(Y)</u>
NET OPERATING INCOME		Z
Investment, saving and wakala accounts' share of profit	13	(-)
Minority interest	14	-
SHAREHOLDERS' PROFIT (NET INCOME)		<u>profit</u>
Earnings per share (Dirham)	15	<u>profit per share</u>

Appendix (III)

Shares' Zakat

Article (72 - G) of the Articles of Association stipulates that: "The shareholders shall independently provide Zakat (Alms) for their money (paid up capital) and the Company shall calculate for them the due Zakat per share and notify them thereof every year. As for the money held by the Company as reserves, retained earnings and others, on which Zakat is due, the Company shall pay their Zakat as decided by the Fatwa and Sharia Supervisory Board, and transfer such Zakat to the Zakat Fund stipulated in Article (75) of Chapter 10 of the Articles of Association."

Shares' Zakat maybe calculated using one of the following methods:

First method

Zakat on shares purchased for trading purposes (to sell them when the market value rises) is as follows:

Zakat pool per share = Share quoted value + Cash dividends per share for the year

Zakat per share = Zakat pool per share X 2.5775% *

Net Zakat per share = Zakat per share – 0.018 Dirham (Zakat on reserves and retained earnings per Share, paid by the Bank)

Total Zakat payable on shares = Number of shares X Net Zakat per share

**Note: Zakat is calculated at 2.5775% for the Gregorian year, and at 2.5% for Hijri year, due to the eleven days difference between the two calendars.*

Second method

Zakat on shares purchased for acquisition (to benefit from the annual return):

Shares' Zakat = Total shares' dividends for the year X 10%

Appendix (IV)

Interview guideline for the interview with the Sharia adviser (case study)

Interviewee profile:

- 1) Name and job position and responsibilities

Organizational structure:

- 2) How does the existing of Sharia adviser (department) impact the organizational structure?
- 3) What is the relation of Sharia adviser with the finance department (and others)?

Functions of Sharia adviser:

Impact of SA on the instruments of MA (mainly budgeting):

- 4) Does the SA. Influence the used cost and accounting system, or the implemented instruments of MA?
- 5) How does the Sharia adviser participate and intervene in budgeting?
- 6) Who does SA review the planned cost and earnings?
- 7) Regarding flexible budgets, does the SA consider uncertainty (risk) avoidance?
- 8) What problems encounter SA in budgeting?

Role of SA in MA (planning, decision-making, and control):

- 9) What are the daily tasks and responsibilities? Is it full-time job (permanent) or part-time job? Daily bases, if possible? (Does the SA have to certify all documents, above all the financial one)? Does SA control actions and transactions in compliance to Sharia?
- 10) What are the functions of Sharia department in relation with finance department (information provider, control or as partner)? Control?
- 11) Does SA influence planning? Does the SA participate (support) in strategic planning? Does he influence planning periods (long-term vs. short-term)?
- 12) Does the SA support or influence decision-making within the organization? Does the SA (Sharia board) participate (support) in making all decisions of the organization? If not all, what kind of decision has SA the authority to make or judge (especially with respect of management accounting and control)? Please discuss or mention what may happen in case of rejection!
- 13) Does the SA influence the investment decisions, for example in regards to forbidden interests and certain kinds of businesses? Does the SA participate in strategic decisions?
- 14) Does the Sharia board intervene in financial (cost reduction, accounting metrics) and non-financial matters (quality and customer satisfaction, hiring people according to Sharia law)?
- 15) Does SA play a role as a controller in the organization? Does he control actions and transactions in compliance to Sharia? Do they employees understand what the company expects from them?
- 16) Does the Sharia board influence the performance evaluation of the departments or the employees (rewards and punishments)?

Influence of SA on reporting and information system:

- 17) Different information-reporting system: Do other departments in the company deliver or provide special (different) reports and information (financial or non-financial) to Sharia adviser?
- 18) Does the finance department reports directly to Sharia department (board)? Do other departments in the company also report to SA? How often (daily, weekly, monthly, etc.)?
- 19) What information do these reports provide? Do they include e.g. variance analysis, explanations or justifications for the work of the company?
- 20) How does SA gather information from other departments?
- 21) Which kinds of communication does the SA use in communicating with other people within the company (verbal vs. non-verbal)?

Other influential factors that deal with:

- 22) Culture of foreign employees (believes, knowledge, attitudes...).
- 23) Religion.
- 24) Governmental intervention and institutions (other Sharia committees in the Arab World of GCC).
- 25) Technology: does the SA influence the used technology in the company?
- 26) Ethical standards (responsibilities to shareholders).
- 27) How is the relation between the SB and the shareholders general assembly (responsibilities towards shareholders)? Does the SB report to shareholders?

28) Can the Sharia adviser be called as a compliance officer?

29) SA's opinion, remarks or suggestions.

30) Appendices

Appendix (V.1.)

Please choose the field of responsibilities that the Sharia adviser should carry out:

activity	Sharia adviser	Notes
1. preparing the budget		
2. determine products		
3. marketing & pricing		
4. hire and fire employees & workers (according to cost)		
5. determine the cost system		
6. strategic planning & policy		
7. determine performance (Index: share price, ROI, sales rate,...!)		
9. compare planned goals with what actually done		

Appendix (V.2.)

Please determine the importance of the following elements:

Subject/element	(1)	(2)	(3)	(4)	(5)	notes
Cost reduction						
Sales growth						
Profit margin						
Budget adherence						
Following the technology (IT)						
Culture of the employees (uncertainty avoidance, time, communication, etc.)						
Islamic organizations & its regulations (associations, institutions, bodies, etc.)						
Economic environment (International market)						
Shareholder value						
Compliance to Sharia						

(1): very important; (2): important; (3): normal; (4): not important; (5): not relevant

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