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Contextualising the Development of the Accounting Profession and Corporate Governance in Oman: A Northian Institutional Approach

by

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Thesis for the degree of Doctor of Philosophy

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Abstract

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Fatma Abdul Baqi Al Khabouri

This thesis is a qualitative historical case study that looks into the development and professionalisation of accounting and corporate governance in the Sultanate of Oman with a main aim of exploring how the process relates to economic modernisation. Oman provides a suitable case in this context due to the dramatic change in its economic conditions after the discovery of oil and the government's economic modernisation plans which have been implemented since 1970. To achieve this, this thesis uses Douglass North's theory of economic institutions to model accounting, auditing, financial reporting, and corporate governance as an institutional matrix that was developed in the country to support its economic modernisation efforts.

To fully understand the process of accounting and corporate governance professionalisation in Oman and how it relates to economic growth and development, the thesis explores the role of international businesses in the transfer of accounting knowledge into the country. It has been found that the Big Four were particularly influential in transferring international accounting knowledge and practices in Oman by training local accountants, working as advisors for the government, and bringing international professionals in the field to work in Oman. Additionally, international financial organisations, namely, the OECD, have had a significant role in the transfer and development of corporate governance international best practice in the country.

The thesis also highlights the role of governments in the development of the accounting profession and corporate governance. It has been revealed that the influential capacity of the Big Four in Oman to develop the country's accounting and corporate governance legislations and practices in line with the international developments was made possible by the Omani government itself. This notion was contextualised within the case study using the developmental state model. Oman was viewed as a developmental state that have been heavily involved in the institutionalisation of accounting and corporate governance as part of its overall economic modernisation strategy.

The thesis was informed by a mix of archival material obtained from British-based archives and an online archival catalogue. Furthermore, a series of semi-structured interviews were carried out with individuals who were involved in the institutionalisation and development of Oman's accounting and corporate governance during the last 50 years.

Overall, this study contributes to accounting studies on developing Arab countries and contextualises accounting within various bodies of literature such as North's institutional framework, international businesses, and developmental state. The findings of the study are hoped to benefit economic policymakers in countries seeking economic reform to incorporate accounting and corporate governance within the country's institutional framework.

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Research Thesis: Declaration of Authorship

Print name: Fatma Al Khabouri

Title of thesis: Contextualising the Development of the Accounting Profession and Corporate Governance in Oman: A Northian Institutional Approach.

I declare that this thesis and the work presented in it are my own and has been generated by me as the result of my own original research.

I confirm that:

1. This work was done wholly or mainly while in candidature for a research degree at this University;
2. Where any part of this thesis has previously been submitted for a degree or any other qualification at this University or any other institution, this has been clearly stated;
3. Where I have consulted the published work of others, this is always clearly attributed;
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6. Where the thesis is based on work done by myself jointly with others, I have made clear exactly what was done by others and what I have contributed myself;

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Date:24/01/2023

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Fatma Al Khabouri

23/01/2023

Abbreviations

ACCA................................Association of Chartered Certified Accountants.

AAOIFI..............................Accounting and Auditing Organisation for Islamic Financial Institutions

BBME ....British Bank of the Middle East.

BDO.................................Binder Dijker Otte

BP...................................British Petroleum

CBO.................................Central Bank of Oman

CIA..................................Certified Internal Auditor

CICPA...............................Chinese Institute of Certified Public Accountants

CIF..................................Cost, Insurance, Freight

CMA.................................Capital Market Authority

CPA ....Certified Public Accountant

CSR ....Corporate Social Responsibility

DIFC ....Dubai International Financial Centre

EY....................................Ernst & Young

FCO ....Foreign & Commonwealth Office

FDI...................................Foreign Direct Investment

FRC ....Financial Reporting Council

GAAP...............................Generally Accepted Accounting Principles

GCC.................................Gulf Cooperation Council

GCCAAO..........................Gulf Cooperation Council Accounting and Auditing Organisation

GDP.................................Gross Domestic Product

GNP.................................Gross National Product

KPMG ....Klynveld Peat Marwick Goerdeler

HBC ....Hudson Bay Company

IACPA...............................Iranian Association of Certified Public Accountatnts

IAB...................................International Association of Bookkeepers

IAS...................................International Accounting Standards

IASB ....Interational Accounting Standards Board

IASC ....International Accounting Standards Committee

IBRD ....International Bank for Reconstruction and Development

ICAEW ....Institute of Chartered Accountants in England and Wales

ICAI..................................The Institute of Chartered Accountants of India

IDA .... International Development Association

IFAC .... The International Federation of Accountants

IFC .... International Finance Corporation

IFRS .... International Financial Reporting Standards

IICA .... Iranian Institute of Chartered Accountants

IMF .... International Monetary Fund

IPC .... Iraq Petroleum Company

IPSAS.............................. International Public Sector Accounting Standards

MENA.............................. Middle East and North Africa

MoU................................. Memorandum of Understanding

MSM................................ Muscat Securities Market

NBO .... National Bank of Oman

NWC................................ North-West Company

NZSA............................... New Zealand Society of Accountants

OACPA............................ Omani Association of Certified Public Accountants

OCGS.............................. Oman Centre for Governance and Sustainability

OECD.............................. The Organisation for Economic Cooperation and Development

PwC................................. Price Waterhouse Coopers

SEC................................. Securities and Exchange Commission

SME .... Small Medium Enterprises

SOE................................. State Owned Enterprises

SQU .... Sultan Qaboos University

WTO................................ World Trade Organisation

Chapter 1 : Introduction

1.1 Research Background

In today's world, internationalisation has become an important concept in understanding the development of professions and institutions. Cross-national transfer of knowledge and experiences are becoming increasingly possible as different parts are being brought together after breaking the barriers of distance, communication, travel and trade. Accounting knowledge is no different. The literature on the internationalisation of accountancy and auditing has proliferated in the past few decades showing that the successful experiences of the Western economies have been transferred to other parts of the world as a result of the imperial expansion in the 19th and 20th century as well as the internationalisation of business corporations and audit firms (Parker, 1989; Post, 1996; Briston & Kedslie, 1997; Annisette, 1999; Radebaugh et al., 2006; Yapa, 2006; Poullaos & Sian, 2010; Touron & Daly; 2013; McKinstry et al., 2019). Accounting internationalisation may be traced back to the 18th and 19th century when British capital found its way to North America. British accountants, consequently, followed the exports and foreign investments of their home-country clients and subsequently provided accounting services to host-country clients (Post, 1996; Spraakman & Margret, 2005). This, however, does not mean a uniform accounting development process around the world. Country-specific environmental factors have either facilitated or hindered the transfer of accounting knowledge and shaped the resulting accounting institutional framework in that country. The environmental influences, according to Radebaugh et al. (2006), can be a variety of economic, legal, political, or socio-cultural factors. These factors include:

1. *Firms' ownership*: Dispersed ownership of shares is more likely to require public accountability and fair disclosure compared to family-owned firms.
2. *Sources of Finance*: Financing businesses through external shareholders via stock exchanges is more likely to create a public demand for fair disclosure and reporting than other sources of financing, e.g., banks or family members.
3. *Taxation*: Imposing corporate taxes increases the demand for accurate financial reports especially when they are used as a basis for determining tax liabilities.
4. *Accounting profession and education*: The development of accounting systems is dependent on the existence of a sound accounting training and education infrastructure that generates qualified accountants.
5. *Political system*: The nature of the accounting systems will reflect the political views of the country. For instance, capitalist states with free market economies

require different accounting systems than communist states with centrally planned economies.

6. *Economic growth and development*: Economic modernisation policies and the transformation from agriculture and trade economies to industrialised economies creates a need for more advanced forms of accounting and financial reporting.
7. *International factors*: Factors such as a country's colonial heritage and membership in regional and international organisations, e.g., the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD), can affect the development of its accounting system.

As shown hereinabove, the majority of the factors that influence the development of accounting systems across countries are economic related factors. The characteristics of today's modern economy such as the separation of ownership and management, multinational companies, complex business activities, and capital markets have been highly influential in the development of professional accountancy and auditing services. The relationship between accounting information and the economy will be discussed in the next section.

This thesis is a business/accounting historical case study. It explores the context of accounting and how it relates to broader business and economic developments in the Sultanate of Oman. Specifically, it looks into the relationship between the development of professional accountancy, auditing, financial reporting and corporate governance, on the one hand, and economic modernisation, on the other hand. To achieve this, the present thesis uses and links three bodies of literature. First, using international business literature (Kogut & Zander, 1993; Jones, 2005; Cooper & Robson, 2006; Suddaby et al., 2007; Dunning & Lundan, 2008a; Fitzgerald, 2015; Belal et al., 2017; Wen & Sonnerfeldt, 2022), the thesis explores the role of international businesses in the transfer and development of professional accounting knowledge and corporate governance practices in Oman. Due to a long history of British influence on Oman's financial and economic affairs, it was expected that British banks and the British oil company that entered the country in the 1940s and 1950s would have been key players in the development of accounting. However, the findings have shown that international accounting firms (i.e., the Big Four) and international financial organisations were, in fact, the dominant force that facilitated the transfer and development of professional accounting and corporate governance in Oman. Second, Douglass North's theory of economic institutions (North, 1986; 1989; 1990; 1991, 2003) is used to understand how accounting and corporate governance were developed in Oman in relation to the country's economic modernisation plans. Accounting, auditing, financial reporting, and corporate governance are modelled as an institutional matrix that supports economic growth and modernisation by strengthening property rights protection and increasing investors' trust in the market. Finally, developmental state literature (Caldentey, 2008; Pirie, 2008; Andrews & Nwapi, 2018; Massi & Singh, 2018; Singh & Ovadia, 2018; Wylde, 2018; Kwon, 2021) is used to include the evident role of the Omani government in the institutionalisation of accounting and facilitating the dissemination of the transferred knowledge into Oman's business environment within wider discussions on the relationship between accounting development and economic modernisation. Oman will be viewed as a developmental state that incorporated international accounting and corporate governance practices within its national regulations and policies as part of its economic reforms after 1970.

Using a mix of interviews and archival primary evidence as well as a wide range of secondary documents, a narrative has been constructed to outline the institutional development of accountancy and corporate governance in Oman since 1970, while highlighting the major political and economic events that affected the process. The underlying argument of this thesis is that the institutionalisation of accounting and corporate governance has been directly associated with the implemented economic modernisation policies by the new regime after 1970. Accounting knowledge has been transferred into the country through the Big Four and international financial organisations with the support of the Omani government itself.

1.2 The Relationship Between Accounting Information and the Economy

Accounting and economics are two interrelated disciplines. At first glance, they might look remarkably different, however, both disciplines are concerned with economic activities and the same financial concepts such as profits, costing, capital, value and prices (Boulding, 1977). Despite their conceptual and technical differences (e.g., the treatment of opportunity costs in calculating costs and profits), it has been argued that accounting and economics are closely linked due to one mutual outcome, which is a greater understanding of how an economy works. On the one hand, economics attempts to theorise and explain economic behaviour. Accounting, on the other hand, records economic events and sets a basis for economic policy (Boyns & Edwards, 1991; Biondi & Zambon, 2013).

In recent years, accounting has been increasingly acknowledged for being more than just mere calculations, but rather a source of management information for monitoring and control purposes as well as achieving organisational effectiveness and efficiency. Moreover, accounting jobs are no longer handled by simple clerks but rather by professional accountants and managers (Hopwood, 1992). According to Boyns &

Edwards (1991), by generating reliable accounting information, accountants play a significant role in enhancing an economy's performance. This is because this information enables firms and individuals to make optimal investment and resource allocation decisions to maximise their return, thereby ultimately boosting the entire economy. This argument was justified using Adam Smith's model of competition, "*under conditions of certainty, each economic agent, striving individually to maximise his or her own welfare, will generate, via competitive trade and production, a pareto optimal (welfare-maximising) position for society as a whole*" (Boyns & Edwards 1991, p. 180). An emphasis was placed on the concept of *certainty*, and the role of accounting in producing and publishing sufficient financial information for the agents operating within a market to reach a desired level of certainty that allows them to make economically rational decisions. It is, however, important to note that, while accountants may determine the nature of the published financial information, they cannot fully control the way this information is interpreted or used (Griffiths, 1986 cited in Boyns & Edwards, 1991). A good illustration of this was shared by May (1936a, cited in Boyns & Edwards, 1991) regarding the American railroads as they failed to properly account for periodic depreciation expense, thereby inflating reported profits. In consequence, the misleading information has encouraged excessive investments into railroads resulting in reduced long-term growth of other sectors of the economy.

An editorial by Lee (1987), analysed the relationship between accounting and economic development by adding one more variable into the mix, which is capital markets. Lee (1987) argues that, having a sophisticated accounting infrastructure is an important precondition for an efficient capital market, which subsequently results in an efficient resource allocation and general economic growth. He further explains, in a widely participating capital market, an investor does not have to bear the risk of venturing into new, risky, yet promisingly profitable industry themselves. In fact, A well-organised capital market allows for risk sharing by the separation of management and ownership as well as diversified market portfolios so that the entire wealth of an investor is not dependent on the performance of one investment project, thereby encouraging greater investment projects and economic expansion. However, this desired structure of a capital market cannot be attained without a well-developed accounting infrastructure that provides reliable information to the market's stakeholders. This infrastructure consists of the following:

1. The information producer and final user (i.e., the management of a firm and shareholders).
2. The information intermediaries (i.e., auditors, financial analysts, bankers).

3. The laws and regulations that govern the production, transmission, and usage of information (i.e., GAAP, IFRS, Cadbury Code, Sarbanes-Oxley Act).
4. The legal entity that monitors and implements laws and regulations (i.e., Financial Reporting Council – FRC, the Securities and Exchange Commission - SEC).

Having a developed accounting infrastructure that ensures the availability of reliable accounting information results in an efficient capital market through the following. First, reduced uncertainty amongst the market participants, leading them to make more informed investment decisions. Second, enabling shareholders to monitor management's performance and the status of their investments on a regular basis. Third, simplified communication between firms and shareholders, allowing firms to credibly convey the quality of their investment projects to potential investors who, in turn, would be willing to pay higher prices for higher quality investments. Thus, more companies would be encouraged to finance their operations through organised capital markets. Without an advanced accounting infrastructure and an efficient capital market, the increased uncertainty and risk would be stumbling blocks to further economic development (Lee, 1987; Radebaugh et al., 2006).

A parallel argument is that economic growth itself can bring forward developments in accounting practices to keep up with the increasing complexity of its financial activities (Exploring the Relationship between Accounting and Economics,1992). Hopwood (1992) further adds, economic understandings and theories have been providing a context for accounting's routine procedures, as well as a basis for evaluating the adequacy of accounting practices. In other words, economics directs accounting and helps it become what it should be. This was evident in the late 18th century when double-entry accounting system superseded charge/discharge accounting after the industrial revolution. As the economy started to grow, so did the need for a more complex accounting system that could successfully account for all business activities (Littleton, 1933 cited in Carnegie & Napier, 1996). Boyns & Edwards (1991), have presented some of the general reasons that triggered the gradual change of accounting in the UK through the 19th century: (1) the development of a capital market as a mode of financing the railways, as well as other private and public services thereafter; (2) the emergence of large-scale businesses in different legal forms (e.g. limited liability companies); (3) the increasing demand for business on credit in favour of cash required using the accrual system in recording business transactions. As a result of the distinction between capital and revenues expenditures in the double-entry accounting system, accountants were able to present financial information in the form of statements, e.g., profit & loss statement and balance sheet. Moreover, moving towards a more standardised and objective accounting information has enabled external users to use these statements as a reliable tool to assess and compare firms' performances for decision-making purposes in a growing economy. Nevertheless, it is important to point out that, even with the attempts to unify accounting and reporting standards, there is still room for subjectivity and the possibility of presenting poor results in the best way possible which could be misleading to the recipient. (Griffiths, 1986 cited in Boyns & Edwards, 1991).

The case of the English potter, Wedgwood, discussed by Hopwood (1992) to analyse the relationship between accounting and economics could serve as a good example in this context. Even though it differs in terms of the nature of economic change, it is illustrative of how changes in the economy can induce changes in the accounting practised. In this case, the economic crisis of 1772, rather than growth, is what motivated Wedgwood to start viewing his business in economic terms. Based on his basic knowledge of economic theories, he aimed to lower his prices compared to other market competitors in order to stimulate demand. He was also mindful about keeping his prices above costs to maintain a decent profit margin. Prior to this financial crisis, Wedgwood's pricing decisions were random, and he never utilised any accounting knowledge in his daily operations. He was faced with the challenging task of finding detailed information about the expense of every single step of the manufacturing and selling processes to calculate the accurate cost of individual products. This was not an easy task due to the lack of established procedures to observe the inner operations of the business from an accounting perspective. Through his enquiries, and due to the inconsistencies between his existing accounts and the costs he calculated, he later discovered that his head clerk had his hand in the till. By the end of this intervention, Wedgwood not only constructed a competitive pricing and costing system to keep his business afloat during a recession, but he also introduced new internal monitor and control measures. New wages and a bonuses system were put in place to ensure employees' motivation and commitment as well as a supervision system to ensure their integrity. Moreover, the new accounting concepts have also allowed him to reform his manufacturing process by utilising the advantages of mass production to lower the cost per unit. Hence, this case also highlights the role of accounting in reshaping the functioning of a business enterprise to be more economically oriented than it used to be. In a similar manner, it illuminates the role of accounting as a tool of management that allows for enhanced corporate performance which, as Johnson (1975) suggests, could affect the overall economic performance of a country.

On a macroeconomic level, accounting reforms have been prescribed by international financial institutions, such as the World Bank and the IMF, as an instrument that fosters economic growth in developing countries. The reforms were often market-based which aimed to create optimal conditions for increased competition and private ownership, inward foreign investments, efficient capital markets, free trade, and privatisation of government owned enterprises. Furthermore, the implementation of the recommended accounting reforms was a precondition for receiving foreign international aid to rectify these countries' fiscal deficits and help them in financing their development plans. These reforms reflected the Western accounting systems which were transferred through Western professional international accounting bodies, transnational accounting and auditing standard setters (i.e., IFAC and IASB) as well as large accounting consultants (i.e., the Big Four). By following their advice, local professional accounting capacity, accounting education and the adopted accounting standards in these countries were more aligned with the international practices of accounting (Hopper et al., 2017). The implemented accounting measures had positive effects on the economies of these countries and facilitated their integration into the global economy (Gordon et al., 2012). Although this may be true in many cases, Hopper et al. (2017) argue that accounting reforms do not always result in better economic outcomes. In some cases, accounting reforms were implemented and maintained only to gain the legitimacy of external lenders without an actual demonstration of accountability within the country's institutions (Uddin & Hopper, 2003). In fact, a study by Nnadi and Soobaroyen (2015) has even evidenced that that the adoption of international accounting standards has had an adverse effect on attracting foreign investments to Africa. The reason for this, according to Hopper et al. (2017), is that the bias towards Western accounting systems without an accommodation of the local circumstances, needs and implementation issues of developing countries often leads to the failure of the accounting policy recommendations. The "one-size fits all" accounting standards do not always work. This is simply because not all societies share the fundamental assumptions behind the Western accounting practices.

All things considered, the above suggests a direct relationship between the development of accounting and economic conditions. In cases of economic growth and decline, accounting was developed as an institutional arrangement to tackle the increased complexity of economic activities. Baskin and Miranti's (1997) book surveys how accounting is an essential part of economic modernisation. As economic activities transitioned from merchant and trade activities to the era of industrialisation and international financial markets, an increased demand for quality accounting practices and information was created. The present thesis will utilise a different approach in exploring the relationship between accounting and economic modernisation using North's institutional theory. Accounting will be modelled as an institution of formal rules, informal constraints, and enforcement mechanisms that creates a financial cognition base for market participants. Accounting principles and practices were developed to produce accurate asset valuation, revenues and profit recognition as well as cost allocation to reflect the underlying complexities of a modernised economy[1] (Baskin & Miranti, 1997). Moreover, this cognitive base contributed to lowering investors' concerns of market risks and agency conflicts. Using North's approach would not just allow a better understanding of how accounting relates to economic modernisation but would also allow for the inclusion of the role of governments (i.e., developmental state) and international businesses within wider debates of economic modernisation. In this thesis, these relationships will be explored through the case of Oman. The reasons for choosing Oman as a case study for this thesis will be explained in the following section.

1.3 Why Oman?

Oman presents a successful example of an Arab oil-producing country that was able to construct an institutional framework which incorporates the international practices of accounting and corporate governance to support their economic modernisation plans.

Situated on the southern-east side of the Arabian Peninsula, Oman is the second largest country in the Arabian Gulf region after Saudi Arabia. It has a rich history as the oldest independent country in the Arab world. During the 18th century, the Omani Empire expanded to include current Oman, parts of the African east coast, and the southern coast of Iran and Pakistan. Due to its geographical location, the country has always had economic significance as a trading location that connects European ports with the Indian sub-continent and China. Traditionally, Oman's economy depended on agriculture and trading. Those who lived in the interior have utilised the good soil and relatively high rainfall rate to grow and sell limes, mangos, bananas and pomegranates. Coastal residents, however, were mainly known for being merchants and fishermen. These merchants maintained wide commercial links via family connections by marrying women in other Gulf countries, Iraq, India and East Africa.

The country's current ruling family, Al-Busaid, has successfully established and maintained a dynasty of hereditary sultans since 1749 until today. Oman and its rulers were subject to both formal and informal influences from the British Empire for centuries. Although it was never a British colony or protectorate, their involvement in Oman's internal and external affairs was significant. The two countries were bounded by a series of treaties throughout the 18th, 19th and 20th centuries, starting with the Anglo-Omani Treaty of Friendship signed in 1798 and later amended in 1800, followed by the Treaty of

[1] Modernised economies involve complex activities, such as long-term projects and investments, credit financing, contingent liabilities, modern corporations with a higher level of separation between ownership and management as well as large stock markets.

Commerce signed in 1839 and ending with the Treaty of Friendship, Commerce, and Navigation signed in 1891, 1939 and 1951[2] (Young, 1952; Landen, 1967; Al Baharna, 1968; Allen, 1982). The long ties between Oman's Al-Busaid rulers and the British government were initiated in an attempt to protect both parties' interests. The British wanted to drive away their European rivals who tried to gain a foothold in the region, while the Omanis wanted to secure their trade routes with India and East Africa (Peterson, 1991). During the last two centuries, the British government was involved in Oman's most influential events, e.g., the division of Oman and Zanzibar in 1861, Al Buraimi dispute between Oman and Saudi Arabia in 1950, Jabal Al Akhdar's war between Sultan Said bin Taimoor and the Ibadi imamate forces in 1959, Dhofar's communist rebellions in 1962, and most importantly, the palace coup which instated Qaboos as the sultan in 1970. Britain's role in all these events was to keep the successive Al-Busaid sultans in power in order to have the ability to exert informal imperial influence over them (Onley, 2009). In addition to providing military support, the British have been providing the Sultans of Oman with financial support in the form of annual subsidies after kerbing the country's main sources of revenue; slave and gun trading (Owtram, 2014a,b). The British exercised their administrative powers over Oman and the other Gulf sheikhdoms through a Political Resident who was based in Bushire and Bahrain respectively. The Political Resident had to be consulted on major decisions and had the authority to hold the Gulf rulers accountable for any decisions he did not approve of. Moreover, a British Political Agent, who resided in Muscat, had the authority to interfere in the country's internal affairs, especially when British subjects and British-protected persons were involved (Onley, 2009; Peterson, 2009).

Oman was chosen as a case study for this thesis for two reasons. First, its status as a country that fell under the political and economic influence of the British Empire despite not ever being an official colony or a protectorate. The financial and economic history of Oman, as shown in the following chapter, provides evidence of British influence in transferring modern business knowledge into the country which was translated into the establishment of the country's first commercial bank, the formation of a central bank, the issuance of a national currency, and successive British-appointed financial advisers and ministers within the Omani government. The literature on the role of the British Empire in the professionalisation of accounting has mostly looked into settler colonies (Carnegie & Parker, 1999; Carnegie & Edwards, 2001; Poullaos, 2010; Richardson, 2010) and non-settler colonies (Annisette, 1999; Susela, 2010; Verma, 2010; Uche, 2010; Sian, 2011).

[2] The same treaty was signed three times in the above-mentioned years, each one replacing the one before it with adjustments that reflect the changing pattern of British-Omani relations. (Young, 1952).

Altaher et al. (2014) have taken it further and explored the role of British imperialism on the professionalisation of accounting in Kuwait as an Arabic British protectorate. Their study was conducted in response to De Beelde’s (2011, p.1120) review of *Accountancy and Empire: The British Legacy of Professional Organisation* by Chris Poullaos and Suki Sian. In his review of the book, he stated, “it covers most regions of the British Empire, the only notable exception being what could be considered the Arab part of the Empire. Although the current selection of former colonies provides contrasting examples of the uptake of the British models, it would be interesting to study whether the situation in the protectorates, such as British Somaliland, Yemen, and Oman, was any different from that in the other parts of the Empire”. Hence, exploring whether imperial influences had affected the development of accountancy and auditing in Oman would add to the existing literature on the role of imperialism on the professionalisation of accountancy and auditing in an Arabic country that was albeit legally independent, but was treated as a de facto British protectorate.

Second, over the past 52 years, Oman has gone through tremendous economic, political, and social transformations. Before the exportation of oil in 1967 and the ascension of Sultan Qaboos bin Said to the throne in 1970, Oman was isolated and closed to all outsiders. The previous sultan, Said bin Taimoor, had a deliberate policy against formal learning. The country had three boys-only primary schools with a literacy rate of no more than 5%. People were deprived of basic healthcare services with one hospital serving the entire country resulting in a life expectancy of merely 55 years. The country lacked basic utilities such as paved roads, electricity, water and telephone lines. As a result of the worsening living conditions, rebellions broke out across the country to overthrow Sultan Said. With the escalating political tensions, Sultan Qaboos, who was placed under house arrest by his father at the time, managed to depose his father in a British-organised palace coup on 23 July 1970. It was only after the accession of Sultan Qaboos that the country witnessed the establishment of a modern government, utilisation of its oil and gas resources as well as the undertaking of major modernisation projects. Oil exports have brought a significant rise in the country’s national income which the new Sultan spent on raising the people’s standards of living and carrying out various development plans in education, healthcare, transportation, and social services. Oman’s economy transformed with the increased oil revenues and the establishment of a modern economic foundation and infrastructure as it has been classified as a high-income oil-exporting country (Yapa & Wijewardena, 1996). The Gross Domestic Product (GDP) per capita grew exponentially in the 10 year period following the palace coup of 1970 from $354.08 to $5,181.83 in 1980 which is one of the highest growth rates in the Middle East and the world (Mansur & Treichel, 1999; World Bank, 2022). Interestingly, it has been argued that the development of accounting systems and accounting education in high-income oil-exporting countries is different than from that of other third world countries (Yapa & Wijewardena, 1996). The disparity in the economic performance between the two economic classes makes a unified view of the accounting development conceptually invalid. It is also argued that the development of accounting in high-income oil-exporting countries was not an outcome of historical factors such as colonial heritage but was rather developed in response to the complexity of their economic activities and transferred through multinational enterprises, international accounting firms, international financial institutions and expatriate accountants. In this regard, the historical nature of Oman as a country that has been under British influence for almost three centuries and the rapid economic transformation it went through during the last 52 years makes it an excellent case to understand the process of accounting development in a high-income oil-exporting country that was under the informal control of the British Empire for almost three centuries.

1.4 Research Aims, Questions and Contributions

The main aim of the present thesis is to understand the process in which accounting, auditing, financial reporting and corporate governance were institutionalised in Oman in relation to the government's economic modernisation plans which have been implemented since 1970. The following main research questions will be tackled:

1. What is the nature of British influence on the transfer of accounting knowledge and the development of professional accounting in Oman?
2. What is the role of international businesses and international financial organisations in the transfer and development of accounting in Oman?
3. To what extent did the Big Four influence the professionalisation of accounting in Oman?
4. How does accounting and corporate governance fit into North's definition of institutions?
5. How did the development of an accounting and corporate governance institutional infrastructure in Oman relate to economic modernisation?
6. What is the role of the Omani government in the development and institutionalisation of accounting and corporate governance?

By presenting a comprehensive historical analysis of the major events that led to the gradual development and institutionalisation of accounting and corporate governance in Oman in relation to economic modernisation, this thesis is expected to make a general contribution to the limited accounting literature on developing countries, with a more specific contribution to the development of the professional accountancy literature in Arab emergent economies.

With regards to the general contribution, Moses and Hopper (2022) have recently conducted a metadata analysis of accounting articles on developing countries in high-ranking international accounting journals including Accounting History, Accounting History Review, Accounting Historians Journal and Critical Perspectives on Accounting. Their sample covered a total of 13,085 published accounting articles from 2009 to 2018. The findings have shown that, although developing countries have been increasingly appearing as the subject of accounting articles, they remain under-represented in international accounting journals. The authors have found that published articles on accounting in developing countries have increased by 36% in the last 10 years, with 1,317 articles constituting merely 9.5% of the total published accounting articles. Although their analysis has shown that accounting research has been heavily concentrated on Asian countries, especially those with a large population such as China, Malaysia, and India, Arab countries have been neglected in these journals. Their data have shown just 100 articles covering 13 Arab individual countries, making up a small margin of 7.6% of the total published articles on developing countries. With regards to Oman, only three published accounting articles have been found. The authors have also noted that almost two-thirds of these articles have employed a quantitative positivist methodological approach. Their concluding remarks have addressed an existing gap in the accounting literature that focuses on the development issues of developing countries. Hence, they called for more focus on neglected subjects such as professionalisation, government accounting, and the role of international financial and Western accounting institutions (i.e., World Bank, IMF). This thesis, being a qualitative historical case study of a developing country, recognises the value of theoretical and methodological diversity in accounting research to cover broader issues of accounting such as accounting development and its relationship to economic modernisation. It also contributes to the themes suggested by the authors as it explores the professionalisation of accounting in Oman and discusses the role of international financial institutions and the government itself in the process.

The more specific contribution of this thesis is filling a gap in the existing literature on the development and professionalisation of accounting in Arab developing countries. Despite accounting's central role in achieving sustainable economic growth for developing countries by ensuring a successful implementation of economic development policies, efficient resource allocation, and the attraction of foreign capital, studying the development of accounting in these countries has received little attention. Influenced by the dominant Western influence and globalisation, many developing countries have undergone major accounting reforms in the past two-and-a-half decades as a way of creating an economic environment that supports open market models. This makes developing counties valuable subjects for accounting professionalisation research. A recent publication by Yapa (2022) has systematically reviewed the published literature on the development of professional accounting in major English journals and one monograph in the period between 1995 and 2020 to identify the extant and scope of publications on developing countries. The author found that 51 articles have been published on the professionalisation of accounting covering 24 developing countries over a period of 25 years. The results have shown that studies on Arab Middle Eastern countries have been mostly neglected, with only three studies found on Saudi Arabia, one study on Kuwait, and another one on Syria (Gallhofer et al., 2011; Altaher et al., 2014; Mihret et al., 2017; Sian et al., 2020). The author has acknowledged the lack of enough studies on the development of professional accounting in developing countries and considered it a “major gap in the accounting discipline” (Yapa, 2022, p.452). In addition, based on the systematic review results, the author suggests that future studies must focus on issues such as the impact of internationalisation on the world economy and the accounting profession, the connection between the state and the accounting profession and the interplay with the economy as well as the impact of multinational accounting firms. The present thesis contributes to these suggested themes by Yapa (2022), but it does not focus solely on one of them.

Another contribution of this thesis is providing a new theoretical lens for understanding the development and professionalisation of accounting and how it relates to economic modernisation. It can be seen from section 1.2 that North’s institutional framework was not previously used in studies that look into the relationship between accounting and economic modernisation. Moreover, this thesis contributes to the literature on North’s institutions by providing a real-life case study that applies the theory, which was not provided in North’s publications (North, 1990; 1991). By doing so, it answers academic calls to increase the number of studies that look into the role of accounting in accelerating economic development (Venter et al., 2018).

From a purely historical and archival standpoint, this thesis makes a contribution to the overall history of Oman by utilising rich archival material in British-based archives to construct a historical economic and financial background of Oman in the 20th century. Due to the primitive nature of the Omani government and the lack of organised administrative and financial institutions before 1970, insufficient documented information regarding the nature of the country’s economic and financial activities have been found. The lack of a written business history of Oman in the 20th century would have made an analysis of accounting development not possible. Therefore, in order to overcome the absence of such information, and to place accounting within the wider financial and economic context, British-based archives were used to fill in the gap. These archives have previously only been used for political research and analyses.

The findings of this thesis are expected to provide a deeper understanding of the internationalisation and institutionalisation of accounting and how it relates to economic growth and modernisation. It acknowledges the statement of Hopper et al. (2017, p.141): “Historical work can bring new insights that challenge our knowledge of accounting functions and operations in developing countries and offer a better understanding of the context to inform contemporary solutions”. Therefore, the results of this thesis are expected to assist policymakers in Oman, and other similar settings, as it moves towards a new phase of economic reforms that aim to increase the non-oil share of GDP, increase the FDI Net Inflow percentage of GDP, increase the country’s Global Competitiveness Index, achieve significant Real GDP growth and create an empowered, competitive private sector that generates better employment opportunities for Omanis (Oman Vision 2040, 2020). It is hoped that this thesis will provide insight on developing an accounting institutional infrastructure that supports the Omani government’s upcoming plans of a post-oil economy.

1.5 Thesis Structure

This thesis is divided into ten chapters. Chapter 1 presents an introduction of the thesis, highlighting how accounting fits into discussions of economic growth as a background of the study. It also states research aims, rationale behind choosing Oman as a case study, and key contributions. Chapter 2 presents a constructed historical overview of Oman’s business and economic background. Due to the lack of a pre-existing comprehensive business history of Oman in the 20th century, this chapter was informed using primary evidence from the archives of the Bank of England, the British Bank of the Middle East (BBME)[3], the Arabian Gulf Digital Archive, and the National Archives and Records Authority in Muscat. Chapter 3 explores international business literature and highlights their role as transferers of knowledge and engines of economic growth. The chapter will also explore accounting in the context of international business literature and review cases in which accounting was transferred through international businesses and the Big Four. Chapter 4 introduces North’s institutional theory and discusses the reasons for being chosen for this study. Accounting and corporate governance will be viewed as an institution which, according to the theory, aids economic growth and development. Chapter 5 presents the historical development of corporate governance with an emphasis on the Arabian Gulf region. The chapter also discusses the role of international organisations such as the OECD in spreading and encouraging corporate governance

[3] Previously known as the Imperial Bank of Persia, BBME was the first and sole commercial bank in the country for 20 consecutive years, opening a first branch in Muscat in 1948 followed by another branch in Muttrah in 1963.

reforms around the world. Chapter 6 discusses the role of the state in accounting development and economic modernisation. It introduces the concept of developmental state and considers the institutionalisation of accounting as part of developmental state's efforts in modernising its economy. Chapter 7 discusses the methodological approaches of the study. It discusses the suitability of history as a research method, the archives and oral history as sources of data, and historical narratives as a means of analysing the gathered data. Chapter 8 presents the historical narrative constructed from a mix of archival records and interviews data. The narrative describes the gradual development of the institutional framework of accounting and corporate governance in Oman during the last 52 years. Chapter 9 presents a discussion of the major findings before concluding the thesis in chapter 10.

Chapter 2 : The Development of Business in Oman in the 20th century

2.1 Introduction

The following section presents a background of Oman's financial and economic conditions during the 20th century. The information was mainly obtained from The Bank of England and HSBC archives[4], as well as the National Records and Archives of Oman. In addition, the Arabian Gulf Digital Archive was also accessed, which is part of the United Arab Emirates National Archives and offers free digitised primary material about the Gulf region from the British National Archives. In fact, the archiving culture in Oman itself is relatively new. The country's first National Records and Archives Authority was only established 12 years ago and showcases, to a large extent, a collection of documents about Oman gathered from foreign sources (e.g., The Foreign and Commonwealth Office – FCO), rather than documents from Oman's government itself. The absence of formal bureaucratic government institutions and proper archiving system before 1970 have made the access to surviving documents from that period a challenging task. Nonetheless, due to the long relationship between Oman and the British Empire, and the involvement of the latter in Oman's financial and economic matters, information about Oman's business history can be found in British archives. The current historical information about Oman's financial and economic conditions are dispersed and fragmented. Therefore, this chapter aims to present an organised holistic view of Oman's financial and economic history during the 20th century and puts the case under study in its historical context.

2.2 Economic and Financial Background

Prior to the discovery of oil in commercial quantities, Oman's main source of indigenous revenue was Customs Duties, making approximately 90% of the country's annual income in the 1960s (Peterson, 1978). Duties were calculated based on the market price of the goods concerned rather than the Cost, Insurance, Freight (CIF) cost. In the absence of an

[4] The British Bank of the Middle East (BBME) was acquired by the HSBC Group in 1959, and in 1999 renamed to HSBC Bank Middle East.

assessable market price, CIF cost was used plus 25%. The Customs Department, run mostly by Indian Directors, was the government body responsible for tax collection[5].

Moreover, the country's traditional economy depended mainly on trade, agriculture, and fishing. Principal produces included dates, grapes, mangos, limes, and pomegranates. Tobacco was also grown in parts along the Batinah coast and Hajer mountains, while coconuts, frankincense and gum were produced in the Southern province of Dhofar. The only local industry was fish and dates drying, which were on a small scale across scattered areas of the country. On the northern coast, a community of wealthy merchants operating around 25 family firms controlled major external trade and business activities (Miles, 1919). The rest of the population had a very low living standards and negligible purchasing power. Due to the primitive nature of the economy, annual imports and exports were used as a measurement for economic activities. The British Consul General in Muscat prepared quarterly Economic and Commercial reports containing information on imports and exports to be submitted to multiple British Authorities such as, the Board of Trade in London, the Arabian Department of the Foreign office, the Bank of England, and British Residency in the Arabian Gulf. On a side note, a huge but rather inconsistent share of Oman's revenues during the 20th century were provided in a form of loans or subsidies from the British government in a time of political or economic crisis and withdrawn once it passes (Landen, 1967; Peterson, 1978).

In order to get a clearer picture of Oman's economic situation in the 20th century, it is useful to refer to Sultan Said bin Taimoor's speech to the people of Muscat & Oman in 1968, as it summarises the country's economic conditions from 1913 to 1968. The first period Sultan Said talked about was his grandfather's, Faisal b. Turki. During his reign, the government followed a simple outdated approach in financial management. Without an appropriate planning and budgeting, improvising was the core of financial decision making. Thus, his son, Taimoor b. Faisal, inherited a heavily indebted government with insufficient sources of income. Government's debt kept on building up, with huge amounts being owed to local merchants. By 1920, Sultan Taimoor called on external financial

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[5] Examples of collected taxes at the time:

1. *Zakat*: an annual tax under Islamic law on certain types of property.
2. *Dagwa*: an annual tax on fishing nets.
3. *Bait ul mal*: a rent collected on crown land.
4. *Herasa*: a tax collected as a contribution towards the expense of night guards.
5. *Boats Registration Fees*.
6. *Municipal Tax*: a surcharge on all imports and exports at the rate of approximately 0.1%.
7. *Quarantine Fees*: payable by all sea passengers to Muscat.
8. *Octori*: a tax on all goods brought for sale from the Interior to Muscat.

expertise to help in managing government spending and accumulated debt. Consequently, he sought the British's government help, and they agreed to lend him enough funds to pay off local merchants and start reforming Oman's financial situation. By the same token, Sultan Taimoor borrowed three experienced customs officers from the Egyptian government and a British financial expert to handle financial matters, who were able to maximise government's revenues while stabilising deficits. Unfortunately, the latter did not last in his position for more than six months and was replaced by a senior member of the Al-Busaid family and the governor of Muttrah at the time, Mohammad Al-Ghasham. According to Sultan Said, the government's financial situation started deteriorating again as a result of Al-Ghasham's negligence and irresponsibility. The second period started in 1925, which marked the appointment of a series of British financial experts as the Secretaries of Finance who guided the government through the critical period of the Great Depression. In 1932, Sultan Said ascended the throne after his father's abdication, and took the responsibly of monitoring the financial situation personally. He applied strict financial control measures, resulting in a total elimination of financial deficits. The third and final period discussed by Sultan Said started in 1945 and the beginning of World War II, which surprisingly affected state's treasury positively. This is because the increased prices of imported goods during the war had consequently increased customs revenues. In 1958, the British Government has agreed to provide the Sultan with financial assistance to help in boosting economic and civil development plans in Oman. These payments continued until March 1967, four months before the exportation of the first oil shipment (Said bin Taimoor, 1986).

2.2.1 Currency

The circulating currencies in Oman before 1970 were the Indian Rupees issued by the Reserve Bank of India and the Maria Theresa Thaler, with the former circulating mainly in Muscat and the Northern coast, and the latter being used in the Interior. In 1959, the Indian Rupee was withdrawn from the Gulf region due to illegal smuggling, and replaced by the Gulf Rupee at par. In the same year, a third currency was added to the mix, the Dhofari Rial, to be used solely in the province of Dhofar.

At the time, the anomalous currency situation in Oman was under the supervision of the British government, particularly, the Bank of England. One of the bank's responsibilities was the management of the Sterling's reserves internationally. They administrated Exchange Control measures after World War 1 to limit the convertibility of the Pound Sterling to foreign currencies, thus maintaining its stability in the market. According to the Bank of England's records, Oman was not included within the legal definition of a scheduled territory for Exchange Control but was treated administratively as part of them.

In other words, a form of indirect control was exercised by British Banks over the amount of Sterling held or paid by Oman's residents to non-members of the Sterling Area. This can be seen in the case where Sultan Said bin Taimoor attempted to purchase US Dollars equivalent to half a million pounds, and was denied by his personal banker in London, Lloyds. In a normal situation, the execution of a similar transaction would require getting a prior approval from the Consul General in Muscat. However, the Sultan refused to submit to any procedures that might appear to degrade his sovereignty and threatened to review his oil concession agreement to avoid receiving payments in Sterling. After raising a complaint by Shell's representative in Muscat on behalf of the Sultan, the Bank of England devoted considerable efforts to clear the misunderstanding. The British government continued to administer Exchange Control on Oman as a member of the Sterling Area until 1972.

Another form of British involvement was evident in their handling of the currency crisis in 1966 when the Indian Authorities decided to devalue the Rupee. The Bank of England monitored the situation closely, informing the Sultan of his options, and offering advice if he decides to introduce his own currency. Unlike the other Gulf States who decided to issue their own currency after the devaluation, Oman remained the sole user of the Gulf Rupee with the government backing it at its old parity to the pound. The Indian Authorities welcomed this move because of their political interest in the area, and to avoid the burden of additional foreign exchange liability. This was followed by the pound devaluation by the British government in 1967. The Bank of England advised the Sultan not to follow the pound devaluation considering the damage it would cause to his reputation and to the value of his people's Rupee savings. They believed that the savings which would accrue if he were to follow the devaluation were incomparable to the expected oil revenues. Despite the involvement of the Political Agent in this matter, the Sultan insisted to move ahead with the devaluation.

The responsibility of introducing and managing Oman's first national currency, Rial Saidi, was not entrusted to an established central bank as per custom. Instead, Sultan Said bin Taimoor specifically asked BBME, as his personal bankers, to organise the matter in 1968. According to Ashmole (2010), BBME's previous branch manager in Muscat and a financial advisor to the Sultan, the Sultan's reasons for not involving the Bank of England in this process were not clear. However, it might be because he viewed the Bank of England as part of the British Government who decided to terminate the annual subsidy paid to him in view of the anticipated oil revenues. Without seeking any consultation from the Bank of England, Ashmole designed the Rial subdivided into 1000 baisa, and pegged to the Sterling Pound at par. During the process, he undertook multiple tasks such as determining the quantity of notes to print and dispatching the previously circulating Gulf

Rupees to India. Further, he realised the necessity of having a basic Currency Law prior to the introduction of the currency, thus, he drew up Oman's first Currency Law from previously drafted currency laws of other Middle Eastern countries. The law was approved and published by the Sultan as the *Currency Decree 1390 on* 19th of April 1970. Additionally, it is in accordance with this law that the first official monetary institution in the Oman, Muscat Currency Authority, was established. At first glance, the Authority appeared as an independent Omani financial body, nevertheless, it was fully managed by the BBME (Molyneux & Iqbal, 2005; Ashmole, 2010). The Authority, or rather BBME, also acted as a correspondent, banker, an agent for international monetary authorities, and Oman's foreign assets manager.

Following the change of the country's name from *Sultanate of Muscat & Oman* to the *Sultanate of Oman* in 1972 and joining the IMF, the national currency was subsequently renamed Rial Omani pegged to the US Dollar, and the currency authority was replaced by Oman's Currency Board. Taken together, the above-mentioned efforts have facilitated the establishment of the Central Bank of Oman (CBO) in accordance with the *Banking Law Decree* issued in 1974. The Central Bank commenced its operations in April 1975, taking over the responsibilities of the Currency Board.

2.2.2 Financial Administration

2.2.2.1 The Development of Financial Administration in the 20th century

The nature of Government Administration in Oman before the 1970s failed to organise a sound financial base for the country. Peterson (1978) have looked into the development of the Omani Government in the 100 years that preceded Qaboos' ascension to throne in 1970. He described Oman's government before World War I as a skeletal body that consisted of few limited-power officials and governors scattered around the country, while most decisions were taken by the Sultan himself. Even after World War I, only two governmental departments, Customs and Military, provided some form of government organisation in an ocean of chaos. Customs department was the most organised governmental body since it was handling the country's main source of revenue.

The first forms of modern financial administration were introduced to the Sultanate by the British at the beginning of the 20th century to address two main political concerns while Oman's government sank further into debt (Peterson, 1978). First, the increasing political power of Hindu Merchants over government policies as a result of being their main creditors. Even though these Hindu Merchants held British citizenship and were the only educated members of the society, the British government was concerned about the extent of their power as they had the right to collect taxes from the people in return for cash advancements paid to the government of Oman. Second, the fear of a political victory of the Imamate forces in the Interior. These were a religious group who opposed the Al-Busaid regime along with any form of British interference in Oman's affairs. Despite having Indian and British troops to back up the Sultan against the Imamate, the British worried about the cost of keeping them in Oman for the long run. Therefore, to enable Oman to defend itself by having its own military, a firm financial and administrative base was required. As a result, the British government initiated a phase of active control over the sultanate's finances and paid off its loans to the Hindu Merchants in exchange for extended subsidies. They have also worked on establishing a state customs department to be managed by a director directly reporting to the Sultan. Until 1970, This department was run by a series of British, Egyptian, and Indian financial experts who tried to overhaul the country's antiquated financial system. This period of reforms has also witnessed the introduction of a State's Financial Advisor position into the Omani government, starting with R.C. McCollum in 1920 who initiated the practice of preparing annual state budgets. In 1958, Sultan Said b Taimoor improved the administrative structure further by establishing an Audit Department and entrusted its management to Mohammed Lisanul Haq, a qualified military auditor seconded from the government of India.

At first glance, it may appear that the development and management of Oman's financial administrative structure was a result of the collective efforts of the British and Indian governments, as well as the foreign experts who held leading positions throughout the 20th century. But Peterson (1978) suggests that the fact that none of employed financial experts were Omanis, as Sultan Said rarely trusted educated Omanis or members of his own family to handle finances, does not mean that Oman's government had no role in this matter. According to Peterson, British's control over Oman's finances has ended after Sultan Said ascended to throne. Unlike his father, the relatively educated sultan took control over state's finances, and was able to restore financial stability by successfully erasing all private and public debt and even invest excess funds in Indian stocks and bonds. By doing so, he did not just secure the Sultanate's financial position, but also secured an independent domestic spending policy free of British and Indian supervision. This was largely achieved by following his own version of financial management theory, which was imposing tight restrictions on government spending, cutting royal family allowances, and not approving any development projects unless their entire cost was in hand (Owtram, 2014a,b). The Sultan made major decisions himself and left standard decisions to his foreign employees.

2.2.2.2 British Influence on Financial Administration

Britain's involvement was evident in Oman's most influential event in the last 100 years, the British-orchestrated bloodless palace coup of July 1970, which granted Sultan Qaboos bin Said an ascension to throne after his father. They actively backed-up the new regime for the following reasons: the strategic importance of Masirah island as a British Royal Air Force staging post, Shell's oil interests, and Oman's geographical location as a barrier between turbulent Yemen and the rest of the Arabian Peninsula.

Letters from the FCO's Arabian Department to the Bank of England in the last quarter of 1970 have shown Sultan Qaboos's interest in finding a first-class financial expert to be appointed as a financial advisor and take charge of the country's finances and economic policies after dismissing his father's Secretary of Finance. It is believed that the desperate shortage of indigenous financial expertise has led the Sultan to seek British help. Regardless of the FCO's strong desire to find a British candidate to fill the position, the Bank of England only managed to find a temporary candidate, Eric Himsworth, who is used to work as a financial secretary in Malaysia and was on the IMF panel of experts. They have later filled the position on a longer-term basis by a New-Zealander chartered accountant, P.E. Aldous, who took the charge of the Department of Financial Affairs as the Secretary of Finance. His main responsibilities included introducing an effective expenditure control system, establish an appropriate financial body to serve the country's needs, and assist in prioritising government expenditures for the fulfilment of national aims (Bank of England Archive, International Division Files: Persian Gulf Jun - Dec1970). Moreover, the Sultan appointed a Director of Treasuries and a Director of Audit with the latter being on loan from India. In addition, A report from Claude Loombe, BBME's Chairman from 1967 to 1974 and a previous principal advisor on the Middle East at the Bank of England (Jones, 1987; Fforde, 1992; Ashmole, 2010), have stated that once Sultan Qaboos ascended the throne, he formed a council consisting of only one "ineffective" Omani, a British businessman, and the local Manager of Shell, Francis Hughes, and an equerry, Timothy Landon (Gardner, 2015). Similarly, the Sultan was heavily relying on BBME's British manager at the time, Peter Mason, for financial advice.

Documents from Bank of England's archives have suggested that the bank had an advising role in Oman's banking and monetary development. For instance, the founding of Oman's central bank and banking legislation was delayed until December 1974 as per the bank's advice, despite the prime minister's, Sayed Tariq bin Taimoor, desire to take this step since 1970. The bank believed that a central bank is an expensive project, especially that it would require the recruitment of highly qualified expatriate staff. In their opinion, the country's banking structure will develop on its own once the economy expands, thus the government's efforts must be turned to more pressing matters in administration. The Bank of England did not just stop at offering the advice, they also tried to discourage anyone who would suggest otherwise. For instance, letters have shown that they have discussed with the BBME the possibility of preventing the World Bank from sending out an advisor who would advocate the establishment of a Central Bank in 1971.

Another significant aspect is the role of Oman's first Secretary of Finance, Aldous, who succeeded in establishing a financial base where none existed before. First, he was responsible for drafting The Currency Ordinance 1391, for the establishment of a Currency Board to replace Muscat Currency Authority, taking into account the comments he received from the Bank of England. The main purpose of this amendment is to eliminate any undesirable political misunderstand of having a foreign bank, BBME, acting as both a principle and an agent in currency matters. Thus, based on the bank's advice, this amended law necessitated the appointment of six directors by the Sultan, one of whom must be the Secretary of Finance. The BBME would, however, continue to provide the board with the technical staff required to do the work under the general direction of its directors. To add more, Aldous later drafted Oman's first Banking Law in 1974 based on Gambia Act by the Bank of England, by which the Central Bank was established. Third, he had been given the responsibility to produce a comprehensive government's annual budget for 1971, which was a hard task given the lack of previous statistics and expenditure figures. Further, Aldous had been given a total control of the oil revenues from the second quarter of 1971 to be spent on social and economic development plans as he deems appropriate (Bank of England Archive, International Division Files: Sultanate of Oman 1971 - 1975).

Finally, it is also worth mentioning that the bank advised the Sultan regarding Oman's membership in international financial institutions such as the IMF and the World Bank Group: International Finance Corporation (IFC), International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA). Likewise, they offered to make available any information required about Oman's economic and monetary situation to any fund's mission.

However, it is important not to overemphasise Bank of England's influence in Oman. Records have revealed the bank's dissatisfaction with their level of involvement in Oman's financial affairs, particularly, with the Sultan's reliance on BBME's financial advice rather than their own. Potential fear of BBME being politically exposed, and their meddling in the dispute between the Sultan and his uncle Sayed Tariq, has led Aldous to express an intention to transfer their currency management responsibilities to his department of Financial Affairs, then to a Currency Board, and eventually a Central Bank. In turn, driven by a fear to lose their position as the Sultan's financial advisors, BBME have taken advantage of their close relationship to persuade him to terminate the services of Aldous, a move that the Bank of England took in strong terms. In an attempt to establish relations with the new Sultan, the Bank of England asked the British Political Resident in the

Persian Gulf, Geoffrey Arthur, to speak to the Sultan in order to secure a visit to Muscat for their representatives. Additional solutions were discussed to enhance the situation such as, using the Political Resident as intermediator between the two banks, or the appointment of a financial counsellor from the bank within the Resident's staff to look after the financial situation in Oman. Overall, this indicates a strong persistence on behalf of the Bank of England to restore their advisory relations with Oman after a relatively uncomfortable relationship with the former sultan. With the support of the Political Resident and Mr. Loombe, who has retained his relationship with the Bank of England despite moving to BBME in 1965, the Sultan have welcomed the Bank's advice after drawing his attention to their expertise and links with other Middle Eastern countries. A visit was arranged for Mr. Hallows, an advisor at the Bank of England, in March 1971 with the presence of the Political Resident and Claude Loombe in which he offered advice about budgeting, currency and banking, auditing, and cost control.

Granted that, British organisations were amongst the first to operate in Oman, with BBME being the first commercial bank in the country in 1948, and Shell as the major shareholder in Petroleum Development Oman (PDO) in 1967. Furthermore, Taylor Woodrow construction company was the first in Oman, with contracts amounting to 5 million in 1971. Similarly, Cable and Wireless was the first to install a national telephone service. However, records have shown that the Omani government has sought financial and technical assistance in transportation, mining, agriculture, and health from the US government and international institutions like the IMF.

2.3 Banking

British banks were the pioneers of the banking industry in the Gulf, securing a virtual monopoly in the region until the mid-fifties. Oman's first commercial bank was BBME, which was granted 20 years exclusive concessions starting with a branch in Muscat in 1948 and followed by a second branch in Muttrah in 1963. This monopoly fitted-in well with the Exchange Control measures administrated by the Political Agent, thus, appearing to be of a close association with British political control. Nevertheless, they were responsible for introducing a sound banking system and bringing high standards of expertise to Oman. Despite their foresight and opening a branch in Muscat 20 years before the discovery of oil, the fruits of their enterprise were shared with newcomers right after the first oil shipment such as the Eastern Bank and National & Grindlays who opened in Muscat in 1968 and 1969 respectively.

During the first 30 years of their operations in Oman, BBME possessed considerable financial and political power in the country. In addition to being the sole operating banking institution from 1948 to 1968, they were Sultan Said's personal bankers and his son's, Qaboos, thereafter. Moreover, as mentioned above, they were responsible for the issuance and management of Oman's first national currency, thus acting as a *de facto* central bank (Jones, 1987). As a matter of fact, even after the establishment of a national Currency Authority in 1970, records have shown that it is BBME's employees who were handling its operations.

At the commencement of its operations in Oman in 1948, and due to the antiquity of the economy as most of the trading activities were carried out based on cash or barter basis, the bank made its profits mainly from money exchange transactions. They introduced other financial services for the first time in Oman such as accepting fixed deposits, giving out temporary advances, and issuing bank's drafts and guarantees to local merchants.

Article (6) of the banking agreement signed between the Sultan of Oman and the bank stated that the manager of the branch must be British, while local subjects can only be employed if found suitable. Given that the majority of the Omani population were illiterate, they only handled clerical duties (i.e., sweepers, servants, drivers, etc). Similarly, officers of the bank who oversaw the accounting duties were mostly Indian nationals.

2.4 Accountancy and Auditing

With the introduction of professional banking in Oman in 1948, appeared the first signs of modern-day accountancy. Progress Reports from the BBME's branch in Muscat have showed the use of western double-entry in recording revenues and expenses to ultimately calculate annual profits or losses. Several accounting principles appeared in these reports such as the Accrual Principle, as non-cash expenses such as Depreciation and Bad Debts were accounted for. Furthermore, the reports were prepared semi-annually in a consistent manner, enabling the comparability of the branch's performance over the years. In other words, these reports adhered to the Consistency and Periodicity Principles.

One of the first appearances of professional accountancy in a national financial institution of Oman was in Muscat's Currency Authority, established in accordance with the Currency Decree 1390. As mentioned above, the decree was drafted by the BBME's manager at the time, Ashmole, and the Authority was run by the Bank's employees. The Decree required the preparation of annual financial statements, showing profits of the Authority after meeting all its expenses. The Decree also mandated the use of the Accrual basis in accounting for the authority's activities as terms like Depreciation Expense and Provision for Doubtful Debts appearing for the first time in an official Royal Decree. Additionally, the books and accounts of the Authority were required, as per the Decree, to be audited annually by a certified auditor before being presented to the Sultan. It could be that the

1920

First signs of financial and administrative management appears within the Omani government with the help of foreign expertise evident through: the establishment of State Customs Department, creating the position of financial advisor and preparation of State's Annual Financial Budgets.

1932

Sultan Said takes over the throne after the abdication of his father Sultan Taimoor bin Faisal.

1948

BBME's first branch in Oman opens in Muscat.

1958

Establishment of an Audit department within the government to become one of the very few government organisations along with the Customs and Military departments.

Receiving financial subsidies as an assistance from the British government to support development projects.

1963

BBME opens a second branch in Muttrah.

1967

Exportation of the first oil shipment.

1968

Expansion of international banks, other than BBME, into Oman.

April 1970

The establishment of Muscat Currency Authority and the issuance of the country's first national currency.

July 1970

Palace coup, the ascension of Sultan Qaboos to the throne and the commencement of extensive economic and civil reforms.

1971

Establishment of the first department of financial affairs which later became the Ministry of Finance.

The issuance of the first government annual budget.

Expansion of international accounting firms, including the Big Four, into Oman.

1972

Changing the country's name to the Sultanate of Oman and joining the IMF.

1974

The establishment of the Central Bank of Oman and the issuance of the first Banking Law.

Figure 2.1 Timeline of Significant Events in Oman's Financial History through the 20th Century.

increased complexity of the Authority's activities such as managing the country's Reserve Fund had required a more professional form of accountancy to ensure proper financial control and decision making. The Big Four accounting firms started operating in Oman by the early 1970s with the opening of Deloitte and PwC in 1971, followed by KPMG and EY in 1974.

2.5 Chapter Summary

Informed by archival evidence, this chapter aimed to provide an overview of the financial and economic landscape of Oman in the 20th century. The purpose was to appropriately place the events under study, that is the development of accounting and corporate governance in Oman, within the relevant historical context. The data had shown that Oman struggled to maintain stable economic and financial conditions due to the lack of sufficient national sources of income prior to the discovery of oil along with the absence of effective financial administration within the government. The consulted archival records have also revealed that the British were involved in the country's financial matters, specifically, the introduction of modern forms of financial management, supplying financial experts and managing the national currency, therefore, their potential role in the introduction and development of accounting will be further investigated.

Chapter 3 : Accounting and the Rise of International Businesses

3.1 Introduction

The 19th century has witnessed an extensive European expansion beyond the geographical borders of their continent driven by economic motives to secure new raw materials, natural resources and investment opportunities. This move appeared in line with improved business practices and technological advancements following the first and second industrial revolutions which prompted a strong desire to exploit global resources and commodities that were unavailable at home (Fitzgerald, 2015). The need to protect their economic interests, business ventures and trade routes as well as finding new markets for their industrial products have fostered colonial dominance and political control on many parts of the world. Their informal empire of trade was increasingly turning into a formal empire with new areas being annexed between the 19th and the first half of the 20th century (Lloyd, 2007). By the same token, some political parties and merchants in these colonies have benefited from: (1) the support of military troops against tribal conflicts; (2) revenues from the extraction and exportation of natural resources; (3) financial subsidies paid to the local government; (4) development plans and investments in public utilities and infrastructure; (5) and most relevant to this research, a general transfer of technology, business knowledge and institutions. In other words, it was a two-way street. The locational factor of some highly sought non-renewable resources, such as oil, has been a crucial determinant of businesses' choices to operate in foreign markets rather than exploiting the advantages of international markets by simply exporting to them (Jones, 2005). Therefore, Multinational businesses came across as instruments to broaden Western investments and facilitators for the transfer of their capital, technology, and business practices to the countries they operated in; ultimately shaping the latter's political, economic and social structures (Jones, 2005; Fitzgerald, 2015).

The following chapter will discuss the history of international businesses, their role in economic development, and theoretical insights on their role as transferers of knowledge to host economies to understand the context in which institutions of accounting have been internationalised and developed and how it all links to economic modernisation.

International business literature is believed to be a suitable approach to explore the development of accounting in relation to economic modernisation. This is because international trade, long distance business activities and multinational corporations have created agency and trust problems which, consequently, led to the development of accounting and governance practices as institutional solutions to these problems. The separation of business participants by geographical distances and the lack of personal relationships between them created an increased demand for accurate financial information and governance measures that limit opportunistic behaviours and offer better property rights' protection of all involved parties. Additionally, literature on the role of international businesses on the host economy indicates that these international entities have been key players in the development of their host economies and transferers of knowledge and technologies. Therefore, accounting and corporate governance rules fit within the history of international business literature since, technically, the former was developed and institutionalised to support the growth of the latter.

3.1.1 International Businesses, Foreign Investments and Economic Growth

According to Fitzgerald (2015, p. 14), multinationals are the companies that "directly own subsidiaries or assets abroad capable of producing its major products or services". Others like Dicken (2003, cited in Fitzgerald, 2015, p.14) and Jones (2005) went beyond the concept of subsidiary ownership and defined them as "a firm that has the power to coordinate and control operations in more than one country even if it does not own them". In his book, Fitzgerald (2015) argues that the economies and industries of some developing countries did not progress in isolation of external influences but was rather dependant on the capital, technologies, and products of other developed economies which were transferred through multinationals. In addition to the transfer of their assets and capital, multinationals also managed to transfer their technologies, internal capabilities (i.e., business knowledge and management practices), and experienced personnel from the origin country into the foreign subsidiary, thus, inducing economic prosperity and fostering the capitalist system of competitive markets in the host country. They also have the potential to enhance the institutional structure of the host country, encourage entrepreneurship, and increase domestic productivity (Meyer, 2004; Dunning & Lundan, 2008a; Fitzgerald, 2015). This is an indication that understanding economic change in a certain country requires a comprehension of the role of multinationals in transforming national economies and societies' welfare as well as a good understanding of domestic economic and political trends (Fitzgerald, 2015).

A similar view has been shared by Jones (2005, p.285), who argued that multinationals have the ability to function as "engines of growth" for their host economies. This is because of their capacity to transfer knowledge, capital, and employment to the country they are operating in. The first element, knowledge, can be transferred in the form of products, processes, technologies, or management and organisational practices such as accounting techniques which will be discussed in a following section. In the case of the natural resources' seekers of the 19th century, knowledge was also transferred by introducing modern transportation, utilities, telecommunication infrastructure, and education systems that were necessary to carry on the firm's operations into host countries. The second element, foreign capital, is believed to complement domestic savings and investments, thus, bringing large economic and financial benefits for capital constrained countries. The third element, employment, has manifested through the creation of job opportunities for the local population and, in some instances, providing them with suitable training to obtain the required skills to do the job. In theory, there is a possibility that the employees who have been trained by a foreign company could transfer to a national firm along with the skills and knowledge acquired from their foreign employer.

The above theoretical arguments have been supported by empirical evidence, showing that developing economies are strongly dependant on foreign investments brought in by international firms, and confirming a positive relationship between the level of inward foreign investments and economic growth in the host country (Jones, 2005; Dunning & Lundan, 2008a,). In 1980, for example, the ratio of foreign inward investment stock to GDP has been 10.2% for developing countries compared to only 4.7% for developed countries and continued to grow in the next two decades (Dunning & Lundan, 2008a). Furthermore, (Sengupta & Puri, 2018), have attempted to explore if a relationship can be found between foreign direct investment (FDI) and economic growth in terms of GDP in five developing countries in the Indian subcontinent: India, Pakistan, Bangladesh, Sri Lanka, and Nepal. Using secondary data from the World Bank in their analysis, their results have proved a positive unidirectional relationship between the level of FDI inflow and GDP, with India showing the strongest link because of the economic liberalisation policies which has been adopted in the country since 1991. They concluded that the higher the country's willingness to attract foreign investment, and the more efficient their policies towards the matter, the higher the chances of experiencing an overall economic growth.

Another study by Balasubramanyam et al. (1996), has examined the role of FDI on the process of economic growth in developing countries that adopt different trade policies. Using cross-sectional data from a sample of 46 developing countries over the period from 1970 to 1985, they test the hypothesis that countries which adopt a neutral policy in promoting their imports and exports are more likely to witness economic growth than countries that encourage import substitution activities. In other words, the former would successfully attract a higher volume of FDI and would be more efficient in utilising the returns for the benefit of their economy. This is because in addition to the above-mentioned knowledge spillovers, the increased level of competition that results from the inflow of foreign investments is expected to facilitate a free play of market forces and a more efficient allocation of national resources. This would, consequently, encourage investments in local human capital and technologies which would all contribute into the overall process of economic growth. They created a model which incorporated GDP, labour input, domestic capital stock, stock of foreign capital, and exports as variables. Their empirical results were confirmatory with the hypothesis and showed a strong relationship between countries that encourage foreign investments and economic growth. They conclude that foreign investments, due to spillovers and externalities related to human capital, technological advancements, and managerial skills, are more effective in inducing economic growth than domestic investments.

Campos and Kinoshita (2002) have also confirmed a positive and statistically significant relationship between FDI and economic growth by testing empirical data from 25 former members of the Soviet Union in Central and East Europe in the period from 1990 to 1998. Using a model that is derived from the contributions of previous scholars, they measure the relationship between GDP growth and several economic variables such as human capital, FDI inflow, inflation rate, government consumption, population growth, political stability, and the quality of the institutional framework measured by the level of bureaucracy. Their results have further confirmed that FDI per capita, low inflation rate, political stability, and a proper institutional framework are indeed significant determinants of economic growth in these countries.

A later study by Mahmoodi and Mahmoodi (2016) have examined the causality relationship between FDI, exports, and economic growth in 16 developing European and Asian countries through the period from 1986 to 2013. Their data was obtained from the World Development Indicator (WDI) and analysed using three tests: panel unit root test, panel co-integration test, and panel causality test. European countries' results have confirmed a bidirectional causality between GDP and FDI in the short run, while Asian countries' results have indicated a bidirectional causality between exports and economic growth in the short run. Furthermore, their results have shown a long-run causality from export and FDI to economic growth as well as a long-run causality from economic growth and export to FDI in both European and Asian countries.

Given the above, a positive relationship between international businesses and economic growth can be confirmed. It is, however, important to note that in order for international businesses to achieve their full capacity as engines of growth in the host economy, accurate financial information to aid decision making are crucially needed. These can be produced by effective accounting and auditing practices.

3.2 Theories of Multinationals

The phenomenon of multinationals' growth throughout the 20th century has been a subject of interest for many scholars. Theories to describe and explain the evolution of business internationalisation first started to appear in the 1960s (Dunning & Lundan, 2008a). Prior to that, the mainstream neoclassical economic theory simply viewed multinationals as a product of the capitalist system that aim to maximise their profits by expanding their business activities to foreign markets (Jones, 2005). However, according to Dunning and Lundan (2008a), this view does not explain the reason why some firms choose to operate in one country instead of an another. In their opinion, to get a comprehensive understanding of multinationals, a theory is expected to tackle and explain both the location of production based on the international distribution of resources, as well as the economic ownership advantages of operating overseas.

The first attempt to theorise multinationals was introduced by Hymer (1960, cited in Dunning & Lundan, 2008a), who emphasised that by operating in foreign markets, multinationals do not just transfer financial capital, but rather a whole set of tangible and intangible resources and capabilities including managerial and financial knowledge, modern technology, and human expertise. These resources and capabilities work as competitive advantages for international businesses over their local competitors, helping them to seize a larger share of the profits if they outweigh the risks of operating in a foreign land. Following Hymer's contribution, several theories have been put forward by different scholars to explain the development of multinationals through different perspectives such as the macroeconomics perspective (Kojima, 1982; 2010; Kojima and Ozawa, 1984) and the multinationals' behavioural perspective (Johnson and Vahlne, 1977; 1990). However, the most general and comprehensive framework to understand and analyse the attractiveness of foreign investments which led to the growth multinationals was introduced by the Eclectic paradigm (Jones, 2005; Dunning & Lundan, 2008a). The Eclectic paradigm assumes that businesses will seek to internationalise their operations if they could gain the following advantages at a higher level once their activities are extended to foreign markets: (1) possession of ownership advantages, which explains "why" would firms expand their operations outside their home country; (2) Location-specific advantages, which explains the reason behind choosing a particular host country for their operations; (3) internalisation advantages, which explains "how" would firms be managing and controlling their business activities and whether it would be more beneficial to expand them to foreign markets rather than performing them locally (Jones, 2005; Dunning & Lundan, 2008a). Nonetheless, the Eclectic Paradigm has been criticised for its generality and inability to explain the internationalisation of all types of businesses (Dunning, 1988). Itaki (1991) has also criticised the concept of ownership advantages for being redundant in a sense that it originates from the internalisation advantages. He further argued that it is impossible to separate Ownership advantages from Locational advantages because, by default, the former is highly dependent on the latter. But, most importantly, the eclectic paradigm neglects the intellectual role of the management and other organisational professions in the success of the firm's internationalisation strategy (Devinney et al., 2003; Eden & Dai, 2010). Managers, for example, as decision makers, play a significant role in identifying international resources, assessing their attractiveness, and coordinating them with existing resources and capabilities for the firm's best interest (Eden & Dai, 2010). The same can be said about accountancy professionals who assist with corporate financial strategy, maintaining the firm's financial health by reducing costs and mitigating risks, and producing accurate financial information to inform decision making. In other words, the eclectic paradigm downplays the role of the professionals who determine whether certain ownership, locational, and internalisation advantages are valuable enough to expand firm's operations across borders (Devinney et al., 2003).

3.2.1 International Businesses as Transferers of Knowledge

Another relevant multinationals' theory in the context of this research is what Jones (2005, p.11) has referred to as "knowledge-based theories". In addition to being the transferers of international capital which benefits host economies, these theories emphasise the role of multinationals as transferers of knowledge that is embedded in their unique internal routines and practices. This knowledge is considered as the firm's greatest asset to achieve a competitive advantage over domestic and international competitors (Kogut & Zander, 1993; Boisot, 1999; Jones, 2005). A significant contribution in knowledge-based theories is of Kogut and Zander (1993). They view firms as "social communities that specialise in the creation and internal transfer of knowledge" which did not grow out of the internalisation of markets' failure for knowledge (Rugman, 1980), but rather because of their efficiency in transferring knowledge across borders (Kogut & Zander, 1993, p. 625). Kogut and Zander (1993) distinguished between tacit and articulated knowledge to understand the differences in their level of transferability and form of transfer. They found that international firms specialise in transferring tacit knowledge because they are difficult to understand and harder to imitate, making them a competitive advantage over firm's competitors. This view of multinationals suggests that the rationale behind their existence and growth is their role as vehicles that transfer knowledge internationally rather than the usual opportunistic behaviour of firms. In other words, firms expand to foreign markets because of their ability to replicate and transfer knowledge to foreign markets more effectively than other firms. Their findings also imply that soft and tacit knowledge, relationships, and networks are considered a greater advantage to firms than propriety technology (Jones, 2005). Similarly, the notion of knowledge transfer has been discussed in Dunning and Lundan (2008a) and Meyer (2004). They argue that, by operating in foreign markets, international businesses have the potential of facilitating knowledge spillovers to the environments they operate in via multiple channels such as imitation by local competitors and movement of labour. Knowledge transfers are one of the most significant aspects in which international firms work as engines of growth as discussed in the previous section. This is because (1) knowledge, whether it was related to technology, production, marketing, or accounting, gives these firms a competitive advantage in the market which are then transformed into financially rewarding products and services as well as a better overall financial performance; (2) knowledge spillovers to the host country which, in turn, can be utilised by the host government or local counterparts in enhancing their financial performance which then reflects on the overall performance of the economy.

The above discussion on knowledge transfer, tacit knowledge, and its importance as a competitive advantage for international businesses encourages thinking about international service firms, including, international accounting firms. The transfer of soft and tacit knowledge is most evident in these types of multinationals because their main output is not tangible finished physical goods but rather intangible knowledge, expertise, and specialisation of its members (Nordenflycht, 2010; Boussebaa, 2015; Boussebaa & Morgan, 2015). According to Jones (2005), this type of knowledge is not usually transferred by manuals, but rather by its professional workforce which form a distinctive characteristic of these firms. Additionally, these international accounting firms, namely the Big Four, have managed to expand their operations all over the world employing over 100,000 professional accountants globally and offering a universally consistent knowledge base across different countries (Cooper & Robson, 2008; Boussebaa, 2015; Morgan & Boussebaa, 2015). A later section in this chapter will present cases showing how accounting knowledge and practices were internationally transferred through multinationals via shared professional actors, professional standards, work methods, and training programmes.

However, Dunning and Lundan (2008a) believe that the success of knowledge transfer does not only depend on the attributes of the knowledge transferred and firms' ability to do so, but rather on the motivation and willingness of both the transmitter and the recipient to accept and absorb knowledge. He also believes that this theory is confirmatory with the above-mentioned concept of ownership advantages as it considers knowledge the firm's most important sustained advantage. Furthermore, Jones (2005) has also criticised the above theory for the lack of sufficient empirical evidence to support it. He also believes that even the largest and long-established multinationals have faced difficulties in managing an efficient flow of knowledge between home and host countries[6]. He further adds that, in many instances, those international firms appeared as powerful entities from the outside, yet their network of knowledge and resource transfer were often fragile on the inside. Knowledge transfer to host economies can also be constrained due to fears of imitations or leakage of knowledge to competitors.

In addition to the above, it can also be argued that another shortcoming of these theories, and relevant to this research, is that they fall short of including the role of financial information and the growth of an international accounting profession in the expansion and success of multinationals. Jones (2005), for instance, discusses the most effective ways to manage and benefit from cross-border operations, but never mentions the role of accounting and accurate financial information in lowering transaction costs and overcoming the challenge of distance. They also fail to illuminate the extent to which the host country's national institutional context of accounting and governance affect the expansion of multinationals and the effectiveness of the knowledge transfer process. In other words, assuming that international businesses would be more encouraged to operate in secured, stable, and well-governed financial markets, then accounting information and effective corporate governance can create that kind of security and stability. Therefore, one of the contributions of this thesis is to fill this gap by viewing accounting knowledge as an institution that are being transferred through international businesses to the host country. This will then be used to understand the relationship between the development of accounting and economic modernisation. To add more, this approach would add to literature on the internationalisation of the accounting by viewing international businesses as vessels for knowledge transfer and institutional change.

3.3 Accounting in the Context of Multinationals

3.3.1 International Businesses as Transferers of Accounting Knowledge

Just like other forms of knowledge, accounting has been transferred via international businesses to different parts of the world. A historical case study presented by Spraakman & Margret (2005) provides a good example in this context. The paper looks into the transfer of management accounting practices from London counting houses to the British North America fur trade companies: Hudson Bay Company (HBC) and North West Company (NWC) during the late 18th and early 19th century. The two companies eventually merged in 1821 and were regarded as one of the first modern multinationals in

[6] Such as the cases of Ford and Unilever mentioned in chapter 7 of Jones (2005).

the world. Supported by archival evidence, the authors argue that the transfer of management accounting practices such as: inventory records, departmental and centralised control measures, and budgeting to these companies have occurred as a result of merchant trading activities between London and Canada, which is the oldest form of international business known to humans. London counting houses were a significant contributor in merchants' international business activities at the time and dealt with international trading companies from different parts of the world. They provided merchants with various services including insurance, shipping, and warehousing, making and collection of payments, and exchanging foreign currencies. The geographical expansion and large-scale operations of British merchant trading companies have motivated the adoption of a more complex management accounting practices to coordinate their internationally dispersed activities. Sub-unit accountability and responsibility have been developed to ensure a successful management of international operations. The authors considered this as the main contributor to the transfer. Spraakman & Margret (2005) have found that it was a counting house in London called Wedderburn and Company which facilitated the transfer of management accounting practices to HBC. The owner, Andrew Wedderburn, was an influential London-based shareholder of HBC who later became a board member and redesigned the company's management accounting system. As to NWC, they have adopted their management accounting practices from their partners in London: Phyn, Ellice and Company and McTavish, Fraser and Company. They argued that the backward and forward integration of London merchants' counting houses with businesses in America and the West Indies as well as the development of intercontinental sub-units have facilitated the transfer of management accounting practices to efficiently manage international operations. This is confirmed by Jones (2000) who argued that British trading companies are considered as significant agents of economic growth by channelling capital flows into emerging economies as well as transferring various organisational and technological skills and competencies. Although accounting was not explicitly mentioned by Jones (2000) as one of the transferred skills and competencies, he mentions that the expansion of these companies internationally required keeping accurate financial accounts for commission payment purposes and accurate cost allocation across different branches. Therefore, elaborate accounting practices had to be developed and implemented across local and international branches. Additionally, these companies started recruiting people with special technical skills and qualifications, including accounting, in their overseas branches, thus, facilitating the transfer of accounting knowledge to host countries.

Another example of the effect of business internationalisation on the practice of accounting has been provided by Touron & Daly (2013), who analysed the internationalisation of Renault's accounting practices through the four years from 1981 to

1984. During this period, the French state-owned company had adopted the International Accounting Standards (IAS) in the preparation of their consolidated financial statements at a time when other French companies where following ambiguous national regulatory and legislative accounting framework. The change of their accounting policy also included the certification of their financial reports by international auditors from the “Big Eight” auditing firms. Using institutional theory as an analytical framework, the authors argued that these changes were directly linked to the internationalisation of the company’s operations. In other words, managers of the company have realised that full implementation of international accounting policies would be their key to access international financial markets. According to Touron & Daly (2013), during the period under study, Renault has pursued an internationalisation policy and increased their foreign investments in the USA and Europe from 29.2% of their total investments in 1960 to 45.5% in 1983. This was most evident in acquisition of the American Motors Company in 1983. The increased pressure from international shareholders and investors as the company worked to fund their international expansion strategy has forced them to produce and publish more reliable financial information. Furthermore, this historical case study recognised accounting as a product of the institutional setting surrounding it and revealed three institutional pressures that led to the adoption of international accounting standards by the French company. First, coercive pressures from the state and its agencies. In Renault’s case, the coercive power from the French government was rather indirect, as their regulatory agency for financial markets required the preparation of certified consolidated statements but did not demand the adoption of specific set of accounting standards. The authors also believe that the financial constraints and the company’s worsening financial performance can also be considered as a coercive pressure that encouraged the full implementation of IAS in order to use certified financial reports as a legitimate tool to secure funds. Second, normative pressures from accounting and auditing professionals. Renault’s internationalisation strategy has obliged the company to work closely with Anglo-American financial institutions and professionals, which the authors considered as a normative pressure that pushed the adoption of internationally recognised accounting standards. The recommendations of Local French professionals had also an important role in the implementation of international accounting standards in the company. Third, mimetic pressure from other competitors in the market. This was apparent when Renault’s competitor, Peugeot, had adopted IAS after expanding to the US and having American shareholders. This move was intended to enable comparability between the financial reports of all the company’s divisions regardless of its location. The authors believe that this move exerted a mimetic pressure on Renault and affected their decision to adopt IAS.

McKinstry’s et al. (2019), historical case study on the introduction of standard costing at J&P Coats Ltd presents another example of the role of international businesses in the transfer of management accounting practices across the world. J&P Coats Ltd is a British-based multinational with a headquarters in Glasgow where the company had fully centralised the control of all their international activities. The company grouped their overseas companies into five divisions that operated in Europe, North, and South America. The scholars have found that standard costing was introduced into the company through its US subsidiary in 1925 through an American consultation company who provided services in labour and production cost planning called Stevenson, Jordan, and Harrison. At the time, standard costing was not widely implemented in the UK. Moreover, it was not until the late 1920s that the head office in Glasgow had decided to adopt the same cost control measures in all its international subsidiaries and divisions. The costing section in the head office, which employed 10 members of staff, worked closely with their counterparts in the American subsidiary as well as the consultants to install standard costing measures across the entire group. Using the institutional framework to analyse the events that led to the transfer of cost accounting measures from the US to Glasgow, they argue that external institutional factors such as the growing number of American consultancy firms which offered services in scientific management, mainly led by cost accountants, is what facilitated the adoption of standard costing in the US subsidiary before the rest of the company. In addition, they argue that the independency of the US subsidiary due to its size and distance from the head office have encouraged them to imitate other US-based businesses rather than blindly follow their mother company. The transfer was also fostered by institutional factors from within the company itself. The authors point out to the role of the bookkeeping department in Glasgow, who had an influential role in explaining the usefulness of standard costing to the board and convincing them to implement it across the company. Additionally, the company has ensured that the implementation process was consistent with other pre-existing routines within the company, which further guaranteed a successful implementation of standard costing. Head office staff who have been sent to overseas subsidiaries to carry out the implementation process were trained to be mindful of local cultural differences and received language training when necessary. Finally, Coats has ensured that local staff received rigorous training on the nature, purpose, and application of standard costing.

3.3.2 The Role of the Big Four in the Internationalisation of Accounting

International accounting firms, whether they are what are currently known as the “Big Four” or “Second tier Accounting Firms”, are considered a distinctive form of multinational corporations (Post, 1996). Despite having different equity bases and management structures across different countries, these companies offer professional accounting and auditing services to a wide base of international clientele, thereby, facilitating the internationalisation of these services (Post, 1996). The expansion of these firms had intensified in the early 1960s, when the Big Eight accounting firms started building international networks beyond the domestic borders of Britain and the USA[7]. To counterbalance the large internationalisation of British and American firms, the first federations of European accounting firms were formed in the early 1970s. These international networks of accounting firms were able to develop technical procedures and audit standards for integrated operations all over the world (Post, 1996). Their significance lays in their ability to spread a unified set of professional services beyond their home country, albeit largely influenced by their offices in the UK and the US, while ensuring a consistent quality of the offered services (Wen & Sonnerfeldt, 2022).

Cooper and Robson (2006; 2008) have argued that professional accounting and auditing firms play an equally important role in the professionalisation of accounting as standard setting bodies and the profession itself. They believe that these multinational accounting professional service firms are important sites of accounting professionalisation in which accounting standards and regulations are translated into practice, accounting practices themselves are internationalised and regulated, and where accounting knowledge is being formed and transmitted. The increased demand for their services worldwide due to the spread of taxation requirements, stock exchange and listing requirements, and the maturation of the accounting and auditing profession has led to the global expansion of their offices and client bases. Hence, the authors have called for greater focus on studying the links between the activities of the Big Four and accounting professionalisation. Their analysis has suggested two major linkages. First, is that accounting firms have been central in constructing the professional identity of accounting and auditing services by shaping what it means to self-identify as professional accountant or auditor, aiming for large powerful corporations as clients for their services, and determining what constitutes as good advice. Second, international accounting firms have been influencing which version of accounting professionalisation is spread around the world. With the help of international financial organisations such as the International Federation of Accountants (IFAC) and the World Trade Organisation (WTO), the Big Four have pushed for international accreditations of accountants based on the Anglo-American model of the profession (Boussebaa, 2015; Ghattas et al., 2021; Wen & Sonnerfeldt, 2022). In addition, these firms have been exerting considerable influence on harmonising accounting regulations and the process of standards' setting nationally and internationally, as well as influencing accounting educational reforms in many countries around the world (Cooper and Robson, 2006). Finally, the authors have found evidence of linkages between the Big

[7] Although, internationalisation started well before the 1960s. For instance, Price Waterhouse & Co., a London firm, began to engage in the American market on behalf of British clients as early as the 1870s and opened an office in New York in 1890 (Lee, 2014).

Four and international financial institutions, such as the World Bank, who, in turn, recommend the services of these firms to enforce financial management and support the implementation of development plans in various developing countries (Cooper & Robson, 2006; Suddaby et al., 2007).

By carrying out a content analysis on historical transcripts from the SEC and the American Bar Association Commission on Multidisciplinary Practice as well as interviewing state regulators and managing partners of what was then the Big Five, Suddaby et al. (2007) have also confirmed the above arguments and concluded that the Big Four accounting firms have successfully become the international representatives of the profession in the last five decades. Using a social neo-institutional theory, their analysis has indicated that the Big Four accounting firms have been increasingly involved, as new actors, in shaping professional regulation. The notable increase in their size and scope has given them the power to influence the emergence of transnational accounting regulations and standards. These firms have outgrown their geographical boundaries by operating in over 130 countries, as well as outgrowing their functional boundaries by offering non-auditing services such as tax and management consulting services in the 1990s. Consequently, these firms have outgrown their national regulatory structures as they have become geographically distant from the reach of states' governments and other provincial regulatory associations. In other words, it was difficult to monitor their activities because, in many instances, control was not exercised through the profession, but rather through capital market regulators who relied on these accounting firms for personnel and even outsourced much work to them. According to the authors, this has given the Big Four soft, indirect power which enabled them to become primary actors in the professionalisation of accounting on behalf of the profession along with other key players such as professional associations and national governments. The firms' power over local governments has manifested through their advisory status, not just with regards to accountancy and taxation, but with more general economic matters such as market development, economic activities coordination, structuring the regulations of financial services, and formulating legal frameworks to liberalise international trade activities. The authors' empirical narrative has also shown evidence of these firms' involvement in replacing the main body of international accounting standards from the International Accounting Standards Committee (IASC) to the International Accounting Standards Board (IASB) in 2001, with specified board seats for members of the Big Four. The Big Four's influence was also exhibited on international financial organisations such as the WTO. The authors found that Arthur Andersen was a major influencer on the WTO policy of liberalising trade in service and their decision to target accounting as the first service to be liberalised. The most significant feature of the work of international accounting firms, though, is the standardisation of knowledge and skills (Post, 1996; Cooper and Robson, 2006).

To understand the role of international accounting firms in the transfer of accounting knowledge, Post (1996) looks into the case of a top Dutch accounting firm, CampsObers, which joined an international network of accounting firms, BDO Binder in 1988. Although BDO is not considered one of the Big Four, it is a mid-tier accounting firm and was ranked the 5th largest accounting firm in 2022 (Big4 Accounting Firms, 2022). Within BDO, individual member firms were allowed to function autonomously but facilitated the provision of comprehensive international services. It was essential for them to maintain a high and uniform standard of professionalism across their members to reinforce international competitiveness. Therefore, regular quality-assurance reviews have been carried out by an international service coordinator appointed by the headquarters. Post (1996) argues that these international networks have facilitated the internationalisation of accounting and auditing because member firms have access to various tools that enhance the quality and efficiency of their practices such as committees, conferences, professional tools and procedures, as well as direct supervision and indirect communication with accounting professionals. These tools have allowed for the transfer of international accounting knowledge and expertise into the newly Dutch BDO leading to the standardisation of work processes, audit outputs, auditors' skills, and professional norms. An important example of these tools is BDO's international auditing manual, which includes a unified description of basic principles as well as the mandatory and permissive audit practices that must be applied by all member firms when carrying out national and international auditing work. This manual follows the International Auditing Guidelines which were issued by the IFAC, hence, ensuring that the methods of reporting and audit judgments match the international best practice. Additionally, the Accounting and Auditing Committee of BDO issued a code of ethics in 1993 that stresses integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour, and compliance with the standards of the IFAC. Thus, these measures led to increased harmonisation, consistency, and quality of the accounting and auditing practices provided by BDO member firms around the world. In theory, this would mean that international auditing firms facilitate the internationalisation of accounting and auditing practices by implementing uniform operations and quality procedures to strengthen their internal structure and increase their international competitive positions (Post, 1996). By the end of his analysis, Post (1996), concludes that by joining the international network of BDO and participating in international operations, CampsObers was able to increase the professionalism of their offered services to match the international standards. Moreover, it significantly contributed to the firm's identity and reputation in the Dutch market with regards to service differentiation and specialisation, economies of scale and scope, utilisation of technologies, and better portfolio of multinational clients.

Similarly, Belal et al. (2017), have explored the extent to which the internationalisation of the Big Four have shaped the professional accounting services in Bangladesh. The System, Society, and Dominance Effects framework was used to understand how multinationals, in this case the Big Four, behave and coordinate work in response to the political economic system as well as the societal features of the country. Through a series of interviews with Big Four partners in the country, the authors have found that the affiliation of local Bangladeshi audit firms with the Big Four has pressured them to conform to the technical, quality, and procedural standards of their parent companies. “Best Practices” of accounting and auditing were transferred from the Big Four to their local partners through various learning activities such as international training courses and joint projects with international member firms. The interviewees have confirmed that by working with international expertise in the field, they managed to enhance their experience and professional development. Overall, the authors concluded that the internationalisation of the Big Four into the Bangladeshi market through local partnerships has driven the transfer of accounting knowledge and best practices from Western Europe and North America to Bangladesh. However, they have also described the presence of the Big Four in Bangladesh as “tentative, fragile, and incomplete" because these local firms have not achieved full integration and membership with their parent firms (Belal et al., 2017, p. 155). The majority of these firms are acting merely as correspondents of their international parent firms. This means that local affiliates do not have full access to the parents’ firms’ resources and training courses, they do not share their profits and losses, they do not offer the full range of professional services as their parent companies such as consultancy and taxation services, and they do not necessarily go under quality control and monitoring procedures by their global parent firm. Therefore, the authors argued that the benefits of the internationalisation of the Big Four into the Bangladeshi market have not been fully achieved. The partial integration of local firms with their global parents has resulted in a partial implementation of the best practices of accountancy and auditing. The analysis has shown that this was caused by societal effects that acted as institutional barriers which prevented greater integration of the Big Four into the Bangladeshi audit market. These factors are: (1) the perceived low level of professionalism of the Bangladeshi accounting and auditing profession; (2) low fees for professional audit services; (3) the presence of strong networks of nepotism within the field; (4) legal requirement to sign statutory audit reports using local firm’s name. They did, nonetheless, assert that even with these barriers, the role of the Big Four and their influence on accounting professional practice as well as the structures of the local auditing firms in Bangladesh is significantly evident and cannot be denied (Belal et al., 2017).

Although the Netherlands and Bangladesh are two completely different economies, these two cases present evident examples of the role of the Big Four in the professionalisation of accounting by transferring knowledge and skills to the jurisdictions they operate in, which are useful in the context of this research. However, this might not always be the case. The dominance of the Big Four over the profession and their degree of influence is contingent on the national institutional context of the host country. The above case of Belal et al., (2015), for instance, demonstrates how the national institutional settings in form of societal factors have legally and culturally constrained the Big Four's influence on the Bangladeshi audit market. In other cases, the transfer and diffusion of accounting knowledge have been affected by the country's political institutions and whether the local government would grant these foreign firms such authority or not. The Egyptian government, for example, supressed the authority of the Big Four in order to support the nationalist state strategy which was adopted after the Socialist Revolution in 1952. Even after the implementation of a on open market policy in the period between 1974 and 2004, general resistance from different local parties against enabling foreign firms and accountants have constrained the Big Four's ability to develop the profession (Ghattas et al., 2021). The pro-nationalistic orientation of the Egyptian accounting institutions and a large share of local accountants and auditors have led to a general resistance of proposed reforms that would have excluded a large number of local practitioners while favouring a smaller internationally certified group of accountants and auditors who are mostly associated with the Big Four. The fear of foreign domination, by the Big Four and other international organisations, over the profession has restricted their power in Egypt and hindered any internationally supported efforts to reform the profession. On the contrary, cases such as (Ramirez, 2010) indicates the opposite. The national institutional context of France has allowed the Big Four to penetrate and dominate the French accounting profession during the second half of the 20th century. It did not just allow them to resist the existing local audit practitioners, but also displacing them in the French audit market while actively exporting the Anglo-American model of the profession. According to the author, this was made possible with the backing of the French government itself who realised that their economic modernisation plans needed an equal modernisation of its accounting profession. Wen and Sonnerfeldt (2022) have also traced a similar story in China. Their study explains the relationship between the expansion of the Big Four in China and their capacity of agency in relation to the national institutional context. Following China's economic reform and opening up policy, the Big Four developed from representative offices to fully operating accounting and auditing firms in China. The firms managed to dominate the Chinse audit market with a market share of 55% by the end of 2007. Despite being controlled by a communist political government, the Big Four have managed to shape the accounting institutional framework for their own benefit. The version of the profession provided by the Big Four was perceived to be the professional one. According to the authors, this was attributable to an institutional instability caused by the inadequacy of local regulatory processes and normative frameworks within the local Chinese accounting institutional framework. This has, consequently, motivated the Chinese government to give the Big Four the capacity to influence the local profession to offer better solutions to these instabilities and accommodate the needs of their newly market-oriented economy.

3.4 Chapter Summary

To summarise, the above discussion on international businesses has been presented to be used as an approach to understand the relationship between the development of accounting in Oman and the country's economic modernisation. International businesses will be viewed as engines of economic growth and transferers of international accounting knowledge. Their role in influencing and shaping the national institutional context of the host country will be explored through the case of Oman. Douglass North's theory of institutions is going to be used as a framework to place accounting, auditing, financial reporting, and corporate governance in the context of international business literature before relating it to economic modernisation.

Chapter 4 : International Businesses and the Theory of Institutions

4.1 Introduction

The above discussion on international businesses and their role as the engines of economic growth and the transferers of knowledge has pointed out that the extent of their influence as well as the effectiveness of the transfer and dissemination of knowledge is contingent on the national institutional context of the host country, including the host government's economic and political orientations. As a matter of fact, earlier attempts to link the two bodies of literature suggested that international businesses have the capacity to act as agents of institutional change in the host country, which will be discussed further in section 6.3.

Therefore, Douglass North's theory of institutions, which regards institutions as the key determinant of economic growth and development, would provide a fitting framework to place accounting and governance within the international business literature and highlight the relationship between the development of accounting and economic modernisation. Through North's institutional framework, accounting, auditing, financial reporting and corporate governance will be modelled as an institutional matrix with a set of formal rules, informal constraints and enforcement mechanisms. This institutional matrix is expected to affect international businesses' activities through the following: (1) determining the attractiveness of a certain country as a destination for foreign investments and capital; (2) the host country's absorptive capacity, that is, the extent to which it can utilise transferred knowledge to enhance the country's overall economic conditions. This thesis also focuses on the role of international businesses in influencing and shaping the national institutional framework of the host country, specifically in this case, that of accounting, auditing, financial reporting and corporate governance.

It is suggested that North's theory of institutions would be the most fitting in the context of this study for the following reasons. First, North's theory is built on the significance of institutions in determining how economies function and enhance their performance (North, 1989; 1990; 1991). It is primarily concerned with how the national institutional framework affects the national economic performance and outcomes. Therefore, modelling accounting, auditing, financial reporting and corporate governance as a national institution in Oman has the potential of providing greater insight on the development of the profession in relation to economic modernisation and growth which is the main question of the thesis.

Second, North's theory of institutions highlights the process of institutional change, and how it, consequently, affects economic change (North, 1990). This matches the historical nature of the country under study. The past 50 years in Oman were characterised by rapid economic and social change that resulted from the change in the political regime, making North's theory a suitable framework in the context of this study. North's theory would enable a better understanding of the development of accountancy and governance through a period of economic transition towards modernisation and growth. This is confirmed by Chandar and Miranti (2005), who believe that the active role of institutions is most evident during a period of economic transition. This explains their choice of using the institutional framework in their study to analyse the evolution of the institutional and informational arrangements as well as property rights protection after the depression of 1893 which caused major bankruptcies in the railroad sector at the time. In a similar manner, the development of accounting, auditing, financial reporting and corporate governance in Oman would be considered an institutional and informational response to strengthen property rights protection and a modality of communication among stakeholders to motivate both domestic and foreign investments and increase capital markets' efficiency to ultimately induce economic growth.

Third, unlike neoclassical economics, North's theory appreciates the role of third parties' involvement (i.e., often governments) in enforcing the formal rules of institutions. In his book, North (1990, p.59) states: "Third-party enforcement means the development of the state as a coercive force able to monitor property rights and enforce contracts effectively". Furthermore, he considers enforcement mechanisms an integral part of efficient institutions. "One gets efficient institutions by a polity that has built-in incentives to create and enforce efficient property rights" (North, 1990, p. 140). In other words, his theory allows for the incorporation of the political institutional structure and the role of the state in understanding economic growth which will be proved as a highly relevant aspect of accounting development in the case of Oman.

Fourth, North's theory is a suitable theoretical framework to look into the dynamic development of institutions within their respective environments to understand the resulting economic change. It takes into account institutions' casual relationships with not just the political structure, but also with other environment influences such as religious values, social norms, legal elements, etc. (Harris, 2020). It assumes a reciprocal model of institutional evolution, which means that an ongoing interaction between institutions and their surrounding environments shapes the emergence of these institutions. This approach responds to wide calls from various accounting historians who encouraged studying of the development of accounting in the contexts in which it operates (Hopwood, 1983; Hopwood, 1987; Napier, 1989; Previts et al., 1990; Hopwood & Miller, 1994;

Carnegie & Napier, 1996) which also emphasises the progressive nature of accounting and its responsiveness to social, environmental and economic changes.

Fifth, in terms of explaining international businesses' behaviour, strategic decisions, and level of influence in emerging economies, Wright et al. (2005) believe that the institutional framework is of particular importance and has been one of the most used theoretical approaches in the context of emerging economies. This is because it effectively links firms' behaviour with transaction costs, which are more relevant in emerging economies than developed economies, due to being inherently higher, and, therefore, more likely to influence international firms' strategic decisions with regards to these countries. Institutions, on the other hand, are the devices that are supposed to lower transaction costs. Hence, the institutional framework and the way it analyses the institutional differences among different countries, provides a suitable framework to understand how international businesses have influenced the institutionalisation of accountancy and governance in Oman while linking the process to economic modernisation.

Sixth, North's theory of institutions appreciates historical enquiries and path dependence learning in understanding the evolution of economies as opposed to neoclassical economics[8]. In fact, North's approach aimed to integrate the analysis of how institutions evolve and change over time into economic history (Harris, 2020). In other words, it appreciates looking into the past to inform current understanding, which is the whole purpose of the present thesis. It also recognises that the historical approach to understanding economic change provides powerful insights into the subsequent direction of institutional change and reforms (Chandar & Miranti, 2005).

Due to the above-mentioned reasons, North's theory of institutions is believed to be a suitable theoretical framework for this case study in order to understand how accounting and corporate governance, as an institutional structure with formal rules, informal constraints and enforcement mechanisms that enhance property rights protection, reduce transaction costs and act as a communication method among stakeholders, have been transferred and influenced by international businesses and how the whole process relates to economic modernisation and reform plans. Taking the case of Oman as an example,

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[8] Classical and Neoclassical theories of economic growth were criticised for being based on central assumptions of:
- optimal conditions of the economy and optimal resource allocation.
- market forces of supply, demand, and competition result in optimal outcomes (i.e., economic growth).
- information is costless and easy to acquire.
- Self-regulating markets that are free of government intervention are most efficient.
- economic activity is motivated by wealth maximisation of individuals who are able to make rational choices based on the price and perceived value of goods and services. (Dugger, 1979; Anthony 2021).

this research would explore how accounting knowledge and practices have been developed and incorporated within the country's institutional infrastructure as part of the government's ongoing efforts to enhance the country's economic and financial position. The study will highlight the role of multinationals in transferring and institutionalising accounting knowledge and practices in Oman as well as the role of the Omani government itself in the professionalisation of accounting and corporate governance in support of the country's economic strategies and modernisation plans. The case of Oman would also serve as a real application of North's theory in which the relationship between the development of institutions, namely accounting, and economic growth is evidenced and highlighted.

The following chapter discusses North's theory of institutions and how they contribute to economic growth. It also attempts to link the international business literature with the theory of institutions to ultimately be used as a theoretical framework to explain the relationship between the development of accounting and economic modernisation.

4.2 The Role of Institutions in Economic Development

4.2.1 North's Theory Explained

Douglass North was one of the first scholars to challenge the pre-existing neoclassical economic theory, arguing that it is restrictive in nature, fails to take into consideration the role of institutions and transaction costs in economic growth, and focuses on the efficiency of resource allocation in developed economies rather than explaining the process of economic development over time (North, 1989; 2003).

According to North (1991, p. 97) "institutions are the humanly devised constraints that structure political, economic, and social interaction". They consist of formal rules or (i.e., laws, property rights), enforcement characteristics of rules, and informal constraints (i.e., standards of behaviour, customs, values, attitudes) which are inherited from our cultural heritage and past experiences (North, 1986; 1989; 1990; 1991). The significance of institutions is their ability to reduce the uncertainties associated with information deficiencies, manage competition, and enforce property rights, thereby influencing the direction of economic change in a society towards growth, stagnation or decline (World Bank, 2002). They have been described by North (2003, p.1) as "incentive systems", meaning that they have the ability to encourage or discourage key economic actors to engage in investment activities and build efficient markets by adding predictability and reducing uncertainty. Effective political and economic institutions are also able to influence the market's choice set by lowering transaction costs and, consequently, enhancing the profitability and feasibility of embarking on a wide range of economic activities (North, 1991).

To further elaborate the significance of institutions, North (1989), suggests a comparison between two contrasting models of exchange. The first is a simple model of personal exchange (North, 1989; 1990; 1999), which strongly resembles the nature of the trade and business activities of Oman before 1970. Under this model, individuals are engaged in repeated exchange transactions with other individuals whom they are personally familiar with. In addition, formal written contracts are rarely used, and the acts of cheating or taking advantage of others are limited due to informal constraints such as religious values which minimise acts of corruption, cheating, and injustice. Therefore, in this case, the transaction costs are low while the production costs are high as a result of the lack of specialisation, division of labour, and economies of scale.

In contrast, the second scenario involves impersonal exchange (North, 1989; 1990; 1999), in which exchange activities are carried out in an unrepeated manner based on the valued attributes of the goods or services exchanged and the prospect of profit rather than personal relations. A large number of participants who usually do not know one another are involved in the exchange process (North, 2003). This scenario is the result of an expansion of exchange activities beyond a single geographical location, specialisation of knowledge, division of labour, large-scale organisations and the resulting economies of scale as well as enhanced technologies. Under this scenario, transaction costs are higher than the former scenario because the problems of enforcing the terms of exchange and acts of opportunism are more likely to occur (North, 1986; 1991). In a sense, it resembles the characteristics and functions of modern-day capital markets.

Therefore, in the second scenario, more effort must be directed to setting appropriate institutional structures that ensure a smooth flow of information about market conditions, secure impersonal exchange activities and guarantee both parties' property rights protection through effective enforcement mechanisms through effective legal and judicial systems to facilitate low-cost contracting and good governance practices to control the problems of agency in organisations (North, 1986; 1990; 1991). By doing so, transaction and informational costs are lowered, and individuals will be encouraged to undertake complex repeated exchange transactions with others whom they have no personal relationships with since the uncertainties associated with these types of transactions are minimised, and their level of confidence in profitable outcomes is maximised (North, 1989; 1990; 2003). Economic growth cannot be achieved by having superior human capital and physical capital alone if market participants do not have relative confidence in the effectiveness of contract enforcement and their outcomes. As a matter of fact. it has been argued by the World Bank (2002) that guaranteed profitable outcomes from engaging in investment activities is a crucial factor in boosting economic growth for nations and enhancing the overall living standards. In North's opinion, moving from personal to impersonal exchange without an adequate institutional structure is the main hinderance of markets' development. He further argues that having third-party institutions that set formal economic rules, ensure their enforcement at a low cost, and provide certainty in impersonal markets' transactions is what distinguishes high-income Western countries from Third World countries (North, 1989; 1990; 1999; 2003).

The two above-mentined scenarios represent two polar extremes of economic settings, but many variations can exist in real life. A relevant example to Oman's economic situation before 1970 is the Suq. This form of exchange has existed in the Middle East for thousands of years as the main platform for trade and exchange activities (North,1991). According to North (1991), Suq involved somewhat higher impersonal exchange and transaction costs than the primitive system of exchange of a tribal society. Its main characteristics are as follows: (1) consists of small local business enterprises that employ locals with very limited division of labour; (2) large number of daily business transactions but each one of them is rather small in value; (3) an endeavour to develop repeated exchange transactions with the same clients; (4) low fixed costs; (5) offering diverse sets of products and services. Unfortunately, Suq is an example of an exchange system that did not produce the kind of knowledge, information, and skills to induce institutional evolution that ultimately leads to economic growth. North (1991, p. 103) provides the following explanation:

> "There are no institutions devoted to assembling and distributing market information; that is, no price quotation, production reports, employment agencies, consumer guides, and so on. Systems of weights and measures are intricate and incompletely standardised. Exchange skills are very elaborately developed, and are the primary determinant of who prospers in the bazaar and who does not. Haggling over terms with respect to any aspect or condition of exchange is pervasive, strenuous, and unremitting. Buying and selling are virtually undifferentiated, essentially a single activity; trading involves a continual search for specific partners, not the mere offers of goods to the general public. Regulation of disputes involves testimony by reliable witnesses to factual matters, not the weighting of competing, juridical principles. Governmental controls over marketplace activity are marginal, decentralised, and mostly rhetorical".

Under the former conditions, it was impossible for this system of trade to induce further economic development even with increased trade activities. This is because the institutional framework that governs this system to reduce the associated risks and uncertainties were either weak or absent. The only institutional constraints to structure interactions between the involved parties were informal such as values, customs, and religion. Moreover, the system lacked reliable sources of market information. Hence, the transaction costs remained high. Attaining higher profits was achieved by the transfer of transaction costs to the other party either by acquiring better information on market opportunities or having better bargaining skills than other traders. However, this information is directed towards making personal gains rather than making general gradual improvements to the institutional framework which ultimately resulted in overall economic stagnation (North, 1990; 1991).

In contrast, Harris (2020), argues that the development and prosperity of European impersonal trade activities in the 17th century, which took the form of corporate entities like the English and Dutch East India Companies, was mainly due to informational and institutional advantages. These corporations created a more sophisticated institutional environment which ensured a smooth informational flow between the headquarters in London or Amsterdam and their agents in Asia. The investors of these companies had access to information regarding the markets of Asia including supply, demand, prices, routes, associated risks, performance of the agent and the competition level. The management of these corporations also paid considerable effort into preparing and auditing their accounts before presenting them to the General Court. This information was also required due to the governance structure of these corporations, as major business decisions required a majority vote, which made the provision of information a precondition for voting. The mandatory disclosure of information was also supplemented by the informal exchange of information by having members of the management, existing investors and potential investors at informal regular gatherings at the company's court.

In addition to maintaining a sufficient flow of information, a good level of property rights protection was instated. In England, for example, the period between 1558 and 1668 has witnessed the development of institutional devices by common-law courts and an increasingly independent parliament to restrict the Crown's ability to grant monopolistic charters or revoke any form of incorporation unilaterally. The Crown was also prohibited by law from expropriating the assets of joint-stock companies which were created by the investments of private individuals. The reduction of information asymmetries and the increased sense of protection that has been created for shareholders and investors have stimulated the growth of these corporations as they successfully managed to raise capital from more individuals than any other organisational form and provided business opportunities beyond family ties and personal relations. The Glorious Revolution of 1688 which further restricted the absolute power of the monarch and the following formation of the Bank of England have also created an environment that supported the mobility of capital through the creation of stock exchanges and mass trading of securities. The same flow of information and protection of interest, however, was not offered to Portuguese companies as they were never separated from the Crown's capital, aims, and personnel. The Crown was not constrained by any institutional devices and always prioritised political matters over business matters. The result was a failure in attracting private investors and the dissolution of the Portuguese East India Company in a matter of 5 years (Harris, 2020).

So how does the accounting profession and corporate governance fit into North's institutional framework and how does it relate to economic growth and modernisation? In fact, it fits perfectly when thinking of North's scenario of impersonal exchange which involves a large number of people making investment decisions and exchange transactions with other market participants who they do not personally know. A necessary condition for the success of this mode of transacting is the availability of a smooth flow of information to reduce uncertainty as well as the enforcement of effective property rights protection. Accounting, auditing, financial reporting and corporate governance have been designed to provide both. For example, published audited financial statements are considered as shareholders' tool to access reliable financial information on which their investment and credit decisions can be based. Additionally, accounting laws and regulations can be considered as a method of property rights protection just like the other financial markets' laws such as company laws, securities laws and bankruptcy laws which have been developed to protect the rights of market participants by ensuring transparency, fairness and accountability. Therefore, this thesis argues that the increased complexity of business activities and scale of market participants beyond a single geographical location necessitated the development of effective institutions that ensure the availability of reliable financial information to a large number of shareholders and other market participants, effective enforcement of business contracts and the regulation of the agent/principal relationship. Accounting, auditing, financial reporting and corporate governance were some of the institutions developed for this purpose. The resulting increase in property rights protection and easy access to accurate financial information, consequently, encouraged further participation in the market, attracted foreign capital and facilitated the growth of capital markets which all lead to economic growth. This will be discussed in further detail in chapter 9.

Despite what is stated hereinabove, there have been those who have argued that the variation in the wealth and prosperity across nations is the result of the differences in their geographical, social and cultural characteristics rather than the differences in their institutional structures. To respond to this argument and support North's theory of institutions, Acemoglu and Robinson (2005a; 2010) believe that a comparison between two societies of similar characteristics but different institutional structures and different economic positions would be useful. The case of the Republic of Korea (i.e., South Korea) and the Democratic People's Republic of Korea (i.e., North Korea) serves an excellent example in this context. After the Korean War, the Korean peninsula was divided into two separate states. North Korea adopted a centralised command economy following the Soviets, where property rights have been tightly controlled by the government, allocation of resources has been carried out through central planning rather than free markets and they have enforced a highly restricted role of market forces such as prices or supply & demand (Noland et al., 2000). South Korea adopted a capitalistic Western approach, relying on the private sector to nourish the market through manufactured exports to create an industrialised economy and increase domestic savings (IMF, 1982). They have also focused on establishing an outstanding institutional structure to govern business activities and support property rights (Agemoglu & Robinson, 2010). The result was that these two identical societies in everything except their political regimes and institutional frameworks have ended up with completely different economic performances. On the one hand, North Korea's economy has been described as "extraordinarily distorted" (Noland et al., 2000, p. 1768) because the country has been struggling to provide their people with basic living necessities. South Korea's economy, on the other hand, has developed to become one of the largest economies in the world due to their government's policies (World Bank, 2020). It is, therefore, the differences in the institutional frameworks that have caused the dramatic variation in the economic performance of these two societies.

4.2.2 The Relationship Between Politics and Economic Institutions

It is also important to note that the above discussion suggests a direct relationship between the political structure of a society and its economic performance (North, 1986;1990; 1991; 2003). After all, it is the government and its politicians who decide the economic rules and determine the enforcement mechanisms. As a matter of fact, political institutions have been one of the basic building blocks of North's theory of institutions along with the costs of contracting, costs of enforcement and humans' individualistic behavioural assumption as wealth maximisers (North, 1986). Acemoglu and Robinson (2005a; 2010) have taken this idea further and pointed out the fact that economic institutions do not just determine the level of economic development in a society, but also the distribution of resources and economic benefits among its members. Hence, it is very likely that not everyone would be satisfied with that choice of distribution. Those with the highest political power will be able to shape political and economic institutions in their favour in order to get the biggest share of benefits. Those who are relatively wealthier than everyone else in society also benefit from de facto political power, enabling them to push for economic and political institutions that work in their best interest. The collective decision-making mechanism in society will also be of great significance in this case, as politicians in democratic societies are more likely to have a great level of influence over polities than the ones in autocratic societies, for example. This schema applies to Oman in the sense that the change of the country's political regime after 1970 has had a significant direct influence on the country's national institutional framework. Before 1970, Sultan Said bin Taimoor was known for being an autocrat who trusted no one, and he adopted a centralised internal policy based on restrictions and constraints (Skeet, 1992). He followed a non-delegation policy which prevented anyone from discussing matters of the government with him. Likewise, high-ranking government officials were not given the capacity to make important decisions. Any opinions with regard to development or reform plans were immediately oppressed. Thus, the process of governing the country stemmed wholly from one person, the Sultan himself. This concentration of decision-making in one person has consequently caused the country major inefficiencies and economic stagnation (Skeet, 1985). Despite the flow of oil revenues after exporting the first shipment in 1967, Said bin Taimoor was reluctant about embarking on any modernisation or development projects. Local citizens were deprived of basic civil rights such as good education, access to health services or even leading a life of their choice (Skeet, 1985). At the time, the country had three primary schools, one hospital, 10 kilometres of paved roads, and an average life expectancy of merely 55 years. Those who thought of demanding change were banished from the country. Skeet (1985) believes that Said bin Taimoor feared the idea of having an educated population because they would be less willing to accept the low rate of development in the country at that time. Even those who managed to educate themselves abroad were banned from returning to work in Oman without permission from the Sultan himself. In institutional terms, the political institution, comprised solely of the Sultan himself, prevented the emergence and development of social (i.e., educational and healthcare), legal, and economic institutions. However, the coup of 1970, which transferred the ruling power from Said bin Taimoor to his son Qaboos, had dramatically changed the political and economic conditions of Oman. The Sandhurst educated, new young Sultan cannot be described as a democrat, but he was different than his father in many aspects. Establishing a modern, institutionally organised form of government with a council of ministers, a constitution and a formal regulatory framework was among his first priorities. Instead of having a centralised government, power was distributed across different governmental institutions with rules and regulations to ensure effective functioning. He also paid special attention to education and called on educated Omanis living abroad to come and contribute to building their country which all led to rapid economic and social developments after 1970 (Peterson, 2004; Phillips & Hunt, 2017).

So far, the literature has pointed out that the main determinants of cross-national differences in economic performance are their economic institutions which reflect the differences in political institutions and the centralisation of political power. This takes us to an important conclusion. In order for societies to reform their economic institutions and achieve a desirable level of economic performance, they must reform the political institutions and political equilibrium (Acemoglu & Robinson, 2010). In other words, political institutions allow for the development of economic institutions, the emergence of financial regulations, and the modernisation of the overall economy. However, as Acemoglu and Robinson (2010) suggest, this is not an easy task to do, and it is important to be mindful of the following issues. First, shifting or reducing political power usually necessitates the removal of key political figures who would resist making changes to the existing system because they are benefiting from the status quo. Major events had to happen in order to redesign existing political and governmental institutions, such as England's Civil War of 1642 and the Glorious Revolution of 1688, which limited the monarchy's power, strengthened the political role of the parliament and created an independent judicial system, ultimately resulting in secured property rights for merchants and landowners as well as the emergence of new financial instruments to lower transaction costs (North, 1989; Faundez, 2016). Second, in some cases, even the reduction of political power of the head of state or a certain political party does not result in political and economic reformation just like in the case of Iraq. After the removal of Saddam Hussain and undermining the power of his political party, the country is still struggling to improve its economic performance because those who are in power now do not have the right incentives to do so. Thus, the replacement of one political party by another might not always have a positive influence on economic performance. Third, having effective political institutions in one country does not necessarily mean that they would work in another country unless they are consistent with its informal and enforcement constraints. In other words, institutions must be designed in consistency with the country's informal and enforcement constraints. One size does not fit all when it comes to designing institutional structures for different countries. This is evident in the case of Latin America when they adopted the American constitution along with many of its property rights after their independence in the early 19th century. However, unfortunately, that produced drastically ineffective results because the American constitution was not consistent with the pre-existing institutional characteristics of Latin America (North, 1999; 2003). Finally, it is noteworthy that introducing democracy is not always a motivating force for better economic performance as there are examples in which "developmental dictatorships", such as China, which has successfully developed their economic performance because they had the right political equilibrium (Agemoglu & Robinson, 2010).

It is also important to acknowledge that North's theory of institutions does not guarantee sustainable economic growth. In fact, quite a few notions of his theory were criticised by various scholars (Faundez, 2016). For instance, it has been argued that his theory ignores the role of non-economic factors such as technological advancements, geographical location, and the quality of a country's human capital in promoting economic growth (Engerman & Sokoloff, 2005 cited in Faundez, 2016). Similarly, North's focus on a single concept, property rights, has been deemed as narrow and insufficient to explain a complex process such as economic development which rather requires a broader, more comprehensive analysis of all social factors that may affect the direction of economic growth in a certain context (Myrdal, 1978 cited in Faundez, 2016). Faundez (2016) had also some reservations regarding the fact that North's theory is still based on the fundamentals of neo-classical theory and shows a reluctance to incorporate the findings of other social sciences. Therefore, it fails to overcome limitations such as the total negligence of the role of organisations and organisational functions in the process of economic change. Moreover, in many cases, the applicability of North's theory has been questioned because the process of building efficient institutions often leads to a deadlock due to political conflicts or other unfavourable economic or social conditions (Faundez, 2016). In addition, it offers little guidance on how to induce economic change in transitional economies, such as those of the former members of the Soviet Union, because it does not clearly identify how effective institutions are supposed to emerge (Milonakis & Fine, 2007). Moreover, Fiani (2004) believes that the most problematic aspect of North's theory is its inability to explain the permanence of inefficient institutions that does not support economic growth for long periods of time, but this was addressed in North's (1990) discussion on institutions and path dependency[9]. Finally, Hodgson (2016) criticised North's definition of institutions for not being sufficiently clear, hence, an inability to draw distinctions between institutions and organisations. The author also regarded the terms formal and informal as imprecise. Although North often implied that formal rules mean legal rules, some have argued that formal rules can also mean codified or designed rules.

4.3 The Institutional Framework in the Context of International Businesses

The previous chapter's discussion of international businesses has indicated several ways in which the institutional framework can be linked to the international business literature. These are emphasised in the following section. It is, however, important to note that some of the studies mentioned below have used the sociological approach of the institutional

[9] According to North, inefficient institutions could survive due to the costs and difficulties associated with institutional change, including, changing the underlying ideologies that are deeply rooted in market structures.

framework in the analysis, not North's economic approach of institutions which was used in the present thesis.

First, the effective utilisation of knowledge spillovers. It has been evident that a positive effect of multinationals on the host country cannot be guaranteed (Jones, 2005; Dunning & Lundan, 2008a; Fitzgerald, 2015). The outcome relies on country-specific factors such as the host's policies towards foreign investments as well as the nature of their national institutional structure. The quality of domestic institutions in the host country largely affects the way they would utilise knowledge spillovers from the international businesses that operate in the country (Dunning & Lundan, 2008a). For example, the effectiveness of transferring foreign expertise into the host country would be affected by their policies toward human resource development and labour rights. Similarly, the consequences of transferring new entrepreneurial and managerial skills to countries that lack supportive educational systems would be less effective than transferring them to countries with well-educated human capital (Dunning & Lundan, 2008a;b). This is evident in the results of Borensztein et al. (1998), who analysed the role of FDI in the process of economic growth in 69 developing countries using a cross-country regression framework. The empirical results have shown that foreign investments contribute to the overall economic growth of the host country more than domestic investments, but only if the country holds a sufficient absorptive capacity reflected in reaching a minimum threshold of human capital. In their growth regressions, FDI itself was found to be insignificant as an independent variable. However, the interaction term between FDI and human capital have shown a positive coefficient indicating a statistically significant result. This supports the notion that the transfer of advanced technology and knowledge through FDI can generate beneficial impacts on the host economy only if they have effective educational institutions that produce a qualified workforce which is able to utilise and diffuse it into the country.

Second, the national institutional setting impacts multinationals' decision to operate in one country instead of the other, thereby explaining the existing variations in the flow of foreign investments to different geographical locations (Jones, 2005). As a result of a general realisation of the importance of foreign investments in enhancing and promoting economic growth, many developing countries were motivated to restructure their local institutions and upgrade their policies to increase their attractiveness as an FDI destination. Therefore, scholars have looked into the role of the host country's institutions in economic growth at a macro level and their effect on the behaviour of multinationals. Mudambi & Navarra (2002) argued that the neoclassical theory which explains the FDI location with regards to different economic factors, such as market size, inflation levels and labour costs, is insufficient as it disregards the role of institutions. They believe that the political, economic, legal and production institutions of a country are a fundamental determinant of the FDI location, being the one major immobile factor that distinguishes every country from another.

Following this argument, Sethi et al. (2002) proposed a theoretical model to explain the changing trends of the FDI destination which incorporates both institutional and strategic factors. Taking the shift of the American investments from Western Europe into Asia in the period between 1980 to 2000 as an example, they argue that institutional factors of the host country, such as economic liberalisation, political stability, sound infrastructure, investment and taxation incentives, skilled human capital as well as an independent legal system have worked as “pull factors” to attract foreign investments. At the same time, firm-specific strategic factors such as increasing competition intensity in the markets they already operate in, and low-cost production advantages work as “push factors” to expand operations to developing countries’ markets. In their opinion, the above two factors have worked together to induce a shift of FDI from developed to developing markets and, therefore, they should both be taken into consideration to understand the current and future FDI trends. A special issue of the International Business Review in 2002 has focused on the importance of institutions in international business literature. Scholars have looked into how different institutional arrangements such as national political institutions (Sobel, 2002), high local labour quality (McCann et al., 2002), and non-governmental organisations (Doh & Teegan, 2002), have affected the flow of FDI, foreign lending, and investment patterns into the host country.

What these studies failed to include, however, was the role of institutions in reducing markets’ uncertainties and informational asymmetries for international businesses (North, 1990; 1991), thereby creating an incentive for expansion into new markets. Based on this, it would be safe to argue that international firms would be more willing to expand their operations into countries where the institutional infrastructure guarantees property rights’ protection, organises interactions among various market participants, ensures regular disclosure, openness and transparency, facilitates the fair distribution of economic returns among stakeholders, lowers transaction costs and provides access to sufficient information that enables a fair evaluation and prediction of risk. The power of institutions, namely accounting, auditing, financial reporting and corporate governance in this case, manifests in their ability to provide all the above. Therefore, it can be argued that an explicit integration of the institutional framework in the international business literature has the potential of yielding great insights on the incentives behind the expansion of multinationals, the specifics of knowledge transfer and the extent to which they can shape and influence the host country’s national institutional framework.

Third, the national institutional setting of the host country has the ability to either motivate or constrain multinationals’ ability to transfer knowledge and determines the extent to which international firms can influence host economies. In other words, unless the transferred knowledge aligns with the country's economic and political institutional context, knowledge transfer and diffusion into the host country would not be rendered ineffective. This was evident in the cases of Egypt (Ghattas et al, 2021) and Bangladesh (Belal et al., 2017) in which the Big Four's influence on the profession was limited due to local institutional constraints in terms of nationalistic political views and social barriers. In the cases of France (Ramirez, 2010) and China (Wen & Sonnerfeldt, 2022), however, the national institutional contexts as well as the economic reform plans were aligned with the Big Four's attempts to internationalise the Anglo-American version of the profession. As a result, both governments have enabled and supported the firms' capacity for agency as well as knowledge transfer and dissemination.

It can be noticed that the above suggested connections between international businesses and the theory of institutions have an inside-out perspective (Kwok & Tadesse, 2006; Jackson et al., 2008). That is, how does the national institutional context of a host country affect multinationals' behaviour and activities (i.e., the decision to expand into a particular country and the extent to which their activities are benefiting the host economy)? However, this thesis does not apply this perspective in connecting international businesses and the theory of institutions. It rather links the two bodies of literature from an outside-in perspective. In other words, it looks into how international businesses' presence in a certain country can shape its national formal and informal institutional context. This perspective highlights the fact that international businesses are not mere passive subjects, but they also act as agents of change for the host's institutions (Jackson et al., 2008; Cantwell et al., 2010). Specifically, the aim of this thesis would be to provide historical evidence of the role of international businesses in transferring accounting knowledge and its incorporation in Oman's national institutional infrastructure. This thesis would also argue that the development of accounting, auditing, financial reporting and corporate governance as an institution in Oman was to support the country's government-led economic reform plans after 1970. This will be further elaborated in chapter 9.

This approach is similar to the one applied by Kwok & Tadesse (2006), in which they explored how the presence of multinationals can create and shape anti-corruption institutions in the host country over time. Using measures of corruption and FDI levels for a sample of 140 countries over 30 years, the authors have found that multinationals have the ability to shape the national institutional setting of host countries through three main effects: (1) regulatory pressure effect; (2) demonstration effect; (3) and professionalisation effect. Through the regulatory pressure effect, a multinational may face pressures from the home government and the international business community to comply with certain regulations, thereby restricting what would have been common behaviours in the host country otherwise. The demonstration effect is related to the knowledge spillovers discussed earlier. The authors argue that, through the demonstration effect, the host country may be introduced to new methods and approaches to conducting business which can ultimately lead to the modification of the host country's traditional business practices. Finally, the professionalisation effect is evident through multinationals' transfer of advanced forms of knowledge, capabilities, technologies and skills which the local workforce attempt to level up to. These effects are often supplemented by efforts from the host government itself as it seeks to gain legitimacy within the international business environment and enhance its international reputation to attract foreign investments and foreign aid. The authors also noted that, although multinationals' influence on the host's institutions is subtle and takes a long time to be realised, it most certainly exists.

The evidenced relationship between institutions and international businesses led Dunning & Lundan (2008a; 2008b) to broaden their Eclectic paradigm of multinationals to incorporate the institutional framework due to its importance in guiding the process of knowledge transfer and diffusion. Because institutional factors affect the determinants, outcomes and influence of multinationals' activities, they would, therefore, be expected to affect all three components of the Eclectic paradigm: ownership, locational and internalisation advantages (Dunning & Lundan, 2008a; 2008b; Eden & Dai, 2010). To reconcile the ownership advantages with the institutional theory, Cantwell et al. (2010, p. 572) introduced the concept of "institutional ownership advantages" which they defined as:

> "Institutional ownership advantages incorporate the firm-specific norms and values guiding decision-making as well as an imprint of the institutional environment of the home country. Such institutional advantages can be transferred (intentionally or unintentionally) alongside other ownership advantages to host countries and may influence their institutional development."

These institutional assets, in accordance with North's theory, can either be formal or informal institutions and enforcement mechanisms stemming from either the host country, such as tax and patent laws, quality of public organisations such as labour unions and capital markets, religious values and social traditions, and anti-corruption measures, or the firm itself, such as corporate social responsibility policies and R&D activities (Dunning & Lundan, 2008a;b). They also argue that these advantages are contextual in nature as they reflect and adapt to the institutional matrix of the country in which the international firm operates in.

In the same way, locational advantages and internalisation advantages have been expanded from a perspective that is based on the quality of assets and resources offered by the host country to a perspective that takes into account formal and informal institutional determinants that would help international firms to exploit ownership advantages profitably. The location-specific advantages include foreign investment attraction policies, openness and tolerance to multicultural systems, and good governance with strong property rights protection. Internalisation advantages are now expanded to include modes of entry and the host's policies towards foreign ownership (Dunning & Lundan, 2008,a;b).

Nonetheless, in the context of this research, this view can be overemphasised. This is because the first international businesses which came to Oman between the 1940s and 1970s have expanded into the country when it lacked any institutional infrastructures. In other words, the international firms at the time were not attracted to an existing set of institutions, but rather the lack of it. According to Jackson et al. (2008), emerging economies are typically defined as low or medium-income countries facing rapid economic growth and undergoing institutional reforms to support economic modernisation and free markets. Prospects of high growth often make them highly attractive as a host country for international businesses. In this case, when choosing to expand into an emerging economy, international businesses are faced with two strategies: Either adapt to the existing institutional void (i.e., the lack of institutions that enable a well-functioning market) or change the institutional context of the host country to support their operations. Kwok & Tadesse (2006) proved that the ability to exert such influence does exist. This perspective of the relationship between international businesses and the institutional framework perfectly matches this case study of Oman. This thesis argues that accounting and corporate governance were transferred via the Big Four and were gradually institutionalised and incorporated into the country's legislative framework. This process was done with the support of the Omani government itself which welcomed international financial expertise to induce sustainable economic growth and integrate into the international financial market.

4.4 Chapter Summary

To summarise, through the 19th and 20th centuries, multinationals have become a distinctive feature of the international economic system as a result of growing globalisation forces. It has been widely argued that imperial powers played a significant role in the expansion of multinationals during the last two centuries by protecting their international assets and having an influencing power over local rulers. Having to operate within non-ideal economic and political environments outside their origin country, these businesses had to develop prominent business, finance and management capabilities in order to succeed on an international level. By expanding their operations internationally and investing in various projects such as, railways, telecommunications, oil and utilities in underdeveloped economies, multinationals have facilitated the transfer of foreign capital, business capabilities and financial infrastructure, hence, being deemed as the engines of economic growth and transferers of knowledge (Kogut & Zander, 1993; Fitzgerald, 2015). With that in mind, it is also equally important to note that, in order for multinationals to induce economic growth in a particular country, a right balance must be found between an efficient transfer of knowledge to the host country and local institutional responsiveness and absorption of the knowledge transferred (Jones, 2005). It has also been found that international businesses have the capacity to act as agents of institutional change in the host country (Kwok & Tadesse, 2006; Jackson et al., 2008).

The existing international business literature has discussed the role of international businesses in facilitating an effective transfer and diffusion of knowledge and institutions into host countries which has the potential of stimulating economic growth and development. However, their role in the transfer and institutionalisation of accounting, auditing, financial reporting and corporate governance in this context have been ignored. Hence, this thesis contributes to filling this gap in the literature by exploring the role of international businesses as agents of accounting institutional change in the host country.

To understand the relationship between the development of accounting and economic modernisation, North's theory of institutions has been used to place accounting, auditing, financial reporting and corporate governance in the context of international business literature. According to North's theory, Institutions matter. The key to sustainable economic growth is having effective institutions that are able to reduce risks and uncertainties associated with the increasingly complex forms of business activities. Therefore, it is the most fitted theory for this study. Accounting, auditing, financial reporting and corporate governance can be considered as institutions in accordance with North's theory of institutions in a sense that they have been designed to reduce risks and uncertainties associated with information deficiencies, reduce transaction costs, increase trust and market predictability and, most importantly, protect property rights of market participants. Doing so motivates greater domestic and foreign market participation which ultimately leads to an overall economic growth.

In the case of Oman, some of the world's major multinationals in the oil sector, such as Shell and BP, as well as the banking sector, such as BBME (currently HSBC), has been among the first foreign firms to expand their operations into the country in the second half of the 20th century. This was followed by a phase of an economic boom as a result of the increased revenues from oil exportation activities and the implementation of government reform plans which, consequently, attracted more international businesses and foreign investments into the country. Therefore, this thesis appreciates international businesses for being transferers of accounting knowledge and strategic actors who bring out institutional change, and specifically in this case, accounting and governance change. It links North’s theory of institutions with international business literature to provide a fitting framework to understand the relationship between the development of accounting and economic modernisation in Oman after 1970.

Chapter 5 : Corporate Governance in the Context of International Businesses and the Theory of Institutions

5.1 Introduction

The two previous chapters presented a discussion on the internationalisation of accounting and the role played by international businesses in transferring accounting knowledge and influencing the institutionalisation of accounting in the countries they operate in. In turn, having an effective accounting institutional infrastructure (i.e., formal rules, informal constraints, and enforcement mechanisms) that facilitate property rights' protection of market participants would reflect positively on the performance of the host economy in accordance with North's theory of institutions.

Because this study uses North's theory of institutions to recognise accounting rules and information as tools for the protection of property rights and lowering agency risks associated with complex impersonal business transactions, then this discussion would not be complete without looking into the development of corporate governance as well. This is because investigating the effects of accounting rules and information on economic modernisation would be better understood by looking into their general role in governance (Bushman & Smith, 2001). The two are closely related. Accounting practices and information are regarded as significant instruments of effective corporate governance, underpinning the latter's most significant principles such as (Bushman & Smith, 2001; Crowther & Seifi, 2011):

1. Disclosure and Transparency: accounting ensures the availability and accessibility of financial information by internal and external users who could be affected by corporate decisions.
2. Rule of law: accounting is a framework of rules which, if well enforced, ensure the protection of shareholders and lowering agency risks.
3. Efficiency and Effectiveness: accounting information minimises transaction costs and facilitate effective corporate decision-making to achieve the best possible results.
4. Accountability and Responsibility: the publication of accounting information enables external stakeholders to recognise how the board is executing business strategies and handling risks. It is a protection principle because it enables stakeholders to hold organisations accountable for their actions.

5. Fairness: accurate accounting information and disclosure enables a fair principle/agent relationship.

Accounting practices as well as publicly reported financial accounting information are used as control mechanisms that promote an efficient governance of corporations. Accounting and corporate governance are considered as means of investors' property rights protection that foster different forms of investments and economic activities, ultimately, supporting economic modernisation and inducing growth. In Oman, the two were gradually developed and integrated into the country's national institutional context (i.e., public policy and legislative framework) to accommodate the increase in the scale and scope of business activities and market participants which followed the implementation of economic reforms since 1970. Therefore, an analysis of the development of property rights in Oman, manifested in accounting rules, and their relationship to economic modernisation cannot be exhaustive without looking into the development of corporate governance as well.

Corporate governance is also relevant in the context of international business literature. In chapters 3 and 4, the role of international businesses in transferring accounting knowledge and shaping its institutional framework in the host country has been established. This can potentially lead to the following question, why can't the same notion of knowledge transfer be applied to corporate governance laws and practices too?

The institutional framework has been used to understand the diversity of corporate governance arrangements in different jurisdictions. It is an appropriate framework to acknowledge diverse national institutional settings and how the international best practices of corporate governance adapt and diffuse into the national institutional context. Jackson and Strange (2008) and Strange et al. (2009) have proposed several ways in which corporate governance can be incorporated within the international business' literature. First, similar to the earlier discussion on accounting, the corporate governance institutional framework of the host country is a major determinant of its attractiveness for foreign investors. Effective corporate governance practices can stimulate the flow of international economic activities and foreign capital into the host country because they are strongly governed by "legal rules, informal institutions, and governance-related business practices across countries" (Jackson & Strange, 2008, p. 3). This translates into a general perception of reduced transaction costs, properly secured property rights, and lower uncertainties associated with operating in a distant economy. Hence, it influences strategic expansion choices to certain host countries by forming either an incentive or a constraint. Second, home country's corporate governance institutions may influence firms' internationalisation decisions and their ability to relocate its operations.

The above two points shows a focus on how the national institutional setting, of accounting and corporate governance in this case, affects the behaviour of multinationals and their expansion decisions. However, the opposite is possible too. Just like accounting, international businesses may have aided the transfer of corporate governance by bringing international pressures from foreign investors and international organisations for greater transparency and shareholder protection, thus, changing corporate governance regulations to match the international best practice. Additionally, international development organisations such the World Bank, OECD, IBRD have been concerned that financial aid which is meant to be used for economic development projects and raising people's quality of life may be misused due to the lack of proper financial control and governance measures. Hence, they may push for the implementation of stricter governance and financial control measures as prerequisite for granting international financial aid (Kwok & Tadesse, 2006). The demonstration and professionalisation effects of multinationals on the host's institutions, which have been discussed in the previous chapter (Kwok & Tadesse, 2006), may also result in the transfer of corporate governance practices across different countries.

Therefore, due to the relevance of corporate governance concept and principles to the functions of accounting rules and information, this chapter will present a historical overview of the development of corporate governance with a special focus on its development in the Gulf Region to contextualise the case of Oman. It will also explore the role of international organisations, namely the OECD, in promoting the development of corporate governance practices in the emerging economies of the Arabian Gulf.

5.2 Historical Overview of Corporate Governance

5.2.1 Definitions

The concept of corporate governance has existed since the creation of the corporate form and the separation of ownership and control, thus, creating a potential for conflict among different stakeholders of a company (Cheffins, 2013). Although this extends back to the 16th and 17th centuries with the formation of major corporations such as the East India Company, the Levant Company, and the Hudson's Bay Company, the phrase was not internationally popularised until the 20th century. The separation of ownership and control was recognised and discussed by prominent economists such as Adam Smith as early as 1776 in his book *The Wealth of Nations.* With the spread of limited liability companies around the world in the late 19th and early 20th century, more attention was drawn to the growing separation of ownership and control and the increasing significance of corporate power which was evident in Berle and Means' seminal book, *The Modern Corporation and*

Private Property published in 1932. Following the Wall Street crash and the Great Depression in the period between 1929 and 1939, discussions on the concept and issues of corporate governance were brought to the surface, especially after passing the Securities Act in 1933, the Securities Exchange Act in 1934, and the establishment of the American SEC in 1934 (Tricker, 2020). The rules, legislations, and institutions of corporate governance continued to develop during the second half of the 20th century as principle/agent problems and solutions were brought into the wider discussion. The term corporate governance eventually made an official appearance in the mid-1970s and was first introduced in an academic publication in Bob Tricker's book, *Corporate Governance: Practices, Procedures, and Powers in British Companies and their Boards of Directors* in 1984. Arguably, however, the most influential developments in corporate governance occurred in the aftermath of the UK's business failures and frauds in the early 90s that led to forming the Cadbury Committee and the issuance of the Cadbury Report which then became the first corporate governance code in the world and frequently influenced subsequent corporate governance efforts around the world. Similarly, the Enron cohort of failures which shook the international business environment in the early 2000s have had a significant influence on corporate governance developments with the issuance of the Sarbanes-Oxley Act in 2002.

The most well-known broad definition of corporate governance, which remains a part of the UK's corporate governance code to date, has first appeared in the Cadbury Committee's report on the Financial Aspects of Corporate Governance in 1992. The committee was established in 1991 to raise the UK's standards of practice in corporate governance. Corporate governance was defined as:

> "The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place". **(Cadbury Committee, 1992, p.15).**

Since then, other definitions have followed (OECD, 1999; IFAC, 2004; Abdallah, 2008; Monks and Minow, 2011; Nordberg, 2011), however, they all have focused on the processes, guidelines, and mechanisms by which the relationships between various stakeholders can be regulated and a fair distribution of rights and responsibilities can be ensured. In the language of North's institutional theory, corporate governance can be described as a set of institutional arrangements that constrain the opportunistic behaviour of those who are given the responsibility of allocating and managing capital within an economy. In other words, it is an institutional framework of formal provisions that are regulated and enforced by different instruments based on their status within the country's legal framework. These formal rules and enforcement mechanisms interact with informal governance constraints such as bureaucratic norms, business traditions and the level of reliance on family networks, which can either reinforce or undermine their level of effectiveness (Estrin & Prevezer, 2011). As an institution, its main purpose is to reduce agency problems and guaranteeing increased fairness, transparency, accountability and assurance among investors, board members, managers as well as other groups of interest such as employees, customers and governments. Corporate governance is a method of guaranteeing the legal protection of market participants and reducing agency risks and problems (Shleifer &Vishny, 1997; Adballah, 2008; Morck and Yeung, 2009).

5.2.2 Early International Development Efforts

According to Cheffins (2013), the earliest official efforts to develop corporate governance have appeared in the United States after the economic boom and the rapid increase in the number of business corporations following World War II. At the time, the management of these corporations were entrusted to executive managers, while the board of directors and shareholders had barely any role in the matter. Directors, as a matter of fact, were expected to support the executive management, given their great influence on the appointment of board members. As for the shareholders, they were “known for their indifference to everything about the companies they own except dividends and the approximate price of the stock” (Livingston, 1958 cited in Cheffins, 2013, p. 47). This has, consequently, led to managerial accountability issues and financial misconduct which were being brought forward to the SEC as part of its regulatory remit. Therefore, the SEC pushed a reform agenda in the mid-1970s which resulted in the requirement of appointing independent directors, maintaining an audit committee, and the disclosure the firm’s compensation policies of by all listed companies. That is when the term “corporate governance” has made its first appearance in the Federal Register, the official journal of the US federal government in 1976 (Cheffins, 2013). In the 1980s, a private organisation called The American Law Institute which consisted of lawyers, judges, and academics had undertaken a project to develop the regulatory framework of corporate governance in the US. They have worked with government officials and senior corporate executives and, eventually, issued the first principles of corporate governance in 1992. The trend has spread to other Western economies which implemented the same corporations’ model of executive dominance and dispersed ownership. In Britain, for example, the accountancy profession, the London Stock Exchange, and the Financial Reporting Council have collectively established the Committee on the Financial Aspects of Corporate Governance, also known as, the Cadbury Committee in 1991. It gained the public’s attention due to the collapse of some prominent British public companies at the time such as Polly Peck International. The collapse suggested that there was a need to strengthen the corporate governance framework to ensure accountability. The committee have successfully issued the Cadbury Code which worked as a manual that gathers the best practices of corporate governance. The committee have worked with London's Stock Exchange to enforce compliance with the code by adding it to their listing rules (Dragomir, 2008; Cheffins, 2013). In the same way, the collapse of major European business corporations such as Bremer Vulkan in Germany, Banesto bank in Spain, Navigation Mixte and Suez in France, and Ferruzzi in Italy have encouraged European countries to follow the steps of the US and the UK with regards to corporate governance reform. The same scenario repeated itself in Asia when countries suffered from stock market crashes in 1997. This was attributable to the lack of governance within their family-dominated public companies which prompted efforts to strengthen the corporate governance frameworks in these countries (Cheffins, 2013). It is also important to not overlook other factors that aided the international development of corporate governance. One of them is the liberalisation of capital markets in Europe as companies were increasingly turning to equity markets as a source of funding to outgrow their competitors. Another factor is Asia's increasing reliance on Anglo-American capital to finance their national economic development plans. These factors have encouraged a more “shareholder-friendly” approach which is incorporated in the best practices of corporate governance (Cheffins, 2013).

Throughout the second half of the 20th century, the American model was hailed around the world especially after the successful rebound of their economy following the recessionary conditions in the beginning of the 1990s. That was until the major business scandals that involved major American companies (i.e., Enron and WorldCom) by the beginning of the new millennium, bringing out the inefficiencies of their governance system. This, consequently, led to the issuance of the Sarbanes-Oxley Act of Corporate Fraud and Accounting in 2002 which reformed of the country's corporate governance system to provide greater protection of shareholders' rights (Dragomir, 2008; Cheffins, 2013). It is, however, important to mention that even the updated corporate governance measures were not successfully able to prevent the subsequent 2007/2008 global financial crisis that resulted from excessive risk-taking, frauds, and governance failures in the banking and financial sectors which precipitated it. This, consequently, motivated further efforts to strengthen the corporate governance framework which resulted in the issuance of the Dodd-Frank Act in 2010.

5.3 Institutional Differences in Corporate Governance Around the World

It is true that the above suggests that corporate governance frameworks around the world have mainly developed in response to the international growth of the corporate form and the resulting increase in agency problems stemming from the separation of ownership and management. It was also developed to organise the relationship among various stakeholders and as a response to correct various corporate and economic crises. This however, this does not mean that the developed policies and strategies were the same everywhere. Indeed, a degree of convergence among different corporate governance frameworks around the world cannot be denied. Many countries new to corporate governance have adopted, and later adapted, Western corporate governance frameworks of either the US, the UK, or France due to internationalisation, historic reasons, or professional affiliations (Ruhmkorf et al., 2019; Macneil and Esser, 2022). For instance, the UK's Cadbury Code influenced many national corporate governance codes around the world, including EU and G20 countries as well as the OECD's corporate governance principles (FRC, 2012; IFC, 2015; Macneil and Esser, 2022). Its approach of comply-or-explain has emerged as a global model even in countries that had different legal frameworks, corporate laws, and investment structures than the UK (Macneil and Esser, 2022). According to an OECD review of corporate governance codes covering 47 different jurisdictions, nearly 84% of that sample have adopted the comply-or-explain approach which was pioneered by the Cadbury Committee in the early 1990s (Rust, 2017). Similarly, a study by Ruhmkorf et al. (2019) that analysed the evolution of corporate governance in Germany has found that its corporate governance system had experienced a period of significant convergence with the Anglo-American model of corporate governance between the mid-1990s and 2008. The German corporate governance code, which was first issued in 2002, followed the UK's comply-or-explain approach with no binding rules beyond the relevant existing legal provisions and conveyed the Anglo-American shareholder value features of corporate governance. Post the global economic financial crisis of 2008, however, this convergence has slowed down and the appreciation for the German stakeholder-oriented model was reinstated due to the stability of the German economy and political environment during the crisis.

At the same time, corporate governance systems around the world are, by no means, identical. A paper by Morck and Steier (2005) has aimed to explore the reasons behind the differences in corporate governance frameworks around the world. By analysing the historical development of corporate government frameworks in leading industrialised nations, namely, Canada, France, Germany, Italy, Japan, Sweden, the Netherlands, the

United Kingdom, the United States, as well as two of the largest developing economies in the world, India, and China the authors identified the following reasons:

1. Capital concentration: higher concentration and control of capital within few wealthy families affects corporate governance frameworks. In some cases, it resulted in economic growth and better governance while in other cases, the families have hindered the development of effective corporate governance systems in an attempt to protect their status-quo and their controlling power over the market.
2. Colonial transplants: colonial dominance over non-Western countries have resulted in the importation of their legal systems to colonies and dominions.
3. Trust: as an informal aspect of business transactions, public's trust in the market affects corporate governance frameworks. Low societal trust levels require more sophisticated institutional governance arrangements to encourage public participation in the market.
4. Legal framework: common law countries support the development of shareholders' legal protection more than civil law countries.
5. Financial development: the establishment of stock markets is often associated with the increase in the number of firms and shareholders which, consequently, increases the demand for effective governance.
6. Political views of the ruling government: governments oriented towards economic modernisation are more likely to foster the development of effective corporate governance and investors' protection policies to support diffused ownership of large public corporations and attracting foreign investments.

It is also important to note that key differences can exist among corporate governance models across Western, industrialised, capitalist, common law countries. For example, on the one hand, the UK adopts a "comply or explain" mechanism, in which listed companies can voluntarily comply with the provisions of the Cadbury Code or explain, in an official statement, their reasons for non-compliance (Keay, 2014). On the other hand, the US adopts direct regulatory mandates for corporate governance which means that all listed companies are legally required to comply with the provisions of the Sarbanes-Oxley Act, since it is an official federal law, or face criminal sanctions (Nordberg, 2011).

While it is true that the above-mentioned factors result in shaping different corporate governance frameworks across different jurisdictions, this thesis will adopt an economic-oriented approach to understand the development of corporate governance. The development of corporate governance in Oman will be contextualised within North's theory of institutions to enable better understanding of how it relates to economic modernisation. In other words, corporate governance is going to be viewed as an institution with a set of formal rules, informal constraints, and enforcement mechanisms that were developed in Oman to support its economic modernisation plans after 1970. North's theory is useful in linking institutions with economic modernisation by regarding them as the determinants of economic growth and prosperity. They support the growth of economies and markets because they facilitate property rights protection, ensure accurate and fair tax payments, enforce contractual business agreements, and reduce the levels of corruption and theft. Hence, viewing corporate governance as an institution that performs these functions allow for the establishment of sound link between its development and economic modernisation. This would also mean that variations in corporate governance systems are going to be highlighted as institutional variations that result in different economic outcomes.

Most of the published research on the history of corporate governance is "Western" and "Industrial" in orientation (Farrar, 1999; Morck & Steier, 2005; Hannah, 2007; Morck & Nakamura, 2007; Dragomir, 2008; Morck & Yeung, 2009; Cheffins, 2013; Le Bris et al., 2015). It fails to look at corporate governance in emerging economies. During the 20th century, the Arabian Gulf countries (i.e., Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) have transformed from trade-based economies to oil-based economies. With the support of their governments, oil and natural gas revenues have facilitated the growth of their economies and the emergence of modern-day corporations. This has, consequently, created a demand for reliable corporate governance practices to protect shareholders. The region has distinctive economic, legal, social, and political features that affected the development of corporate governance. To put the case of Oman into context, a brief history of corporate governance in the region will be discussed in the following section.

5.4 The Development of Corporate Governance in the Arabian Gulf Region

The six countries of the Gulf region share many similarities. In addition to having a significant economic dependence on oil exports and owning almost 70% of the world's oil reserves, the counties are amongst the wealthiest countries in the world on a per-capita basis (Pierce, 2012; Amadeo, 2021). Arabic is the national language in all six countries, and they all adhere to the Muslim faith. Islam has also affected their legal systems, which is based on a combination of either civil law and the Islamic sharia'ah law such as Kuwait and Saudi Arabia, or common law and the Islamic sharia'ah law such as Bahrain, Qatar, the United Arab Emirates, and Oman (Pierce, 2012). The countries are all ruled by hereditary monarchies with royal families dominating the political system. Moreover, all

Gulf countries, with the exception of Saudi Arabia, had been under the direct or indirect British influence until the early 1970s.

According to Abdallah (2008), The Arabian Gulf countries were among others around the world which were encouraged to instate efficient corporate governance frameworks after the global financial crashes of the early 2000s to ensure that the operational and strategic objectives of the international firms operating in their countries are aligned with the goals and values of local stakeholders. However, this was not the only reason. Studies have proven that in order to attract global capital and foreign investments, the business environment has to be open, transparent, and protects the rights of its participants. Efficient flow of information, an outstanding level of compliance with laws and regulations, and excellent mechanisms to protect stakeholders' rights are major determinants of the attractiveness of a certain country for international investors (Abdallah, 2008; OECD, 2019). This is where the role of corporate governance is most evident. Efficient corporate governance frameworks facilitate the creation of such stable and safe financial markets which, in turn, promote long-term economic growth (OECD, 2004). Over the course of the last 30 years, the Arabian Gulf countries have realised the significance of growing their capital markets and the potential positive impacts on their economies due to the following events. First, after the events of September 11, 2001, many Arab investors have chosen to move their capital from the USA and European countries back to the Gulf countries. Therefore, governments of these countries were encouraged to update their corporate governance frameworks to match the international standards of transparency, disclosure, and investors' protection. Second, in the period between 1990s and 2000s, the Gulf Cooperation Council's (GCC) countries have joined the WTO in an attempt to open up their financial markets to foreign investments. As members in the WTO, they were obligated to impose stricter financial regulations to govern their capital markets, including, corporate governance and financial reporting regulations. Third, fluctuating oil prices have made these oil-based economies realise the importance of diversifying the sources of their national income to maintain economic growth. Hence, an effort has been put to improve their corporate governance codes and practices to promote the integrity of their capital markets and attract more foreign direct investments into the region to participate in long-term economic diversification plans (Abdallah, 2008). As a result, GCC countries have successfully issued their own codes of corporate governance starting with Oman in 2002, followed by Saudi Arabia in 2006, The United Arab Emirates (UAE) in 2007, Qatar in 2009, and finally Bahrain and Kuwait in 2010 (Shehata, 2015). Further developments followed with the issuance of Sharia'ah compliant governance frameworks to be adopted by the Islamic Financial Institutions operating in these countries (Hasan, 2011; Mihajat, 2019).

However, Abdallah (2008) and Shehata (2015) have pointed out that the Gulf region have been facing somewhat different governance issues than western countries. For instance, the corporate sector in these countries is strongly dominated by few wealthy families unlike American and British corporations in which the true owners are millions of middle-class, non-controlling shareholders (Morck & Steier, 2005). As a matter of fact, even if the company is publicly listed, the family's control, ownership, and representation on the board and senior management is strongly retained. This translates into weak disclosure norms and minimal protection for minority shareholders' rights. In addition, it is common to find that ownership of some large public companies is dominated by one or few rich local shareholders. The high ownership concentration makes enforcing the concept of "independent directors" a hard task in these countries. High state ownership and government intervention is also a common issue in Gulf countries. Therefore, strengthening the governance of state-owned enterprises should be a priority (OECD, 2020). Moreover, they point out the region lacks independent audit committees within their public joint stock companies. In many cases, the audit committee is comprised of major shareholders rather than independent, financially literate professionals. All of these characteristics conflict with the best practices of corporate governance and must, therefore, be resolved through institutional laws and regulations, adequate corporate governance codes based on international norms, and effective enforcement and compliance mechanisms.

5.5 The Internationalisation of Corporate Governance: The Role of the OECD

The OECD have supported corporate governance reforms to create enhanced institutional environments that support the growth of capital markets and quality investments in emerging markets (OECD, 2022). Their most notable achievement, with regards to corporate governance, was the issuance of the Principles of Corporate Governance in 2004 to become an international benchmark for policymakers, investors, and corporations worldwide. These principles are intended to be used as an instrument for guiding national efforts in drafting and implementing corporate governance legislations. The principles, as issued by the OECD (2004), include the following:

1. Ensuring the basis for an effective corporate governance framework.
2. The rights of shareholders and key ownership functions.
3. The equitable treatment of shareholders.
4. The role of stakeholders in corporate governance.
5. The responsibilities of the board.
6. Disclosure and transparency.

The last principle, disclosure and transparency, is relevant to this research in a sense that it requires accurate and timely disclosure of significant information regarding a company's operations including its financial performance and results which happens to be the main function of the accountancy and auditing profession. These principles were issued with a main objective of building effective, functional governance institutions that sustain economic growth. The concept behind this is that corporations are the key creators of wealth, economic value, and employment in modern societies (OECD, 2022). Therefore, good governance of these corporations and ensuring transparency, accountability, and shareholder protection results in efficient utilisation of available resources, easier access to domestic and foreign capital, and sustainable efficient capital markets (OECD, 2022).

The OECD has been offering policymakers and governments of either OECD and non-OECD members guidance on the implementation of these principles, and how to adapt them to the specific circumstances and needs of every country (OECD, 2004). Annual Forums called Global Corporate Governance Forum (GCGF) have been carried out in cooperation with the World Bank to encourage ongoing dialogue about corporate governance issues and facilitate the exchange of experiences among countries (OECD, 2004; Shehata, 2015). Through these forums, the OECD has worked with public-policy makers and representatives from the private sector to enhance corporate governance institutions in the region. This was done through annual meetings, presenting policy papers, encouraging dialogue, sponsoring research in the field, offering technical support in drafting policies, and building capacity through training programmes (Pierce, 2012).

As to the Middle East, North Africa (MENA) and Gulf regions, the OECD along with other international organisations such as the IFC, and the World Bank as well as regional organisations such as the Union of Arab Banks and the Dubai International Financial Centre (DIFC) have worked on establishing The Hawkamah Institute for corporate governance. Based in Dubai, it commenced its operations in 2006 with a main goal of supporting regional companies and governments in strengthening their corporate governance frameworks. That same year, the Hawkamah Institute held its first annual conference with policymakers and representatives from regional and international organisations. it concluded with the issuance of Dubai Declaration on Corporate Governance, announcing their commitment to implement multiple initiatives to strengthen the corporate governance framework in the Emirate of Dubai. Similar declarations have followed in other parts of the region such as Doha Declaration in 2008 and Muscat Declaration in 2010 (Pierce, 2012).

Additionally, the OECD has launched the Global Cooperation Framework, which comprised of regional corporate governance roundtables established in Asia, Russia, Latin America, Southeast Europe, and Eurasia. Regular meetings were carried out over the course of three years in every region to discuss governance issues and reforms. The conclusions of these roundtable discussions were reflected in a White Paper on corporate governance of each region. By doing so, the OECD has helped in reforming local corporate governance to match the international standards. They also created a platform to transfer the rich and diverse country experiences and knowledge on building corporate governance institutions to countries that lack such experience (OECD, 2022).

Similar efforts have been made by the OECD in the Middle East through their MENA-OECD Working Group on Corporate Governance which was first launched in 2005 (Shehata, 2015). The aim was to create a platform to exchange regional and international knowledge on corporate governance and investors' protection by gathering representatives from participating governments, stock exchanges, investors and corporate practitioners. The programme has been promoting corporate governance reforms and the implementation of the above-mentioned international principles of corporate governance to increase the competitiveness of MENA economies and promote sustainable economic growth in the region (OECD, 2020).

5.6 Chapter Summary

To summarise, from an agency perspective, corporate governance frameworks around the world have developed in response to the increase in the corporate form and the separation of ownership and management. The main objective is to organise the relationship among various stakeholders to minimise the impact of agent/principal conflict of interest (Shleifer & Vishny, 1997). This thesis, however, attempts to explore the development of corporate governance from an economic perspective by using North's theory of institutions to understand how corporate governance develops in relation to economic modernisation. This thesis adds to the existing literature on North's theory of institutions by developing a case study to frame his theoretical analysis. Taking Oman as the subject of the case study, this thesis argues that accounting, auditing, financial reporting, and corporate governance were developed as an institutional matrix to support the government's economic modernisation plans that have been implemented after 1970.

The case would also shed light on the internationalisation of corporate governance and the role of international financial organisations, namely the OECD, in shaping corporate governance institutional frameworks in emerging economies. Morck and Steier's (2005) factors that cause the divergence of corporate governance frameworks will also be revisited to explore how they might have affected the development of corporate governance in Oman. Additionally, the case highlights the role of Omani government, as a developmental state, in welcoming and supporting international efforts to develop the country's accounting and governance institutional infrastructure. The role of states in the development of accounting and corporate governance, as well as the concept of the developmental state will be discussed in the following chapter.

Chapter 6 : The Role of the State in Economic Modernisation and the Development of Accounting

6.1 Introduction

Following the industrial revolution, the scope of governments' role in shaping the economic performance of their countries have grown much larger. Their adopted ideologies, incentives, and behaviours have proven to be a major determinant in achieving either economic growth or economic decline. Unlike 250 years ago, governments now regulate markets, employ a large share of the population, invest in companies, provide public goods and services, and protect consumers. In North's institutional terms, governments control the development and shaping of their countries' institutional framework which, ultimately, determines its economic performance. A recent publication by Li and Maskin (2021) have presented historical evidence showing that governments have been major players in promoting rapid economic growth in the US, Germany, Japan, South Korea, and China. In the US, for example, the federal government's open-door policy to attract foreign investments and support the growth of financial markets have provided them with the needed capital for industrialisation after the Civil War. Together with the facilitation of higher education and training for ordinary people, enabling technological innovation, and investing in infrastructure, the US became the largest industrial economy in the world by 1894 with a GDP of $227 billion (Li & Maskin, 2021). The authors, however, fail to mention the importance of government efforts in instating proper accountability, governance, and financial control frameworks to successfully manage these developmental projects and the large flow of capital. Accounting and corporate governance are simply missing from their analysis.

Another example in which the role of the government in determining economic performance is evident would be, Japan. One of the reforms the Japanese government has carried out to support economic development in the 19th century was the establishment of a modern financial and monetary system. This included the establishment of a central bank, privately-owned commercial banks, and two securities markets. These historical observations have been supported statistically as the authors find a positive corelation between market-supporting governments and economic growth. The effectiveness of the Japanese government was measured by the World Bank's indicators on the quality of business environments and public governance. Their tests included variables such as regulatory quality, voice and accountability, rule of law, control of corruption, and protecting minority investors. In principle, these are the functions of accounting, financial reporting, and corporate governance. They enhance the quality of markets by increasing accountability and transparency, as well as protecting property rights of market participants (Li & Maskin, 2021). By looking into the history of accounting development in Japan and the gradual incorporation of accounting laws into the country's legal framework, it can be noted that they followed the above government economic reform plans and were taken further post World War 2 (Suzuki, 2007, JICPA, 2022).

Building on the above, it would make sense to assume that the increase in governments' involvement in economic reforms would also mean greater involvement in the emergence and development of professional accounting. The following section will present historical cases to highlight how governments influence and shape the development of accounting. Although the chosen cases differ in terms of economic conditions and performance, they all show a similar pattern of government influence on the development of accounting. In all the countries, professional accounting policies and practices were developed to support the state's economic reforms and modernisation plans.

6.2 Historical Evidence on the Role of Governments in the Development of Accounting

The increase in governments' involvement in the economic matters and reforms have been identified as an important factor in the emergence and development of professional accountancy. By looking into the interrelations between accounting and the state, it has been found that accounting change is associated with the change in the government's national macro-economic strategies (Miller, 1990). Therefore, Miller (1990) argues that understanding the reciprocal relationship between accounting and the state is central to the understanding of accounting change. This thesis builds on the above and suggests agency of governments in the institutionalisation of accounting as part of their overall involvement in economic activities and performance. In other words, governments facilitate the development of accounting in accordance with the international best practice to support economic modernisation policies and greater integration within the international market. In many cases, a sound infrastructure of accountancy and governance was built by the state as a market-supporting initiative to foster free markets, ensure effective allocation of national economic resources, and regulate large industrial sectors (Yee, 2012) which ultimately leads to economic growth. This is evident in the following cases.

China serves a good example in this context. The Chinese government developed and organised professional accountancy in their country to achieve economic development based on the state's ideological focus (Hao, 1999; Yee, 2012; 2020; Yapa, 2021). According to Hao (1999), the development of accounting in China during the 20th century has followed the regime's adopted economic policies and state ideologies. A similar view has been expressed by Yee (2012), who believes that the change in the political and ideological discourse of the Chinese government has affected all aspects of the Chinese society, including, the rise and fall of the accounting profession.

During the first half of the 20th century, a demand for accounting services was created in China due to the growth of national industries and the flow of foreign capital into the country. At the time, accounting services were mostly provided by Western accountants from America, England, and France. The Chinese government supported the development of a national accounting profession by producing formal accounting rules that supported Chinse business enterprises. They issued *Provisional Regulations for Public Accountants* in 1918 as a practicing certificate for those who want to engage in public accounting services in the country. With the increased demand for these services, the number of Chinese certified accountants have, accordingly, increased in the period between 1918 and 1947 (Hao, 1999). Following the 1949 revolution and China's adoption of a socialist system and planned economy, the development of accounting hit a stumbling block. The demand for accounting services and certified accountants has diminished due to increased state domination and the obliteration of community and market principles (Hao, 1999). The institutional framework of accounting, including its practices, education, and training were heavily influenced by the Soviet accounting theory, replacing the practiced Western teachings and techniques of accounting. This changed after 1978, with the implementation of various economic reforms including the "opening up" policy and joining the WTO. As a result, the scope of the country's business activities has gone international. Consequently, the accounting institutional framework, of formal rules, regulations, and government enforcement bodies has re-emerged and was adjusted to fit the requirements of a socialist market economy. In 1985, the unprecedented flow of foreign capital into the country through Chinese-foreign joint ventures impelled the government to design a separate accounting and auditing framework for those joint-ventures which follows the international standards of public accounting (Hao, 1999; Yee, 2020). Their aim was to further attract foreign direct investments, extend international trade, and reduce the deficiency in capital funds. Hence, the accounting institutional framework was modified to meet the needs of the government's "opening to the outside" policy and modernising the economy. However, Hao (1999) pointed out that the Chinese government did not give up its control over the market completely. Their role just shifted from direct management to indirect guidance of the economy. He further asserted that, in China, the accounting institutional framework did not develop proactively by accounting practitioners and professional associations that are autonomous from the state just like the case in many Western countries. In fact, it was the government who created a demand for accounting services, issued government decrees to govern practice and certification, and fostered the establishment of the Chinese Institute of Certified Public Accountants (CICPA) with an ultimate objective of supporting their economic agenda. Additionally, Chinese public accounting firms were state-owned and operated by the Ministry of Finance who influenced and controlled the operating policies of these firms (Yee, 2020). The accounting institutional framework in China was further developed in the 1990s in response to the growth of the securities market and the increase in the number of domestic listed companies which entailed greater property rights protection and an increased reliance on the functions of certified accountants (Yee, 2020). State dominance over the profession continued until the 1990s, when it was challenged following a series of financial crises involving major Chinese firms in 1992 and 1993. That is when the profession and accounting firms got new independent identities from the Chinese government, with a redefined mission of protecting the interests of the state, companies, as well as the public (Yee, 2020). According to Yee (2012; 2020), the state has always been a dominant player in the process of accounting change and development in China. They shaped and influenced the development of its institutional framework in accordance with its ideologies and economic plans.

Similar events have appeared in Iran. The way accounting was constituted and shaped in Iran during the last century has largely mirrored the interplay between shifting state ideology and transnational capitalism (Mihret et al., 2020). Just like the case of China, the government retained control over the development of the accounting profession through the 20th century. The authors divided the development of accounting in Iran into three phases based on the corresponding state ideology during that period. First, is the pre-Islamic revolution of 1979. The head of state "shah" adopted Western economic ideologies and transnational capitalism was welcomed. The inflow of oil revenues, the industrial development of the private sector, the influx of foreign investments through multinationals, and the establishment of Tehran Stock Exchange have boosted the country's economic growth in the 1960s and 1970s. Hence, the government took the following initiatives to develop the practice of accounting: (1) the establishment of the Society of Official Accountants to become an officially authorised body for auditing public joint stock companies; (2) the establishment of the Audit Joint Company to audit government organisations and state-owned enterprises. Additionally, a group of Iranian accountants with Western educational backgrounds have formed the Iranian Institute of Chartered Accountants (IICA) in 1973. However, their development into an autonomous professional accounting body was interrupted with the state's ideological shift after the Islamic Revolution in 1979. During this phase, the government adopted an Islamic nationalist ideology which prioritised Iran's independence from Western economic and political domination. Thus, Western neoliberal market policies were rejected, and the majority of private companies were nationalised bringing about 95% of the Iranian economy under state ownership. The radical ideological shift and the change in the structure of the economy have directly affected accounting and auditing practices in the country. The new regime wanted to establish an accounting profession with close state control, therefore, the Society of Official Accountants was terminated, the offices of international auditing firms were liquidated, and state monopoly was exercised over the profession by establishing the Audit Organisation of Iran as the national institution responsible for standard setting and auditing all state-owned companies. The third phase started after 1989, when the government started showing more cooperative behaviour towards adopting a more foreign-friendly policies to promote economic reforms. The government worked closely with the World Bank and the International Monetary Fund in an attempt to revive their economy after the First Gulf War (1980 - 1988) by embracing privatisation and attracting foreign investments. Therefore, accounting and auditing institutions were, once again, reconstituted to reflect the ideological shift and adapt to the new economic environment. According to Mihret et al. (2020), the World Bank demanded an autonomous system of audit aligned with international norms as a prerequisite to obtain loans. In response, the institutional infrastructure of accounting was reorganised as follows. The state retained its authority in setting accounting standards while entrusting the "ideologically-trusted" Iranian Association of Certified Public Accountants (IACPA) to carry out statutory audits and certifications. The less sensitive responsibility of providing accounting education was given to the revived IICA, whose Western-educated members were thought to be against the political ideology of the state.

Another example that highlights the role of governments in the development of accounting is the case of New Zealand (Perera et al., 2001). In the 1980s, the country sought to implement a comprehensive program of economic reforms to recover their deteriorating economic position with worsening foreign debt and unemployment. The reforms' key areas included financial sector, monetary policy, fiscal policy, the public sector, and labour markets. These reforms accompanied a shift in the adopted economic ideology from Keynesian economics, which assumes the state's protectionism of the overall social welfare, to neo-classical economics based on free markets and increased competition. As a result, the government have adjusted their public policies to support the new desired economic environment including The Commerce Act 1986, the Fair-Trading Act 1986, and the Securities Act 1987. They also wanted to create a more favourable environment for an efficient operation of the capital market and foreign investments, hence, the Companies Act and the Financial Reporting Act were amended in 1993. The new acts introduced more effective financial reporting requirements (i.e., formal rules) for private and public entities. Additionally, the Accounting Standard Review Board was established as a government appointed body that is responsible for setting and enforcing accounting standards in the country. The authors asserted that the main objective was to increase the public's trust in the market by improving transparency and fairness. For this reason, a greater need for accounting and financial management knowledge, skills, and information have occurred. The New Zealand Society of Accountants (NZSA) was facing a quality crisis at the time. The declined quality of their educational programs and admission policy prompted their counterparts in Australia and Canada to threaten to withdraw reciprocal practice rights from NZSA's members. Furthermore, New Zealand's government minimised the institute's role to certification, and revoked its licensing role. In response to the government's market-oriented reforms as well as the scrutiny of the government and international professional bodies, NZSA have started their own reform initiatives accordingly. They raised their academic admission requirements, mandated practical experience, and ensured the competency of their members through regular practice reviews and continuing professional development. Moreover, they have updated the structure of their educational program into one that recognises the variations of their members in terms of the extent of involvement in core accounting services. Thus, three educational categories were offered: The College of Accounting Technicians for members who want to provide basic accounting and bookkeeping services, The College of Associate Chartered Accountants for members who are not providing core accounting services or do not require international recognition of their status, and The College of Chartered Accountants for providers of core accounting services in public listed companies or require international recognition of their status. The refinement of the accounting institutional infrastructure in New Zealand was, therefore, facilitated by the state's economic reform programme which promoted a free-market orientation, deregulation, and increased international competition.

In other cases, the rapid change in the country's finances is what caused the change in their economic ideologies which, in turn, motivated the development of accounting. A study by Altaher et al. (2014) have established that the Kuwaiti government has been more influential in the development of professional accountancy in Kuwait than the British in this former protectorate. The substantial increase in the country's oil revenues in the second half of the 20th century have allowed the government to modernise the structure of their economy and direct the capital surplus towards the launch of strong welfare programs. According to the authors, the role of the Kuwaiti government manifested into two main categories: accounting legislation and accounting education. With regards to legislation, the government was first motivated to organise the practice of accounting for the following reasons: (1) the increase in the country's national revenues following the discovery of oil in 1938 which created a demand for professional accounting and financial control services to successfully manage it; (2) the flow of foreign capital into the country in the early 1940s; (3) the issuance of The Income Tax law in 1951. Because Kuwait was a British protectorate for almost 60 years, the authors speculated that British accounting firms, associations, and accountants would have had a notable influence on the development of the profession. Prospects of economic growth did, in fact, attract British capital into the country which relied on the services of British accounting firms such as Peat Marwick and Whinney Murray. However, evidence has proven that these firms did not dominate the auditing services market in the country. The Kuwaiti government welcomed the services and expertise of various international accounting firms, associations, and professionals, not just the British. This has, consequently, resulted in a strong Arab influence on accounting and auditing legislations in the country, particularly, Egyptian. British accounting modes did not prevail. As to accounting education, the authors mentioned that the state have realised the increased demand for skilled accountants that resulted from the implementation of economic modernisation policies. Thus, the government led accounting educational efforts by establishing a Secondary School of Commerce in 1963 which offered programs for clerkships, bookkeeping, and administration. In addition, higher education programs in business studies and accounting were offered to local graduates either through government-sponsored scholarships, or the accounting department within the Faculty of Commerce, Economic, and Political Sciences in Kuwait University. Unlike former colonies, Altaher et al. (2014) have asserted that no evidence was found of a strong British influence on accounting legislation and education in Kuwait as a former protectorate. They conclude that the nature of the treaty has restricted British power over the internal affairs of the country, therefore, the institutionalisation of accounting was led and controlled by government efforts. Additionally, the rise of Arabic nationalism movements after the invasion of Palestine in 1948 encouraged the Kuwaiti government to accept higher reliance on Arabic professionals and legislations over their Western counterparts.

6.3 The Developmental State

The above section presented historical cases showing that governments' economic ideologies and market policies affect and shape the practiced accounting. When governments adopt open market policies and seek economic growth, accounting is developed in accordance with the international best practice. The question now, how can the role of governments in the development of accounting be theoretically incorporated within discussions of economic modernisation? A suitable answer might be the developmental state.

6.3.1 Oman as a Developmental State

The term has been used to describe states which are focused on economic development plans and is heavily involved in laying down policies and regulations to ensure a successful implementation of these plans. More specifically, it has been defined as “a state that intervenes and guides the direction and pace of economic development” (Caldentey, 2008, p. 28). It describes an economic model that is neither a free-market, nor a socialist. The concept of developmental state has been associated with analysing the exceptional economic success of Japan and East Asia through the second half of the 20th century (Johnson, 1982; Jun, 1992), and was later applied on Latin American and African countries as well (Caldentey, 2008; Andrews & Nwapi, 2018; Massi & Singh, 2018; Wylde, 2018; Matsumoto, 2019). General characteristics of developmental states that can be found in literature include (1) the creation of an alliance between politics and the economy through a government infrastructure that supports economic plans; (2) concentration on economic growth and stability; (3) protection and enforcement of property rights; (4) the creation of mutually beneficial collaboration between the public and private sector. Under the developmental state model, a government can intervene and control various policy areas such as imports and exports, protection and promotion of domestic industries, transportation, and welfare programmes (i.e., education, healthcare, and pensions). Instruments to ensure the application of these policies include trade subsidies, tariffs, tax incentives, generous lending policies, cost of credit, and Monopoly privileges (Caldentey, 2008; Singh & Ovadia, 2018).

Looking at the case of South Korea as an example, an important aspect in their state-led economic development plans after the Korean War was the creation of the Ministry of Commerce and Industry and the Economic Planning Board. The two government institutions took control over the implementation of the country’s economic plans. At an early stage in their economic reform process, the country’s plans focused on developing import substitution of consumer products and export-led industrialisation. Consequently, the country has also started issuing regular economic development plans covering periods of 3-5 years, nationalisation of major commercial banks, and worked on perfecting their bureaucratic apparatus to support their endeavours. The issued policies heavily intervened with exchange rates, cost of credit, and tax incentives to support the growth of certain national industries and sectors in accordance with their economic objectives. The government also took control over fiscal budgets as well as the allocation of domestic savings and foreign loans. It is also worth mentioning that the South Korean government have also supported the growth of private initiatives to grow the economy, resulting in the creation of family-owned corporations in the 70s which are dominating the South Korean economy to date (Jun, 1992; Caldentey, 2008; Kwon, 2021). The sustained economic success of South Korea in the period between 1960 and 2010 was largely attributable to the state's interventionist role and its institutional reforms which created united, cohesive bureaucracy (Kwon, 2021).

By comparing the above case to Oman, one can find interesting similarities. It can be argued that the developmental state in Oman has first taken shape during the regime of Sultan Qaboos (1970 – 2020). During this time, as in the above-mentioned case, the Omani government has focused on fostering economic growth through strong state intervention and extensive regulation. An administrative structure was created to support Oman's economic plans starting with the Ministry of Commerce and Industry, The Development Council, and The Council of Financial Affairs in 1974 as pilot agencies to guide the development process. The 70s has also witnessed the creation of a financial infrastructure including the Central Bank of Oman, government owned banks such as Oman Development Bank, Oman Housing Bank, and the first National Bank of Oman (NBO). These banks have been providing government-backed financing options with favourable conditions such as low interest rates to targeted sectors, thus, encouraging the increase in the scale and scope of business activities (Allen, 1987). For instance, Oman Development Bank provides soft subsidised loans of 3% interest per annum on the outstanding balance for Omani projects in tourism, agriculture, health services, fisheries, education, and information technology (ODB, 2022). The government has also intervened to strengthen the private sector by attracting foreign investors as well as encouraging the growth of the domestic market through tax holidays, tariff rebates, and subsidised utilities (Allen, 1987). They did, however, support Omani firms in order to compete with foreign international firms through state-protectionist policies and measures such as guaranteed government purchases of local products, tax exemptions, full or partial exemptions from custom duties on local exports, and solid support of local SMEs in terms of funding, marketing assistance, financial advisory, and legal guidance (Allen, 1987; Funsch, 2015).

Not to mention, the extensive investments in developing the country's national capacities through an emphasis on education and training. The number of schools has gone up to 1242 public schools and 1046 private schools in 2022 from just 3 schools in 1970 (Allen, 1987; Funsch, 2015; Times of Oman, 2022). Moreover, the government was directly involved in the development of transport roads, airports, and ports to facilitate import and export activities, integrate the domestic and regional markets, and attract foreign investments. In addition to using their authority to control the country's major natural resources industries (i.e., oil and gas), the government have also increased their level of intervention in other sectors of the market by owning the largest shares in major national firms such as Oman Air (airline), Omantel (telecommunication), OQ (oil & gas), Omran (tourism), and Nama Group (electricity and water services).

The above-mentioned measures were the first steps taken by the government to stimulate economic growth in the 70s and 80s. With the increase in the size and maturity of the market, the government's scope of intervention has varied in accordance with their economic needs. During the 70s, for instance, the main goal of the government was infrastructural expansion and increasing the number of educated Omanis, therefore, their developmental policies focused on the establishment of modern transportation, utilities, and educational facilities (Peterson, 2004). Moving into the 80s, however, their goal was to strengthen the private sector and increase its contribution to the national GDP, hence, the focus of government policies has expanded to include investment promotion, a well-regulated business environment, and the establishment of a securities market (Peterson, 2004; MOCI, 2019).

6.3.2 Placing North's Institutional Framework within the Developmental State Model

Despite the above, the implementation of developmental state policies by no means guarantees economic growth. The developmental policies of Latin America and Africa, for example, were not as effective as those of East Asia and were not able to induce substantial economic growth (Caldentey, 2008, Andrews & Nwapi, 2018). They might have reduced inflation and brought government finances under tight control but failed to deliver their ultimate objective of matching the economic growth of East Asia. In his analysis, Caldentey (2008) believes that this is attributable to policies being either limited in their scope of intervention or unbalanced (i.e., focused on certain economic aspects and ignored others). He does not, however, mention the lack of effective institutions, including accounting, that could have helped in eliminating the lack of transparency, corruption, and unprotected property rights as a potential reason for the failure. Likewise, in Caldentey's (2008) discussion on the effectiveness of the developmental state model after the Asian crisis of 1997, which was blamed on the incompetency of the regulatory procedures and lack of transparency, the lack of an effective accounting institutional infrastructure and proper governance practices were not explicitly mentioned. The fact that accounting rules and information could have solved issues of non-transparency and provided a framework for organised economic interaction among different market agents was ignored. Nonetheless, the importance of accountancy and governance was implied when the author argued that government intervention is justified in cases of natural monopolies, existence of externalities, and information asymmetries which can lead to shortcoming of market outcomes. The last one, in specific, has captured the attention of policy makers and encouraged government interventions in two main areas: (1) the enforcement of rules and order, contracts, and property right; (2) education, healthcare, and pensions (Caldentey's, 2008). Although the former is strongly linked to the functions of accounting, auditing, financial reporting, and corporate governance, they were not explicitly mentioned.

Even when institutions were examined in the context of developmental state policies (Massi & Singh, 2018; Wylde, 2018), and were acknowledged for their central role in the success of developmental state policies, the role of accounting was usually not counted. Haggard (2004), for example, argues that the state's intervention in economic policies is justified, but only with the existence of effective institutions which determine their success. His findings suggest that there are various institutional arrangements a state can adopt to overcome the issues of credibility and informational insufficiency which constitute barriers to growth. A significant one of them is strong protection of property rights, which have been at the heart of the institutions that caused East Asia's incredible economic success due to their role in increasing the incentives to invest and reducing uncertainties and risks associated with informational asymmetries. Accounting with its rules, produced information, and enforcement mechanisms can be given a property rights interpretation since it is designed to serve similar functions, hence, it fits within developmental state literature. Andrews and Nwapi (2018) have also emphasised the role of effective institutions and accountability to ensure the success of developmental state policies. They asserted that the developmental state has two components. An ideological component which determines that this country is developmentalist and considers economic development its core mission and a structural component which reflects the state's institutional, technical, administrative, and political capacities that ensure an effective implementation of their policies. He attributed the general pessimism about Africa's potentials for economic growth to many reasons including the lack of credible institutions and accountability issues. Nonetheless, when discussing these issues, the authors did not include the effectiveness and reliability of the practiced accounting and auditing in the analysis.

Similarly, Singh & Ovadia (2018), stressed on the importance of developing the state's institutional capacities to enable a successful implementation of public goals through a professional bureaucracy. They also acknowledged that the transformation of the state's institutions and policies is an important pre-condition for achieving successful results similar to those of East Asia. However, the effectiveness of the accounting regulatory framework and enforcement mechanisms have not been mentioned. Although the authors have acknowledged the significance of state efforts in reducing transaction costs to motivate economic activities and provided a table listing state capacities of 5 different East Asian, African, and Latin American countries who have publicly expressed a vision of state-led developments, their list failed to include accounting and corporate governance.

One significant contribution on developmental state which included the role of effective accountancy and governance within the institutions' discussion was of Pirie (2008). The author discussed the state-led economic reforms which were carried out by the South Korean government in response to the Asian Financial Crisis in 1997. In addition to transforming the formal rules and regulations governing economic activities in South Korea, the author asserted that institutional reconstruction was the most significant aspect of the reform process. He recognises that existing literature on developmental states have focused on policy reforms rather than institutional and procedural reforms. Among the institutional reconfigurations in South Korea were the creation of an autonomous central bank and a unified financial regulator which were fully independent from any political control. The main objective was to develop and enforce an internationally recognised, market-based regulatory structure including those of accounting and corporate governance. This move was motivated by the state's desire to attract both domestic and foreign investments into the country. As Pirie (2008, p.116) puts it: "it is highly unlikely that overseas investors would be willing to make major investments in domestic institutions without reassurance that the state would apply regulations consistently and fairly". Hence, financial regulations were redesigned to conform to the global standards of business conduct and regulatory enforcement of major international financial organisations such as the International Organisation of Securities Commissions and the Bank for International Settlements. Similarly, the author asserted that a healthy financial sector is dependent on the health of the corporate sector and the extent to which the rights of the participants are protected. Hence, the South Korean legal system of corporate governance was also upgraded after the crisis, resulting in the enactment of the following important reform measures: (1) fully conforming the Korean accounting standards to the American GAAP; (2) increased legal safeguards aimed at the protection of minority shareholders; (3) the creation of a functioning bankruptcy system; (4) enhanced transparency and disclosure requirements to enable government regulation of the firms' financial behaviour; (5) and increased discipline for management with an active market for corporate control. The upgrade of the formal rules was reinforced with the state's commitment to enforce the compliance, consistently and strictly, with these rules. It is, however, important to not overlook the role of international financial organisations, namely, the IMF in this case. When the Korean government sought their assistance in recovering from the 1997 crisis, the IMF demanded the implementation of tighter accounting and disclosure requirements in line with the international standard of practice as well as the auditing of large corporations by internationally recognised auditing firms. It is also important to not overemphasise the significance of these measures. After all, these formal rules were already adopted in the US but failed to prevent the Enron and Arthur Andersen scandal. Therefore, Pirie (2008), argues that the success of these measures is not just contingent on the effectiveness of the formal rules, but also on the state's ability to create effective regulatory enforcement mechanisms and increase the willingness of the management and directors to act with honesty and fairness when preparing their accounts. This, again, highlights the significance of the role of the government in developing an effective accounting institutional infrastructure of not just the formal rules and enforcement mechanisms, but also the informal constraints.

In general, the role of effective accounting and governance regulations has only been hinted to in developmental state literature, and in many cases, it was absent. Various economic policies, such as the mentioned above, have been discussed without acknowledging that they cannot be efficiently applied without an effective accounting institutional infrastructure. Hence, this thesis argues that accounting must be placed within developmental state literature in order to understand the relationship between economic modernisation and the development of accounting, and the case of Oman serves a good example. The government of Oman has been heavily involved in the development of the economy through a series economic and financial policies as well as the creation of a bureaucratic system that supports effective implementation and enforcement. Part of that bureaucratic system was an accounting institutional infrastructure characterised by clear rules and regulations as well as dedicated government bodies to ensure effective enforcement.

6.4 Chapter Summary

To summarise, the above cases have shown a strong connection between governments and the development of accounting. The developed accounting institutional infrastructure has always reflected the state's adopted ideology and economic strategies. In all the above cases, the development of an accounting institutional infrastructure in accordance with the international standards and best practice has been associated with a need for international integration with the world's economy and achieving economic growth and modernisation. Therefore, the relationship between accounting and the state can be described as a cooperative relationship with "mutually beneficial effects" (Perera et al., 2001, p.164). While the accounting profession works as an institution that supports an effective implementation of the government's economic development and modernisation plans, the profession itself is allowed to develop to meet the demands of the newly created economic environment (Perera et al., 2001). The chapter also introduced the concept of the developmental state to contextualise the role of governments in the development of accounting within North's institutional framework and discussions of economic modernisation. Similarities have been found between South Korea, a prominent example of a developmental state, and Oman. The analysis views Oman as a developmental state that developed accounting as an institution to support its economic modernisation plans since 1970.

Chapter 7 : Methodology

7.1 Introduction

This chapter provides an overview of the research methodology used in this thesis including the research strategy, research design, data collection techniques, and data analysis method. This thesis adopts a historical approach to understanding the development of accounting and how it relates to economic modernisation. It looks into the case of Oman due to its historical nature in the last 50 years which is characterised by dramatic changes in the political, social, economic, and institutional environment.

Primary data have been derived from archival documents of British-based archives, namely, Bank of England Archive and HSBC Archive. Additionally, the Arabian Gulf Digital Archives was used to access electronic copies of British documents about the Arabian Gulf region which are mostly kept in the British National Archives but were inaccessible during the COVID-19 lockdown period. The unpredicted restrictions imposed because of the pandemic had also led to a shift in the research plan with regards to data. Due to the closure of the archives at an early stage of the research process, the remainder of the primary data were obtained through semi-structured interviews with individuals who have been active participants in the institutionalisation of accounting in Oman. Primary data were further supplemented by publicly available secondary sources such as books, journal articles, laws and regulations as well as government publications.

The chapter is structured as follows. The first section explains the reasons why a historical approach has been chosen for this thesis. This is followed by a detailed account of the data used as well as collection methods, and the approach in which they have been analysed. The inherent limitations of the historical method and experienced challenges are also addressed.

7.2 Why Historical Analysis is the Most Suitable Strategy for this Research?

History, as opposed to the common misconception, is more than simply a narration of past events or a list of quantitative past data used for budgeting and forecasting purposes. In fact, history involves “deep, comprehensive, and critical analysis of the extant record of the past that illuminates a given event or issue” (Tiffany, 2009, p. 818). The most common justification for studying history is that understanding the present through the past could help in understanding the future (Howard, 1991; Tiffany, 2009). In particular, historical analysis is usually driven by the following objectives: (1) uncover the verifiable truth about a subject at hand; (2) determine how and why a certain event has occurred (3) provide an interpretation of the historical events and relating them to broader dynamic environments (Tiffany, 2009). These three objectives form the core of this thesis which aims to reveal the process of accounting development in Oman after 1970 and understand how it relates to economic modernisation following the change of the political regime and its approach towards economic matters. Tiffany (2009) argued that when it comes to understanding progress or change over time and interpreting interactions with the external environment, history does a better job than scientific quantitative methods.

Moreover, history has been chosen for this thesis because it is a research strategy that matches the epistemological shift from the positivistic approach towards creating more contextual and explanatory knowledge in business research (Godelier, 2009; Popp, 2009). Despite being increasingly acknowledged as a research strategy for business and management research, history has been facing numerous criticisms from both disciplines. Mainstream historians, on the one hand, criticise business history research due to the following: (1) lack of awareness of historical methodologies among business historians; (2) general tendency toward generalisation and abstraction; (3) poor quality of facts used; (4) an epistemology too attached to positivism (Godelier, 2009). On the other hand, business and management scholars criticise history as a research method because of: (1) the absence of theories in business history research; (2) relying on the creation of monographs as a methodology and accusing it of being a “gratuitous narrative” (Tiffany, 2009, p. 819); (3) illegitimate decision-making tool and limited prediction capabilities due to its inability to reduce knowledge into mathematically formalised models and research questions, although this has been attempted by cliometrics; (4) history’s inability to produce practical knowledge and techniques that could assist managers’ in their day-to-day operations which forms the core of management sciences; (5) produces findings that cannot be generalised (Godelier, 2009). The differences between the two disciplines such as the object of investigation, research methods used, epistemological frameworks, varying scientific projects, and the meaning and validation of results make an integration between the two disciplines somehow difficult.

Nevertheless, this thesis agrees with Godelier (2009), who suggests that a positive dialogue regarding the disciplines’ epistemological positions and methodologies has the potential of bringing them closer. Business and management scholars need to accept higher contextualisation in their research because business institutions evolve in a broader socio-historical environment which are mutually influenced by each other. Hence, business institutions cannot be analysed in isolation of the context of their environments (Godelier, 2009; Kobrak, 2009). In addition, Godelier (2009) suggests that business and management scholars should abandon the concept of universalism in their research. By doing so, history would have the ability to enrich the business literature by understanding how different aspects such as technical tools, managers, and education institutions have actually emerged and led to the appearance of current-day business models. Additionally, history has the ability to overcome the generalisability of business theoretical models, thus, creating more relevant practical knowledge for day-to-day business activities. It could also improve academic discussions, stimulate more critical analyses, diagnose management problems, attempt to overcome them, thus, being a catalyst for discipline's advancement.

This leads to the next reason for adopting a historical approach in this thesis, that is, its ability to incorporate temporal and geographical variability of each unique phenomenon in social sciences research, hence, developing theories that are specifically tailored for each distinct phenomenon. In other words, it adds a sense of specificity to previously generalised abstract theories, making them more relevant to occurring issues. This conforms with Tiffany (2009), who believes that encouraging business and management practitioners to develop a systematic procedure which would allow them to engage with and reflect on their own past actions would help them in their strategic planning and decision-making duties as they determine what previously did and did not work. It also matches Kobrak's (2009) opinion, who believes that historical studies can be useful to managers and economists in highlighting the complexity, uncertainty, variety, and likely changes of the business environment in which they are operating. It is also worth referring to the increasingly discussed term; "applied history" (Tiffany, 2009, p.826), as a way in which business historians have paid additional efforts to make their discipline more relatable to the prevailing issues of practicing managers. Applied history bound the historian to generate conclusions that would be applicable to relevant current-day issues which could be an answer to the irrelevancy criticisms history has been facing (Tiffany, 2009).

Furthermore, using a historical approach is believed to enable the inclusion of both the general and the particular as opposed to the common misconception of being too involved in the particular, resisting generalisations, and having a low explanatory power. Popp (2009, p.836) argues that the "intertextual nature" of historical narratives allows them to focus on both aspects. In this thesis, the international business literature and North's theory of institutions represent the general aspect, while a focus on the case of Oman is the specific. Verschuren (2003) further argues that quantitative approaches usually follow a reductionistic approach in research (i.e., the object of study is broken into smaller research units and observation units with varying levels of variability) thus, it would require looking into a large sample to generalise the findings. Qualitative narratives, on the other hand, has an inherently holistic character which means that it studies complex patterns, structures, and processes as a whole rather than individual variables. Thus, small samples and single case studies would be sufficient to produce high quality findings.

With regards to the methodological differences between the two disciplines, business scholars are wrong to believe that history is not concerned with methods (Godelier, 2009; Kobrak, 2009). As a matter of fact, by using multiple primary and secondary data, historians are able to "construct an intrigue, an unfolding story of detection. In an inductive process, they combine intuition and validation through cross-controls and confrontations between sources, hypotheses, and disciplines in order to answer a set of questions" (Godelier, 2009, p.803). Kobrak (2009), further adds that business historians, just like other history's founding giants, should seek legitimacy by coming up with a methodology that works with a variety of research agendas, including those of social sciences. An interdisciplinary recognition, that is using business-related theories in historical studies, just like this thesis, has the potential of yielding valuable contributions in both disciplines.

Finally, it is worth mentioning Popp's (2009, p.834) defence of history epistemological position by stating that "the historical method is not a mere methodology but reflects a deeper epistemological position, namely, that cause and effect, continuity and change, the interplay of structure, agency, and contingency, the creation of meaning and experience are all legitimately explored through the construction of historical narratives". He also believes that "narrative approach is comprehensive way of understanding the world, it is ontologically complete" (Gartner, 2007 cited in Popp, 2009, p. 835). This matches the main purpose of this thesis which traces patterns of institutional change and evolution in response to economic modernisation driven by developmental state efforts.

7.3 Case Study as a Research Method

Historical case studies are a popular method of conducting business history research. It is a method that provides a basis for developing generalised conclusions and theories about the phenomenon under consideration in addition to being utilised as tests of falsifiability to preformulated theories. Because some theories tend to be based on ideal circumstances and limited variables that do not reflect the complexity of the real world, case studies can either strengthen or weaken a theory by illustrating how unique features apply to the presumed theory (Miranti et al., 2003). This case study, however, does not test a theory. It follows a somewhat similar approach to Gandy and Edwards's (2019), in which they place historical evidence within a framework of different levels of logic and knowledge to explore the issue under study.

The choice of employing a case study to explore the relationship between the development of accounting and economic modernisation was driven by the following reasons. First, according to Stake (1995; 2008), case studies can provide intrinsic and instrumental values. In this case, it is believed to be the latter. The instrumental value of case studies manifests in their ability to provide insight and deeper understanding a general phenomenon. The main interest would be a further understanding of the general subject of inquiry rather than the case itself. In this thesis, Oman is being used as a case study to understand the relationship between the development of accounting and economic modernisation. It is also, according to Yin (2014), the most suitable method for answering the main research question of this thesis, “how” does the development of accounting relate to economic modernisation?

Second, interpretive case studies are excellent methods of constructing knowledge and reality matching the historical approach of this thesis which aims to understanding present realities by looking into the past (Bartlett & Vavrus, 2017). According to Yin (2014), case studies share similar techniques of the historical method, but has the ability of further enriching it by adding direct observations of the events and inputs from the individuals who have been part of the process under study.

Third, case studies have a unique ability to logically incorporate a variety of evidence such as documents, interviews, and observations beyond a conventional historical study. This is of particular importance in this case because no single comprehensive source of data was found to inform the narrative. A mix of archival data, interviews, and secondary sources were used to construct a story of the development of accountancy and corporate governance in Oman.

Fourth, case studies acknowledge cultural and environmental influences on the production of knowledge and meanings. This is also important in this case because the main purpose of the study is to understand how economic and political conditions have shaped and influenced the process of accounting and governance development (Bartlett & Vavrus, 2017).

Finally, Douglass North did not develop case studies to contextualise his theory of economic institutions. Therefore, this thesis fills this gap in literature by utilising North’s theory in understanding how accounting fits into the economic modernisation process.

Although there have been many methodological concerns about historical case studies especially with regards to being short-sighted antiquarianism and the non-generalisability of their findings (Yin, 2014; Bartlett & Vavrus, 2017), this thesis agrees with (Miranti et al., 2003) who argues that constructing historical case studies that are relevant to the broader environmental context and have broad interpretive implications to their findings rather than just stating details of the past would grant them scholarly significance. Moreover, Yin (2014) and Bartlett & Vavrus (2017), argue that qualitative case studies rely on analytical generalisations rather than statistical generalisations, which means that the empirical findings of one case can be compared with the findings of other relevant cases in order to generalise its findings.

7.4 Data

7.4.1 Archival Documents

The Archive has always been a fundamental source of data for historians, and business historians are no different. Decker (2013) argues that the discipline of history has a methodology of reconstruction from archival material. The Archive consists of "materials specifically collected for the purpose of preserving a history and housed in a distinct location" (Decker, 2013, p. 158). Many scholars believe that archival documents are the most appropriate evidence to inform business history research as it brings new undiscovered historical information to light while ensuring truth and strong findings. It is also considered more objective than interviews in a sense that the researcher was not present when the documents were written (Carnegie & Napier, 1996; Fleischman & Tyson, 2003). In addition, because archival material is non-reactive, they have the ability to overcome some of the limitations of other data such as interviews, for example, which could be subject to faulty human memory and cognitive distortions (Welch, 2000).

For this thesis, archival documents were used as primary data to answer research questions as well as construct a comprehensive historical view of Oman's financial and economic background in the second half of the 20th century in order to put the case study in its historical context. The following archives were visited:

1. HSBC Archives (London): previously known as BBME, this bank was the first commercial banking facility to operate in Oman. It secured a concessionary monopoly for 20 years (1948-1968) and functioned as a de facto central bank in Oman prior to the establishment of Oman's own central bank in 1974.
2. Bank of England Archive (London): due to the evident British influence on the Arabian Gulf region, including Oman, information regarding the country's financial and economic matters were expected to be found.
3. The Arabian Gulf Digital Archive (online archive): showcases electronic British archival documents and records about the Arabian Gulf region which are also available in the British National Archives. Relevant documents from the FCO and the British Embassy in Muscat have been found. This served an excellent

alternative to an in-person visit to the National Archives which was closed due to the pandemic.

4. National Records and Archives Authority (Muscat): this archive was visited in hopes of finding original Omani documents that could be useful in the context of this study. However, the documents found concerning the period under study were digitised documents from the British National Archives. This is potentially due to being a relatively new archive[10] and a previous general lack of awareness of the value of archival records in Oman.

Unfortunately, however, further exploration of archival data was made impossible due to the COVID-19 pandemic and the resulting closure of the archives and travel restrictions in both Oman and the UK. Therefore, an alternate plan was adopted to gather primary data through a series of semi-structured interviews. Despite the change of plan, interviews, or oral history, had been proven very useful for this research and will be further discussed in the following section.

Despite the above-mentioned methodological advantages of using archival evidence, it is important to be aware of the potential limitations. In some instances, historical evidence can get lost, scattered, inaccessible, or difficult to identify. In other cases, including Oman, a previous general lack of interest in history and an unawareness of its significance resulted in poor survival chances of local business-related records from the pre-1970 period. The absence of the archives in Oman was also attributable to the lack of organised centralised government institutions to preserve such documents before 1970. Sultan Said's government was not able to afford basic civil and infrastructural services, such as education, health services and roads, let alone maintain the cost of keeping a national archive. Additionally, the high rate of illiteracy in the country before 1970 and the limited educational facilities have contributed to people's inability of producing written documents and even in case of their existence, an indifference to preserving them (UNESCO, 1972; Funsch, 2015).

Another limitation of using archival records, and important to mindful of, is that post-colonialism archives represent the voices of those of were in power and silence everyone else (Decker, 2013). In other words, European and imperial bias are imbedded in many of the widely available archives because they were the ones in power and could afford to preserve the records (Schwarzkopf, 2013). This is relevant in the context of this thesis because the constructed historical background of Oman (presented in chapter 2) is solely

[10] Established by a Royal Decree in 2007.

informed by British archival records because no similar records were found in Oman, therefore, presenting solely a British point of view.

The silencing issue also arises with researchers themselves starting with the selection of documents after being faced with a large amount of data which requires them to make judgments about the importance of the documents and decisions about what to include in their narrative (Fleischman & Tyson, 2003; Decker, 2013). Even when a historian attempts to allow the archival facts to speak for themselves, the resulting interpretations cannot be completely neutral of the researcher's own beliefs and prejudices (Fleischman & Tyson, 2003). Nonetheless, Decker (2013), believes that acknowledging these "silences" when constructing historical narratives and focusing on source triangulation (i.e., working with more than one archive) is one way get access to different points of view and overcoming the gaps and biases in the archives. In addition, it is useful to keep a mental distance and to challenge the sense-making that occurs within the historical records under study. Using oral history to inform the archival analysis has also been identified as a way of overcoming the limitations of the archives, fill in any information gaps, and support the claims derived from the archives (Decker, 2013; Schwarzkopf, 2013).

7.4.2 Interviews (Oral History)

The term "oral history" has emerged after the second World War and have been widely used to refer to the interviews which focus on historical events and practices (Crawford & Bailey,2019). Collins & Bloom (1991, p. 23) defined it as "a verbal recollections of events and circumstances that have occurred in the past from individuals knowledgeable by virtue of their position at the time of their expertise".

Many scholars (Ryant, 1988; Collins & Bloom, 1991; Carnegie & Napier, 1996; Hammond & Sikka, 1996; Parker, 1997; Hammond, 2003; Haynes, 2010; Maclean et al., 2017; Crawford & Bailey, 2019) believe that oral history's main contribution, as a research methodology, to business history research is to supplement, substitute, and clarify archival documents. It allowed business historians to: (1) include the viewpoints of eyewitnesses which would have been, otherwise, beyond the direct reach of the researcher; (2) access to information that offered better explanations as to why and how things have happened the way they did; (3) get a better insight on how certain events have affected a particular group of people especially ordinary people who have been omitted from the record; (4) revealing undocumented details relationships between businesses and governments and kinship networks; (5) confirm or disregard any previously formed hypotheses based on the analysis of documented history; (6) overcome the constraints of the archives by receiving more personal, socially-oriented, and related information than formal archival documents.

With regards to this research, oral history is believed to be an appropriate method for gathering historical data due to the following reasons. First, according to Carnegie & Napier (1996) and Collins & Bloom (1991), oral history has the potential of adding significant contributions to studies that look into the process of development and application of accounting institutions and legislations in specific geographical setting such as this thesis. By interviewing principal participants who were directly involved in the historical event or process under study, researchers can add significant, unique perspectives to their research since these participants would be "eyewitnesses" to that specific historical event or process. Therefore, since this research looks into the development of accounting and corporate governance in Oman since the 1970s, the selection of interview candidates was based on the following:

1. Senior or retired government employees who have been directly involved in the process of accounting and corporate governance institutionalisation since the 1970s by working in relevant legislative, regulatory and supervisory government bodies such as CMA, OCGS, MSM and the Ministry of Commerce & Industry.
2. Senior partners or employees of the Big Four auditing firms who have been working in Oman in the 1970s, 1980s, or 1990s.

Participants from these two categories were focused on due the nature of their jobs which made them closely involved in the events and processes that shaped current-day's accounting and corporate governance practices in Oman. In other words, they have witnessed and taken part in the change process. Additionally, these participants are expected to be aware of insider information that are important in the process of accounting development in Oman but may not have been published elsewhere. They are also expected to have information on possible emerging issues and can provide informed predictions on the future direction of change.

Snowball sampling technique was used to recruit interviewees in a systematic way that guarantees the accessibility of the right informants and the quality of the information. The same approach was adopted by Bailey (2019) in a project on the history of shopping centres development in Australia. Snowball sampling works by creating interviewee referral chains that connect individuals who are believed to have rich key information regarding the topic under study. In other words, referrals from accessible interviewees would be used to expand the sample. It marks social connections between people and the flow of knowledge via mentoring, shared experiences, personal relationships, and professional contacts (Bailey, 2019). The author believes that the resulting interview pool would allow an in-depth investigation of specific issues, complexities, and historical changes by accessing informants who would not have been known or accessible to the researcher if snowball approach had not been used. Additionally, using this sampling method has helped in overcoming the obstacles associated with finding the right participants and convincing them to take part in the study especially in the case of currently employed seniors who may refrain from participating due to their busy schedules, lack of interest, or wanting to maintain the privacy of their work details. Referrals, in this case, have had the ability to overcome these obstacles by building a sense of trust and familiarity with the interviewee. It is, however, important to be address this method’s potential limitations. Snowball sampling can be selective and contingent on the interviewee’s social contacts which could lead to distortions and bias. In this case, Bailey (2019) suggests maintaining a continuing process of screening and filtering the referrals as well as looking for new first-level respondents in order to fill the gaps in the required information, avoid bias, and control the scope and direction of the research.

Another way in which oral history is relevant to this research is in the context of emerging markets. Jones and Comunale (2019) argue that oral history can specifically be useful in studies that look into the contemporary business history of emerging markets because of its ability to reveal undocumented historical information in places where an archival culture was absent. This is considered a significant contribution to the business history literature because the market-supporting institutions in these countries greatly differ from their Western counterparts. Additionally, most of these countries have experienced long periods of foreign interventions as well as state interventions after their independence. Conducting business history research about these settings would not have been possible without using oral history because most developing countries in Asia, Africa, and Latin America, including Oman, lacked any corporate or government archives. As previously mentioned, an archival culture in Oman was almost absent until the 2000s, therefore, many historical facts have remained in the memories of the people who witnessed the events rather than on written documents. The only source of archival documents would have been the archival records of the colonial governments or the archival records of the foreign firms which operated in these countries, which present one side of the story. Even after their independence, the majority of these countries failed to keep an archival record, hence, oral history can be used as a tool to fill in this informational void. It also enabled the inclusion of their side of the story as underrepresented groups in historical business research. The sole use of archival records generally reflects the thoughts and actions of the governors or those in power, but rarely reflects on the perspective of those who were governed or subordinated. Using oral history have helped in overcoming this gap in literature by illuminating the history of those who were less likely to be the subjects of business history studies (Carnegie & Napier, 1996; Hammond & Sikka, 1996).

Another reason for using oral history in this study is Jones and Comunale's (2019) argument that oral history can provide detailed and sensitive information that is difficult to obtain even with the existence of written documents, especially information which involves the close encounters between businesses and the government. The authors believe that oral history can provide the following information, which are relevant to the theme of this thesis: (1) the role of the government in supporting domestic and international businesses and encouraging economic growth and development; (2) the process of formulating and processing government policies, how they affected the business environment, and the reasons for their success or failure; (3) understanding the interaction between market participants and the regulatory environment can explain why certain developments were hindered or delayed as well as the growth of certain industries but not others.

Despite the above arguments in favour of oral history, for many years, oral historical sources have been undermined by traditional historians, regarding them as unreliable, subjective, and biased. The 19th century historical education and training in Europe, for instance, focused on obtaining historical facts from archival documents. Scholars were evaluated based on their ability of producing historical facts derived from archival evidence as they were deemed as more neutral and objective (Crawford & Bailey, 2019). Moreover, oral history has been criticised for being distorted because it is based on humans' memory which tends to fade over time. This is especially relevant in this case because participants are asked to describe events that happened almost half a century ago. The data could also be affected by nostalgia, physical deterioration at old age, personal bias of both the interviewer and the interviewee, and the influence of previous and contemporary interpretations of the past. However, oral historians have argued that memory's subjectivity can be considered as a strength rather than a weakness because it has the potential of providing clues about the different meanings of history and highlighting different interactions between individuals and the society. Afterall, there is no single true universal reality, and the multiplicity of historical facts and events must be emphasised. History is experienced and viewed differently by different people through different lenses. The same historical facts could lead to different interpretations, but, when logically consistent, the multiplicity of interpretations must be appreciated rather than denied (Hammond & Sikka, 1996).

To minimise the impact of the above limitations and increase the validity of the collected data, Collins & Bloom's (1991) methodological guide of oral history was followed. This guide is expected to organise the process of oral history data collection in a manner that conforms with social sciences methodologies. First, potential participants were identified and individuals that are more likely to have the information were selected. Second, open-ended interview questions were designed and formulated in consistency with the direction of the research stemming from the supporting literature and theoretical framework. Third, special attention has been paid to drop any preconceived biased views on the topic under study so questions and the interview itself can be as neutral as possible, or in other words, do not suggest the researcher's own answers. One point to note, however, the authors have suggested that having a diversified set of interviewees in order to avoid any biased answers and receive a balanced view. This was particularly difficult to achieve in this case. It is notable that the sample of interviewees is relatively small. This was due to the following reasons: (1) difficulty in identifying the relevant government employees of the 70s and 80s due to the lack of documented records, which were either lost or disposed of; (2) senior positions in both the private and public sectors during the 70s and 80s were frequently held by expatriates who returned to their home countries after retirement and was hard to get their contact information; (3) limitations due to potential participants' old age, health conditions, or passing away. However, the low number of participants was compensated by the quality and relevancy of the information provided. The selected interviewees have all held senior positions in either government organisations or the Big Four in Oman. They have extensive experience in the field spanning over periods of 20-30 years. They were directly involved in making major decisions with regards to the development of accounting and corporate governance in the country. They are also fully aware of the political and economic events that directly motivated the process of change. The names and positions of the interviewees are provided in appendix A.

In addition to the above, it is important to address the following potential challenges to the oral history method of collecting data used in this thesis. (1) time-consuming; (2) lack of interest in participating in the study, especially, those who are currently holding senior positions and are already juggling busy schedules; (3) reluctance of some interviewees in sharing what they regard as confidential information; (4) the possibility of receiving statements or answers that are not carefully thought of or not accurate because the events have occurred at least 20 years ago. This last point was tackled by returning the interview transcription to the interviewees in order to give them an opportunity to edit or correct any false information or in some instances, have a brief follow up interview Hammond (2003).

7.5 Data Analysis Strategy

The data of this research and their interpretations were presented in the form of a narrative. Narratives have been the most preferred means of writing history and have been widely used to present the work of business and accounting historians since the 1970s (Funnell, 1998; Maclean et al.,2017; Mordhorst & Schwarzkopf,2017). Popp & Fellman (2017, p. 1246) have defined narrative history as "a literary form (that is one that is storied without implying linear, chronological storytelling) that cannot be uncoupled from either certain epistemological claims (that narratives contain explanatory powers) or ontological positions (that narratives have representational powers with regard to the experiential dimensions of history)". It is believed that a well-structured historical narrative has a profound ability to explain the nature of any social phenomena under study (Popp, 2009), hence, it has been chosen as a data analysis method for this thesis. It is associated with the general belief that historians' main role is to construct the past by telling a "good story" to communicate their histories to the readers (Napier, 2008).

However, because of the close nature between narratives and storytelling, business history narratives have been accused of being nothing more than literary portraiture and connections of previously unconnected events of the past, thus, making it an inadequate form of academic writing. It has been criticised for being atheoretical along with facing methodological problems including questions about how to construct a narrative, non-generalisability, and non-applicability for daily business practices. To reply to these criticisms, Riley & Hawe (2004), have noted that "stories" and "narratives" are not the same thing. The development of historical writing has resulted in narrative representations that hold a more powerful methodological position because they interpret and analyse stories and events by putting them within broader theoretical frameworks. Their significance has went beyond being a literary form to represent historical facts to being a theoretical method that highlights what is behind the historical events and creating strong links between them (Mordhorst & Schwarzkopf, 2017). Popp & Fellman (2017) have viewed narratives as analytical tools for constructing reality and its meanings. Their explanatory power appears in their ability to tell a story by connecting different events, explaining their causes and effects, and making sense of it. They do, however, need to include discussions of sources, methods, research practices in order to prove their validity and credibility as sound academic writing and produce stronger and more thorough arguments (Previts et al., 1990; Carnegie & Napier, 1996; Popp & Fellman, 2017). Attaching the written text to an epistemological and ontological positions is what distinguishes narrative history writing from stories, chronicles, and annals.

So far, business historians have been divided between two different methodological approaches to constructing historical narratives. The first, which mostly conforms to positivism, is the objectivist/realist approach. It assumes that there is one version of the reality and the historian's aim must be to uncover that single, grand truth through a process of verification, authentication, and replication. Moreover, it assumes that history is objective. Therefore, producing a strong narrative requires writing narratives that depict historical events from pertinent verified documents while separating the historian's own assumptions and interpretations from the story they are telling.

On the other hand, the second approach, which the present thesis follows, is a more "constructive" approach and conforms with interpretivism. It assumes that history is subject to multiple interpretations and, in some cases, some sort of invention. Despite being informed by the same historical information as the first approach, the meanings and interpretations derived from these sources are subjective and have the possibility of changing over time. In other words, it embraces the multiplicity of realties. It also acknowledges that the process of writing a narrative is complex and involves making sense of the available data, placing them within suitable theoretical frameworks, and continuous iterative and intuitive processes that keep unfolding as historians create historical knowledge through their narratives. Therefore, it is impossible to assume absolute objectivity because the writer's knowledge cannot be separated from the historical facts under study. Moreover, this approach considers each historical narrative as one possible version among many other versions of the past. Under this approach, the role of the historian is to construct historical reality through the narratives that they are writing, with their own sense-making and interpretations being reflected in the written text. (Funnell, 1998; Carnegie & Napier, 1996; Foster et al., 2017; Popp & Fellman, 2017). The gap between the two paradigms have intensified as scholars from both sides have accused each other of being illegitimate and epistemologically invalid. On the one side, realists have argued that:

> "In common with most historians, the business historian is interested in discovering truth, through the processes of verification, authentication, and replication. With such a professional objective in mind, adopting an epistemological position that rejects the possibility of objective truth can only frustrate the enterprise. So, if business historians have reason to doubt the possibility of objective truth, they have every professional incentive to put such concerns to one side. 'I will spend six months in the archives, but I don't expect to be able to prove anything as a result' or 'here are my findings, but I don't believe they are true (or they are just one of several equally valid stories)', are neither statements of self-motivation, logic, nor mechanisms for enhancing a research career" **(Toms & Wilson, 2010, p.111)**.

On the other side, constructivists have argued that an objective approach to writing history lacks epistemological reflexivity and eliminates the writer's self-reflection on their work which, consequently, enlarges the distance between business history research and real-life applications. They have argued that:

> "A discipline that produces narrative accounts of its subject matter as an end in itself seems methodologically unsound; one that investigates its date in the

interest of telling a story about them appears theoretically deficient" **(White, 1989, cited in Funnell, 1989, p.144)**.

Despite this division, Popp & Fellman (2017) argue that historical narratives are not simple realist chronicles, but their interpretive, constructed nature does not make them less credible or solid than any other form of academic writing either. The scholars believe that finding common languages and tools between the two stances and acknowledging that neither of them can be satisfied completely, can help in bringing realists and interpretivists closer which could further strengthen the epistemological position of historical narratives within the subdiscipline. Additionally, a re-engagement with the analytical tools, methods, forms of narrative writing, historiographical and philosophical issues with the parent discipline, history, can help in narrowing the methodological gap between the above-mentioned stances as well as reinforcing the epistemological claims that can be made for and through historical narratives.

7.6 Chapter Summary

This chapter presented a discussion of this thesis' underlying methodology. This thesis is designed as a historical case study that aims to explore the relationship of accounting development in relation to economic modernisation by looking into the case of Oman. A historical approach was used to uncover the economic and political events that shaped the process of accounting development and change through the last 50 years. A discussion of the historical approach and how it fits into business research have been presented in the first section. This was followed by a discussion on case studies as a research method and why it has been chosen for this thesis. The chapter also discussed the validity of archival sources and oral history as primary data in business history research while also addressing the potential concerns and limitations. Finally, the last section discusses historical narratives as means of presenting, analysing, and interpreting the gathered data.

Chapter 8 : Development of the Institutional Structure of Accounting, Auditing, Financial Reporting and Corporate Governance

8.1 Introduction

Having established the theoretical underpinnings of this study, the methodological approach guiding the research process and the historical context of Oman, this chapter presents a historical narrative informed by primary evidence (i.e., archival material and interviewees statements) to understand the development process of accounting, auditing, financial reporting and corporate governance in Oman during the last 50 years. Secondary documents, such as Royal Decrees, published laws and government administrative decisions, were also used to reinforce the primary data and fill in the information gaps. The constructed narrative highlights the following themes. The first to be highlighted is the institutionalisation of accounting and corporate governance in Oman in relation to Oman's ongoing economic modernisation plans since 1970. Details on the incorporation of accounting formal rules into the country's legal system and the establishment of designated government bodies to supervise accounting practices and enforce the relevant rules are provided. These developments are looked at while taking into consideration the country's economic conditions. Second, The Big Four are featured as the international players that transferred international accounting knowledge into the country. Third, the role of the Omani government and its economic modernisation strategy which has given international expertise the capacity to influence the development of accounting and governance is emphasised. The data presented in this narrative will be analysed within North's institutional framework in the following chapter.

8.2 The Introduction of Professional Accountancy, Auditing, and Financial Reporting to Oman

The first use of professional accountancy and auditing as a method of financial control has occurred within the government of Oman by the mid-1970s. Archival documents from the FCO have shown that the introduction of accountancy and auditing in Oman had resulted from the government's struggle to manage their public expenditures in the early 1970s. Despite the overwhelming increase in the country's national income due to oil exportation, the government experienced budget deficits of R.O 18.6 million, R.O 24.3 million and R.O 55.9 million in 1972, 1973 and 1974, respectively. The documents suggest that these deficits were attributable to the Omani government's lack of financial literacy. The unprecedented flow of oil revenues at the time has triggered uncontrolled spending on development projects without proper budgetary control measures (Arabian Gulf Digital Archive, Economic Situation in Oman FCO 8/2465).

To elaborate, the government's spending policy on civil and military projects have changed drastically after Sultan Qaboos took over the throne in 1970. Unlike his father, Qaboos, was keen on spending oil revenues to expand infrastructural facilities and financing developmental projects. But unfortunately, declining oil prices in 1971 and 1972 had slowed down the growth rate of the country's oil revenues. Nonetheless, the government accelerated their outlays at the same level, resulting in deteriorated fiscal accounts. Because the government was inexperienced in handling huge inflows of income and managing large projects, the current oil earnings were used to finance projects during their construction period rather than using long-term financing. This was coupled with an authority given to almost all government institutions to approve projects and sign contracts with little central coordination. This has, consequently, resulted in many financial commitments being made outside the annual budget and draining the state's treasury by the second year of Qaboos' rule.

The situation had raised the British government's concerns about Oman's economic stability and their ability to fulfil their financial commitments, especially that many British firms such as George Wimpey & Co Ltd, Sir Lindsay Parkinson & Co Ltd, Tarmac and Taylor Woodrow were assigned large construction and development projects in Oman at the time. The British government were also worried about Oman's inability to repay their loans to the British Banks operating in Oman. The IMF report on Oman's economic development in 1975 mentions, for example, that in 1974, Oman has requested an emergency loan of R.O 34.5 million from BBME to cover their financial commitments, which brought the government's bank account to a negative balance for the first time since it opened in 1948. Moreover, by July 1975, The Omani government's total debt to BBME alone has reached an astronomical figure of R.O 85 million[11] (Arabian Gulf Digital Archive, Economic Situation in Oman FCO 8/2465).

To salvage the situation, Sultan Qaboos' economic adviser at the time, Sharif Lutfi, an Egyptian economist seconded from the government of Egypt, worked with various missions from the World Bank, the IBRD, the IMF and British Bankers from multiple

[11] Oman's GDP in 1975 was R.O 725,388,601 ($2.1 billion). Therefore, the government's debt to BBME alone consisted of almost 117.2% of its GDP that year.

banking institutions such as, Morgan Grenfell, Hambros and BBME between 1972 and 1975 to strengthen the financial and economic position of the country (El Mallakh, 1972; Allen & Rigsbee II, 2000). The missions have all agreed that the absence of a sound financial institutional structure was the main issue and suggested institutional rearrangements to impose some order on government spending. In 1973, The World Bank has provided the government of Oman $3 million as technical assistance to cover the costs of the suggested institutional rearrangements. As a result, a Royal Decree (6/1974), issued on 12/02/1974, included an order to establish an independent State Audit Department that falls under the responsibility of the Ministry of Royal Court Affairs to resolve the conflict of interest which resulted from previously being a part of the Finance Department itself. In addition, two cabinet councils were established to organise and control government spending: The Development Council and the Council of Financial Affairs promulgated by the Royal Decrees (41/1974) on 17/11/1974 and (44/1974) on 2/12/1974, respectively (Allen & Rigsbee II, 2000). Both Councils were Chaired by Sultan Qaboos himself and included members of the cabinet. The Council of Financial Affairs was entrusted with the responsibility of formulating the state's financial policies, preparing and reviewing the state's annual budget, supervising government's spending and drafting financial laws and regulations. The Development Council, on the other hand, was responsible for reviewing, prioritising and evaluating projects' proposals from different government bodies before being either approved or postponed while taking into account the recommendations of the Council of Financial Affairs. In other words, the two councils worked together as a central institution to authorise expenditure on development projects while ensuring that government's spending matched their earnings.

The documents also reveal that these international missions stressed the importance of having reliable accounting, auditing and cost control measures within government institutions, especially the Council of Financial Affairs and the Ministry of Finance, as one of the steps to be taken in order to resolve the government's financial problems. They suggested seeking the assistance of accounting and auditing professionals to facilitate the introduction of appropriate accounting and auditing practices within the existing work procedures. The Middle East Department informed the FCO's office in London with the following:

> "Control and financial discipline should be strengthened. A firm of international accountants should be brought in and presented on the financial council".
> **(Tetham, 1975, p.76)**.

Another document which reported the latest updates on the Bankers' missions to the FCO stated that:

> “The financial administration in Muscat is inadequate…because of the lack of financial control the government faces a potentially severe cash crisis this year unless immediate remedial action is taken. The appointment of a leading firm of international accountants as permanent advisors to the government (the American firm of Arthur Anderson has been suggested…)”. **(Clark, 1975, p. 40-41)**.

Similarly, a report on the financial management of Oman found in the Bank of England archive mentioned 5 elements to help build an appropriate financial management infrastructure in developing countries. One of them is having a body of calculations and statistics to show how the economy is progressing and assist in formulating economic policies, which can be provided by accounting. The report stated:

> “Of great importance to the preparation of the annual financial programme for the development plan is the system of accounting adopted by the planning authority. This should aim to make it possible to have accurate information always available on work done at every stage with reference to resources used and costs incurred. When preparing estimates for capital projects there is also the need for accurate estimates of the recurring expenditure which these projects will incur when they are handed over on completion to the responsible department or departments” **(Financial Management in Oman, 1971)**.

Sultan Qaboos welcomed their suggestion and appointed Arthur Andersen Associates as official advisers of the government in 1975. According to His Excellency, Mohammed Al Zubair, the firm helped the government in creating annual budgets, managing annual expenditures, implementing financial controls and advising on forms of financing for government projects. The firm, however, did not have a functioning office in Muscat, nor did they provide auditing services to businesses in Oman. The events that followed, nonetheless, indicated a higher level of awareness on behalf of the Omani government about the significance of professional accountancy and auditing and their effect on the economic performance of the country.

The missions have worked with the government of Oman to establish a sound institutional and legal basis for economic development in the country. They suggested the enforcement of strict financial control measures using proper accountancy and auditing practices to encourage further participation in the market and, consequently, strengthen the economy. These measures would be issued as a financial law that organises and improves fiscal reporting, accounting and auditing measures (IMF, 1975). An IMF report sent to the FCO on Oman’s economic developments stated that:

> "The government drafted in 1974, with technical assistance from the Fund, a financial decree, an audit decree and an annual budget decree as well as financial regulations, and these are to be formally issued during 1975. These measures are expected to strengthen the budgetary control and accounting mechanism. In addition, an international firm of accountants is to be retained to aid in the introduction of an improved system of fiscal reporting, recording and coordination". **(IMF, 1975, p.87)**.

By searching the issues of the Official Gazette in the period between 1974 and 1975, the only relevant law that can be found is the Commercial Companies Law issued on 15/5/1974. This was also confirmed by H.E. Al Zubair who stated that the missions, the Sultan's Economic Adviser, John Townsend, and himself have worked on drafting the first Commercial Companies Law to become one of the foundations of the country's financial structure.

This law provided specific definitions and rules of governance for all types of commercial companies including general partnerships, limited partnerships, joint ventures, joint stock companies, limited liabilities companies, and holding companies. Most importantly in this context, however, is that it was the first law to impose specific accounting, auditing, and financial reporting measures on companies operating in Oman. The most significant measures included:

1. the appointment of independent experienced auditors, whether individuals or firms, to carry out accountancy and auditing services for every joint stock company.
2. appointed auditors to ensure that the financial statements of the company are fairly reflecting the financial position of the company as well as ensuring their conformity with a set of an internationally accepted accounting principles.
3. giving the auditors the right to inspect all books, records and documents of the company and obtain any information deemed necessary to properly perform their duties.
4. preparation of a report about the financial position of the company by appointed auditors to be presented at the annual general meeting of the shareholders.
5. auditors are held liable towards the investors and third parties for any damages caused by their failure to well-perform their duties.
6. making the auditor's report available for inspection by shareholders at the company's head office during daily working hours.

The law has also included a section for penalties in case of failure to comply with its provisions. For example, any manager, director or auditor who intentionally falsifies, omits, or conceals any essential information in a company's financial statements or the board's report was to be penalised by imprisonment for up to three years and/or pay a fine of up to R.O 500. Enforcement of the law was the responsibility of a department within the Ministry of Commerce and Industry. The issuance of this law can be considered the government's first formal institutional development of professional accountancy, auditing and financial reporting in the country. It enabled the formal development of accounting practices and enforcement techniques.

The implemented measures along with the reorganisation of the country's financial institutions supplemented the new regime's economic modernisation policies to sustain solid economic growth throughout the next decade (Hammad & Washington, 1986). The new Commercial Companies Law was expected to encourage the growth of business activities and organisations beyond the existing sole and family merchants, especially after the tax exemptions granted for wholly owned Omani companies in 1975. Accounting was at the heart of the issued law by providing a level of certainty and assurance in the market to support market growth through a period of massive increase in oil prices. Through the next decade, Oman witnessed a visible improvement in its economic performance evident in an increase of its GDP per capita from $2,760.541 in 1976 to $6,677.398 in 1985 (World Bank, 2022). The government nourished the economy by utilising increasing oil revenues to finance various developmental projects in a wide range of sectors including education, healthcare, transportation, tourism, financial services, national defence, etc. By doing so, they have created a demand for a wide range of products and services, resulting in an overall transition from a traditional trade-based economy to a modern international economy. It also created a demand for professional accounting services which explains the expansion of international accounting firms into Oman during the 1970s. As noted by one of the interviewees, Khalid Ansari, most businesses did not record any losses during that period. The turning point, however, was in 1986 with the collapse of international oil prices from around $30 to $12 per barrel (Dickey, 1986; Statista, 2022). The government have, consequently, devalued the currency by 10% and significantly cut the budgets of all their ministries. In other words, their ability to finance developmental projects and sign contracts with local and international businesses was compromised. The economic expansion of the country came to a grinding halt. That is when businesses started struggling financially as the whole economy shrank, which created a need for more developed accountancy and auditing services to start calculating accurate profits and losses figures as well as introducing cost control measures.

In an attempt to strengthen the financial position of the Omani market and its participants, minimise the negative impacts of the crash and enable a more effective application of the

Corporate Income Tax Law[12], the government have issued The Law of Organising the Accountancy and Auditing Profession which was promulgated by the Royal Decree (77/1986) on 1/11/1986. This was the country's first law dedicated solely to regulate the practise of accountancy and auditing in Oman and set the standards for those practising the profession. With regards to the quality of the practised of accounting and auditing, the law has mandated the adoption of the IAS in the preparation of financial statements and final accounts. In addition, it gave auditors of joint stock companies and limited liability companies the right to examine all the necessary books and documents to ensure an accurate performance of their job, and to determine whether the financial statements reflect a fair representation of the company's financial position. As to the quality of the practitioners of the profession, the law has mandated the following measures:

1. obtaining a licence from the Ministry of Commerce and Industry in order to be authorised to practise the profession in Oman conditioned by having a university qualification which includes essential accounting modules, good character and reputation, and a clear criminal record.
2. all practitioners of the profession in Oman to enrol in a special register within the Ministry of Commerce and Industry conditioned by having a minimum of two years' continuous experience in accountancy and auditing or holding an internationally acknowledged chartered accountant certificate.
3. setting up a committee within the ministry responsible for evaluating licensing applications, enacting a set of accounting standards, and ensuring the compliance with these standards.
4. Omani accountants and auditors must be licensed and enrolled in the register before being authorised to set up a firm for accountancy and auditing services under their personal name.
5. being licensed and enrolled in the register for a minimum of 5 years before being authorised to audit the accounts of banks and joint stock companies.
6. Foreign accounting and auditing firms can practise the profession in Oman given that it is licensed in its home country, commenced its operations at least 10 years ago, and hires an experienced representative in the field of accountancy and auditing to carry out their business in Oman.

[12] Taxes were included in the country's Basic Law as a source of national income and means of developing the national economy. The first income tax law was issued in 1971. Ten years later in 1981, it was replaced by the Corporate Income Tax Law which clearly defined taxable incomes and exemptions. This was followed by the Law of Profit Tax on Commercial and Industrial Establishments issued in 1989. The final Corporate Income Tax Law one was issued in 2009 merging all tax-related laws and legislations in the Sultanate and had been updated several times until 2020. The country also introduced an Excise Tax in 2020 and Value Added Tax (VAT) in 2021.

7. Omani accountants to take an oath in front of the Minister of Commerce and Industry to maintain honesty, fairness, and transparency while carrying out their duties and vowing to respect the profession’s law and tradition, while representatives of foreign firms must sign a declaration which includes an affirmance to the above.
8. to avoid conflict of interest, an accountant or auditor cannot participate in the auditing process if they were a partner in that company or a member on its board of directors.

The law was amended two years later by the Royal Decree (21/1988) on 24/2/1988 which accepted internationally acknowledged chartered accountant certificates as an alternative to the university degree in order to practise the profession in Oman and a substitute to the minimum-experience requirement for the representatives of foreign firms. In 1991, the Ministry of Commerce and Industry issued a ministerial decision (20/91) on 13/3/1991 to make the law more precise by specifying the accounting degree modules that must be taken in order to receive the practice licence which include: auditing, tax accounting, business law, financial accounting, cost accounting, governmental accounting and accounting for banks. Other amendments of the law followed in 1996 by the Royal Decree (53/1996) on 11/6/1996 and in 2001 by the Royal Decree (35/2001) on 18/4/2001. The former added more regulative conditions such as A requirement of a minimum of 5 years’ experience for any non-Omani accountant or auditor to practise the profession in Oman, and added first-degree relatives’ owned companies to the list of companies an auditor is not allowed to audit. According to a report published on Oman by the Oxford Business Group (2015), the additional regulations and greater disclosure, at the time, were translated to an evident market growth with a total of 71 listed companies, 17,000 shareholders, and total public shareholder equity of R.O 270 million in the late 80s.

The collective efforts of the government and the international missions in the early 70s, which placed a greater emphasis on the role of accountancy and auditing have paved the way for another phase of economic development in Oman with defined economic goals and clear plans to achieve them (Hammad & Washington, 1986). The 1970s have witnessed the country’s first steps towards overturning its poor economic conditions and building an effective financial infrastructure that supports economic development plans. At the time, the above-mentioned missions have assisted the government of Oman in creating an institutional and legal framework that supports these plans, which resulted in the issuance of the First Economic Development Law, the Foreign Capital Investment Law, Insurance Companies Law, Commercial Register Law and Commercial Companies

Law[13]. These laws have all conveyed the country's long-term economic vision which focused on effective management of government projects, globalisation and diversification of the Omani economy, attracting wider participation of foreign investors, and strengthening the private sector to become a solid contributor to the growth of the national economy. The sequence of events indicates that the first signs of professional accountancy, auditing, and financial reporting in Oman have appeared to support the government's economic development plans which appeared in the provisions of these laws. The objective was to create an attractive business environment that attracts domestic and international investments by securing the rights of all market participants and this was delivered by an effective institution of accounting. Another potentially significant point is that taxation requirements, and the critical need for tax revenues, encouraged the spread of accounting and auditing practices across the Omani market, especially after the crash of 1986. Although two corporate income tax laws were in place since 1971, the country's accounting institutional infrastructure did not support an effective application and enforcement of these laws.

All in all, and given the sequence of events, it would be safe to make the following arguments. First, the development of professional accountancy and auditing does not necessarily have to be associated with periods of economic growth but could rather result from situations of economic stagnation or decline. In this case, accounting is used as a tool to overturn economic crises. A similar, and relevant, case was presented in an article by Roudaki (2008) which looked into the development of the accounting profession and the process of accounting standards setting in Iran. They asserted that developing the profession had become a priority to the Iranian government during periods of economic deterioration due to decreased oil revenues. This, consequently, increased the demand for effective accounting practices as a method for monitoring and financial control. Additionally, the Iranian government had to impose corporate taxes to cover its financial deficits which also created a need for professional accountancy and auditing services to

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[13] *The Economic Development Law*: was issued to organise the government's development plans and spending. The Development Council was entrusted with determining the general policy for economic development as well as approving annual development plans and budgets.
Foreign Capital Investment Law: to enhance the Sultanate's position as an investment destination and increase its ability of attracting foreign capital. The law encourages foreign participation in the Omani economy in form of companies and development projects that operate through an Omani company.
Insurance Companies Law: licensing and organising the operations of insurance companies in Oman, including, foreign insurance companies to motivate economic activity by providing protection of assets and mitigation of losses.
Commercial Register Law: Organise the business environment in Oman by mandating all business entities operating in Oman to file particulars of their businesses in a Register which falls under the Ministry of Commerce and Industry (Hill JR, 1983).
Commercial Companies Law: Governing the rights, relations, and conduct of all types of commercial companies operating in the country to create an organised business environment.

respond to the requirements of the relevant tax and commercial laws. Second, professional accounting and auditing practices were incorporated into Oman's legal framework when the government actively initiated its economic modernisation efforts. This is also confirmatory with Roudaki's (2008) findings about Iran in which he argues that the introduction of the government's first "Five Years Economic Development Plans" in the 1970s has resulted in the increase in the number of private businesses which led to the establishment of an additional 30 auditing firms to respond to the increased demand for auditing services created by these firms. A notable, and relevant, feature of the economic development plans of both Oman and Iran was the expansion of their stock markets.

8.3 The Role of the Capital Market in the Professionalisation of Accounting and Financial Reporting

The capital market in Oman during the 70s and early 80s of the 20th century was primitive in nature and loosely organised. A handful of public joint stock companies, such as Oman Hotels Company SAOG in 1971, Oman National Housing Development Company Limited in 1973, Oman Ports Services Company SAOG in 1974, and Oman Fisheries Company SAOG in 1979 were registered in the Ministry of Commerce and Industry. Mass public stock exchange activities, however, were barely existent and the demand for financial information was, accordingly, low. Basic stock trading activities were carried out through brokers and were not regulated by any government body. Therefore, the scale of stock trading activities in Oman during that time could not be determined due to the lack of recorded data. In an interview with Khalid Ansari, he noted that professional accountancy and auditing practices within these companies were barely existent. Every joint stock company prepared their accounts and statements based on their choice of accounting standards such as the American GAAP, The Indian Accounting Standards, or the IFRS, with no requirement to disclose these statements to the public on a regular basis. He also noted that the Statement of Affairs was commonly prepared and used for external reporting rather than the common financial statements. The Statement of Affairs was based on the single-entry system of bookkeeping and merely lists the company's assets and liabilities using estimated figures by the management. This statement was widely used for borrowing purposes and was considered by most banks to be a sufficient document to base their credit decisions on. However, after organising accounting and audit practices as well as the disclosure of financial information by mandating the adoption of IFRS, which were embedded in the Commercial Companies Law and the Law of Organising the Accountancy and Auditing Profession, the situation has slowly started to turn with increased public offerings and market participants (Oxford Business Group, 2015).

Discussions about establishing an organised stock exchange to support a sustainably growing capital market began in the mid-1980s among various ministries, Oman Central Bank, and Oman Chamber for Commerce and Industry. This move came in line with the government's economic plans to attract more foreign investments and strengthen the role of the private sector in stimulating economic growth. The first step was taken in 1986 with the establishment of a central bureau for the exchange of shares which took place in a small room in the basement of the Ministry of Commerce and Industry (Allen & Rigsbee II, 2000). It can be noticed that this event was also simultaneous with establishing the legal base of the accounting and auditing profession (i.e., the issuance of the Law of Organising the Accountancy and Auditing Profession), which suggests a corelation between the two. In other words, organising the practise of accounting, auditing and financial reporting was essential for operating an efficient capital market that effectively supports the growth of the national economy.

After the increase in the size of the market as a result of establishing the central bureau for the exchange of shares and organising the practise of the accountancy and auditing profession, the government moved forward to establish an official, regulated platform for stock trading activities in Oman. At the time, Sultan Qaboos invited Hashim Al Sabbagh, a Jordanian accountant, and the chair of Amman Stock Exchange, to establish an organised securities market in Muscat and draft a regulatory framework to govern its operations after a previous failed attempt by an Egyptian mission. Not only was he selected for the job due to his experience in other Arab countries of similar settings, but also because his accounting background allowed him to recognise the importance of accounting as a precursor to a functioning capital market.

In an interview with Al Sabbagh, he asserted that capital markets play a significant role in promoting economic growth because they allow for channelling the available funds between investors/lenders and those who are in demand for capital to finance their projects. Thus, creating an organised capital market was a sensible move on behalf of the Omani government to grow their economy. He stated that his secondment to Oman resulted from a recommendation by the IFC to the Omani government due to his extensive experience in setting up bourses in emerging markets, such as Jordan, Turkey, Tunisia, Sudan and Syria. Al Sabbagh worked with a group of Omani officials, including Salim Al Ghazali the Minister of Commerce and Industry, Qais Al Zawawi the Deputy Prime Minister for Economic and Financial Affairs, and Mohammed Moosa Al Yousef the Secretary General of the Development Council, to establish Muscat Securities Market (MSM) to become the official platform for stock trading activities in Oman. Moreover, MSM took over the responsibility of regulating the stock market and protecting investors' interests from the Ministry of Commerce and Industry. Upon its establishment in 1988, it began its operations with 48 listed companies and a total of R.O 28.5 million worth of securities (Allen & Rigsbee II, 2000; Dry, 2003).

Al Sabbagh worked on drafting Muscat Securities Market Law which was promulgated by the Royal Decree (53/1988) on 21/06/1988. During the interview, Al Sabbagh has stressed the role of professional accountancy, auditing and financial reporting in operating an effective capital market. In his opinion, operating a sustainably growing market in Oman would have been impossible without ensuring fair disclosure of financial and non-financial information to protect stakeholders' interest, raise their level of trust in the market and facilitate informed investment decisions. He further believes that accountancy and auditing are vital tools for conveying a reliable financial portrait of the market to the public. The issuance of the above-mentioned Commercial Companies Law and the Law of Organising the Accountancy and Auditing Profession were significant prerequisites for an organised capital market. The law he drafted reflected this view. It included a section for disclosure requirements that supported the existing mandatory accounting and auditing practices in the Omani market. In addition to the mandatory compliance with all the accounting and auditing regulations published in the Commercial Companies Law and the Law of Organising the Accountancy and Auditing Profession, licensed brokerage companies and listed joint stock companies were now required to file annual audited financial statements in MSM. Furthermore, listed joint stock companies were obligated to disclose any financial information that could significantly affect their shares' prices to the relevant department in MSM. At the same time, it gave MSM the right to announce that information to the public, and the ability to acquire any additional financial information deemed necessary to increase investors' protection and their trust in the market. Moreover, MSM was authorised to carry out reviews and audits of the accounts of any licensed brokerage company or listed joint-stock company when necessary. In addition to ensuring the disclosure of reliable financial information, the new formal rules of accounting facilitated the development of the sophisticated calculations required for a well-functioning capital market.

Al Sabbagh has also mentioned that the efforts to enhance the practise of accountancy and auditing continued after the commencement of MSM's operations. Several meetings were held between members of the government, representatives from international audit firms, such as KPMG and Deloitte, as well as himself to work on upgrading the existing accounting and auditing measures to match the international practices and further support the growing capital market. The result was an amendment to the Commercial Companies Law issued by the Royal Decree (13/1989) on 15/1/1989 which guaranteed greater disclosure and protection for the investors of joint-stock companies. The amendment required that the appointed auditors must be licensed by the ministry of Commerce and

Industry in accordance with the above-discussed law of organising the accountancy and auditing profession. Moreover, it mandated the preparation of audited financial statements within three months from the end of the financial year showing detailed explanations of the main debit and credit entries during the financial year. Copies of all these statements must be filed in MSM and the Companies Affairs Department within the Ministry of Commerce and Industry. Furthermore, financial statements together with the auditor’s report, the Board’s report and an invitation to attend the annual ordinary annual general meeting shall be sent to each individual shareholder. Therefore, a standard information infrastructure for financial markets was created, guaranteeing the availability and accessibility of reliable information for market participants.

These regulatory measures have slowly built the public’s trust to start investing in the capital market. They also paved the way for attracting foreign investments portfolios by opening the market for investors from GCC countries in 1992, and for all other nationalities in 1994 through a managed investment fund by the London-based investment firm, Blakeney Management. The following year, MSM started listing foreign companies after issuing relevant regulations in early 1995 (Allen & Rigsbee II, 2000). Having foreign participants in the Omani capital market has potentially encouraged the introduction of stricter financial disclosure measures which has been promulgated by the Royal Decree (83/1994) on 24/8/1994. The Decree introduced further amendments to the Commercial Companies Law which stipulates that joint stock companies must publish semi-annual unaudited financial accounts, including the balance sheet, profit and loss statement, and cash-flow statement, provided such accounts are published within three months from half year-end in two daily local newspapers. Moreover, it added a fine that ranges between R.O 5,000 and R.O 10,000 paid by the auditors in case the Board of Directors fails to convene the annual ordinary general meeting within four months after the end of the company’s financial year.

MSM’s exchange activities continued to grow over the next two years and reached a peak by 1997 and 1998 with the introduction of electronic trading platforms (Oxford Business Group, 2017). According to Dry (2003), by 1997, market capitalisation rose to a high of just over R.O 3 billion. The number of listed issues on MSM increased to 37 with their value tripling from the previous year to almost R.O 373,449. The numbers went even higher the following year with 47 listed issues valued at R.O 439,898. Unfortunately, the increased demand led to overinflated shares’ prices which did not reflect their actual market value. Coupled with the participants’ lack of experience about the vagaries of the capital market, MSM suffered an unfortunate crash in 1998. In addition, MSM’s crash was attributable to the lack of transparency on behalf of the listed companies especially if it would negatively impact their shares’ prices, poor internal control measures and conflict of interest resulting from the confusion over the roles of board members and managers (Dry, 2003). The crash led to the loss of investors' confidence in the Omani market dropping market capitalisation to R.O 1,937.3 million in 1999, the number of listed issues to 20 and the value of listed issues to R.O 189,346 (Dry, 2003).

In response to the crash, and to regain investors' trust in the market, the government have issued the Royal Decree (80/98) on 9/11/1998 to establish the Capital Market Authority (CMA) to act as an independent regulatory and monitoring body of the capital market with a core target of making it a sustainable drive for comprehensive economic development in Oman. Although the formal rules of accounting were in place, the enforcement mechanisms of these rules were not efficient. Hence, the government separated the operator (i.e., MSM) from the regulator (i.e., CMA), which had a major impact on the organisation of the accountancy and auditing profession in the country. Since its establishment, CMA has been the designated government body to ensure the enforcement of the above issued accounting and auditing laws instead of the Ministry of Commerce and Industry. It also supervises MSM, public joint stock companies, securities firms and auditing firms accredited to audit the accounts of companies regulated by CMA. As part of their collective efforts to protect users of the capital market's products and apply the norms of justice and transparency, CMA is continuously reviewing existing legislations of the sector in a way that is commensurate with the international developments and the overall economic status of the market. One of their objectives, as specified in the Royal Decree, is to liaise with international financial markets to exchange information and expertise and keep up with the international developments in the field. CMA also works on reinforcing the role of the audit committees, internal and external auditors, fair disclosure, and transparency. By bringing together the efforts of both national and foreign experienced economists and experts in financial public policies, the establishment of CMA was expected to promote domestic and international investments by setting high standards for listing, transparency, risk management and corporate governance (CMA, 2021).

Year	Number of Listed Companies	Value Traded (in millions of U.S. $)
1989	75	25
1990	80	120
1991	86	151
1992	88	111
1993	90	188
1994	100	304
1995	114	270
1996	133	658
1997	154	3,728
1998	131	1,942
1999	134	486
2000	208	549
2001	208	348
2002	-	-
2003	-	-
2004	225	1,971
2005	235	3,654
2006	215	2,917
2007	120	6,909
2008	122	8,800
2009	120	5,834
2010	114	3,309
2011	114	2,549
2012	115	2,663
2013	116	5,736
2014	117	5,805
2015	116	3,560
2016	113	2,459
2017	112	2,386
2018	110	1,917
2019	111	1,719
2020	111	1,041

Table 8.1 Number of Listed companies and Value of trading (millions of US Dollars) in MSM (1989-2020). (Arab Monetary Fund, 1992 cited in Abisourour, 1994; World Bank, 2022).

With regards to the professionalisation of accountancy and auditing, the Commercial Companies Law was updated in 2002 based on the recommendations of multiple experts and advisers from the Big Four and CMA. Promulgated by the Royal Decree (77/2002) on 18/8/2002, the law mandated joint-stock companies to have an audit committee within its Board of Directors in addition to the appointment of an internal auditor and a legal counsel. This was followed by another amendment on 28/11/2005 by the Royal Decree (99/2005), adding a provision which legally requires all auditors of joint-stock companies to comply with all the rules and instructions issued by CMA relating to the practise of the profession. Hence, in 2001 and 2009, respectively, CMA issued the executive regulations of the capital market law that govern the different aspects of public joint stock companies including the practise of accounting, auditing and financial disclosure within these companies. These regulations did not only work as a handbook for these practising the profession in Oman, but also informed the general public of the financial and non-financial information they have the right to access as stakeholders of a certain company. Other than the annual audited financial statements, public joint stock were required to publish quarterly unaudited financial statements which include the initial revenues, costs and net profit figures. They were also obligated to disclose any major events that affected the company's performance and financial position during that quarter. Furthermore, significant events that could potentially affect the company's stock price or the public's investments' decisions were required to be immediately disclosed through an issued statement before the beginning of the next trading session. In addition to refining the legislative framework and improving the financial reporting and disclosure requirements, CMA has established the Technical Accounting and Audit Committee which comprised of experts from the Ministry of Commerce & Industry, CMA and representatives from the Big Four. Since its establishment in 2000 up until 2010, members of the committee met quarterly to discuss topics of mutual interest such as key developments in the field and their feasibility in the Omani context. By working with members of the Big Four, CMA's main objective was to provide clear interpretations of the international accounting standards to ensure consistent, quality application among businesses in Oman. Unfortunately, however, the committee has gone inactive after 2010, before resuming their quarterly meetings in early 2021.

Being the main supervisor of auditing firms and joint-stock companies in Oman, CMA has issued a special accreditation policy for auditing firms operating in Oman that want to audit public joint-stock companies listed on MSM. The first policy was published in 2004 by the administrative decision (9/2004), which according to Ahmad Al Mukhaini, a senior adviser at the CMA's Executive President's office, was part of CMA's efforts to raise the quality of the auditing profession to increase the credibility of published financial statements and the confidence of the public in the market. He further added that the issuance of this policy was driven by similar international efforts to restore the credibility of the profession after Enron as well as an international recognition of the significance of the auditors' functions in protecting shareholders' rights and maintaining a stable financial market. The policy announced the establishment of a register that includes auditing firms allowed to work as external auditors for public joint-stock companies listed on MSM. The accreditation was given to auditing firms based on the following conditions:

1. having no less than 5 years of experience in the field of auditing.
2. good professional reputation.
3. having a minimum of 5 full-time employees who must be licensed by the Ministry of Commerce and Industry to practise the profession and hold an internationally accepted chartered accountant certificate.
4. partners of the firm must have a minimum of 10 years of experience in the field of auditing after receiving their professional qualification.

Auditing firms can submit an application for accreditation to CMA, and a decision will be issued after reviewal within 10 days of submission. Public joint-stock companies listed on MSM are obligated to choose an external auditor from the list of accredited auditing firms only.

The policy also defined the expected obligations of the accredited auditing firms to maintain the quality of the audit process in public joint-stock companies. First, the firm cannot provide their clients with other services, such as internal auditing or consultancy services, that might compromise their neutrality and independency as external auditors. Second, auditing firms must take into account keeping a balanced ratio between employed auditors and number of clients at a single point of time. The limit should not exceed 10 clients for each employed auditor with an experience of no less than 10 years or 7 clients for each employed auditor with an experience of no less than 5 years. Third, they introduced the concept of audit rotation to avoid building long-term relationships between auditors and clients. This means that joint-stock companies are not permitted to appoint the same external auditor for more than 5 consecutive fiscal years. After the expiry of the 5 year period, a joint-stock company is not allowed to appoint the same external auditor before the passing of another two fiscal years. Fourth, the firm is obligated to share with their client's board of directors and shareholders any matters of importance during the annual ordinary general meeting including the effectiveness of the company's internal control systems and the extent to which they would be able to continue their business operations in the foreseeable future. Finally, CMA retained the right to review and assess the work of accredited auditing firms to ensure that it is carried out in accordance with the adopted international accounting standards in Oman, the IFRS and the country's legal disclosure requirements.

The policy of accreditation was recently upgraded in 2018 by the administrative decision (8/2018), limiting the accreditation to a period of 2 years, after which the auditing firm would have to submit a renewal application within 30 days before its expiry date. According to Al Mukhaini, out of 450 auditing firms operating in Oman, only 21 have received CMA's accreditation to audit the accounts of companies listed on MSM. Al Mukhaini also believes that CMA is doing well with regards to assessing the performance of these auditing firms and exercising their right in taking disciplinary measures in case their audit quality, compliance or professional standards have been compromised. There are many published cases of auditing firms' de-accreditation since the activation of this policy. The most recent one of them was in 2018 when CMA announced on their electronic platforms and local newspapers the suspension of KPMG from taking on any new clients in Oman for 12 months after detecting major financial and accounting irregularities (CMA, 2021). Al Mukhaini pointed out in the interview that CMA is one of few government institutions in Oman that uses the concepts of deterrence and debarring, which proved to be very useful in maintaining the standards of the profession.

CMA has also played a significant role in enhancing and organising internal audit practices within listed public joint stock companies themselves. In accordance with the previously mentioned amendment of the Commercial Companies Law issued in 2002, which mandated public joint-stock companies to have an audit committee within its Board of Directors in addition to an internal audit unit and a legal counsel, CMA has issued the relevant executive regulations to facilitate the implementation of the law. These were issued in the administrative decision (6/2002) dated 25/12/2002, which provided the formation conditions, detailed roles and responsibilities as well as the Standards of Professional Conduct for those who hold the positions. The audit committee is to be formed of at least three non-executive, independent board members, with at least one member to be experienced in the field of accountancy and auditing. The committee is required to hold at least four meetings per year to discuss the following:

1. hiring an external auditor.
2. reviewing the external auditor's plan and the results of the audit process.
3. supervising the work of the internal audit department and assessing the effectiveness of the current internal auditing practices.
4. ensuring the adequacy internal financial controls of the company.
5. reviewing quarterly and annual financial statements prior to their issuance and discuss any reservations with the auditors.
6. ensuring the company's compliance with CMA's regulations.

7. liaise between the company's Board of Directors, internal auditing department, and external auditor as well as making sure that auditors are given full access to all the documents necessary to carry out their duties.

As to the internal audit department, the administrative decision required every public joint-stock company to either appoint full-time auditors to work within its own internal audit department or contract with one of the licensed auditing firms in the Sultanate to carry out a scheduled internal audit plan in accordance with the international professional standards for practising the profession. The internal auditor would be given full access to all documents, records as well as human and physical resources of the company to ensure the accuracy of the produced audit reports. According to the administrative decision, the department's main responsibilities include:

1. constantly reviewing the internal control measures and ensuring employees' compliance with them.
2. identifying any defects or weaknesses in the current internal control measures and raising appropriate recommendations to the senior management.
3. provide the audit committee with the necessary information to assess the effectiveness of the internal administrative procedures related to accounting, auditing and cost control.
4. ensuring that the reports requested by regulatory authorities (i.e., CMA) are being prepared in an accurate and timely manner.
5. carrying out regular audits on capital expenditure budget.
6. report the results of the internal audit process to the Board of Directors, senior management and the audit committee at least twice a year.

Finally, the last article in the administrative decision has identified the standards of professional conduct for internal auditors and the legal counsel which fall under four main categories: integrity, objectivity, confidentiality and professionality. These executive regulations were updated by another administrative decision (10/2018) issued on 27/12/2018, adding further academic and professional requirements for those who want to practise internal auditing in public joint-stock companies. Internal auditors were now required to hold either a chartered accountant certificate, an acknowledged professional certificate in internal auditing, or a bachelor's degree in accounting accompanied with a minimum of 12 months training in internal auditing at a public joint-stock company or a licensed internal auditor. It also gave them further responsibilities such as reviewing and commenting on quarterly and annual unaudited financial statements before releasing them to the public. Moreover, internal auditors have become required to assess the company's compliance with the requirements of corporate governance and prepare a report on the outcome to be presented to the Board of Directors. They were also given the right to check the financial benefits and bonuses given to any board member to ensure that they comply with the legal requirements of the company and have been approved by the board. However, the most significant update introduced in this administrative decision would be the requirement to carry out all internal audit work in accordance with the International Professional Practices Framework (IPPF) which was issued by the Institute of Internal Auditors (IIA). Furthermore, internal auditors of public joint-stock companies are obligated to cooperate with the external auditor and provide them with all the necessary information and evidence in accordance with the International Standards on Auditing (ISA) (PwC, 2016).

Another notable function of CMA in the process of developing the accountancy and auditing profession in Oman and raising awareness among those practising it, is collaborating with regional and international expertise in the field to learn from their experiences. A good example is their participation in a biennial forum organised by the Gulf Cooperation Council Accounting and Auditing Organisation (GCCAAO) which reviews international developments in the profession and their applicability in the region. In December 2011, the forum was held in Muscat and hosted by CMA and Oman's Chamber of Commerce and Industry. Representatives from various public joint-stock companies have joined local and regional experts in the field of accountancy and auditing as well as representatives from international bodies such as the International Accounting Standards Board and the World Bank to discuss developing and unifying the practical aspect of the profession as well as preparing and implementing consistent academic programmes in all GCC countries (CMA, 2021). Several topics were highlighted in this forum including: the role of international accounting bodies and central banks in the development of the profession, the importance of having effective internal audit mechanisms within government institutions and discussions of recent reports on the quality of applied audit standards and practices within GCC countries (Kuwait News Agency, 2011). Participation in these events have helped in raising a general awareness of contemporary issues in the field of accountancy and auditing among the employees of national financial institutions especially the Central Bank of Oman and the State Audit Institution.

8.4 The Development of Corporate Governance

After reshaping the structure of the capital market in Oman, CMA, as the supervisory body of the capital market, started working towards introducing reliable corporate governance practices that defines and separates the duties of firms' management, shareholders and board of directors. Their main objective was to direct publicly listed companies into building a strong, transparent and competitive market that stimulates the growth of the national economy (CMA, 2021). The country was also working on joining the WTO to increase investors' trust in the market and attract more foreign investments (Al Husaini, 2011).

An interview was conducted with Sayyid Hamid Al-Busaidi, the first executive director of Oman Centre for Governance and Sustainability (OCGS) and the man behind its establishment, to get a clearer picture of how corporate governance developed in Oman during the last 25 years. In the interview, he talked about the process of how the current Oman Centre for Governance and Sustainability has developed from a small department within CMA in 2001 to a financially and administratively independent government institution since 2015. He asserted that the development of corporate governance in Oman has gone through four phases in the period between 1998 until now. The first phase started with the establishment of CMA, which marked the introduction of the first corporate governance practices in Oman as part of the government's reforms that followed MSM's crash of 1998. During this phase, the responsibility of supervising public joint-stock companies was fully transferred from the Ministry of Commerce and Industry to CMA. Therefore, a department called Governance and Internal Control was established to overlook the introduction of appropriate governance practices within these companies. Since the commencement of its operations, the department worked on promoting the following corporate governance practices:

1. fair disclosure of audited financial information that is presented in accordance with the IFRS.
2. disclosure of related-party transactions and significant non-financial information to enhance the level of trust between the company and its shareholders.
3. protecting the rights of minority investors.
4. setting clear criteria for electing board members
5. holding regular general meetings.
6. defining and explaining the responsibilities of the company's management towards the board of directors and shareholders.

During the first quarter of 2001, CMA issued two official circulars that contain the above-mentioned information to organise the relationship between publicly listed companies and stakeholders. These circulars, however, were more like voluntarily measures rather than mandatory requirements. Nonetheless, two of the interviewees, Khalid Ansari and Ahmad Al Mukhaini, believe that the market has responded well to these guidelines and the companies' level of compliance was quite satisfactory.

The second phase was the phase which marked the issuance of the country's first corporate governance code in 2002. Before doing so, CMA has worked on familiarising and assimilating the market with the concept of corporate governance. In addition to issuing the two above-mentioned circulars, CMA organised a workshop on how to organise and manage public joint-stock companies in June 2001. Afterwards, a committee was formed which included experts from the Governance and Internal Control Department within CMA as well as experts from various sectors of the capital market and representatives from public shareholding companies and the Big Four to work on drafting a corporate governance code to augment the already existing legal provisions in Omani corporate laws and the Capital Market Law. They would do so by using the best corporate governance practices prevailing internationally, namely the OECD principles of Corporate Governance, but after reformulating them to adapt with the nature of the local Omani market. One of their priorities was to draft the code in a way that ensures commitment, transparency and a sense of responsibility without complicating the companies' business operations. Before issuing the final version, a draft code was issued for local and international public consultation and to get a sense of how the market would respond to it. The public's notes and suggestions were taken into consideration for the final version which was approved in a conference that involved representatives from all GCC countries in May 2002 and ultimately published in June 2002. It was called the (Code of Corporate Governance for Public Listed Companies) and has become the first corporate governance code to be formulated and issued in the Arabian Gulf region. In order to give companies an adequate period of time to familiarise themselves with the articles of the code, the application of some of the rules was postponed shortly until full implementation was mandated on January 1, 2004. Sayyid Hamid considers this to be a regional accomplishment for the Omani government and CMA for being the first country in the region to realise the significance of corporate governance practices in strengthening the capital market and national economy by improving companies' administrative structures, internal control systems and the efficiency of their board of directors. He further notes that Oman was ranked first with regards to the application of corporate governance practices in the MENA region in 2006 in a survey conducted by the IFC in cooperation with Dubai's Institute for Corporate Governance which falls under DIFC. Oman's corporate governance framework complied with almost 70% of the international guidelines on corporate governance, compared to 50% compliance in Kuwait and Saudi Arabia, and 40% in Bahrain and the UAE (Abdallah, 2008).

The third phase is the one in which Sayyid Hamid involvement with corporate governance in Oman started taking place. His awareness about the importance of corporate governance started while working on his master's degree dissertation in Cardiff University in 2006. The following year, he went back to his job in CMA and worked on a proposal for CMA's board of directors to form a separate department that solely focuses on raising the market's awareness about the concept of governance and its significance not just for the stakeholders, but for the companies themselves. He also advocated the introduction of the concept of governance among all types of companies in Oman, not just public joint-stock companies. The board approved his proposal, and the Corporate Governance Department was established in May 2007 with him appointed as the director. According to Sayyid Hamid, the department's responsibilities at the time included the following:

1. raising awareness about the concept of governance among all companies and stakeholders through various training programmes, conferences, and workshops.
2. encouraging companies to issue their own internal corporate governance guides.
3. measuring companies' compliance with the existing Code of Organising and Managing Companies.
4. reporting cases of non-compliance to the board of CMA to decide on the appropriate disciplinary measure.
5. working on issuing a corporate governance code for family-owned businesses.

Three years later in 2010, and after receiving an approval from the ministers' council, the department was upgraded to Oman Centre for Corporate Governance, but was still under the administration of CMA. In 2013, the executive president of CMA advised the formation of the Corporate Governance Development Committee to review the existing 2002 code and work on updating in line with the new international corporate governance practices and recent developments in the field while adapting them to the Omani context. The committee was headed by Sayyid Hamid himself and comprised seven other members from the Ministry of Commerce & Industry, CMA and representatives from the public sector, private sector and the Big Four.

The fourth phase is a major milestone for the development of corporate governance in Oman. It started with the issuance of the Royal Decree (30/2015) on 14/07/2015, which proclaims the establishment of OCGS as an independent institution with its own board of directors and allocated budget. Sayyid Hamid explains that this move was a result of the efforts of CMA's executive president at the time, Abdullah Al Salmi. He thought that the Omani market had been familiarised with the concept of corporate governance and non-financial reporting since 2002 and was ready to be introduced to sustainability accounting and Corporate Social Responsibility (CSR). He believed it would be a sensible move to advance the level of investors' confidence in the market especially with the growing size of its capital, the increase in the number of listed companies and, consequently, the increase in the number of market participants. He started an initiative in which he would invite various representatives from both the private and public sector to arranged meetings with experts in sustainability reporting to encourage them to think of their environmental, social, and economic responsibilities towards the society they operate in. Furthermore, he believed that separating the centre from the supervisory body (i.e., CMA) would give the former the legal capacity to work with companies and institutions that are not supervised by CMA such as state-owned companies, family firms, and government bodies. Moreover, the separation would overcome the conflict of interest which results from CMA being the regulatory and supervisory body as well as a training provider at the same time. Therefore, another proposal was first submitted to the Council of Ministers and then to the Ministry of Legal Affairs to separate the centre from CMA and rename it to Oman Centre for Governance and Sustainability. The proposal explained that this move is expected to result in the following:

1. creating a reliable market and business environment by spreading good governance practices.
2. minimising the risks associated with market volatility because investors are more informed and better able to assess their investment decisions.
3. facilitating economic growth by attracting further domestic and foreign participation in the Omani market.

The proposal was approved, and the Royal Decree was issued to promulgate the separation of the centre in 2015. The new centre worked as a platform that connects market participants with CMA as the government's supervisory body. Its first task was to publish the new corporate governance code for public joint-stock companies which they have been working on and assisting these companies through the implementation phase. The new updated code builds on the previous one and benefits from other Arab and international experiences to achieve better compliance, reporting, disclosure and investor protection. The new code places considerable compliance-related obligations on the company's board of directors, executive management and external auditors. The most notable changes with regards to reporting and disclosure include requiring the board of directors to report on the company's corporate governance arrangements and compliance with the new code in their annual report and introducing revised rules concerning the disclosure of related-party transactions (Patel, 2016). The final version of the new code was issued in July 2015 and came into force 12 months later in July 2016. The new code was also based on Cadbury's comply-or-explain. The legal enforcement of the code is a shared responsibility between OCGS and CMA. OCGS works as a compliance monitor. This means that, in case of non-compliance, they ask the relevant company to explain their reasons. If none were given, OCGS reports the non-compliance case to CMA, as the capital market's supervisor who is responsible for penalty enforcement.

Additionally, OCGS has issued a special corporate governance code for State Owned Enterprises (SOE) in 2020 which contains 11 principles that aim to increase the level of disclosure and transparency in companies in which the government owns direct shares. For instance, the code requires the public disclosure of unaudited statements quarterly and audited annual financial statements which was, prior to the issuance of this code, only applicable to public listed companies. Moreover, it stresses the adoption of a commercial and economic approach by instating a robust separation of the government and management of the company to ensure an equitable treatment of other shareholders. It also adds an article that focuses on the privatisation of SOEs. According to article 7 of the code, any SOE to be established after the issuance of this code must be legally registered as a general joint stock company with a gradual reduction of the government's share over the course of 10 years to no more than 5%. Another notable adjustment is ensuring that SOEs are treated on equal footing with private businesses with no favourable treatments or special protection provided to the former, therby encouraging fair competition for the interest on the national economy. In addition to corporate governance codes of publicly listed companies and SOEs, OCGS is also currently working on drafting corporate governance codes for SMEs and large family firms operating in Oman.

The centre has also been partnering with the IFC to design and carry out training programmes, workshops and conferences on the local and international levels to exchange expertise in the fields of corporate governance and social responsibility. They have been offering companies a chance to become members in OCGS for an annual fee of OMR 1,000. Major companies from various sectors have become OCGS members such Petroleum Development Oman, Bank Muscat, Omantel and Muscat Stock Exchange. Members are granted an access to various services provided by the centre such as: Discounted rates for training programmes and workshops, access to networking events and programs, easy access to the latest research papers and studies in the field, special invitation to OCGS annual event and an opportunity to become a board member of OCGS. Furthermore, the separation from CMA has allowed the centre to offer consultation services with regards to governance practices in addition to performing governance gap analysis to benchmark a company's existing governance policies and practices with the market's best practices. These services are aimed at providing companies with a clear understanding of their strengths and weaknesses so that their corporate governance framework can be assessed. Sayyid Hamid further adds that the centre launched the Corporate Governance Excellence Awards for companies listed on MSM which was the first of its kind in the region. It aims to disseminate corporate governance awareness among the listed companies and encourages them to apply best international corporate governance practices and standards, thereby enhancing investor confidence, maximising the value for shareholders, increasing the gross domestic product of the national economy and stimulating overall economic growth.

Finally, when asked whether they have received any help in developing the corporate governance framework in Oman from an international body, Sayyid Hamid answered that the OECD has had a great influence in the matter. Through their 2005 MENA-OECD Investment Programme, 2016 MENA-OECD Competitiveness Programme, and the MENA-OECD Working Group on Corporate Governance, the organisation has managed to offer MENA governments substantial support in building and strengthening their corporate governance frameworks. These programmes were launched at the request of MENA governments themselves, including Oman, with an objective to facilitate domestic and foreign investments, develop the private sector and encourage entrepreneurship to support overall economic growth in the region (OECD, 2019). To do so, the OECD has implemented a horizontal approach of policy dialogue and consensus building through the exchange of experiences and good practices, including, corporate governance. The programmes worked as a platform for the OECD and MENA governments to review the potential solutions to common economic challenges in the region and explore ways to foster economic growth and support regional and international integration (OECD, 2019). The OECD has acknowledged the positive relationship between strong corporate governance frameworks and companies' increased ability to access corporate finance, better financial performance and higher market valuation (Haque et al., 2008; Cheung et al., 2014; IMF, 2016). In other words, sound corporate governance policies often translate into greater opportunities for companies' growth and efficient capital markets that attract domestic and foreign investors which ultimately leads to the growth of economy as a whole. Thus, in order to achieve the objectives of their programmes in the region, the OECD has supported corporate governance reform efforts in MENA countries, including Oman, as part of an overall business climate reforms. Through their Investment Programme and Competitiveness Programme, the OECD has been providing MENA governments with policy advice underpinned by comparative analytical work to support corporate governance policy formation and implementation at the national and regional levels. The approach has been promoting co-operation and mutual learning among relevant parties, including regional and international institutions, government regulatory bodies and the private sector. The OECD focused on four main themes: capital market development, enhancing transparency and disclosure, women participation in corporate leadership and improving the corporate governance of SOEs (OECD, 2019).

With regards to developing corporate governance in Oman, the interviewee pointed out that the OECD has worked as a policy adviser when they were working on drafting and issuing the first and second corporate governance codes. Drafts of both codes were sent to the OECD for consultation before issuing the final revised version that took into consideration their policy recommendations. Second, the OECD's G20/OECD Principles of Corporate Governance were used as a benchmark in the process of drafting the Sultanate's codes to keep them closely aligned with the international standards (OECD, 2015). These standards focus on guaranteeing timely and accurate disclosure on all substantial matters regarding the operations of companies, including their financial position, performance, ownership and governance. Third, Oman, represented by CMA and OCGS, have been participating in the OECD’s annual conference for MENA governments to view and discuss the latest corporate governance practices and their applicability to the region’s business environment.

8.5 The Role of International Accounting Firms in the Transfer of Accounting Knowledge to Oman

The government’s economic modernisation efforts that have been carried out since the 1970s have changed the nature of the business environment in Oman. The size of business entities and the volume of transactions have dramatically increased. Large business corporations, family conglomerates and state-owned enterprises have replaced trade merchants. Moreover, professional auditing and reporting requirements have started appearing in the provisions of national laws such as the Currency Decree which was issued in 1970 and the Banking Law of 1974[14] in addition to the previously mentioned Commercial Companies Law. This has, consequently, created a demand for professional accounting and auditing services, especially after the incorporation of accounting formal rules within the country’s legal framework in 1986. Prospects of market growth attracted professional service providers (i.e., international accounting firms) to start operating in Oman since the early 1970s. Examples of these are Peat Marwick (later KPMG), Price Waterhouse, Coopers & Lybrand (PwC after the merger), Saba & Co. and Deloitte, Haskin & Sells. These international firms were major sites in which professional accounting and auditing was first practised in Oman. Because these firms are integrated with their international counterparts as well as being subject to independent reviews by the parent company, their services in Oman are expected to be consistent with the services provided in other parts of the world. In other words, the audit reports signed off by the Big Four in the UK would, ideally, be of the same quality of audit reports signed off in Oman. To understand the scope of these firms’ involvement in the development of the profession and their role in transferring accounting knowledge and best practices to Oman, interviews were conducted with current and retired senior members of the Big Four who joined at an

[14] Article (6) of the Currency Decree mandates the maintenance of annually audited books and accounts of the Currency Authority. These must be signed off by the appointed auditor and submitted to the Sultan at the end of each financial year. Similarly, Article (4.5) of the Banking Law mandates the appointment of independent auditors to conduct full and complete annual audits of CBO. The law also requires that amounts of profits, losses, credits debits, depreciation, funded and unfunded reserves and other financial analyses shall be determined according to the generally accepted principles of accounting chosen by the Board of Governors and approved by the auditors.

early stage of the firms' operations in the country. The information gathered from these interviews are presented below.

8.5.1 Training Initiatives

One common answer received from all the interviewees is that the Big Four in Oman have been heavily involved in training and qualifying young Omani accountants in both the private and public sector. They have been regularly organising seminars, workshops, and conferences on a various range of accountancy and auditing topics as well as recent developments in the field. One notable example mentioned by Khalid Ansari was the IFRS training sessions delivered to accountants of large private firms and banks after they were legally adopted in 1986. In general, training sessions were not just targeting the accountants and auditors of private companies, but also of government entities such as CMA, CBO, Ministry of Finance, State Audit, Tax Authority, Oman Investment Authority (previously, the State General Reserve Fund) and state-owned companies. These sessions were delivered free of charge when they were first introduced back in the 1980s. Then, throughout the 1990s, as the market's awareness about the importance of proper accountancy and auditing for the growth of not just individual businesses but the economy as a whole was increasing, so did the demand for these training sessions. Owners of family businesses as well as small and medium enterprises have started approaching the Big Four and requesting to train their employees. The Big Four then started organising these sessions on a larger scale and charging a fee on registration and attendance. Unfortunately, however, no specific details on the dates, locations, topics covered and fees were mentioned by the interviewees.

In addition, The Big Four were actively working on attracting Omanis into the accounting profession. One of the interviewees, Khalid Ansari, was involved in several programmes of this nature during his time at KPMG Oman. For example, they have always welcomed Omani fresh graduates in accounting to join the firm in junior positions. During the first 3-4 years of their employment, they were offered on-the-job training programme to receive one of the professional accounting certificates as part of their career development plan and a pre-condition for getting promoted to senior positions. Since the commencement of its operations in Oman in 1975, KPMG has managed to train a large number of Omanis to become certified chartered accountants. Moreover, they have implemented a training scheme which allows their well-performing employees to work in one of their international offices to give them a higher exposure and a wider experience in practising professional accounting and auditing services.

Although Khalid Ansari was a member of the ICAEW himself, he says that not many Omani accounting graduates were able to get certified because they required the training and examination to be done in the UK. However, the ACCA was more flexible in this regard by allowing training and examination to be done in Oman. One of the problems he faced, however, was that the accounting degree offered by Sultan Qaboos University (SQU) in Oman was not recognised by the ACCA or the ICAEW as an equivalent to a British Accounting university degree. This meant that SQU graduates in accounting were treated as A-Levels graduates, and, therefore, they would have to take all 13 ACCA exams in addition to the practical work experience to achieve certification. As a result, the majority of Omani accounting graduates would either drop out shortly after starting the certification course, or not even consider taking it at all. To overcome this issue, Ansari worked as a liaison to get SQU's accounting programme to be recognised by the ACCA and exempt their accounting graduates from 7 out of 13 exams. Doing so successfully encouraged more than 200 SQU graduates to pursue ACCA certification at the time.

Ansari also talked about his involvement in the 'Omanisation of the Accounting Profession' initiative, which he presented to members of the Ministry of Finance in 1990. Their main goal was to tackle the shortage of certified Omani accountants in the public sector and state-owned companies. One of the successful projects they worked on was to take 10 newly Omani accounting graduates employed in government financial institutions to work in KPMG for one year. The project was approved by the ministry and 10 employees from CBO were sent to KPMG's office in Muscat. During the first two months of the programme, they undertook classroom training which emphasised the practicality of the accounting concepts and theories they have been introduced to in their universities. The following six months of the programme featured the participants' secondment to KPMG's London office to participate in auditing British-based banks. The last 4 months of the programme involved coming back to Oman so the participants could apply their acquired skills and knowledge in auditing 4 major banks in Muscat. The outcomes of the project were successfully met, and all the participants have progressed to senior positions in CBO. Another interviewee, Nader Al Rawahi, has spoken about a similar programme carried out by KPMG in late 1999 to train the auditors of the State Audit Institution after being declared as a fully independent institution by a Royal Decree that year. Therefore, 18 auditors from the State Audit Institution have gone through a selection process by KPMG that included an examination and an interview to ensure the selection of committed, competitive candidates and achieve optimal outcomes. The training spanned over a period of 6 months and involved theoretical training as well as practical training as full-time employees in the firm.

Another initiative that KPMG worked on but, unfortunately, died in the process because of the government's inefficient bureaucracy, was to revive an already existing professional accountancy training programme which was carried out in the Higher College of Technology. The college was running a training programme for unemployed Omani accountants to get them ACCA certified. The programme was failing because the participants would drop out midway through. To solve the issue, Ansari suggested doing a pilot study in which he would take 25 of the participants enrolled in the training programme to get practical experience by working as interns at KPMG between teaching periods. During the internship, the supervisors would pinpoint the difficulties the participants were facing, and accounting tutors from the UK would be flown in to provide them with additional support. Supplementing the government's training programme with practical on-the-job training was expected to enhance the participants performance especially that they were promised permanent jobs in any KPMG branch in the Gulf region if they get certified.

In addition to the increasing demand for professional accounting and auditing services, Ansari adds that there was a similar demand for bookkeeping services in the Omani market. As people were more encouraged to start and grow their own businesses, bookkeeping services such as recording sales, purchases, payables and receivables as well as maintaining regular accounts and ledgers were increasingly needed. At the time, almost anyone could work as a bookkeeper without a university degree or a professional qualification. For this reason, KPMG have worked with the International Association of Bookkeepers (IAB) to provide Omani bookkeepers with the necessary training to become IAB qualified. This qualification has helped them to enhance their job performance and supported their career development, especially that most of them were school dropouts. Unfortunately, the interviewee does not remember the exact number of participants because the programme was carried out more than once through several years. Due to the success of the initial version of the programme, the interviewee received an honorary certificate from the IAB to thank him for his efforts. He believes that knowledge transferred from overseas must be tailored to the needs of local trainees in order to be successful. For example, in this case, because most of the trainees were school dropouts and their English language was not very good, it would have been hard for them to pass a course that is fully delivered in English. Therefore, he increased the course's minimum requirement of teaching hours by 30% so that the additional hours would be delivered to participants in Arabic. The results were remarkable, and all the participants have received the qualification by the end of the programme.

PwC Oman have also carried out similar activities in Oman. In an interview with Kenneth Macfarlane, he stated that the company has been involved in training Omani accountants since the 1990s. It was pointed out that this training initiative has started in response to the government’s Omanisation policy. This policy is part of the government’s modernisation strategies and aims to replace expatriates with trained Omani personnel. Therefore, they started hiring 10 Omani fresh graduate accountants every year to go through an on-the-job training programme for 3 to 4 years which concludes by receiving an international technical accounting certificate, mostly the ACCA. By hiring fresh graduates, the firm was able to maintain the quality of the training and education received by their employees at an early stage of their employment as well as build and maintain employees’ loyalty. Those who pass the training requirements were then promoted to senior positions either in the firm itself or choose to move into other industries. Interestingly, the interviewee mentioned that this scheme did not just help them to achieve Omanisation targets, but it was also part of their business imperatives as a way of expanding their client base. This is because Omanis who have been trained, employed and mentored in the firm build a sense of loyalty and belonging towards that same firm which motivates them to bring in additional clients either by personal referral or becoming a client themselves in case they move to a different company.

A similar on-the-job programme has been implemented in Deloitte, which they have named Deloitte’s Omanisation Programme. It focuses on developing the skills and careers of young Omani accountants and enabling them to develop to senior positions in the firm. A highlighted outcome of this programme is the appointment of one of its participants as the managing partner of the firm’s Oman practice in 2019 to become the first Omani to hold this position. Similarly, Deloitte has launched an internship programme called (Tadarab) which targets students that are one year away from graduating. The programme intends to give participants real-world exposure to the auditors’ work and allows them to utilise the firm’s learning and development programmes. What distinguishes this training programme is that it offers participants the opportunity to work virtually with an international team of Deloitte’s employees from different countries around the world. They get to meet and learn from professionals of different backgrounds and experiences which helps them acquire the necessary skills to operate in a global marketplace and deal with issues affecting international clients. Since launching the programme in Oman in 2014, 10 to 15 Omani students have participated in this programme annually and received training in areas of audit, consulting, financial advisory and taxation. Several well-performing interns were later offered to join the firm after their graduation.

8.5.2 Supporting Government Efforts to Develop the Profession

The above-mentioned narrative has shown that the Big Four were present on various government committees in Oman. Examples would be the previously mentioned Technical Accounting and Audit Committee within CMA and the Corporate Governance Development Committee. The interviews have revealed that the Big Four were, as a matter of fact, frequently approached by the government of Oman to assist with various issues of accounting, auditing and financial reporting.

PwC Oman, for example, has worked with the government on several occasions to advise on emerging topics of accounting and corporate governance. For instance, in the early 2000s, the government has sought the help of the firm to explain what was then the newly issued IAS 39 which affected the requirements for the recognition and measurement of financial instruments. As a result, PwC carried out a series of seminars directed at the employees of CBO, CMA as well as audit and finance seniors at large business enterprises in the country to support a correct and consistent application of the newly issued standard. These seminars were delivered by the firm's in-house experts as well as others flown in from the UK. Similar, and more recent, collaboration with the government has been the training of accountants and auditors of Islamic banks on applying the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)'s Accounting Shariah Standards following their official adoption in Oman. Furthermore, annual meetings were held with Islamic Banks' accountants and representatives from CBO to discuss latest international developments in accounting and their implications on the Omani market.

Deloitte has also been carrying out similar projects with the Omani government. Recently, the firm has taken an advisory role for the Ministry of Finance with regards to the introduction and implementation of the Value Added Tax (VAT). Part of the firm's work was to prepare, publish and circulate leaflets and booklets to help small and medium enterprises understand the implications and requirements of the law. Moreover, the firm has been running a series of seminars at the government's request to keep the market updated with the most recent developments in the field. An example given by an interviewee is a seminar which he delivered back in 2014 titled: "International Financial Reporting Standards – IFRS Update". It was attended by finance managers and professionals from various market sectors and leading companies in Oman. Just as indicated by its title, the seminar discussed the new announcements and projects of the IASB and the FASB, IFRS reporting requirements for small and medium enterprises, and plans for robust and appropriate adoption of any key changes in the accounting standards.

The interviewees have also mentioned that when the government was working on the new Commercial Companies Law in 2018, a draft was submitted to the Big Four for review. The firms were consulted on elements of the law that involve accounting, financial reporting and corporate governance. Written reports with the firms' comments and suggestions were requested to be submitted to the Ministry of Commerce and Industry prior to the issuance of the final version of the law.

EY has also partnered with the State Audit Institution upon its establishment as an independent institution back in 1999 to develop audit manuals for their employees, outlining the standards, guidelines and procedures of their work as auditors of government institutions. These manuals explained how to audit Oman's ministries and state offices based on the latter's sequence of processes and operating procedures. In addition, they were customised based on the needs of every sector (i.e., telecommunication, oil & gas, healthcare, etc.). Similarly, EY has developed Internal Audit Manuals of various ministries and government authorities such as the Ministry of Housing, the Ministry of Environment and Climate Affairs, and the Tax Authority as well as helping them with the installation of their own accounting IT systems.

On another note, The Big Four have also helped in bridging the gap between accounting education in SQU, the largest public university in Oman, and workplace requirements. According to Nader Al Rawahi, during his time at both KPMG and EY, the Big Four were approached on multiple occasions by SQU, namely the College of Commerce and Economics, to fill in lecturer shortages. For this reason, the interviewee got the chance to work as a teaching assistant for an introductory audit module within the accounting department in 2002. To his shock, he found that accounting students were being taught American auditing textbooks based on the GAAP, while the law in Oman requires the application of IFRS. Therefore, he liaised with the module leader, head of department and dean of faculty to change the syllabus in order to match the legal accounting and auditing requirements of the Omani market. The syllabus change was permanently instated and was gradually applied to other courses in the department.

The interviewees have all agreed that their relationship with the government is of a mutual support and cooperation. They simply would not have been able to carry out the above-mentioned activities if the government had not given them the capacity. The Big Four's support of government's initiatives to assimilate the international accounting knowledge and best practices has been met with government efforts to create a regulated and well-supervised environment in which all market participants, including Big Four auditors, felt free to carry out their jobs in the best possible way.

8.5.3 International Accounting Professionals

One of the ways in which the Big Four have aided the transfer of accounting knowledge and best practices to Oman is through the secondment of accounting professionals from different parts of the world. The lack of Omani certified accountants 50 years ago necessitated bringing professionals from other countries to fill this gap. Those individuals were the first to practise the profession in the country and had the responsibility of training and mentoring many Omani accountants since the 1970s. Nader Al Rawahi, for instance, mentioned that when he first joined KPMG along with a group of around 25 other fresh graduates in 1996, they were all assigned different mentors to supervise their career development. Monthly meetings were arranged with every employee during the first two years of their employment to set monthly learning goals and assess the learning outcomes. It was a direct way of knowledge transfer from professional expatriates to the newly employed Omanis. Although many efforts have been made to train and certify Omani accountants, all the interviewees have agreed that the number is still not sufficient to cover the needs of the market. For this reason, many senior positions in the Big Four are still held by expatriates. Additionally, many certified Omani accountants choose to move into other business sectors to seek lower workload and higher salaries.

One of the interviewees, Kenneth Macfarlane, has noted that, in the period between 2000 and 2010, only around 20% of PwC’s senior positions were held by Omanis. This percentage kept increasing through the past 20 years and is currently at 30%, falling under the government’s Omanisation target of 45%. He further added that when he joined PwC Oman back in 2000, the company had 4 partners. One of them was Egyptian, while the others were British. They had senior managerial staff of Indians and Pakistanis as well. Deloitte, EY and KPMG have had similar conditions in terms of the ratio of expatriates and Omanis in the company. The interviewees recurrently commented that these senior expatriate professionals have been, in many instances, involved in training Omani accountants in various stages of their careers.

8.6 An Omani Accounting Profession

Following almost five decades of continuous efforts to develop the profession in Oman in terms of legislation, regulatory government institutions, qualifying Omani accountants and raising awareness among market participants, the first signs of an Omani accounting profession have started to appear. The profession, so far, has been influenced by international developments in the field brought in by the Big Four and, to a lesser extent, international financial institutions such as the IMF and the OECD.

The Omani Association of Chartered Public Accountant (OACPA) was declared an official registered local association in May 2016. The idea behind the establishment of this association is attributable to Salim Al Khusaibi, an Omani chartered accountant who was working at a state-owned company, Oman Daily News and owns his own local audit practice. He was also Oman's representative in the annual meetings of the GCCAAO since its establishment in 2001. He was inspired by similar initiatives in neighbouring Gulf countries which, at the time, had already established their own professional accounting associations, albeit, with varying roles and scope of authority.

Conversations of setting up Oman's own professional accounting body were initiated in 2014. Salim Al Khusaibi managed to gather around 50 senior experienced Omani accountants who were also interested in taking this move and believed it to be the natural next step in the development of the profession in Oman. One of them was Nader Al Rawahi. They submitted an application to the Ministry of Social Development, which is the government institution responsible for regulating local associations and clubs, including, professional associations. Almost two years later, their application was approved, and OACPA was officially registered and licensed. Their main objectives were: (1) improve the accounting and auditing profession in Oman and establishing an effective relationship with stakeholders of the Omani market; (2) develop the professional skills of Omani accountants and auditors through conferences, seminars and training programmes; (3) provide professional advice for the private and public sector; (4) become a national reference for latest developments and scientific research in the field.

However, for several years after its establishment, the OACPA remained inactive. According to Al Rawahi, the global pandemic in 2020 was a turning point for them. As the pace of life suddenly slowed down, it allowed them to reprioritise their OACPA agenda. They successfully set up a new constitution and membership requirements of different categories such as: Full membership, Associate membership, Students membership and Auditing Offices membership. Moreover, they signed an MoU with the ACCA to work on enhancing the quality of local audit practices in Oman. They have also applied for an IFAC membership which is currently being processed. In addition, they have collaborated with professional accounting associations of Qatar, Kuwait and Saudi Arabia to mutually benefit from accounting and auditing expertise of all three countries. Finally, they have been actively organising training courses and programmes. Examples of these courses are: (1) preparatory course for the Certified Internal Auditor fellowship (CIA); (2) the Professional Practices of Internal Auditor course; (3) Financial Statements, Accounting Treatments, and Financial Analysis in accordance with IFRS; (4) Report Writing for Internal Auditors; (5) Developing Accounting Skills. Attendants of these course are a mix of government employees, private companies' accountants and auditors as well as SME owners. They are also working on hosting the next annual conference of the Confederation of Asian and Pacific Accountants in Oman. Finally, they have joined government institutions in their efforts to develop the profession in Oman. This was evident in two events. First, they managed to secure a seat on the registration committee of the Accountants and Auditors Registerer which falls under the Ministry of Commerce, Industry and Investment Promotion. Second, the Ministry of Labour has granted the OACPA an official licence to host and direct the Sector Skills Unit[15] for Accountancy, Finance and Auditing. This is part of the national efforts to establish independent entities representing professional sectors, including accountancy and auditing, as well as activating the role of professional associations within the society. These entities are expected to be responsible of monitoring the needs of the labour market and translate them into knowledge products that would bridge the gap between accounting educational outcomes and market needs. Most importantly, they are expected to focus on developing the National Professional Accounting Standards which specify the competencies, knowledge and skills that an accountant must have in order to perform the job in an excellent manner. These standards will then be used as a reference to customise accounting training and educational programmes, assessment frameworks and professional licensing requirements that would, ultimately, raise the quality of accounting and auditing practices in Oman.

The major project for the association, however, is the establishment of Oman's own professional accounting examination and certification. They want to expand their roles to match those of other regional and international counterparts. In other words, they want to make their membership a precondition for practising the profession in Oman. This would give them the authority to monitor and regulate holders of their practising certificate. They would also be able to enforce higher practising standards once a disciplinary process, including official reprimands, fines and removal of membership, is put in place. These measures would, consequently, further enhance the quality of the practised accounting and auditing in Oman. Hence, members of OACPA are currently carrying out discussions with two parties. The first is the Ministry of Commerce, Industry and Investment Promotion, which is currently the government institution responsible for registering chartered accountants and auditing firms in Oman. The second is the ACCA, to provision a training programme and an examination that match the Omani business environment. They would then partner with local higher education institutions and the Big Four to provide training courses for accountants and accounting students.

[15] Sector Skills councils or units are Employer-led bodies licensed by the government to develop occupational standards and skills solutions for different sectors based on market demands.

Unfortunately, however, the implicit restrictions placed on civil society organisations in Oman, generally for political reasons, have affected the development of professional associations as well. They have been functioning in Oman as social clubs to share knowledge, exchange of latest developments in the field and support members of the same profession. However, their authoritative and regulatory powers have always been kept to a minimum. With this in mind, the OACPA might still have a long way to go before becoming a well-recognised accounting body regionally and internationally.

8.7 Chapter Summary

Given the sequence of events, it would be fair to conclude that the development of professional accountancy and auditing in Oman is strongly related to the economic conditions of the country. Before the 1970s, the scale of economic activities simply did not require an advanced form of accounting and auditing practices. However, as the situation slowly started to change after 1970 due to the unpreceded oil revenues and the economic modernisation plans pursued by the new regime, a solid need for these services was created.

In the early 1970s, the introduction of accounting and auditing measures into the institutional framework of the government was a direct result of a failure to match annual revenues with annual spending. Therefore, accounting and auditing was introduced as a financial control measure to enhance the government’s financial position and facilitate a successful application of their economic development policies. As the Omani government moved towards developing its private sector and capital market by attracting local and international investments, they also worked on professionalising the practise of accounting, auditing and financial reporting to create a safe and trusted business environment. The establishment of CMA is considered a major event in this context because of its supervisory role on accounting and auditing practices which barely existed before. The reinforcement of proper accounting and auditing practices was one of the institutional arrangements to develop an effective capital market that attracts domestic and foreign investments into the country, resulting in an overall growth of the economy. The two events were proved to be positively related in other similar settings such as Iran and Jordan (Roudaki, 2008; Al Farah et al., 2015). In Iran, for instance, Roudaki (2008) pointed out that the establishment of Tehran Stock Exchange which resulted in an increase in the number of market participants and value of trading activities have encouraged the use of proper accounting and financial reporting practices to ensure fair disclosure as well as the uniformity and comparability of reported information. Similarly, in Jordan, Al Farah et al. (2015) have concluded that the establishment of Amman Stock Exchange have created a demand for professional accountancy and auditing services, hence, being the main driver for the Jordanian government's efforts to build an institutional and regulatory framework to regulate the profession in the country.

The gathered data has shown that the Big Four have been influential in developing the profession in Oman. With the government's support, they have taken part in training Omani accountants, advised the government on building their accounting institutional structure and were the vessels that brought global expertise in the field from all over the world to Oman. Nader Al Rawahi, who built his career in KPMG and EY, interestingly believes that his time in the Big Four has given him skills, knowledge and experience that he would not have been able to get elsewhere. He also believes that the set of skills and expertise that he acquired while working at these two international auditing firms is what enabled him to do the work he is doing for the government now. Although international British banks (i.e., BBME, Eastern Bank and National & Grindlays) and international oil companies (i.e., Shell, TotalEnergies and Partex) were the first to practise modern accountancy in Oman since the commencement of their operations in the late 1940s and 1950s, respectively, no evidence has been found of any efforts to transfer accounting knowledge into the country. In fact, H.E. Al Zubair mentioned that these international businesses have always brought in accountants and auditors from the company's headquarters to carry out annual audits of their Muscat office and leave once they have completed their work.

Overall, the interviewees have all agreed that Oman has taken huge steps in the last 50 years to organise the practise of the accountancy profession in the country in accordance with its economic needs. As a matter of fact, it was the first country in the Arabian Gulf region to mandate the use of IFRS in 1986. It was also the first country in the Gulf region to put into effect a corporate governance code. These measures have resulted in over 25% foreign ownership of listed companies on MSM in 2015 according to CMA's executive president, Abdullah Al Salmi. This is the highest foreign ownership percentage in the region, which indicates that the accounting, financial reporting and corporate governance practices in Oman have successfully increased the level of confidence of international investors in Oman's capital market (Oxford Business group, 2015).

Nonetheless, accounting and auditing practices in Oman would need to be developed further in order to sufficiently support Oman's economic vision for the next 20 years. For instance, currently, in order to practise accounting and auditing services in Oman, an Omani is not legally required to hold any kind of professional certification other than a bachelor's degree in accounting. As a result, many executive positions in the private sector and international firms are still being held be foreign certified accountants. It is, however, important to note that there is currently an ongoing debate between CMA, OACPA and the Ministry of Commerce, Industry and Investment Promotion about making professional certification in accounting a prerequisite for practising the profession in Oman. On the one hand, CMA and OACPA support this action to enhance the quality of the profession, while the Ministry of Commerce, Industry and Investment Promotion still thinks that it is not necessary. Similarly, Al Mukhaini have also touched on the ongoing debate between CMA, OACPA and the Council of Ministers about developing an effective national professional accounting body that sets the country's accounting standards, certifies accountants and supervises the profession. On the one hand, some government officials have advocated increasing the responsibilities of the OACPA and developing the country's own accounting standards in relevance to Oman's economic and cultural context. The interviewees have mentioned that there are currently two proposals from international professional accounting bodies to develop a special examination to certify accountants as a prerequisite for practising the profession in Oman. One of them is from the Muscat Chapter of The Institute of Chartered Accountants of India (ICAI), and the other is from the ACCA. They believe that raising the bar is a significant move to enhance the quality of the profession and its practitioners which will reflect positively on the overall economy. On the other hand, those who oppose this suggestion argue that Oman's economy and its stock market are not large enough to develop the country's own accounting standards. To add more, the country does not have a large number of Omani certified public accountants. According to the interviewee, CMA's last count of practising accountants in Oman have shown a total 120,000 foreign accountants in the country who have been practising the profession in Oman using overseas accounting certifications (i.e., ICAEW, CPA, ACCA, etc.) Therefore, using IFRS is believed to be sufficient for the time being.

The interviewees also believe that the quality of the accounting, auditing and financial reporting practices of public joint-stock companies and banks listed on MSM is high and matches the international accounting standards. This is because these businesses and their auditors (whether Big Four or not) are being regulated by two independent government regulatory bodies which are CMA and CBO. The problem, however, lays in regulating the accounting and auditing practices of the other forms of businesses including SMEs, SOEs and family businesses. At the moment, CMA does not have the authority to regulate SOEs or family businesses, even though some of these businesses have more capital than some publicly listed companies. The published financial information, audit reports and auditors of these companies are not subject to any sort of government supervision and enforcement. Therefore, the importance of having an independent Audit Oversight Board that supervises the audit and auditors of all business forms in Oman has been repeatedly stressed by the interviewees. Furthermore, large limited liability companies, which are mostly family businesses, are not required to disclose and publish their audited financial statements nor file them in the national companies' registerer. For a very long time, no one knew anything about the financial position of these companies. They believe that mandating the disclosure of these companies' finances in the company's registerer is a threshold in creating a transparent, risk-assessed business environment which would, consequently, encourage more domestic and foreign investments. It is also believed that this move is expected in the near future as limited liability companies are already mandated by The Income Tax Law to prepare their audited accounts and statements in accordance with IFRS before submitting them to the tax authorities. In addition, The Central Bank of Oman requires all companies that have a bank facility of more than R.O 250,000 from one bank or R.O 500,000 from different banks to file their audited financial statements within four months from the end of the reporting period (IFRS, 2016). Finally, public sector organisations in Oman (i.e., ministries, authorities, government offices) are, unfortunately, still using cash-basis accounting, although there are currently ongoing plans for the adoption of the International Public Sector Accounting Standards (IPSAS).

Chapter 9 : Discussion

9.1 Introduction

Up to this point, the objective of this thesis has been to understand the ongoing developments of accounting, auditing, financial reporting and corporate governance in Oman in relation to the introduced economic modernisation policies since 1970. A historical narrative has been constructed to permit a deep understanding of the economic and policy factors that surrounded the transfer of international accounting knowledge and its institutionalisation in Oman. The above empirical narrative was informed by a mix of archival evidence along with statements of selected individuals who witnessed and have been involved in the gradual development of the country’s accounting infrastructure through the past 50 years. By looking into the history of accounting development in Oman, we are expected to gain a deeper understanding of how and why accounting institutions take their modern form and what role do they play within the context of economic modernisation. This study is also expected to provide a clearer indication of future developments in the accounting profession in relation to Oman’s upcoming post-oil economic plans as well as other countries of similar economic and political contexts.

The collected data has explored if there is a direct relationship between the development of an institutional framework of accounting, auditing, financial reporting, and corporate governance in Oman and the government’s economic reforms that took place after the ascension of Sultan Qaboos to the throne in 1970. Accounting, auditing, financial reporting and corporate governance were institutionalised by being incorporated within the country’s legal framework and customary business practices as well as the establishment of special supervisory and regulatory government bodies to supervise the profession and its practitioners in Oman. By doing so, accounting practices in Oman were more aligned with the international best practice, thereby providing better protection of property rights and increasing investors’ trust in the Omani market.

International business literature was used to contextualise the transfer and development of accounting in relation to economic modernisation by viewing international firms as vessels for knowledge transfer and engines of economic growth. Contrary to an initial expectation that it would be international banks or international oil companies that transferred accounting knowledge in the case of Oman, given that they have been operating in the country since the 1940s and 1950s, respectively, the data has indicated that it was the Big Four auditing firms that had the major role of facilitating the transfer and development of the profession to Oman. The demand for professional accounting services in Oman was not created when British banks or international oil companies first entered the country in the 1940 and 1950s. As mentioned by Al Zubair, these companies did their own accounting either by expatriate accountants or overseas in their home company. No evidence has been found of efforts to transfer accounting knowledge to Oman, as a host country, by these companies. This could be due to the lack of demand resulting from the absence of complex business activities and financial markets, corporations and large amounts of capital in the country before the 1970s. To a lesser extent, international financial institutions, such as the OECD and the IMF have been involved in the development of the accounting and corporate governance institution in Oman by taking an advisory role for the government and pushing for the implementation of stricter accounting measures to support economic reforms. Similarly, the WTO had a pressure effect on the development of corporate governance in Oman by encouraging members[16] to implement better governance frameworks that establish formal rules for economic operators and governments in an open global economy. Therefore, the case of accounting development in Oman adds to the literature of accounting internationalisation by looking into the transfer of international accounting knowledge into an Arab developing country.

Despite a proven history of British involvement in Oman’s financial matters, and the latter’s being described in the archival documents as a de facto protectorate, no significant evidence has been found of strong British influence on the transfer of accounting and the development of the profession in Oman. British involvement was more evident prior to 1970, as shown by the archival records. It manifested through financial advice, the appointment of British financial experts in high government positions and having a British bank (i.e., BBME) working as the country’s central bank for nearly 30 years. It was the British, however, who first pushed for the incorporation of accounting and auditing measures within the government’s policies and procedures to control fiscal deficits and support the growth of the economy. These findings are confirmatory to those of Altaher et al. (2014) in the case of Kuwait, which was an Arabian Gulf protectorate in the period between 1899 and 1961. They concluded that the nature of the protectorate treaty has limited British interference in Kuwait’s internal affairs. Therefore, unlike former colonies, the Kuwaiti accounting profession did not reflect any British influence. A major finding of the study is that the Kuwaiti government itself was the major player in the process of accounting professionalisation in the country, not the British. The same was true in the case of Oman as no evidence has been found of migrating British accounting firms, British accounting associations or British accountants. It has, however, been noted that a British

[16] Oman became a WTO member in November 2000.

accounting certification, namely the ACCA has been more popular in Oman than any other international certifications.

The government of Oman had also an undeniable role in the development and professionalisation of accounting in the country. The change of the political regime and its ideology after the palace coup of 1970 has greatly affected the development of the country's financial institutional infrastructure, including that of accounting and governance. As discussed in chapter 5, the state's ideology of modernisation, along with the extent of its intervention in economic affairs have been notably affecting the emergence and development of accounting. When a government adopts a market-supporting approach to achieve economic growth, then strengthening accounting, auditing, financial reporting and corporate governance practices becomes a necessity. A demand is created for increased accountability, transparency and protection of property rights which, consequently, encourages the development of an accounting institutional infrastructure that is closely aligned with the international best practice. By contrast, when a government's ideology rejects neoliberal market policies and favours a socialist nationalistic approach instead, it lowers the demand for professional accounting services, limits the presence of international representatives of the profession such as international accounting firms and professional accounting associations and creates an accounting profession that is largely under state control and does not resemble the international norms. In the case of Oman, the collected data has indicated that the government had been fully committed to enhancing their economic performance and attracting external investment and, therefore, international advice and expertise in the field of accounting have been welcomed since the 1970s. Since then, the government created a policy space that allows international accounting firms to develop the profession in Oman. The role of the Big Four have been the most prominent in this process. The expertise of international accounting professionals was brought to Oman through these firms and was utilised in supporting government initiatives to develop the legal framework of the profession, incorporating accounting and auditing practices within various government entities, supporting the Omanisation of the profession by mentoring and training their Omani employees and raising the competitiveness of accountants working across various private and public organisations across the country.

It can, therefore, be argued that the development of accounting in Oman was not a result of its long historical relationship with Britain, which involved British intervention and interference in Oman's financial affairs. Rather, accountancy was developed in Oman as an institution to support the increasing complexity of the country's economic activities after the substantial increase in its national revenue due to oil and gas exportation. Furthermore, the narrative has shown that the continuous developments of accounting and corporate governance formal rules and enforcement mechanisms since the 1970s were motivated by the economic crises of the mid-1980s and late 1990s as part of the government's efforts to minimise their negative impact on the economy. Accounting knowledge was transferred through international accounting firms, namely the Big Four, with an underlying support of the Omani government itself as part of an overall plan to achieve economic modernisation and growth. In other words, the Big Four's capacity to transfer accounting knowledge to Oman was made possible due to the support of the Omani government, which embraced a market-supporting approach to stimulate economic growth. The remainder of this chapter will attempt to analyse the collected data, which has been presented in the previous chapter, within the context of international business literature and North's theory of institutions to answer the main question of the present thesis: How does the development of accounting relate to economic modernisation?

9.2 Accounting as an Institution

9.2.1 Can Accounting Be Modelled As An Institution?

A major argument of this thesis is that accounting, auditing, financial reporting and corporate governance can all be modelled as an economic institution according to Douglass North's institutional framework. Viewing accounting within the context of this theory allows for the creation of a direct link between the development of accounting and economic modernisation. Then, it would be reasonable to assert that the accounting institutional infrastructure developed in Oman as part of wider institutional reforms to support the country's economic modernisation plans since the 1970s. It was gradually incorporated into the country's legal framework and enforced accordingly as an institutional arrangement to reduce the risks associated with agency and information asymmetries in addition to providing greater property rights protection for market participants.

Interestingly, North's book, *Institutions, Institutional Change, and Economic Performance*, has only briefly mentioned accounting. For instance, in the context of growing merchant trade he stated that:

> "As the size and scope of merchant trading empires grew, the extension of discretionary behaviour to others than kin of the principal required the development of more elaborate accounting procedures for monitoring the behaviour of agents" **(North, 1990, p. 126).**

He also asserted that the increase in the scale of economic activity required an improved enforceability of contracts which also explains the development of reliable accounting and auditing methods to be used as evidence in disputes, collection of debts, and the enforcement of contracts. This thesis takes these arguments further and applies them to a case study to provide a clearer understanding of how the development of accounting relates to the modernisation of economies which involves dynamic market environments, higher risks and uncertainties, wider number of transactions and participants as well as greater integration within the international market.

North's theory regards institutions as the reason behind economic growth and the cause for economic disparities among different countries. He defined institutions as a set of formal rules, informal constraints and enforcement mechanisms. Formal rules can be formal contracts, constitutions, regulations or common laws while informal constraints are the standards of behaviour and internally enforced codes of conduct that reflect the features of formal rules which constrain the society's opportunistic behaviour. Their importance lays in their ability to dictate how people would respond to the formal rules and enforcement mechanisms in place. Enforcement was defined as a third party, usually governments, which specify property rights and ensure their application via designated government bodies (North, 1989; 1990; 1991; 2003).

Why are they the reason behind economic growth? According to North's theory, their significance is in their ability to reduce transaction costs and uncertainty in exchange as well as protecting property rights in a market dominated by complex and wide impersonal business transactions. Thus, in this case, the institutional reliability is what encourages the public to participate in market activities as it increases their confidence and trust in dealing with others whom they have no personal relationship with. In addition, institutions have the ability to alter the choice set available to human beings and provide either incentives or disincentives to act in a certain way (North, 1989; 1990; 1991; 2003). If these features were to be applied to accounting, they would perfectly match its definition and purposes. In a sense, accounting is a set of formal rules, standards and procedures that standardise recording and reporting of financial information across different companies, sectors and markets. These formal rules result in the publication of financial information that are expected to portray fair and reliable representation of the company's operations and performance. This information reduces investors' uncertainty about market participation. It creates a level of trust because these financial reports are audited and signed off by certified professionals. Accounting information is also widely used as a determinant of investment decisions. It can either encourage or discourage investors from participating in certain capital markets because it is used to assess the market's economic viability and companies' financial health.

Informal constraints of the accounting institution would be society's general awareness about the financial and economic benefits of having a business environment in which property rights are secured with proper laws and regulations, including those of accounting, auditing and corporate governance as well as a general willingness to comply with them. They are the widespread general professional interpretation and application of accounting's formal rules that is bounded by a profession. Informal constraints are, albeit, harder to describe and explain than the other two elements of institutions because they are intangible, ambiguous, indirectly observable and difficult to measure. However, they can be observed in the way people of different societies interact with the same set of formal rules and then compare them with the outcomes. This is because the same formal rules and enforcement mechanisms can produce completely different outcomes if the underlying informal constraints were different. This was evident in the case of Latin America's adoption of the US constitution, yet, with resulting in different outcomes due to the differences in the general informal constraints (North, 1999; 2003). Therefore, people's compliance, or non-compliance, to the imposed formal rules of accounting can be a good indication of a society's informal constraints in the context of accounting and governance. Generally, a society needs underlying social norms, behaviours and customary practices that encourage general fairness and justice in commercial dealings business commitments in order to support the imposed formal rules of accounting.

As to the third element, enforcement, an effective accounting institutional infrastructure often includes designated government bodies that regulate and monitor the profession and its practitioners. In a way, it is a method of protecting the property rights of investors by effectively enforcing the accounting legislation in place. Property rights, after all, have been given a central role in the process of economic development by major economists such as Smith and Marx. Therefore, having a business environment in which property rights are protected through a well-enforced accounting regulatory framework encourages further participation in the market due to the general perception of stability and protection from expropriation, fraud and corruption. This, consequently, leads to the growth of financial markets and enhancing the overall performance of the economy (North, 1991; Shleifer & Vishny, 1997).

So how does accounting and economic modernisation relate to each other? What is it about accounting that enables modernisation? As a matter of fact, they have always been related. When discussing stability and change in economic history, North (1990; 1991), mentioned that the development of long-distance trade in early modern Europe from the 11th to the 16th century led to the establishment of special instruments and techniques that lower the costs of engaging in these business activities. These instruments facilitate long-distance impersonal business activities either by increasing the mobility of capital, lowering information costs or spreading risk. Examples of these instruments are bills of exchange, insurance and portfolio diversification. In essence, accounting, auditing, financial reporting and corporate governance can also be considered as one of these instruments. To illustrate, an effective accounting infrastructure can also facilitate the mobility of capital by encouraging foreign investments and working as a reliable method to monitor the behaviour of agents anywhere in the world. It has the ability of lowering information costs by reducing time and money required to obtain essential information. Finally, it allows for spreading the risks of investment by encouraging public participation in capital markets. However, it does not stop at these three points. Accounting calculations also enable the effective valuation of assets, whether for individual firms or governments as a whole, which, in turn, facilitates the effective functionality of financial markets. It also enables the better management of these assets to achieve better financial performance. This, consequently, reflects the overall performance of the economy because these well-performing firms, and governments, are more able to create employment opportunities, increase expenditure on development projects, and increase innovation capability to raise efficiency and productivity. Moreover, accounting is an effective method of budgeting and cost control in case of an economic crisis and financial failures. It is a reliable method of calculating profit and cost figures, which also means the ability of calculating accurate returns on investments to inform investment decisions.

Therefore, considering all the above, it would be fair to argue that accountancy, auditing, financial reporting and corporate governance are, in fact, an institutional matrix that is able to promote economic growth by encouraging public investments, attracting foreign capital and facilitating optimal resource allocation.

9.2.2 Accounting and Economic Modernisation in Oman

Having established that accounting, auditing, financial reporting and corporate governance are confirmatory with Douglass North’s theory of institutions and are, in fact, essential for the process of economic growth, a framework is created to understand the process of their development in Oman. The conservative political regime of Oman before 1970 lacked any sort of bureaucratic arrangements such as a constitution and proper administrative and legal structures. In fact, to halt British interference in the Sultanate’s internal matters, Sultan Said abolished the council of ministers altogether and took up the responsibility of managing the country, nearly completely by himself. The country was described by many as the “Hermit Kingdom” due to Said bin Taimoor’s resistance to change, especially Western change (Funsch, 2015, p.49). As mentioned in chapter 2, the sole financial institution at the time was BBME, which took the responsibility of financial advising, banking and managing the issuance of the national currency. Although substantial revenues have started flowing into the government’s treasury after the exportation of the first oil shipment in 1967, economic modernisation efforts have only started after the change in the political landscape following the palace coup which instated Qaboos as the Sultan of Oman.

The constructed historical narrative has shown a gradual development of the accounting institutional infrastructure in Oman since 1970 which paralleled the implementation of economic development plans. It included setting up the formal rules by building a legal framework that incorporates accounting and auditing requirements for businesses operating in Oman as well as an enforcement mechanism through the establishment of designated government bodies to monitor the profession and enforce the relevant legal requirements. The Omani business environment was also hospitable to changes in the formal rules and enforcement mechanisms which was reflected in a consequent change in the informal constraints. This was indirectly evident in the statements of the interviewees who confirmed that the accounting and governance measures were generally well-received by market participants who showed cooperation and willingness to comply with the new rules[17]. The informal constraints were also evident in the government's behaviour of supporting continuous efforts to develop the profession in Oman in line with the international best practice and openness to accepting the technical assistance of external parties. A similar behaviour was developed within the Omani society which attached an image of professionalism with internationally certified accountants and encouraged national individual efforts to develop an Omani accounting profession through the establishment of the OACPA. Moreover, the evolved ostracism of those who are engaged in corruptive behaviour, non-compliance with the accounting and disclosure laws as well as material misstatements on financial statements is a good indication of informal customary practices that have been shaped in response to the formal rules.

Accounting and auditing were first introduced to Oman as a budget control measure by a British banking mission, the IMF, the IBRD and the World Bank. The new Sultan's policy of opening the country up and becoming part of the international market has allowed such international financial expertise to be transferred to Oman. The incorporation of accounting and auditing into the government's administration was one of the institutional arrangements to strengthen the country's financial structure, control government spending, reverse fiscal deficits and support its economic development efforts promulgated by several laws issued back in the 1970s[18]. The need to incorporate adequate accounting practices within government bodies was stressed by the British at an early stage of Oman's development reforms as indicated by the quotes mentioned in the

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[17] The formal rules regulating the accounting, auditing, and corporate governance practices in Oman which have been discussed in sections 8.2, 8.3, and 8.4.
[18] The Economic Development Law, The Foreign Capital Investment Law, and The Insurance Companies Law. These were discussed in more detail in Footnote 13.

previous chapter[19]. Accounting calculations are essential in ensuring an effective management of government's budgets and resources as well as ensuring that development projects are meeting targets to ultimately achieve optimal economic outcomes. With the help of these missions, accounting, auditing and financial reporting requirements were then incorporated into the country's legal framework, for the first time, through the Commercial Companies Law as part of the government's efforts to strengthen the role of the private sector in the development of the overall economy. Their aim was to create a safe and organised business environment to allow for the growth of new forms of businesses such as public joint-stock companies in addition to the already existing family businesses and sole proprietorships. Therefore, accounting practices also had to be developed to match the anticipated growth and sophistication of business and economic activities. These institutional developments have made the Omani market prosper which resulted in the increase of the country's GDP per capita for 10 consecutive years before the oil price collapse in 1986.

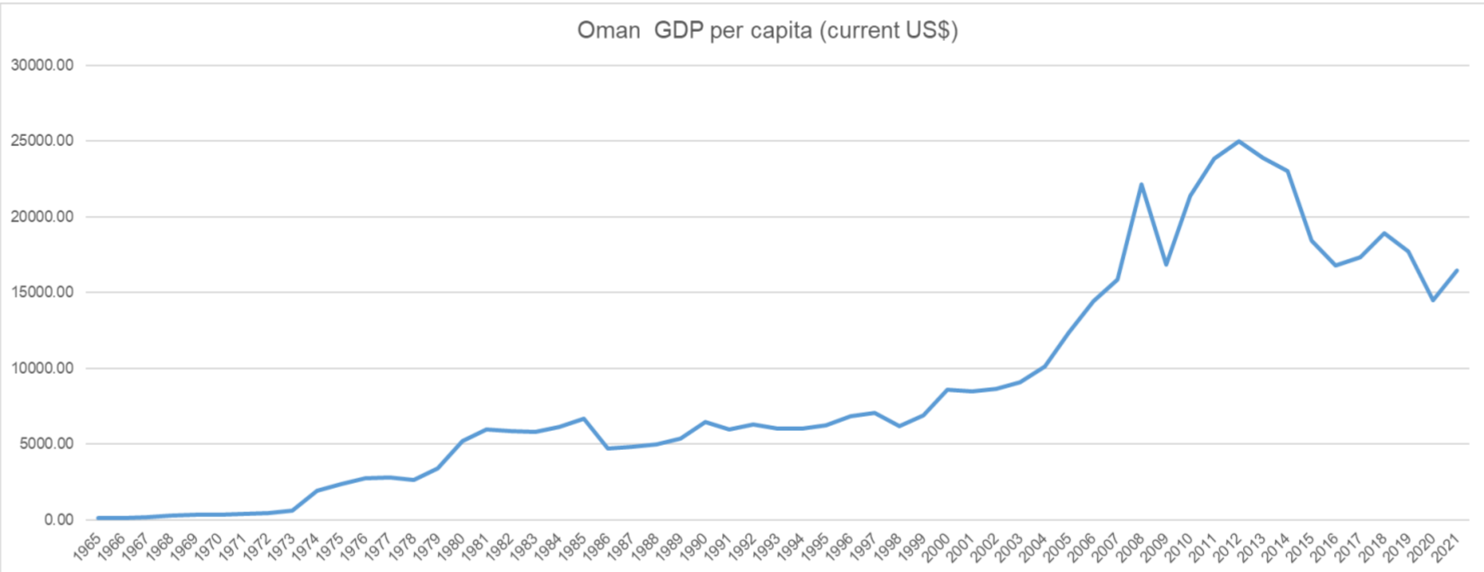

Figure 9.1 Oman GDP per Capita (current US $) (World Bank, 2022).

The decline of the country's economic performance following the 1986 oil price crash encouraged further efforts to diversify the economy and reduce the country's heavy reliance on oil and gas income. An emphasis was placed on supporting the growth of the private sector by providing legal incentives and protections to attract domestic and foreign investors and ultimately increase its overall contribution to the national GDP. The government also wanted to ensure an effective application and enforcement of the corporate income tax law to secure a consistent flow of tax revenues. This, consequently, encouraged further developments in the accounting institutional framework which was

[19] Quotes are mentioned on pages 119 – 120.

translated into the issuance of a law to organise the accountancy and auditing profession as public policy approach of enabling growth. The issuance of this law, specifically during this period of time, provides evidence of the formal use of accounting rules to enhance economic performance. Provisions of the law, which made certification a perquisite for practising the profession increased the quality of the practised accounting. The licensing and registration aspects for practising accountants spread a sense of trust in the market and its participants which is one of the reasons why accounting, as an institution, matters to economic modernisation. The issued law also enabled a first step towards the dissemination of accounting's international best practice because it mandated the adoption of the IAS/IFRS and continued gradually ever since. This can be seen as a way of standardising the rules of the game which then enable informed comparability of investment decisions. This event was clearly a prerequisite for the planned establishment of MSM, which commenced its operations two years after the issuance of the law, and the resulting shift from personal to impersonal exchange through the capital market. Capital market exchanges require accurate measures of assets, obligations and returns which are provided by accounting calculations. Raising the quality of the profession and its practitioners was an essential move to ensure the efficiency of the capital market through well-protected property rights. According to North's theory, when property rights are protected, the public is more willing to participate in markets dominated by impersonal exchanges. Accounting can enable better protection of property rights in the following ways:

1. Accounting formal laws establish standards for how financial activities and transactions should be recorded and reported while ensuring the accuracy of the reported information and a fair portrayal of the firm's financial position, thereby curtailing agency problems and protecting not just the rights of shareholders, but also other stakeholders such as suppliers, creditors and employees.
2. Accurate financial information help protect the rights of shareholders not just in cases of bankruptcies, but also in the distribution of profits. Accurate financial information and profit figures means accurate distributions of returns on investments.
3. Accounting laws require companies to maintain adequate internal controls to prevent fraud and misappropriation of assets. It also specifies how to account for the acquisition of assets and incurrence of liabilities.
4. The provisions related to the audit of financial statements protect the rights of shareholders by providing an independent assessment of the company's financial position which gives investors and market participants the capacity to make informed investment decisions.

5. Provisions related to the certification and regulation of professional accountants help ensure that financial reports are prepared by skilled knowledgeable reliable accountants which implies the accuracy of the produced information, thereby adding a layer of certainty.
6. The accounting institutional framework enables financial accountability to shareholders. It recognises that directors and managers have different interests than shareholders who would need reasonable assurance that their rights are protected (Hayne & Salterio, 2014). Having effective enforcement mechanisms of formal accounting rules means that accountants, managers and auditors can be held legally accountable for non-disclosure or material mistreatments of financial information.

The increase in market capitalisation and trade activities in the 1990s as well as the unfortunate market crash of 1998 motivated further efforts to refine the accounting institutional infrastructure in Oman. The MSM crash of 1998 was attributable to the lack of proper enforcement mechanisms of the existing accounting and auditing laws. MSM, as an operator, was also responsible for monitoring and supervising market participants and auditors. Hence, a Royal Decree was issued promulgating the establishment of CMA as an independent government regulatory body that regulates the capital market, monitors the auditors of listed companies and ensures the enforcement and compliance with the relevant accounting and auditing regulations. In North's institutional language, CMA represents an enforcement mechanism. By separating the regulator from the operator, the conflict of interest was resolved, ensuring higher transparency and efficient protection of property rights. The incorporation of accounting formal rules in the country's legal framework and the establishment of a designated government body to function as an enforcement mechanism can be interpreted as part of the government's efforts to build an institutional foundation of effective gatekeepers in Oman (Coffee, 2006). This is similar to what Coffee (2006) had described about the development of the profession in the US and the UK. In both countries, the profession was created following the increased demand for accounting services after legally mandating the appointment of independent auditors by statutory laws issued in the 19th and 20th centuries. That is when professional accountants started functioning as guardians, or gatekeepers, against the corporate power, thereby enabling the better protection of investors' property rights. This is similar to the process of accounting institutionalisation in Oman. Bounding accounting and auditing practices with well-enforced legal requirements in Oman has created a shift from the ad hoc and personal to systematic and routine. The institutional arrangements produced a standardised level of accountants, auditors and accounting information in accordance with the international standards of professionalisation and best practice to provide a reliability that supports market growth. This is essentially what North's institutions have been trying to create; institutions that form the rules of the game in markets and societies and provide a structure to impersonal transactions to encourage further market participation.

In addition to property rights protection, the accounting institutional infrastructure in Oman was also intended to increase the level of trust in the Omani market. The concept of trust is important in the context of economic modernisation. Modernised economies involve complex market structures and impersonal business transactions and, therefore, participation in the market requires trusting that the rights and interests of all the participants will be respected and protected (Greiling, 2014). Higher trust translates into higher market participation which, consequently, increases the prospects of economic growth. This is where the relationship between accounting, as an institution, and economic modernisation is most evident. Many aspects of the accounting institutional infrastructure such as financial statements, Internal Control over Financial Reporting Certification[20], annual audit reports, examination requirements for professional accounting and auditors as well as professional accounting associations have all been providing means of accountability to shareholders in classic agency settings, which results in higher trust (Hayne & Salterio, 2014). The incorporation of accounting's formal rules within the legal and regulatory framework in Oman as well as the establishment of CMA as an enforcement mechanism have been designed to provide financial accountability to shareholders, thereby increasing the level of trust in the market (Greiling, 2014; Hayne & Salterio, 2014). The consecutive accounting laws and regulations which have been issued in the last 50 years reflect this. For instance, CMA's accreditation policy of auditing firms that audit public joint-stock companies is an example of how the accounting institutional infrastructure reduces uncertainty and creates trust. Having policy provisions such as 'having a good professional reputation' and 'holding a professional certification' as conditions to audit public joint stock companies makes the accreditation policy a representation of trust. Moreover, professional accounting certification also creates trust because the accountants who prepare the financial reports as well as auditors who review and confirm that these reports are free from material misstatements are perceived as professionals. Certification conveys professionalism, competence and knowledge which also leads to higher levels of trust. This matches the concept of knowledge-based trust which revolves around the level of knowledge and skills the trust giver has. The greater the knowledge and skills they have, the more they are trusted (Greiling, 2014). It is also

[20] Required by The US Securities and Exchange Commission (SEC) for public companies to comply with the Sarbanes-Oxley Act of 2002 and defined as "a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and affected by the registrant's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP".

important to keep in mind that the whole process of preparing the financial reports and auditing them is done within an internationally accepted accounting standards issued by international accounting and auditing standards setters which also adds another dimension of trust.

Alongside the institutional developments in accounting, auditing and financial reporting, the government has also worked on keeping pace with international developments in corporate governance. They have issued the region's first Corporate Governance Code in 2002 as part of the international efforts to restore the credibility of the profession and capital markets after Enron. The formal rules of corporate governance make unethical behaviour less likely[21], thereby increasing public trust and investors' confidence in the market (Rezaee, 2008). In Oman, the gradual institutionalisation of corporate governance, in terms of formal rules (i.e., codes), enforcement mechanisms (i.e., designated government organisations) and informal constraint (i.e., general awareness of the concept), continued over the last 20 years to resemble Western developments. The latest one was the establishment of an independent government institution (i.e., OCGS) that specialises in continuously enhancing corporate governance practices across the different business structures operating in Oman. The establishment of both CMA and OCGS has also facilitated international knowledge exchange through the seminars, conferences and training programmes in the field of accountancy, auditing and corporate governance that they have been organising through the years. However, the current institutional design of accountancy and corporate governance in Oman does not assign any government body enforcement privileges over SOEs, SMEs and family firms.

There are also current ongoing efforts to establish Oman's own professional accounting body with certification and supervision capacities would add another dimension of property rights protection and enforcement of quality because, as a governing body, it would have the right of taking disciplinary measures and posing sanctions on their affiliates in case of misconduct.

All in all, the development of an institutional infrastructure of accounting and auditing in Oman was part of the government's overall efforts to enhance the country's economic performance by supporting free enterprise and attracting investments. It involved the integration of accounting's formal rules into the national laws and the establishment of regulatory bodies that disseminate accurate financial information, monitor corporate agents and enforce the formal rules as an institutional response to the government's

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[21] For instance, corporate governance encourages the development of a 'code of ethics' or a 'code of conduct' which signals a company's willingness to apply high ethical standards in governance, leadership and operations.

economic modernisation plans. The formal use of accounting rules as laws and regulations with proper enforcement mechanisms encouraged greater market participation because property rights are protected. Historically, Oman has always been considered an attractive investment destination due to its strategic geographical location which is at the junction of Asia, the Middle East and Africa. However, the new regime has added political stability and institutional incentives to increase the country's attractiveness as an investment destination. These institutional incentives included a business-friendly regulatory framework that offers tax-free personal income, tax and duty exemptions, no foreign exchange control and interest-free long-term loans for tourism and industrial projects (Funsch, 2015). However, most importantly, in this case, is that the regulatory framework includes effective, well-enforced accounting, auditing, financial reporting, and corporate governance practices that reflect the 'rule of law' and protect property rights. In other words, the accounting institutional infrastructure in Oman was developed to increase the attractiveness of the country as a business and investment destination.

Another notable observation in this analysis is that financial crisis is what motivates the implementation of stricter financial control measures which include accounting, auditing, financial reporting and corporate governance. This was true in the case of South Korea which carried out a series of economic policy and institutional reforms following the economic crisis of 1997 (Kwon, 2021). It is also confirmatory with the results of Chandar and Miranti (2005) who found that the economic depression of 1893 and the following series of bankruptcies were major drivers for the institutional and informational reforms in the corporate governance and accounting regulations of the US railroad industry. Innovative regulatory institutional arrangements, such as the standardisation of accounting methods and accurate cost allocation, were developed in an attempt to develop property rights protection, enhance corporate transparency and increase capital market efficiency. This can also be noted in the case of Oman when the fiscal deficits of the early 1970s, the oil prices collapse of the mid-1980s and the stock market crash of 1998 have all resulted in milestone developments in the institutional infrastructure of accounting in Oman. This means that the evolution of accounting infrastructures is not always associated with periods of economic growth. As a matter of fact, accounting is developed as an institutional solution in times of financial and economic failures as a control method that strengthens the financial structure, and by doing so, facilitates economic growth.

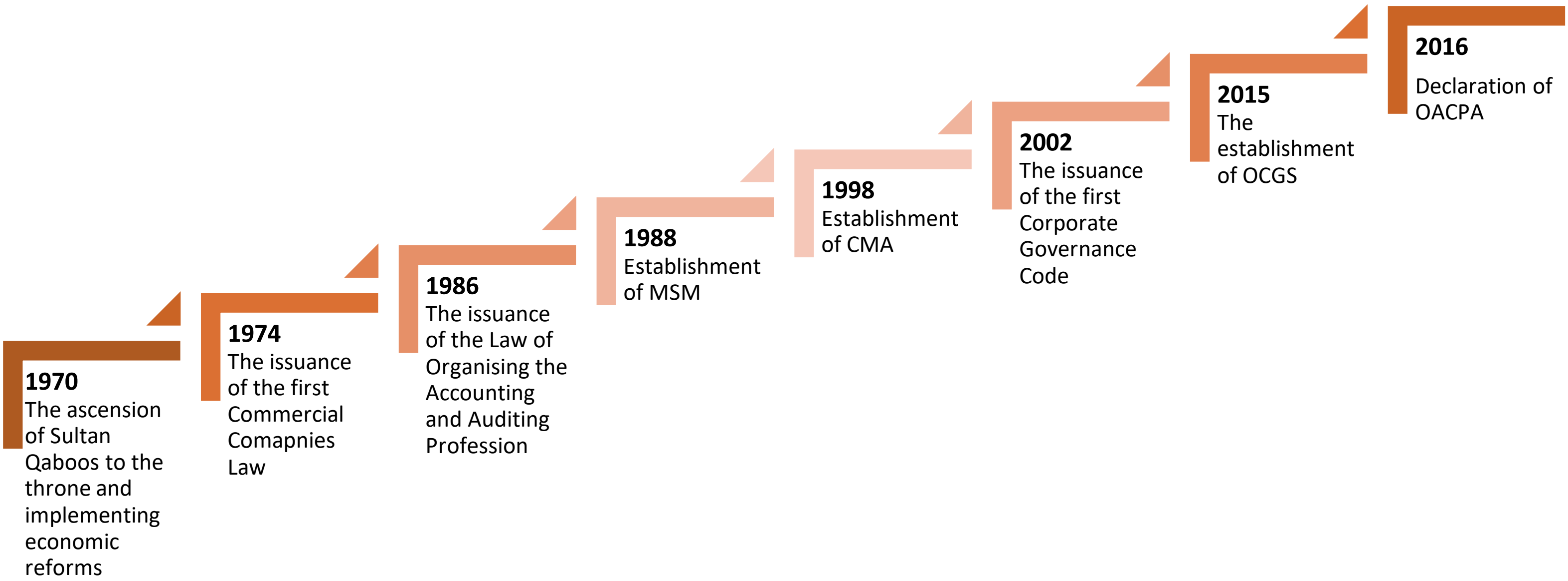

Figure 9.2 Timeline of Major Events in the Process of Accounting and Corporate Governance Institutionalisation in Oman.

One significant aspect in the development of the accounting institutional infrastructure in Oman is the evident role of the government. The new regime was more focused on implementing economic reforms and enhancing the people's standard of living. All the above-mentioned developments would probably not have been possible if Sultan Said's policies, which isolated the country from the world, remained in place. Going back to North's theory of institutions, he argues that both political and economic institutions are important to create an effective institutional matrix that successfully supports economic growth. This is because formal economic constraints, which are accounting and auditing in this case, are specified and enforced by political institutions. In other words, economic institutions are basically derived from political institutions. He stated that:

> "The emergence of political institutions that specify efficient property rights and provide increasingly effective enforcement should show up in terms of the development of economic institutions to facilitate market exchanges. As a result, costs per transaction will be falling; but the size of the transactions sector in the aggregate will be growing proportion of GNP, as increasing specialisation and division of labour multiplies the aggregate volume of exchanges." **North (1989, p. 1324)**.

In this context, North (1989; 1990; 1991) uses the 1688 English Glorious Revolution as an example to elaborate how changes in the political landscape affect the creation of efficient institutions and property rights. He argued that that the revolution was a critical factor in the development of the English economy because of the political change which limited the Crown's arbitrary and confiscatory powers that rendered property rights unsecure. An important outcome of the revolution was parliamentary control over financial matters strengthening property rights through the creation of financial institutions and instruments which, in turn, lowered transaction costs. The most significant ones were the private and public capital market, the Bank of England and the independence of the judiciary from the crown led to an increased security of property rights. The result was an evident change in the public's willingness to invest private funds and a subsequent rapid economic development. When compared to Oman's 1970 palace coup, it can be argued that the two events are similar in terms of the subsequent institutional changes and economic outcomes. In Oman, the deposed Sultan Said bin Taimoor paternalistically denied the people of Oman the right to benefit from the newfound oil wealth like their Gulf neighbours, insisting on leaving the country in a medieval state. According to Funsch (2015, p.55), he was once heard saying "the people shall not have what they want but what I think is good for them". Hence, many Omanis have fled the country in an attempt to seek greater opportunities elsewhere, while those who remained had to endure extreme poverty and rough living conditions. Following the ascension of Sultan Qaboos and the implementation of various economic, political and social reforms, a modern country was created based on an institutionalised government that put into place properly enforced laws and regulations, including, those related to improving the financial situation and the economic conditions of the country. Institutionalising the accounting and auditing profession through governing laws, regulations, codes of behaviour and practices as well as educational requirements was also part of the efforts to support the country's economic development plans. The result was rapid economic growth which was evident in the stable growth of the GDP per capita and Gross Domestic Savings percentage of GDP as well as a stable inflow of FDI (World Bank, 2022).

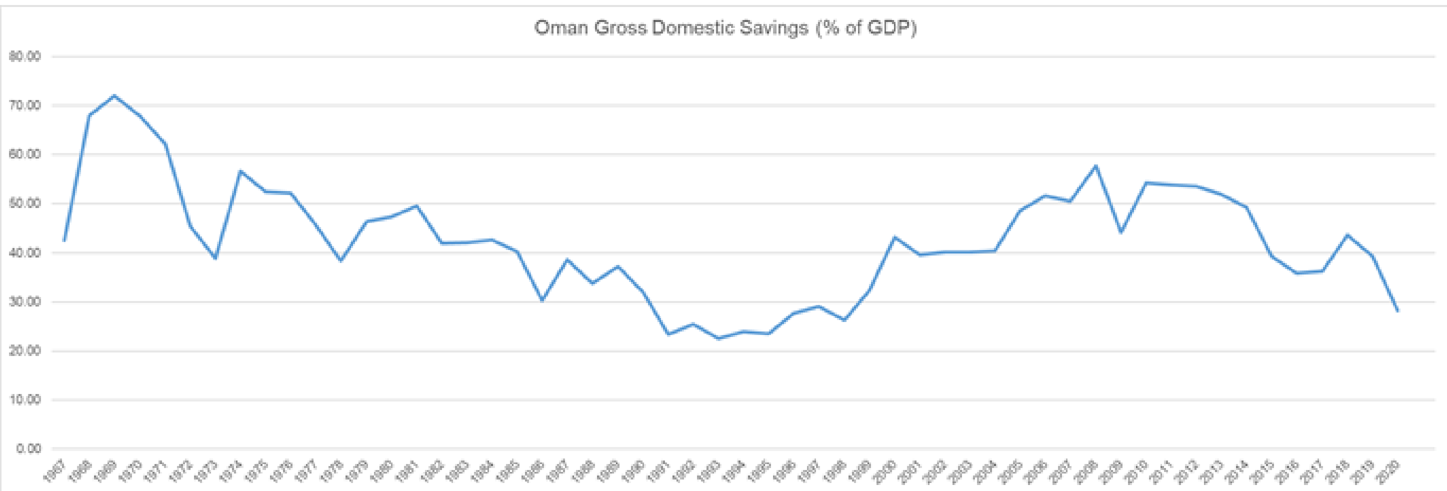

Figure 9.3 Oman Gross Domestic Savings (% of GDP). (World Bank, 2022).

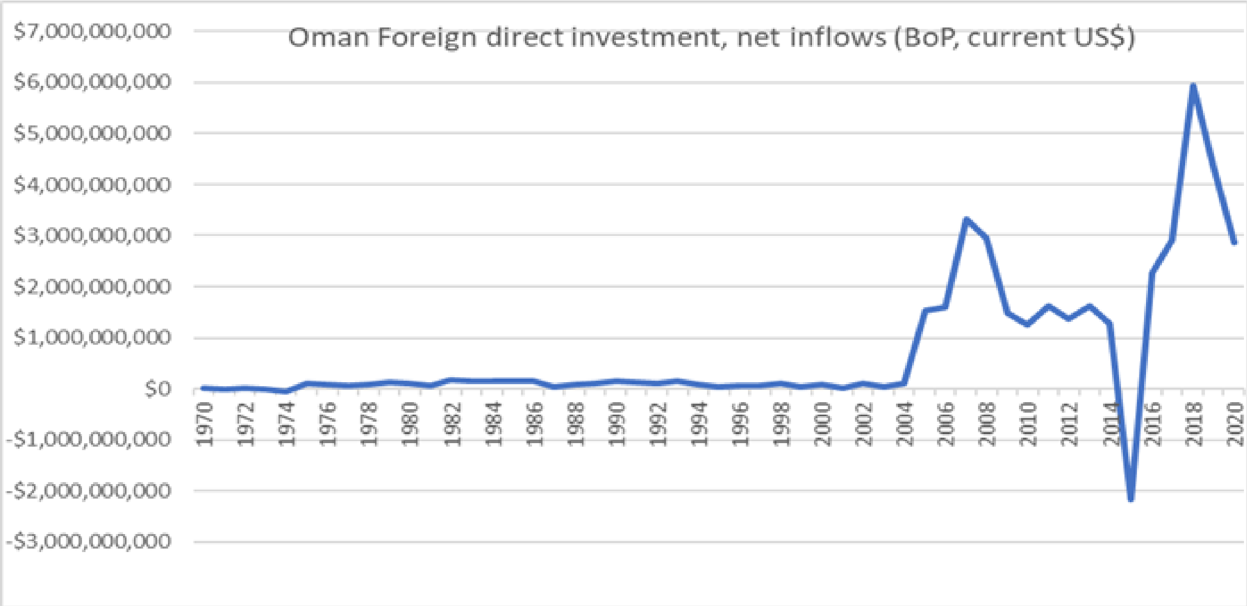

Figure 9.4 Oman Foreign Direct Investment, net inflows (BoP, current US $). (World Bank, 2022).

Additionally, Oman has been well ranked by the World Bank Governance Indicators in the Rule of Law Index during the period between 2000 and 2015, maintaining a percentile rank of no less than 58.9 (World Bank, 2022). Moreover, its institutional framework of property rights protection has been achieving good grades in the World Economic Forum Global Competitiveness Reports during the period between 2009 and 2020 (World Economic Forum, 2022).

Therefore, both political events have changed the institutional infrastructure and economic performance of the countries. This also means that economic growth results from changes in both political and economic institutions that inaugurate efficient property rights along with effective enforcement mechanisms to facilitate market transactions. Hence, the role of the Omani government in this analysis cannot be ignored.

9.3 Oman as a Developmental State

As mentioned hereinabove, the main objective of the present thesis has been to understand the relationship between the development of accounting and auditing practices and economic modernisation. Using North's of institutions, accounting was considered as an institution that strengthens property rights, reduces uncertainties associated with impersonal market transactions, and works as an incentive to participate in the market and, ultimately, stimulates economic growth. It has also been established that politics play a major role in shaping economic institutions. In the third annual conference on the New Institutional Economics, North (1986, p.233) stated:

> "It is no accident that no high-income country in the world achieves this result without effective third-party enforcement. Government must play an essential role in enforcing contracts in such economies. It is for this reason that the whole development of the new institutional economics must be not only a theory of property rights and their evolution but a theory of the political process, a theory of the state, and of the way in which the institutional structure of the state and its individuals specify and enforce property rights."

Therefore, in order to understand the relationship between the development of accounting, as an institution, and economic modernisation, the role of governments must not be ignored. With regards to accounting itself, chapter 6 presented several cases showing that governments' ideologies regarding modernisation and economic policy have been major determinants in developing and shaping the accounting institutional infrastructure. On the one hand, the adoption of a socialist nationalist ideology in China and Iran, in the 1950s and 1980s respectively, had a negative effect on the development of accounting in these countries at the time because of government control over the economy and market which results in a lack of demand for professional accounting services. On the other hand, the economic reforms carried out by the government of New Zealand in the 1980s and the adoption of a free-market policy has resulted in the development of an accounting profession that is closely aligned with the international standards. Even in the case of Oman, the constructed historical narrative has clearly shown that government interventions have been crucial in the process of developing an accounting institutional infrastructure in terms of setting the formal rules and proper enforcement mechanisms. In the early 1970s, the government adopted a free-market policy that aims to attract foreign capital and expertise into the country to enhance its economic performance. Therefore, they attempted to develop an accounting institutional infrastructure that matches the one adopted by the international market they are planning to do business with. To link the role of governments in the development of an accounting institutional infrastructure and how it relates to economic modernisation, the concept of the developmental state has been used. The incorporation of accounting, auditing, financial reporting and corporate governance as institutions within the developmental state literature allows for their inclusion into the wider debate of economic modernisation and why some countries are rich while others are poor within appropriate theoretical frameworks.

So how does Oman's economic modernisation efforts as a developmental state relate to the institutionalisation of accounting? As mentioned in chapter 6, this notion was missing from the developmental state literature. Although there have been several references to the importance of transparency, protection of property rights and the reduction of transaction and information costs, accounting was never explicitly mentioned. Therefore, this thesis presents the case of Oman as an example of a developmental state that worked on developing accounting and corporate governance as an institution to support its economic modernisation since the 1970s. The analysis has shown that, driven by a need to support its economic modernisation efforts, the government of Oman has welcome international advice and expertise to transfer international accounting knowledge into the country. The transferred knowledge was included in the country's structure of property rights protection through accounting formal rules and ensured their effective application through CMA as an enforcement mechanism. State policies of market building, whether large corporation or SMEs in the 1970s and 1980s, promulgated by the Commercial Companies Law and Capital Market Law, required effective accounting policies to ensure effective implementation and outcomes. This institutional matrix of accounting, auditing, financial reporting and corporate governance was intended to increase the standards of property rights protection for shareholders which would, consequently, increase the attractiveness of the Omani market to both domestic and foreign investors. More specifically, the government of Oman was hoping that the institutionalisation of accounting would support its economic reforms in the following ways:

1. The adoption of the IFRS and the certification requirements for auditors of listed companies increase the confidence of market participants because of the perceived increase in the accuracy and validity of the available financial information that guide investment decisions.
2. The adoption of the IFRS translates into greater standardisation of the published financial information issued by various businesses in the Omani market which allows informed comparability of performance and making informed investment decisions. This standardisation, according to Boyns and Edwards (1991), removes a barrier to the efficient operation of capital markets.
3. Higher market transparency which results in higher accessibility of local corporations to international funding (i.e., global capital markets) more cheaply.
4. Attract greater foreign investments due to the availability of reliable financial information at a relatively low cost. Had this information not been easily available, the willingness of foreign investors would be lower because access to information would be costly.
5. Facilitate the growth of its capital market and large corporations because well-enforced accounting and corporate governance formal rules translate into safer, less risky business environment in which the board and management find it difficult to manipulate significant financial information and impair shareholders' profitability. These two elements, profits and capital markets, are fundamental elements for an efficient operation of market economies (Boyns & Edwards, 1991).

6. Improve financial performance of local businesses due to management's ability to access accurate costing figures and revenue models to inform decision making. Moreover, accounting calculations enable the assessment of business performance and make necessary improvements.
7. Providing the necessary calculations and measurements for the application of other financial laws such as taxation laws, for example, which is an important source of government revenue in nearly all countries and bankruptcy laws which contribute to the protection of market participants.

As a matter of fact, the present thesis argues that the successful implementation of any economic reform measures, whether they are improving the country's infrastructure, increasing tax revenue or growing the capital market, is critically dependent on solid knowledge of cost and revenues as well as accurate assets and liabilities valuation which are conveniently provided through accounting calculations. In addition, the published accounting information are also essential to guide government policymakers and inform the allocation of national resources in a specific sector of the economy (Boyns & Edwards, 1991). This information also enables the monitoring and evaluation of developmental projects to ensure that the achievement of their targets.

The concept of certainty is also of great significance in this context. Referencing back to Boyns & Edwards (1991)[22], the authors asserted that the concept of certainty, through the existence of perfect information that is produced and disseminated through the market, is an essential requirement for the success of Adam Smith's model of market economy. Furthermore, they recognised that accounting rules and practices are at the heart of published financial information that allow the optimal allocation of resources and inform investment decisions and, therefore, they play a vital role in the functioning of market economies. This analysis of the relationship between accounting and economic modernisation using North's theory has also stressed the concept of certainty. North (1990; 1991) argued that institutions are the determinants of economic growth because they raise the level of certainty in the market to repeatedly engage in impersonal market exchanges, such as those of capital markets. He does not, however, emphasise the role of accounting's formal rules and enforcement mechanisms in providing essential information and property rights protection to market participants. This analysis fills this gap and shows that whether it was Adam Smith's model or North's institutional framework, accounting information plays an essential role in economic growth and modernisation.

[22] In section 1.2.

The analysis has also shown that the case of Oman shares many similarities with the case of South Korea (Pirie, 2008), which was mentioned in chapter 6 as an established example of a successful developmental state. First, in both countries, the introduction of formal accounting and auditing rules and enforcement measures were motivated by the achievement of sustained economic success, strengthening the domestic private sector and encouraging greater foreign participation and investments. Second, in both cases, these reforms were initiated in response to economic downturns, suggesting that tighter accounting and corporate governance formal rules can be used as a tool to induce economic growth. Third, international financial organisations (i.e., IMF, OECD, etc.) had kickstarted the reforms in both countries before being taken forward by the governments themselves. Fourth, government intervention through the establishment of designated government bodies to supervise accounting and auditing practices and to enforce the relevant laws and regulations is a significant aspect in the development of accounting in both cases.

The developmental state literature also allows for an emphasis on the concept of Institutional Adaptability, which is when a state is flexible and adaptive to newly emerging economic challenges (North, 2005; Kwon, 2021), which has also been evident in the case of Oman. Building an accounting institutional infrastructure by itself does not guarantee sustained economic growth. It has to be upgraded and adapted in response to newly emerging economic challenges. This is where the role of the government is most evident. Developmental state efforts must, therefore, be extended to include effective institutional adaptability, by continuously rearranging the accounting institutional infrastructure based on the economic needs of the country (Kwon, 2021). As seen in the above two cases, South Korea and Oman governments have shown a flexibility and openness about upgrading their accounting institutional infrastructures in response to economic crises. In Oman, the accounting institutional infrastructure was gradually upgraded in the last 50 years in response to financial deficits in the 1970s, oil price crash in the 1980s and securities market crash in the 1990s.

Accounting laws were subject to continuous updates through consecutive amendments of the Royal Decrees as shown in chapter 8. Similarly, the enforcement mechanism was subject to continuous restructuring during the last 50 years in accordance with the country's economic needs. When the market was relatively small, the enforcement of accounting formal rules was entrusted to the Ministry of Commerce and Industry. However, after the establishment of a capital market, enforcement of accounting formal rules became the responsibility of MSM itself until the unfortunate market crash which led to the establishment of CMA as a central independent government body to regulate the profession and enforce formal rules.

All in all, in studying the relationship between economic modernisation and the institutionalisation of accounting in Oman, it has been found that the government have had a prominent role. To understand how government efforts fit into the broader theme of the study, which is understanding the relationship between the development of accounting and economic modernisation, the developmental state model has been used. Despite the fact that notable government efforts have driven the development process of accounting in Oman as part of the overall attempts to enhance the economic competitiveness of the country, international businesses and external agents have also had significant roles in the process. The extent of their role in the development of accounting and the transfer of accounting knowledge to Oman will be discussed in the following section.

9.4 The Internationalisation of Accounting and Corporate Governance

9.4.1 International Financial Organisations and Corporate Governance

Despite the fact that reforms of the accounting institutional infrastructure and corporate governance has been principally driven by the Omani government's own attempts to enhance its economic competitiveness and attracting investments, external agents have played significant roles in the reform process. The historical narrative has shown that British pressure in the early 1970s has pushed the introduction of accounting and auditing measures into Oman. A history of British interference with Oman's financial and economic matters, as has been established in chapter 2, may have justified it. Increased government borrowing and fiscal deficits has led to growing concerns over the steadiness of Oman's economic and financial situation and its ability to fulfil their financial commitments to British companies which were assigned large infrastructure development projects at the time. Therefore, archival documents have shown that the British government has pushed for the appointment of an international auditing firm as government advisers to facilitate the incorporation of accounting and auditing practices within the government's financial department and public bodies[23]. Furthermore, the Omani government was advised to accept the assistance of a British banking mission with regards to the reorganisation of the government's financial institutional infrastructure.

International financial organisations have played a less direct but, nevertheless, an important role in driving key reforms in accounting and corporate governance in Oman. In the early 1970s, the IMF, IBRD and World Bank have provided technical assistance in

[23] This was mentioned in section 8.2 pages 119 – 120.

setting up a regulatory framework to organise the country's financial environment which included the introduction of legal accounting and auditing requirements for companies operating in Oman. Other international organisations such as the OECD have been notably influential in the institutionalisation of corporate governance in Oman. Evidence has shown that the OECD has facilitated knowledge transfer by carrying out various programmes to develop corporate governance policies as part of the overall efforts to increase the attractiveness of the Omani market[24]. They have also taken an advisory role in the process of issuing Oman's corporate governance codes for publicly listed private companies and SOEs. Most importantly though, Oman's corporate governance codes were drafted based on the OECD's Principles of Corporate Governance with minor adjustments that take into account the legislative and regulatory environment of the country. Interestingly, this implies an indirect influence of the British since the OECD's principles were frequently influenced by Cadbury's thoughts (FRC, 2012). Cadbury joined the OECD business sector advisory group in 1998 that developed the OECD corporate governance principles. Because these principles were formulated with consideration of the variety of laws, customs and practices of OECD member states, these principles managed to become international benchmarks for policymakers, investors, corporations and stakeholders worldwide (FRC, 2012; Rust, 2017). Oman's codes were also based on Cadbury's comply-or-explain concept along with more than 60 other jurisdictions that have issued national governance codes influenced by Cadbury's code. These codes were issued to address the country's development agenda by supporting privatisation and market liberalisation while ensuring the protection of market participants.

Considering the evidence, it can be argued that corporate governance in Oman was institutionalised based on an internationally recognised Western corporate governance formal rules, namely, the OECD's. OCGS was established as a government body that specialises in issuing corporate governance codes based on the international best practices and adjusting them to the Omani context. The responsibility of enforcing the corporate governance code of public listed companies has been assigned to CMA as the independent regulatory and supervisory body of the capital market. Although the code follows a comply-or-explain approach which means it is not binding on companies, they are binding on the relevant enforcement body, CMA in this case, which is required to ensure a correct implementation of the code. As to the informal constraints, they were gradually developed since the issuance of the first code in 2002 as market participants became more aware of corporate governance concepts and a sense of professional interpretation and application of these rules were developed. It is, however, important to

[24] Further details available on page 142.

note that, this institutional design only applies to public listed companies. The corporate governance code for public listed companies is the only enforced code. Compliance with the corporate governance code for SOEs remains voluntary (Patel, 2020).

The institutionalisation process of corporate governance was directly related to the government's economic modernisation plans in the past 50 years. The new regime supported the establishment of a thriving business environment for all types of businesses, including large corporations, and a capital market which, consequently, led to the development of institutional arrangements that deliver higher transparency, disclosure and protection of property rights, including, effective corporate governance. The introduction of corporate governance in Oman was driven by the need to increase the competitiveness of the Omani market by matching the international developments of corporate governance following the Enron and WorldCom scandals in the early 2000s. However, most importantly, the government wanted to recover from the ramifications of the MSM crash in 1998 which paralleled the Asian financial crisis that occurred around the same time. The issuance of Oman's first code of corporate governance in 2002 was among the measures adopted by the government to increase transparency and market disclosure, thereby minimising the negative impacts on market participants in case of future market crashes. It is, however, important to note that market crashes cannot be completely prevented by following the formal rules. After all, the boom-and-bust cycle is the essence of capitalist economies.

One factor, special to the case of Oman, which potentially delayed the institutionalisation of corporate governance in Oman until the early 2000s is the distribution of capital in the market. To elaborate, the business environment in Oman is dominated by large family conglomerates which have been carrying out trade activities long before 1970. After 1970, the owners of these firms were the first to seize the business opportunities that resulted from the sudden flow of oil revenues as well as the country's desperate need to carry out various infrastructure development projects in almost every sector. Even after the growth of these family firms over the past 50 years, almost all of them have been reluctant to go public and list shares on the stock market. Additionally, numerous family members of these family-owned businesses have been appointed at senior positions in the government. For instance, one of the interviewees, Mohammed Al Zubair, the first minister of Commerce and Industry also happens to be the owner of one of the biggest family businesses in Oman, al Zubair Corporation. This concentration of capital has potentially delayed the introduction of corporate governance in Oman because (1) it slowed the growth of the capital market since major corporations in the country insisted on remaining closed joint-stock companies (2) the conflict of interest of appointing major businessmen in high government posts. The legal institutional framework of Oman, however, supported the institutionalisation of corporate governance due to the establishment of a strong conception of "rule of law" along with proper legal and judiciary systems that support the protection of property rights. Therefore, the issuance of corporate governance requirements has, basically, complemented government economic modernisation efforts by adding an additional layer of property rights protection.

9.4.2 The Big Four

The Big Four have been the most influential external agents in the process of accounting knowledge transfer to Oman. Their role in Oman was confirmed with the knowledge-based theories of international businesses (Kogut and Zander, 1993; Boisot, 1999; Meyer, 2004; Jones, 2005; Dunning and Lundan, 2008a) discussed in chapter 3. After 1970, the government of Oman has opened up the country, allowing for various international organisations to start operating in Oman and bring in different types of knowledge from all over the world. The collected data has demonstrated that the Big Four have worked as international representatives of the profession in Oman, further confirming the argument of Cooper and Robson (2006) and Suddaby et al. (2007). Before starting the research, it was thought that it would be the accounting profession itself that transferred accounting knowledge to Oman, but the data has shown otherwise. Conforming with Mari Sako's assertions at the Special Roundtable session at the 2007 conference of the UK and Ireland chapter of the Academy of International Business (Jackson et al., 2008), international businesses are faced with two different strategies when considering entering a certain emerging market. They can either adapt to the absence or the inadequacy of the existing institutions or formulate a strategy to try to change them. In the case of Oman, the Big Four have done the latter. High prospects of economic growth and high profits have encouraged the Big Four to commence operations in Oman despite the institutional void (i.e., lack of any legal rules regarding accounting auditing financial reporting and corporate governance, informal norms and enforcement mechanisms) that existed in the early 1970s. They did, however, work with the government to develop an accounting institutional infrastructure that aligns with the international best practice to facilitate a well-functioning market and induce economic growth.

The scope of the Big Four's involvement in developing the accounting institutional infrastructure in Oman was more evident than other international organisations and it manifested in the following: (1) providing training; (2) advisory role for the government; (3) the transfer of accounting professionals to Oman. Their level of influence went beyond their clients (i.e., companies of private sector), but also included public sector entities. The government, in many instances, have sought their help to develop the accounting and auditing practices in the country.

One thing to be noted here is that the process of knowledge transfer does not only depend on the transmitter, the Big Four in this case, but also on the recipient willingness to accept and absorb that knowledge, or in other words, the national institutional context (Dunning and Lundan, 2008a, Wen and Sonnerfeldt, 2022). This brings us again to the role of Oman's government in developing accounting as an institution to support their economic modernisation plans. Unlike the case of Egypt (Ghattas et al., 2021), the Omani government has welcomed the Big Four's assistance in developing the profession and used their expertise to incorporate accounting and auditing within the country's legal framework as well as training Omani accountants. The government's economic reform plans, which have started in the early 1970s and paralleled the Big Four's entrance to Oman, were based on an open market policy and the associated free movement of capital. Hence, it supported enabling foreign firms, capital and expertise which also explains the scope of the Big Four's influence on the profession in Oman. Furthermore, no other social influences such as the protection of local accountants and local profession, have existed in Oman to limit or resist the power of the Big Four since basically, Oman had no pre-existing accounting profession or professionals prior to 1970. On the contrary, Egypt, for instance, had resisted internationally supported accounting reforms and limited the role of the Big Four because it would distort the already existing nationalistic order of the profession (Ghattas et al. 2021). To add more, Unlike the case of Bangladesh (Belal et al., 2017), in which the Big Four's presence and extent of influence was limited due to the partial integration with local partner firms, the Big Four are operating in Oman as wholly owned subsidiaries and, therefore, the full scale of their capabilities, knowledge and expertise has been transferred to Oman. The process of knowledge transfer was further boosted by the host's absorptive capacity which was evident in: (1) the integration of the transferred accounting knowledge into the country's legal framework these were the Commercial Companies Law and the Law of Organising the Accountancy and Auditing Profession as well as the establishment of governmental bodies to support the integration of accounting within the Omani market; (2) the development of the local human capital in the field of accountancy by introducing Higher Education programmes in accounting and accounting certification courses (mostly the ACCA). Therefore, the case of Oman presents an example of a relatively successful process of knowledge transfer. This is because the host's absorptive capacity is aligned with the transferred knowledge, resulting in better utilisation of the transferred knowledge and better achievement of the desired economic outcomes.

So why did accounting, as an institution, migrate to Oman when it did in the early 1970s and developed gradually ever since? Why was it not transferred through the international British banks which first entered the country in the late 1940s or directly coincide with the commencement of oil exploration and exportation activities in the 1960s? To understand the development of the accounting institutional infrastructure in Oman it would be useful to refer to Harris' (2020) discussion on the migration of economic institutions. He argues that what is required in order to understand why certain institutions developed in some geographical locations but not others is understanding the obstacles and resistance to migration. For instance, in answering the question of why Arab and Muslims resisted the importation or the development of corporations until the 19^{th} century, Harris (2020) argues that it could be attributable to several reasons. First, the lack of demand due to the dominance of a family-oriented organisational forms. Second, religious orthodoxies that did not recognise the separation between state and rulers, on the one hand, and religion on the other hand. Therefore, Islamic laws did not recognise any large-scale entities separated from the state, including corporations, nor did the rulers want to create a space between their sovereign authorities and society. Third, meeting the demand for long-distance trade and the organisation of business activities with an institutional supply that did not lead to the corporate form. Due to the above-mentioned reasons, Harris (2020) concluded that Islamic Middle Eastern countries, including the Arabian Gulf region and Oman, did not have the capacity to develop or import the corporate form of business organisation. These reasons, for instance, were different from the reasons that curtailed the development of the corporations in India and China, suggesting that differences in the environment (i.e., family relations, political rulers, and religion) affect the transfer and development of institutions even when the needs are similar. These theoretical insights can also be used to understand why Oman did not import and develop accounting as an institution until the 1970s.

One obvious answer is the lack of demand. The lack of complex business organisational forms, including corporations, and impersonal business transactions simply meant that there is no separation between ownership and management and, therefore, there are no agency issues. This has, consequently, delayed the transfer and development of an accounting, auditing, financial reporting and corporate governance in Oman. After 1970, however, accounting was developed as an institutional solution to financial, economic and organisational problems such as unorganised government spending and fiscal deficits, the need to increase the private sector's contribution in the national GDP, market failures along with the resulting lack of trust in the market and the protection of property rights to attract domestic and foreign investments. In other words, a demand was created for the development of an accounting institution to overcome these issues, and when that demand was created, an accounting institution was drawn by the government borrowing from the best practice. Another reason would be the changes on the supply-side, which is the political government in this case. Harris (2020) argued that the more the importation of new institutions would threaten the existing political and social order, the more likely it would be opposed and resisted. This was evident in the case of Oman in which Sultan

Said was reluctant to open the country up, utilise the flowing oil revenues to implement economic reforms or enable his people financially and educationally because it would diminish his authoritative power. Therefore, the importation and development of accounting would have been impossible at the time of his reign. However, when the political landscape changed after the ascension of Sultan Qaboos to the throne, the new regime was willing to import and develop an accounting institution based on the international best practice as an institutional solution to support the implemented economic development plans. The state has been showing credible commitment to supporting a sustainable economic growth, growing the private sector as well as protecting property rights, and accounting was one of institutional responses to achieve these goals.

9.5 Chapter Summary

This chapter analysed the archival and interviews data within North's institutional framework to understand the relationship between the development of accounting and economic modernisation. Accounting, auditing, financial reporting and corporate governance are modelled as an institution that promotes economic growth by reducing investment uncertainties, creating trust and protecting property rights. The chapter applied this notion on the case of Oman and explored how accounting was gradually institutionalised to support the government's economic modernisation plans. We have seen accounting formal rules, informal constraints and enforcement mechanisms being used as financial control method in the early 1970s, a method to support transparency, disclosure and property rights protection in the 1980s, and a tool to restore public trust in the market in the 1990s. The state adopted accounting and corporate governance formal rules and enforcement mechanisms based on the international standards of best practice and guidelines that were transferred by international financial expertise from the Big Four and the OECD. These two were recognised as international players that aided the institutionalisation of accounting and corporate governance in Oman. No evidence, however, was found of accounting knowledge transfer by the international banks, oil company or even the accounting profession itself. The case study has also shown that the process of accounting knowledge transfer was supported by the Omani government itself who granted those international organisations the capacity to develop accounting and corporate governance legislations and practices in line with the international developments to support the growth of its economy. Therefore, the role of Oman as a developmental state has been acknowledged.

Chapter 10 Conclusions

10.1 Introduction

This thesis has taken a historical approach to understanding the relationship between the development of accounting and economic modernisation by looking into the case of Oman. A historical narrative was constructed using archival material and interview data to inform the analysis. The analysis has sought to explore this relationship through the lens of North's institutional framework. It examined how international businesses aid the internationalisation and institutionalisation of accounting in emerging economies. This was also linked with the developmental state model to contextualise the evident role of the Omani government in the development of accounting as an institution that supports its economic modernisation plans. Such linking of theoretical approaches is expected to yield important insights in studies of emerging economies and markets (Wright et al., 2005). This chapter concludes the thesis by providing a summary of the main research questions, contributions and findings. It also discusses the limitations, potential implications and suggests the avenues for future research.

10.2 Revisiting Aims, Research Questions and Contributions

The focus of the present thesis was to place accountancy and corporate governance within wider discussions of economic modernisation and growth through a new lens, that is, North's institutional framework. This was to be done by taking Oman as an example to explore the process of accounting institutionalisation in relation to the country's extensive economic modernisation efforts since 1970. Therefore, the following aims and relevant research questions were put in place.

Aims	Questions
To understand how international accounting knowledge was transferred to Oman since 1970.	1. Did the British influence the transfer of accounting knowledge and development of accounting infrastructure in Oman? 2. What is the role of international businesses and international financial organisations in the transfer and development of accounting in Oman?

	3. To what extent did the Big Four influence the professionalisation of accounting in Oman?
To understand how the development of accounting and corporate governance relates to economic modernisation.	4. How does accounting and corporate governance fit into North's definition of institutions? 5. How did the development of an accounting and corporate governance institutional infrastructure in Oman relate to economic modernisation? 6. What is the role of the Omani government in the development and institutionalisation of accounting?

Table 10.1 Summary of Research Aims and Questions

This thesis contributes to the limited accounting literature on developing Arab countries. It provides a clearer understanding of the relationship between the development of accounting and economic modernisation using North's theory of institutions which was not used in this context before. Moreover, this thesis provides a case study to apply and elaborate North's theoretical understandings using real-life events.

The analysis also provides crucial insights regarding the transfer and dissemination of accounting knowledge and corporate governance standards and best practice into the institutional framework of Oman as a developing high-income oil-exporting country. It also offers a contribution to the international business literature and the internationalisation of accounting in the context of emerging economies. In addition, it provides an example of the migration of a modern economic institution (i.e., accounting and corporate governance) and how it integrates into the host country's institutional framework and affects its economic performance. Furthermore, this study contributes to various accounting issues and research themes, namely, the role of the Big Four in the development of accounting, the role of the state in the development of accounting and qualitative studies on the development and professionalisation of accounting in Arab developing countries.

Moreover, this thesis contributes to the business history of Oman by utilising archival records from British-based archives to construct a historical economic and financial background of the country under study. The historical background of Oman presented in chapter 2 would have been impossible to write without accessing British archival material due to the lack of a national archive in Oman until 2007. Therefore, accessing this information about Oman's business and economic history from the pre-1970s period required using British archives.

10.3 Summary of Findings

The historical narrative has shown that the development of an accounting institutional infrastructure in Oman was a direct result of the government's efforts to modernise and grow the economy. For this reason, a capacity was given to the Big Four and other international financial organisations, such as the OECD and the World Bank, to influence the development of accounting in the country.

The theoretical insights gained from this study are different from the insights gained from accounting history literature that looks into accounting professionalisation in former colonies and protectorates. Initially, it was thought that the British would have influenced the transfer and development of accounting in Oman due to being under their informal influence for long periods of time and their interference in Oman's financial and economic affairs before the 1970s, it was thought that they would have influenced the model of the practised accounting as well. The analysis, however, has revealed that the accounting profession in Oman was not influenced by British banks, British oil companies, or British professional accounting bodies, but rather by the Big Four. International financial organisations, such as the OECD, have also been found to be significant players by influencing the development and institutionalisation of corporate governance in the country.

It has been found that the Big Four have played a significant role in the transfer of accounting knowledge into Oman and creating an institutional model of accounting, auditing, financial reporting and corporate governance that is consistent with the international standards. Through their presence in Oman, they managed to successfully establish an audit market where none existed before. They also successfully continued to dominate the Omani market and influence the development of the profession by exporting an image of professionality. Their version of accounting and auditing professionalism has been perceived as the correct, legitimate and most effective version. Through the past 50 years, The Big Four adapted to the government's Omanisation efforts by recruiting and training local fresh accounting graduates to create networks in the local business environment, supported government efforts to institutionalise accounting and exported foreign professionals into the country who translated formal accounting knowledge into practice.

To understand how this knowledge transfer relates to economic modernisation, accounting, auditing, financial reporting and corporate governance were modelled as an institutional matrix in accordance with North's theory. This institutional matrix fits North's definition of institutions because they are a set of formal rules (i.e., international accounting standards), informal constraints (i.e., professional application of formal rules bounded by a profession) and enforcement mechanisms (i.e., government courts or agencies which enforce the formal rules) that create trust, reduce uncertainties, lower transaction costs and provide property rights protection. It does that by providing reliable financial information on which investment decisions can be based on. Moreover, financial reporting requirements guarantee the availability and accessibility of this information to potential market participants in a timely manner, thereby reducing the uncertainties and risks associated with investment decisions. It aims to create trust because accountants and auditors who prepare these financial reports are certified competent professionals. Confidence in financial information produced by professional accountants and auditors forms the core of public trust in business activities and investments, especially if these were carried among participants who are not bounded by personal relationships. The informal constraints of the accounting institution also result in a similar effect of confidence and trust by creating and reinforcing an image of professionalism and reliability attached to certified accountants and audited financial information. Not to mention, with effective enforcement mechanisms, accounting formal rules and informal constraints guarantee the protection of investors' property rights especially in cases of corruption or insolvency.

What then does the preceding analysis reveal about the institutional evolution of accounting in relation to economic modernisation? How does it inform theoretical perspectives about the nature of this relationship? Analysing the sequence of historical economic events in Oman since 1970 has revealed that the institutional matrix of accounting and corporate governance supports economic modernisation in the following ways: supports well-functioning capital markets, results in higher market participation, supports the growth of large corporations, greater attraction of foreign capital, effective financial control and cost management, efficient allocation and management of national resources and revenues, fair and consistent tax revenues, accurate calculations of profit figures and asset valuation which, ultimately, lead to better economic performance. Put simply, that is how accounting, as an institution, relates to economic modernisation.

With regards to the role of the Omani government, it has been found that it has been a significant player in the evolution of an accounting institutional infrastructure. Accounting and corporate governance are recognised in this thesis as economic institutions that are developed and altered through the political power of the developmental state. The transition of leadership from Sultan Said to his son Qaboos has resulted in dramatic changes in how national oil revenues are managed and spent. The new Sultan focused on implementing various political, civil and economic reforms which needed refined institutions and financial system. Hence, the government facilitated the importation of accounting and corporate governance international best practice to support these government reforms. They supported the institutionalisation of accounting and corporate governance and the dissemination of international best practice into the country's institutional framework. International formal rules of accounting were incorporated in the country's national legal framework. In addition, the new government accepted and welcomed the help of international expertise in the field (i.e., Big Four, OECD, IMF, World Bank, etc.) and gave them the capacity to influence the development of the accounting profession in Oman by working as advisers for the government and spreading an internationally renowned version through the local community of accountants and information users. In other words, it facilitated and supported the transfer and diffusion of international accounting knowledge into its wider institutional framework.

Formal rules of accounting and corporate governance were incorporated into laws and regulations issued through Royal Decrees, ministerial decisions and administrative decisions which were constantly reviewed and updated to match international developments. CMA was established as an independent government agency that sets and enforces accounting rules and regulations and financial reporting requirements for listed companies. Informal constraints were developed by spreading a general professional interpretation and application of accounting formal rules among the producers as well as the users of accounting information. The general perception within the Omani market is that certified accountants are professionals that produce accurate, reliable financial information. Additionally, a market was created which values the role of the accounting profession and is not resistant to the transfer and diffusion of the latest international developments in the field.

It is also important to mention that this thesis acknowledges the dynamic nature of institutional change as it showed how the accounting and governance institutional infrastructure gradually developed to accommodate a need to manage large flows of oil revenues, emergent financial crises and market failures as well as the country's pressing need for economic modernisation. It also acknowledges that, just like other institutions, an accounting institutional infrastructure develops as a result of the search for effective responses to current issues through surveys of past experiences. In the case of Oman, the results of international past experiences were transferred into the country through the Big Four to support its ongoing economic reforms plans (Chandar & Miranti, 2005).

10.4 Implications

The findings of this thesis are expected to have the following implications. First, the government of Oman has started planned structural economic reforms in accordance with its Oman Vision 2040 to boost non-oil private sector growth, promoting private investment, increase the attractiveness of the business environment and ensuring an efficient use of public resources (Oman Vision 2040, 2020). The findings of this thesis allow for placing accounting and auditing policies within the context of these economic plans for the next 20 years. It views accountancy and corporate governance as an institution that is crucial in supporting the success of these plans as well as assessing and measuring their effectiveness.

Second, it is hoped that, by establishing the relationship between an effective accounting institutional infrastructure and the achievement of economic modernisation, more efforts with be dedicated by the Omani government to strengthening the country's accounting institutional framework. This could be done by adopting professional accounting standards and practices within its public sector entities as well as the appointment of professional accountants within government organisations to further reinforce economic modernisation plans. After all, an effective management of national assets and resources requires equally effective accounting practices as has been established by the findings of this thesis. In addition, the results of this thesis could drive further attention towards the application and enforcement of the international best practice of accounting and governance for all types of business entities in Oman, including SMEs, SOEs and family-owned closed joint stock companies. Finally, the findings might encourage the government to further empower the OACPA and grant them the authority and autonomy to further develop the profession in Oman.

10.5 Limitations and Future Research

This analysis suffers from a variety of drawbacks with regards to time, the methodological approach and the availability of data. First, evidence was limited. No archival records or documents from the period under study were kept by the Omani government or even by the interviewees to support their interview statements or to fill in the missing details. This, however, was partially compensated for by using British-based archives of the Bank of England and BBME as well as records from the British National Archive accessible through The Arabian Gulf Digital Archives.

Moreover, finding potential interviewees and getting their approval to participate in the study was also a daunting process. In many instances, attempts to contact potential interviewees were either not responded to or received an unfulfilled promise of following up on it later. This has, unfortunately, made the data collection process difficult and unnecessarily lengthy. Not to mention that the number of individuals who are believed to have the required information are limited in the first place because the majority were foreign expatriates who had returned to their home countries and lost contact with their Omani colleagues.

Second, using oral history as a method for data collection has its limitations. In many instances during the interview, the interviewees were unable to pinpoint exact details in questions involving subjects of training programmes, number of trainees and conference papers' topics, especially if these were carried out more than 20 or 30 years ago. Therefore, the lack of such details in the analysis is not because these questions were not asked, but rather because no or only limited answers were provided which restricts the insights gathered.

Third, the interviews' data used in the analysis were obtained from interviewees who represent the supply side of the profession. That is the side responsible for the production of accounting laws and accounting information which are, in this case, the government and the Big Four. It does not include the perspective of the demand side, which is the various users of accounting information such as banks and capital market investors as part of the analysis. The inclusion of their perspective could provide greater insights on the graduality of accounting institutionalisation in Oman and how it responds to the economic needs and international developments. It could also be indicative of the effectiveness of some of the mentioned accounting development efforts on the performance of Oman's capital and financial markets.

Fourth, the analysis does, indeed, primarily focus on the development of the formal rules and enforcement mechanisms of the accounting institutional infrastructure in Oman. This is not an understatement of the importance of informal constraints within North's institutional framework, but rather due to being generally harder to measure and potentially require the use of variables as proxies to be identified and measured (Voigt, 2017). The process requires going deep into cultural indicators such as customs and values of the Omani society informed by heritage and religion to understand the underlying informal constraints.

To address some of the above limitations, the following opportunities for future research are suggested. The first is the use of a quantitative approach to further the study, and reinforce, the established relationship between the institutionalisation of accounting and economic modernisation in Oman. Second, the results of this study can be used in the future research of comparative institutional studies to further understand the relationship between the institutionalisation of accounting and economic modernisation in countries of similar political and economic settings. Third, the inclusion of accounting information users' perspective to further enrich the analysis. The fourth would be to look into the development of accounting education in Oman as a crucial element in the accounting institutionalisation story in Oman because it reflects the economic changes and develops in order to meet the increased demand for professional accountants (Zhang et al., 2014). Finally, it might be useful to further explore the role of the ACCA in the professionalisation of accounting in Oman by looking into their documents or interviewing individuals who handled ACCA projects in Oman.

10.6 Chapter Summary

Taking into account the role of Oman's government as a developmental state, the theoretical underpinning of this study employed North's institutional framework and drew on international business literature to frame how the Big Four have aided the transfer and institutionalisation of accounting in Oman in relation to economic modernisation. The coupling of these two bodies of literature offers a new dimension for understanding the relationship between accounting and economics. This makes it possible to contextualise accounting within discussions of economic modernity and growth as well as differences in economic performance among countries. Oman was seen as an interesting case study because of the nature of its history which is characterised by dramatic changes in its political and economic environment in just 50 years.

The analysis of the major economic events in Oman in the last 50 years sought to amplify the understanding of the evolution of accounting as an institutional arrangement to enhance property rights protection and corporate transparency while reducing the transaction and informational costs. This, consequently, supports the government's economic reforms because these well-enforced accounting and governance formal rules and informal constraints are essential to capital market efficiency, securing international loans, protecting the interests of international investors and minimising the costs of bankruptcy and financial crises. This thesis regards the development of accounting in Oman as an institutional response to the need of enhancing the economic conditions of the country after 1970. It was gradually upgraded afterwards in accordance with the latest international developments to overcome various financial failures by enhancing transparency and market efficiency.

The chapter concluded the thesis by revisiting the aims, contributions and major research questions. It then summarised the major findings before discussing the potential limitations, implications and opportunities for future research.

Appendix A List of Interviewees and Sample Interview Questions.

A.1 List of Interviewees.

Name	Position	Mode of Interview	Language	Interview Duration	Permission to Record
Ahmed Al Mukhaini	Policy Analyst and an Advisor at CMA's Executive President's Office	Online	Arabic/English	40 minutes	Granted
Khalid Ansari	Previous Partner in Charge KPMG Oman and ICAEW contact member in Oman.	Online	English	43 minutes	Granted
Sayyid Hamid Al Busaidi	Executive Director of Oman Centre for Governance and Sustainability.	Online	Arabic/English	45 minutes	Granted
Dr. Hashim Al Sabbagh	Accountant - Chair of Amman Stock Exchange, seconded to Oman in 1987 to establish Muscat Securities Market and draft related legislations	Online	Arabic	41 minutes	Granted
His Excellency Mohammed Al Zubair	First Minister of Commerce and Industry 1974. Member of the founding Committee of the Oman Chamber of Commerce and Industry. His Majesty's advisor for Economic Planning (1984-2020).	Face to Face	Arabic	50 minutes	Granted

	President of Sultan Qaboos University (1997-2001).				
Ibrahim Al Masood	Accountant in Oman since 1986 – Current CFO at Deloitte Oman.	Phone	Arabic	15 minutes	Not granted
Kenneth Macfarlane	Current Office Managing Partner at KPMG Oman – previous Senior Partner PwC Oman.	Face to Face	English	40 minutes	Granted
Nader Al Rawahi	Previous Director at EY and KPMG Oman. Operation Excellence Lead at Oman Vision 2040 Follow up units. Founding Member of the Omani Association of Certified Public Accountants.	Online	Arabic/English	75 minutes	Granted
Abbas Al Humaid	Previous employee at CBO – Managing partner of Mazars Oman.	Phone	Arabic/English	15 minutes	Not granted
Sanjay Kawatra	Previous partner at EY Oman – Member of the ICAI	Phone	English	18 minutes	Not granted

A.2 Sample Interview Questions.

A. Context:

1. How would you describe the financial and economic situation in Oman before 1970 with regards to: activities, government bodies, laws?
2. What were the major businesses in Oman before 1970? How did they handle their finances? And how was the accounting done back then?
3. Were there any international businesses operating in Oman before 1970? Did they handle their finances any different from local firms?

B. Economic modernisation:

1. In your opinion, did international businesses have a role in introducing modern-day accounting practices into the country?
2. Did the government rely on foreign expertise in the early 70s to set the base of the country's financial administration? What was the type of this reliance?
3. Do you think that the introduction of formal accounting and financial reporting practices had a role in the process of economic modernisation and attracting foreign investments into the country?

C. The development of the accounting profession:

1. Who was responsible for accounting duties in the international companies operating in Oman before 1970? Were they foreigners or locals?
2. Do you think that the British involvement in Oman's affairs before 1970 have influenced the introduction of professional accountancy into the country? How so?
3. Do you think the discovery of oil and the economic modernisation that followed had a role in the professionalisation of accounting in Oman?
4. What is the role of the Omani government in the professionalisation of accounting?
5. what were the factors behind the establishment of the Capital Market Authority (CMA) in 1998?
6. Before the establishment of CMA, who was responsible for regulating the capital market and the enforcement of relevant laws?
7. Was there any required professional accounting certification to practice the profession in Oman?

D. The Development of Corporate governance:

1. How was the first corporate governance code drafted in 2002?
2. What were the major amendments in the new corporate governance code of 2015?
3. Did the government receive any help or advice from international organisations or professional bodies in drafting the corporate governance codes?

4. In your opinion, what were the factors that prompted the government to take the decision to separate OCGS from CMA?
5. What were the government's motives behind improving the corporate governance framework in Oman?
6. How did government efforts to enhance corporate governance and financial reporting affect the business environment in Oman?
7. How did the responsibilities of OCGS develop after it was separated from CMA and considered an independent body?

E. The role of the Big Four in the professionalisation of accounting:

1. What was the nature of auditing services in Oman during the 70s and 80s?
2. How did the firm contribute to transferring international accounting knowledge into Oman?
3. Did you have an advisory role on certain projects with the government?
4. What are your training programmes for local accountants who join the firm?
5. Do you think that the firm would have been able to have this advisory and training capacity without the support of the government?

F. An Omani Accounting Profession:

1. Who was the idea behind forming an Omani association for certified accountants?
2. What were the main objectives you were hoping to achieve?
3. what are the future plans of OACPA?

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