

# THE IMPACT OF ARAB SPRING EVENTS ON ACCOUNTING, MANAGEMENT, AND CONTROLS IN THE MENA REGION

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## ABSTRACT

*This study examines the various business implications of the Arab Spring revolutions for companies working in the MENA region. In concluding, we drew upon an unstructured literature review. By reviewing the literature, we observed that the Arab Spring revolutions had significant impacts on the financial performance of companies working in the Middle East and North Africa (MENA) region, their corporate social responsibility (CSR), and management controls. This study provides valuable insights to researchers from the MENA region interested in addressing the implications of mega political events for business and organizational practices, especially management and control.*

**Keywords:** Arab Spring, Political, Management Control, CSR, Financial Performance, MENA.

## INTRODUCTION

With the outbreak of the revolutions in the Middle East and North Africa (MENA) region since late 2010 (henceforth Arab Spring), several countries sought to gain more freedom, equity, and citizen ownership. People of these countries sought to have a more citizen-responsive government to comply with the public's high democratic and economic (sociopolitical) expectations (Wafa, 2015). Hence, the eruption of revolutions in the MENA region at the end of 2010 had substantial macro-political and economic impacts. Additionally, these political events had micro implications on organizational performance and practices. In response to these broad impacts, several studies have examined the effect of these political changes on corporate practices, especially accounting and control systems (Elmassri et al., 2016; Darrag and Crowther, 2017; Maaloul et al., 2018; Arayssi et al., 2019). For example, Darrag and Crowther (2017) show that the recent changes in the Arab society following the Arab Spring revolutions might have impacts on budgeting, strategic orientation, and incentives for and difficulties facing environmental, social, and governance (ESG) practices Darrag and Crowther (2017).

However, to our knowledge, there is no previous study that presents an extensive review of the extant studies concerned with the different impacts of Arab Spring events on organizational practices. This study guides the researchers interested in examining the impact of the sociopolitical context on accounting and control practices in developing countries. This is done by outlining the present literature concerned with the economic and organizational implications of Arab Spring events and identifying the significant themes therein.

We collected data from previous accounting studies published in accounting journals during 2010-2020, such as the Journal of Business Ethics, Sustainability Accounting,

Management, and Policy Journal, Qualitative Research in Accounting & Management, the British Accounting Review, and the Journal of Accounting in Emerging Economies. This study reviewed the literature to understand the possible implications of political and democratic events on business practices. These influences can be summarized concerning some perspectives, namely financial performance, corporate social responsibility (CSR), and management control.

### **Arab Spring: A Background**

In late 2010 and the start of 2011, protests, which initially comprised huge pro-democracy demonstrators, broke out in the Arab region against corruption, poverty, and political repression. Specifically, the revolutions commenced in Tunisia and moved to Egypt, Libya, and numerous other countries, such as Yemen, Syria, and Bahrain, contributing to political volatility in the whole region. Then, the impact of these revolutions had moved to other countries in the MENA region, including rich GULF countries, which are less affected by Arab Spring. The revolution had then even escalated to civil war in Libya and Syria.

These uprisings have given some hope for freedoms for some Arab countries in the MENA region. However, this was accompanied by substantial financial costs. The resultant political turmoil might take many years to be resolved. This turmoil significantly affected economic activity and growth, especially in specific fields such as tourism and foreign investments (Chau et al., 2014). These political events have negatively affected stock exchanges and the market indices all over the region. For instance, on the 27<sup>th</sup> of January, 2011 (i.e., with the rise of the revolutionary events), Egypt's EGX 30 declined by 10%. Even the global advanced markets in the US and Europe fell due to the anticipated protests to move to oil-producing states in the region. In addition, foreign direct investment in the region has declined due to the uncertainty from the political unrest Lehkonen and Heimonen (2015).

The neighboring states, especially GULF states, have begun to work internally and externally to evade the emergence of political revolutions in their area. Internally, they have made apparent initial reforms. Further, they sought to enhance the economic situation of their citizens by raising the wages and presenting jobs, etc. Externally, they sought to terminate the democratic movements in the nearby Arab spring nations. For example, they reinforced the opposition parties of the emerging democratic regimes. They also supported a rigorous media campaign that highlighted the bad situations accompanying the transformation to the democratic position, with a particular focus on the financial problems (Tajpour et al., 2021; Ziyae et al., 2021). This was crucial for them to discourage their citizens from embracing the political changes in the region. They argued that these political changes would have dire consequences. These policies have restricted the emerging democratic authorities' endeavors in maintaining the new democratic situations Atawna and Othman (2015; Tajpour & Hosseini, 2021).

### **Arab Spring and Implications for Accounting and Financial Information**

The eruption of the recent revolutions in MENA countries raises serious questions as to whether the political risk can hinder or improve the financial performance of the business sector. The recent uprisings in the Arab region have provided an opportunity for Arab states to initiate a

real transparent and governance system (Chau et al., 2014). It is, therefore, interesting to investigate if these political changes have influenced the economic landscape of Arab nations. This echoes Herrala and Turk-Ariss's (2016) invitation to devote more research to the financial implications of the political risk or the uncertainty caused by these mega political events: *"the financial channel of political in-stability deserves more attention in future research efforts"*.

The Arab Spring is noted to result in a disastrous impact on the volatility of the stock exchange due to its broad economic and social implications. For instance, drawing upon daily stock returns data for six states (Bahrain, Kuwait, Oman, Egypt, Jordan and Lebanon) for the period 2009 to 2012, Chau et al. (2014) reported a substantial rise in the volatility of Islamic indices as a result of the recent political revolutions in the region. Focusing on both politically connected and unconnected companies, Chekir and Diwan (2012) evaluated the political connections of publicly registered companies to be more than 20% of the companies' value. found that the political volatility contributed to substantial output losses, with prolonged after-effects. Hassan et al. (2014) found that the demonstrations ensuing from the Arab Spring decreased the valuation of companies politically connected with the present political regime. Ghosh (2016) found that the Arab revolutions resulted in a decline in banks profits by 0.2% and a rise in bank risk by 0.4%. Acemoglu et al. (2018) investigated the impacts of the Arab Spring's revolution in Egypt on the stock Exchange returns for companies politically connected to the principal political groups in the country during that time. They found that intensive demonstrations are related to decreased stock exchange valuations for companies connected to the party presently in authority compared to non-connected companies, but do not affect the valuations of companies of rival parties. (Del & Paltrinieri, 2017) examined the performance of equity mutual funds which are geographically specialized in African nations following the Arab spring revolutions. They found that this significant political event substantially influenced the fund flows, controlling for fund performance, costs, and economic returns. It has negatively impacted the funds' management market timing capability and decreased the equity capital injection into African stock exchanges. Finally, Arayssi et al. (2019) show that the Arab Spring had been negatively associated with growth.

The previous studies suggest that political turmoil or exogenous political uncertainty shocks can exert high costs in dampening profitability and raising business risk. However, Aboud and Diab (2019) examine the combined impact of ESG practices on the economic performance of Egyptian firms before and after the Arab spring revolutions. They found that companies with high ESG ratings enjoyed a higher financial performance, which indicated that the impact of ESG on economic performance is more apparent following the political revolutions than before the revolutions. This conflicting result suggests the importance of the context in interpreting the impacts of mega political events and that these events could have different (positive) implications in contexts with better ESG performance and disclosures.

### **Arab Spring and Implications for Management Control**

The intense political events at the governments level may have consequences for how management accounting and control systems and practices are perceived and practiced at the organizational/micro level. The outbreak of Arab Spring events had resulted in the appearance of

a political logic that different parties in the organization sought to exploit to attain their interests (Diab, 2020). This has resulted in various implications for control and management in business organizations (Wafa, 2015; Diab and Aboud, 2019; Diab, 2020). This is consistent with the literature, which explained that political processes intertwine with management, accounting, and control in politically unstable settings in emerging markets (Wickramasinghe and Hopper, 2005). It is also consistent with the idea that political changes at the macro-level of the state can reconfigure relations in production at the micro-level of businesses Uddin and Hopper (2001).

In particular, Wafa (2015) explored the influence of the revolutions in the Arab region on public administration systems, with a specific emphasis on executive education plans. Diab and Aboud (2019) explored employees' resistance in business organizations during the centrality of political/revolutionary logics, i.e., in a setting of political volatility at the state level. They highlighted the political perspectives of economic organizations and the intermediate role of people who use these institutional logics. They concluded that, especially in emerging markets, communal contexts, economic and social institutional logics play a principal part in mobilizing labor actions against powerholders such as corporate management. In a context like this, control could be successfully performed and resisted by such socio-economic systems. They ensured the impact that institutional logics could have on employees' agency and subjectivity. Diab (2020) explained the appearance of management, accounting, and control (MAC) systems in a communal and volatile African context. This was done by revealing the impact of the recent revolutionary events in Egypt on directing labor and workers' behaviors. They noted that unstable political contexts could have resulted in conflicting variant consequences for MAC systems. They also ensured that the extreme political events could play a vital part in formulating the adopted MAC systems and the mobilization of labor actions against management control systems, i.e., how the employees perceive these systems.

Having said this, we invite more studies to deeply examine if changes in the political context result in a chance for changes at the material practices and symbolic representations at the mundane levels of business organizations, including MAC systems. These studies could bring evidence from other countries that witnessed significant political changes in the last decade.

## Implications for CSR

The recent political events in the Arab society following the Arab spring revolutions could influence environmental, social, and governance (ESG) systems Darrag and Crowther (2017). In this context, the changes in politics at the countries' macro levels have configured the concept of ESG performance to involve a logic of social obligations and responsibilities and political aspects Darrag and Crowther (2017). In this regard, Ibrahim (2011) noted that: “[c]ontemporary philanthropy in the Arab region grapples with the need for appropriate measures of self-governance and codes of practice, especially in the wake of recent reform movements”.

For example, Alshorbagy (2016) noted that in the prerevolutionary context, CSR was mainly confused with philanthropic Practices. The post-revolution context has increased citizens' increased awareness and activism, which are some elements of CSR. Darrag and Crowther (2017) revealed that the socio-economic, cultural, and political changes that Egypt confronted

might have consequences for CSR performance and disclosures. In particular, prior to the recent Arab spring revolutionary events, they argued, CSR procedures had been performed by companies with a higher charitable perspective and lower state interference to control companies' actions and policies. The revolutions had contributed to intensifying the social, religious, and political aspects versus the previous charitable aspects to identify ESG procedures in Egypt (Ararat, 2008). Diab and Metwally (2020) explained the adoption and reporting of corporate social and environmental responsibility (CSER) in post-revolutionary Egypt, where financial, community and political perspectives are dominant and contesting with one another. They found that CSER is based on both rational economic views and social, familial, and political aspects, which is consistent with the complex nature of the Egyptian context after the recent revolutionary events (Diab, 2020).

This perspective is vital to understand the appearance of CSR practices in a setting that has distinguished socio-cultural, political, and environmental features, as in most less-developed contexts (Fifka, 2013; Tilt, 2018; Crinis, 2019)

The political unrest that the MENA region has witnessed led to variations or changes in all economic, social, and cultural aspects. As a result, several scholars have examined the effect of political institutions on organizational and business practices and performance, especially in emerging economies (Crinis, 2019; Sharma, 2019; Bhatnagar et al., 2020). However, to our knowledge, there is no previous study that presents an extensive review of the extant studies concerned with the different impacts of Arab Spring events on organizational practices. To cover this gap, this study reviewed the effect of the new mega revolutionary events that emerged in the MENA countries since late 2010 and had profound implications for business practices. Studying the economic impacts of macro-political events at the society level is crucial to recognize how the politically volatile context of most emerging economies, especially in the Arab region, can affect how business practices are being performed and accounted for in the financial reports Dobers and Halme (2009). This study guides the researchers who are interested in examining the impact of the sociopolitical context on accounting and control practices in developing countries.

## CONCLUSION

By reviewing the literature, we observed a very limited number of qualitative and review studies that are concerned with the impact of Arab spring event on business organizations and their practices. So, this study urges further future research that follow the qualitative research methodology in deeply explaining the impact of Arab spring events on organizational practices in the MENA region. Further, considering the review and theoretical nature of this study, a future study can add some examples with their statistical impact in order to add validated support to the objective of the paper.

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