Accounting Profession and Professionalization Project

in Kuwait: A historical study

A thesis submitted in fulfillment of the requirements for the degree of

Doctor of Philosophy

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April 2014
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Declaration

I hereby certify that the work in this thesis has not been submitted for a higher degree to any other university or institution, and that the work presented - except where acknowledged - is of the author. Further, that the content of the thesis is the result of the author's work since the commencement date of the PhD program. Also, that ethics approval has been obtained and shown in the appendix, and that ethics procedures and guidelines have been followed.

Noura Altaher

April 2014
Acknowledgements

I owe a great deal of gratitude to Allah for blessing me with his grace, mercy, and granting me the power to endure, for without it I would never have had the opportunity to accomplish this work.

I would also like to express my gratitude:

• To my sponsor, the Public Authority for Applied Education and Training (PAAET) in Kuwait for awarding me with this scholarship.
• Special gratitude is owed to my principal supervisor Associate Professor, Elaine Evans for her knowledge, support, and guidance throughout this study. I would also like to thank my associate supervisor Associate Professor Maria Dyball for her input and experience.
• To all of my family and friends who provided me with the support, encouragement, and motivation.
• To my mother, my source of moral, spiritual inspiration, and unconditional love.
• To my companion, husband, and friend, though doing his own PhD, never failed to believe in, push, motivate, love, and supported me, I am forever indebted.
• Last but not least to my children, a true blessing, a source of joy when days are rough. Thank you for keeping up with us, you have always, and ever will be the top priority in my life. May Allah bless you and our family.

Without a doubt there will be errors and deficiency, for which I take absolute responsibility, however, I hope that some benefit and insights could come from this humble effort.
Abstract

The aim of this historical study is to explore the emergence and development of the accounting profession and professionalization project in Kuwait. Therefore, filling a gap in the literature by presenting a case of an Arabic former British protectorate country (De Beelde, 2011). This aim will enable situating the case of Kuwait among the cross-nation studies, thus adding to the called for diversity of historical accounting professionalization studies (Chua & Poullaos, 1993, 1998; Freidson, 1994; Walker, 2004). The case of the emergence and development of the Kuwaiti Association for Accountants and Auditors (KAAA) is utilized. Drawing from the theoretical framework of the sociology of the professions, with a focus on the socio-economic environment in which it emerged and state-profession axis.

The study is constructed following thesis by publication format. Accordingly sub-aims has been contracted to fulfil the overall aim of the study as follows:

1. First paper, aims to explore the influence of the British Empire on the formation of KAAA in 1973. For which, it deploys the enabling factors identified by Poullaos & Sian (2010) in professionalization projects in former British colonies to explore whether these factors were present in Kuwait as an Arabic British protectorate.

2. Second paper covered the period from 1973 to 1985. The aim is to identify how changes in the socio-economic environment influenced the
professionalization project in Kuwait. Using social change theory as an explanatory framework.

3. The final paper looks into the post formation period leading to the enactment of new Practice Law no. 5 in 1985. In this study the aim is to explore the challenges and strategies deployed by the KAAA in its attempt peruse closure, and how these strategies are applied within the contexts of conflict, and state-profession axis

The thesis employs two methods of data collection. The primary data are obtained following oral history method, through semi-structured interviews with pioneer and foreign accountants, some of KAAA founding members, and state representatives. The secondary data are obtained by conducting archival research.
Chapter 1: Introduction

1.1 Introduction

Studies of accounting professionalization date back to the nineteenth century, focusing primarily on the Anglo-American models, and drawing extensively on the sociological concept of closure. Closure has been utilized as a strategy of the professions to secure market monopoly as they aspire to economic rewards and social mobility (Freidson, 1994; Macdonald, 1984, 1995; Willmott, 1986). In advanced industrial and capital economies, professional accounting associations emerged to secure a place in the open market, demonstrating the acquisition of an abstract knowledge of their occupation (Abbott, 1988; Larson, 1977) while aiming to gain the support of the state and protect their group against competition from less qualified accountants and other professions in the market for services (Abbott, 1988; Burrage & Torstendahl, 1990; Freidson, 1994; Larson, 1977; Willmott, 1986).

However, researchers concede that although some patterns of professionalization are somewhat replicated in different countries, generalization of professionalization projects is insufficient, and they therefore identify the need to uncover diverse closure strategies (Chua & Poullaos, 1993, 1998). This argument is further supported by the findings of a growing body of literature that has revealed diversity and variations in cross-nation professionalization projects, for example, the emphasis of the role of the state in the professionalization project in continental Europe (Amark, 1990; De Beelde,
2002; De Beelde et al., 2009; Ramirez, 2001) and in transitioning economies (Farag, 2009; Gallhofer et al., 2009; Hao, 1999), and further, the British imperial influence on the professionalization process in former colonized countries (Annisette, 1999, 2000; Dedoulis & Caramanis, 2007; Dyball et al., 2007; Johnson, 1982; Susela, 1999; Uche, 2002; Verma & Gray, 2006). Therefore, exploring accounting professionalization projects in the context of the surrounding socio-economic environment in which they emerge not only unveils variations in cross-nation trajectories, but further shows how accountants as a group “emphasise their changing role and the way in which accountants have responded to or been moulded by their environment” (Parker, 1980, as cited in Willmott, 1986, p. 556). Accounting history allows us to “better ... understand our present and to forecast or control the future” (Haskins, 1904, p.141 as cited by Previts et al., 1990). Hence, this study is motivated by previous professionalization studies to explore the history and development of the accounting profession and the accounting professionalization project in Kuwait between 1948 and 1986. Although the research time frame commences in 1948, with the rise of the oil industry creating an instant need for professional accounting services (Shuaib, 1992), the study also traces the influence of the British Empire in Kuwait, which was a former British protectorate, from 1899 to 1961. In the context of imperial influence over professionalization projects, most of the previous studies are oriented in former British colonies, whereby the colonizer (UK) had full control over the political, social and economic organization of the colonies (Gallagher and Robinson, 1953). On the contrary, Kuwait being a British protectorate rather than colony, and as per conditions of the 1899 treaty, the British government gained control only over the external
affairs and did not have the power to control or exert direct influence over the internal affairs (political, social, economic) of the country which remained under the authority of Kuwait’s ruler. Kuwait was protected by Britain.

The research extends to 1986 to investigate the influence of change in the socio-economic environment on the accounting profession and the professionalization project, as the period from the late 1970s to the early 1980s was critical in the development of Kuwait’s economy.

The rest of the chapter is structured as follows. Section 1.2 provides a background on Kuwait’s socio-economic environment. In Section 1.3, a literature review is conducted to highlight variations in the cross-nation trajectories and emphasize similarities. In Section 1.4, the research problem and thesis structure are presented. Section 1.5 provides details of the research methods applied in collecting both primary and secondary data.

1.2  **Kuwait: history and background**

Kuwait is a Muslim, Arabic, Middle Eastern country that is located at the top of the Persian Gulf, sharing borders with Iraq to the north and Saudi Arabia to the west and south. Kuwait is categorized as one of the high-income oil-exporting countries (HIOECs) by the World Bank (1988). This term is used by the World Bank to distinguish the special economic characteristics of oil exporting countries with high gross national product (GNP) per capita\(^1\) from other developing and emerging economies. The HIOEC countries are Kuwait, Saudi Arabia, the United Arab Emirates, Brunei, Qatar, Bahrain, and Oman (Yapa &

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\(^1\) “Gross national product (GNP) per capita is the dollar value of a country’s final output of goods and services in a year, divided by its population. It reflects the average income of a country's citizens. Knowing a country's GNP per capita is a good first step toward understanding its economic strengths and needs” (World Bank, accessed 11/4/2014, available at: http://www.worldbank.org/depweb/english/teach/gnp.html).
Wijewardena, 1995). All of these countries, with the exception of Brunei, formed an alliance called the Gulf Co-operation Council (GCC) in 1981. In response to the rising threats to Kuwait’s sovereignty from both the Ottoman Empire and the Wahhabi movement in Saudi Arabia in the late nineteenth century, Kuwait became a British protectorate during the period from 1899 to 1963. Under this arrangement, and in return for their protection, the British government controlled all of Kuwait’s external affairs, while all internal affairs remained within the sole domain of Kuwait’s ruling family.

De Beelde recently acknowledged that the professionalization literature had yet to explore professionalization projects in Arabic countries and former British protectorates. Therefore, it was considered that a historical study of the professionalization project in Kuwait, as an Arabic former British protectorate country (De Beelde, 2011), would provide a valuable contribution to the accounting professionalization literature. Moreover, Kuwait’s special economic, political, and cultural characteristics as one of the HIOECs serve to differentiate it from other developing and emerging economies. Although Kuwait shares many commonalities with most of the HIOECs in the Gulf region, it has been recognized as a pioneer in many infrastructure development projects (Sherbiny, 1985; Yapa & Wijewardena, 1995), and was the first of the GCC countries to experience the emergence of an accounting association, which occurred in 1973. Other than a professionalization study of Brunei (Yapa, 1999), no other studies have been conducted to explore the effects of being a HIOEC on the accounting profession and on accounting professionalization projects. Therefore, with Kuwait having the longest (albeit modest) economic and professional history of all of the HIOEC

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2 *Wahhabi* is a radical Islamic movement.
and GCC countries, this study fills an obvious gap in the literature, and it is anticipated that it will stimulate future studies of this region.

1.3 Literature review

In this section, a literature review is conducted using prior studies, with a focus on those that are pertinent to this thesis. It starts with an analysis of the concept of professionalization. Then, it explores the critical approach to closure that is mostly utilized by professionalization research. It then investigates how British imperial influence affected the accounting profession and professionalization projects in former settler and non-settler colonies, mainly to identify the differences and similarities between those cases and this study of Kuwait as a former British protectorate. The literature review then explores the state–profession axis to emphasize the role of the state as a key player in the development of the accounting profession and professionalization projects. The final part of the literature review examines the link between closure and accounting education and the credentialing process.

What is professionalization?

The literature does not offer a uniform definition of professionalization, but rather provides a description of the process of its emergence (Pholkee, 2013). It recognizes three main streams of sociology of the professions; the functionalist, interactionist, and critical approaches. While the functionalist and interactionist approaches were dominant in early studies, the critical approach gained favour in studies from the 1970s onwards (Willmott, 1986).

According to the critical approach, professionalization is regarded as an attempt by the professions to create a market niche and seek control over
regulating market supply (Abbott, 1988; Pholkeo, 2013; Sian, 2006; Uche, 2002; Walker, 2004; Yapa, 1999). Professions themselves are defined as “somewhat exclusive groups of individuals applying somewhat abstract knowledge to particular cases” (Abbott, 1988, p. 318), and are recognized by Weber as “human actors who band together, establish formal regulations, and acquire political enforcement as a legally privileged group” (Collins, 1990, p. 26). Furthermore, this approach concedes that the power of the professions is not absolute, as they are highly dependent on the power of the state (Elliott, 1972; Freidson, 1994; Johnson & Caygill, 1972; Larson, 1977, 1990; Macdonald, 1995; Ramsey, 1988; Willmott, 1986). Thus, professionalization is often associated with pursuing closure, a concept that is examined in the following section.

**The concept of closure**

Many studies of accounting professionalization projects place great emphasis on the sociological concept of closure. In order to analyse the emergence of professional associations, Max Weber’s critical approach to closure has been “widely adopted and remains dominant in more recent decades” (Pholkeo, 2013, p. 46; Willmott, 1986). This approach places strong emphasis on the goals of social mobility and market monopoly as the main motivating factors in the emergence of professional associations. Further, other researchers argue that professional associations, in pursuit of these goals, seek the support of the state to exclude any competition and control market entry (Chua & Poullaos, 1998; Krause, 1996; Larson, 1977; Macdonald, 1995; Walker, 1991; Willmott, 1986). Hence, closure transpires when the professional group is successful in regulating the market in their favour by setting the rules of inclusion and exclusion when
faced with competition (Saks, 1983; Sian, 2006). Therefore, closure is often triggered by competition when conflict arises as a result of jurisdictional disputes with other professions or less qualified accountants (Abbott, 1988; Freidson, 1986; Larson, 1977; Macdonald, 1984). Sian (2006) acknowledges two forms of closure: usurpationary and exclusionary. The first is when “subordinate groups improve their position by attempting to access the advantages of dominant, higher-status groups. Exclusionary closure is associated with the exercise of power in a downward direction, and involves dominant or higher-status groups closing off opportunities to lower-status, inferior groups” (Sian, 2006, p. 297).

The critical approach is utilized extensively in Anglo-American analysis of professionalization projects. Professionalization projects in the UK placed an emphasis on jurisdictional disputes with lawyers and less qualified accountants as the main driver behind pioneer UK accounting associations grouping together and establishing a market niche that distinguished their group as the qualified elites (Macdonald, 1984; Walker, 1995, 2004; Willmott, 1986). Similarly, in the USA, the case of the American Institute of Certified Public Accountants’ (AICPA) market monopoly has been facilitated by the support of the state. In this case, closure was achieved through the introduction of CPA credentials, whereby the association became the gate-keeper for market entry, which was only available to their members, and excluded any external competition (Van Wyhe, 2007a, 2007b; Zeff, 2003a, 2003b).

However, researchers called for an expansion of the analysis of professionalization projects beyond the critical approach in an attempt to uncover diverse closure strategies (Chua & Poullaos, 1993, 1998; Walker, 2004)
based on the motives of social mobility and market monopoly (Collins, 1990; Freidson, 1994; Walker, 2004).

Recently, accounting professionalization studies have responded to these calls and uncovered diverse closure strategies, most notably those of associations in former colonies, where market competition was often between the colonizer and indigenous accountants. Influenced by the work of Johnson (Johnson, 1982; Johnson & Caygill, 1971), these studies utilize imperial influence in their analysis of professionalization projects in colonized countries. This is examined in the following section, with an emphasis on British imperial influence given Kuwait’s history as a former British protectorate.

**British imperial influence on professionalization projects**

In the context of professionalization projects in former colonies, many studies have been dedicated to British former colonies. Poullaos and Sian (2010) argue that some patterns and tendencies are reflected in British strategies throughout the empire, following an examination of studies in Malaysia (Susela, 2010), Kenya (Sian, 2010), India (Verma, 2010), Trinidad and Tobago (Annisette, 2010), and Nigeria (Uche, 2010). These tendencies, as identified by Poullaos and Sian (2010), are the migration of British capital, British accountants, British models of professional accountancy, the activities of British accounting associations, and British laws, education, and other institutions. This strategy is played out by British colonial accountants as a means of governing British capital and expanding their market and dominance throughout settler and non-settler colonies, which is facilitated by local elites in the colony and local and colonial state agents (Annisette, 2000; Briston & Kedslie, 1997; Johnson & Caygill, 1971;
Parker, 1989; Poullaos & Sian, 2010). As a consequence, imperial imprints are
reflected in the accounting professionalization projects of colonized countries.

In settler colonies such as Australia, New Zealand, South Africa, and
Canada, professionalization projects reflect the adoption of British models
(Carnegie & Edwards, 2001; Perera et al., 2001; Poullaos & Sian, 2010;
Velayutham & Rahman, 1996). However, other studies reported attempts to limit
the dominance of British accounting associations and to resist their expansion
(Chua & Poullaos, 1998). For example, the case of the Incorporated Institute of
Accountants in Australia (IIAA) shows that pressure from economic conditions
and the demand from both local and immigrant accountants for the right to work
made any form of market exclusion unacceptable. As a result, the colonial state
did not close entry into the market to the British, but rather adopted an open
market policy, which increased competition from British accountants and
associations (Chua & Poullaos, 1998; Carnegie & Edwards, 2001). As a response,
the IIAA secured state support to set examinations as a means of controlling
market entry, and further sought Royal Charter status through British agencies
to meet British competition (Chua & Poullaos, 1998).

In both Kenya, as a non-settler British colony, and Trinidad and Tobago,
as a settler colony, the colonial state enforced laws to privilege British capital,
companies, and accountants. In both countries, local accountants experienced
racial discrimination augmented by a hierarchical social order that discriminated
against indigenous accountants and excluded them from entry to the market for
accounting services (Annisette, 1999; Sian, 2006). Therefore, post-independence,
in contrast to British closure models, the state-led professionalization projects in
both Kenya and Trinidad and Tobago aimed to open the market to local accountants rather than restricting it to elite accountants.

In many non-settler colonies such as Trinidad and Tobago, India, Malaysia, and Nigeria, the imperial imprint on the profession remained highly visible, even post-independence. This influence extended through trade activities and the exposure of local accountants to British education and accounting credentials. Thus, these countries reflect British models of professionalization, training, and certification (Annisette, 1999, 2000; Susela, 1999; Uche, 2002; Verma & Gray, 2006). Conversely, the Kenyan professionalization project reports a diverse scenario: instead of adopting British laws and credentials, the newly independent state formulated local accounting legislation, entry criteria, and credentials for indigenous accountants (Sian, 2006). Similarly, the newly independent state of Egypt played a crucial role, passing legislation to control the regulation of practising accountants and rejecting any traces of the pre-colonial British model. Keen to promote a strong sense of nationalism and pride by opening the market to indigenous accountants, the professionalization project in Egypt was led by the Egyptian state. Eventually, the dominance of the Egyptian Royal Society, which was formed under British colonial rule, declined, and the imprint of British credentials faded (Farag, 2009). Hence, despite these colonies being subjected to the same British colonizer, studies report variations in the extent of British imperial influence in both settler and non-settler colonies.

**State and profession**

To understand the emergence and development of professional associations, it is prudent to explore the state–profession dynamic. The state is regarded as a “set
of related institutionalized arrangements and practices whose aim is to ensure that all citizens perform and conform to a set of socially-constituted rules” (Chua & Sinclair, 1994, p. 669). In an analysis of professionalization, Streeck and Schmitter (1985) provide four main principles of co-ordination in advanced capitalist countries, one of which regards the state as a vital factor in influencing professionalization projects through hierarchal control. The other principles of advanced capitalist countries are: community (spontaneous solidarity), market (dispersed competition), and associations (organizational concentration). In their model, Streeck and Schmitter argue that the state has the ultimate authoritative power of enforcing its public policies in the market, community, and associations. As a result, in pursuing their members’ interests, associations are highly dependent on state co-operation if they are to gain any authoritative power.

There is a considerable amount of literature emphasizing the influence of the state as a key player in the professionalization process, because in most capitalist economies professional associations are considered important to the state and the society as providers of specialized knowledge, therefore their authoritative power is facilitated by the state (Annisette, 2000; Burrage & Torstendahl, 1990; Carnegie & Edwards, 2001; Chua & Poullaos, 1993; Puxty et al., 1987; Willmott, 1986; Yapa, 2006; Yee, 2009). The state and the profession have an interdependent relationship, as the state depends on the professional association to regulate matters of the profession and monitor the quality of practitioners, thereby allowing the profession to exercise a degree of authoritative power by controlling market entry in order to achieve closure. Interactions between the state and the profession should therefore be
empirically investigated in order to reach a comprehensive understanding of the professionalization project (Chua & Poullaos, 1993; Chua & Sinclair, 1994; Johnson, 1982), taking into consideration the fact that the dynamics of the state–profession axis are not constant, but vary in form and extent from one period to another and from one nation to another (Krause, 1996).

The role of the state in regulating the economy and society provides a stronger clue regarding the emergence and development of professional associations (Chua & Sinclair, 1994; Willmott, 1986). Although professional associations are seen as an integral part of society, they do not possess the power to achieve their goals independently, and are therefore highly dependent on the state (Freidson, 1986; Larson, 1977).

However, the state–profession axis is not static. Studies show that when examining the state–profession axis within a specified time frame, the first task is to locate the event or events that stimulated the initial interaction between them to provide an understanding of the dynamics of this relationship. Some studies reveal how the state–profession axis developed as a consequence of specific events that necessitated a change in the form and dynamics of the relationship (Hao, 1999; Ramirez, 2001; Yee, 2009). Events in the socio-economic environment invariably cause a disruption to the state–profession axis, stimulating the creation of a new system, which is described as social change (McKinnon, 1983; Verma & Gray, 2006). This is illustrated in many studies of state imposition of reform schemes, in which the state encourages the accounting associations to take an active role in the process of setting accounting standards, regulating matters of the profession, and setting the rules of market
entry (De Beelde, 2002; De Beelde et al., 2009; Dedoulis & Caramanis, 2007; Hao, 1999; Verma & Gray, 2006; Walker, 2004; Yee, 2009; Zeff, 2003a, 2003b).

**Closure through education and credentials**

As mentioned previously, the first studies of accounting professionalization projects are located in the UK, and date back to the early nineteenth century. Emerging in a hierarchal society, accountants used closure to serve their ambitions of social mobility and market monopoly. While most accounting associations worldwide require a degree in either accountancy or business studies for their members, for example, HKICPA (Hong Kong), SAICA (South Africa), ICAA (Australia), NZICA (New Zealand), CICA (Canada) (Gammie & Kirkham, 2008), the British associations do not apply such a requirement as a condition for membership. Professional accounting associations in the UK such as ICAEW and ICAS offer professional education outside universities as a means of transferring expert knowledge (Anderson-Gough, 2009; Gammie & Kirkham, 2008).

In the USA in the late nineteenth century, the acquisition of abstract knowledge was perpetuated by the acquisition of a higher degree certificate through structured educational programs. Hence, some studies show that market closure was achieved by monopolizing knowledge, such as in the case of the AICPA through the introduction of the CPA credential (Macdonald, 1995; Van Wyhe, 2007a). Professional accounting associations in many countries attempt to influence higher education to “produce the producers” and ensure that their members perpetuate the qualifications and knowledge of the group (Anderson-Gough, 2009; Carnegie & Napier, 1996; Devonport, 2009; Freidson, 1994, 2001;
Larson, 1977; Walker, 2004), while Abbott (1988) contends that control over professional and academic knowledge provides associations with the prestige that enables them to sustain a form of jurisdictional control. Many researchers argue that an association's professional qualifications are a stamp of professional status (Abbott, 1988; Burrage & Torstendahl, 1990; Freidson, 1986; Larson, 1977).

In some former British colonies, the colonial imprint continued to exist in the post-independence era as a means of dominance over former colonies, which planted the ideology of “British's best” and increased the colonies’ fascination with the UK credential of “Chartered Accountant”, especially in many non-settler colonies (Annisette, 2000; Susela, 1999; Verma & Gray, 2006). Utilizing control over education and credentials as a tool for market closure has extended to many British settler colonies, such as Australia (Birkett & Evans, 2005; Chua & Poullaos, 1998), New Zealand (Devonport, 2009), and Kenya (Sian, 2006; Susela, 2010).

While some studies report strong links between professional associations and higher education as a means of controlling knowledge and the supply of professionals, in contrast, studies of Syria (Gallhofer et al., 2009), Libya (Shareia, 2010), and Brunei (Yapa, 1999) show that the accounting associations did not establish any form of co-operation with or control over higher education, as they lacked the authoritative power. The latter studies indicate that this lack of engagement with higher education was because the professional associations did not play an active role in matters of the accounting profession.
1.4 Research problem and thesis structure

The literature is rich with studies of professionalization projects in former colonies, especially those in British settler and non-settler colonies. However, studies of the professionalization trajectories in Arabic countries and former British protectorates are limited (De Beelde, 2011). Therefore, the first part of this thesis addresses this strand of the literature and responds to calls to add to the history of professionalization projects in Arabic former British protectorate countries by investigating the history of the accounting profession and the professionalization project in Kuwait. Accordingly, the main research problem is to investigate the history of the accounting profession and the professionalization project in a previously untapped region. How would the different cultural, economic, and political settings of an Arabic former British protectorate that is one of the HIOECs, such as Kuwait, influence the accounting profession and professionalization project?

Consequently, Chapter 2 (paper one) of this thesis aims to investigate the case of Kuwait as a former British protectorate from 1899 to 1961. It deploys the enabling factors identified by Poullaos and Sian (2010) in professionalization projects in former British colonies to explore whether these factors were present in Kuwait as an Arabic British protectorate in the context of the state–profession axis and with regard to the influence of the special Kuwaiti cultural aspect of *Dewaniya*[^3], as highlighted in Table 1.1.

Chapter 2 is empirically guided by the general tendencies of former British colonies provided by Poullaos and Sian (2010), namely the migration of

[^3]: *Dewaniya* is a social culture highly valued in Kuwait as a form of mostly male group gathering, whereby social, economic, and political events are delegated.
British capital, British accountants, British models of professional accountancy, the activities of British accounting associations, and British laws, education, and other institutions. Poullaos and Sian argue that these British imperial tendencies have left indelible imprints on accounting professionalization projects in former British colonies. Therefore, the study investigates whether such tendencies and imperial strategies were also present in the case of Kuwait as a protectorate rather than a colony. Further, it investigates whether factors such as British capital, accountants, and accounting associations, for example, were also present in the case of Kuwait. The study of Kuwait’s professionalization project also explores whether any post-treaty imperial imprints existed, and whether any links have been established and maintained with British accounting associations.

To achieve these aims, a time frame is set to trace the history and nature of the British–Kuwaiti relationship from 1899, when the protectorate treaty was signed between Kuwait and Britain, to 1973, when the Kuwaiti Association of Accountants and Auditors (KAAA) was founded.

In Chapter 3 (paper two), we study the professionalization project in Kuwait to reflect on the special characteristics of this economy, Kuwait being one of the HIOECs. The study focuses on the period from the formation of the KAAA in 1973 to 1985, during which time a series of financial crises occurred. Chapter 3 aims to explore how these events in Kuwait’s socio-economic environment influenced the state in adopting reform schemes leading to accounting change in Kuwait, and further to identify how these events affected the operation of the KAAA, changing it into a more active association. The study is grounded by the theory of social change applied by McKinnon (1983, 1986) and Verma and Gray (2006) in identifying changes in the Kuwaiti accounting professional project as
part of a broader socio-economic system.

Chapter 4 (paper three) focuses on analysing the professionalization project of the KAAA. In response to calls highlighting cross-nation variations in professionalization project trajectories, the chapter aims to investigate the closure strategies deployed by the KAAA in the 1980s to restrict market entry to indigenous accountants in the context of the state-profession axis and market conflict.

The chapter analyses the period following the enactment of Practice Law No. 5 in 1981, when the first certification examination was introduced and set as a parameter for market entry. This law amended the previous Practice Law No. 6 of 1962 and limited market entry to certified indigenous accountants, thereby restricting market entry, which had previously been available to both local and foreign accountants. The chapter is theoretically grounded by the concept of closure, which is used to identify the drivers of the KAAA strategy to limit market entry and to analyse the implications of the KAAA strategy on accounting practice regulation for both foreign and indigenous accountants. The study further evaluates the similarities and variations between the Kuwaiti professionalization project and previous studies in order to investigate how the special nature of Kuwait’s socio-economic status as a HIOEC could have influenced the accounting profession and professionalization project.

Table 1.1 demonstrates the contents of this thesis, using a thesis by publication format. The table shows the title, aim, and percentage contribution by the author, and any publication or conference contribution.
Table 1.1: Thesis structure

<table>
<thead>
<tr>
<th>Paper One</th>
<th>A study of the emergence of the Kuwaiti Association of Accountants and Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aim</td>
<td>The study investigates the case of Kuwait as a former British protectorate from 1899 to 1961. It deploys the enabling factors identified by Poullaos and Sian (2010) in professionalization projects in former British colonies to explore whether these factors were present in Kuwait as an Arabic British protectorate. The study also explores the role of the state in facilitating the creation of the Kuwaiti Association of Accountants and Auditors (KAAA). An outline of Dewaniya, a distinctive aspect of Kuwaiti culture, is provided to help explain the motivation for the creation of the KAAA in 1973.</td>
</tr>
<tr>
<td>Author contribution</td>
<td>80%</td>
</tr>
</tbody>
</table>

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<thead>
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</thead>
<tbody>
<tr>
<td>Aim</td>
<td>This study explores how changes in the socio-economic environment influenced the state in adopting reform schemes leading to accounting change in Kuwait and further identifies how these changes influenced the operation of the Kuwaiti Accounting and Auditing Association (KAAA), changing it from an inactive to an active association.</td>
</tr>
<tr>
<td>Author contribution</td>
<td>90%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Paper Three</th>
<th>Closure and the Evolution of Kuwait’s Accounting Profession in the 1980s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aim</td>
<td>This paper investigates the closure strategies deployed by the Kuwaiti Association of Accountants and Auditors (KAAA) in the 1980s to restrict market entry to indigenous accountants, and how conflict in the market for accounting services motivated such moves.</td>
</tr>
<tr>
<td>Author contribution</td>
<td>Sole authorship</td>
</tr>
</tbody>
</table>
1.5 Research methods

In this thesis, two main types of data collection methods were followed. First, for the primary data, a total of 12 interviews were conducted, five with founding members of the KAAA, one with a pioneer indigenous accountant and owner of a Kuwaiti audit firm, one with a pioneer foreign accountant, one with an accountant and former parliament member, and four with academics from the accounting department of Kuwait University.

The interviews follow the oral history method previously utilized by many professionalization studies (Carnegie & Napier, 1996; Hammond & Streeter, 1994; Loft, 1987; Sian, 2006; Zeff, 1966). This method has been a successful tool in previous studies, as it captures and reflects the experiences of the history makers, which as Sian (2006) argues distinguishes studies employing this method from studies of professionalization projects that rely solely on archival material.

An ethics application was submitted to the Macquarie University Ethical Committee, and ethics approval was gained prior to conducting the interviews. Accordingly, interviewees were approached by phone and email to gain their consent for an interview. The interview with one of the founding members of the KAAA was conducted at the KAAA premises, and the rest of the interviews were conducted at the interviewees’ work-places. The interviews lasted for between one and three hours, and a semi-structured form was followed. The interviewer initiated topics, and the interviewees were encouraged to speak freely about their experience. This form of interaction enables the researcher to “detect how events and situations were experienced, better understanding the actions and motivations of those involved” (Parker, L, 1999, p. 33). Further, the oral history
method allows us to identify the motives behind the actions and choice of strategies of the interviewees, who were key players in the process of regulating the accounting profession and the professionalization project during the time frame of the study. Further, these interviews provided data that had not previously been documented and could not be found in archival materials. The interviews were digitally recorded and transcribed into Arabic. Quotes and data used from the interviews were then translated into English by the researcher.

As for the secondary data, an archival search was conducted, mainly of state legislation such as the Companies Act and Practice Law, ministerial resolutions, KAAA meeting minutes, and correspondence between the association and state agencies, in particular the Ministry of Commerce.
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Chapter 2: A study of the emergence of the Kuwaiti Association of Accountants and Auditors

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Abstract
This study contributes to the accounting literature on professionalization projects and is specifically located in the literature on projects in the British Empire. The study investigates the case of Kuwait, which was a British protectorate (neither settler nor non-settler) from 1899 to 1961. It deploys the enabling factors identified by Poullaos and Sian (2010) in professionalization projects in former British colonies to explore whether these factors were present in Kuwait as an Arabic British protectorate. The study also explores the role of the state in facilitating the creation of indigenous accountants and the Kuwaiti Association of Accountants and Auditors (KAAA). An outline of the Dewaniya, a distinctive aspect of Kuwaiti culture, is provided to help explain the motivation for the creation of the KAAA in 1973. This study finds that the nature of the protectorate treaty and the rise of Arabic nationalism movements led to minimal British imperial influence on Kuwait’s accounting profession, and to a greater reliance on Arabic laws and accountants. The data to support this study's interpretation of events were obtained from semi-structured interviews with founders of the KAAA and a pioneer professional accountant, and from surviving archival records.

Keywords
Accounting, high-income oil-exporting countries, history, Kuwait, professionalization
2.1 Introduction

The extant literature on accounting professionalization projects covers various contexts, including the Anglo-Saxons, continental Europe, America and the British Empire with its settler and non-settler colonies. In an Anglo-Saxon context, researchers argue that, in the framework of a competitive market, the main driver is the pursuit of power through social mobility and competitive advantage in the market for services, placing high emphasis on the sociological concept of closure (Krause, 1996; Larson, 1977; Willmott, 1986; Zeff, 2003a, 2003b). Cross-national studies added other models of accounting professionalization and widened the circle beyond the concept of closure. Studies of continental Europe assert that the state played a major role in supporting the emergence of professionalization projects as part of their economic reform agenda after World War II (De Beelde, 2002; Ramirez, 2001). Studies of colonized regions highlight the role of imperial influence in the rise of accounting associations (Annisette, 1999, 2000; Dedoulis and Caramanis, 2007; Dyball et al., 2007; Yapa, 2006). Thus, the value of cross-national accounting professionalization studies, as stated by Parker (1980, as cited in Willmott, 1986: 556), is to ‘emphasise their changing role and the way in which accountants have responded to or been moulded by their environment’.

Accounting professionalization studies, in a British imperial context, have looked into settler and non-settler colonies. However, so far no studies have been conducted to reflect on the imperial effect on accounting professionalization in the Arabic part of the British Empire, and further in a British protectorate. Consequently, our study aims to explore the influence of the
British Empire on the formation of the Kuwaiti Association of Accountants and Auditors (KAAA) in 1973, 12 years after the British protectorate of Kuwait gained full independence. A recent review of *Accountancy and Empire: The British Legacy of Professional Organizations* (De Beelde, 2011) notes that the book does not consider the Arab part of the Empire, and posits that “it would be interesting to study whether the situation in protectorates ... was any different from that in the other parts of the Empire” (De Beelde, 2011: 1120).

The discovery of oil in 1938 and the growth of the oil industry following the first shipment in 1945 transformed Kuwait’s economy. High income from oil revenues placed Kuwait in the category of high-income oil-exporting countries (HIOECs) in the World Bank Report (1988). This, along with the small Kuwaiti population, has enabled the state to provide abundant opportunities in the labour market for accountants. The oil industry and related revenues have enabled the state to create opportunities and a market for indigenous accountants (Sherbiny, 1985), who were mostly absorbed by state agencies (Alajmi, 2007; Sherbiny, 1985). In our research, we also aim to explore the role of the state in the establishment of the KAAA. To achieve these aims, we pose the following research questions:

1. What was the effect of the Kuwaiti/British protectorate treaty on the Kuwaiti accounting professionalization project?
2. What role did the state play in facilitating the emergence of the KAAA, and was the role different from that in other parts of the Empire?
3. What were the distinctive aspects of Kuwaiti culture that enabled the creation of the KAAA?
Although this study focuses on the genesis of the KAAA in 1973, the analysis includes the period from 1899, when a protectorate treaty was signed between Kuwait and Britain. This temporal coverage allows an examination of the effect of the treaty on the Kuwaiti professionalization project as stated in the first research question. It will become apparent that the discovery of oil in 1938 and the rise of the oil industry in 1945 were enabling events that allowed Kuwait’s economy to transition from a basic trading community to a market-oriented economy. Crucially, these events equipped the emergent Kuwaiti state with abundant resources. Thus, the second research question seeks to assess the role of an emergent and well-resourced state in the emergence of the Kuwaiti accountant and the KAAA. The research analysis is based on primary data collected from five semi-structured interviews. Interviewees included one pioneer accountant and four founding members of the KAAA. The data from the interviews provide a valuable input to the analysis, as most of the secondary resources either do not exist or were lost as a result of the Iraqi invasion of Kuwait in 1990. The surviving secondary data to support our analysis are archival materials, including legislation, meeting minutes of the KAAA board, and correspondence between the KAAA and the Ministry of Commerce (MOC).

The significance of the study is fourfold. First, it explores whether being an Arabic British protectorate had an influence on the Kuwaiti professionalization project in any form. Second, it reflects on the role of the oil industry and economic transformation in creating a market for accounting services. Third, it investigates whether the role played by the state was different from that in other parts of the British Empire. Finally, this study explores the effect of cultural
ideologies on the emergence of the KAAA, thereby highlighting variations in accounting professionalization projects.

The remainder of the article is divided into six sections. Section 2.2 is a literature review that focuses on studies of accounting professionalization in the British imperial context, with particular emphasis on the role of the state in promoting indigenous accountants and facilitating the emergence of local accounting associations. Section 2.3 provides an historical background of Kuwait. Section 2.4 examines the factors identified by Poullaos and Sian (2010) as enabling professionalization projects in colonies in the British Empire, within the Kuwaiti context. This section also incorporates an analysis of the influence of non-Kuwaiti accounting firms and accountants on the Kuwaiti accounting professionalization project. In section 2.5, the role of the Kuwaiti state in facilitating the emergence of the KAAA is explored, and in section 2.6 the impact of the cultural ideology of Dewaniya on the Kuwaiti professionalization project is considered. Section 2.7 concludes the study.

2.2 British imperial influence on professionalization projects

The literature on accounting professionalization projects in former colonies of the British Empire is rich. Poullaos and Sian (2010: 239) observe that, for these colonies, being part of the Empire meant that British capital, British accountants, British models of professional accountancy, the activities of British accounting associations and British laws, education and other institutions would have left indelible imprints on accounting professionalization projects. British influence was typically channelled through “the structuring of colonial social hierarchies,
the collaboration of local elites and colonial and local state agents” (Poullaos and Sian, 2010: 239). However, professionalization projects in the British Empire had distinctive trajectories, as there were unique sets of factors that were relevant and potent in each case.

British accountants and accounting firms followed British capital in settler and non-settler colonies (Annisette, 2000; Briston and Kedslie, 1997; Johnson and Caygill, 1971; Parker, 1989; Poullaos and Sian, 2010), resulting in material benefits and gains in prestige and status for British firms as they expanded their share of markets for accounting services across the Empire (Annisette, 2000; Johnson and Caygill, 1971). Local accountants in settler colonies, such as Australia, South Africa and Canada, applied British models to their associations (Carnegie and Edwards, 2001; Poullaos and Sian, 2010), but at times they also resisted expansion of British accounting associations in an attempt to limit their domination of the local markets for accounting services (Chua and Poullaos, 1998). However, this strategy was not necessarily facilitated by a colonial state, which was reluctant to deny entry into the market to the British (Carnegie and Edwards, 2001; Chua and Poullaos, 1998). Citing economic and legal reasons in the case of the Incorporated Institute of Accountants in Australia, the colonial state adopted an open market policy, which increased competition from British accountants and associations. As a response, the Institute secured state support to set examinations and sought the Royal Charter through British agencies to meet British competition (Chua and Poullaos, 1998).

In the non-settler colony of Kenya, British laws were enforced to allow British capital, companies and accountants to flourish there. The dominance of imperial accountants was also buttressed by a social hierarchical order that
discriminated against Kenyans, which was tangibly applied by denying Kenyans entry to the market for accounting services. The imperial imprint on the profession remained strongly visible post-independence through trade, British education of the locals and accounting credentials. However, discrimination was overturned when the local accounting professionalization project was led by Kenyan accountants. They appear to have succeeded in asserting their identity and place in the market for accounting services by playing an influential role in the formulation of Kenyan accounting legislation, entry criteria and credentials (Sian, 2006). The role of the local state post-independence was also crucial in the case of Egypt when it passed legislation to control the regulation of practising accountants. The legislation led to a strong sense of nationalism and pride, and an increase in the number of indigenous accountants. Encouraged by the state, Egyptian accountants regulated their affairs. Eventually, the dominance of the Egyptian Royal Society, which was formed under British colonial rule, declined, and the imprint of British credentials faded (Farag, 2009).

It seems, however, that in many non-settler colonies, market access by British associations continued post-independence, as evidenced in the cases of Trinidad and Tobago, India and Nigeria. Ties to Britain remained strong in these places as local accountants adopted British models of professionalization, training and certification (Annisette, 2000; Uche, 2002; Verma and Gray, 2006). In the case of Malaysia, post-independence links appear to have been strengthened as local accountants spearheaded the formation of a local branch of the Institute of Chartered Accountants in England and Wales (ICAEW), which then became the first Malaysian association of accountants. The first three presidents of the association were British, resulting in British models of
associations and credentials being applied (Susela, 2010).

To summarize, the imprint of membership of the British Empire is reflected in the emergence and evolution of the accounting profession in settler and non-settler colonies (Annisette, 1999, 2000; Birkett and Evans, 2005; Carnegie and Parker, 1999; Dedoulis and Caramanis, 2007; Farag, 2009; Richardson, 1987; Verma and Gray, 2006). In contrast, this study considers the accounting professionalization project in Kuwait, which was a British protectorate. The protectorate treaty states that:

Sheikh Mubarak-bin-Sheikh Sabah of his own free will and desire, does hereby pledge and bind himself, his heirs and successors, not to receive the agent or representative of any Power or Government at Kowiet [sic], or at any other place within the limits of his territory, without the previous sanction of the British Government; and he further binds himself, his heirs and successors, not to cede, sell, lease, mortgage, or give for occupation or for any other purpose, any portion of his territory to the Government or subject of any other Power without the previous consent of Her Majesty’s Government for these purposes. This engagement also extends to any portion of the territory of the said Sheikh Mubarak which may now be in the possession of the subjects of any other Government. (Agreement of 23 January 1899)

The treaty indicates that, in return for British protection against threats to Kuwait’s autonomy from both the Ottoman Empire and the Wahhabi movement

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4 Wahhabi movement was founded in the eighteenth century by Muhammad ibn Abd al-Wahhab. Wahhabi is a radical Islamic movement aspired to restore the fundamental practice of Islam based on their own interpretation of the holy Quran and Hadith. The movement gained power following the alliance with Muhammad ibn Saud, which provided the movement with political and financial support increasing of their power in the Arabic peninsula that led to the emergence of the kingdom of Saudi Arabia.
in Saudi Arabia, the British government would govern Kuwait's external affairs. This meant that the Kuwaiti government did not have any authority to interact with any country other than through the British government (Abu-Hakima, 1983; Al-Ebraheem, 1975; Crystal, 1992). All internal affairs, however, were for Kuwaiti rulers to manage with no British government interference. Given Kuwait’s unique status as a British protectorate, did the factors of British capital and accounting and associations, for example, as identified by Poullaos and Sian (2010), play an influential role in Kuwait’s economy? In the case of Kuwait’s professionalization project, which transpired post-treaty, did local accountants adopt British models of accounting associations? British influence, if any, will be assessed in the following sections. Before doing so, however, a brief description of Kuwait’s socio-political and economic environment prior to the discovery of oil in 1934 is provided. The discovery of oil is a significant event in our analysis of factors that could have influenced the Kuwaiti accounting professionalization project because it solidified the entry of British capital into the Kuwaiti economy. As Poullaos and Sian (2010) observed, British capital was a means through which British modes of accounting services and professionalization projects travelled to Britain's colonies, influencing accounting professionalization projects in these places.

2.3 Kuwait's historical environment

Kuwait was founded in 1716, following the gradual migration of the tribe Bani Utub from Najd (North Arabia), which eventually settled in what was called Al Kut (small fort). During the 1750s, the Utubs elected Sabah I as their Shaikh (Abu-Hakima, 1983; Crystal, 1992; Ismael, 1982). In the 1800s, Kuwait was a
small sheikhdom, having no agricultural or natural resources other than a strategic geographical location at the top of the Gulf with a natural harbour. This strategic location was the main source of income for the Kuwaitis, who relied on trade, fishing and pearl diving for their main sources of income.

In pre-oil Kuwait, that is, before 1934, the small community became “a unit of occupational stratification and a mode for the reproduction of different kinds of labour” (Ismael, 1982: 26). The community was divided into three main social groups: the ruling family, the merchant families who financed and/or owned the trading and pearl ships and the workers, such as divers or sailors on trading or pearl ships (Al-Sabah, 1980; Ismael, 1982).

From the early nineteenth century, the British Empire marked its presence in the Persian Gulf by deploying gunboats and sending in official agents through signed treaties with rulers of the coastal cities along the Gulf. This was mainly to guard the silk and spice route to their colony in India. However, the British interest in the Gulf states during the late nineteenth century did not go beyond that geographical location (Ismael, 1982; Stables, 1996; Zahlan, 1989). It is further noted that, during this period, the British sought to prevent any interference by other imperial powers seeking access to the Gulf coasts (Zahlan, 1989). A protection treaty was signed between the ruler of Kuwait and the British government in 1899.

Kuwait, as a Muslim society, is highly devoted to its religion, and has a high sense of citizenship. The importance of family, which represents the core of Kuwaiti society, is accentuated by the country’s small size. Devotion to family and respect of hierarchical order within the family are valued, and leaders are accessed through family networks. Another major aspect of Kuwait’s social and
cultural environment is the *Dewaniya*, best described as:

... a weekly meeting – generally of men who are relatives and friends – over coffee to discuss business and politics, arrange introductions, and obtain or grant favors through the development of and maintenance of *wasta* (connections). As an institution of socialization it maintains and consolidates the identities of the extended family, social class, and Kuwaiti society. ... The *Dewaniya* is one of the most important social institutions linking the individual and the state. (Crystal, 1992: 68)

Later in the article, the implications of the culture of the *Dewaniya* on the emergence of the Kuwait accounting profession will be discussed. For now, we turn to ascertaining British influence on Kuwait.

### 2.4 British presence in Kuwait from 1899 to 1961

In this study, British influence will be assessed according to the factors outlined by Poullaos and Sian (2010) in their reflections on reports of accounting professionalization projects in Britain’s settler and non-settler colonies. These factors include British agents, capital, accounting firms, accounting associations and accountants. It will become apparent in the following discussion that Britain was not the only foreign influence on Kuwait’s internal affairs.

Kuwait was a British protectorate from 1899 to 1961. This was seen to be mutually beneficial to the Kuwaiti ruler Mubarak Al-Sabah, who wanted to protect his country from neighbouring threats\(^5\) and to assert his rule, and to the

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5 Threats to Kuwait’s autonomy arose from both the Ottoman Empire and the *Wahhabi* movement in Saudi Arabia in the late nineteenth century.
British government, which needed to protect its silk and spice route to the Indian colony. These factors led to a protectorate treaty, which was signed on 23 January 23 1899\(^6\). The treaty granted power to Britain over the external affairs of Kuwait in return for British protection for Kuwait.

**British agents and capital**

The British government did not have any residing political agents in Kuwait from 1899 to 1903, as the treaty was kept secret so that Britain could avoid direct conflict with the Ottoman Empire. However, by 1904 the power of the Ottoman Empire had started to weaken, and its interest in the Gulf States had declined (Crystal, 1978; Pilla and Kumar, 1962). A British political agent, whose main role was to act as a foreign affairs advisor to the ruler of Kuwait, was posted in Kuwait from 1904 (Smith, 2001).

This form of British–Kuwaiti relationship continued until the early 1930s. A letter\(^7\) written in September 1927 by the British political agent in the Persian Gulf to the External Affairs Minister in the Empire's government in India, described British interest in the Persian Gulf as being more than just commercial, that is, protecting its silk and spice trade. In the period after 1899, British interest in the Gulf became more political, mainly in fear of the rising threat from Russia, France and Germany (Al-Azami, 1991).

On 23 December 1934, the ruler of Kuwait, Ahmad Al-Sabah, signed an oil concession with both the Gulf Oil Corporation (presently Chevron Oil) and the

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\(^6\) This treaty was comparable to previous treaties among the Gulf States, namely those with Oman, Bahrain and the UAE (Zahlan, 1989).

\(^7\) Document number F0371/12247, September 1927, No. 106/1927.
Anglo-Persian Oil Company (presently British Petroleum (BP)). The Gulf Oil Corporation and the Anglo-Persian Oil Company formed Kuwait Oil Company Ltd (KOC) as an equally owned partnership, whereby the Kuwaiti government would receive 50 per cent of the profits in return for royalties granted to the United Kingdom (UK) and the United States (USA) to drill/extract oil from Kuwaiti grounds. The main purpose of the company was to drill for oil, based on geological surveys of the area and motivated by previous oil discoveries in the Gulf region⁸.

Initially, the Kuwaiti ruler planned to grant the oil concession solely to the Gulf Oil Corporation, which was an American company. However, the British colonial office intervened, and argued that a previous letter, written by the ruler Mubarak Al-Sabah on 27 October 1913, had promised that he and his successors would not grant an oil concession to anyone except those appointed by the British government (Al-Ebraheem, 1975). Accordingly, Ahmad Al-Sabah out of respect for his late father's wish, and, after the intervention of the American Embassy in London, Britain and the United States agreed on a 50/50 joint venture and established KOC. Oil was discovered in Kuwait on 22 February 1938; however, oil exports did not start until 1946 because of World War II⁹.

The oil revenues substantially enriched Kuwait's economy, as shown in Table 2.1 The oil concession granted to the Anglo-Persian Oil Company meant that British capital was now firmly on Kuwaiti soil. This was a precedent that encouraged more British capital to flow to Kuwait.

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⁸ Iran signed a concession with Britain in 1901, Iraq signed with Britain, the USA and France in 1931, and Saudi Arabia signed with the USA in 1933.

⁹ Source: http://www.kpc.com.kw/AboutKPC/KuwaitOilHistory/default.aspx
Table 2.1: Kuwait's oil revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil Revenue (in million USD)</th>
<th>Percentage (%)</th>
<th>Annual Increase</th>
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<tr>
<td>1946</td>
<td>0.76</td>
<td></td>
<td></td>
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<tr>
<td>1947</td>
<td>2.07</td>
<td>172.3</td>
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<tr>
<td>1948</td>
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<td>187.4</td>
<td></td>
</tr>
<tr>
<td>1949</td>
<td>11.52</td>
<td>93.6</td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>16.09</td>
<td>39.6</td>
<td></td>
</tr>
<tr>
<td>1951</td>
<td>18.0</td>
<td>11.8</td>
<td></td>
</tr>
<tr>
<td>1952</td>
<td>57.00</td>
<td>216.6</td>
<td></td>
</tr>
<tr>
<td>1953</td>
<td>169.00</td>
<td>196.5</td>
<td></td>
</tr>
<tr>
<td>1954</td>
<td>194.20</td>
<td>14.9</td>
<td></td>
</tr>
<tr>
<td>1955</td>
<td>281.70</td>
<td>45.0</td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>293.70</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>308.00</td>
<td>4.8</td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>356.00</td>
<td>15.5</td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>419.40</td>
<td>17.8</td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>445.80</td>
<td>6.3</td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>467.40</td>
<td>4.8</td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>484.04</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>1963</td>
<td>513.80</td>
<td>5.7</td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>554.40</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>567.50</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>598.30</td>
<td>5.4</td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td>737.00</td>
<td>14.0</td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td>680.40</td>
<td>-7.6</td>
<td></td>
</tr>
<tr>
<td>1969</td>
<td>785.10</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>833.60</td>
<td>6.1</td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>1092.30</td>
<td>14.3</td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>1722.50</td>
<td>57.6</td>
<td></td>
</tr>
</tbody>
</table>

*Source:* (Al-Ebraheem, 1975)
In 1942, the British Bank of the Middle East\textsuperscript{10} (now Hongkong and Shanghai Banking Corporation (HSBC)) opened a branch in Kuwait, following long negotiations between the ruler of Kuwait, Sheikh Ahmed Aljaber Al-Sabah, and a British agent. The negotiations had started in 1935, resulting in an agreement with 18 conditions\textsuperscript{11} (Al-Tamemy, 1992). Term 7 of the agreement indicated that the manager of the bank should always be British, and the person acting on his behalf should also be British. However, terms 8 and 16 indicated that clerical staff and brokers should be Kuwaiti nationals.

Interestingly, term 17 stipulated that “the bank should not force any of their employees to change from their usual Kuwaiti dress”. These conditions showed the extent to which the Kuwaiti ruler was keen to give work to Kuwaiti nationals and ensure that the British respected traditional ways of dress. Al-Tamemy (1992) lists 10 Kuwaitis working at the bank as tellers, trading managers, traders and clerks. In addition, Gray Mackenzie, a British shipping company that operated shipments between the ports of India and Kuwait, had also opened a branch in Kuwait in the early 1940s.

By 1953, there were five British construction companies operating in Kuwait: Taylor Woodrow, C. and D. William Press, Richard Costain, Holland, Hannen and Cubitt, and John Howard. The companies operated on the basis of cost plus, with a legislative obligation to have a Kuwaiti partner. However, these companies were granted contracts of only two years’ duration, as there had been a general feeling of discontent towards British contractors by Kuwaitis. This discontent was mainly because the British contractors had meddled in political

\textsuperscript{10} Source: \url{http://www.hsbc.ae/1/2/about-hsbc}

\textsuperscript{11} India Office library and records IOR R/15/5/192.
events for their personal benefit. Citing documents of a British political agent in 1953, Smith (2001: 164) noted that British contractors:

... must be kept in bounds. As the Arabs crudely put it, many have come here like dogs around a camel’s carcass. The harm they can do to our interests generally is not worth their profits. ... The Kuwait merchant is the last person who you would think would need protecting against rapacity in business but in dealing with some Britons it is a pity for our sakes that he cannot be given it. (Smith, 2001: 164)

In April 1953, the Kuwaiti government instructed that the British companies’ two-year contracts not be renewed and that subsequent contracts be granted to non-British companies. In the following year, the British Foreign Office conceded on several occasions that “Britain had no formal right to intervene directly in the internal affairs of the sheikhdom and could exert influence only through guidance and advice”. In addition, the Office stated that “in internal matters, and especially in the problem of development, our advice is far from welcome” (Smith, 2001: 167). These events highlight the fact that the Kuwaitis actively insisted on non-interference by the British in relation to all internal affairs, as agreed in the treaty of 1899.

It is evident that the flow of British capital into the Kuwaiti economy from 1934 (that is, 35 years after the treaty of 1899) reflected Kuwait’s status as a British protectorate. A concession had to be given by the Kuwaiti ruler to allow British capital to operate in the Kuwaiti economy. This is in contrast to the experiences in settler and non-settler colonies, which saw an almost immediate inflow of British capital once they came under British rule. Moreover, Kuwait
being a protectorate with absolute control of its internal affairs (Ismael, 1982; Stables, 1996) meant that the Kuwaiti ruler was able to set conditions under which British companies were to operate, including percentage of ownership, tenure, the workforce and dress practices of Kuwaiti employees. Notably, Kuwaitis were accorded work in British companies. Typically, these British companies also sought the services of British accounting firms, an action comparable to the cases of former British colonies (see e.g. Annisette, 2000; Sian, 2006). The following section attempts to ascertain whether British influence, if any, on the Kuwaiti accounting professionalization project could have been channelled through British accounting firms, associations and accountants.

**British accounting firms, associations and accountants**

Having established that British capital entered the Kuwaiti economy in 1934, it is plausible to assume that there were no British accountants, accounting associations or firms present in Kuwait in the period from 1899 to 1933. Indeed, there are no primary materials to indicate otherwise.

The demand for accountants became evident in the early 1940s following the discovery of oil in 1938 (Shuaib and Went, 1978), as the establishment of KOC required audit services. British interests, represented by BP as a partner in KOC, availed themselves of the services of the British auditing firm Peat Marwick\(^{12}\). Since Peat Marwick is based in the UK and did not have an office in Kuwait, their accountants would travel to Kuwait to set up the accounts of KOC, and returned as required to perform the necessary work. The audit was required in order to avoid double taxation in Britain and the United States. The Kuwaiti

\(^{12}\) Peat Marwick later merged with KMG to become KPMG in 1987.
government's share of the profits appeared in the form of a tax deduction of 50 per cent, rather than being reported as operating profit. This is clearly stated in Decree No. 2 of 2008, which amended Decree No. 3 of 1955:

Law Decree No. 3 of 1955 was issued on the 10th of October, which is more than five decades ago and under special circumstances was applied to foreign companies when awarding mining and oil royalties. Since its promulgation, no major amendment was made on this Act.

A plausible reason for the reliance on non-Kuwaiti accountants was the lack of skilled indigenous labour in Kuwait during that period. Up until 1957, 62.6 per cent of Kuwaitis were illiterate, with 27.9 per cent of the literate group having only reading and writing skills. A mere 1.5 per cent of the population completed primary school, and only 0.4 per cent completed a level of education above primary school (Ismael, 1982). The lack of indigenous accountants in Kuwait led to a high reliance on foreign accountants. Records of the ICAEW between 1948 and 1950 list three members as being located in Kuwait as non-practicing members working for KOC. The records further indicate that most of the ICAEW member accountants did not work for long periods in Kuwait, other than a Mr Clarence Harmstone Myers, who worked as Chief Internal Auditor for KOC from 1950 to 1963 (ICAEW, 1952).

The British Bank of the Middle East and the British shipping company Gray

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Mackenzie also engaged the firm Whinney Murray\textsuperscript{15}, which prior to 1952 had a branch in the nearby city of Basra in Iraq. Whinney Murray opened a branch in Kuwait in 1952\textsuperscript{16}, and eventually took over the audit of KOC, which had previously been done by the British accounting firm of Peat Marwick. The firm of Whinney Murray increased its share of the Kuwait market for accounting services, as it was hired by newly established Kuwaiti companies to set up and audit their accounts. These companies include Kuwait Cinema, which was founded in 1954, Kuwait Oil Tanker Company (KOTC) in 1957, Commercial Bank of Kuwait in 1960 and Kuwait Insurance Company in 1960. According to the pioneer accountant interviewed for this study, this preference was mainly due to Kuwaiti merchants' familiarity with the firm arising from previous trading transactions with the firm's branch in nearby Basra.

In 1952, the Kuwaiti company National Bank of Kuwait (NBK) was founded, making it the first incorporated company in Kuwait and the first national bank in the Arabian Gulf region. The NBK board employed two British nationals to manage the bank, and the British firm of Russell & Co. as the auditor (National Bank of Kuwait, 1953).

With regard to British accounting associations creating branches in Kuwait, there is no evidence to indicate that this transpired. The ICAEW's annual list of member records, however, indicate that the number of its members practising in Kuwait increased from one in 1959 to 10 by 1962 and 18 by 1969. All of the members were listed as “not in practice”, and had either worked for the partly British KOC or the British accounting firm Whinney Murray, while two members

\textsuperscript{15} Whinney Murray later merged with Ernst in 1979, which became Ernst & Young in 1989.

\textsuperscript{16} Source: Ernst & Young web: http://www.ey.com/EM/en/About-us/Kuwait
worked for the Arabic firm Nawar, Saba & Co. (ICAEW, 1952). It is most likely that, similar to the case of Trinidad and Tobago (Annisette, 1999), the transiting British accountants, being on short-term contracts, did not have any incentive to establish branches of their British associations in Kuwait.

The entry into the Kuwaiti economy of British capital, accounting firms and accountants was evident from 1938, when KOC was formed. However, Britain’s entry was determined by the 1899 treaty, which set the conditions for British entry into the Kuwaiti economy on Kuwait’s terms. The year 1938 witnessed a British presence in the Kuwaiti economy, and, shortly thereafter, the discovery of oil. The year also marked the entry of American capital, which meant that Britain was not accorded special access to the economy. As previously indicated, two of the ICAEW’s members practised in the Arabic firm Nawar, Saba & Co. That an Arabic firm operated in Kuwait in the 1960s adds credence to the view that, in the period leading up to the Kuwaiti professionalization project in 1973, a foreign presence in Kuwait’s market for accounting services was not the exclusive preserve of British accounting firms.

The first Kuwaiti population census in 1957 revealed that there were 138 accountants practicing in Kuwait, of which only seven were Kuwaitis. Table 2.2 shows the number of accountants, their place of work and educational background. The census clearly shows the scarcity of indigenous accountants at that time with anything other than very minimal educational skills. Four accountants had a very basic education, limited to reading and writing, one had a high school degree and only two had university-level qualifications. In comparison, the non-Kuwaitis constituted the majority of the accounting workforce and had higher-level qualifications than the Kuwaitis.
The growth of the Kuwaiti economy from the 1940s onwards, due to the discovery of oil (Mallakh, 1966; Salih, 1991; Shah, 1986; see also Table 2.1) and Israel’s invasion of Palestine in 1948\(^{17}\) (Ghabra, 1988; Sabagh and Ghazalla, 1986; Sherbiny, 1985; Zahlan, 1989), attracted many Arabic audit firms to open branches in Kuwait. For instance, the Palestinian firm Saba and Co. had relocated their head office to Beirut following the 1948 Israeli invasion, and opened a branch in Kuwait in 1956 (Deloitte, 2013).

Table 2.2: Accountant’s place of work and educational background, 1957.

<table>
<thead>
<tr>
<th>Place of work</th>
<th>Self employed</th>
<th>Employee</th>
<th>Reading &amp; writing</th>
<th>Primary</th>
<th>High school</th>
<th>University</th>
<th>Unspecified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuwaiti</td>
<td>_</td>
<td>8(^a)</td>
<td>4</td>
<td>_</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Non-Kuwaiti</td>
<td>2</td>
<td>128</td>
<td>21</td>
<td>2</td>
<td>53</td>
<td>54</td>
<td>_</td>
</tr>
</tbody>
</table>

*Note* \(^a\) The census indicates that two of the Kuwaiti accountants were employed in trading businesses and six were employed in the service sector.

*Source: Annual Statistical Abstract-Ministry of Planning 1957, Kuwait*

In interviews with the pioneer accountant and founding member 1, they both stated that the non-Kuwaiti accounting firms had held a major share of the market. Their statements are further supported by Shuaib’s (1986) finding that the majority of the listed companies were audited by non-Kuwaiti firms. Table 2.3 shows the audit firms that operated in Kuwait during the 1960s, their origin and their date of entry into the Kuwaiti market.

\(^{17}\) Following Israel’s invasion of Palestine in 1948, many Palestinian families migrated in an attempt to survive and find better living conditions. The Palestinian diaspora resulted in the migration of many families to nearby refugee camps and Arabic countries, including Kuwait.
Table 2.3: Accounting firms in Kuwait

<table>
<thead>
<tr>
<th>Accounting Firm</th>
<th>Origin</th>
<th>Year opened in Kuwait</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whinney Murray</td>
<td>UK</td>
<td>1952</td>
</tr>
<tr>
<td>Nawar, Saba &amp; Co.(^a)</td>
<td>Palestine (established there in 1926)</td>
<td>1956</td>
</tr>
<tr>
<td>Essa Al-Ayoty</td>
<td>Egypt</td>
<td>Unknown</td>
</tr>
<tr>
<td>Shawkı &amp; Co.(^b)</td>
<td>Egypt (established there in 1942)</td>
<td>Unknown</td>
</tr>
<tr>
<td>Hamed Al-Zahar</td>
<td>Lebanon</td>
<td>Unknown</td>
</tr>
<tr>
<td>Whinney Murray, Ernst &amp; Ernst</td>
<td>UK</td>
<td>1962</td>
</tr>
<tr>
<td>Fareed S. Mansour</td>
<td>Kuwait</td>
<td>1962</td>
</tr>
<tr>
<td>The Kuwaiti Office for Auditing Accounts</td>
<td>Kuwait</td>
<td>1962</td>
</tr>
</tbody>
</table>

Notes: \(^a\) In 1964 the firm split into two firms, Nawar & Co. and Saba & Co; \(^b\) [http://www.mazars.com.eg/Home/About-us/Mazars-in-Egypt/Our-history](http://www.mazars.com.eg/Home/About-us/Mazars-in-Egypt/Our-history)

Source: ICAEW Annual Member List.

In the period when Kuwait was a British protectorate, the Kuwaiti government allowed non-Kuwaiti capital, companies, accounting firms and accountants to operate in the local economy. Whilst Kuwait was a rich country due to its oil revenues, it required foreign labour to help run its economy. In the next section, the role of the Kuwaiti state is further analysed to ascertain if and how accounting services and accountants were regulated.
2.5 The role of the Kuwaiti state

Legislation

Prior to the discovery of oil in 1938, Kuwait was a small community, with a population in 1919 of only 85,000 Kuwaitis (Al-Sabah, 1980). The commercial environment was very simple, and was dominated by basic activities such as trade, fishing and pearl diving. The family of Al-Sabah governed the state. There were no formal laws, and being a Muslim country, the state was governed by Islamic laws of Shari’a. The main sources of national income were customs duties on pearl diving, imported goods and trade caravans passing through Kuwait from Najd in Saudi Arabia to Damascus and Aleppo in Syria (Arbuthnott et al., 2008; Zahlan, 1989). The simplicity of the trading environment and calculation of tax duties did not require any complex professional accounting practices (Al-Rehaily, 1992).

Under Mubarak’s rule\(^ {18}\), the first customs office was founded in 1899 to impose statutory tax. This move by Mubarak marked the first step in the development of a state administration and tax collection bureaucracy that had not previously existed in Kuwait (Crystal, 1992). Customs duties were calculated based on the shipment manifest of the goods’ value (Muhareb and Mahfooz, 2000). Therefore, the simple strategies used by the ruling family to govern internal matters in Kuwait showed that no British laws were enforced as a consequence of the protectorate treaty, and that Britain complied with a condition of the treaty of non-interference in the internal matters of Kuwait. The Kuwaiti state also exercised its right to govern Kuwait’s internal affairs (see the

\(^{18}\) Mubarak’s rule was from 1896–1915.
earlier section on the British presence in Kuwait from 1899 to 1961).

In December 1953, Kuwait exempted Kuwaitis from any form of taxation, leaving only customs duty levied on both Kuwaiti and foreign companies (Al-Muzaini, 1987). However, an income tax law was introduced in 1951, and was later amended by Law Decree No. 3 of 1955. This legislation applied to the income of foreign corporations only, sparing Kuwaiti establishments or individuals from paying income taxes. Notably, this legislation was the first official reference to organize the accounting standards to be followed in recording transactions and determining foreign corporations income (Al-Qahtani, 2005). Article 6 of the law prescribed that:

Income shall be computed as provided by this Decree and in accordance with the method of commercial accounting regularly employed by the taxpayer in keeping its record. If the method so employed does not fairly reflect the taxpayer’s income, the computing shall be made in accordance with such method as does fairly reflect its income. The accrual method of commercial accounting ... shall be considered as fairly reflecting income.

This legislation allows a variety of accounting methods for foreign corporations, which indicates that British modes of accounting were not privileged in Kuwait (Malallah, 1983; Shuaib, 1986). As Shuaib and Went (1978: 75) note, “Accounting practices in Kuwait are derived from those of the United States, Europe and the neighbouring Arab countries”.

Due to the absence of local accountants, accounting firms and accounting associations, article 9 of the law also alludes to the accountants and accounting associations recognized by the Kuwaiti state:
If a public or chartered accountant who is a member of an internationally recognized firm of accountants approved for the taxable period by the Director certifies that the records for the taxable period are correct and fairly reflect the taxpayer's income computed as provided by this Decree, and that the declaration is in conformity with such records, the declaration shall, in the absence of proof to the contrary established by the Director, be accepted as correct, and income tax shown by such declaration shall be taken to be finally determined.

This legislation confirms earlier discussions regarding the presence and dominance of foreign accountants and accounting firms in Kuwait in the period after the discovery of oil and Israel's invasion of Palestine. It also pre-empts and validates the 1957 census statistics that revealed the lack of Kuwaiti accountants (see Table 2.2).

In a report by the British political agent dated 4 January 1960, it was written that "well-known Egyptian jurist Professor Sanhoury was invited to attempt codification of Kuwait law" (British Foreign Office, 1993: 447). In a later report, dated 5 January 1961, the agent noted that Kuwait's governmental framework has become a l'egyptienne, and that Kuwait had made progress in having: (1) criminal legislation, (2) civil and commercial procedure rules, (3) companies law, (4) health legislation, (5) budget law and new civil service care, and (6) laws setting up a currency board, a reformed public work department and a municipal council (British Foreign Office, 1993: 521).

The passage of the Companies Act No. 15 of 1960 marked the emergence of commercial law in Kuwait. The law stipulated that an audit had to be performed by a certified accountant for all listed companies. This law created a further
market for auditing services in Kuwait. Coincidentally, in the same year the Kuwait Stock Exchange (KSE) was founded with the passing of Act No. 6. This Act is informative in that it required the Ministry of Finance to issue a ministerial decree listing the accounting associations whose members were approved by the ministry to practice in Kuwait. The decree lists 37 associations from Egypt, India, Australia, Canada and Britain, as well as American associations, as listed in Table 2.4 (*Al-Kuwait Al-Yawm*, 1962).

In 1962, Law Decree No. 24 was enacted, allowing and regulating the establishment of non-profit associations. Prior to this law, social clubs were allowed but not regulated in Kuwait. With the rise of political tension in the Middle East and political speeches by opposition leaders and young intellectuals, Law Decree No. 24 was designed to regulate the activities of the non-profit associations and restrict them from undertaking any political activity.

The evidence shows that by 1962, which marked the end of the treaty with Britain, Kuwaiti ties to Britain were not particularly strong. British capital, accounting associations and accountants did not dominate the economic landscape. Legislation recognized the presence of many foreign nationals in the country and welcomed the services of an international cohort of accountants. Kuwaiti legislation also showed strong Arabic influence, in particular from Egypt, which was a former British colony itself until 1952 (Farag, 2009).

Education was another aspect of the social and economic landscape in Kuwait that the Kuwaiti state actively cultivated in the period leading up to the end of the treaty with Britain, and in the period thereafter. The implications for the market for accounting services and the professionalization project will be discussed next.
In pre-oil Kuwait, structured education barely existed, and what little was available was provided by Islamic schools, in which students learned the basic skills of reading and writing through study of the Holy Quran. The teacher, who was called *al Mulla*, did not necessarily hold a degree, but was knowledgeable in *Shari’a* (Islamic) law (Al-Ibrahimi, 1996; Crystal, 1992). In 1911, the first school was founded in Kuwait by a group of intellectuals and merchants, and was named *Al- Mubarakiya*. The school offered courses in writing, history, geography and bookkeeping. During Mubarak’s rule, the school had 10 teachers from Kuwait and Arab countries (Abu-Hakima, 1983; Al-Hatem, 1980). Ten years later, another school was founded, named *Al-Ahmadiyya*. Noteworthy was the fact that both schools relied on non-Kuwaiti teachers because of the shortage of indigenous teachers. In 1936, the merchants founded the education council *Majles Al-Ma’ref* (Al-Hatem, 1980; Crystal, 1992). The council was apparently motivated by the oil concession agreement of 1934, the implication being that this would require an educated labour force, and additionally by the fear that there would be a sharp decline in the pearl diving trade because of Japanese competition (Al-Hatem, 1980). The education council thought that donations from merchants were insufficient to finance its activities, and the Kuwaiti state duly recognized their concern about the lack of finance as genuine, thereafter allocating 5 per cent of customs duties to support education (Al-Hatem, 1980; Kuwait Ministry of Education, 2013).

As previously contended, the absence of direct and absolute British influence over Kuwait’s internal affairs due to the treaty of 1899 meant that the British educational system was not adopted in Kuwait. As Zahlan (1989: 15)
remarked, the policy of non-interference by the British denied the Gulf countries “much-needed socio-economic reforms. No schools or hospitals, no public services of any kind were introduced ... this perpetuated the isolation of the region” (Zahlan, 1989: 15).

Table 2.4: List of international associations approved by the MOC.

<table>
<thead>
<tr>
<th>Country</th>
<th>Association</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>Egyptian Accounting and Auditing Association</td>
</tr>
<tr>
<td>Australia</td>
<td>Institute of Chartered Accountants in Australia</td>
</tr>
<tr>
<td>Canada</td>
<td>Canadian Institute of Chartered Accountants of Alberta</td>
</tr>
<tr>
<td></td>
<td>Institute of Chartered Accountants of British Columbia</td>
</tr>
<tr>
<td></td>
<td>Institute of Chartered Accountants of Manitoba</td>
</tr>
<tr>
<td></td>
<td>Institute of Chartered Accountants of Ontario</td>
</tr>
<tr>
<td></td>
<td>Institute of Chartered Accountants of Quebec</td>
</tr>
<tr>
<td>Great Britain and Ireland</td>
<td>Association of Certified and Corporate Accountants</td>
</tr>
<tr>
<td></td>
<td>Institute of Chartered Accountants in England and Wales</td>
</tr>
<tr>
<td></td>
<td>Institute of Chartered Accountants in Ireland</td>
</tr>
<tr>
<td></td>
<td>Institute of Chartered Accountants of Scotland</td>
</tr>
<tr>
<td>United States of America</td>
<td>Institute of Chartered Accountants of India</td>
</tr>
<tr>
<td></td>
<td>Arkansas Society of Certified Public Accountants</td>
</tr>
<tr>
<td></td>
<td>California Society of Certified Public Accountants</td>
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<tr>
<td></td>
<td>Colorado Society of Certified Public Accountants</td>
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<td></td>
<td>Connecticut Society of Certified Public Accountants</td>
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<td></td>
<td>Georgia Society of Certified Public Accountants</td>
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<td></td>
<td>Illinois Society of Certified Public Accountants</td>
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<td></td>
<td>Kansas Society of Certified Public Accountants</td>
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<tr>
<td></td>
<td>Kentucky Society of Certified Public Accountants</td>
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<tr>
<td></td>
<td>Maine Society of Certified Public Accountants</td>
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<td></td>
<td>Maryland Society of Certified Public Accountants</td>
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<td></td>
<td>Massachusetts Society of Certified Public Accountants</td>
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<tr>
<td></td>
<td>Michigan Society of Certified Public Accountants</td>
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<tr>
<td></td>
<td>Missouri Society of Certified Public Accountants</td>
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<tr>
<td></td>
<td>New Jersey Society of Certified Public Accountants</td>
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<tr>
<td></td>
<td>New York Society of Certified Public Accountants</td>
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<tr>
<td></td>
<td>Ohio Society of Certified Public Accountants</td>
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<td></td>
<td>Oklahoma Society of Certified Public Accountants</td>
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<td></td>
<td>Oregon Society of Certified Public Accountants</td>
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<tr>
<td></td>
<td>Pennsylvania Institute</td>
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<tr>
<td></td>
<td>Rhode Island Society of Certified Public Accountants</td>
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<tr>
<td></td>
<td>Society of Louisiana Certified Public Accountants</td>
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<tr>
<td></td>
<td>Texas Society of Certified Public Accountants</td>
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<tr>
<td></td>
<td>Virginia Society of Certified Public Accountants</td>
</tr>
<tr>
<td></td>
<td>Wisconsin Society of Certified Public Accountants</td>
</tr>
</tbody>
</table>

Source: Al-Kuwait Al-Yawm, October 1962, issue no. 398, year 8, p.27.

In the post-oil era, oil revenues substantially altered the economic structure and enriched Kuwait (see Table 2.1), and the Kuwaiti government
embarked on huge economic and social transformation schemes, directing the capital surplus towards establishing a strong welfare system. Hospitals and schools were built at a rapid rate, while health services and education were offered to both Kuwaitis and non-Kuwaitis free of charge. Even water and electricity were provided at very low prices\textsuperscript{19}.

The Kuwaiti government realized the immediate need for a skilled workforce in a growing economic environment following the discovery of oil. As the demand for professionals, including accountants, increased (Shuaib, 1992), the state acted to ensure that Kuwaitis could meet this demand. On 11 October 1955, amendments were made to the 1934 oil concession granted to the American company Gulf Oil Corporation (presently Chevron Oil) and the British company Anglo-Persian Oil Company (presently British Petroleum). These amendments required the companies to provide a yearly grant of 45,000 pounds sterling to sponsor Kuwaiti students in pursuing university education in Britain and the United States. The Kuwaiti government was to be responsible for choosing the students and monitoring their progress (Kuwait Ministry of Oil, 2003).

Post-treaty, in 1963, the Kuwaiti state established a Secondary School of Commerce, which offered programs for clerkships, bookkeeping and administration. The state also sponsored many students to seek university education abroad in many disciplines, including business studies and accounting. By October 1966, Kuwait University had been founded, and by April 1967 the Faculty of Commerce, Economics and Political Science had emerged (Kuwait

\textsuperscript{19} For more extensive details of government expenditure on the welfare system, see Al-Sabah (1980) and Ismael (1982).
University, 2012). In 1973 and 1974, there were 56 graduates from the accounting department, representing 30 per cent of the total of 189 graduates from the Faculty of Commerce, Economics and Political Science (Shuaib, 1992).

It was not until the early 1970s that the outcomes of the educational projects implemented by the government started to flow into the market, with 91 per cent of Kuwaiti employees preferring to work in the public sector, while only 6 per cent chose the private sector (Alajmi, 2007).

There is no evidence of strong British influence on educational systems in general in Kuwait, and in particular on commercial education; moreover, this study shows that there were no attempts in the post-oil period to control the market through British credentials, unlike the cases of former British colonies.

It is apparent that British influences on Kuwait’s social and economic environments were not potent compared with those of settler and non-settler colonies that have been studied in the accounting literature. We conclude that the restrictive nature of the protectorate treaty meant that the British Empire did not hold any power over the internal affairs of Kuwait, and in fact the oil revenues that enriched their country gave Kuwaitis financial independence. More importantly, the political environment that stimulated feelings of Arabic nationality condemned any form of Western co-operation (Zahlan, 1989), and resulted in a high degree of reliance on Arab professionals and laws.

It has also been argued that the nature of the protectorate treaty between Britain and Kuwait led to the isolation of the Gulf region and further preserved the social traditions of that region (Zahlan, 1989). According to Al-Kandari and Gaither, these social traditions are: “commitment to religion, devotion to the group, resistance to change/attachment to history and recognition of hierarchal
order” (Al-Kandari and Gaither, 2011: 268). We now turn to exploring Dewaniya, a distinctive aspect of Kuwaiti culture that is proposed to have impacted on the foundation of the KAAA in 1973, and hence on Kuwait’s professionalization project.

2.6 Dewaniya and the formation of the KAAA in 1973

The concept of Dewaniya

The social culture of Dewaniya is highly valued as a form of group gathering in Kuwaiti culture. It has often acted as a means of sharing political, economic and social ideas and discussions, and of forming networks and alliances in both the pre- and post-oil eras (Al-Muqames, 1986; Kuwait Government Online, 2013). There were some “specialized” forms of Dewaniya in the pre-oil era: some focused on language and religious studies, while others focused on studies of ancient literature:

Dewaniya in Kuwait has preserved its importance in the social, political and economic life. Today, Dewaniya is considered one of the important social institutes that play an influential role in the democratic and parliamentary life. It became a referential indicator and place where many decisions were made. The number of Dewaniya increased to the extent that one Dewaniya or more can be found in every street. Some of them receive guests daily, others receive guests for only one or two days per week, and others receive guests only on special occasions.

The general atmosphere of the Dewaniya is similar to that of social clubs, cultural and literary forums and political salons ... They plan schedules and set dates to reach their goals. Others declare topics for discussion days before receiving guests (Kuwait Government Online, 2013).
Dewaniya traditionally takes place in a room in a house with external access; it is restricted to males, and bears the name of the house owner. In some cases merchant families allocate a separate building as their Dewan that bears the name of the family: such form of ownership reflects the high status of the owner and/or the family. In the poor pre-oil economy, only upper-middle-class families could afford to host this form of gathering (Al-Kandari, 2002; Al-Muqames, 1986). In addition, this cultural form of grouping was so influential that the idea of the first school, Al-Mubarakia, sprung from it in 1911. The group of intellectual locals who gathered regularly in one of the specialized Dewaniya later initiated and gathered donations to found Al-Mubarakia school and introduce a modernized, structured curriculum rather than basic religious studies (Al-Hatem, 1980; Kuwait Ministry of Education, 2013).

In 1923, as more and more intellectual and literary forums came to be hosted as Dewaniya, these groups grew to found The Literature Club (Al-Nadi Al-Adabi). Similarly, the first public library was founded in Ibn-Amer Dewaniya. These examples show that Dewaniya was not just a social hub of Kuwaiti culture; in many cases it acted as a forum for groups with special interests, and as the starting point of social change.

The value of Dewaniya as an integral part of Kuwaiti culture was maintained in the post-oil era; the now oil-rich economy meant that more families could afford to host a Dewaniya in their houses, and it became a growing feature, even with the modernization of the Kuwaiti house. Al-Kandari notes that new forms have appeared, one of which is the specialized Dewaniya in which people who possess similar occupational positions or degrees meet on a regular
basis (Al-Kandari, 2002). In the 1950s, a number of specialized clubs emerged from *Dewaniya* groups, such as the Teachers’ Club, the Islamic Guidance Association, and *Al-Ahli* Sports Club (Al-Muqames, 1986). The *Dewaniya* is a component of Kuwaiti culture that binds members of a group together. The nature of these groups varies, from the simple form of a social hub whereby male members of a family and their friends gather, to the more complex form of a political, economic and professional forum where particular topics are discussed and guest speakers are invited. This form of peer grouping has been strongly influential in Kuwaiti society and remains highly valued among male Kuwaitis.

**The influence of Dewaniya on the Kuwaiti professionalization model**

It is proposed that the influence of *Dewaniya*, as a form of peer grouping, motivated the establishment of the KAAA. The first attempt to organize a grouping suggested adopting the form of *Dewaniya*. It was initiated by a pioneer Kuwaiti accountant in an attempt to resolve conflict in the market for accounting and auditing services. With the rise of the corporate structure, and following the enactment of Act No. 15 of 1960 and Act No. 6 of 1962, the market for audit services became more competitive, especially at the beginning of the 1970s. By then, audit firms practising in Kuwait had been divided into three main groups: British, Egyptian and those from the al-Sham countries (Jordan, Syria, Lebanon and Palestine), in addition to one Kuwaiti firm (see Table 2.3). These firms competed for market share in a small yet highly rewarding market. The pioneer accountant said that:
In 1973 when I returned to the audit office people continued to give us jobs, even though they were not confident of our capability to manage them, just to support us as a national office. They would hire one of the big names with us, such as Whinney Murray or Saba & Co. Eventually, they saw that we were capable of managing jobs, and gave them entirely to us.

The interviewee had experienced a few incidents reflecting the increased competitiveness:

I sensed that there was competition in the audit market. Some people didn’t want me to have the job, and wanted to give it to Saba & Co.

He further said that:

They would spread rumours about me, saying I wasn’t completely available to the audit practice, having the big responsibilities of my position as assistant secretary in the ministry of finance and made defamatory statements ... in response to which I decided to make my mark by establishing an accounting association.

The shortage of indigenous accountants was very clear, and was accompanied by the dominance of non-Kuwaiti accountants. It was not until the early 1970s that the number of Kuwaiti accountants started to grow, especially after the first group graduated from Kuwait University in 1973. However, most of the Kuwaiti accountants were absorbed by the public sector, which offered secure and lucrative salaries, a situation that was similar to the case of Brunei (Yapa, 1999).
The pioneer accountant reported that, after sensing an increase in unhealthy competition in the market for accounting and auditing services, he felt a need to assert his personal position among foreign accountants by founding an association. However, he did not pursue his attempt to establish an accountants’ association after an incident involving conflict over board membership. As an alternative, he suggested the formation of a *Dewaniya* to meet regularly as a preliminary step prior to the foundation of a formal association. He describes the incident:

In the late 1960s there were three main groups of non-Kuwaiti accounting firms that dominated the market in Kuwait; British, Palestinian and Egyptian. We arranged a meeting and agreed to form an association. As we prepared the forms and conditions for the association, we agreed to meet in the Chamber of Commerce to found the association. During that meeting, I received three notes, one from each group, all of which recommended that I head the board of the association, with each group electing themselves as board members along with me. The non-Kuwaiti accounting firms had separated themselves into three parties based on their country of origin, and so to avoid escalating the conflict between them, I decided to abolish the attempt to form a professional association, and instead suggested that we form an accountants’ *Dewaniya*, in which we would arrange regular meetings to discuss matters of the profession and reach a higher level of understanding. Then, later on, we could evolve into a professional association.

However, the pioneer accountant went on to state that this proposal was unsuccessful, as the non-Kuwaiti accountants did not share the same
enthusiasm for or values of this distinctly Kuwaiti ideology. Nonetheless, this attempt by the pioneer accountant to form a *Dewaniya* instead of a professional association emphasizes the value of this form of peer grouping in the Kuwaiti culture.

Coincidently, prior to the pioneer accountant’s attempt to establish an accountants’ association, some of the faculty members and students of the accounting department at Kuwait University had already established a students’ accounting association\(^\text{20}\) in late 1969. The association consisted of students and faculty members from the accounting department. The head of the association was the head of the accounting department, Dr Ali Tawfeek, who was an Egyptian, while the board consisted of both Kuwaiti and non-Kuwaiti faculty members, along with students of both genders. Their activities were oriented towards organizing social events and encouraging dialogue between students and academics, and the association also published a periodical academic journal.

As one of the founding members notes:

> When I graduated from the University of Ain Shams in Cairo in 1968, I returned to Kuwait and joined the accounting faculty at Kuwait University, which had been established for one year. I was one of the first Kuwaitis to join the accounting faculty, along with Saad Al-Saad. Back then, the number of students enrolled at Kuwait University was very limited; therefore, a feeling of familiarity with one another was very strong. We as faculty would meet with the students constantly to discuss academic matters. The bond between the students and faculty was very strong, and so the idea emerged that in order to have a more organized process for

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\(^{20}\) Even though the interviewees refer to the university group as an association, in fact it was an informal grouping, and was not formed under Law Decree No. 24 of 1962.
social and cultural matters, why not have an association that organized and tied them together, instead of having the process being led voluntarily, as had been done at Ain Shams University back in Cairo. (Founding member 2)

The accounting association that was founded at the university was more focused on the academic needs of the students and faculty of the accounting department. One of their most notable achievements was providing textbooks that were needed by the students. It was asserted by one of the founding members that:

Due to the scarcity of textbooks needed by the students back then, the association would use the funds provided to us from the membership fees ($15/year) and order the books from Egypt, photocopy them and distribute them as study notes to the students. (Founding member 2)

When the first cohort of accounting students graduated in 1972, the wish was expressed that the relationships that had been established should continue. Reflecting this sentiment, interviewees remembered that:

The bond between the students and the faculty was very strong, and they wanted to maintain it. Some students, even after graduating and joining the workforce, still had energy to give to the association, from which the idea of the KAAA emerged. The KAAA developed from the accounting association that had been formed at Kuwait University. (Founding member 2)

In my fourth year of university, I was the head of the accounting association, and
we (the accounting students) used to meet between classes. As we approached graduation, one of my colleagues approached me asking where we would meet after graduation. How would we be able to get together? ... After which, and sharing my colleague’s concerns, I went to the Ministry of Social Affairs and expressed my wish to establish an accounting association. The ministry had no objection, and so I asked what conditions I would need to meet in order to do so. They told me that all I had to do was gather 15 founding members. (Founding member 1)

As a result of this shared vision, in 1973 15 graduates and staff members established the first professional accounting body in Kuwait – the Kuwait Association for Accountants and Auditors (KAAA), which was also the first accounting association among the Gulf Cooperation Council (GCC) countries. The first board of the KAAA consisted of nine members, all of whom were male, headed by Mr Saad Al-Saad (see Table 2.5). The choice of Mr Al-Saad as the head of the board is another indication that the founders were influenced by their social culture, as seen in Dewaniya. Mr Al-Saad was one of the leaders of the group and one of the academics at the university who had worked with the students towards founding the KAAA by hosting meetings in his office. It is noted that Arabic and Kuwaiti social culture imposes “devotion to the group, resistance to change/attachment to history and recognition of hierarchal order” (Al-Kandari and Gaither, 2011: 268). However, unlike the university accounting association, the KAAA was established in the form of a public service association in accordance with Act No. 24 of 1962. The founding members’ details are provided in Table 2.5.

Based on the conditions of the Ministry of Social Affairs, as indicated in Act
No. 24 of 1962, a minimum of 10 Kuwaiti members were required to enable the establishment of the KAAA. However, findings from the interviews reflect that the enthusiasm for and involvement in the KAAA following foundation was not shared equally among the founding members. Two of the interviewees (founding members 3 and 4) noted that they had not been involved in the activities of the KAAA, and that their participation did not extend beyond registering as founding members and attending board elections.

However, all of the founding members who were interviewed repeatedly referred to “ties bonding them together”, which had emerged during their participation in the university accounting association. Further, it is noted that even though there was initial female participation in the university association and in the establishment of the KAAA (there were two female founding members (founding members 1 and 2), as shown in Table 2.5) it did not extend beyond that, especially during the early years following formation, and the female founding members did not go on to become board members. It can be argued that the KAAA professionalization model partly reflects the social concept of Dewaniya, which acts as a gathering hub/forum for men, in Kuwaiti culture. The form of gathering that heralded the beginning of the KAAA reflects a number of the principles of Dewaniya: creation of a social hub where friends gather; interchange of ideas about education; binding together of male accounting graduates; and building networks and alliances between professionals. It is highly plausible that perpetuating the concept of Dewaniya is the reason why female members disengaged from KAAA activities post-foundation. The interviewees remarked that they had struggled during the early years following foundation to attract members and engage them in KAAA activities. Having no
permanent location also made it difficult to plan and structure KAAA activities, according to founding members 1 and 2. Further, all of the founding members interviewed acknowledged that during the early years following foundation, the KAAA did not make strong demands on its members or have a focused strategy. This was because their services were in high demand and they had all been privileged in the workforce, as were most Kuwaiti accountants who were immediately absorbed by the public sector. As indigenous accountants, they were given priority in relation to most benefits, and had often been promoted in a very short time. Each of the interviewees became the head of his department in an average of three to five years (founding members 1, 2, 3 and 4). Their experience is confirmed by Al-Ibrahiem (1996) and Alajmi (2007), who report that indigenous accountants were in high demand during that period. As Kuwait University graduates started to flow into the market in the early 1970s, they were mostly absorbed by the public sector to reduce the reliance on foreign accountants. This experience echoes that of the cases of Brunei and the Philippines, where indigenous accountants were similarly absorbed by the public sector (Dyball et al., 2007; Yapa, 1999). It is thus proposed that whilst the founding members of the KAAA initially intended to continue to foster a strong bond through regular meet- ings, which was consistent with the social phenomenon of Dewaniya, the absence of a designated meeting place and the high demand for indigenous accountants meant that there were few reasons to sustain the KAAA as a Dewaniya for networking.
<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Degrees &amp; Certification</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fahad Abdulaziz Alhudaib a</td>
<td>34</td>
<td>BSc Accounting</td>
<td>Ministry of Media, 1967-1988</td>
</tr>
<tr>
<td>Yousif Saleh Alothman a</td>
<td>29</td>
<td>BSc Egypt MSc Kuwait</td>
<td>Assistant Lecturer Kuwait University State Audit Bureau, 1976–1999</td>
</tr>
<tr>
<td>Muhammad Abdulmuhsen Alateeqi a</td>
<td>27</td>
<td>BSc Accounting</td>
<td>Ministry of Justice, 1971-2001</td>
</tr>
<tr>
<td>Salah Fahad Almarzouq a</td>
<td>25</td>
<td>BSc - MSc</td>
<td>Owner of Audit Firm (Deloitte &amp; Touché) (Deceased)</td>
</tr>
<tr>
<td>Asmat Sayed Bahbahani b</td>
<td></td>
<td>BSc Kuwait university</td>
<td>Kuwait Commercial Bank, 1971-1988</td>
</tr>
<tr>
<td>Rafeea Abdululateef Alasousi b</td>
<td>28</td>
<td>BSc Kuwait university</td>
<td>Minister of Internal Affairs, 1971-1990</td>
</tr>
<tr>
<td>Abdullah Abdulaziz Alhudaib</td>
<td>28</td>
<td>BSc Accounting</td>
<td>Assistant Lecturer Kuwait University Chairman and Managing Director of the National Industries Group Holding Member of the Supreme Council for Planning, 1975–1987 Board member of the National Bank of Kuwait, 1975–1987, Member of the Board of Directors of several companies, and founder of KAAA Society of Accountants and Auditors Kuwait, the first Chairman of their Board of Directors Data unavailable</td>
</tr>
<tr>
<td>Saleh Hamad Alyahya a</td>
<td>29</td>
<td>BSc Accounting</td>
<td>Savings and Credit Bank of Kuwait 1968-1993</td>
</tr>
<tr>
<td>Yousif Shehab Albahar</td>
<td>29</td>
<td>BSc Egypt, MSc PhD UK, CPA</td>
<td>Ministry of Commerce, 1968–1997 Public Authority for Industrial Affairs from 2006</td>
</tr>
<tr>
<td>Darar Yousif Alghanim a</td>
<td>30</td>
<td>BSc Accounting</td>
<td>Member of Kuwait Trade and Industry Chamber Board Director of the Financial Centre Investment Company Board Director and co-founder of the Union of Investment Companies, July 2004</td>
</tr>
</tbody>
</table>

Notes: a First KAAA board members; b female members.

Soon afterwards, the KAAA board set down several conditions for membership (KAAA, 1998). It was determined that members should:

- hold a Bachelor’s degree in Accounting or Auditing; or
- hold Accounting Professional certification; or
- hold a Diploma in Accounting; and
- have a good reputation and no criminal convictions.

It is noted that although the university accounting association included non-Kuwaiti members of the faculty, membership of the KAAA was restricted to Kuwaitis. Non-Kuwaitis could only join as non-acting members, without the right to nominate for board membership or vote in board elections, as per the conditions of Law Decree No. 24 of 1962.

2.7 Discussion and conclusions

This study posed three research questions: what was the effect of the Kuwaiti/British protectorate treaty on the Kuwaiti accounting professionalization project? What role did the state play in the emergence of the KAAA and was the role different from that in other parts of the Empire? What were the distinctive aspects of Kuwaiti culture that enabled the creation of the KAAA? Our analysis was guided by the main enabling factors identified by Poullaos and Sian (2010), namely British political agents and companies, British accountants and accounting associations, British laws and British education. These factors were identified from extant studies of accounting professional projects in former British colonies, noting that the current literature does not
include Arabic countries or British protectorates. To fill this void in the literature and to address a need to investigate countries in the Arab part of the Empire as identified by De Beelde (2011), we studied the case of Kuwait as an Arab country and a former British protectorate.

The first question was: what was the effect of the Kuwaiti/British protectorate treaty on the Kuwaiti accounting professionalization project? We identified the nature of the British protectorate treaty with Kuwait as the main differentiating factor that prevented tangible forms of British imperial influence. Our findings indicate that the 1899 protectorate agreement prevented any form of interference by Britain in the internal matters of Kuwait. In return for its protection, the British government only controlled the external affairs of Kuwait. The conditions of the treaty were similar to those of treaties formulated in nearby Gulf coastal countries, and reflected British political interest in the Gulf countries (Stables, 1996; Zahlan, 1989).

We found little evidence of a huge wave of migration of British capital, accountants and accounting associations during the period of formal British ties. This is in contrast to experiences in settler and non-settler colonies. Another vital factor in the lack of British influence is the political atmosphere in the Middle East after 1948 following Israel’s invasion of Palestine and the rise of Arabic nationalism movements. These Arabic movements were embraced in Kuwait, and were reflected in Kuwaiti laws, including commercial law, and in Kuwait’s high reliance on Arab professionals.

In response to our second research question about the role of the state in the emergence of the KAAA as a local association, our analysis shows that in Kuwait the state played an enabling role in the training of indigenous
accountants through structured educational schemes, and by issuing Law Decree No. 24 in 1962 that sponsored the emergence of Kuwaiti non-profit associations. Following the flow of indigenous accountants into the market for accounting and auditing services in the early 1970s, the state funded the foundation of the first Kuwaiti accounting association, the KAAA, in 1973. Notably, despite the issuance of legislation (Act No. 6 of 1962) enabling both Kuwaitis and non-Kuwaitis to operate in the Kuwaiti market for accounting services, the KAAA only admits Kuwaitis as acting members. Non-Kuwaitis can only join as non-acting members.

The third research question that was posed aimed to identify what distinctive aspects of Kuwaiti culture enabled the creation of the KAAA. We came to the conclusion that the non-interference policy by Britain and its control over the external affairs of Kuwait (as stated in the protectorate agreement) isolated the country and further helped to preserve Kuwaiti culture. We identified the *Dewaniya* as an important social institution in Kuwait and a motivation for the establishment of the KAAA. However, this motivation was not sustained, as founding members were preoccupied with work and as a result did not see active involvement in the KAAA as being important. On this point, Larson’s (1977) proposal that professionalization projects are a means to secure a market for accounting services does not resonate in the case of KAAA. Given that there was an abundance of work with clear and privileged paths for promotion, what would have been the need for the KAAA to negotiate with the state or employers in relation to work for its members? What would have been the bond, to use a relevant term from *Dewaniya*, that would have tied the accountants together?

Whilst the motif of *Dewaniya* as the motivation for the emergence of the KAAA is plausible, this interpretation is subject to the limitation of a lack of
archival material and documents and the frailty of the human mind, as interviewees were asked to reflect on the past. Documents were lost mainly due to poor archival systems in Kuwait’s governmental institutions and the Iraqi occupation of Kuwait in 1990. A further limitation is that we did not explore how an integration of Egyptian and Kuwaiti law might have resulted in indirect influence by Britain, because Egypt was a former British colony. This has the potential to be a fruitful area for future research. It is anticipated that the findings of this study will stimulate further research in other Arabic countries, either British colonies or protectorates. Such studies would reflect any variations of the British imperial system in Arabic countries and respond to the notable absence of studies on professionalization projects in the Arab part of the Empire identified by De Beelde (2011).
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Chapter 3: Social Change and the emergence of the accounting profession in a High-income Oil-Exporting Country: The case of Kuwait, 1973–1985

Abstract

This paper studies the accounting profession in Kuwait, a high-income oil-exporting country (HIOEC) during the period from 1973 to 1985. By utilizing social change theory as an explanatory framework, the aim of this paper is to explore how changes/events in the socio-economic environment influenced the state in adopting reform schemes leading to accounting change in Kuwait, and further to identify how these events/changes influenced the development of the Kuwaiti Accounting and Auditing Association (KAAA) from an inactive to an active association. We show how the activities of the state and the state–profession axis directed accounting change by 1) changes in the regulation of public practitioners, and 2) the introduction of the Committee for the Establishment of Accounting Rules (CEAR) and the Kuwait Stock Exchange (KSE) by the Ministry of Commerce.

Key words

Accounting, Kuwait, high-income oil-exporting country, social change
3.1 Introduction

This study mobilizes the sociological concept of social change as applied by McKinnon (1983, 1986) and Verma and Gray (2006, 2009) in exploring changes in the regulation of public practitioners and the organization of the accounting profession through the introduction of the Committee for the Establishment of Accounting Rules (CEAR), and exploring how this change was transmitted to the professional project as part of a broader socio-economic system. Studies of professionalization projects typically apply sociological theories to analyse the history of accounting institutions. Theoretical concepts of closure and social mobility have been widely applied in the Anglo-Saxon context (Burrage & Torstendahl, 1990; Macdonald, 1984; Ramirez, 2001; Walker, 1995, 1998). Meanwhile, the professionalization literature draws attention to the diversity of professionalization project trajectories. For example, studies of post-colonial professionalization projects are informed by theories of imperialism (Annisette, 2000; Dedoulis & Caramanis, 2007; Susela, 2010; Uche, 2010), while a number of other studies of professionalization projects in developing countries reflect on the influence of multinational accounting firms, as exemplified by aid fund treaties and economic support schemes, such as the study of Cambodia, which utilizes Enthoven’s model for education planning (Yapa et al, 2010).

The emergence of the accounting profession in Kuwait has a relatively short history, dating back to the early 1940s as a result of oil discovery in the country. Prior to the discovery of oil, specialized accounting services were not needed due to the simplicity of trading activities (Al-Rehaily, 1992). Because the country was not formally colonized, but rather in a protective treaty with the United Kingdom
(UK), which prohibited any interference in internal affairs, there was minimal British Imperial influence on the professionalization project (Altaher et al., 2014). Studies of some developing countries show how having limited resources creates limited opportunities and competition in the market for services. Therefore, developing economies became dependent on developed economies for financial support through aid funds. As a consequence of the aid treaties, the developing economies’ monetary policies and professionalization projects experienced external influence. For instance, such influence is seen in studies of Cambodia (Yapa et al., 2010) and Greece (Dedoulis & Caramanis, 2007). In contrast, the study by Yapa (1999) of Brunei Darussalam shows that the wealth of the oil economy enabled the state to provide lucrative work opportunities for indigenous accountants.

The case of Kuwait is potentially valuable due to the special nature of its economic wealth generated by oil revenues, which makes it different from most other developing countries. The oil revenues place the country in a small category known as the high-income oil-exporting countries (HIOECs)\(^{21}\). Meanwhile, similar to Brunei, which was wealthy due to crude oil and liquefied gas reserves, the fact that Kuwait, was an HIOEC enabled the state to provide abundant employment opportunities (Altaher et al., 2014), and facilitated its independence in supporting the economy.

The Kuwaiti Accounting and Auditing Association (KAAA) was formed in 1973 by 15 founding members and established in the form of a public service association in accordance with Law No. 24 of 1962. This act restricted the KAAA

\(^{21}\) World Bank (2011).
from having any legislative power over accounting practice in Kuwait, as it was established in the form of a non-profit association funded and monitored by the state. The KAAA, as a state-funded non-profit association, does not have the statutory power to standardize accounting practice in Kuwait, and can only achieve such a goal by having a co-operative relationship with state agencies. The KAAA consisted of a group of university graduates who had initiated the move towards establishing the first professional accounting body in Kuwait and in the Gulf Cooperation Council (GCC) countries\textsuperscript{22}. The GCC countries are all included in the group of HIOECs.

The aim of this paper is to explore how changes/events in the socio-economic environment influenced the state to adopt reform schemes, and to identify the extent to which these events in the socio-economic environment influenced the activities of the state and the state–profession axis, which was directed towards accounting change, by 1) changes in the regulation of public practitioners, and 2) the introduction of the Committee for the Establishment of Accounting Rules (CEAR) by the Ministry of Commerce (MOC). A further aim is to identify how these events/changes influenced the development of the KAAA from an inactive to an active association, leading to accounting change in Kuwait. The analysis will focus on the period from 1973 when the KAAA was formed to 1985 after the enactment of Practice Law No. 5 of 1981. This time frame is chosen to reflect on the post-formation events in the socio-economic environment and state–profession axis that have influenced accounting change. Verma and Gray

\textsuperscript{22} The GCC was founded in 1981 and consists of Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman.
describe the ways in which politics and the state influence accounting change: “The first is with the involvement of government (either implicitly or explicitly) in accounting regulation and change, and the second is with accounting regulation and change being the outcome of interactions between parties interested in and affected by accounting” (Verma & Gray, 2009, p. 111). Accordingly, this study will focus on the state’s involvement in imposing amendments to the regulation of public practitioners, and regulating accounting standards and the profession through the introduction of the Committee for the Establishment of Accounting Rules (CEAR) and the Kuwait Stock Exchange (KSE).

The remainder of the paper is structured as follows. In the next section, a discussion of the related literature is presented. Section 3 presents the theoretical framework of social change and the methods used for collecting the primary and secondary data. In Section 4, we provide a background and describe the socio-economic environment of Kuwait. Section 5 provides a background on the establishment of the KAAA. In Section 6, an analysis of the three phases of change in the socio-economic environment of Kuwait is presented, highlighting events relating to the KAAA’s strategies and activities. Finally, concluding remarks are presented in Section 6.

3.2 Literature review

Professionalization projects are typically enmeshed in changing socio-economic and political environments. Changes in the socio-economic environment are seen to motivate changes in accounting and auditing professional practice regulations, and to further influence professionalization projects. It is argued that in
advanced capital economies, associations are as much an essential factor as the community, market, and state in achieving social order (Streeck & Schmitter, 1985; Willmott, 1986). Accounting is further identified as a vital part of the country’s overall social and economic system (McKinnon, 1983, 1986; Verma & Gray, 2006, 2009), and studies assert that in many cases accountants have played a major role in the process of developing and regulating modern economies, and continue to participate in maintaining economic sustainability and growth (Johnson, 1980; Willmott, 1986; Yapa, 1999).

In some cases, accountants initiate professionalization projects that align with the agendas of actors and institutions in the field, and in other cases they are co-opted. To illustrate, after World War Two (WW2), accountants in France, Belgium, and Germany mobilized and then assisted in state projects for economic reform and recovery (De Beelde, 2002; Harston, 1993; Ramirez, 2001). For example, in Germany, Harston (1993) shows that the economic crisis and the banks pushed for mandating auditing, therefore being market driven, the professionalization project emerged as a result of reform schemes to promote “societal attributes of nationalism, paternalism and anti-individualism” (Harston, 1993, p. 139).

Socio-economic events have been a driver for social and professional change, most notably in developing countries. In the UK, economic and social change created the need for an accounting profession. Studies highlight the emergence of accounting associations in Scotland (Walker, 1995), Liverpool, London, Manchester, and Sheffield in response to jurisdictional disputes following the issuance of the Bankruptcy Act in 1869 as the main event influencing accounting change during that period (Walker, 2004), while in the US, the collapse of the
stock market in 1929 was the main event that motivated the enforcement of change in accounting policies and legislation through a collaboration between the New York Stock Exchange and the American Institute of Certified Public Accountants (AICPA) (Van Wyhe, 2007; Zeff, 2003a). As a consequence, the AICPA formed a blue-ribbon committee, and the initial outcome was a proposal to the Exchange of five generally accepted principles of accounting to be followed by all listed companies. By 1934, there were six generally accepted accounting principles proposed by the AICPA that were approved, in addition to a standard form of auditor's report (Zeff, 2003a). As a result of this financial crisis, reform schemes were formulated by the state through the issuing of the Securities Act of 1933 and the Securities Exchange Act of 1934, the latter creating the Securities and Exchange Commission (SEC). Zeff further notes that following the enactment of these acts by the SEC, all listed companies’ financial statements had to be audited by an independent CPA, thus increasing the demand for accounting services. Hence, the prominence of the accounting profession “as a body of stature in the field of corporate financial reporting” (Zeff, 2003a, p. 192) was promulgated. This eventually led to the reinforcement of the CPA credentials that were, as part of the new policies, mandated for practise in the state of New York (Van Wyhe, 2007).

Willmott (1986) argues that through being part of the community, the role of accounting associations extends to having a political stand and preserving a social system and identity, as shown in the previous studies. However, other studies show that accounting change is rather initiated by the state, and in some cases the role of the state extends to organizing the role of the associations. For instance, the Greek auditing profession was organized by the state to help
rebuild the economy after the civil war ended in 1949 (Dedoulis & Caramanis, 2007). According to Ballas (1998), accounting change was in response to post-war economic conditions, as the Greek professionalization project was promoted by the state in attempt to extract revenues as part of an economic reform scheme. In more recent times, accountants in China were not proactive in organizing either the profession or a professionalization project, but were directed by the state to assist in the task of reconfiguring the economic system from socialist to capitalist (Hao, 1999; Yee, 2009). Furthermore, in Australia post-WW2, the commonwealth government instituted the Commonwealth Reconstruction Training Scheme (CRTS), which supported returned service personnel in obtaining qualifications through securing a certificate at a technical college. As a result of these state-initiated policies, the accountancy institutes were pressured to change their admission policies to recognize both certificates awarded by technical colleges and degrees awarded by universities. The accounting associations co-operated with the state and higher education institutions to maintain a form of control over accounting education, therefore reflect on how the accounting associations were influenced to modify their strategies as a result of post-war events and state-initiated policies (Birkett & Evans, 2005).

The power of the professions is not absolute; they are highly dependent on the state for support, and for providing them with the power and control to which they aspire (Freidson, 2001). The state is a powerful institution, and can be an agent of accounting professionalization projects. However, it can also restrict the influence of professional bodies by denying them regulatory roles, as demonstrated in Syria (Gallhofer et al., 2009) and Libya (Ahmad & Gao, 2004;
Shareia, 2010). Whilst the accounting profession has been depicted as an independent collaborator with the state in regulating the market for accounting services (Harston, 1993; Walker, 1995, 2004; Zeff, 2003a, 2003b), in some cases accountants were absorbed into the state bureaucracy, as shown in the Philippines in the 1920s (Dyball et al., 2007) and in Brunei in the 1990s (Yapa, 1999). In the latter case, authority was solely vested in the state to regulate the market for accounting services. Further, in HIOECs, Yapa (1999) finds that the socio-economic environment provides abundant work opportunities for accountants, which, along with state-initiated policies, restricts the power of the association in regulating the profession and contributes to the existence of a non-active association.

In summary, studies have shown variations in the extent of co-operation in relation to the state–profession axis. “However, the importance of the state in accounting is not restricted to the development of accounting professions but is also important in the promulgation of accounting regulations, both legal and professional” (Verma & Gray, 2009, p. 112). Therefore, this study explores the extent to which events in the socio-economic environment influence/shape the state–profession axis, and reveals how these events influenced the state in instituting accounting change through the enforcement and promulgation of accounting regulations in a time-specific manner.

Kuwait was in a period of rapid change when the accounting profession was co-opted by the state to play a more active role in the economy. Unlike the cases of France, Belgium, Germany, and Greece, where the economy required bolstering, Kuwait was experiencing rapid growth of its oil industry. Oil revenues enabled the state to build the capital market, social services, and a welfare
system. However, like their confrères in Brunei, most of the Kuwaiti accountants were absorbed by the state. The case of Kuwait offers a valuable addition to existing professionalization projects in the accounting literature. How would a professionalization project be played out in such a context of socio-economic change, whereby a state is privileged with high oil revenues rather than being restricted by limited resources? To help chart our examination, we look to Smith (1976, p. 20), who defines socio-economic change as “a change in the patterns of resource allocation, production and interest of various groups.”

3.3 Theoretical framework

Smith (1976) defines the sociological concept of change as “a succession of events, which produce over time a replacement or modification of a pre-existing pattern, within some area, unit or system” (Smith, 1976, p. 13). Therefore, in order to examine the influence of particular events in motivating social change in a specific area, it is essential to first identify an existing pattern, and then to examine how this event interrupted the system, leading to the creation of a new pattern. McKinnon (1983) applies this concept and proposes a model of social change in a historical study of the development of, and interactive environmental influences on, the Japanese corporate reporting regulations and system. Further, in applying this model to a study of the accounting professionalization project in India, Verma and Gray (2006) find the McKinnon (1986) model of a social system very useful, especially in identifying the in-tr-a- and trans-system influences of the social, political, and economic environments on the creation of the Institute of Chartered Accountants of India (ICAI). These studies observe that the accounting system is an element of a country’s overall social system (McKinnon, 1983, 1986;
Verma & Gray, 2006, 2009). Verma and Gray further identify that segmenting the period of change into source, diffusion, and reaction became useful in identifying the changes and the development of the ICAI in the period following independence from Britain, and provided an illustration of the theoretical framework, as shown in Figure 3.1.

**Figure 3-1: Social change theoretical framework**

![Diagram of social change theoretical framework](image)

**Source:** (Verma & Gray, 2006, 2009)
Events and phases of change

McKinnon identifies two types of events that have an impact on the social system; a response event and an intrusive event. A response event will “occur within the system and provide the visible evidence of transformation of the system pattern.” Meanwhile, intrusive events are “influencing (stimulating or inducing), rather than reflecting, the system’s pattern modification or replacement” (McKinnon, 1983, p. 3). Smith (1976) acknowledges that social change is always stimulated by events in the social system:

Events themselves do not constitute change, nor do they necessarily lead to change. On the other hand, change always involves some reference to events, some turning points or occurrence, which mark a point of transition. Usually more than one event is involved (Smith, 1976, p. 11).

Therefore, the focus in this study is on intrusive events that have disrupted the development pattern of the KAAA, and thereafter created/presented a modified or a changed pattern of development. Change in response to events happens in three phases, which McKinnon describes as follows:

A source phase, encompassing events which activate the system towards transformation; a diffusion phase, encompassing events which accommodate the change activating forces and disperse them within the system; and a reaction phase, encompassing events which are generated subsequent to and resulting from diffusion phase events and which serve to moderate or intensify the effect of change (McKinnon, 1983, p. 3).

In the application of a social change theoretical model, Verma and Gray (2006, 2009) have identified some limitations of the model, mainly concerning
its complexity. First, the identification of both diffusion and reaction phases. At times it is not very clear how to pinpoint the beginning and end of each phase, because the phases might overlap. Second, the reaction phase could include events that could be analyzed as independent changes. Further, the reaction phase of an event could be a source or a diffusion phase to another event. Third, not all changes encompass source, diffusion, and reaction phases nor should they lead to any intra or trans-system activity. Finally, the context of accounting change is also complex, and the theoretical framework of social change is limited to providing simple analysis of that change, which Verma and Gray (2009) concede as common in any framework or model.

In this paper, the McKinnon framework is applied to identify the phases of change in Kuwait’s socio-economic environment. By segmenting the period of the study into source, diffusion, and reaction phases, we explore the development of the accounting and auditing professions in Kuwait, and that of the KAAA. We then reflect on the influence of intrusive events in stimulating change and producing a modified regulatory framework for the accounting and auditing professions in Kuwait.

Furthermore, the study investigates how these events influenced the KAAA’s actions during the period from 1973 to 1985, and further evaluates their impact on the state-profession axis, leading to accounting change. We begin by identifying the intrusive events in the socio-economic environment of Kuwait that set the change cycle in motion in the source phase, and then locate the intra-system activities that had an impact on the diffusion and reaction phases, or more precisely, how the state reacted to the events through the enforcement and promulgation of accounting regulations and the establishment of the CEAR and
the KSE. The trans-system activities between the state, the KAAA, and neighbouring systems are explored within both the diffusion and reaction phases. The final step is to identify the accounting changes that created a new system of accounting practise.

3.4 Methods

Our examination of the KAAA’s emergence as a significant player in the socio-economic environment in Kuwait is based on primary and secondary data. Primary data were obtained through interviews. A total of eight interviews were conducted, one with a pioneer indigenous accountant, one with a pioneer foreign accountant, four with founding members of the KAAA, and two with academics from Kuwait University\(^{23}\). The interviewees were targeted as being some of the key players in the process of regulating the accounting profession during the period of the study. Most importantly, being present during that era enabled them to reflect on events in the socio-economic environment, and explain their actions, reactions, and motives, adding value to the analysis and supplementing the limited/missing archival resources.

The interviews were conducted in a semi-structured form, thereby allowing the interviewees to provide historical data beyond the scope of the pre-set questions. Each interview lasted for about one to two hours and provided valuable data on the views of historical actors in key economic events. The

\(^{23}\) Although eight interviews were conducted for primary data collection, the outcome of four of them has been most fruitful. This is mainly because the both pioneer indigenous and foreign accountants and KAAA founding members 1, and 2 were more engaged with matters of the profession and KAAA activities than the other interviewees.
secondary data were obtained by following an archival research method. Archival material consisted of state legislation and statistics, minutes of meetings of the KAAA, and correspondence between the KAAA and the Ministry of Commerce (MOC). This material was useful in confirming or refuting views of events presented by the interviewees.

3.5 Background of Kuwait’s socio-economic environment

The discovery of oil in Kuwait in 1938 and the subsequent growth of the oil industry marked a turning point in Kuwait’s economy (Al-Sabah, 1980). Following the production and export of the first shipment in 1946, oil dramatically transformed and enriched Kuwait’s economy. This transformation placed the country in the category of HIOECs (World Bank, 1988; Yapa & Wijewardena, 1995). Oil revenues represented over 50 per cent of Kuwait’s total GDP in the period from 1970 to 1985 (CBK, 2010), as illustrated in Table 3.1.

Scholars credit this transformation as the catalyst for the creation of a capital market, which resulted in the requirement for expert accounting services that did not exist in the pre-oil era due to the simplicity of the economy and trading activities, as discussed elsewhere (Altaher et al., 2014). According to authors such as Al-Rashed (1989), Malallah (1983), and Shuaib and Went (1978), the growth of the economy following the discovery of oil is the main reason for the emergence of the accounting profession in Kuwait.
Table 3.1: Oil revenues as a share of GDP at current prices in Kuwait from 1970 to 1985 (million USD)

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil &amp; Gas Revenues</th>
<th>GDP</th>
<th>Oil Revenues %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>2,194</td>
<td>3,642</td>
<td>60</td>
</tr>
<tr>
<td>1975</td>
<td>8,721</td>
<td>12,371</td>
<td>71</td>
</tr>
<tr>
<td>1980</td>
<td>18,056</td>
<td>27,531</td>
<td>66</td>
</tr>
<tr>
<td>1985</td>
<td>11,306</td>
<td>22,296</td>
<td>51</td>
</tr>
</tbody>
</table>

*Source: Central Bank of Kuwait (CBK)*

Kuwait as a British protectorate, did not inherit its accounting system from Britain which is opposite to former British colonies. However, when professional accounting systems and practice became necessary following the rise of the oil industry, Kuwait’s government introduced a series of laws that regulate accounting practice and profession. They are: 1- Income tax law in 1951 that was later amended by Law Decree No. 3 of 1955, 2- and Companies Act No. 15 of 1960 which was drafted by an Egyptian jurist Professor Sanhoury (British Foreign Office, 1993). Nonetheless, since Companies Act No. 15 of 1960 did not standardize the accounting standards to follow; the accounting system and practice in Kuwait were derived from the United States, Europe and Arab countries (Shuaib & Went, 1978).

In 1957, the state census identified 138 accountants working in Kuwait, of whom only eight were Kuwaitis, with only two of them holding a university qualification (Ministry of Planning, 1957). The presence of public accounting firms in Kuwait steadily increased following the opening of the auditing firm
Whinney Murray & Co.’s\textsuperscript{24} Kuwait branch in 1952 (ICAEW, 1952). By 1972, 11 accounting firms were operating in Kuwait, but only one of them was a Kuwaiti firm, as shown in Table 3.2.

Table 3.2: Accounting firms in Kuwait in 1972

<table>
<thead>
<tr>
<th>Number</th>
<th>Firm Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shair Al-Hawiz &amp; Co.</td>
</tr>
<tr>
<td>2</td>
<td>Arthur Andersen, Saba &amp; Co.</td>
</tr>
<tr>
<td>3</td>
<td>Arthur Young</td>
</tr>
<tr>
<td>4</td>
<td>Fareed S. Mansour, Farouk M. Mohamed, Pannell Fitzpatrick &amp; Co.</td>
</tr>
<tr>
<td>5</td>
<td>Nawar &amp; Co.</td>
</tr>
<tr>
<td>6</td>
<td>Albazie \textsuperscript{a}</td>
</tr>
<tr>
<td>7</td>
<td>Peat Marwick</td>
</tr>
<tr>
<td>8</td>
<td>Whinney Murray &amp; Co.</td>
</tr>
<tr>
<td>9</td>
<td>Price Waterhouse \textsuperscript{b}</td>
</tr>
<tr>
<td>10</td>
<td>Talal Abu-Ghazaleh &amp; Touche Ross</td>
</tr>
<tr>
<td>11</td>
<td>Deloitte \textsuperscript{c}</td>
</tr>
</tbody>
</table>

Notes: \textsuperscript{a} Kuwaiti firm; \textsuperscript{b} http://www.pwc.com/m1/en/countries/kuwait.jhtml, (Accessed 5/11/2013); \textsuperscript{c} http://www.deloitte.com/view/en_KW/kw/about/deloitte-in-kuwait (accessed 16/11/2013).

Source: ICAEW annual member List, and KAAA Auditors and Auditing Offices Directory in the state of Kuwait

These statistics show that during the growth of the oil industry from the late 1940s to the mid-1960s, only a small number of indigenous accountants existed. In 1963, in response to the increasing demand for accounting services, and the scarcity of qualified indigenous accountants, the state established the Secondary School of Commerce to provide business education, including accounting, for indigenous accountants. Moreover, the state offered scholarships for Kuwaiti students seeking university qualifications abroad (Shuaib, 1989). In 1966, Kuwait University was founded, and in 1967 the Faculty of Commerce,

\textsuperscript{24} Currently the accounting firm Ernst & Young Al-Osaimi & Al-Aiban.
Economics and Political Science Studies commenced offering a degree with a major in accounting (Kuwait University, 2013). The university provided a platform from which students and faculty members of the accounting department launched an academic association. The main activities of this association were oriented towards catering to students’ needs such as sourcing text books or organizing social events (founding member 2). The presence of Kuwaiti accountants in the market was at this time barely discernible. As a result, non-Kuwaiti accounting firms dominated the market for accounting and audit services in the period up until 1972 (see Table 3.2).

The 1970s saw Kuwait’s economy on the crest of a wave, with production, oil prices, and revenues growing substantially. Oil revenues amounted to US$1,155 million in 1970, and grew to US$16,908 million by 1980 (Lawson, 1985). These oil revenues accounted for between 51 and 71 per cent of total GDP for the period from 1970 to 1985 (see Table 3.1), driving an increase in GDP of 618.5 per cent during this period (Malallah, 1983). The high oil prices and revenues were reflected in the income of Kuwait’s citizens, who enjoyed one of the highest per capita incomes in the world (Al-Sabah, 1980; Almutairi, 2004; Shuaib, 1998).

Meanwhile, the state directed a big proportion of the oil revenues towards social and economic growth schemes (Alsultan, 1989). Government expenditure in 1970 was US$370 million, and by 1980 had increased to US$8.6 billion, or 34.8 per cent of total revenues (Malallah, 1983). As a result, the demand for accounting and auditing services in the market grew, and in 1981, the number of accounting firms operating in the market had almost doubled, from 11 to 21 (Malallah, 1983, p. 130).
The flourishing economy was not matched by a similar growth in the number of Kuwaiti accountants during this decade, with only eight indigenous accountants registered with the MOC in 1979\textsuperscript{25}. Even though the number of Kuwaiti accounting graduates was increasing, as shown in Table 3.3, only a small number of these graduates registered with the MOC as a certified accountant. This meant that there were only a few who were qualified to practise as public accountants or auditors.

Malallah (1983) observes that due to the limited number of indigenous accountants, accounting firms in the Kuwaiti market had to recruit non-Kuwaiti accountants. Consequently, Kuwaiti accountants represented only seven per cent of the total number of accountants employed in these firms.

Table 3.3. Accounting graduates from Kuwait University, 1973-1981

<table>
<thead>
<tr>
<th>Year</th>
<th>Total University Graduates</th>
<th>Accounting Department Graduates</th>
<th>Percentage (%) Of Total Graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>73/74</td>
<td>490</td>
<td>56</td>
<td>11</td>
</tr>
<tr>
<td>74/75</td>
<td>589</td>
<td>85</td>
<td>14</td>
</tr>
<tr>
<td>75/76</td>
<td>755</td>
<td>46</td>
<td>06</td>
</tr>
<tr>
<td>76/77</td>
<td>860</td>
<td>58</td>
<td>06</td>
</tr>
<tr>
<td>77/78</td>
<td>973</td>
<td>55</td>
<td>06</td>
</tr>
<tr>
<td>78/79</td>
<td>1163</td>
<td>82</td>
<td>07</td>
</tr>
<tr>
<td>79/80</td>
<td>1506</td>
<td>106</td>
<td>07</td>
</tr>
<tr>
<td>80/81</td>
<td>1666</td>
<td>137</td>
<td>08</td>
</tr>
<tr>
<td>Total</td>
<td>8002</td>
<td>626</td>
<td>08</td>
</tr>
</tbody>
</table>

Source: (Shuaib, 1989)

\textsuperscript{25}In accordance with practice law No. 6 in 1962, accountants performing audit and companies accounts and audit services had to register with a state authority. After the establishment of the MOC, the registry of certified accountants became within the authority of the MOC instead of the Ministry of Finance. See chapter 4, p.160 for further details of the accountant's registry.
In contrast, work opportunities for accounting graduates were abundant, both in industry and in the public sector, which offered lucrative jobs as confirmed by the interviewees who had joined the public sector after graduation, and were promoted in a short time to gain prestigious positions by their early thirty’s (Pioneer indigenous accountant, founding members 1, 2, 3, and 4). Both academic 1 and 2 confirm that obtaining a scholarship to pursue their postgraduate studies was not difficult since they were at the top of their classes. This assured them a secure position as faculty members in Kuwait University upon completion of their postgraduate studies (Academic 1 and 2). On this matter one interviewee commented:

Accountants were at ease. Work opportunities were abundant, especially in the public sector. I went to apply for a job after graduating from the university in 1972 and got a job offer instantly. Within one year I was promoted to the head of the department, and in 1975 I was offered a job as the head of the internal audit department at Kuwait Airways. Two years later I was promoted to financial manager, and in 1983 I founded my own audit firm while I was the general manager of Public Utilities Management Company. At the same time, I was often offered board membership of companies (founding member 1).

Another founding member shared a similar experience:

I graduated from Egypt with a BSc in accounting in late 1968. After Kuwait University was founded, I applied for a position as assistant lecturer in the Business School and was immediately appointed, along with two colleagues. We were the first three Kuwaiti faculty members in the Business School. In 1976, I was appointed as an assistant under-secretary in the General Audit Bureau, and
in 1983 I was promoted to under-secretary. In 1994, I became a consultant to the head of the General Audit Bureau until I retired in 1999. During this period, I was a member of many state committees (founding member 2).

The oil revenues enabled the state to implement rapid development schemes and change the socio-economic environment of Kuwait, transforming it from basically a tribal community to a capital market. This transformation was a catalyst for the rise in the demand for accounting services. The lack of indigenous accountants provided market opportunities for foreign accounting firms, and therefore the number of foreign accounting firms steadily increased from the early 1950s onwards. By the 1980s, even though there had been an increase in the number of indigenous accountants, very few of them opted to join accounting firms in the private sector, and therefore the market demand for accounting and auditing services continued to be mostly met by foreign firms and accountants. As a result of the high oil revenues, the state was able to provide lucrative employment for indigenous accountants, who were mostly absorbed by the public sector. In spite of a growing market for accounting services, and a steady increase in the number of indigenous accountants, up until the early 1970s, there was no association of accountants in Kuwait that could play a role in organizing matters relating to the profession.

3.6 The establishment of the KAAA

The KAAA was founded on 11 February 1973 (KAAA, 1998) by a group of 15 qualified accountants aged from 24 to 35, and was the progeny of the accounting association at Kuwait University (Altaher et al., 2014). Its founding members wanted to continue the ties they had established at university after they
graduated, and saw the KAAA as a means to this end (founding member 1 and founding member 2). The KAAA was formed as a non-profit association in accordance with Law No. 24 of 1962, and was under the aegis of the Ministry of Social Affairs and Labor (MOSAL). The KAAA was formed on the conditions that 1) it had a minimum of ten Kuwaiti founding members, and 2) all founding members were above 21 years of age and had no previous criminal conviction. All non-profit associations created by virtue of Law No. 24 were to engage in social, intellectual, religious, and athletic activities only. It was also a requirement that the founding members state the objectives, purpose, and membership requirements of the KAAA in their application to the MOSAL, and in the association’s by-laws. The KAAA objectives were as follows:

1. To upgrade the professional and cultural standing of members;
2. To defend the rights of members, and facilitate their work, in addition to securing their future despite disability, aging, sickness and non-employment;
3. To provide members with information relating to the latest developments in the field of accounting and to encourage them to exchange information in meetings and conferences;
4. To develop and enhance accounting thought and scientific research in the field of accounting;
5. To participate in developing standards in accounting and auditing and in licensing highly qualified persons to be legal accountants;
6. To participate in the economic development of the country and plan for the same with concerned entities; and,
7. To co-operate with other professional societies and entities in the field by exchanging professional information, recommendations, and suggestions for the accomplishment of shared objectives (KAAA, 1998, p. 9).

It is worth noting that despite the objectives outlined above, the KAAA did not have the statutory power to regulate accounting in Kuwait. Being restricted by Law No. 24 of 1962 to operating as a non-profit state-funded association, the KAAA could only achieve such a goal by having a co-operative relationship with state agencies such as the MOC and the MOSAL.

The founding members of the KAAA had to assign five of their board members to determine the rules of conduct of the association. Accordingly, Mr. Saad Al-Saad was appointed the inaugural president of the board, he and four other board members subsequently drafted the rules of conduct of the association (KAAA, 2008). Members of the KAAA had to:

1. Possess a bachelor’s degree in commerce (majoring in accounting and auditing) or equivalent as recommended by the Board and approved by the general assembly, or;

2. Be a holder of a professional and affiliate certificate (with an accounting and auditing specialization) as approved by the general assembly, or;

3. Be a holder of a diploma (in accounting) from the College of Commercial Studies (previously the Commercial Institute) or equivalent, and;

4. Be fully competent, enjoying civil rights, of a good reputation, and not judged in a criminal or moral case, unless otherwise declared innocent (KAAA, 1998, p. 13).

Noteworthy is a restriction, as set out in Article 11 of Law No. 24 of 1962, which regulates the structure of the KAAA, stating that membership is only for
Kuwaiti citizens. Non-Kuwaitis were only allowed to become associate members\textsuperscript{26}. As a non-profit association, the KAAA received US$15,000 annually from the government\textsuperscript{27}. However, expenditure was controlled by the state, and the funds could only be used for activities that supported the association’s stated objectives. Moreover, as a supervisory and monitoring policy by the state, a budget and a year-end balance sheet that had been duly audited by an external auditor had to be lodged annually. In Chapter 2, Altaher et al. (2014) identify that during the first years of its existence, the KAAA was operating in the form of a social club, and had struggled to attract indigenous accountants. It is plausible that the lack of activity in the early years of the KAAA could be linked to the growing economy, as KAAA members and indigenous accountants had easy access to work opportunities, as identified by the interviewees’ statements in the previous section. The objective of facilitating work for its members, for example, was not pressing, as the market offered an abundance of work. In the following section, the study identifies the phases of socio-economic change. Initially, we explore the conditions that regulate the operation of the accounting profession and the nature of KAAA activities. Then, we investigate the events that have disrupted this situation, causing the emergence of a new system that eventually led to changes in the accounting profession in Kuwait.

\textsuperscript{26}Non-Kuwaiti members must hold a bachelor’s degree, or professional or associate certificates, and do not enjoy voting rights or the right to nominated for membership of the board.

\textsuperscript{27}This is currently $36,000.
3.7 Phases of socio-economic change in Kuwait

Source Phase: 1973–1979

In this phase, the focus is on exploring the factors that set the changes in motion, identifying how the market operated, the operation of the KAAA, and investigating the intrusive events that disrupted this situation.

Market for accounting services

During this period, Practice Law No. 6 of 1962 regulated the activities of accountants in the market for services. This act prescribed that a practising accountant should:

1- Be registered with the Ministry of Finance;
2- Hold a bachelor's degree in commerce/economic studies/Finance, on the condition that the degree includes subjects in accounting;
3- Be a member of an accounting association approved by the Ministry of Finance;
4- Have practical experience of a minimum of three years;
5- Live in Kuwait;
6- Be of good reputation, moral character and with no previous criminal convictions; and
7- Be over 25 years of age.

The law also mandated the formation and structure of a disciplinary committee, which included three members appointed by the Ministry of Finance. In accordance with Practice Law No. 6 of 1962, accounting regulations and monitoring of accounting practise were solely within the authority of the state.
A study by Shuaib (1986) indicates that in 1982, out of 48 listed companies, 44 were audited by selected auditors, which were mostly non-Kuwaiti firms (see Table 3.4).

Table 3.4. Listed companies in KSE and their audit firms, 1982.

<table>
<thead>
<tr>
<th>Auditor</th>
<th>Number of Listed Audited Companies</th>
<th>Association with International Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al-Massoud(^a)</td>
<td>8</td>
<td>Ernst &amp; Whinney</td>
</tr>
<tr>
<td>Bader Albazie(^a)</td>
<td>17</td>
<td>Arthur Young &amp; Co.</td>
</tr>
<tr>
<td>Saba &amp; Co.</td>
<td>2</td>
<td>Touche Ross &amp; Co.</td>
</tr>
<tr>
<td>Talal Abu-Ghazaleh</td>
<td>17</td>
<td>Price Waterhouse</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td></td>
</tr>
</tbody>
</table>

Note: \(^a\)Al-Masoud and Albazie are Kuwaiti accountants  
Source: (Shuaib, 1986)

Table 3.4 shows that of the four firms, two were non-Kuwaiti but Arabic firms, namely Saba & Co. and Talal Abu-Ghazaleh. These two firms controlled a major share of the market. Since there was no uniform set of accounting standards adopted in Kuwait at this time, accounting firms applied accounting and audit standards of their choice, which were mainly from the US, Europe, and neighbouring Arab countries (Shuaib & Went, 1978, p. 75). Furthermore, all four firms were either in partnership or affiliated with an international audit firm. This was designed to reflect professionalism and provide status, as stated in an interview with a pioneer indigenous accountant. One of the founding members of the KAAA commented in a magazine interview that the market for accounting services was dominated by non-Kuwaiti accountants prior to 1981 (KAAA, 2008).
**KAAA activities**

The KAAA was the first accounting association to be established among the GCC countries. Notably, instead of initially focussing on the lack of dominance of Kuwaiti firms in the domestic market for accounting services (see Table 3.2), the KAAA looked to assert its presence externally in the region. In 1974, with the cooperation of one of the pioneer accountants in Kuwait who was a former member of the Arabic Federation of Accountants and Auditors (AFAA)\(^{28}\), the KAAA appointed one of its members as the formal representative of Kuwaiti accountants to the AFAA (pioneer indigenous accountant and founding member 1). Three years on, the KAAA continued its strategy of establishing its professional credibility by hosting the 1976 meeting of the AFAA\(^{29}\) (founding member 1 and founding member 2).

Apart from these activities, there is no evidence to show that the KAAA engaged in other professional activities relating to its stated objectives, for example, addressing members’ access to work, developing accounting and auditing standards, and engaging in research in the discipline. The majority of its activities were oriented towards events such as “social gathering of local accountants” (Malallah, 1983, p. 127). Furthermore, many of the founding members’ participation in KAAA activities did not extend beyond its establishment, as they became increasingly busy with work (founding member

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\(^{28}\) The Accountants and Auditors Union in Egypt founded the Arab Federation for Accountants and Auditors on 24 June 1970.

\(^{29}\) Records of the AFAA meeting hosted by the KAAA in 1976 could not be retrieved due to loss following the Iraqi invasion of Kuwait in 1990.
1). Some even noted that their participation did not go beyond signing the application form (founding member 3 and founding member 4).

In its early years, the KAAA did not actively pursue its objectives, and its members showed little interest in engaging in the KAAA’s activities. Whilst a presence was achieved in the region (modest as it might seem), the domestic market for accounting services remained the same as in the period prior to its establishment, and the market continued to be dominated by non-Kuwaiti accounting firms. There was no evidence to indicate that the Ministry of Social Affairs and Labor (MOSAL) was concerned about the gap between the KAAA’s stated objectives and its accomplishments in the early years following establishment, and it continued to provide the KAAA with its annual funding.

**Intrusive events**

Intrusive events are those that set the change cycle in motion, and are therefore identified as events that modify a pre-existing pattern. Having examined the nature of the socio-economic environment in the preceding sections, this section identifies the intrusive events that occurred in the late 1970s and early 1980s that could have instigated modifications to the accounting and auditing professions and the operation of the KAAA from the pattern that was identified in the source phase.

In the period from 1973 to 1979, which saw the oil boom and resultant growth in state revenues and expenditure schemes, there was a large amount of cash circulating in the market. Both companies and individuals became highly involved in stock market dealings, which yielded substantial returns. However, in 1977, the economic environment suffered its first disruption when the
Kuwaiti stock market crashed, the index falling 18.7 per cent. This crisis was attributed to the rapid pace of new share issue, which affected liquidity. By way of a response, the Kuwaiti government suspended the formation of new companies during the period from 1977 to 1979, and in a further attempt to contain the problem and support the market, the state purchased shares at floor price. The value of the state’s share purchases in the four-month period from the end of 1977 to the first quarter of 1978 totalled US$539.3 million. Paradoxically, local investors responded by diverting their trading to an unofficial market, Al Manakh, for shares in unlisted companies, which were traded at highly inflated prices (Alsultan, 1989).

Between 1980 and 1982, Kuwait’s economy suffered a sharp decline due to a fall in oil prices and production, whereby oil revenues plummeted by 50 per cent. This decline highlighted the vulnerability of an economy that was highly dependent on oil resources (Alsultan, 1989). The Kuwaiti economy experienced a third sharp blow when the unofficial stock market, Al Manakh, crashed in 1982.

Both the pioneer indigenous accountant and pioneer foreign accountant noted that as a consequence of the market crashes in 1977 and 1982, doubt was cast in relation to the practices of the accounting firms operating in the Kuwaiti market. Accordingly, the state was called in to investigate the records of the accounting and auditing firms. The interviewees further asserted that while most of the accounting firms were indicted for misconduct, they were subsequently cleared.

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30 Al Manakh was an informal market that included 46 unlisted Kuwaiti-owned companies and 38 companies established in GCC countries. The unlisted companies traded in this informal market because they did not meet the KSE’s legal requirements (Alsultan, 1989).
of any wrong-doing (pioneer indigenous accountant and pioneer foreign accountant)\textsuperscript{31}.

Scholars have attributed this wave of financial crises to a lack of monetary policy and weak control over trading in unlisted company shares (Alsultan, 1989; Frings, 1984). Malallah (1983) asserts that the stability of the trading market is highly dependent on trust in the financial records of companies, as verified by a rigorous auditing system:

...an essential condition for improving the security trading environment is to create public confidence in the accounting data distributed to the public by those companies whose stocks are being traded. If security markets are to function effectively, investors must have confidence in the public financial reports from management. Public accountants not only have the duty of giving credibility to the financial statements, and therefore assuring the public, but also responsibility for public understanding of corporate performance (Malallah, 1983, p. 14).

Minchin, a member of the London Stock Exchange and a general manager of the Securities Group of Kuwait\textsuperscript{32}, stresses that the state failed to adopt an efficient monetary policy to absorb the pressure on liquidity after an enormous increase in oil prices, and that this was the root cause of the 1977 and 1982 financial crises. In addition, Minchin notes that there were many other factors that contributed to these financial crises, one of which was the government’s ownership of one-third of the Kuwaiti market. He advised that government

\textsuperscript{31} Access to the records of these investigations is denied by the MOC due to confidentiality restrictions.

\textsuperscript{32} Securities Group (SG) is a Kuwait-based investment management shareholding company, established on 24 October 1981.
shares should be sold back to the private sector to soak up the excess funds and to compensate for the shortage of tradable stock. Minchin further argued that:

Other ingredients in a recipe for disaster were the weak control of bank credit, a recurring failure to stamp out unlimited and unsecured non-banking credit in the form of post-dated cheques, the formation of companies for the sole purpose of trading in their shares, insufficient control over trading mechanism, lack of understanding of accepted investment criteria, the scarcity of readily available investment analysis and advice, and the use of misleading appropriation statements in company reports (Frings, 1984, p. 21).

This series of financial crises had a strong impact on Kuwait’s economy. Accordingly, these events are identified as the main intrusive events that Kuwait’s socio-economic environment encountered in the late 1970s and the early 1980s, exposing weaknesses in the state’s policies and monetary system. Consequently, the state reacted by imposing reform schemes to help the economy recover. This response is examined in the following section.

3.8 Diffusion Phase

The diffusion phase determines the extent to which intrusive events in the socio-economic environment interrupt the existing system, and hence motivate the emergence of a modified system, leading to accounting change, mainly in the regulation of public practitioners, and the implications of this for the state–profession axis. Furthermore, this study explores how these events/changes affected the KAAA and motivated changes in their activities from those that occurred during the first decade of their existence. In the diffusion phase, an examination is conducted of how the financial crises as intrusive events are
“dispersed and accommodated within the accounting system” (Verma & Gray, 2009, p. 120).

As previously described, the socio-economic environment in Kuwait suffered three major crises: the collapse in oil prices, the crash of the stock market in 1977, and the crash of the unofficial market in 1982. The share market collapses appear to have resulted in the need for strict application of stock trading regulations. As a result of these crises, the state adopted major reform schemes (see Section 3.9 below). Intra-system activity, as proposed by Verma and Gray (2006, 2009), is reflected in the changed policies, which had implications for the state–profession axis, resulting in the emergence of a new state–profession–academia relationship as a main intra-system activity, as will be identified later.

As a result, the KAAA was also influenced by the changes implemented by the state, which promoted the emergence of a new version of the KAAA, namely a more active association. Another intra-system activity is reflected in the KAAA members’ proposal to the MOC in 1981 suggesting amendments to Practice Law No. 6 of 1962. The board of the KAAA arranged a meeting with the incumbent Minister of Commerce, Jassim Al-Marzouq, who supported the recommendations of the KAAA board members.

This move by the KAAA signalled a major shift in the operations of the association from an inactive body to an association that was an active participant in the process of regulating the accounting profession in Kuwait. The KAAA proposed that subsequent certification for accounting practise be limited to indigenous accountants, and that they should be subject to stringent standards, including a certification examination and membership of the KAAA.
The main event identified as a ‘trans-system activity’ was the passing of Practice Law No. 5 in 1981, which contained amendments to Practice Law No. 6 of 1962. The new law restricted applicants for audit certification to Kuwaiti accountants. Applicants also had to pass examinations set by the MOC to qualify as a certified accountant. As a result of the new law, a certified accountant had to:

1. Be a natural person;
2. Hold a bachelor's degree in commerce from the University of Kuwait with a major in accounting, or from any other university approved by the Ministry of Education;
3. Be a member of one of the accounting associations that have been issued with a ministerial decree;
4. Have practical experience of at least seven years in the audit of banks and insurance and investment companies, and five years for other industries. This experience should be in one of the following areas: (a) a public accounting office, or (b) the government accounts department in one of the ministries;
5. Be a Kuwaiti citizen over 25 years of age;
6. Be of good reputation, moral character and with no previous criminal convictions, and,
7. Pass the certification exam administered by the Ministry of Commerce.

Following the approval of Practice Law No. 5 in 1981, the state took a further step to address the effects of the intrusive events that had occurred. By way of another ‘trans-system activity’, the MOC published Ministerial Decree No. 75 in

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This clause was amended in 1983 based on a proposal by the KAAA specifying that the applicant must be a member of the KAAA.
1981 forming an advisory Committee for the Establishment of Accounting Rules (CEAR). The objectives of the CEAR were to:

1- Develop a code of ethics that must be observed by all auditors while engaging in audit of accounts;
2- Establish the rules and guidelines that must be followed in the preparation of the financial statements of Kuwaiti corporations;
3- Establish the minimum disclosure requirements to appear in the published financial statements;
4- Conduct a periodic review of existing rules and practice of accounting in order to establish its reliability and suitability to the changes in the business environment, and,
5- Conduct research and studies needed to improve the audit function.

The CEAR consisted of five members, three appointed by the MOC, one from the KAAA, and one from Kuwait University (Al-Rashed, 1994; Malallah, 1983). The first members appointed to the CEAR were Yousif Al-Bahar the manager of the Companies and Insurance Department of the MOC, Khalid Al-Ammar and Mohammad S. Mohammad from the same department, and Shuaib Al-Suaib from the accounting department of Kuwait University (Ministerial Decree No. 75 of 1981). The KAAA meeting minutes indicate that the MOC approached them asking for a representative from the KAAA to participate in the CEAR, whereupon the KAAA board nominated Yousif Al-Othman (KAAA meeting minute No. 11/4 of 16 March 1981). The establishment of the CEAR marks a change promoted by the state. Whereas previously the state had undertaken the regulation of the accounting profession and standards on its own, following the financial crises, a new system emerged in which the state incorporated the
KAAA, as the professional association, and academics as joint forces in regulating the standards and practise of accounting.

Both Malallah (1983) and Al-Rashed (1989) agree that the CEAR represented a co-operative state–profession relationship, and that the state was “seeking improvement in accounting practices rather than just adding more regulations. [Another change] was the mutual understanding between the government and the profession that public accounting practices had matured enough to surpass the era of loose regulations” (Malallah, 1983).

In response to the financial crises, which resulted mainly from inadequate control over share trading activities and weak monetary policy, the state sponsored the foundation of the Kuwait Stock Exchange (KSE) in 1984 to regulate the market activities of all listed companies and provide assurances as to the accuracy of their financial records (Alsultan, 1989). To support the KSE, the state invested heavily in a number of publicly held companies by purchasing a majority shareholding. This strategy was used by the state to ensure that these companies complied with government regulations and state-sponsored economic growth schemes, as shown in Table 3.5.

The main changes that were accommodated during the diffusion phase were the establishment of the CEAR, which set out to impose a uniform set of accounting standards, and amendments to Practice Law No. 6 of 1962, as lobbied for by the KAAA, which was designed to regulate those who could practise as a public accountant.
Table 3.5. State ownership of publicly listed companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Government Interest (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banks</strong></td>
<td></td>
</tr>
<tr>
<td>1- National Bank of Kuwait</td>
<td>0</td>
</tr>
<tr>
<td>2- Gulf Bank</td>
<td>0</td>
</tr>
<tr>
<td>3- Commercial Bank</td>
<td>0</td>
</tr>
<tr>
<td>4- Alahli Bank</td>
<td>0</td>
</tr>
<tr>
<td>5- Bank of Kuwait and the Middle East</td>
<td>49.1</td>
</tr>
<tr>
<td>6- Real Estate Bank</td>
<td>0.16</td>
</tr>
<tr>
<td>7- Burgan Bank</td>
<td>51.0</td>
</tr>
<tr>
<td>8- Finance House</td>
<td>49.0</td>
</tr>
<tr>
<td><strong>Investment Companies</strong></td>
<td></td>
</tr>
<tr>
<td>9- Kuwaiti Investment Co.</td>
<td>51.3</td>
</tr>
<tr>
<td>10- Kuwait Foreign Trading, Cont. &amp; Invest Co.</td>
<td></td>
</tr>
<tr>
<td>11- Kuwait Int. Investment Company</td>
<td>7.9</td>
</tr>
<tr>
<td>12- Kuwait Financial House</td>
<td>0</td>
</tr>
<tr>
<td><strong>Insurance Companies</strong></td>
<td></td>
</tr>
<tr>
<td>13- Kuwait Insurance</td>
<td>6.0</td>
</tr>
<tr>
<td>14- Gulf Insurance</td>
<td>76.7</td>
</tr>
<tr>
<td>15- Alahli Insurance</td>
<td>5.01</td>
</tr>
<tr>
<td>16- Warba Insurance</td>
<td>51.0</td>
</tr>
<tr>
<td><strong>Transportation Companies</strong></td>
<td></td>
</tr>
<tr>
<td>17- United Arab Lines</td>
<td>19.0</td>
</tr>
<tr>
<td>18- Livestock Transportation Co.</td>
<td>30.4</td>
</tr>
<tr>
<td>19- Inland Transportation Co.</td>
<td>0</td>
</tr>
<tr>
<td><strong>Industrial Companies</strong></td>
<td></td>
</tr>
<tr>
<td>20- National Industries</td>
<td>51.1</td>
</tr>
<tr>
<td>21- Kuwait Pipes Company</td>
<td>1.2</td>
</tr>
<tr>
<td>22- Kuwait Cement Co.</td>
<td>28.5</td>
</tr>
<tr>
<td>23- Kuwait Fisheries</td>
<td>48.31</td>
</tr>
<tr>
<td>24- Freezers Manufacturing Co.</td>
<td>27.2</td>
</tr>
<tr>
<td>25- National Co. for Trading and Manufacturing of Cars</td>
<td>61.7</td>
</tr>
<tr>
<td>26- Ships Manufacturing</td>
<td>0</td>
</tr>
<tr>
<td>27- United Poultry Co.</td>
<td>23.3</td>
</tr>
<tr>
<td>28- Health Appliances Co.</td>
<td>33.7</td>
</tr>
<tr>
<td>29- Gulf Cables Co.</td>
<td>34.9</td>
</tr>
<tr>
<td>30- Milamin Mfg. Co.</td>
<td>33.6</td>
</tr>
<tr>
<td>31- Kuwait Tyres Co.</td>
<td>0</td>
</tr>
<tr>
<td><strong>Service Companies</strong></td>
<td></td>
</tr>
<tr>
<td>32- National Cinema Co.</td>
<td>9.0</td>
</tr>
<tr>
<td>33- Kuwait Hotels Co.</td>
<td>49.0</td>
</tr>
<tr>
<td>34- Kuwait Food Co.</td>
<td>0</td>
</tr>
<tr>
<td>35- Agricultural Products</td>
<td>0</td>
</tr>
<tr>
<td>36- General Storage</td>
<td>50.0</td>
</tr>
<tr>
<td><strong>Real Estate Companies</strong></td>
<td></td>
</tr>
<tr>
<td>37- Kuwait Real Estate Co.</td>
<td>4.8</td>
</tr>
<tr>
<td>38- United Real Estate Co.</td>
<td>42.8</td>
</tr>
<tr>
<td>39- National Real Estate Co.</td>
<td>78.1</td>
</tr>
<tr>
<td>40- Alsalhia Real Estate Co.</td>
<td>0</td>
</tr>
<tr>
<td>41- Kuwait Real Est. Proj. Co.</td>
<td>0</td>
</tr>
</tbody>
</table>

*Source:* (Malallah, 1983)
3.9 Reaction phase

The previous section described the responses of the state agency, the MOC, and the implications for the KAAA, in relation to the crises in the Kuwaiti economy. Practice Act No. 5 of 1981 resulted in a major change in the ownership structure of the non-Kuwaiti accounting firms operating in Kuwait. These firms were now required to have a partner who was a Kuwaiti certified accountant to enable them to continue their operations in the Kuwaiti market.

The amendments of Practice Law No. 5 of 1981 lobbied for by the KAAA and supported by the state changed the legislative framework of accounting and auditing practise. Whilst the market for accounting services had been dominated by non-Kuwaiti firms up until that time, as Table 3.4 indicates, from 1981 onwards, as a result of the Practice Law changes, the market share for accounting services for publicly listed firms changed in favour of indigenous practitioners. The legislation of 1981 also had an immediate effect on the ownership structure of the two dominant firms, namely Saba & Co. and Talal Abu-Ghazaleh34, who for the first time had Kuwaiti certified accountants as partners. The pioneer foreign accountant reflected on the effect of the enactment of Practice Law No. 5 in 1981:

As a foreign firm we had no choice in the matter, we had to seek partnership with a Kuwaiti certified accountant to continue our operations in the Kuwaiti market.

34Talal Abu-Ghazaleh partnered with the Kuwaiti certified accountant Abdullah Al-Muzaini in 1981 through the establishment of an audit firm named Al-Dar for Accounts Audit.
Therefore, we sought partnership with a Kuwaiti certified accountant who worked in our firm.

According to Verma and Gray’s (2006, 2009) framework, this can be identified as a major ‘trans-system activity’. Practice Act No. 5 of 1981, as lobbied for by the KAAA, had an effect on the ‘neighbouring system’ of audit firms in Kuwait. It is also notable that the number of Kuwaiti accountants who were registered with the MOC (who were all members of the KAAA) increased significantly after the passing of this law. The increase from 10 to 23 in the number of Kuwaiti accountants, all members of the KAAA, who qualified for registration with the MOC prior to the implementation of the certification examination is arguably linked to the enactment of Practice Law No. 5 in 1981 (see Table 3.6 below).

Table 3.6. Kuwaiti newly registered accountants, 1973-1981

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of registered accountants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>4</td>
</tr>
<tr>
<td>1974</td>
<td>2</td>
</tr>
<tr>
<td>1977</td>
<td>2</td>
</tr>
<tr>
<td>1979</td>
<td>2</td>
</tr>
<tr>
<td>1981</td>
<td>15(^a)</td>
</tr>
</tbody>
</table>

*Note:*\(^a\) Two of whom were previously registered in 1974 and re-registered in 1981

*Source:* KAAA published directory of Kuwaiti Certified Accountants

This increase is relatively large (150%) compared with the figures for the period from 1963 to 1979, when there were only eight indigenous accountants registered with the MOC. The rush to register with the MOC could be interpreted as a move by these Kuwaiti accountants to avoid the examination process as prescribed by the new legislation. The certification examination was not ready
when the new law was enacted, and the first exam was held in late 1982. Hence, as confirmed by the interviewees, those who had already registered were exempt from the certification examination process (founding members 1, 2, 3, and 4, pioneer indigenous accountant, and academics 1 and 2). Consequently, the number of indigenous accounting firms also increased. There were only four Kuwaiti accounting firms operating in the market at the time of the introduction of Practice Act No. 5 in 1981, but the number of accounting firms soon increased significantly, with the entry of another ten Kuwaiti accounting firms into the market in the period from 1981 to 1985, as illustrated in Table 3.7.

Table 3.7. Additional Kuwaiti accounting and auditing firms following the introduction of Practice Law No. 5 of 1981

<table>
<thead>
<tr>
<th>Certified accountant</th>
<th>Year of MOC registry</th>
<th>Firm name</th>
<th>Year founded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hessa Al Ali a</td>
<td>1981</td>
<td>Aljazeera Office for Accounts Audit</td>
<td>1981</td>
</tr>
<tr>
<td>Hussain Alqurats</td>
<td>1981</td>
<td>Middle East office for Accounts Audit</td>
<td>1981</td>
</tr>
<tr>
<td>Yaqoub Alkout</td>
<td>1981</td>
<td>Alkout Centre for Accounts Audit</td>
<td>1981</td>
</tr>
<tr>
<td>Abdulwahab bin Saht</td>
<td>1981</td>
<td>Alfanni Office for Accounts Audit</td>
<td>1981</td>
</tr>
<tr>
<td>Hussain Aldallal</td>
<td>1982</td>
<td>Aldallal Office for Accounts Audit</td>
<td>1982</td>
</tr>
<tr>
<td>Dr. Sadeq Albassam</td>
<td>1983</td>
<td>Albassam &amp; Partners Certified Accountants</td>
<td>1983</td>
</tr>
<tr>
<td>Adnan Alhazeem</td>
<td>1981</td>
<td>The Office of Abdulmajeed Hamad &amp; Partners</td>
<td>1984</td>
</tr>
<tr>
<td>Jassim Alfahad</td>
<td>1981</td>
<td>Jassim Alfahad &amp; Partners</td>
<td>1985</td>
</tr>
</tbody>
</table>

*Note:* a The first female certified accountant in Kuwait  
*Source:* KAAA published directory of Kuwaiti Certified Accountants

The first certification examination conducted by the MOC was held in December 1982. The examination paper was prepared and administered by the
KAAA as requested by the MOC (correspondence between the MOC and the KAAA, and KAAA meeting minute no. 9 of 1982). This action by the state could be interpreted as the state acknowledging that an interdependent state–profession relationship was required in order to enforce a rigorous regulatory regime over the certification of accountants.

Whilst the KAAA had a direct relationship with the state, it also developed a relationship with the academy, as it asked academics from the accounting department of Kuwait University to participate in the setting of the certification examinations, as reflected in the KAAA meeting minutes and correspondence between the KAAA and Kuwait University from 1981 to 1985. Hence, a tripartite arrangement emerged in relation to the certification examination between the state, the profession, and academia.

The reactions to the market crashes in 1977 and 1982 resulted in the state taking action to institute reform in the regulation of public practitioners and trading activities through the formation of the CEAR and the KSE. These changes in state policies are a sign of the emergence of a new co-operative state–profession–academia relationship, which was sustained through their joint representation on the CEAR and on certification exam committees established by the MOC. These changes that were promoted by the state had an impact on the activities of the KAAA, as in 1981 the association became directly engaged in promoting amendments to Practice Law No. 5 of 1981. This action was linked to the subsequent tripartite relationship between the MOC, the KAAA, and the academy from Kuwait University that arose in the course of implementing the requirements of the certification examination process, thus leading to a change in the regulation of public practitioners.
3.10 Conclusion

This study utilized the theoretical framework of social change (McKinnon, 1986) to examine the influence of events in the socio-economic environment on the accounting profession in Kuwait, and how these events influenced state agencies to impose change on the accounting profession through the modification of regulations and the establishment of the CEAR and the KSE. Although Verma and Gray (2006) expound the value of social change theory in their study of ICAI, they identify a limitation in terms of the difficulty of allocating events into the source, diffusion, and reaction phases. In this study, this limitation was addressed by the chronological segmentation of phases and consecutive events.

In applying McKinnon’s framework, the study investigates the impact of intrusive events on Kuwait’s socio-economic environment in the late 1970s and early 1980s. Therefore, accounting change is first explored through the analysis of a source phase; the main aspects were a set of centralized state policies, and an accounting profession regulated by Practice Law No. 6 of 1962. In addition, the KAAA was an inactive association that was, in the main, a social club during the first decade of its existence. The founding members were mostly inexperienced, but found work quite easily, and were not actively engaged in the KAAA’s activities. It was also notable that the founding members were mostly new graduates who had minimal practical experience. As Malallah notes, “the KSAA\(^{35}\) has lacked the qualified personnel together with the experience needed to direct the society toward the stated goals” (Malallah, 1983, p. 29). We view these factors as contributing to the nature of the KAAA in the source phase.

\(^{35}\) Malallah (1983) refers to the KAAA as the KSAA, or the Kuwait Society for Accountants and Auditors.
Nonetheless, the security provided by the oil-rich socio-economic environment, with an abundance of job opportunities, is a probable reason why indigenous accountants lacked the motivation to engage with the KAAA’s professional objectives during the source phase. A founding member described the first decade as:

Unfortunate – the consecutive board members of the KAAA focused on their position in the association and how to remain on the board. Unsurprisingly, their focus was more social in nature rather than professional. Still, we are a nation that cares about the chair and position as a reflection of the social status more than the profession itself (founding member 1).

Next, intrusive events are explored. The study shows that the main intrusive events were financial crises, namely the market crashes in 1977 and 1982. These crises raised doubts about the practices of the accounting firms operating in the Kuwaiti market and revealed weaknesses in the regulatory framework of accounting standards. These intrusive events set the wheels of change in motion, as identified in the diffusion phase.

The diffusion phase shows how events are accommodated within the system. The main changes that were accommodated during the diffusion phase were reform policies implemented by the state. Most important were the establishment of the CEAR, which set out to impose a uniform set of accounting standards, and the establishment of the KSE to regulate and monitor trading activities. The main intra-system activity is identified as the change from a centralized state-controlled system to one incorporating the profession and academia in a co-operative relationship designed to regulate the accounting
profession. The KAAA was co-opted by the state to play an active role in organizing matters relating to the accounting profession, which led to a change in the KAAA from a relatively inactive group to a proactive professional group.

Thus, by promoting changes to the Practice Law and their participation in the CEAR, the KAAA became actively engaged in the process of regulating accounting and auditing practice.

Finally, in the reaction phase, the KAAA formed a co-operative relationship with both the state and the academy regarding the regulation of the profession. Practice Law No. 5 of 1981, lobbied for by the KAAA, had an effect on the ‘neighbouring system’ of audit firms in Kuwait, and therefore is noted as the main trans-system activity. Another implication of the changes made to the Practice Law in 1981 is the notable increase in the number of Kuwaiti accountants registered with the MOC and the implementation of the first certification examination following a joint effort by the state, the profession, and academia.

Nevertheless, by reflecting on the argument previously presented by Smith (1976), as outlined in Section 3, in which he argues that although change is always associated with events, the events by themselves do not lead to or constitute change by itself. Accordingly, researchers have associate social change with conflict (Collins, 1990; Liu, 2006; Smith, 1973). Therefore, there is a valuable opportunity for another study investigating how the KAAA utilized the new co-operative state–profession axis and the motives of KAAA members in seeking Practice Law amendments. This would provide a more nuanced analysis of the shift in the KAAA’s strategy toward pursuing market closure to indigenous accountants.
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*Accounting Horizons* 17(4): 267–86.
Chapter 4: Closure and the Evolution of Kuwait’s Accounting Profession in the 1980s

Abstract

This study responds to calls for the exploration of diverse accounting professionalization closure strategies (Chua & Poullaos, 1993, 1998; Walker, 2004), and more specifically those in Arabic former British protectorates (De Beelde, 2011). The paper aims to investigate the closure strategies deployed by the Kuwaiti Association of Accountants and Auditors (KAAA) in the 1980s to restrict market entry to indigenous accountants, and how conflict in the market for accounting services motivated such moves. Further, the study highlights similarities to and variations from the Kuwaiti trajectory and those portrayed in previous professionalization studies. The study combines oral history and archival research methods as sources of data collection. Oral history is deployed through interviews with some of the key players in the move towards localizing accounting practice in Kuwait. This method has enabled reflection on the experiences of the key players and exploration of their motivations. Following the analysis, the study argues that even though the KAAA appealed for restricted entry to the market for accounting services based on credentials, unlike other professionalization studies, they did not attempt to control certification exams; this was left to the state.

Key words

Accounting, professionalization, Kuwait, oral history
4.1 Introduction

This study contributes to the multifarious experiences of accounting professionalization projects captured in the literature by exploring the application of closure within the profession in Kuwait in the 1980s. The Kuwaiti Association of Accountants and Auditors (KAAA) implemented this strategy as a means of limiting foreign accounting firms and accountants’ dominance over the local market beyond the confines of social mobility and status. Professionalization studies based on the work of Max Weber define closure as “how members of an interest group seek market dominance by monopolizing social and economic opportunities and closing off opportunities to outsiders” (Chua & Poullaos, 1998, p. 156). Sian (2006) further states that there are two forms of closure. One is recognized as usurpationary closure, which is defined as the attempts made by the inferior group to improve their position and gain the privileges of the dominant/superior group. The second form is exclusionary closure, which is the attempt made by the dominant/superior group to close off opportunities and exclude the inferior group.

Researchers have promoted the need for a more nuanced theorization of closure (Chua & Poullaos, 1993, 1998). As Walker (2004) further argues, “professionalization projects are more complex than the headlong pursuit of monopolistic control and collective social mobility. Detailed analyses reveal the need to capture diverse closure strategies, variation in the extent to which market control is aspired to and achieved, and the complexity of state-profession relationships” (Walker, 2004, p. 128).
In response to these calls, this study analyses the post-formation circumstances that led to the adoption of closure strategies by the KAAA. Following the lead of previous professionalization studies (Krause, 1971; Rex, 1981; Walker, 1995, 2004), this study explores the post-formation opportunities and state–profession axis that facilitated the adoption of closure strategies by the KAAA, in particular that of exclusionary closure, to investigate how they exercised power as a superior group to close off market opportunities and regulate “both the quality and flow of professional services, thereby limiting labour supply” (Willmott, 1986, p. 559). Furthermore, the study incorporates conflict theory to expose the circumstances that compelled the use of such closure strategies, and whether the KAAA resorted to closure as a response to conflict in the market for accounting services. Moreover, a study of the professionalization project in Kuwait will fill a gap in the professionalization literature by adding the experience of an Arabic former British protectorate (De Beelde, 2011), thereby adding to the rich literature of professionalization studies in an attempt to provide a more nuanced theorization of closure by reflecting on cross-national experiences.

Closure strategies are often utilized by professional groups in pursuit of advancement (such as economic rewards and social mobility), and as a result of conflict following triggers such as jurisdictional disputes (Abbott, 1988; Walker, 2004), a desire to promote national identity (Anisette, 1999; Farag, 2009; Sian, 2006), or when facilitated by the state as part of economic reform schemes (De Beelde, 2002; Harston, 1993; Ramirez, 2001; Yee, 2009). In these studies, the use of closure is often triggered by conflict, and adopted by the superior group as a strategy to dominate the market for accounting services (Abbott, 1988). Whilst
the causes of conflict vary, such as challenges from other professions, less qualified practitioners, or colonizers, the conflict is often triggered by a dispute over superiority; thus, the dominant/superior group is the group that gains power in order to set the rules of inclusion and exclusion in relation to market entry (Sian, 2006; Walker, 2004).

Using conflict as an explanatory framework to expose and analyse post-formation circumstances leading to closure, this study investigates the development of the accounting profession and professionalization in Kuwait in the 1980s following the rise of conflict in the market over the dominance of foreign accountants and accounting firms. The case of Kuwait, as an Arabic former British protectorate, will provide a valuable addition to historical studies of the accounting profession by investigating how exclusionary closure is played out by the KAAA to exclude foreign competition and achieve advancement in the market for indigenous accountants. To provide an analysis of closure and the evolution of the accounting profession and professionalization in Kuwait by deploying theorizations of conflict and market closure, the study aims to:

1. Investigate whether any signs of conflict existed in the market for accounting services, and if so, between which groups.

2. Explore the challenges faced and strategies/resources deployed by the KAAA in its attempt to a) create occupational monopolies, and b) differentiate itself/its members from other practitioners in the market, and how these strategies are applied within the contexts of conflict and the state–profession axis.

To achieve these aims, this study combines oral history and archival research methods as sources of primary and secondary data. Oral history is
deployed through interviews with some of the key players in the move towards limiting the market for accounting services to Kuwaiti accountants. This method has enabled reflection on the experiences of the key players and exploration of their motivations.

The rest of the paper is structured as follows: the next section explores the concept of closure and the role of the state in facilitating this process as informed by the literature. Then, the research methods used in collecting both primary and secondary data are presented, followed by the theoretical framework. Next, the data is presented and analysed by exploring the Kuwaiti market for accounting services and the introduction of a certification exam. In the final section, concluding remarks are presented and discussed.

4.2 The concept of social closure
The Anglo-American models of professionalization have dominated the literature, and researchers have applied theoretical concepts of the sociology of professions as a lens for their analysis. The main elements of professionalization identified by these researchers include: the acquisition of abstract knowledge or skills; grouping and restricting entry to establish a market niche; monopoly of the labour market to achieve closure, supported by the state; and securing the economic and social rewards of elevated status (Abbott, 1988; Birkett & Evans, 2005; Burrage & Torstendahl, 1990; Carnegie & Edwards, 2001; Elliott, 1972; Fleischman et al., 1996; Freidson, 1986; Krause, 1996; Larson, 1977; Macdonald, 1984; Previts et al., 1990; Walker, 2004, 2008).
Many researchers have adopted the principles of Max Weber (for example: Amark, 1990; Chua & Poullaos, 1993, 1998; Macdonald, 1984, 1995; Ramirez, 2001). One particular principle that is used as a basis on which to analyse professionalization projects is that of social closure. The concept of social closure regards society as “an arena in which classes, status groups and other social entities, such as political parties, compete for economic, social and political rewards” (Macdonald, 1995, p. 187). Max Weber’s critical approach to social closure regards professional emergence as a means of achieving social mobility, whereby professional associations depend on recognition by, and support of, the state (Chua & Poullaos, 1993; Johnson, 1982). Further, they strive to create a monopoly within the labour market in return for economic and social rewards (Chua & Poullaos, 1998; Krause, 1996; Larson, 1977; Macdonald, 1995; Walker, 1991; Willmott, 1986). This form of lobbying occurs when a group seeks to “regulate market conditions in their favour, in the face of actual or potential competition from outsiders” (Saks, 1983, p. 5), as evident in many professionalization studies (Abbott, 1988; Amark, 1990; Freidson, 1986; Larson, 1977; Macdonald, 1984; Walker, 1995, 2004). Therefore, creating a market monopoly is a main feature of closure (Chua & Poullaos, 1993), as professional associations seek to regulate the supply of professionals by controlling “entry, training and qualification to restrict access to social and economic opportunities” (Willmott, 1986, p. 558). This form of closure is identified as exclusionary closure, whereby the dominant group exercises power to close off opportunities to the inferior group (Saks, 1983; Sian, 2006).

However, closure is criticized as being limited to social mobility and market monopoly, and therefore failing to capture diverse professionalization
motives (Freidson, 1994; Walker, 2004; Collins, 1990). To overcome this limitation, some researchers have promoted the exploration of diverse closure strategies to reach a more nuanced theorization of professionalization (Chua & Poullaos, 1993, 1998; Walker, 2004). For example, Freidson (1994, p. 27) asserts that the diversity of historical professionalization projects is “more faithful to reality”, and therefore recognizing the “multifarious experiences across nations and occupations will inform broadly conceived and grounded theorizations of professionalism” (Walker, 2004, p. 128).

An expansion of Weber’s critical theory of social closure emerged to reflect on the influence of the state, the community, and the market on the emergence and development of professional associations (Pholkeo, 2013; Streeck & Schmitter, 1985). The extended professionalization literature has since revealed various drivers of closure, motivated by factors other than social mobility or market monopoly. Studies of colonized regions show that competition and conflict in the market for services has been a form of struggle, where local associations emerged as a form of resistance against the dominance of colonial accountants, and to promote the rights of indigenous accountants in the local market. Such models are reflected in professionalization projects in Canada (Richardson, 1987), Australia (Carnegie & Edwards, 2001), and the Philippines (Dyball et al., 2007). However, in some cases conflict compelled the adoption of openness rather than closure to create opportunities and include previously excluded local accountants, as demonstrated in the cases of Trinidad and Tobago (Annisette, 1999) and Australia (Carnegie & Edwards, 2001; Chua & Poullaos, 1998). Nonetheless, the former studies show how the inferior group succeeded in shifting the balance of power to become the dominant/superior
group by controlling the regulation, practice and flow of accountants to their advantage.

In summary, locating conflict in the market aids the analysis of this study of how superior/dominant groups close opportunities in the market for accounting services to control the quality and flow of professional services (Sian, 2006; Willmott, 1986), thus achieving exclusionary closure. Accordingly, the following section will further explore the theoretical concept of conflict and its application in professionalization studies.

**Social closure and conflict**

Many studies, such as Krause (1971), Rex (1981), Abbott (1988), Collins (1990), and Walker (1995, 2004), have used conflict theory in investigating professionalization projects. For example, Walker (1995) showed the use of closure strategies by the accounting association in Scotland in 1853 in response to conflict in the market for services, and as a mechanism for defending job monopolies (Walker, 1995). However, researchers argue that closure by itself is insufficient to explain the diverse motives of professionalization (for example, Freidson, 1994; Macdonald, 1995). Therefore, Walker (1995, 2004) justifies the incorporation of both closure and conflict paradigms in investigating professionalization projects in Scotland and the UK to unveil how the professionalization project utilized closure in response to conflict between accountants, lawyers, and less qualified accountants following the enactment of the Bankruptcy Act of 1869. Accordingly, the need emerged to protect established economic and social rewards, which influenced the professionalization project in Scotland (Walker, 1995), while the same act

The critical approach based on the work of Weber and Marx is utilized in professionalization studies to analyse conflict and struggle over superiority and market share (Chua & Poullaos, 1993; Macdonald, 1995; Walker, 1995, 2004). Weber’s interpretation of conflict theory is explained by Collins, who notes that “we can explain social behaviour and social structure in terms of interest of individual actors in maximizing their power, wealth and status” (Collins, 1990, p. 24). Marx’s class conflict is explained by Krause, who states that “in all societies there are conflicts of basic interest between groups in the system; thus an exploration of the conflicts and the interests which underline them may provide some basic insights about the nature of the overall society” (Krause, 1971, p. 84).

According to Marx’s theory as cited by Krause (1971), the group in a “class conflict”, which is identified as “a class for itself”, is the most influential group in history, and this group is further described as “a group of people who were conscious of their own interests as a group, had united as a group, and were fighting as a group to advance their interests” (Krause, 1971, p. 84). Abbott (1988) recognizes this group as the superior/dominant group.

Hence, the main elements of conflict theory that are of relevance to this study are the existence of people with the same “interests” who “group” when faced with a “conflict” to fulfil their interests. Walker (1995) further argues that Marx and Weber’s conflict theory is useful in analyses of occupations and
institutions. Rex (1981) explains that this theory is helpful in identifying the encounters between groups in a conflict, and how their resources and abilities are mobilized in such challenges.

Therefore, the theorization of conflict aids our comprehension of the use of closure strategies deployed by KAAA members in the 1980s, and “provides insights into the circumstances which compelled institutionalization; how the resources and strategies employed by a threatened occupational group were utilized” (Walker, 1995, p. 288). Accordingly, applying the theorization utilized in the majority of professionalization studies of social closure, conflict, and the state–profession axis (Collins, 1990; Krause, 1996; Macdonald, 1995; Rex, 1981; Walker, 1995, 2004), this study will explore the challenges and circumstances in the form of conflict in the market for accounting services, and locate the parties to such a conflict. Hence, this study applies the theoretical framework of social closure, and incorporates conflict theory to investigate how the KAAA attempted to create a monopoly to restrict market opportunities to indigenous accountants in response to conflict in the market for accounting services.

**State–profession axis**

Professionalization studies of newly independent states place emphasis on the state–profession axis in the process of professionalization. While in most British settler colonies professions emerged during the colonization period, in the majority of non-settler colonies local professional bodies did not emerge until after full independence was gained. The newly independent states then actively engaged in regulating the professional associations in order to promote indigenous accounting practices as part of the structure of the new economic and
social order. These studies implicate the role of the state in shifting power to local accountants and in endorsing the establishment of local accounting associations (Annisette, 1999; Farag, 2009; Susela, 1999; Uche, 2002; Verma & Gray, 2006; Yapa, 1999).

A number of studies emphasize the enabling role of the state as accounting associations pursued their quest for closure, especially in newly independent states, as reflected in studies of Continental Europe following WWII as a part of economic reform schemes (De Beelde, 2002; De Beelde et al., 2009; Dedoulis & Caramanis, 2007; Harston, 1993; Ramirez, 2001). Meanwhile, studies of Syria (Gallhofer et al., 2009), Libya (Shareia, 2010), Egypt (Farag, 2009), and Brunei (Yapa, 1999) reflect on the passive role of professional associations and the lack of authoritative power they possessed. In these cases, accounting associations had no form of influence over higher education or the certification of practising accountants, mainly due to strict central government practices. Thus, the role of the state could either support or restrict the extent of power it allowed to professional associations in their quest for closure. Freidson asserts that the role of the state in providing support for professional associations is: “1) to officially define and classify particular kinds of work in the labor force; (2) to permit and support the occupational constitutions of a division of labor and adjudicate jurisdictional disputes within it; (3) to defend labor market shelters against both labor consumers and would-be competitors; (4) to legitimate the connection of vocational training with officially classified higher education and to accept and support the credentials it produces; and (5) to give credence to the professional ideology” (Freidson, 2001, p. 128). Therefore, investigating state
policy through legislation and the state–profession axis is essential to an analysis of the professionalization process.

In summary, the diversity of cross-national trajectories reveals that the adoption of closure strategies by professional associations is often triggered by competition or conflict, therefore the Kuwaiti professionalization project should be examined “within its local, time-specific contexts” (Carnegie & Edwards, 2001, p. 302) to uncover the circumstances in the case of Kuwait that compelled the adoption of a closure strategy, and how this strategy is applied within the contexts of conflict and the state–profession axis.

**Closure through education and credentials**

In the late nineteenth century, the manifestation of social status became the acquisition of an educational certification as a sign of expertise (Anderson-Gough, 2009; Macdonald, 1984, 1995; Van Wyhe, 2007a). Furthermore, it has been identified that formal knowledge is utilized “to order human affairs” and argued to be “an exercise of power, and an act of domination over those who are the object” (Freidson, 1986, p. 6). In many cases, professional bodies sought to monopolize occupational knowledge by developing certification exams to ‘produce the producers’ and ensure that their members perpetuated the qualifications and knowledge of the group (Anderson-Gough, 2009; Birkett & Evans, 2005; Devonport, 2009; Freidson, 2001; Larson, 1977; Walker, 2004). This form of closure through credentials was first noted in the accounting profession in the USA, where market closure was achieved by monopolizing knowledge through the introduction of the CPA designation, thereby restricting the practise of accounting to those who displayed the acquisition of knowledge
verified through examinations (Van Wyhe, 2007a; Zeff, 2003a). Because prior studies have identified credentialing as a closure strategy, this study investigates the circumstances leading to the implementation of a certification examination in Kuwait in the early 1980s as promoted by the KAAA. Further, by fulfilling the second aim of this study, namely exploring the strategies/resources deployed by the KAAA in its pursuit of closure, the case of Kuwait is expected to add to the diversity of cross-national professionalization studies called for by many researchers (Chua & Poullaos, 1993, 1998; De Beelde, 2011; Freidson, 1994; Walker, 2004).

4.3 Research method and data sources

The study employs two methods of data collection. Oral history is the source of primary data, and for secondary data, archival research has been conducted, drawing mainly on state legislation, ministerial resolutions, KAAA meeting minutes, and correspondence between the association and state agencies. The oral history method has been a successful tool for data collection in many accounting professionalization studies (Carnegie & Napier, 1996; Hammond & Streeter, 1994; Loft, 1987; Sian, 2006; Zeff, 1966), and has enabled researchers to capture and reflect on the experiences of the history makers.

The relatively short history of the KAAA, which was founded in 1973, enables us to reflect on the experiences of the key players in the Kuwaiti professionalization project. Therefore, deploying oral history as a source of primary data collection has been of great value in our analysis, especially given the limited archival resources in Kuwait. Data arising from oral history are derived through conducting interviews with key players influencing the
accounting profession in Kuwait during the 1980s. A total of 12 interviews were conducted: four with founding members of the KAAA; one with a pioneer indigenous accountant and owner of a Kuwaiti auditing firm; one with a foreign accountant; one with a Ministry of Commerce (MOC) official; and five with academics from the accounting department at Kuwait University (KU). The interviews were conducted in Arabic and lasted for between one and three hours. A semi-structured form was followed whereby the interviewer introduced topics and then the interviewees were encouraged to speak freely about their experiences. This form of interaction enabled us to “detect how events and situations were experienced, better understanding the actions and motivations of those involved” (Parker, 1999, p. 33). Further, the oral history method allows us to identify the motivations behind these key players’ actions and strategies, and to provide a source of data that has not been documented previously. This process enables the researcher “not only to reveal and understand the ‘what’ and the ‘how’ but also to place more emphasis on exploring the ‘why’” (Saunders et al., 2003, p. 248). The interviews were recorded and transcribed for analysis using an interpretational approach, which involved comparison with and support by related archival material. It is argued that the use of an interpretational approach to studying accounting history enables researchers to “evaluate relationships and provide interpretation in the manner of a social science ... history which seeks to explain, not only describe” (Previts et al., 1990, p. 2). Although the oral history method has its limitations (Parker, 1999), in this study the advantages outweigh the limitations, mainly because of the limited archival resources, either due to a lack of, or poor, archiving systems in Kuwait’s
governmental institutions, or due to the records being lost as a result of the Iraqi occupation of Kuwait in 1990.

4.4 The Kuwaiti market for accounting services

The passage of Practice Law No. 6 in 1962 marked the first organization of the accounting profession in Kuwait. This law was drafted in a way that reflected the need for accounting services following the rise of the oil industry in the early 1940s, and the subsequent growth of the capital market from the 1950s (Al-Rashed, 1989; Malallah, 1983; Shuaib & Went, 1978). The law allowed both Kuwaiti and non-Kuwaiti accountants to be certified to practise by registering with the MOC, as long as they complied with the minimum conditions, which were:

1. Hold a bachelor's degree in commerce, economics, or finance from an acknowledged university on a condition that the course work includes accounting subjects.

2. Be a member of an accounting institute or association recognized by the Ministry of Finance36, or have practical experience for a minimum of three consecutive years in the following:
   a. Auditing accounts in a certified accounting office
   b. Working as an accountant or auditor in private sector companies or associations
   c. Working as an accountant or auditor in governmental ministries

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36 All of the listed associations in Practice Law No. 6 of 1962 were international associations.
d. Teaching accounting or auditing in universities, colleges, or commercial studies high schools

e. Practising accounting in one's own accounting firm prior to the enactment of this law.

3. Live in Kuwait.

4. Be fully competent, enjoying civil rights.

5. Be of a good reputation with no prior criminal convictions.

6. Be 25 years of age or above.

The growth of the capital market created a need for accounting services, which provided lucrative opportunities for foreign accounting firms, especially as that need could not be met locally (Altaher et al., 2014). Table 4.1 and Figure 4.1 provide an indication of the growth in the market by showing the increase in the number of both public and privately held companies formed in Kuwait during the period from 1940 to 1985.

In accordance with Practice Law No. 6 of 1962, it is apparent that the market for accounting services was an open one, with minimal restrictions on both Kuwaitis and non-Kuwaitis, and that no degree in accounting was required (although accounting subjects had to be undertaken). Even though the law required membership of an international accounting association, this condition was waived if the applicant could show that he had practical experience through having practised accounting or auditing in the public or private sector for three consecutive years (see clause no. 2 – Practice Law No. 6 of 1962).

By 1972, there were 11 accounting firms in Kuwait, of which Albazie was the only Kuwaiti firm. The MOC registry indicates that in 1972, only three
Kuwaiti accountants were registered, all of whom had obtained their bachelor’s degree in accounting from other Arabic countries. It is evident that for more than two decades, foreign accountants dominated the Kuwaiti market.

Table 4.1: Public and closed-shareholding companies formed between 1940 and 1985

<table>
<thead>
<tr>
<th>Year</th>
<th>Formed</th>
<th>Liquidated</th>
<th>Cumulative total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public</td>
<td>Closed</td>
<td>Public</td>
</tr>
<tr>
<td>1940–1950</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1951–1960</td>
<td>6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1971–1975</td>
<td>33</td>
<td>47</td>
<td>-</td>
</tr>
<tr>
<td>1976–1980</td>
<td>4</td>
<td>127</td>
<td>1</td>
</tr>
<tr>
<td>1981–1985</td>
<td>2</td>
<td>147</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>330</td>
<td>4</td>
</tr>
</tbody>
</table>

*Source: Shuaib, 1995*

**Figure 4-1:** Public and closed-shareholding companies formed between 1940 and 1985

*Source: Shuaib, 1995*
The ten non-Kuwaiti accounting firms included all of the “big eight”\textsuperscript{37} accounting firms, two of which were affiliated with Arabic firms, namely Arthur Andersen with Saba & Co., and Touche Ross with Talal Abu-Ghazaleh. The remaining two firms were small Arabic firms, Shair Al-Hawiz & Co. and Fareed S. Mansour & Farouk M. Mohamed (ICAEW, 1972).

The continuous growth of the capital market created the need for an official stock market, and in response to public interest in trading operations, the state founded the Kuwait Stock Exchange (KSE) (Alsultan, 1989; Malallah, 1983), which opened in April 1977 (Shuaib, 1995) with 33 listed companies (ALqabas newspaper archival records, September 1977). In the same year, the KSE was ranked eighth internationally by size of trades (Abdulraheem & Aljomaah, 1997; CBK, 1979), which “created the need for financial information” (Shuaib, 1998, p. 28), as auditing had been mandated by Companies Law No. 15 in 1960. Hence, there was an increasing demand in the market for accounting, auditing, and consulting services.

\textit{Indigenous accountants}

With an increase in demand for accounting services and a scarcity of indigenous accountants, the state embarked on structured educational schemes to supply the market with indigenous professionals (Al-Ibrahiem, 1996; Shuaib, 1985). This included endorsing sponsored scholarships for high school graduates and

establishing KU, which was founded in October 1966 by Law Decree No. 29 of 1966. Following the introduction of these structured educational schemes, the number of indigenous professionals started to increase in the 1970s.

As part of this research, a total of twelve interviews were conducted, one with a pioneer indigenous accountant, five with academics from the accounting department at KU, four with founders of the KAAA, one with a foreign accountant, and one with a Ministry of Commerce (MOC) official, in which they reflected on their journeys in the field of accountancy in Kuwait. Five of the interviewees asserted that during the 1960s and the early 1970s the majority of indigenous accountants had obtained their bachelor's degree from neighbouring Arabic countries such as Egypt and Lebanon through state-sponsored scholarships, as higher education in accounting was not available in Kuwait (pioneer accountant, academic 2 and founding members 2, 3, and 4). It was not until the late 1960s that Kuwaitis were able to obtain a bachelor's degree in accounting locally, following the establishment of the College of Commerce and Economics at KU in 1969, which included the accounting department (University, 2013). In 1973, the first class of accounting graduates graduated from KU. Table 4.2 lists the number of graduates from KU during the period from 1973 to 1982. Following their graduation, 15 graduates who had formed a union during their university study formed the first accounting association in the Arabic Gulf region, The Kuwaiti Association of Accountants and Auditors (KAAA) (for more details see Altaher et al., 2014).

While Table 4.2 provides an indication of the growth in the number of indigenous accounting graduates during the period from 1973 to 1982, Table 4.3 shows the number of KAAA members for the same period.
Table 4.2: Kuwait University Accounting Graduates from 1973 to 1982

<table>
<thead>
<tr>
<th>Year</th>
<th>Total University Graduates</th>
<th>Accounting Department Graduates</th>
<th>% of Total Graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>73/74</td>
<td>490</td>
<td>56</td>
<td>11</td>
</tr>
<tr>
<td>74/75</td>
<td>589</td>
<td>85</td>
<td>14</td>
</tr>
<tr>
<td>75/76</td>
<td>755</td>
<td>46</td>
<td>06</td>
</tr>
<tr>
<td>76/77</td>
<td>860</td>
<td>58</td>
<td>06</td>
</tr>
<tr>
<td>77/78</td>
<td>973</td>
<td>55</td>
<td>06</td>
</tr>
<tr>
<td>78/79</td>
<td>1163</td>
<td>82</td>
<td>07</td>
</tr>
<tr>
<td>79/80</td>
<td>1506</td>
<td>106</td>
<td>07</td>
</tr>
<tr>
<td>80/81</td>
<td>1666</td>
<td>137</td>
<td>08</td>
</tr>
<tr>
<td>81/82</td>
<td>1632</td>
<td>104</td>
<td>06</td>
</tr>
<tr>
<td></td>
<td>Total Accounting Dep. Graduates</td>
<td>730</td>
<td></td>
</tr>
</tbody>
</table>

Source: Shuaib, 1989

Table 4.3: KAAA members from 1973 to 1982

<table>
<thead>
<tr>
<th>Year</th>
<th>Members</th>
<th>Members Joining</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>85</td>
<td>17</td>
</tr>
<tr>
<td>1975</td>
<td>113</td>
<td>28</td>
</tr>
<tr>
<td>1976</td>
<td>131</td>
<td>18</td>
</tr>
<tr>
<td>1977</td>
<td>137</td>
<td>6</td>
</tr>
<tr>
<td>1978</td>
<td>140</td>
<td>3</td>
</tr>
<tr>
<td>1979</td>
<td>148</td>
<td>8</td>
</tr>
<tr>
<td>1980</td>
<td>165</td>
<td>17</td>
</tr>
<tr>
<td>1981</td>
<td>187</td>
<td>22</td>
</tr>
<tr>
<td>1982</td>
<td>206</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>Total (1982)</td>
<td>206</td>
</tr>
</tbody>
</table>

Source: KAAA membership list
It is notable that the number of new members as a percentage of new graduates was highest in the first three years of the period presented, before falling quite significantly for the following years and then recovering quite noticeably by 1980, but only to about half of the level of the first three years, in the final three years. However, while the number of graduates was steadily increasing, only a small percentage of them joined the KAAA, as reflected in Table 4.3. The KAAA struggled to attract members in its early years following formation (Altaher et al., 2014). One of the founding members, Mr. Abdulrahman Al-Quood, stated in a magazine interview that:

The first three years following establishment was the most difficult period. We did not have a permanent location and accountants were not interested in joining the KAAA. Moreover, the number of Kuwaitis in the audit market was very low, and the market was dominated by non-Kuwaiti accountants (KAAA, 2008, p. 51).

This observation was corroborated by one of the interviewees, who stated that:

In the first few years of the KAAA following foundation we struggled to get the Kuwaiti accountants to participate. No one would come to the association. Even during general meetings and board elections we would have to call the members to ask them to vote. Most times, the number of people who attended and participated did not exceed 20 (founding member 1).

Since most of the indigenous accountants were absorbed by the public sector (Al-Ibrahiem, 1996), it is highly plausible that having readily obtained a secure job, they were not motivated to join the KAAA. Hence, unlike other professionalization projects, the KAAA’s members were not motivated to secure
market monopolies or social mobility, but as Altaher et al. (2014) argue, during the formation of the KAAA, they were influenced to form a professional association by aspects of their social culture. The Kuwaiti social culture of grouping and peer gathering identified as Dewaniya is likely to have been the main influence in the emergence of the KAAA. The Dewaniya is a highly valued social culture in Kuwait; it is a form of male group gathering, whereby social, economic, and political events are often delegated.

In the following section, we unveil signs of conflict in the market for accounting services, and how such conflict influenced the KAAA strategies to close market opportunities by restricting registration to practise to indigenous accountants only.

4.5 Conflict in the market for accounting services

By the mid-1970s, signs of conflict over market share had started to develop. This conflict was mostly between two groups, the Western firms (i.e. the big eight) and the Arabic firms, and evolved into “unhealthy competition over market share” (pioneer indigenous accountant, foreign accountant). As the pioneer indigenous accountant revealed, “it was very difficult competing with big international firms with established competence and capability. We had to work very hard to show the customers that we were as capable and reliable as them.” In a different context, he reflected on a couple of incidents where foreign firms had tried to take over accounts from his firm. In one incident, “they tried to argue that they were more capable of handling the job than our firm. Luckily, I had social connections with one of the directors, and was able to persuade him that
we were just as capable as the foreign firm.” In relation to another incident, he notes:

The competing firm made an attempt to persuade the board of the company to offer me a position on the board of directors. However, I saw through their attempt and refused the offer, because if I had accepted it, my firm would have been prohibited by law from auditing the company.

On the other hand, the interview with the foreign accountant revealed a different experience:

Although we were competing against the big eight firms, we gained confidence and proved our competence in a very short time. We became favoured among government officials, and as the Kuwaiti government is the owner of all major companies in the country, the more accounts we got from them the more discontent was shown towards us by the big eight firms. The Western companies were quite upset that a small Arabic firm could not only compete with them, but was even favoured by the Kuwaiti government and big merchants, with whom I had close social relations.

I had an advantage over Western firms by virtue of the fact that Kuwait was my head office, therefore they only had branch offices competing with our mother company. By the mid-1970s, I had 700 employees in my firm, which was more than the total number of employees of all the other accounting firms in Kuwait at that time.

Table 4.4 shows a trend in the mid-1970s whereby some of the Western firms entered into affiliations and partnerships with Arabic and Kuwaiti accounting firms. This strategy was presumably an attempt to gain a competitive
advantage in the Kuwaiti market, in which privilege accrues with both competence and social connections, as verified by the statements of the interviewees presented above. Although Company Law No. 15 of 1960 mandated that foreign firms could only operate in Kuwait through a minority partnership of 49 per cent with a Kuwaiti partner, many of the Western firms started targeting indigenous accountants as partners in the 1970s. In his recollection of this partnership/affiliation, the pioneer indigenous accountant emphasized the identity of his firm:

We were different in our approach to these affiliations; our office is a Kuwaiti office in principle. We sought affiliation with a Western firm to provide better service to our clients who had branches worldwide and might seek our services outside Kuwait. Whilst Western firms partnered with multiple Kuwaiti accountants over different periods, changing partners every once in a while, this is the main reason our office remained strong while other Kuwaiti accountants vanished from the market, as they did not have an office of their own.

Table 4.4: Big eight affiliation/partnership in 1970s

<table>
<thead>
<tr>
<th>Year</th>
<th>Big eight firm</th>
<th>Arabic Firm</th>
<th>Kuwaiti Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>Arthur Young &amp; Co.</td>
<td>Albazie</td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>Ernst &amp; Whinney</td>
<td>Mutlaq Al-Massoud</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>Price Waterhouse</td>
<td>Tala Abu-Ghazaleh</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>Deloitte, Haskins &amp; Sells</td>
<td>Shair &amp; Co.</td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>Coopers &amp; Lybrand</td>
<td>Fareed S. Mansour</td>
<td></td>
</tr>
</tbody>
</table>

The pioneer indigenous accountant argued that the identity of the firm owner was important. He attributed his own firm’s success to the fact that it was an indigenous firm that pursued foreign affiliation to provide better service to its clients. Further he stated that other indigenous accountants were not as successful mainly because they were part of a foreign firm and they could be replaced at any time.

By 1980, the number of indigenous accountants registered with the MOC under Practice Law No. 6 had increased to eight (KAAA, 1998), but this remained a modest number given the high demand for accounting services and the growing number of graduates as discussed earlier. Further, the majority of the indigenous accountants were young graduates with modest practical experience. Meanwhile, non-Kuwaiti accountants and accounting firms, which had a wealth of experience and established relations in the market, still controlled the majority of the Kuwaiti market for accounting services. This is evident in a study by Shuaib (1986), which indicates that in 1982 there were 44 listed companies, with a significant share of the KSE market being controlled by foreign firms. Talal Abu-Ghazaleh, an Arabic firm affiliated with Price Waterhouse, was a strong competitor, auditing 39 per cent of the listed companies, while 18 per cent were audited by Whinney Murray (in partnership with Kuwaiti accountant Mutlaq Al-Massoud), and four per cent were audited by the Arabic firm Saba & Co. The remaining 39 per cent were audited by Albazie, a Kuwaiti firm affiliated with Arthur Young & Co.

Although the number of indigenous accountants was still very modest in the early 1980s, KAAA members (although not yet registered with the MOC) started to develop a desire to shift the power to indigenous accountants and
accounting firms in the market for accounting services. The interviews revealed that there had been a general feeling of discontent among young indigenous accountants represented by KAAA members, MOC officials, and owners of Kuwaiti firms regarding the dominance of foreign accounting firms and their behaviour in the market for services, in particular their practice of combining accounting, auditing, and consulting work for the same client. However, this discontent seemed to be mostly directed towards one Arabic firm, Talal Abu-Ghazaleh:

At that time, our goal was to stop the accounting firms from combining consulting and audit services, mainly because Talal Abu-Ghazaleh dominated the market. They would do the feasibility study, establish the company, co-ordinate the issuing and subscription of its shares, and audit the accounts. Therefore, they were in control of the whole operation from A to Z, and any shortcomings in their practice would not be discovered (founding member 1).

Talal Abu-Ghazaleh was the “spoiled child” in the Kuwaiti market, because they were favoured by the government and had established links with the big merchants. They did not have much competition (academic 4).

Abu-Ghazal (the founder of Talal Abu-Ghazaleh) was smart, and had built strong social relationships with influential merchants. This was the main reason for his dominance in the market (academic 2).

The interviews indicate that the strategy followed by the Western firms in the mid-1970s in seeking partnerships and affiliations with indigenous accounting firms eased the sense of conflict between them, although the interviewees reflected the feeling that it was their natural right to have control and preference in their own market. Interestingly, their tone of speech became more intense in their recollections of how “unfair” (as most interviewees termed
it) was the dominance of the Arabic firm Talal Abu-Ghazaleh. The interviewees reflected on their feelings during that period, agreeing that their main concern was about the dominance of foreign accounting firms. Two KAAA founding members and one academic shared the same opinion about the Arabic firms that were operating through their foreign accountant owner in the Kuwaiti market. They argued that it was unsafe to have the majority of accounting work being audited by foreign accountants, as it would be difficult to hold them liable if they were to leave the country, plus any misconduct by them could cause damage to Kuwait’s economy. A Kuwaiti accountant would tend to be more cautious, because it was his country and his market (founding members 1 and 2, and academic 2).

Further, some of the interviewees argued that during that period, the market had two main barriers discouraging indigenous accountants from opening up their own audit and accounting firm. One of the reasons they offered was the conflict in the market, which led to segmentation of practising accountants and firms into three groups, Western, Arab, and Kuwaiti, creating a hostile environment (pioneer indigenous accountant, founding member 2). From his perspective, the foreign accountant noted:

I did not have any problems with independent Kuwaiti firms; the conflict was often between Western firms and Kuwaiti firms/accountants who had affiliated with them. It is my belief that the conflict with Western firms influenced Kuwaiti accountants through the affiliation between them. As a consequence, Kuwaiti accountants and Western firms had joint interests and benefits.
The second reason the interviewees noted was that young indigenous accountants who aspired to open their own firm would have to compete against big firms that were privileged in terms of recognition and the relationships they had established in the market (pioneer indigenous accountant and founding member 1).

Consequently, the findings show that in the late 1970s there were signs of conflict in the market for accounting services between three main groups, indigenous, Western, and Arab accounting firms, with, the most intense feelings of discontent being directed towards the dominance of the Arabic firm Talal Abu-Ghazaleh. Although most of the interviewees were indigenous accountants who were not registered to practise by the MOC during that period, they reflected on their emotions about the conflict in the market for accounting and auditing services. This conflict presumably created an entry obstacle for indigenous accountants aspiring to open their own accounting firm, and stirred up feelings of discontent towards the dominance of these foreign firms/accountants, and the way in which they operated in the market. The following section explores the strategies employed by the KAAA to become the superior group in the market – supported by the state – by regulating market entry to their benefit.

4.6 KAAA closure strategies in the 1980s

Creating job monopolies

Following the increasing conflict in the market between indigenous and foreign accounting firms, in particular the firm of Talal Abu-Ghazaleh, and a growing sentiment of discontent with the dominance and practice of foreign firms, some
KAAA board members (who had not yet been registered to practise by the MOC) developed a strategy to shift the balance of power to their side by creating market opportunities for indigenous accountants seeking to create an indigenous accounting firm by initiating a move to restrict certification to practise in the Kuwaiti market to indigenous accountants. To this end, they prepared a proposal whereby the MOC would restrict entry to the practice registry to indigenous accountants, while preventing foreign accountants from being certified to practice (founding members 1, 2, and 3).

The KAAA proposal appealed to the MOC. In the interview, the MOC official noted that “Practice Law changes were inevitable; in all developed countries, only indigenous accountants are allowed to register for practice. Also, we wanted to encourage and create opportunities for indigenous accountants in the market for accounting services.” The MOC responded to the proposal by the KAAA members by implementing amendments to Practice Law No. 6 of 1962. A new Practice Law No. 5 was issued in 1981 which contained a range of new conditions. Table 4.5 provides a summary of the main changes in the Practice Law.

The explanatory memorandum accompanying the new Practice Law refers to the problem raised earlier by founding member 1, who raised ethical concerns regarding the practice of many foreign accounting firms in providing accounting, auditing and consulting services to the same client:

It has been observed that under the current Practice Law (Law No. 6 of 1962), accounting firms have conducted work beyond the nature of their specialties, such as: business consulting, promoting the establishment of new companies
and so ... it became imperative to reconsider the conditions of the Practice Law either regarding the conditions of a practising accountant or the requirements of a certified accountant in terms of practical and educational qualifications.

Table 4.5: Changes in Practice Law in Kuwait in response to KAAA submission

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Practice Law No. 6 of 1962</th>
<th>Practice Law No. 5 of 1981</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Hold a bachelor's degree in commerce, economics, or finance from an acknowledged university on a condition that the course work includes accounting subjects.</td>
<td>Hold a bachelor's degree in commerce from KU with a major in accounting, or from any other university approved by the Ministry of Education.</td>
</tr>
<tr>
<td>Years of Experience</td>
<td>Three years of accounting or auditing work experience in the public or private sector.</td>
<td>Seven years in the audit of banks and insurance and investment companies. Five years for other industries in the following areas: (a) a public accounting office, or (b) the government accounts department in one of the ministries.</td>
</tr>
<tr>
<td>Citizenship</td>
<td>Any, as long as they live in Kuwait.</td>
<td>Be a Kuwaiti citizen.</td>
</tr>
<tr>
<td>Certification</td>
<td>A member of an international association approved by the MOF.</td>
<td>Pass the certification exam administered by the MOC.</td>
</tr>
</tbody>
</table>

Note: *In 1962 the registry of accountants was in The Ministry of Finance (MOF) prior to the establishment of MOC.*

Source: Practice Law No. 6 of 1962 and Practice Law No. 5 of 1981.

The registration of foreign accountants who were previously registered with the MOC in accordance with Practice Law No. 6 of 1962 would only be valid for three years after the enactment of Practice Law No. 5 of 1981. The new law allowed firms that practised under the name of foreign accountants a three-year transition period, as they were now unable to operate in Kuwait unless they
formed a partnership with a certified indigenous accountant, as outlined in Article 5 of Practice Law No. 5 of 1981:

Enrolment of non-Kuwaiti entrants in the Registry of Certified Auditors as of implementation date of this law shall be temporary for three years from the said date through the resolution of the Minister of Commerce and Industry. This clause may be renewed once for a period not exceeding two years.

Two years after the passage of Practice Law No. 5 in 1981, the KAAA sent a letter to the MOC on 4 June 1983 seeking to add a new condition to the Practice Law requiring that the certification exam applicant should be a member of the KAAA (KAAA meeting minute no. 5/83). This request was approved by the MOC, and this requirement was added to the conditions of Practice Law No. 5. It is notable that KAAA members initially aimed to create opportunities for indigenous accountants and gain a competitive advantage over foreign competition by restricting market entry to their members. However, it seems that attracting more members to join the KAAA was not the main aim in pursuing amendments to the Practice Law in 1981. This notion apparently developed two years after the passage of the new Practice Law in 1981, ensuring that membership of the KAAA served as a gateway to registration with the MOC.

The evidence reveals that conflict and competition in the market for accounting services motivated KAAA members to pursue closure strategies to limit the dominance of foreign accounting firms, thus creating the opportunity for indigenous accountants to join the audit practice and form indigenous accounting firms. The amendments to the Practice Law gave exclusive rights to
indigenous certified accountants. Meanwhile, the autonomy of foreign accounting firms and accountants was restricted, as they were no longer able to register with the MOC, and could only continue to operate in the market for services through a partnership with indigenous certified accountants. The support of the state enabled the KAAA to become the dominant player, as described by Abbott (1988), by enabling it to influence market conditions to serve its interests.

**Certification exam**

Practice Law No. 5 of 1981 mandated that passing the certification exam would be a requirement for all newly qualified accountants seeking registration by the MOC (Article 2, Section 6). The implementation of a certification exam has been utilized by many professions to monopolize and restrict market entry through controlling the credentialing process and achieving closure. This section further explores how the KAAA utilized credentials as an exercise of power to regulate the quality and flow of practitioners entering the market, thereby becoming the superior group in the market and achieving closure.

Practice Law No. 5 of 1981 stated that the exam was to be administered under the authority of the state, represented by a registration committee in the MOC. The committee was headed by the Secretary Minister of the MOC and included two specialized accounting practice professionals recommended by the KAAA. This committee was to operate for a period of two years subject to renewal by the minister (Article 6 of Practice Law No. 5 of 1981).
Accordingly, on 10 June 1984, the MOC issued Ministerial Decree No. 74 of 1984 establishing the registration committee and specifying its authority.

Membership of the committee comprised:

President: Abdullah H. Alhamad (Secretary Minister of the MOC)

Vice President: Yousif S. Albahar (Manager of companies and insurance department in the MOC)

Member: Mohamed A. Alateeqi (KAAA)

Member: Ali Y. Alhasawi (KAAA)

Member: Hamad A. Alzaid (Employee in companies and insurance department in the MOC)

Ministerial Decree No. 74 of 1984 exposes the state–profession axis, which has been so important in other professionalization studies. Although all matters of the profession, from the registration process to the administration of the certification exam, were under the authority of the MOC, the committee included representatives of the KAAA, as prescribed in Practice Law No. 5 of 1981:

Application for enrolment in the register of auditors shall be forwarded to the Ministry of Commerce and Industry and referred to a committee headed by the undersecretary of the Ministry of Commerce and Industry or his deputy, and two members expert in the profession of auditing recommended by the Kuwaiti Association of Accountants and Auditors and appointed through a resolution of the Ministry of Commerce and Industry for the period of two years, renewable (Article 6 of Practice Law No. 5 of 1981).
Correspondence between the MOC and the KAAA indicates that from the beginning, the Ministry incorporated the KAAA in the process of the certification exam by asking the association to nominate two of its members to be part of the certification exam committee (KAAA meeting minute 22/5/1982). The interviews reveal that the KAAA had constantly referred the responsibility of exam preparation and setting to the accounting department of KU (founding member 2, academics 1, 2, 4, and 5, and MOC official). This indicates that, in contrast to previous professionalization projects, for example in the UK (Anderson-Gough, 2009; Macdonald, 1984), the USA (Van Wyhe, 2007a, 2007b; Zeff, 2003a, 2003b), and Australia (Birkett & Evans, 2005), the KAAA made no effort to gain full control of the certification examinations. While Evans’s (2003) study shows that in Australia the professional bodies were suspicious of the universities and did not trust the academics to prepare professional exams, the following interviewee statements reveal the opposite in the case of Kuwait, as the KAAA showed complete faith in the competence and knowledge of faculty members at KU to prepare the certification exam. Even though this exam had been implemented by the state, based on the KAAA proposal, they were satisfied to exert influence through participation in the exam committee in the MOC, along with accounting academics and MOC representatives (founding members 1, 2, and 3). In this regard, the interviewees commented:

It is only natural that we refer the exam responsibility to faculty members of KU, after all, they are the academics, and preparing examinations is within their specialty (founding member 2).
The KAAA did not have the ability to produce a certification exam in its current structure; as a non-profit association operating under the authority of the state represented by the Ministry of Social Affairs and Labour, they have limited funds and legal autonomy (academic 2).

As academics, we are more qualified to prepare and mark the exam than the KAAA, therefore seeking our expertise is only natural (academic 4).

From 1982 to 1985, 27 accountants sat for the certification exam, but only four passed, a failure rate of 85 per cent (see Table 4.6). In interviews with faculty members of the accounting department at KU who were directly engaged in setting the exams, they confirmed that they prepared the exams in line with the KU curriculum, and therefore did not anticipate such high failure rates (academics 4 and 5). It can be speculated that the high failure rate in the early years might have been because the examination process was rigorous, and served to expose the shortcomings of accountants who, up until that point had not been ‘tested’ against recognized standards. Alternatively, it might have been because the process was arbitrarily applied and not well structured in these early years.

Table 4.6: Certification exam results

<table>
<thead>
<tr>
<th>Exam Date</th>
<th>No. of Applicants</th>
<th>No. Who Passed</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>December, 1982</td>
<td>3</td>
<td>2</td>
<td>67</td>
</tr>
<tr>
<td>June, 1983</td>
<td>7</td>
<td>2</td>
<td>29</td>
</tr>
<tr>
<td>June, 1984</td>
<td>13</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>June, 1985</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>4</td>
<td>15</td>
</tr>
</tbody>
</table>

*Source: KAAA*
Although amendments to Practice Law No. 6 of 1962 were lobbied for by the KAAA, not everyone seemed to agree with restrictions being placed on entrants to the market, as noted in an interview with a former member of the parliament and founding member of the KAAA:

This law was enacted during the parliamentary suspension period! This law was not of an urgent nature, and could have waited until the parliament resumed so that appropriate discussion could take place. Some accountants expressed their disapproval of this law. They approached me, as a member of parliament, mainly to object to Article 6 that had enacted the certification examination. I raised their disapproval during parliamentary sessions, the main points being the unfairness of Article 6 in that it does not give any regard to prior years of experience, as both new graduates and accountants of long-standing experience are required to take the exam, the fact that certified accountants who registered prior to the passage of this law were exempt from taking the exam, even when they renewed their licence, and most importantly, the low pass rate of candidates who sat for the certification exam (founding member 4).

The KAAA strategy of exclusionary closure through credentials had apparently backfired because of the applicants’ bad results. In response to the high failure rates in the certification exam during the early years, the KAAA records show that a letter to the MOC was drafted in which the KAAA outlined a strategy designed to improve exam outcomes. The board of directors of the KAAA indicated that the association would provide training courses for any member applying to sit for the exam at a reasonable fee (KAAA meeting minute dated 6/1/1984). Although the initial letter from the MOC is unavailable, the
response from the KAAA indicates that the MOC had asked them to address this problem.

Prior research shows that in many professionalization projects, credentials were utilized as one tool for closure, thereby gaining competitive advantage in becoming the superior group in the market for accounting services (Van Wyhe, 2007a; Willmott, 1986; Zeff, 2003b). This study shows that, as a state-funded accountants’ association, the KAAA operated within the boundaries of Law Decree No. 24 of 1962, regulating the establishment of non-profit associations under the monitoring of the Ministry of Social Affairs and Labour. Thus, in accordance with that law and Practice Law No. 5 of 1981, the KAAA was protected from the emergence of rival associations, guaranteeing that it remained the only gateway for practising accountants seeking certification, and hence becoming the superior group in the market for accounting services. It is highly probable that the security provided by Law Decree No. 24 of 1962 and the co-operative state-profession axis is the reason why KAAA were not motivated to seek complete monopoly over credentials or portray the image of ‘producing the producers’.

In summary, even though the implementation of the certification exam had been demanded by the KAAA, and the exam was partially supervised by them, as seen by their representation on the MOC certification exam committee, seeking full control over the credentialing process was not one of their priorities. The KAAA exclusionary closure strategy appears to be more oriented towards excluding foreign competition. However, two years following their proposal in 1983, KAAA developed a strategy to attract more members to join their association. The cooperative state-profession axis enabled KAAA to suggest the
addition of a condition to practice Law that all certified accountants be members of their association. The desire to impose a certification requirement added a further barrier to market entry, and served to close off entry opportunities to non-credentialed indigenous accountants as an exercise of power through regulating the quality and flow of professionals entering the market.

4.7 Concluding remarks

The accounting profession in Kuwait was born in an era in which professional knowledge was recognized through education and credentials. In the first attempt to organize the accounting profession in Kuwait, the state defined a certified accountant as a person who held a bachelor’s degree, although not necessarily in accounting, or was a member of an accounting association recognized by the state. The state policies reflected the value of higher education as a tool for professional supply, and this was supported by funded educational schemes designed to infuse the market with the required numbers of indigenous accountants.

As an outcome of these state policies, an increasing number of indigenous accountants started to flow into a market that, since the 1960s, had been dominated by foreign accountants and accounting firms. This increase in the number of indigenous accountants, influenced by aspects of their social culture identified as Dewaniya, a form of peer grouping, motivated the foundation of the KAAA in 1973. Although the number of indigenous accountants was still very modest in the early 1980s, the KAAA, supported by the state, promoted the issuance of Practice Law No. 5 in 1981 restricting market entry solely to indigenous accountants and excluding foreign accountants. This study has
explored the circumstances that motivated the shift in the market from openness to closure in relation to theorizations of professional conflict and social closure.

The first aim of the study was to investigate whether any signs of conflict existed in the market for accounting services, and if so, between which groups. The study identified that conflict did exist in the market for accounting services between indigenous and foreign accounting firms over market share. As a result of that conflict, the market was segmented into three groups, Kuwaiti, Western, and Arab accounting firms. Interviews with KAAA founding members and a pioneer indigenous accountant reveal that this conflict stirred up feelings of discontent towards the behaviour and dominance of foreign accounting firms in the market, in particular the firm Talal Abu-Ghazaleh, which controlled a major share of the market for services.

Consequently, this can be interpreted as an attempt by the KAAA to shift power in the local market for accounting services to indigenous accountants by limiting the dominance of foreign firms and creating more opportunities and increasing market share for indigenous accounting firms.

The second aim of the study was to explore the strategies/resources deployed by the KAAA in its attempt to a) create an occupational monopoly, and b) differentiate itself/its members from other practitioners in the market, and how these strategies were applied within the contexts of conflict and the state–profession axis. Accordingly, the findings show how KAAA members acted as the dominant group among indigenous accountants (Abbott, 1988) and directed the process towards market monopoly, mobilized by the support of the state, which enabled them to become the superior group in the market for services and succeed in regulating the market to their benefit. In response to the dominance
of foreign accounting firms and accountants, and following incidents of conflict in the market, the KAAA, with the collaboration of the state, achieved closure by restricting market entry to indigenous certified accountant members of the KAAA through the issuance of Practice Law No. 5 in 1981. Hence, the KAAA was eventually able to attract more members.

The case of accounting professionalization in Kuwait in the 1980s is not novel in the sense of pursuing a closure strategy aimed at excluding foreign competitors through co-operative state legislation. While the KAAA succeeded in applying exclusionary closure to limit foreign competition, they added another layer of exclusion through credentials. This second barrier targeted the exclusion of non-credentialed indigenous accountants, which apparently was not a unanimous decision among KAAA members, as revealed by the statement of founding member 4 in the previous section. It is plausible that the introduction of the certification exam was lobbied for by the KAAA as a means of exercising power and superiority (Freidson, 1986, 2001), enabling them to act as a superior group by regulating the quality and flow of accountants entering the market (Willmott, 1986). Therefore, it is highly probable that the KAAA supported their exclusionary closure strategy with their proposal that insisted on indigenous credentials in order to further strengthen the exclusion of foreign accountants, who held foreign credentials.

Finally, in contrast to strategies of closure through credentials identified in the literature, the case of the KAAA shows that although they enjoyed a co-operative relationship with the state, the association did not seek full control over the certification exam, but was satisfied with exerting influence through the organization of exam preparation courses and joint participation in the MOC
certification exam committee, along with representatives from the MOC and KU. Because the KAAA willingly transferred the responsibility of exam preparation to KU, the study of Kuwait shows that there is no struggle for power over credential control between the profession and academia, most likely because 1) they are both state-funded institutions, 2) all indigenous academics in the accounting department are also members of the KAAA, and 3) both the KAAA and KU are represented on the MOC certification exam committee, and are therefore pursuing the same goals.
References


Chapter 5: Conclusion

This chapter provides an overview and summary of the thesis. The chapter highlights the main findings, and therefore shows the contribution this thesis makes to the field of historical studies of accounting professionalization, along with implications and limitations.

Accordingly, the chapter is organized as follows. Section 1 provides a summary of the thesis. In Section 2, the limitations of the thesis are presented. In Section 3, both the theoretical and empirical implications of the thesis are discussed. Finally, in Section 4, prospects for future research are suggested.

5.1 Summary
This study contributes to the growing body of literature and fills a gap in the history of accounting professionalization projects by examining the history of the accounting profession and the professionalization project in Kuwait, an Arabic former British protectorate, from 1948 to 1986 (De Beelde, 2011). The overall aim of the thesis is to explore the history and development of the accounting profession and the professionalization project in Kuwait between 1948 and 1986. Therefore, the study traces the development of the accounting profession and the increased need for accounting and auditing services and accounting education following the transition of Kuwait’s economy as a result of the discovery of oil in 1938 and the rise of oil industry in the early 1940s. The study then investigates British imperial influence, and the influence of the state, socio-economic environment, and culture on the emergence of the Kuwaiti Association of Accountants and Auditors (KAAA) in the early 1970s.
The analysis of the thesis also extends to examining the development of the accounting and auditing profession and the professionalization project until 1986, during what is considered a critical period in Kuwait’s economic development that necessitated changes to the accounting profession involving modifications to the regulation of accounting and auditing practise.

The thesis is presented in a thesis by publication format. Therefore, Chapter 1 provides an introduction and literature review for the overall study, while Chapters 2, 3, and 4 are presented in journal paper format.

Introduction (Chapter 1)

The literature review shows that most studies from the 1970s onward adopted a critical approach based on the concept of social closure promoted by sociologists such as Weber and Marx (Willmott, 1986), a trend that was largely maintained until the early 1990s. However, in the early 1990s, researchers started to call for an expansion of closure theory through exploring variations highlighted by cross-nation studies, which are perceived as more faithful to reality (Freidson, 1994), thereby providing diversification of closure strategies and a more grounded theorization of professionalization projects (Chua & Poullaos, 1993; Walker, 2004).

Chapter 2

The analysis in this chapter was guided by the main enabling factors identified by Poullaos and Sian (2010), namely British political agents and companies, British accountants and accounting associations, British laws and British education. The study explored the presence of these factors in Kuwait while under the British protection treaty from 1899 to 1961 and the influence of the
British Empire on the formation of the KAAA. The empirical evidence in this chapter reveals that, unlike former British settler and non-settler colonies, little evidence is found of a huge wave of migration of British capital, accountants, and accounting associations during the period of formal British ties. The study further shows that political events in the Middle East after 1948 following Israel’s invasion of Palestine and the rise of Arabic nationalism movements were an added factor in the lack of British influence. These Arabic movements were embraced in Kuwait, and were reflected in Kuwaiti laws, including commercial laws, and in Kuwait’s high degree of reliance on Arab professionals.

Furthermore, in this chapter, empirical evidence is presented about the development of the accounting profession as a result of the transformation of the socio-economic environment following the discovery of oil in 1938 and the commencement of production in 1945. The analysis commences with a description of Kuwait’s economic development, and includes the implications of this transformation for the accounting profession, extending to the emergence of an accounting association in 1973. It demonstrates that the state played an enabling role in the training of indigenous accountants through structured educational schemes, and by issuing Law Decree No. 24 in 1962, facilitated the formation of an accounting association. Therefore, the case of Kuwait shows that the state played a major role in the development of accounting education, the accounting profession, and the professionalization project during this period through state-structured educational schemes, laws, and regulations.

Nonetheless, the empirics of the study show that Britain’s policy of non-interference in internal affairs and its control over the external affairs of Kuwait (as stated in the protectorate agreement) isolated the country and further helped
to preserve Kuwaiti culture. The cultural concept of *Dewaniya* as an important social institution in Kuwait is presented as a plausible motive for the establishment of the KAAA, although this motivation was not sustained, as members tended not to become involved in KAAA activities. A plausible reason for the disengagement of many members is that the founding members were privileged by Kuwait’s economic status as a HIOEC, which enabled the state to provide abundant work opportunities with clear and privileged paths for promotion for indigenous accountants. Founding members were preoccupied with work, and as a result did not see active involvement in the KAAA as being important. Therefore, Larson’s (1977) proposal that professionalization projects are a means to secure a market for accounting services does not resonate in the Kuwaiti professionalization project.

**Chapter 3**

This study utilized the theoretical framework of social change (McKinnon, 1986) to examine the influence of events in the socio-economic environment on the accounting profession in Kuwait, and how these events influenced state agencies to impose changes on the accounting profession through the modification of regulations and the introduction of the Committee for the Establishment of Accounting Rules (CEAR) and the Kuwait Stock Exchange (KSE) by the Ministry of Commerce (MOC).

The empirics presented in this chapter show that as a result of the intrusive events in Kuwait’s socio-economic environment in the late 1970s and early 1980s, the KAAA was co-opted by the state to play an active role in organizing matters of the profession. Consequently, this led to a change in the
KAAA from an inactive group, as identified in the preceding chapter, to a proactive professional group.

The empirical evidence of this chapter also shows that in the source phase the KAAA is identified as a non-active association, mainly due to such factors as the founding members being privileged with work opportunities despite being inexperienced. It was also notable that the young founding members did not incorporate pioneer indigenous accountants who were already practising in the market (even though only a few existed) in founding and directing the association.

Later on, in the diffusion phase, following the period of crises in the capital market and with the co-operation of state agencies, there was a shift in the operations of the KAAA. By promoting changes to the Practice Law and their participation in the state’s CEAR, the KAAA became actively engaged in the process of regulating accounting and auditing practice. Thereafter, in the reaction phase, the KAAA was in an active relationship with both the state and the academy in the regulation of the profession.

Chapter 4

This study continues to investigate the development of the accounting profession in Kuwait, placing emphasis on the development of the KAAA in the 1980s. This was a crucial period in the transformation of accounting legislation and professionalization project strategies, which were grounded by the theorization of closure, market conflict, and the state–profession axis.

The study shows that the demand for accounting services increased as a result of growth in the capital market, especially after the early 1960s. The
empirics show that the increase in demand for accounting services could not be met locally, and therefore a high degree of reliance was placed on the services provided by foreign accounting firms that were attracted to the Kuwaiti market. As a result, the study shows that foreign accounting firms dominated the Kuwaiti market for accounting services until the early 1980s.

The empirics of the study identified that conflict existed in the market for accounting services between indigenous and foreign accounting firms over market share. As a result of that conflict, the market was divided into three groups; Kuwaiti, Western, and Arab accounting firms. The findings of the study revealed that this conflict stirred up feelings of discontent towards the practice and dominance of foreign accounting firms in the market among some indigenous accountants and KAAA members. This discontent was most visible towards the dominance of the Arabic firm of Talal Abu-Ghazaleh, which controlled a major share of the market for services.

Consequently, the KAAA became motivated to change the structure of power in the Kuwaiti market for accounting services by favouring indigenous accountants and limiting the dominance of foreign firms. This move by the KAAA was justified by the need to create more opportunities and increasing market share for indigenous accounting firms. Although the number of indigenous accountants was still very modest in the early 1980s, the KAAA, supported by the state, promoted the issuance of Practice Law No. 5 in 1981 restricting market entry to indigenous accountants and excluding foreign accountants.

This study explored the circumstances that motivated the shift in the market from open to closed by utilizing the theorizations of conflict and social closure. The empirics show that KAAA members became the dominant group
among indigenous accountants (Abbott, 1988) by directing the process towards market monopoly, having been mobilized by the support of the state to become the superior group in the market for services, and therefore succeeded in regulating the market to their benefit. The study shows that in response to the dominance of foreign accounting firms and accountants, and following incidents of conflict in the market, the KAAA was motivated to adopt a closure strategy. The closure strategy utilized by the KAAA was facilitated by the state, hence market entry was restricted to indigenous certified accountants who were members of the KAAA through the issuance of Practice Law No. 5 in 1981. Consequently, the KAAA was able to attract more members.

5.2 Limitations

A few limitations were encountered during the preparation of this thesis. The main limitation was the lack of availability of archival material, which would have provided further support to the analysis of the thesis. The inability to obtain some of the archival material was caused by two main factors. Firstly, many government, KAAA, and company records prior to 1990 were lost following the Iraqi invasion of Kuwait in 1990, whether by acts of vandalism, destruction, or theft by Iraqi invaders. While in other studies primary data is extracted from archival material, such as meeting minutes and correspondence of state committees and professional associations, which provide documentation of arguments and rationales of state representatives and professions (Annisette, 2000; Birkett & Evans, 2005; Carnegie & Edwards, 2001; Chua & Poullaos, 1993, 1998; De Beelde, 2002; Dedoulis & Caramanis, 2007; Macdonald, 1984; Van Wyhe, 2007a, 2007b; Walker, 1995, 2004; Walker & Shackleton, 1995; Willmott,
1986; Zeff, 2003), in this study many of the necessary records were unavailable, for example, some of the meeting minutes of the KAAA, and records of accountants registered with the MOC prior to the enactment of Practice Law No. 5 in 1981. The loss of the MOC registry records made it difficult to identify and locate most of the foreign accountants, and reduced the possibility of interviewing them. Therefore the analysis of the market conflict from the perspective of foreign accountants relied on the interview of only one pioneer foreign accountant.

Secondly, confidentiality issues were encountered when a request was made to review the records of the CEAR. The introduction of the CEAR by the state and the subsequent participation by the KAAA was one of the main changes to the accounting profession during the 1980s, and the ability to access these records would have provided deeper understanding of the extent of the state–profession axis and the nature of the KAAA’s influence over the accounting standardization process in Kuwait. Another confidentiality issue was encountered when accounting and auditing firms were asked to provide records of their clients. Even though only minimal information was requested, such as the names of their clients to enable an analysis of market share, this request was denied.

A further limitation was the poor archiving system in Kuwait state agencies. Even though some documents had survived following the Iraqi invasion of 1990, the MOC representative noted that they had been randomly collected in boxes without any form of archiving system or labelling being used, and then moved to a distant warehouse, which made retrieval unavailable.
5.3 Implications

This study makes several contributions to the fields of accounting profession and professionalization project research knowledge, both theoretically and empirically. The study provides a historical context for the development of accounting in Kuwait as an Arab British protectorate with a special economic environment, that of a HIOEC, that has not been previously conducted on the scale of a PhD thesis. The historical context describes the transformation of a poor economy, politically dependent on the British Empire since 1899 for the governance of their external affairs, into a rich economy, that of a HIOEC, that gained full independence in 1961.

Accordingly, the following section outlines the contribution of the thesis to research on a theoretical level, followed by a discussion of the study’s contribution on an empirical level.

Theoretical and empirical implications

This thesis adds to the existing body of literature on historical studies of the accounting profession and professionalization projects. The main contribution of this thesis is that it addresses the case of Kuwait, an Arabic former British protectorate, whereas previous studies have focused on former colonies outside the Arab region. In addition, the study reflects on the influence of socio-economic factors on a special group of countries recognized as HIOECs (Bank, 1988; Yapa & Wijewardena, 1996), a group that is differentiated from other developing countries (Yapa & Wijewardena, 1996). Accounting is a part of the broader social system (Verma & Gray, 2009), therefore the study shares the value of all historical accounting profession studies in “understanding the factors that
influence the development of this profession contribute to efficient decisions that will provide the best value to the society” (Pholkeo, 2013). As the thesis is presented in thesis by publication format, the contribution of the individual papers is summarized as follows.

**Chapter 2**

The first paper examines the historical transformation of Kuwait’s socio-economic environment from a simple trading economy to an oil-rich economy. The study covers the period from 1899 to 1973, examining the extent of British imperial influence, the influence of the state–profession axis, and the impact of cultural and regional ideologies on the emergence of the KAAA in 1973. The research is guided by the British imperial tendencies identified as influencing accounting education and professionalization projects of former British colonies by Poullaos and Sian (2010). However, the study examines the extent of British imperial influence exerted through these tendencies in the case of a protectorate, rather than a colony, thereby making a valuable contribution to the literature on British imperial influence. The research revealed that because Kuwait was a protectorate, the imperial tendencies were minimal, and neither as evident nor as strong as in former colonies. Thus, the study of the Kuwait professionalization project showed that not being subjected to the imperial tendencies identified by Poullaos and Sian (2010) as a British protectorate, rather than as a colony, was the main reason why there was minimal British influence on accounting professionalization in Kuwait.

The empirics of the study also reveal how the conditions of the protectorate treaty, which prohibited British interference in internal matters,
helped to preserve the local culture and ideologies, in particular the social culture of Dewaniya as a form of grouping that influenced the emergence of the KAAA. This, along with the political atmosphere and the presence of Arabic nationalism movements in the Middle East during that period, led to more regional influence, especially in relation to the drafting of accounting legislation.

**Chapter 3**

The second paper explores the influence of changes in the socio-economic environment on changes in the accounting profession. The study applies McKinnon's (1983, 1986) theory of social change, which is utilized by Verma and Gray to study the emergence of the accounting association in India (Verma & Gray, 2006), and is also applied in a later study investigating the social, cultural, political, and imperial influences on the promulgation of the Companies Act of 1956 (Verma & Gray, 2009). In applying McKinnon's social change theory, Verma and Gray note that the framework is helpful in identifying socio-economic changes and the consequent development of the accounting professionalization project and changes in corporate legislation as part of a country's overall social system, and especially helpful in identifying the intra- and trans-system activities of the social, political, and economic environments. The value of this theory is also evident in this study, in that it enabled the identification of intrusive events in the socio-economic environment of Kuwait in the late 1970s and early 1980s, namely various financial crises, that led to changes in the accounting profession. The intra- and trans-system activities reveal how the state, influenced by these financial crises, initiated change from a centralized system to one that incorporated the profession and academia in the process of drafting and
monitoring the application of accounting standards and legislation, and overseeing accounting practise.

The empirics of the study show how the change in state policies and the state–profession axis motivated a) the change in the KAAA to an active accounting association, and b) the emergence of a co-operative relationship between the state, the profession, and academia. Verma and Gray (2006) identify some limitations of the theoretical framework in relation to the complexity involved in allocating events into the source, diffusion, and reaction phases. However, these limitations were overcome in this study by the chronological segmentation of phases and consecutive events.

**Chapter 4**

The third paper investigates the closure strategies deployed by the Kuwaiti Association of Accountants and Auditors (KAAA) in the 1980s to restrict market entry to indigenous certified accountants. Further, the study highlights similarities and differences between the Kuwaiti trajectory and those portrayed in previous cross-nation professionalization project studies.

On a theoretical level, the study shows that similar to many professionalization projects, following incidents of conflict in the market, the KAAA members acted as the dominant group among indigenous accountants (Abbott, 1988) and directed the process of exclusionary closure and monopolizing the market for accounting services with the support of the state, which enabled the KAAA to become the superior group in the market for services and succeed in regulating the market to their benefit. The KAAA succeeded in applying closure to exclude foreign accountants and non-certified indigenous
accountants. The empirics of the study based on interviews, exam records, and KAAA meeting minutes show that in contrast to strategies of closure through credentials identified in the literature, the case of the KAAA shows that although they enjoyed a co-operative relationship with the state, the KAAA did not seek full control over the certification exam, but was satisfied with exerting influence through the organization of exam preparation courses and joint participation in the MOC certification exam committee, along with representatives from the MOC and Kuwait University.

5.4 Suggestions for future research

This thesis fills a gap in historical studies of the accounting profession and professionalization projects by introducing the case of an Arabic former British protectorate, Kuwait. However, future research could be undertaken to examine the history of professionalization projects in other Arabic countries. Studies in this under-researched area are needed in order to explore the factors that have influenced the accounting profession, accounting education, and in particular, professionalization projects. De Beelde (2011) notes that studies of Arabic countries are required in order to fill existing gaps in the professionalization project literature. Studies of Arabic countries have the potential to provide diversity in the professionalization project literature, and to explore the influence of the state, the economy, culture, and colonization on professionalization projects. Further, they could serve to investigate the influence of Arabic nationalism movements and the establishment of the Arab Federation of Accountants and Auditors (AFAA) on accounting standards, the accounting profession, and professionalization projects in the Arab region.
The second chapter of this thesis identifies a direct influence of Egyptian professionals and laws on the integration of Egyptian and Kuwaiti laws as a result of Arabic movements in the Middle East. However, exploring how the integration of Egyptian and Kuwaiti laws might have resulted in indirect influence by Britain, given that Egypt was a former British colony, is not within the scope of this study, but is potentially a fruitful area for future research.

Further, although Yapa (1999) is a pioneer in conducting a study of the accounting profession in Brunei Darussalam, one of the HIOECs (World Bank, 1988; Yapa & Wijewardena, 1996), more in-depth studies are needed in order to analyse the influence of the special economic characteristics of countries in this category on the evolution of the accounting profession and professionalization projects.
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Appendix

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28 March 2011

Associate Professor Elaine Evans
Faculty of Business and Economics
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Reference: 52011H00202(D)

Dear Associate Professor Elaine Evans,

FINAL APPROVAL

Title of project: Accounting professionalization and education in emerging economies: the case of Kuwait.

Thank you for your recent correspondence. Your response has addressed the issues raised by the Faculty of Business & Economics Human Research Ethics Sub Committee, and you may now commence your research. The following personnel are authorised to conduct this research:

Elaine Evans - Chief Investigator/Supervisor
Noure Abdullah - Co-Investigator
Maria Dyball - Co-Investigator

Please note the following standard requirements of approval:

1. The approval of this project is conditional upon your continuing compliance with the National Statement on Ethical Conduct in Human Research (2007).

2. Approval will be for a period of five (5 years) subject to the provision of annual reports. Your first progress report is due on 28 March 2012.

   If you complete the work earlier than you had planned you must submit a Final Report as soon as the work is completed. If the project has been discontinued or not commenced for any reason, you are also required to submit a Final Report on the project.

   Progress Reports and Final Reports are available at the following website:
   http://www.research.mq.edu.au/researchers/ethics/human_ethics/forms

3. If the project has run for more than five (5) years you cannot renew approval for the project. You will need to complete and submit a Final Report and submit a new application for the project. (The five year limit on renewal of approvals allows the Committee to fully re-review research in an environment where legislation, guidelines and requirements are continually changing; for example, new child protection and privacy laws).

4. Please notify the Committee of any amendment to the project.

5. Please notify the Committee immediately in the event of any adverse effects on participants or of any unforeseen events that might affect continued ethical acceptability of the project.

6. At all times you are responsible for the ethical conduct of your research in accordance with the guidelines established by the University. This information is available at: http://www.research.mq.edu.au/policy
If you will be applying for or have applied for internal or external funding for the above project it is your responsibility to provide Macquarie University’s Research Grants Officer with a copy of this letter as soon as possible. The Research Grants Officer will not inform external funding agencies that you have final approval for your project and funds will not be released until the Research Grants Officer has received a copy of this final approval letter.

Yours sincerely

Julie Zeller
Chair, Faculty of Business and Economics Ethics Sub-Committee