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THE ARAB JOURNAL OF ACCOUNTING

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Dividend Payout, Earnings and Size in Banking Sector: Evidence from Kuwait

Dr. Abdullah AL-Mutairi *

Dr. Husain AL-Omar *

Abstract

Researchers have been puzzled by the distribution of cash and stock dividends, the puzzle stems from the fact that effective tax on cash dividends is higher than that on capital gains, while stock dividends will not affect shareholders wealth as it is merely a capitalization of reserves. Several theories have been introduced to resolve this puzzle. The current study differs from those done on tax based economies due to the fact that in Kuwait there is no tax on dividends or capital gains, thus the tax related issue does not apply and accordingly a clearer insight on the determinants of cash dividends might be reached.

The results of this study show a significant impact of profitability, stock dividends, size, and lagged cash dividends, where profitability, size, and lagged cash dividends have positive effect, while stock dividends, has a negative effect. However, the results indicate that the variation in cash dividends is mainly determined by variation in profitability and last year cash dividends. The introduction of stock dividends did not significantly increase the explanatory power of the model, nor did the introduction of size implying that despite their statistical significance, these variables have a limited effect on dividend policy by the sample banks. Accordingly, it might be argued that these results are in support of Lintner's smoothing hypothesis.

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الأرباح الموزعة، العوائد وحجم المشروع في قطاع البنوك: حالة الكويت

د. عبدالله المطيري

د. حسين العمر

ملخص

حظي موضوع سياسات توزيع الأرباح باهتمام وتباين كبير في وجهات النظر وذلك في إطار ما أطلق عليه "لغز الأرباح الموزعة"، ذلك أن ارتفاع نسبة الضريبة على الأرباح الموزعة عنها على المكاسب الرأسمالية يجعل من توزيع الأرباح أمراً غير منطقي. لذلك فقد ظهرت نظريات متنافسة لتفسير سبب قيام الشركات بتوزيع الأرباح. وتتميز الدراسة الحالية كونها تطبق على حالة لا توجد فيها ضرائب على الأرباح الموزعة أو المكاسب الرأسمالية مما قد يساهم في التوصل إلى نتائج أكثر وضوحاً حول موضوع سياسات توزيع الأرباح بعيداً عن إشكالية الضرائب.

وتشير نتائج الدراسة إلى أن توزيعات الأرباح النقدية تتأثر طردياً بكل من العائد على السهم، إجمالي الأصول، والتوزيعات النقدية للفترة السابقة، في حين تتأثر عكسياً بتوزيعات أسهم المنحة. إلا أن العائد على السهم والتوزيعات النقدية للفترة السابقة هما الأكثر أهمية في التأثير على سلوك التوزيعات النقدية وأن المتغيرات الأخرى رغم معنويتها الإحصائية ذات تأثير محدود، حيث أن إضافتها لم يترتب عليها زيادة هامة في القوة التفسيرية للنموذج. وعليه يمكن القول أن نموذج "لننتر" يمثل النموذج المناسب لتفسير سياسات توزيع أرباح قطاع البنوك بدولة الكويت.

* بلدية الكويت

* قسم الإدارة وقسم الاقتصاد، كلية الدراسات التجارية، دولة الكويت

1. Introduction

Although the dividend policy of publicly listed firms has been a subject of considerable theoretical and empirical research, the decision to distribute dividends is still a puzzle for modern finance. The main issue in this debate is that since dividends are subject to higher tax rates than capital gains, then why firms and investors prefer the former.

Accordingly, the purpose of this study is to examine the relationship between dividend distribution and the attributes of listed commercial banks in Kuwait Stock Exchange (KSE), as an example of an emerging stock exchange where there is no tax paid on dividend or capital gains. This might help in clarifying the issue of dividends distribution away from tax related puzzle.

The following sections of the study are a brief review of related literature followed by previous studies, and an overview of Kuwaiti banks. The fifth section presents the data and its properties, the model and the empirical results are offered in section six, and the paper ends with a conclusion.

2. Related Literature

Despite the Miller and Modigliani (1961) argument that the firm's value is determined only by its basic earning power and its business risk not by dividends payout, the issue of why firms distribute dividends is still a matter of dispute at both theoretical and empirical levels. The literature on cash dividends takes two routes, the first concentrates on the relation between dividends and stock price, while the second emphasizes the factors affecting the decision to distribute dividends and the variation in their magnitude. According to Lintner's (1956), dividend payout depends heavily upon current earnings and previous dividends. Although earning has been proposed as one of the factors that explains dividend policy decision, the portion of earnings that is distributed to shareholders is adversely affected by the firm's liquidity needs and future capital expenditure among other things; accordingly, dividend policy is expected to differ among firms and through time.

Finance literature has shown many reasons of paying dividends which is still one of the finance puzzles called "dividend puzzle" (Black, 1976). However, the explanation of dividend distribution is based on two main arguments; one is related to the management's attitudes to the dividend distributions while the other is related to the investor's attitudes.

For management, two hypotheses are introduced namely information asymmetries and socioeconomic issues. It is appeared that decision maker of dividend policy is forced by more than one goal and there is no single explanation of dividends (Brook et al., 1998). The first hypothesis is information asymmetry which consists of the effect of signalling, agency cost, and free cash flow. The signalling effect assumes that firm pays dividend as a signal to investor about firm's future prospects (Baker and Powell, 1999). There is a belief that managers only raise their dividend when future earnings are expected to increase and there is an expectation of good times. Therefore, dividends serve to investors as signal about the firm's current and future performance. In order to serve the dividend as a signal, dividend should provide the market with the useful information, which can not be conveyed by alternative forms of communication (Zeng, 2003). Thus, the favourable signal will affect firm market value and achieve higher market price for the firm's stocks. Although the literature provides little evidence that dividend changes predict increase in earnings (Benartzi et al., 1997),

Lintner (1956) pointed out that dividend is used as signal of its earning quality. He argued that the firm's value decreases as the dividend payout increases because investors are less certain of receiving the capital gains, which are supposed to result from retaining earnings than they are of receiving dividend payment.

The effect of agency cost assumes that firm is likely to distribute cash dividends to avoid the conflict that exists between management and shareholders due to the separation of management and ownership (Jensen and Meckling, 1976). If there is not sufficient cash flow, this would force firm to look for external sources of finance in order to be subject to the scrutiny of a third part (Partington, 1985). There is an argument that monitoring by outside suppliers of capital force managers to act to the best interest of outside shareholders (Rozeff, 1982 and Easterbrook, 1984). Hence dividends contribute to reduce the effect of agency costs from three angles. First, they put pressure on management to make sure it generates enough earnings to be able to pay out the dividends. Second, they may force managers to raise outside funds to finance their projects. Investors find this process desirable because they are able to observe the terms on which new funds are raised, and perhaps the identity of the new suppliers of funds. Third, they reduce the amount of free cash flow that managers can waste on unprofitable investment projects.

The effect of free cash flow assumes that management is likely to distribute dividend when there is excess funds that it has no way to reinvest, in an attempt to reduce free cash flow, eliminate wasteful investment projects, and satisfy shareholders. The free cash flow may be used as an indicator for a favourable level of firms' liquidity and leverage, which encourage management to pay high dividend payments. Therefore, free cash flow is developed to promote managers to clear the cash rather than investing it at below the cost of capital, or wasting it on managerial issues. Jensen (1986) stated that firm is likely to distribute dividends from the free cash flow since it might overcome the cash available for spending at the discretion of management. As results, it provides a defence to the firm against management that might benefit itself from the available cash flow. The literature provides a positive relationship between the increase of firm growth opportunities and the decrease of managerial actions (Gaver and Gaver, 1993).

The second hypothesis refers to the socioeconomic variables. It might reflect the attitudes of firms' managers to the dividend distribution. Managers might distribute dividends in response to the actions of competitive firms. Moreover, managers might be influenced by the stockholders' expectation regarding dividends. Therefore, they may pay dividends to appease investors if they found that shareholders prefer dividends.

For investor, two hypotheses are introduced namely the bird-in-the-hand and the tax effect. The bird-in-the-hand hypothesis assumes that investors think dividends represent a sure thing for shareholder as compared to capital gains; therefore, they prefer dividends (Lintner, 1956). Pettit (1977) called such kind of investor behaviour as a clientele-effect who prefers high payout stocks. Therefore, management is likely to pay dividend as an attempt to satisfy the shareholders desire and to maintain their loyalty.

The tax effect hypothesis assumes that the higher rate of taxation on dividends relative to capital gains has a negative impact on high-dividend stock prices. Thus investors avoid high-dividend stock in general. However, investors seem to stick with firms that have dividend policies appropriate to their particular tax circumstance.

3. Previous Studies

Number of studies has been conducted to examine the factors behind affecting dividend distribution. They are shown that firm is influenced by its attributes in paying dividend. The firm's attributes includes profitability (Fama and Babiak, 1968 and Baker et al., 1985); risk (Pruitt and Gitman, 1991); agency cost (Jensen and Meckling, 1976; Rozeff, 1982 and Easterbrook, 1984) expected future earnings and past dividends (Lintner, 1956; Baker and Powell, 1999, Naceur et al., 2006 and Ariotis et al., 2007); cash flow (Alli et al., 1993); dividend stability (Kevin, 1992 and Omet, 2004) and firm size (Zeng, 2003 and Al-Malkawi, 2007).

Profit has been observed as a main indicator of a firm's capacity to pay dividends. Lintner (1956) examined the factors behind distributing dividends of 28 firms for the period of 1947-1953. He found that dividend relied heavily on the firm's current earnings and previous year dividend. This finding is confirmed by Fama and Babiak (1968) who found that net income seems to provide a better measure of dividend than cash flow. These findings are consistent with others such as (Baker et al., 1985; Pruitt and Gitman, 1991 and Alli et al., 1993). Kevin (1992) argued that dividend stability is more important than the profitability itself in determining dividend distribution. Naceur et al., (2006) examined the dividend policy of 48 firms listed on the Tunisian Stock Exchange during the period 1996-2002 and found that Tunisian firms rely on both current earnings and past dividends to fix their dividend payment. However, they showed that dividends tend to be more sensitive to current earnings than prior dividends. However, Ariotis et al., (2007) examined the dividend policy of Greece banks during the period 1997-2001 and provide evidence that last year dividends of Greece banks are unrelated with the current dividends.

Pruitt and Gitman (1991) found that risk which represents the variability of earnings from year-to-year is considered a major factor in determining the firms' dividend policy. They found negative relationship between variability of earnings and the dividend payout. They showed that the firm's ability to predict appropriately to its future dividend when it has stable earnings. Pruitt and Gitman reported that firms with high level of market risk are likely to pay fewer dividends. In addition, there is a negative relationship between the firm's growth and paying dividend since growing firms are likely to be less dividend due to their need for finance their working capital that are normally exceed the incremental cash flows from new sales.

Jensen and Meckling (1976) proposed an agency cost effect to explain the dividend payout. They pointed out that agency cost arises when there is a suspect that management serves its own interests not the shareholders. They found that managers prefer to be observed by outside experts rather than shareholders. Therefore, they tend to pay dividends. These findings are on line with the findings of others such as Rozeff, 1982; Easterbrook, 1984 and Collins et al., 1996.

Omet (2004) examined the dividend policy behaviour of firms listed on the Jordanian capital market during the time period 1985-1999. He found that Jordanian firms follow stable cash dividend policies. Moreover, Al-Malkawi (2007) provided evidence that the firm size and profitability are the main factors being determining the corporate dividend policy in Jordan. This finding is consistent with the finding of Kowalewski et al., (2007) for 110 non-financial listed companies on Warsaw Stock Exchange.

Concerning the Gulf Co-operation Council (GCC) studies, there are few published studies

examined the dividend policy. Al-Deehani and Al-Loughani (2004) used questionnaire survey as a tool to investigate the residual dividend model through the analysis of the relationship between dividend policy and financing decisions. They found that listed firms in KSE have become less likely to pay cash dividends. Al-Deehani et al., (2005) argue that change in cash flow and change in investment are two explanatory variables of dividend change added to Lintner's model that confirmed the earnings and previous dividend. Furthermore, Bouresli and Abdulsalam (2005) examined the non-financial institutions and found that due to the absence of tax advantage of debt in Kuwait, earnings are the main determination of dividend payout decision.

The only published study which examined the dividend policy of banking sector on the GCC markets by Naser et al., (2004). They used all listed banks in the GCC stock markets during the period from 1995 to 2000. They provided evidence that dividend payout ratio is influenced by the profit and the bank's size.

These studies, in general, tried to explain the dividend behaviour over time with the help of past dividends, earnings and size. But none of the studies in the GCC case, tried to explain the behaviour of pay-outs of banking sector in one particular country, which we think a key factor for the differences among dividend pay out policy across firms. In view of these facts, the present study aims to examine the Lintner model and to identify other factors influencing dividend distribution of banking sector in Kuwait which represents different environment, face different risks than non-financial institutions and its liabilities are mostly short-term and are payable on demand.

4. An overview of Kuwaiti Banks

The banking sector in Kuwait consists of seven traditional banks, two Islamic banks, and one specialized bank. The study sample consists of the following seven listed traditional banks: National Bank of Kuwait (N), Commercial Bank of Kuwait (C), Gulf Bank (G), Al-Ahli Bank of Kuwait (A), Bank of Kuwait and the Middle East (B), Burgan Bank (BB), and Kuwait Real Estate Bank (K). This group, which captures 79% of total assets of the banking sector, has witnessed significant increase in both assets and profits during the period from 1980 to 2004 as table (1) shows. Total assets of the sample banks increased from 5.8 billion KD in 1980 to 15.6 billion KD in 2004, while profits increased from 39 million KD in 1980 to 390 million KD in 2004. This indicates an improvement in operational efficiency as profits grew by an average annual rate of 14% compared with a 4.7% average annual increase of assets.

Concerning the behavior of earnings per share (EPS), cash dividend (CD), and stock dividend per share (SD), table (2) shows that the sample banks distribute both cash and stock dividend, however, the later has been declining over time while the former is increasing, as figure (1) shows. This trend might reflect the decline in capital expenditure needs of these banks. The percentage of CD out of EPS has been increasing on average for the whole sector from 45.4% during the eighties to 67% during the nineties to 77% during the period from 2000 to 2004. However, this percentage has been fluctuating from a low of 26% in 1984 to a high of 88% in 1987. This trend is in line with the agency cost theory as firms distribute an increasing portion of their profits. In general, the percentage of CD out of EPS for the sector is the higher on average and more stable than that of the other sectors in the market.

Turning to the stock market performance of the banking sector, table (3) shows that the banking

sector was the dominant in terms of volume during the eighties, however, this dominance declined significantly afterwards. The contribution of the banking sector to both the volume and the value of traded shares declined from 45% and 74% respectively in 1985 to 7% and 10% in 2004 in favour of investment companies sector.

5. The Model and Data Properties

The study will examine the relationship between cash dividend per share (CD), and the following four variables: earnings per share (EPS) as a measure of profitability, stock dividend per share (SD) as a substitute for cash dividend, firm's age (Y) as a proxy for maturity, and total assets (TA) as a proxy for firm size, for the seven Kuwaiti banks. Yearly data covering the period from 1980 to 2004 is used in order to track the development of this relation over a long time span. The data was obtained from KSE and Kuwait Institute for Banking Studies (IBS) publications.

5.1. The Model

The relation will be tested using the following general model:

$$CD_t = \beta_0 + \beta_1 EPS_t + \beta_2 SD_t + \beta_3 TA_t + \beta_4 Y_t + \beta_5 CD_{t-1} + e \quad (1)$$

This model captures the main determinants of cash dividends cited by the relevant literature as discussed earlier. It is expected that cash dividends will be positively affected by profitability (EPS), banks' size (TA), banks' age (Y), and last year cash dividend (CD_{t-1}); while stock dividends (SD) are expected to negatively affect cash dividends.

5.2. Stationarity Test

To avoid the problem of spurious regression, the variables are first tested for stationarity to ensure that all variables are stationary and are integrated of the same order. Therefore, Augmented Dickey-Fuller (ADF) and Phillips-Perron tests are used to test for stationarity of the variables. The results as shown in tables (4) and (5) are mixed especially for firm's age and total assets, therefore, the study will assume that all variables are first difference stationary except for firm's age which is stationary in its level. Accordingly, the results indicate the possibility of long-run relation between cash dividends and the other variables except for firm's age.

5.3. Cointegration Test

Based on stationarity test results, the next step is to test for possible long-run equilibrium relation between the dependent variable and the independent variables, except for firm's age, using the cointegration test developed by Johansen (1991). The test was conducted assuming linear deterministic trend in the data, the results in table (6) indicate the existence of cointegration among the variables, and thus the existence of a stable long run relation between cash dividend and the explanatory variables used in this study for the sample banks.

6. Empirical Results

Pooled data estimation is applied to the whole sample using the previous general model. Now, since the variables used in this study are found to be integrated of the same order and cointegrated, then the previous model is estimated using the variables in their log level form in order to capture the long-run properties of the relationship between the dependent variable and the explanatory variables. Three models regressions were conducted the first one using EPS and last year CD, the second added SD to the model, and the last one used all the variables. The purpose of this was to assess the explanatory power of these variables.

The results, as shown in table (7), indicate that profits measured by earning per share (EPS), firm size proxied by its total assets(TA), and last year cash dividends (CD_{t-1}), all have a positive significant effect on cash dividends, while stock dividends (SD) has a negative significant effect. The positive impact of EPS is expected as higher profits will result in higher CD; on the other hand, the significant impact of TA indicates that firm size does play a role in dividend policy as larger banks tend to distribute higher cash dividends. The negative impact of SD indicates that CD and SD are substitutes in the dividend policy decision by the sample banks, a result that might reflect investors' preferences toward those two alternatives. In fact, the absence of taxes in Kuwait may make cash dividends, stock dividends, and capital gains acceptable substitutes for investors. In addition, the positive effect of lagged CD indicates that banks do take into account last period CD in deciding current CD, thus supporting the smoothing hypothesis.

However, the results indicate that the variation in CD is mainly determined by variation in EPS and last year CD, a result in line with the smoothing theory (Lintner, 1956). The introduction of SD did not significantly increase the explanatory power of the model, nor did the introduction of TA, implying that despite their statistical significance, those variables have a limited effect on dividend policy by the sample banks.

To check for possible change in the nature of this relation between the period before the Iraqi invasion and after the liberation, the model was retested by dividing the sample into two periods, the first is from 1980 to 1990, and the second is from 1991 to 2004. The results, as shown in tables 8 and 9, indicate that the relation between cash dividends per share and the explanatory variables in the second period is slightly stronger with stock dividends become significant. Therefore, it might be argued that this relation has become stronger during the post liberation period.

Now, concentrating on Lintner's model it is clear that during the first period the sample banks are not reluctant to cut dividends as indicated by the significantly negative constant, and that a relatively high proportion of changes in earnings is directly reflected in cash dividends, and finally, that dividends are not stable during this period and consequently are not smoothed, as indicated by the relatively high speed of adjustment ($1-\beta_5$) which equals 0.7.

The results however, changed significantly during the second period as the constant term becomes positive indicating that banks no longer prefer to cut dividends, the sharp decline in the proportion of changes in earnings reflected in cash dividends, and the significant decline in the speed of adjustment to 0.53 indicating that the sample banks change there policy in favour of dividend smoothing.

These results are in line with the speed of adjustment estimated by other studies on other

countries such as the 0.52 obtained by (Omet ,2004) for Jordan, the 0.66 reported by (Stacescu ,2004) for Switzerland, and the 0.71 estimated by (Pandey and Bhat ,2004) for India.

7. Conclusion

This study has attempted to understand the factors affecting dividend policy for Kuwaiti banks. For this purpose, annual data for cash dividend, stock dividend, earning per share and total assets covering the period from 1980 to 2004 are used for a sample of seven banks. The data are first tested for stationarity and cointegration; the results indicate that the variables for the sample banks are first difference stationary except for firm's age which was stationary in its level. Concerning cointegration, the results show the existence of cointegration among the variables. The study then turns to estimate a pooled data model using the variables in their level. The results show a significant impact of EPS, SD, TA, and lagged CD, where EPS, TA, and lagged CD have positive effect, while SD has a negative effect on CD. Therefore, dividend policy of the sample is affected by profitability measured by EPS, firm size measured by TA, stock dividend, and last year CD. The last variable may capture the tendency to maintain a stable CD. However, it may be argued that EPS and last year CD are the main factors explaining the behavior of CD in the case of the Kuwaiti banks, and thus Lintner's Model is the best to explain dividend policy in this case.

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Table (1) : Banks Total Assets and Net Profits 1980-2004 (in million KD)

Banks	TA					NP				
	1980	1990	2000	2004	Average Growth	1980	1990	2000	2004	Average Growth
A	1021	1629	1152	1705	2.8	4	3.2	10.2	27.2	24.2
B	550	922	1032	1754	9.1	3.5	6	14.3	22.8	23.0
BB	409	1126	1132	1738	13.5	1.9	4.6	20	29.6	60.7
C	1005	1628	1544	1825	3.4	7.4	3.9	30	62.3	30.9
G	1168	1531	1653	2286	4.0	5.8	6.2	35.4	74.6	49.4
K	310	463	646	736	5.7	4.1	4.3	4.3	23.5	19.7
N	1373	3377	4093	5573	12.7	12.5	37.3	100	150	45.8
Total	5839	10676	11254	15619	7.0	39.3	65.5	214.3	390	37.2

Table (2) : Banks Profitability and Dividends ,Period average (in Fills except SD)

Banks	1980-1989			1990-1999			2000-2004		
	EPS	CD	SD	EPS	CD	SD	EPS	CD	SD
A	23.5	7.3	9.2%	6.6	2.1	1.9%	21.9	15.2	0.8%
B	22.8	6.8	10.7%	9.2	4.2	1.6%	23.4	13.0	0.0%
BB	13.2	2.8	7.8%	10.8	5.9	1.6%	26.2	17.0	3.0%
C	24.7	8.0	8.6%	11.3	4.3	2.0%	42.4	33.0	0.0%
G	24.2	8.3	12.1%	26.6	18.6	2.3%	61.2	46.2	1.0%
K	24.8	9.8	6.3%	9.9	5.9	2.5%	26.0	10.6	9.4%
N	45.0	18.6	15.7%	43.7	34.1	4.0%	78.2	58.4	2.0%

Figure (1): The trend of average EPS, CD, and SD for Kuwaiti Banks

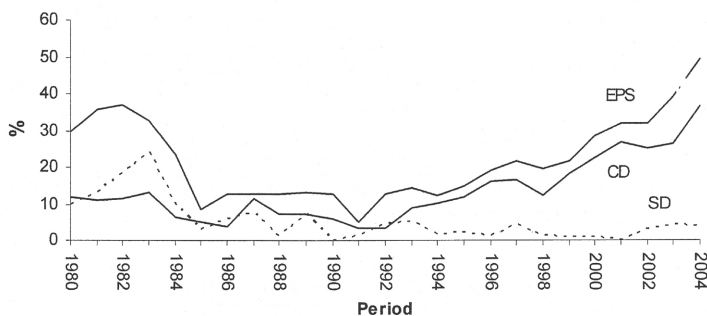


Table (3) : Banks stock market performance (in millions except Index)

Year	Banks			Market		
	Volume	Value	Price Index	Volume	Value	Price Index
1980	47.6	n.a	n.a	143.7	n.a	n.a
1985	18.9	83	n.a	42.2	111.5	n.a
1990	359	211	n.a	754	260	n.a
1995	2,859	754	1296.8	9,055	1,908	1005.1
2000	1,157	365	1684.4	6,758	1,290	1348.1
2001	3,326	1,140	2513.2	16,300	3,581	1709.4
2002	3,631	1,619	3271.2	27,837	6,680	2375.3
2003	4,088	2,323	4662.9	49,563	16,250	4790.2
2004	2,339	1,529	5199.2	33,536	15,274	6409.5

Table (4) : Dickey-Fuller Test

Banks	LEVEL					1 ST DEFERENCE					2 nd DEFERENCE				
	CD	SD	EPS	Y	TA	CD	SD	EPS	Y	TA	CD	SD	EPS	Y	TA
A	-1.39	-2.5	-2.5	-3.9*	-1.3	-3.7*	-5.1*	-3.6**	-	-3.8*	-	-	-	-	-
B	-2.4	-1.7	-2.6	-23.1*	-0.6	-4.4*	-4.7*	-3.3**	-	-3.9*	-	-	-	-	-
BB	-1.5	-2.5	-2.6	-2.8	-1.5	-4.9*	-6.02*	-4.7*	-3.4**	-2.3	-	-	-	-	-
C	-2.2	-2.9	-2.8	-3.6**	-2.09	-6.3*	-7.1*	-4.7*	-	-3.2**	-	-	-	-	-
G	-1.3	-2.1	-1.9	-3.6**	-2.3	-3.8*	-5.2*	-3.2**	-	-3.3**	-	-	-	-	-
K	-3.2**	-2.5	-2.9	-20.5*	-1.08	-4.5*	-4.2*	-4.7*	-	-2.5	-	-	-	-	-3.7*
N	-0.4	-1.8	-2.3	-46.3*	-1.1	-4.5*	-4.6	-4.2*	-	-3.7*	-	-	-	-	-

- significant at 1% ; ** significant at 5%.

Table (5) : Phillips-Perron Test

Banks	LEVEL					1 ST DEFFERENCE				
	CD	SD	EPS	Y	TA	CD	SD	EPS	Y	TA
A	-2.3	-3.6**	-2.4	-9.1*	-10.7*	-7.3*	-9.2*	-4.5*	-	-
B	-2.5	-2.6	-3.5**	-18.6*	-18.6*	-5.4*	-8.8*	-7.8*	-	-
BB	-2.9	-5.1*	-4.8*	-11*	-11*	-9.2*	-	-	-	-
C	-2.3	-3.6**	-3.5**	-6.6*	-6.6*	-6.2*	-9.3*	-6.7*	-	-
G	-1.3	-2.5	-3.7*	-6.6*	-6.6*	-4.6*	-7.3*	-	-	-
K	-2.8	-3.1**	-2.8	-16.4*	-16.4*	-4.5*	-6.8*	-5.2*	-	-
N	-0.3	-2.2	0.3	-38.2*	-38.2*	-7.01*	-7.1*	-3.2**	-	-

* significant at 1% ; ** significant at 5%.

Table (6) : Cointegration Results

	# Of C.E's	Likelihood Ratio
A	1	65.7**
B	1	67.6**
BB	1	67.6**
C	1	66.1**
G	2	101.5*
K	1	63.9**
N	1	68.5**

*significant at 1% level , **significant at 5% level

Table(7) : Pooled Regression Results for the entire period

	C	EPS	SD	TA	CD _{t-1}	R ²	F	DW
β	0.17	0.33	-	-	0.47	0.61	133*	2.2
(t)	1.1	7.5*	-	-	7*			
β	0.26	0.37	-0.12	-	0.44	0.62	93.3*	2.2
(t)	1.7***	7.4*	-2.6*	-	6.7*			
β	-5.9	0.36	-0.13	0.30	0.38	0.63	74.4*	2.2
(t)	-2.8*	7.5*	-2.9*	2.9*	5.2*			

significant at 1% level , **significant at 5% level, *** significant at 10% level. (t) = t- statistic

Table(8) : Pooled Regression Results for the period 1980-1990

	C	EPS	SD	TA	CD _{t-1}	R ²	F	DW
β	-0.61	0.62	-	-	0.3	0.56	44.9*	2.1
(t)	-2.71*	7.29*	-	-	2.05**			
β	-0.58	0.51	0.11	-	0.35	0.57	31.1*	1.9
(t)	-2.4*	4.3*	1.6	-	2.4*			
β	-6.4	0.57	0.07	0.28	0.29	0.58	25.07*	2.04
(t)	-2.1**	5.1*	1.04	1.9**	1.9**			

Table(9) : Pooled Regression Results for the period 1991-2004

	C	EPS	SD	TA	CD _{t-1}	R ²	F	DW
β	0.39	0.34	-	-	0.47	0.68	104.7*	2.5
(t)	2.3*	8.09*	-	-	6.3*			
β	0.55	0.38	-0.29	-	0.42	0.71	81.6*	2.2
(t)	3.4*	8.7*	-3.7*	-	6.3*			
β	-5.5	0.37	-0.29	0.30	0.35	0.72	64.2*	2.19
(t)	-2.2**	9.3*	-3.8*	2.4*	4.3*			

significant at 1% level , **significant at 5% level. (t) = t- statistic

Reflections on Teaching Accounting Courses in Some Developing Countries: Is Achieving Excellence Possible?

Dr. P.L. Joshi *

Abstract

In modern paradigm, accounting educational literature has been placing due impetus on professional competencies and critical-thinking skills for accounting students. Reinforcing the same theme, this paper looks at the self reflective and integrated strategies in teaching accounting courses in some developing countries in order to enhance learning and teaching skills of students. The paper also discusses the problems faced by instructors in teaching accounting courses in developing countries. Despite the prevalence of various constraints in some developing countries, the paper suggests how an instructor can develop a participative, innovative and communicative-oriented independent learning styles of teaching for the students. Such integrated strategies should enhance students' cognitive and critical- thinking skills, which may be somewhat lacking in the developing countries. Furthermore, the paper suggests that an instructor should also adjust his/her teaching styles and strategies in order to accommodate cultural differences.

Key word: Professional Competencies, Critical Thinking Skills, Accounting Education, Developing Countries, Students' Learning, Excellence. Assessment, Problem-based Learning.

تأملات في تدريس مقررات المحاسبة في بعض الدول النامية: هل ممكن تحقيق التميز؟

د. بل جوشي*

ملخص

في النموذج الحديث تقدمت المراجع المتعلقة بالتعليم المحاسبي نتيجة الزخم الحاصل في المنافسة المهنية ومهارات التفكير الخلاق والناقد عند طلبة المحاسبة. تهدف هذه الورقة للنظر في التأمل الذاتي والاستراتيجيات المتداخلة المتعلقة بتدريس مقررات المحاسبة في بعض الدول النامية وذلك بهدف تطوير مهارات التعلم والتدريس. وتناقش الورقة أيضا الصعوبات التي تواجه المدرسين في تعليم مقررات المحاسبة في الدول النامية، بغض النظر عن انتشار مختلف المحددات في بعض الدول النامية. تقترح هذه الورقة كيف يمكن أن يقوم المدرس بتطوير أساليب واستراتيجيات المشاركة والإبداع في عملية تدريس الطلبة. ومثل هذه الاستراتيجيات المتكاملة سوف تؤدي إلى تطوير وتنمية مهارات التفكير الخلاق والإبداع عند الطلبة لتعويض النقص الحاصل في هذا المجال في الدول النامية. وتقترح هذه الورقة أيضا أن يقوم المدرس أو المدرسة بتعديل أساليبهم واستراتيجياتهم المتعلقة بعملية التدريس لكي تتوافق أو تتماشى مع الاختلافات الثقافية.

الكلمات المفتاحية: المنافسة المهنية، مهارات التفكير الناقد، التعليم المحاسبي، الدول النامية، تميز تعليم الطلبة، التقييم، صعوبات التعليم.

Developing Countries and Teaching Accounting Courses

Among all countries of the world, developing countries constitute the majority. The developing countries have certain common characteristics, inter alia, low gross domestic product (GDP), limited or insufficient use of resources, high population growth rate, dependence on agricultural production, inability to compete in the global market place, limited economic growth rate, low productivity, high unemployment, an unhealthy brain drain and poor educational systems. These countries have been struggling to improve quality of education and are also endeavoring to boost their industrialization in manufacturing and services sectors. Furthermore, for several decades, academics and others have expressed concern at the irrelevance and inappropriateness of accounting systems in many developing countries (e.g. Enthoven, 1977; Briston, 1978; Chaderton and Taylor, 1993). These countries face problem of adequately supplying well qualified accountants to such industries. The International Federation of Accountants (IFAC) and Certified Internal Auditors (CIA) World Fact book (2004) reported that most of the developing countries have far less qualified accountants than the developed world. Furthermore, a recent survey by IFAC (2007) stated, "the limited supply of qualified accounting professionals is having a negative effect on the growth of some national economies, notably in Africa, the Middle East, North Africa, and North America, where the most pressing staff shortages exist."

Accounting is said to be the primary language used to process, integrate, and disseminate information throughout the veins of today's businesses (Noe, 2000). As such, accounting, as a discipline is reshaping itself in line with the complexities of business, and the advancement in information technology in the age of globalization. Consequently, the changing scenario is creating new challenges for accounting instructors e.g. teaching International Accounting, Corporate Financial Reporting and Advanced Management Accounting. To cope with these challenges, accounting instructors have to continue to strive for teaching excellence. Many university accounting departments, in developing countries, are reforming their missions and targets by creating a collegial environment for learning that fosters productivity through teamwork, nurturing professional development, and recognizing valued individual and group contributions, resulting in satisfied employees. The following is an example from the Accounting department, Institute of Business Administration, Karachi, Pakistan:

"This Department is a source of quality accounting education and research and is committed to achieving excellence in the development, and application of financial and managerial accounting, knowledge about the functioning of private, public and not-for-profit organizations in a global environment. The teaching mission of the Department of Accounting is to produce outstanding graduates by offering comprehensive, state-of-the-art educational programs. It seeks to provide students with unique opportunities for personal and professional growth by increasing their competence and improving their skills for learning, analyzing, and critical thinking. The department aims to prepare the students for a stewardship function in the organizations they work for. It also organizes an annual faculty workshop in the methods of teaching of accounting"*.

Ewell (2001) argues that accounting educators have long realized that developing learning skills

*(<http://www.discussionabout.com/institute-of-business-administration-karachi-pakistan-t1925.html>)

in students is of greater importance than **rote learning (learning by repetition or memorization)** of technical and specialized material. This method of teaching helps to develop students' critical thinking skills rather than the retention of a common body of knowledge. Assuming that no one method would provide the best approach for all student needs, a variety of teaching methods and styles might be required for enhancing critical thinking among students. Kelly et al. (1999) state that although no single model or unified theory of learning exists, the importance of active learning, the construction of knowledge, co-operation, teamwork and learning through problem solving is gaining recognition. Ewell (2001) further argues that different delivery styles might also improve student comprehension. For example, by varying the delivery method, say from lecture to group activity to individual presentation, instructors can assist students in finding an avenue best suited to help the student achieve the learning objectivity. The objective of using a variety of teaching methods is to teach students to analyze ideas or issues critically, to develop students intellectual/thinking skills, so that they can comprehend principles and concepts (Ewell, 2001).

Experiences have shown that it is not so easy in developing countries to be successful in teaching because of a paucity of resources, which makes it difficult to ensure those faculties have the tools to effectively create, deliver, evaluate and improve their instructional programs.

Furthermore, several accounting departments teach accounting in their national languages and not English. This also restricts teaching by being unable to provide quality-learning materials to the students because standard textbooks and research journals are not available. In many universities in India, Bangladesh, Thailand, and the Middle East, the quality of text materials prepared by instructors in languages other than English may be of concern.

In several universities, computer and information technology resources, such as access to Internet facilities are also limited. **Many universities in Africa, India, Pakistan, Bangladesh, Indonesia, Sri Lanka, Egypt, Yemen, Thailand, Russia and in its Federations are yet to even provide e-mail facilities to all their accounting instructors (this information is derived from random search through Internet of several universities in these countries).**

Furthermore, instructors are the key factors in improving the quality of accounting education in any environment whether developed or developing. However, in many developing countries such as the Middle East region, a good percentage of accounting faculty is hired on contract basis. Sometimes, this two tier system of hiring faculty, may result in tension because of differences in salary packages., lack of understanding the local environment. and culture by the hired faculty. It may be argued that educational process is dominated and influenced (embedded) in culture in which it exists. So the problems of teaching in developing countries, are inextricably tied to and contained//constrained by the cultural and language imperatives of the dominant culture and social structures (Collier,2003). Teaching accounting in these countries may be difficult of language barrier because students many times may not understand the jargons or not easily convinced with the ideas or knowledge given.

In developing countries, most of the accounting departments are teaching departments. The importance of research is realized, but not emphasized. This is one of the reasons for the generally poor accounting research publications record in developing countries. Nevertheless, the need remains to emphasize teaching competencies to enhance the critical -thinking skills of the students in these countries. In this regard, some of the prior research work done in the context of developing countries are described below.

Empirical Documentation

Most of the experiences of teaching accounting courses are documented in accounting education literature from North America (Watson, et al. 2003; Kerr and Smith, 2003; Bonner, 1999), only recently some attention has been focused on the experiences of teaching accounting in developing countries. For example, Devlin and Godfrey (1998) report their experiences of exporting accounting education to sub Sahara, Africa. Devlin and Godfrey (2004) discuss the experience of exporting accounting education to Albania and examine the difficulties that emanated from seeking to foster a spirit of independent learning. Cultural factors were considered responsible for this situation. Dixon (2004) provides some evidence of his experiences and reflections on participant-observation in accounting education in Kiribati, a remote country of atolls scattered around the Pacific. Similarly, Ahmad and Gao (2004) report on the development of accounting education in Libya, analyzing the changes in accounting curricula and highlighting some contemporary issues. The focus of these studies on how learning competencies and critical-thinking skills can be enhanced is limited. In Libyan context, Ahmad and Gao (2004) shed some light on various skills and competencies of students' learning.

Accounting education literature mentions three main approaches in teaching accounting e.g. deep approach, surface approach and strategic (achieving) approach, (see, Entwistle, 1987). Cooper (2004) reports the comparative findings of different learning approaches (surface and deep learning approaches) of Chinese and Australian students. While, Jayapraksh (2005), in Malaysian context, discusses the importance of teaching strategies and argues the accounting industry faces rapid changes such as the advancement of new accounting software and packages, which have the capacity to manage the large volumes of accounting. Her paper further addresses the issue of how the teaching of accounting can be developed to suit the needs of students when they enter the workplace. However, these studies places little emphasis on teaching competencies and critical-thinking perspectives in accounting students.

Objectives

In developing countries, one of the concerns is that the current methods of teaching accounting courses generally focus on “how” approach rather than “why” approach which is considered more successful. This paper attempts to provide an insight into how accounting educators can strive to achieve excellence in teaching accounting courses in different environments and cultural settings. It discusses various teaching styles and strategies used by the author while teaching accounting courses for over 25 years that were effective in enhancing students' learning and critical thinking. The paper covers issues in teaching in developing countries, mainly professional competencies, course outline and communication, problem-based learning –cases and guided design, group learning and drama, use of information technology in teaching, importance of independent learning, integration of ethics into courses, performance assessment, students' feedback, development of an instructor's teaching skills, and cultural issues. As developed countries subscribe to many of these ideas and many of their institutions operate in the Middle East region, therefore, the teaching experiences and experiments of the Middle East are more focused in this paper.

Professional Competencies

In the past, Commissions and Committees concerned with accounting education have placed emphasis on professional competencies and critical-thinking for accounting students. The American Institute of Certified Public Accountants (AICPA, 1998) Special Report on The Competency-Based Professional Curriculum has emphasized four core areas in which teaching and learning should be focused. These are functional competencies, personal competencies, broad business perspective competencies and the integration of these. These points are explained in Table 1.

Table 1: Core Professional Competencies

Competencies	What it means?
Functional competencies	These are technical competencies which accounting students should be able to use: strategic and critical approaches to decision-making. They must objectively consider issues, identify alternatives and implement solution-oriented approaches to add value.
Personal competencies	These competencies involve the attitudes and behavior of those preparing to enter the profession. Communication is one example of a personal competency: Individuals entering the profession should have the ability to listen, deliver powerful presentations and produce effective business writing.
Broad business-perspective competencies	These relate to understanding the business context in which accountants perform services. Strategic or critical-thinking is a broad-business-perspective competency. It encompasses the ability to link data, knowledge and insight from various disciplines to appropriate information helpful in decision-making. Use of technology is a critical part of this competency.
Integration	While functional, personal and broad business competencies are each independently important, students must be able to integrate the skills from all three categories.

In addition to the above, it needs to be highlighted that the philosophy of teaching and learning of accounting courses should be consistent with that of the Accounting Education Change Commission (AECC, 1990), which stated: in 1990:

“Accounting programs should not focus primarily on memorization of technical facts. Students should be taught the skills and strategies that help them learn more effectively of how to use these effective learning strategies to continue to learn throughout their lifetimes. Students must be active participants in the learning process, not passive recipients of information. They should identify and solve unstructured problems. Learning by doing should be emphasized. Working in groups should be encouraged. Accounting classes should not focus only on accounting knowledge. Teaching methods that expand and reinforce basic communication, intellectual, and interpersonal skills should be used”.

Focusing on Enhancing Students' Critical Thinking

The accounting education literature contains several references to "critical-thinking," including calls for the improvement of critical- thinking skills (intellectual skills) in accounting students (e.g. American Accounting Association, 1986; Arthur Andersen, et al 1989; Accounting Education Change Commission, 1990; Deppe et al. 1991, American Institute of Certified Public Accountants, 1999, and PricewaterhouseCoopers, 2003). Furthermore, several references are also available on the pedagogical techniques purported to improve those skills (e.g., Rodgers, 1992; Francis, et al. 1995; Wolcott and Lynch, 1997; Bonk and Smith, 1998; Wolcott, 1998; Wolcott and Lynch, 2002, Wolcott et. Al, 2002). The Accounting Education Change Commission's (1990) call for teaching critical-thinking in accounting courses may be viewed as a call for teaching logic.

Accounting education literature and professional institutions, such as AICPA suggest a number of teaching strategies and classroom techniques, such as enhanced (modified) lecture, questioning and discussions, writing cases, problem-based learning: cases and guided design, group learning-teamwork, group learning-cooperative learning, drama, technology-visual and computer-based instructions, technology-based delivery, fieldwork-service learning, and field work-accounting internship. As a result of the author's research and drawing on experience of more than two and half decades of teaching accounting courses in some developing countries' environment, several of these teaching strategies have been used. Applying these tools, techniques and strategies will help an instructor to be effective in classroom teaching and will help enhance the students' critical thinking skills.

Course Outline and Communication

A well-designed course syllabus establishes expectations for the student. The syllabus should articulate goals for the course that include learning as well as content goal. I call them Intended Learning Outcomes (ILOs). They relate to knowledge and understanding, analytical skills and intellectual skills (see, for sample, Appendix IV)

The author's course syllabus include materials required, intended learning outcomes, topics to be covered, teaching methods, assessment criteria, text and reference books and a list of websites, topics for projects with guidelines, type and nature of questions in the examinations and their proportions, and any policy or procedure that affects the participation and evaluation of the students. A course syllabus is a type of contract between the instructor and his/her students, which should be adhered to the fullest extent possible. However, it should not be too rigid, and because circumstances may lead the instructor to make a few changes later, this should be clearly communicated to the students.

Many writers have identified the development of communication skills as vital in accounting courses (Colvin, 1994). It is argued that often communication skills can be enhanced via the application of group activities and projects. These group activities and projects are usually of an unstructured nature and assist the students in group problem solving and understanding of the accounting concepts and issues.

During the semester, the instructor should communicate with students about what he/she

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expects from them and also what kind of attitude and temperament, he/she would expect or hope for. For example, in senior level classes, it should be emphasized to the students that the course is difficult but the instructor can be flexible when this is warranted. Perfect discipline is expected in the class but the instructor is there to help the students either in or out of the class room. The students are told that some words are not in instructor's vocabulary like fair or unfair; easy or difficult which students often use with their instructors. The students are communicated to that the instructor prefers good interaction between students and consider them to be competent and intelligent by the type of questions they raise, not the grades they secure in the exams. The students are often told that they are not expected to dictate or guide the instructor on the exams because examination is an instructor's prerogative. The graduating students are communicated to that there is nothing called easy or difficult exams because very soon they will be in the market place facing not easy but challenging tasks. Therefore, this is the right time to build confidence, team spirit and a positive attitude if they plan to have a successful career. Beside, they are given clear and thorough instructions for assignments, group work, projects etc.

Experiences in teaching in Indian, Middle Eastern, Asian, African and Turkish cultures are similar. Before conducting the exams, the students are told that the instructor will test them from three or four angles-- their knowledge and understanding (multiple choice questions), analytical skills (direct or indirect essay questions) and intellectual skills e.g. critical thinking (cases or case situations). Accordingly, the majority of my students remain vigilant and keep themselves prepared from very beginning of the semester.

In a nutshell, the author emphasizes on students to follow a deep approach to learning rather than a surface approach to learning. The deep approach to learning should improve their analytical and critical- thinking skills. These skills are in high demand by industry with respect to modern accountants (Joshi and Bremser, 2004).

Class Size

Teaching large classes is demanding and difficult. Among other things, as the size of a class increases, the challenges associated with building a participation-based class culture intensify. Sometimes, students do not prepare well for a large class because they believe they will not be asked questions. Sometimes, the sheer size of the class is intimidating and inhibits some from participation because no formal incentives exist (e.g., no part of their grade is participation-based). Whatever the reason, it is clear that as the size of a class increases, it is more and more difficult to keep everyone involved in the discussion.

In spite of these very real issues, it is important to try and create an open discussion orientation in large classes. Student learning levels improve when the participants in a class are actively involved in the material. A participation-based culture can be successfully crafted in such a setting. However, in the Middle Eastern culture, an instructor usually has a very hard time driving and motivating students towards serious class participation. Generally, students with a private school background are more communicative and participative in the class. However, students with a Government or Municipality school background often lack serious communication skills, and they hesitate to participate.. There has been some evidence in this regard in some countries (e.g. Brock-Utne, & Holmarsdottir, 2004; Watson, 2004).

The author usually tries to make students who ask questions feel like they have done him a favor by asking a question. The author tries to reward a student for asking a question by saying "That's a great question" It has also increased instructor's knowledge.

Group Learning and Drama

The use of group learning activities in the accounting curriculum has been strongly encouraged by the AECC (1992, 1990). In line with this, usually groups are formed in each class both for discussions and assignments and then periodically questions are posed to the groups for discussion among them while seated in their class. The basic purpose of this is to induce a team spirit in them, and for communicating that this is the way they work as teams and not individually. One volunteer from the group comes forward and explains their viewpoint in front of the whole class. For example, in Accounting Information Systems course, each group is asked to design certain source documents e.g. an invoice, a purchase order, a bill of lading, and a shipping document. In the same course, the students are given a case, which contains 25 statements and are asked to identify which are bookkeeping activities and accounting activities. Students come out with a variety of answers, seldom matching tested answers, Such experiments have often generated lively discussion among the students.

For example, in Accounting Theory and Current Issue courses, the students were divided into two groups to discuss arguments for and against certain themes and issues e.g. public sector versus private sector approaches for setting accounting rules; whether rule-based accounting principles or principle-based accounting principles are the best; or whether SMEs should have a separate set of IFRSs or they should apply the full set of IFRSs. In the light of recent increases in fraud cases and audit failures, the topic for discussions might be "are accountants and auditors a threat to society? Such topics often generated thought provoking discussions in a participative environment.

Problem-Based Learning –cases and guided design

Organizations require integrated problem identification and problem-solving skills and the ability to address issues across the traditional boundaries of academic disciplines. Employers are asking universities to prepare learners who are able, first of all, to flexibly make decisions and rapidly complete organizational tasks in multifunctional teams. Problem-based learning (PBL) is a possible solution to achieve this end which aims at encouraging development of critical-thinking skills, a high professional competency, problem-solving abilities, knowledge acquisition, the ability to work productively as a team member and make decisions in unfamiliar situations (e.g. see, Engel, 1991; Albanese and Mitchell, 1993; Ryan and Quinn, 1994). In PBL, this is achieved by using situations or problems that resemble reality. PBL is typically conducted using cooperative learning groups (Anderson and Henley, 1994) and is usually conducted in a face-to-face setting. Appedix-1 shows how this teaching strategy was used by the author in one of his courses.

Cases may be used to integrate business issues in accounting courses. Using a case-based method of teaching and learning is very fruitful for the students' learning and in developing intellectual skills. This not only exposes them to real world situations but also improves their communication skills when presenting the analysis of cases in front of an audience. For example, while teaching

IAS and IFRS, specifically teaching IAS 14, IAS 16, IAS 36, IAS 37 and IFRS 2 in an International Accounting course, a number of practice case examples are used to interpret concepts and principles to students. In this regard, Kerr and Smith (2003) found that

“The instructor respondents believe the use of examples and discussions of implications is the most effective method of enhancing student learning. The complexity of accounting can often cause confusion and frustration in students. Effective accounting teachers anticipate this problem and can, to a large extent, overcome it by using clear, relevant examples to explain and illustrate difficult concepts.”

Students are provided an opportunity for presentation of the specific topic on which they should research and collect information from various sources. For example, in Current Issues in Accounting courses, many students were able to assist companies in Bahrain in developing a Balanced Scorecard framework while working and completing their projects in this area.

Students ability to work in groups, both small and big, can also be enhanced by getting them involved in projects relating to group work and interviewing skills (Schlesinger, 1996). I arranged for students to interview managers to find out the type of business organization they belong to and then collect information about their functions, departments and other details. Simulation games are another useful method of teaching however, such games are limited in accounting.

Guest Lectures

The role of outside lecturers from the business community in accounting courses cannot be undermined. I have found it very useful to have practitioners as visiting lectures in my courses. For example, the Chief Accountant from GPIC, Bahrain, gave illustrative explanations on “Measurement of Profits” from a very practical angle and the pressures under which accountants have to work in the industries. Similarly, an Audit Manager from PWC, Bahrain, lectured to our students in “Current Issues in Accounting’ on “Fraud Accounting” illustrating practical case studies. A consultant from KPMG, Bahrain, explained in details the applications, interpretations and problems of “Hedge Accounting” under IAS-39 in International Accounting Course. Others delivered talks on Cost Management practices. Similarly, students were exposed to Islamic Accounting and Auditing practices by inviting guest lecturers from an Islamic Bank, in Bahrain. An eminent Professor Belverd E. Needles, DePaul University, USA, when he was on a visit to Bahrain, also delivered a guest lecture to our students by sharing his research findings. In sum, using visiting lectures from firms have also improved links between our teaching and business community. It also greatly facilitates our students in collecting data and develop case studies when projects are assigned to them in various accounting courses.

Use of Information Technology

The use of computers and information technology in accounting courses is a very useful tool for effective teaching and learning. Accounting software packages such as Peachtree and QuickBooks provide a good opportunity for the students to familiarize themselves with practical aspects of computerized accounting and information systems. For example, while teaching Accounting Information Systems to fourth year students, they are taken to the computer lab for one-two weeks

to explain and demonstrate how accounting is done in a computerized system. Projects are given to the students requiring them to visit commercial companies in Bahrain to study their accounting systems e.g., the business cycles of companies, and ask the students to prepare reports under specific guidelines provided to them. In this regard, Bagranoff (1993) states that commercial use of software developed for use by commercial enterprises, prepares students for life long learning as well as complex technological environment. This form of technology equips students with critical-thinking skills to solve problems, as students have to derive their own skills with the instructor just giving guidance in the form of a facilitator.

Following the above approach of teaching, at the end of the semester, the majority of the students seem happy and satisfied with the course and their feedback were often highly favorable saying that they have learned all aspects of accounting information systems including the practical side.

Brown, Baldwin-Morgan, and Sangster (1995) identify two areas in which IT can be integrated in teaching accounting courses, for example, teaching accounting students about expert systems, and using expert systems to teach accounting. However, such tools were never utilized in the classes as these areas need specialized knowledge and expertise.

Integration of Ethics into Courses

As the people with accounting responsibilities often face situations where information may result in adverse economic consequences or reallocation of resources to a new set of priorities, therefore, the author always tries to create a positive learning environment and discuss some diversity issues. Nancy (2005) states that with the major ethical problems that have developed in recent years, it is extremely important that this topic be included in accounting classes to ensure that accounting students understand the importance of ethics (Nancy, 2005).

Students in the Middle East are hard working and active in the society because of religious beliefs which motivate them to learn and translate their learning into future plans and for the welfare of the society. In ACC 491 course "Current Issues in Accounting, one of my colleagues shared her teaching skills in this course and discussed with the students the various dimensions of Ethics for Accountants and Auditors.

Independent Learning

In senior classes, the students are provided with the opportunities for independent learning. They can achieve this through searching for information on the Internet, libraries and other sources. Tell them the definite sources and introduce them to the librarian so that they often visit a library and use the resources. In every semester, students are asked to give presentations on innovative ideas and emerging issues in accounting. They are required to search information on such topics from various sources including from companies. Furthermore, to encourage independent learning in them, every semester in International Accounting, students are communicated to through course outlines that they will be required to have self study on a topic from the text book and a quiz carrying 5-10% will be conducted. This is important because a textbook approach to teaching and learning sometimes narrows the students' knowledge and thinking. Such an approach fosters independent enquiry and intellectual independence among students. Kelly et al. (1999) believe that in our fast

changing society, we must produce graduates who have learned how to learn and who are capable of continuously adapting themselves to help in the ongoing development of society.

Updating of course content is also very important. This is the work of the curriculum committee in most Accounting departments. This is especially needed with the Intermediate and Advanced level courses e.g. Intermediate Accounting II, International Accounting, Management Accounting, Advanced Auditing, Accounting Theory and Current Issues in Accounting. For example, while teaching Current Issues in Accounting, some topics are changed after every two or three semesters. In the current semester, five new topics of current relevance are added in this course like Corporate Social Reporting and Environmental Accounting, IFRS 2: Shared-Based Payments, and IASB's Development of Accounting Standard for SMEs, Behavioral Theories in Accounting and Islamic accounting and auditing practices (see Appendix –II) .

Summarization and Assessment of Performance

Once an instructor finishes a topic, it is always better to provide a summary of the chapter to build self-confidence among the students so that they remain with the course. Provide a self-evaluation quiz at the end of completing each topic. Often it is found, that students have short memories of the topic you teach and they prepare themselves only 24-48 hours before the start of any exam. This is risky for them as so many exams fall around the same period and they often get frustrated which impairs their performance.

The students performance are assessed in a variety of ways depending on the nature of the course and the course policy adopted. Periodically, assess students' performance through quizzes, assignments, take home cases, presentations and mid term tests. The students are explained the nature of their mistakes and how the questions should have been answered or written so as to obtain better grades. Often it is found that students forget material during the examination and when they leave the examination, suddenly they realize or remember how they should have answered a particular question. The students are reminded of this weakness and explained in detail the art of preparation for an examination. Confidence building is an important tactic for them.

Students' Feedback

I consider student feedback and evaluation an essential part of the quality assurance process in any accounting program or course. It is a crucial factor in ensuring satisfaction as I consider them a valued consumer of educational services. The students' feedback is taken into consideration and weight is given especially in faculty promotion and at the time renewal of contract of the expatriates' staff. The students' feedback is also utilized by the Departmental Chairperson in allocating courses to instructors in subsequent semesters. However, students' feedback is not communicated back to students and to advisors in helping students make informed course selection decisions, which may be a common practice in many universities in North America (e.g. University of Minnesota , 1997).

Often, at the end of a class, I ask my students to write down one thing that they didn't understand from that day's class. Then, I examine those questionnaires, and clarify those points in my next class or at the time of revision. This process ensures that once many students have questions, they

will be more inclined to ask questions vocally during class. Frequent drilling of this process helps students' to clarify their concepts more clearly and for an instructor to focus more on the students' weaker side of understanding in the classroom.

I also tell my students to have a self-evaluation at the end of each semester in terms of their academic progression: Did my GPA increase? Did my intellectual skills improve apart from acquiring knowledge and understanding? Did my communication skills improve? Did my attitude change a bit?

Development of Instructor's Teaching Skills

Accounting instructors are expected to understand the emerging trends that are taking place in theory and practices and change their role and practice accordingly. To update myself specially in the areas of international accounting and improve teaching skills, the author regularly visits several websites, most importantly among them are: www.iasplus.com; www.iasb.com; <http://www.ifac.org>; <http://www.aicpa.org> <http://www.fasb.org>, To enhance teaching skills, every year, the author participates at least in two international conferences e.g. European Accounting Association's Congress. During this period, the author intensively interacts with other instructors from North America and Asian universities and discusses about their teaching experiences and innovative methods of teaching. The author attends the special technical sessions on accounting education in these conferences. From time to time, the author also attends workshops and seminars conducted by Bahrain Accounting Society (BAA) and other local organizations in Bahrain. One better method, for young accounting instructors in developing countries, to improve their teaching skills might be to intern with an accounting/auditing and auditing firm. Besides, attending continuous professional development courses in accounting will enhance their teaching skills.

Frequent industrial visits and interactions with accountants and auditors of audit firms will also help an instructor not only in updating the practical aspects of accounting, but also in understanding the gaps that exist in theory and practice. Therefore, an understanding of the complexities of the accounting profession will give students a realistic and positive context for learning accounting.

Some scholars in the UK suggest the use of "Advanced Skills Teacher" (AST) concept (see, <http://www.teachernet.gov.uk/professionaldevelopment/ast/>) which is devised to reward excellent teachers who wished to remain in the classroom and spend the equivalent of one day or a week supporting other teachers in developing their skills and experience through the sharing of best practice ideas and approaches. An AST is recognized through external assessment as having excellent classroom practices. However, the author feels that this concept is more relevant at school level teaching rather than at the level of college or university teaching.

Cultural Issues

Culture plays an important role in cognitive development of learners through social interaction and discourse. Accordingly, cultural dimensions of learning need to be adequately addressed in designing and delivering instruction (McLoughlin, 1999; Thomas, Mitchell, & Joseph, 2002), which is an issue particularly relevant to fostering collaborative learning among culturally diverse learners.

Therefore, in any environment, there are cultural variables that may hamper class participation because in some cultures, for instance, it is considered inappropriate to "question" the teacher and to disagree with the other students. In other environments like the Middle East, there is cultural shyness among students that prevents them from being more participative in class discussions. The percentage of female students in most classes are generally as high as 75-80%. In this cultural environment, female students are more attentive but less participative due to cultural shyness. To overcome this problem to a certain extent, students are told that the class is like a family environment, therefore creating more or less an informal learning environment and sometimes offering incentives in the form of bonus marks for participation. In order to capture their attention, the students are given practice-based examples from local companies and organizations reflecting local environment e.g. IAS/IFRS practices of BATELCO, ALBA and banks. Sometimes, students are fed deliberately with incorrect information in order to see their reactions and whether they are attentive or not. Students often come out with strong reactions pointing out the errors in the information.

In order to raise their self-confidence for participation, students' capabilities are not underestimated and the author often asks them whether they may contribute any additional points or quote examples which will also increase the instructor's knowledge.

It is to be noted that teaching in Middle Eastern universities is very challenging due to the cultural shyness. Often we have to strike a balance between the thinking of liberal group of students and conservative thinking type of students. Some of the female group of students do not like to sit in a class with male students. Hence, the common practice in most of the classes is that female students sit in one group and male students in another group. Despite this, still many of them cannot move away from cultural shyness.

One positive aspect of cultural shyness is that it inhibits unnecessary distractions during lectures. For example, once during a lecture, with a majority of females present and few males were absent from the class, it was noticed that the females acted in a more relaxed way with side chatting and informal discussions in a very noticeable manner.

Furthermore, sometimes lack of proficiency in the English language is also a constraint in students participation. This was more encountered in a Turkish environment because Turkish students find it very hard to achieve proficiency in the English language. In the Middle East cultural environment, this is a less acute problem.

Conclusion

Currently, there is a strong belief that strengthening accounting instructors' knowledge and skills through high quality professional development and research will improve the quality of instruction. Improving the quality of instruction will ultimately increase student learning. However, in developing countries, many accounting instructors are not receiving the professional development they need, and at the same time, what they receive is not necessarily of high quality. Therefore, it is essential that enhancing an instructor's understanding of effective instructional strategies should be scientifically based on continuing education and research.

Accounting is a communication-intensive discipline even though there is a common perception that an accountant works simply with numbers. However, the reality is that accountants communicate financial data to information users of a firm, providing analysis and interpretation of these data in a

variety of contexts. In recent issues of *Accounting Education An International Journal*, a few articles show that globalization is forcing accounting educators to react to new challenges. Also, many accounting questions are essay-based because accounting is about judgment not just counting etc. At the same time, communication research clearly reveals that those who talk the most (in terms of frequency and duration) exert the most control over the rhetorical environment.

I have provided my views on how accounting educators can strive to achieve excellence in accounting courses in different environment and cultural settings by discussing various teaching styles and strategies. In striving for excellent in teaching accounting courses, I view the following as most important to focus on every class:

- Anticipate the teaching environment.
- Plan carefully for each lecture.
- Combine lecturing with other teaching techniques.
- Organize the lecture according to sound principles of speech construction.
- Use visual aids when appropriate.
- Value student reactions and never overlook them.
- Seek feedback on teaching from multiple sources and analyze the areas for improvement, if possible.
- Always try to formulate good examples especially from corporate practices because they convince students.
- Emphasize that part of your lecture material which enhances intellectual skills of the students.
- Do not try to cover too much material, because students may perceive an information overload problem.

Based on experiences from teaching accounting in several cultural environments the student's learning characteristics in developing countries may be classified into three categories: smart working students 5-10 %; hard working students 70-75%, and hardly working students 15-20%. Hence, the critical- thinking skills for hard working students become very important and teaching competencies and strategies may be developed according to their needs. Any accounting instructor who acts as a learning coach, uses group projects and reports, the sharing of writing exercises and solutions to problems, brings real life examples to students, uses information technology, employs PBL and collaborative learning, will promote a positive class atmosphere and critical thinking among the students. Any mastery- based teaching strategy (ies) will need a process of incremental refinements and improvements to traditional teaching strategies to succeed in improving student performance in accounting courses. It should also be remembered that cultural differences can be a source of fascination which may force an instructor to adjust his/her teaching strategies and styles in order to accommodate cultural differences.

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Appendix –1

The following role play/case study explains how the technique of Problem-Based Learning teaching techniques were helpful in enhancing to a certain extent the critical thinking of our students in ACC491 'Current Issues in Accounting' course at the University of Bahrain. The methodology used in the role play/case study was to divide the students into four groups, each group consisting of ten students. All four groups were given the same case scenario, clues and were asked to refer to some websites on these cases.

The students were supplied four solutions with clear instructions that one of the solutions may or may not be correct and in their presentations they would have to justify why they chose one of the solutions or a different solution. The case material was distributed to them two weeks in advance providing them sufficient time to meet and discuss among themselves as well as search materials on websites. Each group was given 30-35 minutes for presentations and raising questions from other groups and also from the instructor. To our surprise, all the four groups arrived at the same solution with strong justifications. This analysis was also forwarded to AICPA for their information and reactions.

Case Scenario

(For details : http://www.aicpa.org/download/antifraud/case3_scenario.pdf)

This case is about a lead guitarist for the Heavy Metal Band Emergency Crew, Derrick Fleming, better known as Flame, which had been cranking out gold records and selling out concerts since the late 1980's. Victoria, Flame's wife, managed her husband's finances until their daughter, Golden was born in 1997.

No matter who his side players were, the band's manager Flame made it a policy to split all record royalties and concert revenues equally among the three band members. Since Emergency Crew headlined the Heavy Metal Millennium concert, both the band and the Fleming family have been on a downslide. Flame recently fired drummer Rex Ales, claiming he could no longer trust him. Keyboardist Blaine Niles remains with the Band, but refuses all interviews about the breakup. Golden Fleming was diagnosed with a rare childhood genetic disorder. This disease is treatable, but will require expensive medication. Under this strain, Derrick and Victoria have been separated for two years and recently filed for divorce. Victoria petitioned the court for support payments of \$50,000 a month for her and her daughter.

Derrick is offering only \$10,000 a month, claiming his royalty income from CD sales has dropped due to free downloads of music from the Internet. This has been confirmed by his current financial manager, his brother Shane. When Victoria asked for a list of their assets, Derrick claimed he's been forced to sell off many of his cars, rare paintings and custom guitars in order to stay afloat. Victoria is accusing him for hiding assets and under-reporting revenues from concerts and sales, so he won't have to take responsibility for his daughter's medical expenses.

Clare, CPA, CFE (Certified Forensic Accountant), has been hired by Victoria to help uncover the truth about her husband's financial situation.

Analysis and group presentations made by the students on this case:

Type of evidences, which were collected by Clare:

a) Motive evidence: The forensic accountant got her hearing back while she was walking around in the shadows backstage after the concert.

b) Modus operandi evidence: When Clare went to the office and began looking through the files backed up from Victoria computer (data mining).

C) Real evidence: Checking account program, which Flame had apparently been using for 18 months to keep track of his personal expenses. The records showed that Shane had been using the concert profits, always paid in cash to keep them off the books, to purchase gold for Flame through an offshore service and deposit it in a Swiss bank account to keep it from showing up on Flame's list of assets (Document).

Solution A:

Solution A is accepted because it mostly supports the findings of hidden assets, which are common ways in which a spouse may undervalue or cover up marital assets, as follows:

- Clare noticed that Flame was playing different custom-made guitar for every song, this hobby equipment is expensive so it could be overlooked or undervalued as one of the common ways in which a spouse may hide an asset.
 - Clare saw Derrick hand checks to the other two members but give his brother cash. This action represents an attempt to hide assets by Flame because unlike checks, cash cannot be traced, but checks could be reviewed to determine their origin.
 - Clare found in the files backed up from Victoria computer a small checking account program, which was buried among Flame's huge collection of computer games. This program had been used by Flame for 18 months to keep track of his personal expenses. Furthermore, the records showed that his brother Shane had been using the concert profits, always paid in cash to keep them off the books, to purchase gold for Flame through an offshore service and deposit it in a Swiss bank account to keep it from showing up on Flame's list of assets:
- a) Those personal expenses could be considered as a type of hidden assets. Because out of these expenses it can be proved that Flame is generating revenues and enjoying spending them behind Victoria's back.
 - b) The gold that is purchased and deposited in a Swiss bank account is obviously a type of investment, which generates revenues and is considered as hidden assets.
 - c) It was figured out that, Flame's most recent transactions were 50,000 per month.
 - d) Those findings used as evidence by Clare to request a court order to audit Flame's account. Finally, Flame confessed to hiding the assets and agreed to pay the full support amount Victoria had requested.

Limitations of the Other Solutions:

Those solutions were not accepted to the group for the following reasons:

Solution B:

1. Clare did not attend the concert because Emergency Crew is not her style of music. As a forensic accountant (FA) Clare should separate her personal interests from her professional career.
2. The, Clare, called Derrick and told him about the rare genetic disorder of the ex-drummer's, Lance, daughter, which is the same disorder affecting Derrick's daughter, Golden. As a FA, Clare should act in the best interest of her client, Victoria. She was not supposed to disclose such critical information to Derrick, who may use it against her.
3. Since the daughter, Golden, is 6 years old and the ex-drummer, Lance, had moved to Italy 8 years ago, it is difficult to say that he could be her father. As a result, this conflicts with the results of the DNA tests, which proved that Lance was Golden's father.

Solution C:

1. As Flame is a famous musician and he used to be in a good financial position, he would not have a financial manager who would ruin his financial position even if it were his brother, because, in general, emotions and interest do not exist in the business world.
2. To mislead the truth in order to win the case, one should depend on some close relative or friend; that could be trusted, and this is what Flame did. He hired his brother, to work in his favor, that is, to help him with his financial work and to prove that he had been losing in order not to pay Victoria.
3. It is not possible and not even logic that Flame was the only one having financial matters. The difference in the current life style and financial position of the other two band members & Flame is illogical. So the whole story situation could be a fake and just a trick by Flame to mislead the truth.

Solution D:

The Nile's brothers were arrested due to their fraud in manipulating the sales figures for Emergency Crew band that were published by Billboard. It seems illogical that they committed the fraud and risk their careers and future only to force Derrick to pay more support to his family. There were no enough motives.

Appendix -II

Example of course updating in Current Issues in Accounting (ACC 491)

New topics in the current semester (2006-7)	Topics Previously Taught (two semesters earlier)
1. Forensic Accounting & Auditing	1.Accounting for Pensions
2. Sustainability reporting and conceptual framework for corporate social and environmental reporting a Accounting	2.EthicalIssuesforProfessionalAccountants
3.ForeignCurrencyTransactions:Derivative Instruments	3.AccountingforInvestmentsandDerivative Instruments
4. IFRS-2: Shared Based Payments	4. Fairness, disclosure and future trends in accounting
5. Current Issues Agenda: Accounting standards for SMEs and Intellectual Capital	5. Balanced Scorecards and Performance Evaluation
6. Current Issues Agenda in Islamic Accounting & Auditing	6. Forensic Accounting and Auditing
7. Balanced Scorecards and Strategic Profitability Analysis	7. Just-In-Time Inventory and Back-flush Costing
8. Theories and Behavioral Aspects of Management Accounting	8. Target Costing and Pricing

Appendix -III

Topics for student's group projects

Project topics in current semester (2006-07)	Project topics in previous semesters
1. Adoption and problems of IFRSs by SME in Bahrain	1. Corporate governance and audit committees
2. Auditor independence : Perceptions of academic, auditors and corporate accountants	2. Audit environment and audit fees determinants
3. Perceptions on the development, implementation and challenges to a single set of global standards	3. New management accounting practices in Bahrain
4. Monitoring compliance with IFRSs : some insights from Bahraini regulatory system	4.EnvironmentalAccountingandEstimatingthe Hidden Costs of Environmental Regulation
5. Modern management models: practices in Middle East	5. Budgetarypracticesoflistedandnon-listed companies in Bahrain

6. Risk disclosure and reporting in annual reports of banks and companies	6. Compliance with IASs/IFRSs
7. Are Accountants/auditors a threat to society? Perceptions based studies	7. An inquiry into whether there is any need for ethics education in accounting
8. Balanced scorecards :myth and reality survey of companies financial controllers	8. Balanced scorecard practices: case studies
9. Compliance with IAS36: impairment of assets	9. Harmonization of accounting curriculum in GCC universities
10. Sustainability reporting practices: case studies from Bahrain	10. Internal control environment of listed companies in Bahrain
11. Audit-client relationships: problems faced by them in Bahrain	11. Determinants and applications of materiality concept in practice
12. Social and environmental reporting practices by MNCs in their websites.	12. Target costing practices in Bahrain : case studies

Appendix –IV

Course Outline of International Accounting (ACC 410)

1. Intended Learning Outcomes (ILOs):

A. Knowledge and Understanding :

1. The major environmental factors influencing business and accounting worldwide.
2. Issues and developments relating to international segment reporting.
3. Recognizing the key factors that influence accounting standards and practices in different countries and how those factors impact the harmonization of standards worldwide.
4. Budgeting and performance evaluation practices and problems faced by MNCs
5. An overview of international taxation.
6. Auditing issues relevant to the MNEs and efforts to harmonize auditing internationally.
7. The use of financial statements across borders by managers and investors and the problems of understanding the meaning of financial information in different national contexts.

B. Subject Specific Skills:

1. Recognize the importance of environmental and cultural factors and accounting systems
2. Recognize accounting measurement practices among various countries from legalistic and non-legalistic angle.

3. Recognize the budgeting and performance evaluation practices in Anglo-Saxon and non-Anglo-Saxon countries.
4. Recognize the complexities of international taxation across borders.

C. Intellectual Skills:

1. Analyze the strategies needed for accounting harmonization around the world.
2. Critically think why accounting practices are not alike in different countries and how environmental and cultural *factors influence such practices*

2. Course Contents:

Week	Topics	Chapters
1, 2	International Accounting and International Business	1 and handout
2, 3	International Accounting Patterns, Culture and Development	2
4, 5	International Segment reporting (IAS 14)	9 and handout
6, 7, 8	Comparative International Accounting (USA, UK, Netherlands, Germany, France, Japan, China, India, Malaysia)	3 & 4
9, 10	International Taxation Issues	16
10, 11, 12	International Budgeting and Performance Evaluation	14
13, 14	International Auditing Issues (Self Study and Quiz)	15
14, 15, 16	International Financial Statement Analysis	5

Textbook : Radebaugh, Lee. H. and Gray Sidney, International Accounting & Multinational Enterprises, 6th ed., John Wiley & Sons

Reference book: Choi, F.D.S., C.A. Frost, C.A., and Meek, G.K., International Accounting 3rd ed. Prentice-Hall International Inc., NJ (Reference Book).

