

ISLAM, ECONOMIC RATIONALISM AND ACCOUNTING

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ABSTRACT

This paper discusses the impact of Western accounting technologies on belief structures such as those of the Islamic faith. It assesses a theory of accounting and reporting proposed by Baydoun and Willett (1994 & 2000). It goes on to consider the nature and origins of Western materialist philosophy and contrasts the belief structure of Islam with the West. The paper also examines the historical context in which Western values became adopted in Muslim societies and discusses the policy issues that confront Islamic accounting standard setters.

Islam, economic rationalism and accounting

1. Introduction

Recent studies examining the relationship between religion and accounting (Gambling and Karim, 1991; Hamid *et al*, 1993; Baydoun and Willett, 1994 & 1995) have suggested that the ethical impact of Islam on accounting has the potential to be significant. Baydoun and Willett (1994 & 2000) developed a theory as to what should, from the point of view of consistency with ethical precepts, constitute the basis of a set of Islamic Corporate Reports. Specifically, the theory suggests that Islamic societies would be better served by an Islamic Corporate Reporting model which includes a current value balance sheet (CVBS) and a value added statement (VAS) rather than just the traditional Western reports of historic cost balance sheet (HCBS) and profit and loss account (PL).

To investigate if such a model aligns with what Muslims appear to desire, Sulaiman (1997 & 1998) conducted a questionnaire survey of the perceptions of Muslim and non-Muslim accounting information users in Malaysia. Survey respondents comprised accountants, financial analysts, bank lending officers and *zakat* officers¹. For the sample surveyed, no differences in the perceived usefulness of accounting information between Muslims and non-Muslims were evidenced. It appears that, as far as the usefulness of financial reports are concerned, Muslims and non-Muslims did think alike. In particular, the theory that Muslims would perceive the CVBS and the VAS to be significantly more useful than non-Muslims was not supported. This result may be interpreted as challenging the notion (either explicitly or implicitly stated in the literature), that culture in general, and Islam in particular, may have a significant influence on accounting practice (Gray, 1988; Perera, 1989; Hamid *et al*, 1993; Baydoun and Willett, 1994). This paper discusses the extent to which a survey of perceptions of usefulness can, in fact, be used to infer such a conclusion. It also assesses what implications the findings have for our understanding of the impact of existing accounting technologies on belief structures such as those of the Islamic faith.

There are two basic points corresponding to these two matters. Firstly, the theory of Baydoun and Willett (1994) is a *normative* rather than a *descriptive* theory. Furthermore, it is normative in the strong sense of addressing ethical issues about what 'ought' to be in order for practice to be consistent with a set of religious principles. It is not normative in the weaker sense of specifying how a specific end may be engineered through manipulation of accounting technology. Such a theory has implications at the level of what it is 'desirable' to disclose in financial statements. It also pertains to the issue of the differences between what users currently express as being their 'desire' for what should be disclosed and what is *actually* disclosed to users². The argument that Islamic Corporate Reports ought to contain a VAS and a CVBS might be better understood as one in favour of financial statements being designed to be more consistent with the spirit of Islam than are traditional Western based accounting systems as well as a prediction that Muslims *will* express support for such reports in practice. Given that the evidence is against Baydoun and Willett's theory, in the latter context, this paper will focus on its ethical context, i.e. the theory's status as an argument in favour of the way accounting information *should* be reported even though it is not valid as a description of actual practice and does not describe the beliefs of Muslim users of financial statements. This issue is discussed in section 1.

Secondly, if Baydoun and Willett's theory of Islamic Corporate Reporting really is consistent with Islamic principles, then practice and prescription do not coincide. One possible explanation for this occurrence is the potential of Western materialist values to corrupt the value system of Muslims (Rodinson, 1974; Mehmet, 1990; Ariff, 1991). However, such an explanation begs further questions: What, for this purpose, is Western materialist philosophy?; How does a materialist philosophy differ from the belief structure of Islam?; To the extent that Islam is opposed to materialist elements in its philosophy, why should materialist values have displaced Islamic values in the production and dissemination of financial information?; Finally, if such is the case, what is to be done about it? These questions are addressed in the remaining sections of this paper. Section 2 considers the nature and origins of Western materialist philosophy and section 3 compares and contrasts the belief structure of Islam with the West, in so far as these matters are relevant to the issue at

hand. Section 4 examines the historical context in which Western values became adopted in Muslim societies and section 5 discusses the policy issues which confront Islamic standard setters. Section 6 concludes.

2 Baydoun and Willett's theory as a prescription of what should be

Islam professedly places emphasis on socio-economic justice (Chapra, 1992; Naqvi, 1994). The *Qur'an* categorically states,

and those in whose wealth is a recognised right. For the needy who asks and him who is prevented (for some reason from asking) (70:24-25)

The results obtained by the Sulaiman (1997 & 1998) questionnaire survey suggest that religious teachings may impinge on how people should ideally behave. It does not, at least in certain spheres of everyday life, suggest that the Islamic faith affects either the way people actually behave or how they believe they should behave. Yet, most writers on the subject of Islamic accounting have argued that Islam does not recognise a distinction between the secular and the spiritual areas of life (Gambling and Karim, 1991; Baydoun and Willett, 1994). Is this prescription, therefore, incorrect or is there a way of integrating such views which explains the discrepancies. Hofstede's (1980) analysis is relevant to this point. He suggested that issues such as these should be analysed respectively at the level of the 'Desirable', at the level of the 'Desired' and at the level of the 'Actual'. If Baydoun and Willett's (1994) theory of Islamic Corporate Reporting is relevant at the level of the Desirable rather than at the level of the Desired or the Actual, then the validity of the theory is a question of reasoning from the foundations of Islamic principles, not a question of correspondence with actual behaviour and belief. From Sulaiman's (1997) survey, it would seem that there are gaps and, perhaps, even tensions in both the way accounting is practised by Muslims in Malaysia and what is seen by them as appropriate practice compared to the kinds of accounting practice which is Desirable in the sense of it being consistent with the tenets of Islam.

By accounting practice, is meant, broadly speaking and given the terms of reference of Baydoun and Willett's theory, accounting disclosure³. Baydoun and Willett's (1995) analysis on the cultural relevance of accounting

systems suggested that, if indeed culture influences accounting, it would most likely affect aspects of disclosure rather than basic measurement procedures. Thus, the issues addressed here are not concerned with measurement, strictly defined⁴. Rather, they have focused on what kind of financial information should be communicated in an Islamic society and in what way it should be communicated such that it is in harmony with the spirit of Islam. The thrust of Baydoun and Willett's (1994) theory of Islamic Corporate Reports is that Western accounting systems are inconsistent with the teachings of Islam and the capitalist ethic upon which it is based. Capital accumulation in the capitalist system gives pre-eminence to the profit and loss statement. On the other hand, the consistent and central focus of an Islamic economy is that growth should lead to social justice and a more equitable distribution of power and wealth (Mannan, 1986; Choudhury, 1993). More specifically, the concept of ownership and private property in Islam have different interpretations compared to that in the West. For Muslims, ownership of wealth is not absolute. Individuals are only trustees; the ultimate ownership of property belonging with God. As such, the framework within which Islamic accounting systems should take place is that which is based on personal accountability to an all-seeing God. Such a framework naturally tends to be broader, more reliant on the application of sincere, individual, ethical conduct and is, therefore, very much more subjective. Accountability in Islam takes a more ethical character than it does in the West, stressing obligation to society more than the rights of the individual. Its focus is thus a wider social accountability compared to the Western personal accountability focus on shareholders⁵.

This emphasis on the social dimension of financial accounting information led Baydoun and Willett (1994) to suggest that two essential objectives underlie the concept of accountability in Islam: *full disclosure* and *social accountability*. A financial statement that measures the performance of a firm's activities by just a single dimension, that of the bottom-line profit, is not appropriate to Islamic societies, at least not from an ethical perspective. The argument for the inclusion of the VAS and the CVBS in Islamic Corporate Reporting is primarily derived from the need to discharge the objectives of full disclosure and social accountability. The VAS is considered as being appropriate to the objective of social accountability and more

in line with the concepts of justice and mutual cooperation that Islam propagates than is the PL. In disclosing the share of the value added between different sections of society (employees, government, owners and creditors as well as shareholders), the VAS concentrates more on the cooperative nature of the organisation of the firm and more clearly emphasises the distribution of wealth created by the firm (Renshall *et al*, 1979). In Islam, emphasis is placed on the use of one's possessions and merit lies in extending these intelligently and distributing them with generosity (Rodinson, 1974; Mannan, 1986). In contrast, the emphasis on the PL stresses the owners' private interests above anything else: ethical support is derived from a materialist philosophy (on which the secular capitalist mind-set is based) and the economic theories such as 'agency theory' which seek to justify its ethics on the basis of scientific rationality. Islam does not deny that Muslims will follow the road of self interest but it teaches that true self-interest is a form of altruism which guides the individual to work for the good of the community (Naqvi, 1994).

Baydoun and Willett's (1994 & 2000) theory of Islamic Corporate Reports argued that the need for greater awareness of the social impact of firm activities in Islam which supported the VAS also favoured a CVBS. The CVBS was argued to be, not only, necessary for the specific purpose of computing shares in *mudaraba*⁶ contracts and for the levying of *zakat* (i.e. full disclosure), it was also argued to contain information relevant to the community as a whole rather than just that which is relevant to the firm. The CVBS, it was suggested, could be regarded as extending the accountability focus of the firm further, primarily because the reporting of such information requires firms to consider 'economy wide' information about transactions as the objective source from which current values may be calculated.

Given that one of the specific obligations laid down in the *Shari'a* is the payment of *zakat* and since *zakat* is based on wealth, Gambling and Karim (1991) argued that current values would satisfy Islam's concept of justice more adequately than would historical costs. They reasoned that adhering to the concept of conservatism would lead to an understatement of the wealth that could be subjected to *zakat*⁷. Further, they contended that using one valuation method for *zakat* and another for reporting purposes would somehow

imply that there exists a division between religious and business matters. Clarke *et al* (1996) argued that the support for the use of current values in Islam may be discerned from the common monetary denominator used in the Prophet's time to establish the *nisab* (the minimum threshold of wealth above which *zakat* is payable) for various assets that are subject to *zakat*. The notion of 'value in exchange' (selling price) is said to be implicit in the determination of *zakat* at that time. However, the reason for such a practice was not clearly indicated in their paper. The basic thrust of the above arguments points to the need to attain socio-economic justice. Baydoun and Willett (1994) argued for the inclusion of the CVBS but as additional information to the HCBS, not a replacement on the grounds referred to above (i.e. full disclosure and social accountability). According to their reasoning, the HCBS cannot be abandoned because it provides information which is central to all other accounting calculations.

This, they argued, is a middle road between traditionalism and radicalism.

In the light of this claim to a reasonable middle road, it is useful to consider to what extent the inclusion of the VAS and the CVBS in Islamic Corporate Reports satisfies Islam's concept of justice. Rodinson (1974) defined Islamic justice as a 'state directed in accordance with the principles revealed by God, treating all believers as equal before the Divine Law, practising within the Muslim community an advanced form of mutual aid' (p26). It may be that the VAS and the CVBS should indeed be desirable to Muslims on these grounds. However, given the broad accountability focus in Islam, the Baydoun and Willett model of desirable reports may still be regarded as fulfilling a bare minimum. If social accountability is really the basic objective of Islamic corporate reporting, why stop at the current values of private costs? Why not encompass social costs? Perhaps a model similar to the corporate social responsibility framework of Gray *et al* (1987) would be better designed to deal with accountability issues in Islam.

Gray *et al* (1987) proposed a two-stage process in discharging the accountability of a firm. According to them, each society must first determine a way to uniquely identify the responsibilities that organisations must meet. Having done that, reports would then have to be prepared indicating the extent to which those

responsibilities have been met. Only by focusing on responsibility and accountability can one establish a generally acceptable basis for social reporting. Accounting is, after all, the discharging of accountability (Gray *et al*, 1987; p17).

This radical approach contrasts markedly with the framework adopted by the FAOIBF (Financial Accounting Organisations for Islamic Banks and Financial Institutions) when they suggested that the financial statements of Islamic banks should include the historic cost statement of financial position, a statement of income, a statement of cash flows, a statement of retained earnings, a statement of changes in restricted investments, a statement of sources and uses of *zakat* funds⁸ and a statement of sources and uses of *Qard*⁹ funds (the last two being necessary in order to reflect the bank's role in the realm of social services). The foregoing statements are perceived to be adequate for discharging an Islamic bank's accountability under a principle referred to as 'adequate' disclosure. This list includes neither a VAS nor a CVBS. The possible usefulness of the VAS does not seem to have been discussed in the literature in this context. This may be due to an innate conservatism on the part of the FAOIBF and also to the needs of the global market. Whatever may be the reason for the shape and form of Islamic Corporate Reports currently being considered by the FAOIBF, their conventional, Western style format appears to be only minimally consistent with Islamic principles, for the reasons cited above. Baydoun and Willett's model goes further towards the goal of a more complete change if the nature of financial statements and a more complete Islamic Corporate Report should include still further information indicating the extent to which social responsibilities of each firm have been met.

Full disclosure requires a report on human resource development and other social responsibility issues such as the import of the firm's activities on the environment¹⁰. Additionally, firms should be required to disclose information on activities that are specifically forbidden in Islam such as involvement in usurious transactions, engaging in the importation of liquor¹¹, monopoly practices and the like. It is unlikely that such disclosures would happen voluntarily but that fact is *not* an argument against disclosure *per se*. Full disclosure should not, in any case, cause embarrassment to any party if transactions are undertaken to accord strictly with

Islamic principles. An Islamic Corporate Report should not be concerned with matters of expediency nor with the political processes that have become part of the game that multinational organisations play. In the final analysis, an Islamic Corporate Report should be about how firms (and thus the accountant on the firm's behalf) discharges the tasks of social accountability and full disclosure before God.

If the various forms which have been discussed as the basis for Islamic Corporate Reports really have any validity, why is it that the results of the Malaysian survey (if they support anything at all) favour the FAOIBF's framework rather than the more radical changes suggested by Baydoun and Willett (1994). As already stated, Baydoun and Willett's theory of Islamic Corporate Report must be understood as a normative theory at the level of the Desirable if it is to have any validity. Although data collected from the survey was from just one Muslim country, one suspects from one's experience of attitudes expressed in different persuasions in different parts of the world, the findings would not be much different to those found elsewhere.

Muslim users and preparers of financial statements everywhere seem to have acquiesced in the division of the religious and the secular spheres of life and their perceptions of what is useful and what is acceptable to report. This is not in accord with Islamic principles but is it, in some way, the inevitable consequence of modernism?

Gambling and Karim (1991) argued that the same reasons which caused the decline of the influence of Christian ethics in Europe (Tawney, 1927) are also likely to be the cause of the failure to apply the *Shari'a* on business and economic affairs in Muslim societies. Wealth and the consumerism which accompanies it makes possible a degree of luxury that prompts a lax attitude towards morality and religion (Tawney, 1927; Rodinson, 1974; Weber, 1985). The rational outlook that both nurtured and encouraged by the development of scientific knowledge has, in the context of modern European history, evidently encourage a materialist outlook and a separation of those spheres of life which may yield to logic (e.g. economics) from those which do not (e.g. equity and matters of ethics). It is thus of some interest to examine in a little more detail why and how such developments have occurred, how they impinge on Muslim beliefs and in what ways these have

affected Muslim societies. The remainder of this paper examines these issues.

3 Economic rationalism

The growth of large scale capitalism has been attributed as the cause of the Church's failure to enforce religious discipline in trade and commerce and finally to its relinquishing business ethics to the secular economising spirit (Tawney, 1927; Sadr, 1980; Weber, 1985). Weber (1985) attributed the spirit of capitalism to Calvin's extreme interpretation of Luther's concept of 'a Christian calling'. Calvinism is essentially practical and regards the glorification of God as possible, not through prayer alone but more through actions. In the form that this belief is manifested in everyday life, the Calvinist believes that thrift, industry and hard work are forms of moral virtue. The humblest type of work undertaken in such a spirit was, in the extreme case, more acceptable than a lifetime of spiritual activities. This formula, the basis for 'enlightened self-interest', helped create a climate favourable to commerce and it was on this practical basis of urban industry and commerce that the Calvinistic social ethics was erected. Although in the first instance commendable by Islamic standards, the work ethic of enlightened self interest seems, with hindsight, to have led to a cynical materialistic outlook with followers extolling the pursuit of profits to the exclusion of everything else. Such a single minded materialistic objective has become regarded as rational in the societies of the West (Weber, 1985). As the power and influence of the clergy diminished, so the dichotomy between the secular and the religious increased. Weber (1985) contended that the root of this secularising trend was capitalism reasoning that industry and frugality led to an increase in wealth and eventually to a focus on material possessions. Thus, although the form of the Christian religion may remain, its spirit has vanished (Weber 1985). One could argue that these historical patterns have parallels in modern Islamic society today.

The term 'capitalism' has a variety of meanings (Rodinson, 1974). It may be regarded as a mode of production, which is carried out by an enterprise. The owner of the enterprise pays a wage to his workers and the latter produce commodities which the owner sells for his own profit. Alternatively, it is possible to talk of a 'capitalist sector' to indicate all the enterprises in which the capitalist mode of production is operative.

Finally, there is what Rodinson termed the 'socio-economic formation'. This refers to a particular economic system in which the capitalist sector occupies a predominant position accompanied by an ideological and institutional superstructure through which it is supported (Rodinson, 1974). The last is the most convenient characterisation of capitalism for our purpose. Capitalism *per se* is not un-Islamic. However, the focus on the self in the absence of a religious discipline focuses on the *maximisation* of the profit and the accumulation of wealth; objectives which the income statement of Western accounting systems are ultimately designed to serve. This is an example (and a particularly central one) of the tendency of modern capitalism towards the economic rationalisation of social actions (Weber, 1985). This attitude toward social action is embedded in the theories of neoclassical economics: humans are motivated by self-interest which is expressed primarily through the quest for financial gain; those actions that yield the greatest financial return to an individual are also those that are most beneficial to society (i.e. the Benthamite tradition)¹². Competitive behaviour is thus seen to be more 'rational' for the individual than cooperative behaviour, signalling that societies should be built around the competitive motive. The consequence of economic rationalism is that human progress is perceived as being best measured by increases in the value of what the members of society are able to consume. Consequently, higher levels of material output advance the well-being of society. Capitalism, propagating self-interest and private property, gives rise to materialistic tendencies in the individual, resulting in an 'acquisitive' orientation. Rationality is thus manifested in a growing calculability over all aspects of human life. Weber likened a modern capitalist society to that of a machine,

rational calculation is manifest at every stage...the performance of each individual worker is mathematically measured, each man becomes a little cog in the machine and, aware of this, his one preoccupation is whether he can become a bigger cog (Turner, 1974, pp151-152)

Rationality seems to offer modern man the possibility of effective control over nature and society, thus, liberating him from the anxieties of an unpredictable world and releasing him from the domination of magical forces (Turner, 1974). The rationalist ethic, communicated through indoctrination in the technology of Western accounting systems, now dominates the lifetime objectives of many. As Rodinson (1974) observed,

among the merchants of Genoa or Venice in the middle ages, the shipowners and bankers of Amsterdam during the Renaissance, the pioneer industrialist of the Industrial Revolution in eighteenth century Britain, the financial magnates of the imperialist era, and the American businessmen of today, we find the same feverish chase after profit, the same quasi-ascetic dedication of their lives to this pursuit (p217).

The profit motive is, of course, an indispensable part of the life of complex modern monetary economics of whatever type. It is the fixation upon maximising profit to the detriment of everything else and upon its scientific and rational measurement as a final determinant of social choice action that presents problems for societies which have a wider brief than the material gratification of individual needs. Accounting, as a device of economic rationalism, is thus seen in some quarters as a threat to Islamic principles because of the type of information it provides. The real problem, however, lies not with the possibilities of measurement (which are in a sense fixed) but with the possibilities for disclosure of that information and the way it focuses the mind of the user.

3.1 The use of money and the structural conditions of accounting

The engine of economic rationalism is enhanced by adopting money as a medium for the setting of debts arising from exchanges. The use of money allows activities to be more calculable, the result of which is the provision of needs being expressed by some number. Money is common to modern economies and accounting technology, in the form it takes in Western society, is a necessary component in the tool-kit of the economic rationalist. Consequently it plays a key role in helping to sustain the basic features of a materialist society (Colignon and Covaleski, 1991). Money and the need to account for it seem to symbolise the very spirit of acquisitiveness and, some would argue, a fussy attention to detail (Gambling and Karim, 1991).

The Western form of accounting and reporting emphasises certain basic institutional characteristics. Firstly, it emphasises the notion of private property. The balance sheet contains a listing of those assets such as land, buildings, machinery and other physical means of production which are appropriated into privately held goods with no restrictions on the acquisition, disposal and use of such goods. Secondly, it emphasises the free market, the willingness and ability to trade virtually any commodity or service for a price (its cost). Thirdly, it emphasises rational technology, that is technology that reduces the outcomes of social action to a calculable quantity. Fourthly, it emphasises enforceable, predictable laws that are applicable to all persons. Lastly, Western accounting practice focuses on the commercialisation of economic life and the provision of needs based exclusively on market opportunities and supply and demand.

In a rational economy, demand refers to effective demand. Providing better educational and health facilities may not appear rational if these are not backed by a demand from individuals who can pay for such services.

On the other hand, if there is an effective demand for illegal drugs, it may seem rational to supply such a product, even if such action triggers further social costs. In the profit orientated economic rationalist tradition, the focus of Western based financial statements is on the calculation of net income, devoid of any ethical implications (Colignon and Covaleski, 1991). This is contrary to Islamic ideology and has definite implications for the impact of Western financial systems on the Islamic belief structure.

3.2 Formal versus substantive rationalism and measurement and disclosure

Weber contended that there are two major manifestations of rationalism: formal rationalism and substantive rationalism. Formal rationalism is the belief that an action can be considered to be value-neutral. It is technical in nature and refers to matters of fact and leads to some form of 'correct calculation' of the effect of events. Accounting and engineering represent the application of formal rationalism. Substantive rationalism, on the other hand, denotes the degree to which an economic activity provides for the needs of a specific social group. For an economic activity to be substantively rational, it must be consistent with the values or ends of a specific social group. Thus, judgements about substantive rationality are evaluative in nature and are based on the relationship between the action taken and the values of a particular social group. This suggests a distinction between rules and technical execution on the one hand and the normative application of values to direct the execution on the other (Colignon and Covaleski, 1991).

This distinction finds parallels in the theories of Baydoun and Willett (1994 & 1995) which argue that the issue of the impact of culture and religion on accounting are more likely to be noticed in the area of disclosure than in the measurement areas of accounting practice. According to this view, the basic recording and matching of invoices are relatively established objective procedures in the sense that different accountants in different countries would assign the same values to the same transaction in terms of its debt consequences. Both developed and developing countries, therefore, tend to have similar basic accounting measurement

procedures although the level of complexity and the range of transactions may differ considerably. Such fundamental measurement procedures are ethically, in themselves, neutral. It is the use to which such measurements are put and the consequences of their interpretation which involve ethical considerations.

Measurements derived from fundamental measurements and what information is described influences both use and interpretation of accounting data. These matters concern not 'representational faithfulness' but rather 'relevance' and that *is* culturally and ethically specific. Relevance has to do with the wider social issues whereas representational faithfulness is a much more technical matter. Thus, while accounting may be regarded as neutral in its technical execution, it is not neutral in its consequences (Colignon and Covalesski, 1991). There may be a virtually infinite number of possible disclosure practices, each dependent for support on the value standards of the group.

3.3 Relationship between accounting and society

The analytic separation between formal and substantive rationality and between measurement and disclosure is fundamental to the analysis of the relationship between accounting practices and societal values. On the one hand, accounting is seen to be objective and factual; not subjected to emotional or moral intent. Yet on the other, accounting information is only useful if its supply is consistent with the values of specific social groups. Calculations based upon fundamental measurements (e.g. accounting performance measures) may be wrongly construed as having a rational, absolute validity when, in fact, they are functional forms which serve some purposes well and others only poorly. Hence, if the profit figure or the associated net asset values of Western financial systems are incorrectly believed in Islamic societies to possess a fundamental quality which they do not possess, they may give rise to an underlying tension between different groups representing different interpretations, interests or substantive rationalities within a society (Colignon and Covalesski, 1991). Given the multi-cultural nature of Malaysian society and the global context in which the Malaysian economy operates, consideration such as these may, in part, explain the results of the Sulaiman (1997) survey. Certain calculations such as bottom-line profit may be taken at face value as a convenient or politically correct numeral upon which to determine social choice. However, it is more likely that the

apparent indifference to questions of ethics and culture in the Sulaiman survey is due to tension between Western, rationalist tendencies and Islamic beliefs. The question therefore arises: Does such a tension really exist and if so, what policy implication would arise by the provision of appropriately designed Islamic Corporate Reports of the style described earlier.

4 Islam and economic rationalism

Baydoun and Willett (1994) suggested that the economic rationalist worldview is contrary to the Islamic worldview. The economic rationalist viewpoint has taken its fundamental assumptions from the most civilised and the most neurotic elements in the human condition: the desire to stand apart from others, to compete, to manipulate and to amass surpluses. This is inevitable considering the fact that any rational theory generally recognises the conscious elements in human intelligence (Gambling and Karim, 1991). Islam's viewpoint (as is the case with other religions, perhaps) is somewhat different. From an Islamic perspective, a person establishes three simultaneous relationships in this world: with God, with his own self, and with society. Those social concepts which are considered valid in both, *viz* Islam and capitalism, i.e. their promotion of the role of private initiative, individual freedom and private property rights have to be understood in the context of the three relationships indicated earlier (Naqvi, 1994). The fundamental difference between Islam and modern capitalism arises from their respective *ethical* perceptions.

While capitalism propagates the moral invulnerability of (exclusive) self interest, Islam regards self-interest on the same plane as collective interest. Self-interest in an Islamic framework denotes a freedom which is coupled with responsibility. Ownership of property in Islam flows from an awareness that ultimately everything belongs to God. Hence, the concept of private ownership in Islam differs in concept from that of modern capitalism. Ownership in Islam is not absolute. While Islam advocates the pursuit of wealth, it explicitly recognises that part of the wealth thus accumulated should be set aside for the benefit of the deprived and the needy. Charitable deeds are consequently a requirement of a good Muslim, not something that is left to the discretion of the individuals as in the capitalistic ideology. Individual freedom does not

translate to unlimited freedom in the use of one's private property. Individuals, while preserving their own freedom, should not transgress on others. Great emphasis is placed on responsibility to God and the community. An individual must be sensitive to the consequences of the exercise of his own rights (Naqvi, 1994) so that when individual freedom is coupled with responsibility, self interest is kept in check (Chapra, 1992).

Followers of Islam do not consider such a moral code to involve the suppression of the individual's will, only the individual's freedom of action is controlled. Unlike modern capitalism, where religion and business affairs officially stay in separate compartments, in Islam, every material achievement is an outward expression designed to achieve a spiritual objective that eventually gives meaning to existence (Sulayman, 1993).

Rodinson (1974) described this attitude as follows,

(the) Koranic faith is *also* something *more* than intellectual conviction and assent to the truths revealed by the Prophet. This conviction gives rise to an attitude that commits the whole man. Faith brings peace to the soul, releases one from fear....., gives patience, endurance, resignation to the insults and ill-treatment suffered in God's cause, humility and the will to risk all for God and carry out good works (p83).

Islam and capitalism, however, possess a basic similarity. Both view the pursuit of profits as important for this is consistent with the natural human tendency to acquire wealth (Maududi, 1986). However, in Islam profit is not regarded as something which is of benefit to society only indirectly, through the benefit it brings to individuals in the form of greater material satisfaction but rather, as a potential, direct means to the objective of socio-economic justice. Consequently, the current form of typical accounting disclosure practices, which might be considered 'substantively' rational from the Western perspective, may not necessarily be so from the Muslim users' point of view, at least not at the level of the 'Desirable'. Islam's emphasis is on achieving a balance between the pursuit of profits and social responsibility¹³ and there is little evidence, financial or otherwise, to suggest that Western accounting systems are likely to serve that objective.

Rodinson (1974) argued that Islam is not against capitalism *per se* for Islam is not against the positive aspects of capitalism as in enterprise and initiative. In fact, he argued that Islam is *more* favourable than Christianity to economic expansion primarily because Islam emphasises the good use of one's possession, the

merits of expending them intelligently and distributing them generously. What is anathema to Islam, however, is the single-minded pursuit of profit and the accumulation of wealth as an end in themselves. Islam requires the faithful to expand capital with a view to seeking the pleasure of Allah. Thus, Islam injects a spiritual dimension to acquisitive activity.

A similar focus on social responsibility has occasionally been advocated in the predominantly secular but Christian West. As distinguished laureate, Paul Samuelson (1971) once said,

a large corporation these days not only may engage in social responsibility, it had damn well better try to do so (p24).

Such sentiments recur in the accounting and economics literature from time to time and possibly represent nascent Christian values buried beneath layers of capitalist indoctrination which Western European society has erected in the minds of its people over the last several hundred years. Given the greater differences of philosophical outlook which exist between modern capitalism and Islam, one might have expected the results obtained from the Sulaiman (1997) survey on disclosure practices to somehow mirror this. The fact that the evidence showed otherwise could be interpreted in at least two ways. It could mean that Muslims have adopted the capitalist and secular values of the West, at least with respect to commercial affairs (see Sath-Anand, 1991; Ariff, 1991). Alternatively, it could also mean that the responses recorded in the survey did not capture the substantive values of Muslims. The latter explanation is one that pertains to research methodology and can be left to other studies to decide. The former seems more likely and poses the question of why and to what extent such indoctrination has taken place and also what part current accounting disclosure practices have played in the process of indoctrination.

The divergence between an apparently desirable form that financial statements *should* take under Islamic principles and the perceptions of appropriate practices which are seemingly diametrically opposed to these are probably best understood in the historical context of the expansion of the capitalist world system and the effects of colonialism which the 'core economies' engendered in the economically undeveloped Muslim

societies in the 'peripheral economies' (Wallerstein, 1979). Developing economies have imported the accounting practices of the West irrespective of whether they have been subject to explicit political colonisation (Scott, 1970; Briston, 1978; Samuels and Oliga, 1982). In developing countries in general and Muslim countries in particular, one observes an emerging commercial culture patterned after European bourgeois civilisation, manifested in a spirit of individualism, rationalism and materialism. This new attitude to life is neither typically Christian nor typically Muslim and the modern Muslim seems to have projected this attitude to life onto his faith in a similar way to that which nineteenth century Christians grafted it on theirs (Wertheim, 1985). The processes of world capitalism and globalisation appear to have given rise to pressures towards the formation of a homogeneous culture where the spiritual and the emotive content of activities become secondary (Von Laue, 1987)¹⁴.

5 Influence of Western rationalistic thinking

Dependency theorists attribute the impact of materialist values on Islamic societies to the actions of imperialists, colonialists, financiers and multinational corporations. Historically, these theorists see a causal relationship between the rise of Western imperialism and the decline of Islamic values (Mehmet, 1990). It is worth looking more closely at this issue in the context of the capitalist world economy.

5.1 The world economy

The responses of Muslims to the Sulaiman (1997) survey are consistent with the viewpoint that capitalism gives rise to one common world economy (Wallerstein, 1979) and, by implication, to a materialist, secular philosophy of the type described above wherein overt action and decision making in the commercial world are dominated by a self interested rationality quite different from that advocated in Islam. The capitalist world economy, originating in north Western Europe in the sixteenth century, expanded to include the whole world geographically in the nineteenth century bringing people together regardless of their prior cultural dispositions,

into a common harness, against their will, by a small minority called "The West" ---the peoples of Western Europe and their descendants in North America (Von Laue, 1987; p3)

According to the theory of world capitalism, the central dynamic economic force in the capitalist world system is the process of capital accumulation in the developed countries. The accumulation process comprised two stages: firstly, the creation of a wage labour force and secondly, the amassing of debt obligations to the developed Western economies from the developing world. Wage labour was primarily available through *exploitation* of the peasantry and capital accumulation by the capitalists was possible through access to knowledge and control of (or at least influence over) the political processes and emerging legal structures and contractual arrangements (of which the peasantry had, at best, only a naïve understanding). The production of surplus value by capitalist owners and the conversion of a large part of that surplus value into additional capital was a cumulative process, always requiring new fields for investment, more labour and raw materials and larger markets for finished products. This was achieved initially through a combination of political and economic imperialism and later through exploitation of the political, legal and even philosophical basis established in the early stages of colonisation.

Wallerstein (1979) distinguished the structure of the world economy as a single system which can be analysed in terms of the core, the semiperiphery and the periphery. In the nineteenth century, the core areas represented countries that had a complex variety of economic activities such as mass market industries. International and local commerce were in the hands of the bourgeoisie and there was an advanced and complex form of agriculture. Splendour, wealth and high living standards were (and still are) found at the core of the world economy (Braudel, 1977). The standard of living dropped in the semi-peripheral countries.

Countries that represented the semi-periphery were those in the process of de-industrialising: the neighbours, rivals and competitors of the core. Here, one found relatively few industrial and financial organisations. Those that did exist were often directed from outside. The peripheral areas constituted those countries that were mono cultural economies with cash crops being produced by coerced labour and where slavery still existed. These three groups made up the world economy in the nineteenth century and parallels to them exist today (Wallerstein, 1979).

In a similar vein, Sweezy (1972) argued that the world economy consisted of two rather than three sharply contrasting parts: the developed and the underdeveloped countries. The former consisted of a handful of dominant exploiting countries while the latter represented the much larger number of dominated and exploited countries. However,

the two are indissolubly linked together, and nothing that happens in either part can be understood if it is considered in abstraction from the system as a whole (p5).

Thus, leaving aside the semi-periphery to concentrate on what will be referred to below as the 'periphery' (i.e. countries where policies are or have been formulated to a large extent by foreign, Western influences) the distinction between the core and the periphery in no way indicates that there exists two separate world economies. Rather, it signifies different sectors performing different economic functions resulting in a world economy that is integrated and interdependent. This distinction is important to understanding the attitudes of people like the Muslims in Malaysia and, to technologies imported from the West, of which one of the most important is accounting. Although a full discussion of the development of the capitalist world economy is beyond the scope of this paper, the brief description of its emergence just provided, emphasises the interdependence that resulted from this phenomenon. The point being made now is that such interdependence has inculcated the secular materialist philosophy of the West into the minds of those in the periphery and, in particular, of Islamic societies such as Malaysia. Given the fact that the core-periphery relations are based on an unequal exchange, development of the latter is largely determined by decisions made in the former. Therefore, it follows that the interdependence between the core and the periphery (or between the developed and developing nations) is generally built on universalised Western terms (Von Laue, 1987). Von Laue (1987) described this as the world revolution of Westernisation.

The rational capitalistic ideology which started in sixteenth century Europe (and effected the separation between the state and religion) gradually made its mark in the Muslim world in the nineteenth century (see Wallerstein, 1979, p66). By the beginning of the twentieth century, the entire world was dominated by political philosophies, technologies and the way of life of Western Europe and North America. About eighty five percent of the world's land surface had, by that time, been absorbed into Western colonial empires and

the remaining parts were also subject to Western influences (Von Laue, 1987). Wherever the West intruded, it challenged and undermined traditional values (Haq, 1986). The process by which Western values were embedded in Muslim societies and how these values remained firmly entrenched in the Muslim mind is described next.

5.2 The process of acculturation

In Malaysia, as in other former Western colonies, a significant factor that helped shape the mental attitudes of Muslims in the alignment with Western imperialist values was the process of acculturation (instigated in this case by the British). Colonial administrators did not underestimate Islam's potential to disrupt this process (Ibrahim *et al*, 1985). Recognising that Islam is a significant force in shaping the cultural belief systems of its followers, the teaching of Islam was deliberately left out of the mainstream school curriculum. This produced a modern educated elite ignorant of Islam and its values and a religious class untrained in the modern sciences who were unable to play an effective role in society. This had the effect of reinforcing the already inherent division in the coloniser's philosophy between the secular and spiritual spheres of life and marked the beginning in Malay-Muslim society of the existence of this dichotomy.

During the post independence period of Malaysia, the secular Malay elite, trained by the British, exercised great influence over the governance of the country. The indoctrination of Western values by the British on Malaysians in general, and Muslims in particular, on matters pertaining to law, politics, economics and accounting is still firmly entrenched forty years after independence. In the case of the accounting profession, the British influence remains strong. This is reinforced by the fact that a large number of accountants were educated in Britain, Australia and New Zealand. Having been educated in the secular West, exposed to Western political and economic ideology for varying periods of time, the educated professionals tended to bring back with them an imported culture and belief system which, once adopted, becomes firmly entrenched in their minds. This is evidenced by the following of the British legal, political, economic and accounting models. Although Islamic revivalism is evidenced in Malaysia at the present time, it is still very much

overshadowed by the one hundred years or so of colonial indoctrination which preceded it.

A similar phenomenon occurred in Indonesia. The ways of thought and the feelings of the upper stratum of Indonesian society were strongly influenced by European traits of individualism, rationalism and bourgeois morality, especially among the younger members of the elite. This acculturation process took place largely outside the boundaries of Islam (Wertheim, 1985). When Indonesia gained its independence, it was the elite that were empowered to rule the country. In fact it was a deliberate move by the previous Dutch colonisers, to help those who were more inclined to reject Islam in its stricter form, to reach positions of political influence. Thus, the secular systems (political, economic or administrative) put in place during colonisation were reinforced after independence.

The effects of the colonial infiltration of the Western mind-set into the belief systems of Muslims in South East Asia is clearly in evidence today. Although Islam can be regarded as a powerful political force in South East Asia (Choudhury, 1993), most Muslims in this region, in the opinion of some, have ceased to regard Islam as a way of life, regarding Islam more as a religion of rituals than of spiritual or moral substance (Ariff, 1991)¹⁵. Satha-Anand (1991) and Ariff (1991) have attributed this phenomenon to years of de-Islamisation resulting from Western influence and secularism, observing that some Muslims in this region have exhibited complete disregard for Islamic injunctions¹⁶. Muslims in name only, they are conscious of their faith but not their responsibilities as Muslims. Others, in contrast, seemed to be obsessed with the rituals promulgated in the five pillars of Islam without fully understanding the underlying Islamic values and still others have tended to rationalise their actions as *dharurat* (which allows exceptions to matters that are normally disallowed). The last mentioned type probably represent a popular 'escape' route for the otherwise conscientious Muslims, especially in the case of South East Asian Muslims who are not operating in an Islamic economy.

One school of thought subscribing to the *Shari'a* maxim that 'necessity makes the unlawful permissible', supports the prevalent conduct of Muslims in South East Asia especially those living in countries where

Muslims constitute a minority. In this regard, it was reported in Kamali (1994) that Al-Zarqa contends that interest is permissible in such a situation and it is to be regarded as a temporary and exceptional circumstance until such time when the world economy is no longer under the domination of modern capitalism. A contrary viewpoint argues that Islam allows no such rationalising except under extremely extenuating circumstances (such as the loss of life, perhaps)¹⁷. Ariff (1991) attributes such an 'excuse' (i.e. *dharurat*) to ignorance, weakness in faith and expediency or pragmatism on the part of Muslims¹⁸.

The results of the Sulaiman (1997) questionnaire survey may thus be interpreted as showing that the spirit of capitalism still thrives no matter to what religious affiliation one subscribes. The materialist philosophy is, perhaps, so firmly embedded in the Muslim mind that although Islam may have an effect on how an individual behave, the economic and social pressures originating from the capitalist world economy exercise a much greater influence over attitudes prevailing in commercial life (Rodinson 1974). Geertz's (1968) distinction between being religious and being religious-minded may provide further illumination on this matter. According to Geertz's theory, being religious is not merely knowing the truth, but embodying and living it. Being religious-minded, on the other hand, offers reasons for one's beliefs. While both are believers, it is the religious that live their beliefs. Hence, if one were to relate these two concepts to the results that have emerged from the Sulaiman (1997) study of accounts users perceptions in Malaysia, one might conclude that the Muslim respondents surveyed illustrated a religious-minded disposition as opposed to a religious disposition. The facts about Islamic values in South East Asia just discussed seemed to support Rodinson's contention discussed earlier.

Further evidence of the same phenomenon can be addressed to other areas of the developing world. In the Middle East, industrial capitalism appeared as an imitation of Western capitalism. The development of a modern banking system based on a European model requires devout Muslims to conduct themselves in accordance with Western values (Rodinson, 1974). In Turkey in the early twentieth century, the secularisation of the Ottoman empire was basically an attempt to legitimate and justify the consequences of

imported capitalism (Turner, 1974). The economic collapse of the Ottoman empire has, in part, been attributed to the success of ruling elites in granting extra-territorial trade privileges to European merchants. Fiscal mismanagement evidenced in the last stages of the Ottoman empire (where foreign loans were contracted and banks and tax revenues were placed in the hands of foreign interests) resulted in direct European financial control of the Turkish economy (Blaisdell, 1966). This marked the beginning of an era of European supremacy in the Muslim world.

Given the historical setting described above, it is not surprising that Muslims often seem to behave (in business matters) in a similar manner which would be regarded as normal in the European capitalist world. What is happening in the Muslim world today is consistent with the theory of social change and development implicit in Wallerstein's theory of world capitalism. It is also consistent with the 'liberal' theory of social change and development i.e. that all societies under the influence of modern science and technology will eventually become urban in their demographic distribution, industrial in their economies, democratic in their political structures and secular in their thoughts, values and culture (Mehmet, 1990)¹⁹.

5.3 Multinationals

The latter day manifestation of colonial influence lies in the existence of multinational organisations, themselves instruments of the capitalist world economy. The West, through these multinationals, paved the way for the further exploitation of human and natural resources in the periphery as well as ensuring that a market for manufactured goods was maintained. In the quest for enhanced gains, the typical production unit²⁰ in modern developed capitalism is both a conglomerate²¹ and a multinational²² (Sweezy, 1972). How does Islam regard such a process of expansion? To the extent that the emergence of multinationals has given rise to a business environment that is conducive to cooperation and mutual aid, this form of organisation is obviously not necessarily against Islamic principles. However, where small players in the market are prevented (in the name of efficiency) from operating, the development of monopolies is not consistent with

Islamic beliefs for such practices are exploitative in nature.

Exploitative or not, in the quest for greater material gains and in order to compete globally, governments may (and often do seem to) feel it necessary to re-culture their domestic arrangements accordingly. Hence, the world capitalist system all too often relegates a nation's domestic policies to being secondary to those which pertain to foreign matters. A similar phenomenon occurred during the early stages of the capitalist world system: the main difference being that while the social order then was to some extent *forcibly* transformed to accord with the value systems of the coloniser; today, the aligning of the social structure of the periphery to the core arises out of the pure *necessity* for survival in order to perpetuate the world economy. The central task of the capitalist state, therefore, lies in creating conditions that are favourable to such a development (Sweezy, 1972). In the process, all Western accomplishments such as science, technology, education, industrialism, and large scale organisations have been transformed into universal requirements.

This process is further enhanced by powerful agencies of the United Nations such as the International Monetary Fund and the World Bank. Through their guidelines, these organisations help maintain the universals of world capitalism among developing countries. Global standardisation of weights and measures, the interchangeability of money, communication, health and safety and the use of English as the preferred international language, all act to reinforce these universals (Von Laue, 1987). More importantly, given that most multinationals originate from countries which were once colonisers, the organisational culture and values that permeate such firms generally mirror those of the West. These values are, to a great extent, more secular and individualistic. Given such an environment, locals working in multinational companies have tended to assimilate these imported values unconsciously²³. With the ground rules of global interaction established by multinational firms, big trading companies and banks impose their own universal practices, whether of management or industrial production or of accounting. In addition, commodities of a universal appeal such as automobiles, radios, computers, soft drinks, directly or indirectly enforce new uniformities. All these have contributed effectively to building a true global community (Von Laue, 1987); a world that will perhaps ultimately become homogenised and made into a kind of McDonald's of consumer sensibilities (Falk, 1996, p7). In this regard, the fact that the bottom-line profit has been universally accepted as a measure by

which the success of a business should be gauged, reflects this uniformity.

The need for material success is not necessarily contrary to Islam for Islam acknowledges that human virtue cannot exist when there is poverty and suffering. What Islam forbids is the kind of materialism that transforms an individual to regard wealth as an end in itself, the pursuit of which becomes the primary motivation of one's life, to the exclusion of everything else. Like the expansion of the world economy, international trade and the search for markets were integral parts of the expansion of the Islamic empire during the eighth to the fourteenth centuries. However, although Islam is not against capitalism *per se* (Rodinson, 1974), the *Shari'a* specifically provides for the types of trade that a Muslim can engage in and the manner it should be conducted. Above all, an individual's action should never violate social and economic justice. Capitalist values can violate these principles and the onslaught of Western imperialist values on the Muslim mind is now so firmly entrenched in the minds of Muslims in commerce and related areas of human endeavour that Islamic values tend to be overlooked or forgotten. The borrowing of Western accounting models, in itself, is not necessarily contrary to Islam since the borrowing of ideas may be regarded as a mark of self-confidence. However, to take on board *all* that attaches to such models, particularly a purely secular materialist value system, is almost certainly not appropriate to the long term survival of an Islamic community.

6 Policy issues

This brings us to a final question. If, indeed, the results from the Sulaiman (1997) survey are representative of what Muslims in general perceive to be useful accounting information, should Muslim countries continue to simply adopt Western accounting models and abdicate any responsibility for considering the question of the consistency of such practices with Islamic values? Or should it more proactively and radically implement changes in accounting disclosure practices which are more likely to promote Islamic values? This question is evidently one with policy implications of the highest and profound kind for Muslim societies. The findings of the Sulaiman (1997) survey could be interpreted as evidence, not that there is no difference between

Islamic and non-Islamic requirements for financial information but, that Muslims have become corrupted by the adoption of the entirely secular ideals embodied in the typical profit and loss account (a tool or technology which might itself be said to represent the essential spirit of capitalism). If the latter is the case, it suggests that Islam may have come to exercise a less powerful influence on the economic behaviour of its followers because of indoctrination, through importation, in a seemingly innocuous, technical procedure for disclosing financial information. Consequently, Muslims *appear* to behave in a manner similar to that which is regarded as normal in the European capitalist world (Rodinson, 1974, p163). The policy issue is: Is it right that this should be so? Does Islamic society want to do anything about it? If so, what needs to be done?

If Muslims wish to conduct their business affairs more in line with the precepts of Islam, the argument advanced here implies that some kind of change in financial reporting practices is a necessity. Given the fact that theory can and may lead to its eventual practice, this is unlikely unless the theory is one 'whose time has arrived' (Gray *et al*, 1987, p204). As far as the prevailing environment of Muslim countries are concerned the future of some kind of Islamic Corporate Reporting system as advocated by Baydoun and Willett (1994) seems to offer a kind of solution. The growing religious commitment throughout the Muslim world have resulted in an increasing number of Muslim countries realigning their economic activities to accord with the tenets of Islam (Abdel-Magid, 1981). Given this, one would envisage a specifically Islamic accounting and financial reporting would eventually evolved.

6.1 Voluntary versus legislated disclosure

With Islamic economics still at a theoretical stage of development, the process of change in accounting practice, if it is to be pursued, should presumably be approached with caution. Writing in the specific context of Islamic economics, Naqvi (1994) argued that, essentially, the process of transition should be one of compromise, searching for options that do not contradict the central purpose of Islamic ideals. One should, however, not regard compromises as un-Islamic simply because they do not exactly conform to ideal (textbook) situations. Changes in financial reporting should be achieved through evolution²⁴. There are two ways to achieve this end. On the one hand, the inclusion of a VAS and a CVBS suggested by Baydoun and

Willett (1994) need not necessarily be part of mandatory disclosure requirements. Rather, companies could be encouraged to *voluntarily* include these statements as part of its reporting exercise. On the other hand, relying on religious norms of righteousness and truthfulness may be simply inadequate to deal with the complexities of modern and economic rationalities (Mehmet, 1990). In that case, legislation might be a better alternative. Given the fact that the merits of the VAS and the CVBS are acknowledged in Western accounting systems (although their implementation has not been widespread) the eventual implementation of such a reporting system may not necessarily be fraught with problems as are sometimes supposed.

6.2 Resistance to change

Satisfaction with the *status quo* and coupled with the fact that developed countries themselves have not seen fit to include current value information and the VAS as a systematic part of their disclosure requirements, resistance to change (from both management and the accounting profession) is envisaged to suggestions for Islamic Corporate Reports to be of the type described in this paper. Adopting a distinct Islamic Corporate Reporting system may be regarded as being too radical a move. More specifically, management resistance to voluntarily disclose events which will ultimately result in increased social costs (e.g. as in the reporting of environmental pollution, plant explosions, oil spills etc.) may be high. Nevertheless, resistance to change may be overcome through education. Students should be informed that the present style of financial statements represents practices which are currently acceptable by the profession. In addition, research results should be encouraged to reflect on the 'desired' state of accounting practices (Sterling, 1973). When the topic concerns Islamic accounting, analysis at the level of the 'desirable' (i.e. what Muslims *ought* to want), the study of ethics and the ethical consequences of practice should also be part of the accounting curriculum. This may have the effect of gradually ensuring that users, accountants, directors and shareholders each better understand their respective responsibilities and can ultimately reach a consensus on what *ought* to be disclosed and how it should be disclosed in financial statements.

6.3 The process of change

The above suggestion for change may be regarded as the initial steps to be undertaken in developing a form of Islamic Corporate Report. Although these may not decrease by much the gap between a typical Muslim

society and those of the ideal Islamic society, such a society would at least be recognisable as a distinct social entity inspired by Islamic ideals (Naqvi, 1994). However, of more importance is the reformation of the mental thought, small though it might initially be, in imbibing the individual with the right moral attitudes and ethical values (Sulayman, 1993) that changing the form of presentation of financial information may impart. Formal action is important in this respect. Islam attempts to achieve conformity to basic values through the five pillars of Islam: the *shahadah*, prayers, fasting, alms-giving and the pilgrimage. These rituals reinforce the faith and rational behaviour of a Muslim.

The sanctioned rational behaviour of the Muslim (and the rewards which it promises) is consequently entirely different to what constitutes the rational behaviour of a capitalist. Making judgements on the basis of a VAS, for example, is no less rational than making judgements on the basis of the income statement, it is just that the perspective of what *should* be done is different.

7 Conclusion

This paper explicates the likely reason as to why the findings from a survey conducted on Malaysian accounting information users revealed very few differences in the perceptions of usefulness between Muslims and non-Muslims. Baydoun and Willett's normative theory of Islamic Corporate Reporting, on which the empirical work lies, was described. The differences between capitalism and the Islamic belief system were compared. The development of the capitalist world economy was suggested as a reason why, despite obvious differences in the two systems showed very few differences between Islamic and non-Islamic preferences for financial information. Subsequently, the impact of the colonial indoctrination of Western values as well as the role of multinationals were discussed in the context of the exploitation of the core on the periphery. Finally, policy recommendations regarding the implementation of a reporting system which might be seen to be more in line with Islam were suggested.¹

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¹*Zakat*, one of the five pillars of Islam, is a levy on Muslims whose wealth reaches a certain specified minimum (*nisab*). It is not a charitable donation for alluding it as such would mean that *zakat* is voluntary.

²The different levels of prescription in this analysis are an extension of a distinction made in Hofstede (1980); where a need to distinguish between the "desired" and the "desirable" in the analysis of culture is established. "*Desired*" values are values that people actually desire and "*desirable*" values are those values they think ought to be desired. The analysis carried out in this paper mentions the third level of actual practice more for completeness than for any other reason since there is very little difference in accounting measurement between Islamic and non-Islamic societies at the present time. The distinction between the desired and the desirable is, however, crucial.

³Broadly defined to include the disclosure of current value information.

⁴That is, in accordance with the definition of what is a measurement theoretic issue (Willett, 1987).

⁵Although this is slowly changing (Gray *et al*, 1987).

⁶A *mudaraba* is a form of business partnership where an investor (or a group of investors) provides capital to an agent-manager.

⁷The *Qur'an* specifically warns against miserliness as in the following verse,

And ye love wealth, with inordinate love! (89:20)

⁸This was only for banks which assume the responsibility for the collection and distribution of *zakat*.

⁹These are loans extended without the element of profit imputed. Such a fund is meant to be a means of achieving social justice.

¹⁰Some of these matters are proposed by the FAOIBF (See Financial Accounting Standard No. 1: General Presentation and Disclosure in Financial Statements of Islamic Banks and Financial Institutions, p73)

¹¹Special mention of this is made here because large import export holding companies generally do not disclose this fact if it is the subsidiary that engages in such an activity. Such information is pertinent for a devout Muslim investor may not want to continue investing in such a company.

¹²See Burns and Hart (1970).

¹³In the context of Islamic administration, Al-Buraey (1990) is of the opinion that efficiency and effectiveness should be sacrificed if these conflict with humanism.

¹⁴Culture is defined by Von Laue (1987) simply as the tool of collective human behaviour.

¹⁵South East Asia has a large concentration of Muslims. The region is represented by, amongst others, the Philippines, Thailand, Singapore, Malaysia, Brunei and Indonesia. The last three consist of predominantly Muslims and the first three have significant minority Muslim populations.

¹⁶This category of Muslims were termed 'nominal'.

¹⁷Again, 'extremely extenuating circumstances' is subject to individual interpretation. An example of this flexibility is in

the case of eating *non-halal* (forbidden) meat. To some, this is allowed if one happens to reside in a place where *halal* meat is not available. To others, as long as there are other alternatives, one must not resort to *dharurat*.

¹⁸Satha-Anand's (1991) study of Thai Muslims in the tourism industry provides evidence on the behaviour of some Muslims in such circumstances. Restaurants belonging to Muslims did not reflect their Muslim identity, save for their owners being Muslims and a *Quranic* verse hanging on the wall. Liquor was served liberally in such restaurants.

¹⁹Secularism refers to the eradication of religion as an institution in human society and erosion of man's faith in the divine and the transcendental (Haq, 1986).

²⁰The development of machinery and other advanced technologies led to the need for larger amounts of capital. This, in turn, paved the way for the corporate form of organisation. The quest for further material gains necessitated that firms expanded possibly eliminating competition and increasing monopoly profits. Thus, while competition was the hallmark of capitalism's initial development, monopoly practices are argued by some to be characteristic of its later stages of development.

²¹A company operating in many industries.

²²A company that operates in many countries.

²³The differences in behaviour (though slight) between Malay-Muslim employees of two companies operating in Malaysia, called 'A' and 'B' respectively (due to confidentiality reasons, the names of the companies are not disclosed) provide some evidence of the impact of corporate culture on employees behaviour. While Company A is an American multinational, Company B is Malaysian in origin. A visit by the researcher to the club shared by both companies' employees revealed particular differences in *outward* behaviour between the groups. Company A employees (Malays) tended to act in accordance more with Western values than Company B's employees. They tended to converse in the English language to a greater extent than their B counterparts, dressed more in keeping with modern Western standards and at times, were rather 'loud' in their conversations (speech). The contrary was observed for Company B's employees. Muslim employees in A may be just as religious as their B counterparts but the external manifestations of the organisational influence in A seemed to align more with their Western founders than local custom.

²⁴As reported in Naqvi (1994), Islam advocates evolutionary change as opposed to revolution. He cites the case of Prophet Mohamed and the abolition of slavery. The Prophet did not abolish slavery outright but, instead, abolished slavery in stages. He taught the followers that freeing a slave is a form of piety. The Prophet himself set the example. While providing a slave for his daughter Fatima, the Prophet persuaded her that the housework should be done on alternate days by Fatima herself. Gray *et al* (1987) writing on social responsibility accounting also advocated an evolutionary approach to reporting such practices.