University of Essex

Competing Institutional Logics in Islamic Financial Reporting Standardisation

A Comparative Study

Ahmad Abras

A Thesis Submitted for the Degree of Doctor of Philosophy in Accounting

Essex Business School
University of Essex

February 2018

Dedication

This thesis is dedicated to:

My Parents

(Salah & Layla)

For their endless love and prayers

My wife

(Ghofran)

For all the love, positivity and support she gives me

&

My daughter

(Layla)

For granting me true happiness and hope

This modest work is also dedicated to the suffering people in my home country, Syria

Acknowledgment

All praises and thanks are due to Almighty Allah and peace be upon his messenger Mohammed, who said: “he who does not thank people does not thank Allah, either”

I would like to express my greatest and most profound appreciation to my supervisor, Prof Kelum Jayasinghe, for his excellent supervision and valuable support during the course of this research. This thesis could not have been completed without his thorough guidance, extreme patience and absolute dedication.

I am also deeply indebted to Dr Murniati Mukhlisin, who was part of my PhD supervisory team at a certain stage, for the support, guidance and inspiration she gave me. I would also like to thank Dr Idlan Zakaria, under whose supervision I started my PhD study.

My heartfelt gratitude is extended to the academic staff at the University of Essex, in particular, Prof Teerooven Soobaroyen, Prof Stuart Manson and Dr Pik Liew, for their academic and personal support and guidance.

My sincere thanks and wholehearted gratefulness are due to my immediate and extended family for their endless support and prayers, and to my father-in-law, in particular, who has always encouraged me to do my best in life.

Last but not least, my special thanks go to my friends and colleagues for cheering me up during my whole PhD journey.

Abstract

Recognising the accounting implications of Islamic business principles, initiatives have been taken to develop a framework that primarily aims to serve the financial reporting needs of Islamic financial industry. Those initiatives started with the objective of developing separate Islamic accounting standards. However, they have ended up with significantly heterogeneous objectives. Employing Institutional Logics Perspective (ILP) as a theoretical framework and case-study approach as a research design, this study provides comparative accounts into the role of selected institutional logics (religion, profession, market, community and state) in shaping two Islamic financial reporting standardisation projects initiated by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Malaysian Accounting Standard Board (MASB). Moreover, utilising ILP supplemented by remarks from the institutional entrepreneurship concept, this study examines the role of actors in initiating and then differently shaping the standardisation policies of these projects.

Research findings informed by semi-structured interviews and document analysis indicate that Islamic financial reporting standardisation projects have been historically mapped by certain institutional logics. The dominance of those logics has experienced significant changes over time, resulting in subsequent changes in the standardisation strategies of those projects. Influential actors have also played an important role in shaping those projects through promoting certain organisational strategies in line with the institutional logics in which they are embedded. This study concludes that the heterogeneity which AAOFI and MASB have shown in their standardisation strategies is attributed to: the relative dominance of certain logics in each institutional context; the centrality of those logics to organisational mission and goals; the extent to which prevailing institutional logics are represented within the organisation and the balance of power between different logics' representatives; and the extent to which actors have been able to promote their entrepreneurial vision and mobilise allies behind it.

Table of Content

List of Figures

List of Tables

List of Abbreviations & Acronyms

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ACCA	Association of Chartered Certified Accountants
AOSSG	Asian-Oceanian Standard-Setters Group
BNM	Bank Negara Malaysia (Central Bank of Malaysia)
CSR	Corporate Social Responsibility
FRF	Financial Reporting Foundation (Malaysia)
GAAP	Generally Accepted Accounting Principles
ICAEW	Institute of Chartered Accountants in England and Wales
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFI	Islamic Financial Institution
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IIUM	International Islamic University Malaysia
ILP	Institutional Logics Perspective
IMF	International Monetary Fund
ISRA	International Shariah Research Academy for Islamic Finance
MASB	Malaysian Accounting Standards Board
MENA	Middle East and North Africa
MIA	Malaysian Institute of Accountants
SAC	Shariah Advisory Council
SSB	Shariah Supervisory Board
WB	World Bank
WTO	World Trade Organization

CHAPTER 1: Introduction to the Thesis

1.1 Background of the study

The notion that accounting represents a set of measurement techniques that work in isolation from their context has been widely challenged over the last few decades. Accounting has rather been viewed as a more "complex web of economic, political and accidental co-occurrences that mirror neither technical rationality, nor necessary progress" (Arrington and Francis 1989, p. 2). Consequently, there has been increasing interest in studying the behavioural, social and cultural aspects of accounting, or in other words, studying accounting as a part of a larger system in which it affects and is affected by other parts and factors in the system.

Religion has been identified as one of the factors which have an important influence in shaping accounting practices (Gray 1988, Hamid *et al.* 1993, Ibrahim 2000a, Carmona and Ezzamel 2006, McGuire *et al.* 2011, Dyreng *et al.* 2012). That is because religions are associated with certain principles and moral standards that should be attained and maintained by their followers in different aspects of life, including doing business. Islam, as one of those religions, sets comprehensive socio-economic principles (Ibrahim 2000a, Haniffa and Hudaib 2002). These principles are most likely to influence the accounting system in Muslim majority societies since accounting is considered a tool for reflecting and reporting the economic activities of individuals and organisations in those societies.

> *"Islam has the potential for influencing the structure, underlying concepts and the mechanisms of accounting in the Islamic world"* (Hamid *et al.* 1993, p. 131).

Over the last few decades, 'Islamic accounting' has emerged as a new stream in accounting research looking at what ought to be the accounting practices from an Islamic perspective. The concept of 'Islamic accounting' itself, according to Napier (2009), "appears to be an innovation rather than representing continuity with ideas and practices of the past" (p. 136). This concept has three interrelated meanings according to Napier (2009): a historically oriented sense in which Islamic accounting refers to the practices prevailing in the early Islamic states; a practice oriented sense which focuses on how entities labelled 'Islamic' account for their activities; and a principle oriented sense in which the fundamental Islamic accounting concepts, practices and policies are derived from the teachings of Islam.

This trend of research has been greatly motivated by the emergence and acceptance of the Islamic finance industry. This industry has created an urgent need for a financial reporting framework that enables Islamic financial institutions (hereafter IFIs) to communicate the Shariah compliance of their activities with different stakeholders and addresses the accounting issues that are specific to those entities and not covered by conventional accounting standards. Islamic accounting researchers as well as practitioners have called for developing a special framework in order to address these issues and unify IFIs accounting practices (See for example Abdel-Magid 1981, Karim 1990, Gambling and Karim 1991, Ibrahim 2000a). In fact, these calls have been extended by some scholars who also call for developing a comprehensive framework that take into consideration the information needs of Muslim societies as well as all business entities (financial and non-financial) working in accordance with Islamic principles (Kantakji 2003).

As a result of these calls at both the academic and professional levels, the Muslim world has witnessed some initiatives for developing accounting standards for IFIs. Some of these initiatives were taken by national accounting bodies (e.g. Malaysia, Pakistan and Indonesia) while others were taken through the establishment of international bodies (e.g.

AAOIFI). In addition, some of these initiatives have extended their long-term objectives to involve developing standards for all business entities working in accordance with Islamic principles[1].

These projects have considered different methodological approaches in developing their standards. They have also pursued their objectives while taking into consideration various institutional and contextual demands. However, it can be recognised that these projects have showed instability, to different degrees, in their policy for how to approach Islamic financial reporting standardisation issues. Even though they all started with the objective of developing a separate set of Islamic accounting standards, some projects have deviated from that objective and followed different strategies over time. Consequently, Islamic accounting standardisation projects have ended up with significantly heterogeneous approaches on how to deal with standardising and regulating Islamic financial reporting.

A number of studies have emerged to examine different aspects of these projects and the impact of their standards on IFIs financial reporting. While the importance of these projects have been acknowledged by some studies (Karim 1990, Karim 1999, Vinnicombe 2010, Mohammed *et al.* 2016), these projects have been subject to wide criticism by others due to their inability to avoid the influence of conventional accounting practices and thoughts (Maurer 2002, Yaya 2004, Kamla 2009, Ibrahim and Siswantoro 2013, Levy and Rezgui 2015, Kamla and Haque 2017). However, little research has been done in order to understand the contextual settings and institutional demands surrounding such projects and governing their decision on the most appropriate approach for Islamic financial reporting standardisation. It is not clear how these projects have historically satisfied different institutional demands when setting their priorities and if these priorities

[1] See for example the MASB case presented in Chapter 6

have changed over time resulting in changing their standardisation policy. In addition, there is a lack of studies that explain the reasons behind the heterogeneous strategies followed by these projects even though they supposedly work to achieve the same objective under the influence of similar institutional demands. From another perspective, organisational studies emphasise on understanding the role of actors who are embedded in certain institutional logics (Thornton *et al.* 2012) and act as representatives of these logics (Pache and Santos 2010) in shaping the organisational policies of their organisations. However, little is known about the role of actors and how their embeddedness in certain institutional settings is likely to influence Islamic financial reporting standardisation projects.

This study aims to fill the research gaps identified above (and presented in detail in Chapter Three). More specifically, this study seeks to achieve the following objectives:

1- To explore the institutional and contextual settings that have been surrounding Islamic accounting standardisation projects historically.

2- To explore how different institutional logics and demands have contributed in shaping the organisational policies of these projects and governed their decision on the most appropriate approach for regulating Islamic financial reporting.

3- To investigate the reasons behind the strategy changes which have been experienced historically by these projects.

4- To investigate the reasons behind the heterogeneity between these projects in their strategies for dealing with IFIs financial reporting.

5- To investigate the role of actors in shaping the organisational policies of these projects and the role of those actors in maintaining (or resisting) the vision of setting a distinctive framework for Islamic financial reporting standards.

This study employs institutional logics perspective as a theoretical framework for institutional and organisational analysis. This framework is featured by its balanced view of social structures and agency which helps achieve the research objectives stated above. Informed by this theoretical framework and its research objectives, this study seeks answers for the following research questions:

1- *How have standard-setting bodies experienced and responded to different institutional logics in their efforts to develop Islamic financial reporting standards and regulations?*
2- *Why have different standard-setting bodies responded in different ways to different institutional logics over time?*
3- *What is the role of actors in shaping the strategies of Islamic financial reporting standardisation projects and how have they contributed to the success or failure of their vision?*

In achieving its research objectives and answering its research questions, this study adopts qualitative, case-study research approach and takes the stance of interpretive research paradigm. It utilises document analysis and semi-structured interviewing for data collection and follows a selection of data analysis strategies and techniques as identified by Yin (2014).

1.2 Scope of the Study

Ibrahim and Siswantoro (2013) question the use of the term ‘Islamic Accounting Standards’ in the literature. They indicate that this term is frequently associated with what AAOIFI has developed. However, they clarify that what AAOIFI has done cannot be termed ‘Islamic accounting standards’ but rather ‘accounting standards for Islamic financial institutions’. Islamic accounting standards are defined according to Ibrahim and

Siswantoro (2013) as the “accounting standards that are derived directly from the Islamic teaching” (p. 49). They argue in this regard that the real Islamic accounting standards are still theoretical.

Islamic finance has emerged as a result of the question: ‘what ought to be the modern finance and banking practices from an Islamic perspective?’ The emergence of this industry has motivated a similar question in the accounting field: what ought to be the accounting from an Islamic perspective? Attempting to answer this question, some studies have emerged suggesting conceptual and theoretical principles for an Islamic accounting framework (See for example Baydoun and Willett 2000, Ibrahim 2000a, Haniffa and Hudaib 2002). However, the standardisation projects on the ground have been motivated by the urgent needs of IFIs for harmonised accounting practices that meet their financial reporting needs[1]. Although some of those projects have declared that their aim is to extend their standards to cover entities beyond IFIs, it can be argued that, in practice, the ultimate focus of these projects has been on IFIs.

Since the standardisation projects that have been established in the Islamic world have been mainly, if not ultimately, targeting IFIs in their standards, this study focuses on these projects and the standards, guidelines and pronouncements which they issue. Understanding these projects is undoubtedly helpful in identifying the factors that may influence any future project that aims to develop ‘Islamic-based’ accounting standards beyond those prepared for IFIs.

This study agrees with Ibrahim and Siswantoro (2013) in acknowledging that what the current standardisation projects have prepared are merely accounting standards for IFIs. It also agrees that such standards are not the ‘ideal’ form of Islamic accounting standards, since they have been criticised for not being purely developed based on the

[1] See Chapters 3 & 6 for more details.

spirit of Islamic teaching but rather influenced by conventional accounting practices and thoughts (Maurer 2002, Yaya 2004, Kamla 2009, Ibrahim and Siswantoro 2013, Levy and Rezgui 2015, Kamla and Haque 2017). Yet, with my reservation about the term and to maintain consistency with the terminology used in the literature, the term 'Islamic accounting standardisation projects' will be used throughout this thesis to refer to these projects and the term 'Islamic accounting standards' to refer to the accounting standards issued by these projects to accommodate IFIs financial reporting requirements.

1.3 Importance and Contribution of the Study

Islamic finance industry has expanded rapidly since its emergence in the early 1960s. According to the World Bank, the annual growth of this industry is 10-12% with currently estimated Sharia-compliant financial assets of US$2 trillion[1]. In many Muslim majority countries, this industry has been growing faster than conventional finance, making it the mainstream mode of finance. The interest in Islamic finance has been recently extended to non-Muslim countries such as the UK, Luxembourg, South Africa, and Hong Kong.

IFIs derive their legitimacy in the market from the nature of their operations as Shariah compliant financial institutions. Annual reports are an important tool for IFIs to communicate the Shariah compliance of their activities with their stakeholders in general and their shareholders and clients in particular. It has been recognised that the absence of financial reporting standards or guidelines that help IFIs reflect the Shariah compliance of their activities would have an adverse impact on the credibility of these entities (Karim 1999, Nasir and Zainol 2007). Islamic financial reporting standardisation projects have made considerable efforts over the last few decades to meet the need of the Islamic financial industry for such standards and guidelines. Therefore, the contribution of those projects to the Islamic finance industry and its growth cannot be ignored. The importance

[1] See: http://www.worldbank.org/en/topic/financialsector/brief/islamic-finance

of this study comes from the attempt to attain deep understanding of these projects, the factors that have governed their policies and shaped their standards and guidelines, and the challenges that have faced them historically. Hence, carrying out this research would make a significant contribution to the literature. Moreover, it would move IFIs financial reporting forward through its policy implications and recommendations.

In addition, IFIs are currently the most common example of the entities undertaking their activities in compliance with Shariah. The accounting implications for many of these activities have been long recognised by many scholars since Abdel-Magid's (1981) paper about the accounting implication of Islamic banking. These implications have led to calls for specialised accounting standards that meet the needs of this emergent industry. However, as it is the case of other developing countries, accounting technologies (including accounting standards) in Islamic countries are often exported from the developed Western countries with a pre-determined baggage that ignores the differences in local contexts. This fact has been more apparent recently with the worldwide implementation of IFRS. Therefore, providing an alternative financial reporting framework by Islamic accounting standardisation projects can be seen as a potential challenge to that ‘taken for granted baggage’ of accounting standards proposed by the IASB. This amplifies the importance of understanding these projects and the institutional and contextual settings surrounding their efforts and governing their policies and standards.

This research contributes to different streams of literature. This mainly includes Islamic accounting literature and international accounting literature. In addition, it contributes to the field of organisational studies through investigating the heterogeneous organisational behaviour of similar organisations working under similar conditions to achieve similar objectives. It would be interesting to conduct such a study in a unique field such as Islamic financial reporting, which is governed by various institutional demands.

Theoretically, this study contributes to the rapidly growing body of literature that uses institutional logics perspective as a theoretical framework. In this regard, religion has been identified by Friedland and Alford (1991) as well as Thornton *et al.* (2012) as one of the institutional orders that constitute the 'interinstitutional system'. However, their identification was limited to a very specific context which is the influence of Christianity in the Western world. Thornton *et al.* (2012) admit that such a narrow focus represents a strong bias. They argue that the influence of religion might be more salient in other societies. Hence, it can be argued that carrying out this study makes a significant theoretical contribution through shedding light on Islam as an important institutional order influencing a particular phenomenon (accounting practices and standards) in a context beyond the Western world (Islamic world).

1.4 Structure of the Thesis

This thesis is organised into nine chapters as represented in Figure 1-1 below which clarifies that link between the chapters.

Chapter 1: This chapter is an introductory chapter. It provides an overview of the research, highlighting its objectives, scope, importance and contribution and presents how the thesis is structured.

Chapter 2: The purpose of this chapter is to shed light on some conceptual and contextual issues related to IFIs financial reporting in order to pave the way for a critical literature review in Chapter three. It provides general knowledge about accounting and accountability from an Islamic perspective. It also explores the philosophical and operational differences between Islamic and conventional modes of finance, the accounting implications of such differences, and how IFIs financial reporting is regulated around the world.

Chapter 3: This chapter provides a comprehensive review of the literature on Islamic financial reporting standardisation. It starts by addressing the controversial debate about the suitability of one set of accounting standards to different countries, contexts and industries. Narrowing down, this chapter moves to review the literature which calls for developing a framework that addresses Islamic financial reporting needs. It also explores the debate about the appropriateness of different alternative approaches for developing such a framework. The chapter then moves to provide a critical review of the literature that has been written on certain projects for developing Islamic accounting standards. Finally, this chapter identifies research gaps in the literature and concludes by stating the research objectives and questions which this thesis aims to address and contribute to the literature.

Chapter 4: This chapter presents institutional logics perspective (ILP) as a theoretical and analytical framework for this thesis. It provides an overview on the ILP concepts, principles and assumptions and explains the relevance of this framework to the objectives of this thesis and how it is applied.

Chapter 5: This chapter aims to describe the philosophical and methodological stance adopted in the thesis. In addition, it provides details about the research design and the process of data collection and analysis. Combined with the theoretical framework chapter, this chapter provides the foundation for the empirical work presented in the following chapters.

Chapter 6: This chapter aims to provide a historical and contextual background of the two case-study projects of AAOIFI and MASB, which are selected as case-studies in this research. It explores different strategies and policies followed by these projects over different historical stages.

Chapter 7: The purpose of this chapter is to provide an analysis of the institutional logics that have shaped and governed different historical stages of the AAOIFI and MASB projects. It also aims to explain how and why each of those projects has responded to those different logics in different ways at different historical stages. In other words, this chapter attempts to explore and explain the heterogeneity that AAOIFI and MASB have shown at different periods of time.

Chapter 8: The purpose of this chapter is to investigate the role of actors in each case study from two different, but interrelated, perspectives. This is firstly by looking at the role of actors who act as 'representatives' of particular institutional orders in promoting and defending certain organisational polices. In addition, in order to gain further understanding of the role of actors, this chapter extends its analysis to incorporate remarks from the institutional entrepreneurship theorisation of Thornton *et al.* (2012) and Battilana *et al.* (2009). This is for the purpose of investigating the entrepreneurial behaviour of AAOIFI's and MASB's actors.

Chapter 9: This chapter is the conclusion chapter. It restates the research background and summarises the key findings making conclusions that address the research questions. It also outlines the empirical and theoretical contribution of the research and highlights its policy implications and contributions. Finally, this chapter clarifies research limitations and concludes by suggesting potential avenues for future research.

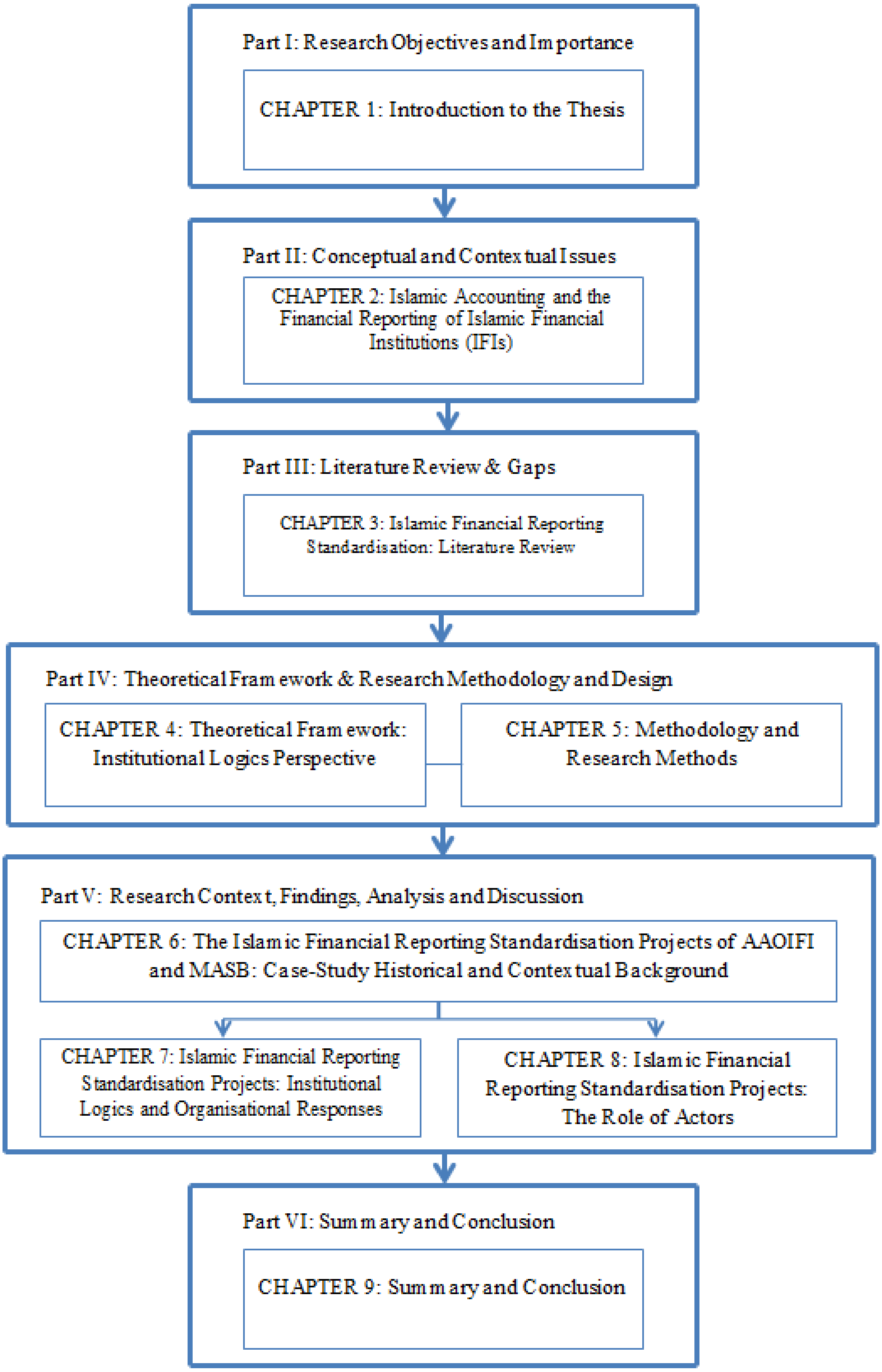


Figure 1-1: Structure of the Thesis

CHAPTER 2: Islamic Accounting and the Financial Reporting of Islamic Financial Institutions

2.1 Introduction

Understanding IFIs financial reporting requires understanding the concept of Islamic accounting in its historical and modern meaning. It also requires understanding the philosophical assumption underpinning this concept. Moreover, it is necessary to understand the philosophical and operational differences between IFIs activities and conventional banking. This is because these differences give rise to some problematic issues when trying to apply the contemporary accounting practices on IFIs activities. This chapter sheds light on these conceptual and contextual issues in an attmpt to pave the way for a critical literature review in Chapter three. In other words, this particular chapter does not aim to identify literature gaps or provide a critical literature review.

This chapter is organised into four main sections. The first section explores the concepts of Islamic accounting and accountability. The second section provides a historical overview of the emergence and development of Islamic finance industry and its principles. The following section explores some financial reporting issues that face IFIs. It also presents IFIs financial reporting expectations, demands and requirements. The final section provides an overview of IFIs financial reporting regulation around the world.

2.2 Islam, Accounting and Accountability

The concept of Islamic accounting is commonly linked to the Islamic finance industry, which has emerged and achieved considerable acceptance over the last few decades. However, Islamic accounting has not emerged as a result of the emergence of Islamic finance but rather it has its own roots in the history of the Islamic world (Napier and Haniffa 2011).

Going back in the history, the early Islamic state was established in 622 A.D. in *Al-Madienah Al-Munaw'warah* by the Prophet *Mohammad* (PBUH)[1]. That state expanded rapidly and attained great achievements in all fields until it became the leading state of that era[2]. New rules were established in that state based on the *Quran*[3] and *Sunnah*[4]. These rules had their implications on every single aspect of individuals' life including business activities. In that emergent state, accounting was developed to meet the needs of Muslim society. Zaid (2000) indicates that the development of accounting by Muslims at that time was firstly motivated by the requirements of *Zakat*[5]. He states that *Zakat* was not of great financial importance at the early stage of the Islamic state; however, the geographical expansion of the Islamic state especially during the period of Caliph Omar bin Al-khattab[6] led to significant increase in *Zakat* and other revenues simultaneously with the increasing responsibilities of the Islamic state. According to Zaid (2000), this necessitated the establishment of formal accounting records called '*Dewans*' as well as special accounting procedures in order to account for the state revenues and expenses and ensure an adequate accountability of the employees who were responsible for collecting and disbursing these revenues. Zaid (2004) points out that the development of accounting records and procedures reached its highest level during the Abbasid Caliphate between 132-232 H (750-847 A.D.) by the establishment of many specialised accounting systems[7]. Zaid (2004) refers to a sort of standardisation in designing, organising and implementing

---

[1] This abbreviation stands for 'Peace Be Upon Him' which is an Islamic expression used whenever the name of any prophet is mentioned.

[2] Ekelund *et al.* (1990, p. 26 cited in Zaid, 2004, p. 153) state in this context: "[F]or five centuries, from 700 to 1200, Islam led the world in power, organisation, and extent of government; in social refinements and standards of living; in literature, scholarship, science, medicine, and philosophy ... It was Muslim science that preserved and developed Greek mathematics, physics, chemistry, astronomy, and medicine during this half millennium, while the West was sinking into what historians commonly call the Dark Ages".

[3] Quran is, as Muslims believe, the word of revelation from the God to the Prophet Muhammad.

[4] The acts, sayings and practices of the Prophet Muhammad.

[5] *Zakat* is the mandatory religious levy which was introduced in 624 A.D. It requires every Muslim to pay this levy on amounts exceeding certain limits. The rates of *Zakat* depend on the nature of the item subject to *Zakat*.

[6]Omar bin Al-khattab is the second Caliph (leader) of the Islamic state. He ruled between 13-23 H (634-644 A.D.)

[7] He identifies seven accounting systems: stable accounting (accounting for livestock), construction accounting, rice-farm accounting (agricultural accounting), warehouse accounting, mint accounting (currency accounting), sheep-grazing accounting (farm accounting), and treasury accounting.

these accounting systems regardless of the place of their application[1]. This implies that the early Islamic state witnessed accounting standardisation efforts very long time before the contemporary standardisation efforts.

Although these recording systems were initially developed by the Islamic state, Zaid (2000) refers to the contribution of Muslim traders in this development, motivated by the need to maintain adequate records for the purpose of measuring the amount of *Zakat*. In addition, the expansion of the trading activities by Muslim traders resulted in the emergence of partnership and consequently the need for holding proper accounting records in order to record transactions involving future obligations between partners and trading parties as required by *Quran*[2] (Zaid 2004, Napier 2009).

After the fall of the Islamic state and the colonisation of most Muslim countries by Western empires, these countries have been largely influenced by Western systems politically, economically, legally, and even culturally; whereas the influence of Islam has declined. Colonisation also played an important role in shaping the accounting systems of the colonised countries (Alnesafi 2010, Altarawneh and Lucas 2012). Nonetheless, the independence of Muslim countries, alongside the Islamisation movements in some countries and the emergence of Islamic banking, has motivated the calls for accounting systems based on Shariah[3] principles. However, it can be noticed that the concept of Islamic accounting as addressed in the modern literature goes beyond its historical meaning as a recording function and *Zakat* measurement tool. Napier (2009) refers to this fact by saying that the present concept of Islamic accounting "appears to be an innovation rather than representing continuity with ideas and practices of the past" (p. 136). In fact, the current concept of Islamic accounting represents a normative set of accounting and

[1]Zaid (2004) mentioned 14 general accounting and recording procedures in detail in addition to some procedures which are specific to certain accounting systems.
[2]This requirement is mentioned in the Qur'an (Al-Baqarah, 2:282)
[3] Shariah is the Islamic law. It is the legal and moral basis of Islam that governs cultural practices, social interaction and economic activities (Lévy & Rezgui, 2015).

reporting principles that are derived from Islamic teachings and philosophy. In this meaning, Napier and Haniffa (2011) define Islamic accounting as “accounting ideas and practices that have fundamental differences from their conventional counterparts resulting from adherence to Sharia principles” (p. xiii).

In order to understand the modern concept of Islamic accounting, it is necessary to understand the philosophical assumptions of some concepts that make the foundation for the notion of accounting and accountability in Islam. ***Tawhid*** means the unity and oneness of God. This concept implies that since there is only one God, Islam (literally means ‘submission’) requires total submission to that God in all aspects of life (Ibrahim 2000a, Napier 2009). This leads to the concept ***Khilafa*** (vicegerency) according to which humans are required to act as trustees and agents of God in the earth to manage its resources and look after God’s creations (Ketola *et al.* 2009, Ariff and Iqbal 2011). In other words, God, who is considered the ultimate owner of everything, has appointed humans as God’s vicegerent on earth and given them the sacred duty of the stewardship on its resources (Yaya 2004, Napier 2009). Therefore, ownership of property is considered a trust and people are accountable to God for the way they use this trust for the benefit of mankind[1] (Lewis 2001, Ariff and Iqbal 2011).

The word ‘***Hesab***’ (literally means ‘account’) is the root of accounting. This word and its derivative are mentioned in the *Quran* more than eighty times (Askary and Clarke 1997). Lewis (2001) indicates that the word ‘*Hesab*’ is related to one’s obligation to account to God, for whom every Muslim is accountable, in all aspects of life[2]. He adds that every Muslim has a record or ‘account’ with God in which all good and bad actions

[1] Lewis (2001) indicates in this regard that Shariah has specified how individuals must use what has been entrusted to them and linked their success in the hereafter to their performance in this world.
[2] Prophet Mohammad (PBUH) said, "Man's feet will not move on the Day of Resurrection before he is asked about his life, how did he consume it, his knowledge, what did he do with it, his wealth, how did he earn it and how did he dispose of it, and about his body, how did he wear it out." (At-Tirmidhi).

are recorded in order to be accounted in the Day of Judgment[1]. This adds extra dimensions to the notion of valuating things and deeds compared with the human concept of valuation on which conventional accountability and accounting are based (Lewis 2001).

The term ***Ummah*** can be translated as 'community'. Nonetheless, this term has a sacred connotation (Levy and Rezgui 2015). This term implies that every individual act should ultimately serve the collective well-being of the community. Accordingly, the purpose of the Islamic economic system, as described by Ariff and Iqbal (2011), is to "allow people to earn their living in a fair and profitable way without exploitation of others, so that the whole society may benefit". Ariff and Iqbal (2011) assert that the emphasis in Islam is on "the welfare of the community over individual rights .... [and] the interests of the entirety of the Muslim society, rather than on the special interest of individual Muslims" (p. 45). Baydoun and Willett (2000) add in this context that the focus in Islam is on God and human community rather than individual interests, social accountability rather than personal accountability established in the Western values. Consequently, the focus of Islamic accounting should not be limited to individuals' accounting profit; rather, it should be extended to measure their tangible input to the whole community (Levy and Rezgui 2015).

Finally, the concept of ***Adl*** refers to justice in its socio-economic meaning. According to Levy and Rezgui (2015), *Adl* is the main moral objective of Shariah which unites the social and economic components of justice. They give gambling and dealing in interest as examples of economic activity that have been prohibited for their social injustice implications, which lead to the impoverishment of one part of the society while accumulating wealth with another. Accounting should therefore be a 'justice tool' that

[1] "Allah takes careful account of all things" (Quran, 4:86)

identifies economic and social injustice activities and helps establish justice in its socio-economic meaning (Kantakji 2003).

Table 2.1 illustrates the features of Islamic accounting that are derived from the above philosophical assumptions of Shariah in contrast to its conventional counterpart:

	Conventional Accounting	Islamic Accounting
Objective	- Personal accountability - Decision usefulness for shareholders and creditors	- Islamic accountability (towards God and society) - Socio-economic justice - Balanced emphasis between internal and external stakeholders
Orientation	- Individualistic - Capital market orientation - Short term	- Communal - Social welfare orientation - Long term
Users	- Market players and finance providers	- Society - All stakeholders (internal and external)
Recognition	- Monetarily measurable - Internal economic events	- Not necessarily financial - Socio-economic events
Measurement	- Generally historic cost - Lower of cost and Net Realizable Value	- Current valuation (for Zakat purposes)
Disclosure	- Limited disclosure - 'Material' economic events	- Full disclosure - Shariah compliance - Socio-economic events
Reports	- Income statement - Balance sheet - Cash flow statement	- Income statement - Balance sheet - Cash flow statement - Current value balance sheet - Social report - Environmental report - Value added statement - Statement of sources and uses of *Zakat* fund - Statement of sources and uses of *Qard* fund

Table 2-1: Features of Islamic accounting in comparison to conventional accounting[1].

[1] Adapted from Ibrahim (2000a) and Levy & Rezgui (2015)

2.3 Islamic Financial Institutions (IFIs): History and Principles

Over the Islamic history and since the early era of Islam, the fundamental principles of Islamic finance were implemented among Muslim communities. Financial and banking activities had been widely practiced based on Islamic principles without giving such activities the name of 'Islamic finance'. This includes lending, borrowing, money exchange, profit sharing and other kinds of participative arrangements where there is no use of interest (Adnan 1996, Maali and Napier 2010).

Maali and Napier (2010) indicate that, starting from the beginning of the last century, the Islamic world has lost its economic position. It became more affected by Western thoughts and ideologies. Consequently, the contribution of Islamic financiers declined and the Islamic mode of finance was replaced by interest-based finance with the establishment of western oriented banks in Islamic countries. However, the independence of Muslim countries in the period between 1940-1970 alongside with the establishment of international Islamic organisations and revival of Islamic economic thoughts, led to an increasing desire among Muslims to conduct their business activities according to Islamic principles (Maali and Napier 2010). This desire was translated in the emergence of Islamic banking thoughts in the early 1960s. The wealth increase in some Muslim countries after the oil boom in the early 1970s resulted in the presence of a considerable amount of funds controlled by Muslims. This has led in turn to the institutionalisation of Islamic banking industry and remarkable expansion of Islamic banks, which offer a wide range of financial instruments (Bucheery 2001, Maali 2005). The fundamental objective of such instruments is to enable Muslims to obtain financing and invest their savings in a Shariah compliant way (Gambling *et al.* 1993). Islamic financial institutions are now operating in many parts of the world, particularly in the Middle East and South Asia.

They have achieved a substantial growth[1] and demonstrated a sustainable position as an alternative mode of finance, especially after the recent financial crisis in 2008 (Farook *et al.* 2011).

Islamic finance is based on the Islamic economic and business principles. The key features which distinguish IFIs from their conventional counterparts are their underlying principles based on Islam teachings, the provision of interest-free financial products and the focus on social goals (Haniffa and Hudaib 2007). IFIs are mainly prohibited from engaging in activities which involve interest, gambling, and uncertainty (*gharar*), as well as dealing in prohibited (*non-halal*) products, food or drinks and unethical activities. The World Bank website describes Islamic finance as "equity-based, asset-backed, ethical, sustainable, environmentally- and socially-responsible finance. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare"[2].

IFIs are different from conventional financial institutions at both the philosophical and operational level. At the philosophical level, Ibrahim (2000a) explains that, in conventional financial institutions, interest is considered as the price of obtaining capital or the rental value of money. In other words, money is a commodity that can be rented at a pre-determined rate of return (interest) and, therefore, the elimination of interest would seem, from that viewpoint, irrational. However, in Islam, money is considered as a medium of exchange and a value measurement tool, not as a commodity to be traded (Sulaiman 2003). Hence, it is not logical to receive income from money alone.

This philosophical difference has its implications at the operational level. This is manifested through eliminating interest-based activities from IFIs' dealings. Instead, alternative financial instruments are utilised by IFIs. According to Haniffa and Hudaib

[1] According to the World Bank, Islamic finance industry has expanded rapidly over the past decade, growing at 10-12% annually. Sharia-compliant financial assets are estimated at US$2 trillion.
[2] See: http://www.worldbank.org/en/topic/financialsector/brief/islamic-finance

(2007), those financial instruments are mainly based on two principles which are profit and loss sharing and mark-up arrangements. For instance, in order to mobilise funds from their customers, IFIs utilise *Mudarabah* arrangement (partnership in capital and efforts) and *Musharaka* (partnership in capital). By contrast to conventional financial system, the rate of return on these two instruments is not guaranteed. In other words, IFIs cannot promise a risk free return to depositors as it is the case for conventional banks. On the other hand, in investing their funds, IFIs utilise financing tools such as *Murabaha* (cost plus profit), *Istisnaa* (order to manufacture), *Ijarah* (rental arrangement) and *Musharaka* (financing).

In addition to those philosophical and operational differences, theoretically, Islamic finance has been emerged with the intention of reviving the social function of wealth. IFIs' general objective does not differ from conventional banks' objective as they both aim to attract individuals' savings and channel them into various economic activities. However, IFIs do not consider profitability per se as the only criterion for doing business. They also consider the social outputs and contributions. Accordingly, IFIs are established to contribute in the social security of society through, among others, *Zakat*, *Qard Hasan*[1], charity contribution and investing in socially beneficial projects (Abdel-Magid 1981, Ibrahim 2000a, Farook *et al.* 2011).

However, Haniffa and Hudaib (2010) argue that Islamic finance on the ground, in order to be accepted as a part of the global finance industry, has undergone a transformation in which its noble sacred intentions have been "distorted by secular goals" (p. 85). This is represented by the commercialisation of IFIs activities in a sense that seeking profit and wealth maximisation is being the main, if not the ultimate, objective of such institutions. Haniffa and Hudaib (2010) further argue that this transformation has

[1] Benevolent, free-interest loan to those who are in exceptionally difficult financial circumstances

been experienced as a result of political-economic factors as well as the interaction and competition with the conventional sector in the market. This competition has led IFIs to deviate from their original objectives and provide products that are merely mimics of conventional banking products (El-Gamal 2003, Mohammed and Mustafa 2013, Kamla and Haque 2017).

2.4 Issues in Financial Reporting for IFIs

It has been recognised that the challenge for IFIs financial reporting is finding a relevant financial reporting framework that can address the features of their transactions and allow for international comparability as well as comparability with conventional financial institutions without affecting the Shariah compliance of Islamic financial transactions (Shafii and Zakaria 2013). In this regard, a number of issues may arise when considering the contemporary financial reporting framework for IFIs financial reporting needs.

2.4.1 Prohibition of Interest Implications

The prohibition of interest-based financial activities is the most important aspect that distinguishes Islamic financial industry from its conventional counterpart. This prohibition has its root in the Islamic philosophical viewpoint of money, which views money as a medium of exchange and value measurement tool rather than a commodity (Ibrahim 2000a, Sulaiman 2003). This philosophical standpoint has its implications on the IFIs practices and their financial reporting.

IFIs are prohibited from paying or charging interest. Instead, Islamic banks employ other methods and instruments in which the relationship between IFIs and their clients is based on profit and loss sharing (Mirza and Baydoun 1999a, Karim 2001, Haniffa and Hudaib 2007). In other words, returns and risks are shared between both parties. Therefore, IFIs clients are more likely to be concerned about the accounting methods used for revenue recognition and profit measurement. In this respect, Islamic principles comprise specific procedures and rules on when revenues can be recognised and when the title of an asset can be transferred. Such details are measured differently in conventional accounting practices. Therefore, they should be taken into consideration in the preparation of IFIs financial statements[1] (Omar, 1997 cited in Al-Mehmadi 2004).

2.4.2 Substance & Form

A key tenet of IFRS framework is the concept of 'substance over form'; whereby any transaction is measured and reported according to its end result or economic substance rather than its legal form. However, the application of this principle may render Islamic financial products indistinguishable from interest-bearing products as they result in the same returns and cash flows. Therefore, reflecting the contractual aspects of Islamic finance products has been crucial for determining their Shariah compliance (ISRA 2013).

According to AOSSG's (2010) report, this is one reason why some believe that Islamic financial products should be reported based on a different reporting framework that is able to reflect the legal form of transactions. Such a framework would emphasise that Islamic financial products take "a different legal form (e.g. sale, lease) from conventional financing (e.g. straight lending) despite any similarity they may share in economic substance" (p. 9). Contrariwise, AOSSG (2010) reported that others believe that reporting the substance of Islamic financial transactions is acceptable and more

[1] Some researchers raised other controversial implications for interest prohibition such as time value of money and fair value measurement. Karim (1990) and Shafii and Zakaria (2013) indicate that some Muslim scholars refuse the concept of time value of money while others accept it especially for the purpose of discounting cash flows as long as there is no interest to be charged. It is worth noting here that charging higher price for goods if payment is deferred is permissible according to many Muslim scholars which implies that Islam recognises the time value of money (El-Gamal, 2001). However, Shafii and Zakaria (2013) argue that Shariah requires that such increase in price should result from an exchange contract which includes a risk factor. However, Shariah strictly prohibits it in debt-based transactions.

informative to information users. Those argue that any information about the legal form could be reported in the notes to financial statements.

2.4.3 Reporting for *Zakat*[1]

From the Islamic perspective, one of the fundamental objectives of financial reporting is providing an accurate basis for calculating the amount of *Zakat*. Lewis (2001) states that information disclosed in the financial statements must be complete and reliable in order to enable information users to determine the accurate amount of *Zakat* and fulfil their religious responsibilities. Yaya (2004) indicates that most Islamic accounting literature considers *Zakat* as a cornerstone for determining the measurement methods.

Zakat valuation deals specifically with the measurement of assets and liability. Therefore, Napier (2009) argues that the classification of assets and liabilities in the balance sheet should be done in a way that identifies what wealth is subject to Zakat. Similarly, Gambling and Karim (1991) suggest that accounting should be based on asset-liability approach rather than revenue-expense approach. Therefore, they look at the balance sheet as an essential source of accounting information. However, some conventional measurement methods of assets and liabilities in the balance sheet are less likely to provide relevant information for calculating the Zakat amount which makes it inconsistent with Islamic needs. In more details, for the Zakat calculation purpose, the accounting system should be designed based on current values rather than historical cost[2]

---

[1] *Zakat* is a mandatory religious levy imposed on Muslims. It requires every Muslim to pay this levy to certain eligible recipients on amounts of wealth exceeding certain limits. The rates of *Zakat* depend on the nature of the item subject to *Zakat*.

[2] Due to the reliability problems associated with the current value accounting and the importance of historical cost for contracting purposes, Baydoun and Willett (2000) suggest dual system of valuation in which current value statements is also part of Islamic corporate reports in addition to historical cost statements.

and firms need to re-value their assets occasionally[1] (Hamid *et al.* 1993, Baydoun and Willett 2000, Sulaiman 2003). That is due to the fact that Zakat determination based on historical cost would result in lower Zakat payment to beneficiaries in case of inflation (Ibrahim 2000a).

Moreover, some contemporary accounting concepts need to be redefined for *Zakat* purposes. For instance, Napier (2007) indicates that the concept of conservatism, as it is in conventional accounting, is not relevant for *Zakat* calculation. The Islamic perspective of conservatism would not be attained by selecting the accounting techniques which have the least favourable impact on owners but rather by selecting the accounting techniques which have the most favourable impact on society (i.e. choosing accounting techniques that maximise the funds available for *Zakat*)[2]. Furthermore, Napier (2007) argues that some items in the conventional balance sheet "do not have a 'real-world-referent', and do not represent wealth in the real sense (so are not subject to *Zakat*). Hence, assets such as goodwill, income tax benefits and capitalised expenses could not find a place in an Islamic framework of accounting focusing on *Zakat*" (p. 7). Based on the above factors, he argues that the emphasis on *Zakat* accounting would make the conventional balance sheet irrelevant to Muslim users.

2.4.4 Reporting for *Non-Halal* Income (Unlawful Activities)

Individuals as well as businesses are prohibited from getting involved in activities that violate Shariah. IFIs, as managers of clients' funds, are expected to make sure that funds are managed according to Shariah principles and that the return on investing these funds comes from activities permitted by Shariah (Abdul Rasid *et al.* 2011). Therefore, in

[1] For example, for *Zakat* purposes, current assets like inventories and marketable securities should be valued at the net realisable value and no consideration to be given to the lower of cost or market value of those current assets (Karim, 1990).

[2] Haniffa and Hudaib (2002) give an example in this context that only actual amount of bad debts is deductible for the purpose of Zakat determination. In other words, any provisions for bad debts and doubtful debts are not deductible.

compliance with Islamic teachings, IFIs are not expected to be involved in unlawful activities such as interest-based transactions, contractual arrangements that involve injustice to other parties, gambling, and providing finance or services that help in unlawful production such as alcoholic drinks, pork, and pornography (Hamid *et al.* 1993, Mirza and Baydoun 1999a, Lewis 2001, Haniffa and Hudaib 2002, Sulaiman 2003, Nasir and Zainol 2007).

From the reporting perspective, Islamic business entities in general and IFIs in particular are expected to produce detailed information on the extent of their Shariah compliance and to honestly disclose any forbidden transactions (Abdul Rasid *et al.* 2011). In case of engaging in activities prohibited by Shariah (interest-based dealing with conventional banks for example), sufficient disclosure should be provided on (i) the nature of unlawful transactions, (ii) the reasons behind undertaking such transactions (iii) the amount of revenue or expense earned or paid (iv) the disposal or intention to dispose such revenues (v) the efforts made to avoid any involvement in such transactions in the future (Sulaiman 2003, Maali *et al.* 2006). The disclosure of these details would help IFIs' investors, clients and the general public to evaluate the compliance of an IFI with Shariah principles and enable them to assess the materiality of Shariah violations (Maali *et al.* 2006).

2.4.5 Social Reporting and IFIs Financial Reporting Users: Shareholders vs. Stakeholders Orientation

The question that can be raised when thinking about the Islamic perspective of financial reporting is, to whom do business entities operating according to Islamic principles need to report? It has been a common sense in the contemporary accounting thoughts that shareholders are considered the primary user group whose informational needs ought to be accommodated. However, from an Islamic perspective, all user groups should be taken into consideration equally in conformity to the spirit of fairness and justice in Islam (Haniffa and Hudaib 2002).

Ibrahim (2000a) points out that the most significant conceptual difference between Islamic and conventional accounting is the use of the decision usefulness concept in conventional accounting, which concentrates on capital providers in the first instance. He argues further that conventional accounting works under the assumed ‘liberal economic society’. Such a society “has no room for environmental or ethical values other than self-interest utilitarianism” (Ibrahim 2000a, p. 82) . However, Islamic principles, according to Ariff and Iqbal (2011), “allow people to earn their living in a fair and profitable way without exploitation of others, so that the whole society may benefit” (p. 45). They add that the emphasis in Islam is on “the welfare of the community over individual rights ... [and] the interests of the entirety of the Muslim society, rather than on the special interest of individual Muslims” (p. 45).

This makes the conventional view of decision usefulness objective inappropriate from the Islamic perspective. Ibrahim (2000a) argues that although the term of ‘decision usefulness’ seems harmless, rational and acceptable from an Islamic perspective, examining this concept in depth shows that it is utilised for the enrichment of firms’ shareholders at the expense of other social and environmental considerations. Therefore, an accounting system which is based on the Islamic accountability framework (rather than decision-usefulness) and focuses on the responsibility of an accountee to be accountable to God and society (including shareholders) is more suitable for Muslim users, corporations and society (Ibrahim 2000a, Kamla and Haque 2017). Otherwise, the implementation of conventional accounting in Islamic entities may result in an incompatibility between the objectives of these entities and the tools by which they report their performance (Ibrahim 2000a, Ibrahim 2000b).

Based on the aforementioned argument, some scholars (e.g. Ibrahim 2000a, Haniffa and Hudaib 2002, Othman and Thani 2010) propose additional requirements so that the Islamic socio-economic objectives can be attained. These requirements include providing accounting information about the extent of Shariah compliance, prohibited transactions and how the income gained from these transactions is used; the justice and fairness by which a firm deals with its employees; the adherence of a firm to the Islamic business ethics in its dealing with suppliers, customers, competitors, the government and other concerned agencies; the effect of a firm's activities on the environment; and a firm's contributions toward the well-being and the economic and social development of society. Bala (2012) specifies that Islamic business organisations are expected to provide social reporting at three levels: the level of their stakeholders such as owners, stockholders, employees, suppliers, customers and competitors; the level of natural environment in issues related to the wise use of natural resources, cost of inputs and environment protection; and the level of general social welfare on the issues of employment, wages and working conditions, training and qualifications, secrecy and privacy, honesty, lawful (*Halal*) dealings and avoidance of unlawful activities, distribution of gains and losses, charity and *Zakat*.

This indicates that financial reporting in Islamic corporations should be more detailed than conventional disclosure requirements. Within this context, Baydoun and Willett (2000) suggest that alongside income statement, Islamic business entities may need to produce a Value Added Statement (VAS) which rearranges the income statement information in order to show how the value added by an organisation is shared between different societal groups other than the shareholders (e.g. employees, government, society). In other words, this statement focuses on the benefits that organisations bring to the society through their business activities.

However, the question that can be raised here is, to what extent do business organisations claiming their compliance to Islamic principles (IFIs among others) satisfy social reporting from the Islamic perspective? Reviewing Islamic accounting literature shows that the level of corporate social disclosure made by those corporations is unsatisfactory and does not meet the expectations from such entities (Kamla and Rammal 2013). Moreover, studies conducted in this regard (e.g. Aribi and Gao 2010) have found that there is no significant difference in social reporting between IFIs and their conventional counterparts. Ibrahim *et al.* (2013) comment on this fact by suggesting that if Shariah compliant business entities wish to differentiate themselves from other non-compliant entities, then they should take the initiative to improve their social disclosure. Such disclosure, according to Ibrahim *et al.* (2013), will relevant if they wish to demonstrate their accountability towards God and society.

2.5 Overview of IFIs' Financial Reporting Regulation

Accounting policies adopted by IFIs in preparing their financial reports have been to a great extent unregulated and non-harmonised (Karim 1999). Maali and Napier (2010) indicate that Islamic banks over the world used to utilise a variety of accounting methods and systems for recording and reporting their activities. This is simply by following the accounting standards adopted in the countries where they operate, whether they are national or international standards.

Going back in the history, according to Karim (1995) and Karim (1999), IFIs in the beginning established Shariah Supervisory Boards (SSBs) in a form of in-house advisory boards in order to ensure the Shariah compliance of their practices. Among other responsibilities, these SSBs were responsible for examining, modifying and advising the appropriate accounting practices which have to be in conformity with Shariah. This means that every IFI developed its own accounting policies (Karim 1999). This process was usually based on deliberation between the management, external auditor and Shariah supervisors, which resulted in much duplication of work since similar accounting issues were faced by most IFIs (Vinnicombe 2010). Moreover, this process resulted in significant variation in the accounting practices between different IFIs and even within the same financial institution over time (Karim 1999). Karim (1999) argues that such variations were a result of the fact that there is no complete match between the accounting treatments proposed by either national or international accounting standards on which IFIs rely when preparing their financial statements and the characteristic of Shariah compliant contracts used in those IFIs[1].

Karim (1999) indicates that these variations reduce the comparability of IFIs financial reporting and the credibility of these institutions in the eye of the market. Similarly, Nasir and Zainol (2007) state that the lack of approved accounting standards to be applied by IFIs impedes the comparability of IFIs financial statements and affects information users' confidence. As a result of this problematic issue, IFIs have been facing increasing pressure to unify their accounting practices. Taking this situation into consideration, a report by KPMG and ACCA (2010) refers to the fact that IFRS (previously IAS) remain the only globally recognised set of standards that provide IFIs with a consistent framework. This framework also helps IFIs achieve comparability with their conventional counterparts. The report argues that, therefore, it is no surprising that many IFIs around the world prepare their financial reports based on IFRS requirements.

From a different perspective, KPMG and ACCA's (2010) report indicates that in most cases there is little choice for IFIs, as domestic regulators dictate what set of standards they have to follow. Yet, there have always been academic and professional

[1] Karim (1999) also referred to the different interpretations of Shariah rulings as another potential source of variation in the accounting treatment.

voices which keep questioning the insistence of regulators on the application of conventional accounting practices and standards to Islamic finance industry in spite of acknowledging its distinctive nature which requires a different accounting framework (Maali 2005).

On the ground, KPMG and ACCA's (2010) report indicates that IFIs around the world follow a number of reporting frameworks. In some countries they use IFRS, while in some other countries they use partly converged IFRS-based standards, IFRS with some additional requirements for Islamic banks, or special standards for Islamic banks exclusively. The findings of this report are consistent with the findings of a survey conducted by the Asian-Oceanian Standard-Setters Group (AOSSG)[1] in 2011. The survey presents the responses of 24 participating standard-setters. The key findings of that survey indicate that IFIs are not subject to a common global set of standards. Most respondents state that IFIs are subject to IFRS or other national IFRS-based standards. However, some indicate that specialised standards, described as 'Islamic accounting standards', are applied to entities involved in Islamic finance. The responses also reveal that the term of 'Islamic accounting standards' may not refer to a homogenous set of accounting standards. Alternatively, this term usually refers to different sets of 'religiously-influenced' accounting standards. These standards may have different requirements for similar transactions. Some of these requirements could be comparable with IFRS while others are not; some are based on AAOIFI' standards while others are not. More interestingly, some jurisdictions have different interpretations and criteria for recognising the elements of financial statements in spite of the fact that they follow the same standards of AAOIFI.

[1]The purpose of that survey was to investigate how Islamic financial transactions are reported, what accounting standards are applied to these transactions and how Islamic financial institutions prepare their financial statements. The survey aimed to provide inputs and feedback to the IASB on the appropriateness and adequacy of the existing IFRSs to Islamic financial transactions and institutions. It also aimed to communicate the importance of considering Islamic financial transactions and needs in deliberating its future projects. This survey is available at:
http://www.aossg.org/docs/Publications/AOSSG_Survey_Report_2011_FINAL_CLEAN_29_12_2011.pdf

According to the AOSSG's report, such divergent financial reporting requirements would impair the comparability of IFIs financial statements across jurisdictions, which may have negative consequences for the Islamic financial industry.

Within the context of international financial reporting harmonisation, the survey shows a global move to IFRS. Most respondents having distinct Islamic accounting standards state that they may need to review their Islamic accounting requirements in light of the worldwide implementation of IFRS, while few respondents expect to keep hold of their Islamic accounting standards. This indicates that the importance of IFRS convergence is recognised; however, there is still a belief that some Islamic financial reporting aspects are not addressed by IFRS. The majority of respondents also think that having a separate set of Islamic accounting standards would be incompatible with IFRS convergence. The AOSSG's survey concludes that there is an urgent need to improve the cross-border comparability of IFIs financial reporting.

AOSSG conducted another survey in 2013 in which it extended the sample to involve countries in the Middle East and North Africa (MENA)[1]. The findings of that survey show that some financial reporting frameworks in MENA countries allow for both sets of standards to co-exist (IFRS & AAOIFI). In more detail, some countries require IFIs to comply with AAOIFI as the primary set of financial reporting standards, and to apply IFRS requirements where AAOIFI requirements are absent; while other countries exempt IFIs from complying with IFRS if applying AAOIFI standards, at the request of IFIs. Moreover, the findings reveal that 75% of respondents in the jurisdictions which apply AAOIFI requirements believe that their jurisdiction should keep on these requirements, even though there is a global trend towards IFRS adoption. By contrast to

[1] This survey is available at:
http://aossg.org/docs/Publications/AOSSG_MENA_Islamic_Finance_Survey%20Findings_Nov_2013.pdf

the survey of 2011, accountants and auditors in MENA countries generally beleive that the co-existence of IFRS and AAOIFI standards is compatible with IFRS convergence.

2.6 Summary

In order to pave the way for the literature review chapter, this chapter presented an overview of the conceptual and contextual issues related to IFIs financial reporting. It started by exploring the concept of Islamic accounting as presented in the literature and the philosophical assumption underpinning the concepts of Islamic accounting and accountability. The second point of focus in this chapter was providing a brief historical overview of the emergence and development of Islamic finance and Islamic financial institutions. In this regard, it explained the main philosophical difference between the Islamic and conventional mode of finance. This difference is centred on the Islamic view of money as a medium of exchange and value measurement tool, not as a commodity to be traded, as it is the case in conventional banking. This philosophical difference has in turn resulted in operational differences which have been reflected by certain financial products provided by IFIs.

This chapter moved then to explore the financial reporting issues that face IFIs and result in certain financial reporting expectations and demands. Such issues are derived from the aforementioned philosophical and operational characteristics of Islamic finance in addition to the principles of accountability in Islam. Finally, this chapter presented how IFIs have historically managed their financial reporting, the challenges that have faced them in finding an appropriate financial reporting framework and what standards they have applied.

CHAPTER 3: Islamic Financial Reporting Standardisation: Literature Review

3.1 Introduction

This chapter provides a systematic literature review of the issue of Islamic financial reporting standardisation. It starts by addressing the controversial arguments about the suitability of one set of accounting standards to different countries, contexts and industries. It tries to address the debate on the question ‘does one size fits all?’, given the economic, legal, political, cultural, and even religious differences between countries. Narrowing down, this chapter moves then to review the literature that calls for addressing Islamic accounting needs as well as IFIs financial reporting needs. In this regard, it explores the debate about the appropriateness of different alternative approaches for developing an Islamic financial reporting framework. This chapter moves afterward to provide a critical review of the literature written on some projects that have been established for the purpose of developing Islamic accounting standards. After identifying the literature gaps, this chapter concludes by stating the research objectives and questions which this study aims to address in order to fill the gaps in the literature.

3.2 International Financial Reporting Harmonisation

The issue of international accounting standardisation has recently attracted a great deal of attention in both professional and academic literature (Baker and Barbu 2007). Historically, every country had its own accounting standards and practices which reflected its own particular needs. However, recently, as a result of the globalised business environment and the rapid growth of global financial markets, financial statements prepared according to national GAAPs have become unable to meet the information needs of international investors “whose decisions are more and more international in scope" (Zeghal and Mhedhbi 2006, p. 373). Consequently, the world has witnessed increasing movements toward the adoption of one set of accounting standards called IFRS (International Financial Reporting Standards) in an attempt to enhance the comparability and reliability of financial reporting especially for those international investors (Zeghal and Mhedhbi 2006). This has led "domestic listed firms to play the accounting game by global rules" (Ding *et al.* 2005, p. 326) and made the process of accounting harmonisation an unavoidable process (Ball 2006). The wide-spread adoption of IFRS can be seen clearly in light of the fact that listed companies in over than 116 countries around the world prepare their financial statements according to IFRS (IFRS 2015), particularly those countries with a British legacy which rely on private sector standard setters (Nobes and Parker 2012).

Some scholars argue that IFRS adoption is to a large extent a legitimacy-seeking process under pressures from international accounting and financial agencies. Judge *et al.* (2010) investigate the motivations of nations to adopt IFRS fully, partially, or not to adopt any of them across 132 economies. They argue that IFRS adoption is to a large extent a legitimacy-seeking process and that nations replace their domestic standards with IFRS in response to mimetic, normative and sometimes coercive pressures regardless of their local needs. On the other hand, some argue that regardless of the external pressures for IFRS adoption, countries adopt IFRS in a hope for attaining their promised benefits. Among others, Al-Shammari *et al.* (2008) and Bova and Pereira (2012) maintain that IFRS adoption improves firms' information environment and increases the quality and quantity of the information flow in the adopting companies. This leads to greater transparency and reduces information asymmetry between parties inside a company (managers) and outside it (providers of capital). In other words, it leads to lower costs of agency. In addition, IFRS adoption provides considerable benefits as a result of improving the financial reports quality and eliminating technical barriers arising from the national differences in accounting practices. These benefits include more liquidity in the market, greater mobility of capital at decreased costs and more efficient allocation of resources (UNCTAD 2005). Therefore, according to Irvine (2008), countries have enthusiastically adopted IFRS because they realise that IFRS adoption "offers much more than technical benefits. A powerful legitimising force, with symbolic power, IFRSs give adopting nation states the credibility to compete for FDI in world capital markets" (p. 131). Attaining such benefits helps developing and emerging economies in particular in their endeavour to participate in the financial opportunities promised by globalisation (Irvine 2008).

More importantly, some countries which suffer from weak and ineffective professional accounting bodies and regulatory authorities are unable to produce their own accounting standards. These countries adopt IFRS at no or negligible costs (Peasnell 1993). In other words, given the scarcity of financial and human resources in some countries, IFRS adoption reduces accounting standards setting costs and save both time and efforts. Mir and Rahaman (2005) indicate in this context that even though human resources are available in some countries for setting accounting standards, time and cost considerations are critical factors that cannot be downplayed. On the other hand, some could use the other side of this argument to criticise IFRS adoption. For instance, some countries suffer from the scarcity of qualified accountants and poorly organised professional accounting bodies. Consequently, their ability to act effectively under complex standards to generate reliable and timely accounting information is doubtful. In addition, the previous argument ignores the potential cost of IFRS implementation at the firms' level which could not be trivial and may consequently affect the level of compliance especially for firms with limited financial resources (Barth 2008, Bova and Pereira 2012, Nobes and Parker 2012).

Within the context of the above argument, one of the most frequent questions that have been raised in the literature is, given the economic, legal, political, cultural, and even religious differences between countries, can IFRS be considered a suitable reporting framework for countries worldwide?

3.2.1 International Financial Reporting Harmonisation: Does One Size Fit All?

Chand and White (2007) provide an answer to that question. They argue that, given the ostensible differences among nations, "it would be naive to assume, as IASB does, that a single regulatory framework can be established that meets the financial reporting needs of all societies" (p. 606). Accounting is viewed as a product of its specific environment in which it operates (Perera 1989, Cooke and Wallace 1990, Saudagaran 2009). From that perspective, Choi and Mueller (1992) and Walton *et al.* (2003) argue that accounting does not come from vacuum but rather reflects the fundamental environment in which it has been established.

> *"[a]ccounting rules in each country have evolved over time and are a reflection of the needs and social, cultural and economic environment of that country. This balance of interests which has worked out over many years is set aside by the harmonisation process which must by definition be working towards a common set of rules in all major areas"* (Walton *et al.* 2003, p. 10).

Reviewing the literature shows that many factors have been recognised for their great influence on the accounting systems followed in different countries. Such factors shape, in different ways, the decision of what set of standards to adopt and whether a certain country needs to adopt international standards or to develop its own national standards based on its local needs. These factors, which according to Cooke and Wallace (1990) could be internal or external, include the level of economic development, structure of ownership and capital market, source of finance, size and complexity of businesses, degree of external economic openness, inflation rate, tax system, degree of legislative interference in business, political and legal system, colonial inheritance, level of education, religious values and cultural variables (Belkaoui 1988, Gray 1988, Perera 1989, Cooke and Wallace 1990, Choi and Mueller 1992, Ashraf and Ghani 2005, Ball 2006, Zeghal and Mhedhbi 2006, Schroeder *et al.* 2009, Muniandy and Ali 2012, Nobes and Parker 2012).

Even though IFRS adoption may serve the interests of emerging economies in their endeavour to attract foreign investments and pursue their economic development plans, accounting literature suggests that accounting standards that are originally designed for developed countries might not be useful for stakeholders in developing countries (Perera 1989, Nobes and Parker 2012). The international accounting standard framework is more consistent with the information needs of users in capital markets with a large number of outsider shareholders (Nobes 1998). However, this is not the case in the majority of developing countries, where heavily concentrated ownership is prevalent (Prather-Kinsey 2006). Some researchers further argue that IFRS may well meet the needs of multinational companies, whose primary concern is to maximise shareholders' wealth; however, they may not be suitable, or even could be harmful, for the critical needs of some countries. They believe that accounting is not supposed to be only as a tool for providing capital providers with useful information, but it should rather serve the interests of different stakeholders, especially in developing countries which are working hard to pursue their socio-economic development plans (Gallhofer and Haslam 2007, Tyrrall *et al.* 2007).

Given the aforementioned arguments, the question that is not addressed adequately in the literature and can be raised here is, what is the most suitable solution for countries to attain the benefits of international accounting harmonisation while taking the unique need of each country into consideration? First of all, it is important to acknowledge that there is no 'one size fits all' solution, given the social, cultural, economic and political differences between countries. However, it can be suggested that IFRSs can be applied after appropriate amendments that address the needs of every country. As a result, not only would the advantage of time and cost saving be attained, particularly for countries with scarce resources, but the international accounting harmonisation could also be effectively achieved (Mir and Rahaman 2005). The other potential solution is that countries need to have their voices heard by IASB. In other words, those countries need to lobby IASB if they want their needs to be accommodated in its standards. Within this context, there are some examples for IFRSs amendments which took place as a response to the urgent needs of not only developing but also developed countries. For instance, as a result of the 2008 financial crisis, banks had to report huge losses due to the decrease of financial assets fair value. Consequently, the European Union exercised pressure on the IASB to amend IAS39 in order to grant banks the option of abandoning the fair value recognition of selected financial assets[1]. As a result of this pressure, IAS39 was then replaced by IFRS9 (Bischof *et al.* 2010).

Yet, according to Altarawneh and Lucas (2012), some scholars still reject transferring accounting practices that reflect the cultural and socio-economic values of certain countries to others, particularly to those countries which are bounded by religious principles. Those scholars assert that the problem in the contemporary financial reporting practices lies in its conceptual framework which finds its roots in the capitalistic system. Such a framework, according to Karim (1995), gives no weight to moral, non-market considerations.

---

[1] Within this context, the former French President Nicolas Sarkozy declared at the European G8 members summit that "we will ensure that European financial institutions are not disadvantaged vis-à-vis their international competitors in terms of accounting rules and of their interpretation. In this regard, European financial institutions should be given the same rules to reclassify financial instruments from the trading book to the banking book including those already held or issued" (Bischof *et al.*, 2010, pp. 8-9).

3.3 The Need for Islamic Financial Reporting Standards

Religion has been identified as one of the factors that have an important role in shaping accounting practices (Gray 1988, Hamid *et al.* 1993, Ibrahim 2000a, Carmona and Ezzamel 2006, McGuire *et al.* 2011, Dyreng *et al.* 2012). That is because most religions are associated with certain principles and moral standards that should be achieved and maintained by their followers in different aspects of life including business activities. Islam, as one of those religions, sets comprehensive socio-economic principles (Ibrahim 2000a, Haniffa and Hudaib 2002). These principles have their impact on the accounting system in Muslim majority societies since accounting is a tool for reflecting and reporting the economic activities of individuals and organisations in those societies. Hamid *et al.* (1993) state in this context that "Islam has the potential for influencing the structure, underlying concepts and the mechanisms of accounting in the Islamic world" (p. 131). Similarly, Alkhtani (2010) indicates that Islamic teachings produce accounting needs which are specific to Muslim countries and different from those needs of western developed countries. Actually, this has raised doubts about the relevance of the accounting standards which are influenced by the accounting needs of Western countries (e.g. IAS/IFRS) to Muslim societies. The Muslim world has consequently witnessed calls for developing a specialised set of accounting standards that takes into account Islamic financial reporting needs.

Within the particular context of Islamic financial industry, the reporting issues that face IFIs (see Section 2.4) produce a need for a specialised financial reporting framework that can adequately address such issues. Therefore, studies and reports investigating these issues point out to the calls of IFIs for developing accounting standards that can meet their financial reporting needs and harmonise their accounting practices. Among those, Karim (1990) refers to the efforts made by some IFIs to establish a body with the purpose of self-regulating their financial reporting practices and developing their own standards. This was, according to Karim (1990), as a result of their fear that 'secular' regulatory agencies in the countries where they operate may intervene to mandate their national accounting regulations. In addition, he states that another goal was sought from that standardisation attempt which was achieving an appropriate degree of comparability between IFIs. That was due to the concerns about the wide variety of accounting practices followed by IFIs at that time. Karim (1990) argues that developing such standards would improve the comparability and credibility of IFIs financial statements, which in turn would enhance their trustworthiness in the eyes of investors.

Adnan (1996), Al-Mehmadi (2004), and more recently Shafii and Zakaria (2013) similarly refer to the IFIs calls for developing accounting standards that address their needs since they deal with financial products that are not addressed by conventional standards. Shafii and Zakaria (2013) argue in this context that developing specialised standards for IFIs would effectively contribute in ensuring their Shariah compliance and minimise divergent accounting practices.

A report issued by AOSSG (2010) indicates the fact that modern Islamic financial transactions involve contracts and arrangements which diverge from the financial transactions to which standard setters are usually accustomed. Consequently, questions have been raised on the adequacy of the existing accounting standards in addressing Islamic financial transactions. Dr Mohamad Nedal Alchaar, the former secretary general of AAOIFI states in this context that "[i]n order to appreciate the necessity for distinctive international accounting standards for Islamic finance, it is important to bear in mind the specific characteristics of Islamic financial institutions (IFIs). The operations of IFIs are conceptually and markedly different from those of conventional financial institutions" (cited in KPMG and ACCA 2010, p. 14). Even though some Islamic financial products are similar in some aspects to those of conventional banks, Maali (2005) argues that being Shariah compliant may lead to special accounting implications that are not addressed in the conventional accounting standards framework.

It can be noticed from the above argument that the calls for developing Islamic accounting standards have been mainly motivated by the emergence of Islamic finance industry and the acceptance of Islamic financial products. This industry has created an urgent need for a set of standards that can address its accounting requirements and harmonise the accounting treatment of its transactions. However, some researchers further argue that developing Islamic accounting standards should not be restricted to the needs of this industry. They call for accounting standards that take into consideration the needs of Muslim societies as well as the needs of all business entities (financial and non-financial) working in an Islamic environment. Among those researchers, Kantakji (2003) suggests that since accounting is a social science and every society has its own principles, concepts and beliefs, there is a need for developing accounting standards that are consistent with the Islamic business, economic and social principles. Furthermore, he argues that Islamic accounting standards are now required at all levels including public authorities, financial markets, IFIs, private firms and public listed companies[1]. Similarly, Mirza and Baydoun (1999b), Karim (2001) and Namaghi *et al.* (2012) all argue that since accounting exists in a society to reflect the business practices of that society, there exists a need for developing accounting standards that capture the nature of Islamic economic and business activities in Muslim societies.

[1] Kantakji (2003) calls for developing Islamic accounting standards at the level of official authorities in order to regulate the accounting of *Zakat* and other governmental issues; at the level of financial markets in order to regulate and harmonise accounting practices and provide interesting parties with accounting information based on unified and high quality accounting standards; at the level of Islamic financial institutions in order to provide their investors and clients with adequate information about the investment mechanisms in these institutions and their compliance with Shariah principles; at the level of private firms in order to provide their owners with clear guidance of the allowed and prohibited transactions; and at the level of public listed companies in order to provide investors with information about the way in which companies invest their money and the extent of their compliance with Shariah.

To sum up, the past literature has called for and conveyed the Islamic finance industry's calls for developing Islamic accounting standards. However, a couple of interrelated issues have been inadequately and inconclusively addressed in that literature. These issues are the contents of such standards and the way in which such standards can be developed. Mirza and Baydoun (1999a) indicate in this context that the issue which is still debatable in the Islamic accounting literature is about the starting point in developing those standards;

> *"Is it on the basis of the international accounting standards, or other standards, is it on the basis of what is being practised by Islamic firms, is it on the basis of the Islamic Shari'a or is it on the basis of a combination of any of the above?"*(p. 5).

The next section sheds light on the different approaches and methodologies that have been identified in the literature as potential ways for developing Islamic financial reporting standards.

3.4 Methodologies in Islamic Financial Reporting Standardisation

According to Ibrahim and Yaya (2005), Islamic accounting research is still at its exploratory stage; its pioneers are trying to establish a theoretical framework using different methodologies that work as a base for developing Islamic accounting principles, rules and standards. Reviewing Islamic accounting literature shows that scholars have identified two methodological approaches for developing Islamic accounting framework and standards. These approaches are the constructive (normative) approach and the pragmatic (inductive) approach. Even though different internal and external factors influence accounting practices and the process of setting accounting standards (as stated in Section 3.2.1), these two approaches focus mainly on two factors: religious demands vs. contemporary (international) accounting practices.

3.4.1 Constructive (Normative) Approach

This top-down approach starts by the establishment of accounting objectives based on Islamic teachings; these objectives then serve as a basic theoretical framework from which Islamic accounting principles and practices could be derived (Lewis 2001, Ibrahim and Yaya 2005). In other words, this approach deduces from the principles of Shariah what ought to be the objectives and principles of financial reporting for Shariah compliant business organisations (Karim 1995).

The constructive methodological approach is based on the following argument addressed by Gambling and Karim (1991, pp. 103-104):

> *"The conceptual framework of accounting currently applied in the West finds its justification in a dichotomy between business morality and private morality. As such, it cannot be implemented in other societies which have revealed doctrines and morals that govern all social, economic and political aspects of life. Islam has its own cohesive rules which dictate how a business should be run... Accounting theory and practice have to pursue these rules if they are to be of any relevance to obedient Muslim users"*

According to Vinnicombe and Park (2007), this approach is conscious of the differences in the objectives of the financial reports prepared to serve users in 'Western market economies' compared with those of financial reports prepared for Muslim users. Vinnicombe and Park (2007) clarify that Western financial reports' users are primarily concerned with profit and wealth maximisation, while the well-being of the Islamic society is considered primary from the Islamic viewpoint. The proponents of this approach believe that it helps minimise the influence of the contemporary accounting thoughts and encourage those who are in charge of developing Islamic accounting standards to look beyond secular methodologies (Karim 1995).

3.4.2 Pragmatic (Inductive) Approach

This approach, rather than starting from scratch, adopts conventional accounting objectives which are applicable to Islamic business organisations but posts flags and excludes any objective violating Shariah principles (Lewis 2001, Ibrahim and Yaya 2005). In other words, the pragmatic approach examines the objectives, concepts and principles of conventional accounting against Shariah, accepts those which are consistent with its principles and rejects those which are inconsistent (Karim 1995). This approach may also involve introducing additional objectives and concepts that help attain Islamic financial reporting expectations[1] (Karim 1995).

This approach is consistent with the efforts of international accounting harmonisation (Mohammed *et al.* 2016, Kamla and Haque 2017). A report by KPMG and ACCA (2010) suggests utilising this approach for developing a set of globally recognised Islamic financial reporting standards. Such standards, according to the report, would be based on IFRS, where possible, but include specific recognition, measurement, presentation and disclosure requirements that are relevant to Islamic finance transactions.

The proponents of this approach maintain that most accounting issues have been covered by the existing accounting standards; consequently, there is no need for rebuilding accounting standards except for those issues which conventional accounting has not covered (Ahmad & Hamad, 1992 cited in Karim 1995). Maali (2005) and Napier (2007) argue in this regard that it is not accurate to assume that all accounting issues are affected by the provisions of Shariah; some accounting concepts and practices have no religious implications. From the same perspective, Karim (1995) raises the point that Shariah does not include detailed information about accounting policies that should be

[1] e.g. providing appropriate disclosures that demonstrate IFIs Shariah compliance and fulfilling their social responsibilities)

followed; therefore, accounting can be regulated by borrowing from the contemporary accounting practices as long as they do not involve clear violation of Shariah.

Sulaiman (2003) argues that based on the Islamic judicial principle of permissibility (*ibaha*), which suggests that everything is permissible unless it is clearly prohibited by Shariah, there is no reason to reject the pragmatic approach as long as its outcome adheres to Shariah principles. However, the pragmatic approach has been rejected by some researchers in the field of Islamic accounting. Among those are Vinnicombe and Park (2007) who emphasise on the relevance of Shariah to all aspects of life in a sense that accounting theory and practice must be essentially derived from, rather than merely compliant with, the Islamic jurisprudence. This is in line with the reservation of Gambling and Karim (1991) on this approach and their argument in favour of the constructive approach as stated in the previous section.

This could raise doubts about the reliability of the pragmatic approach in developing Islamic accounting standards since it could not avoid the influence of the contemporary capitalist thoughts on which conventional accounting has been based. Financial reporting under these capitalistic thoughts tends to focus mainly on the objective of the usefulness of accounting information for the primary users of shareholders. This narrow perspective of accounting, according to Karim (1995), gives no weight to non-market considerations such as social responsibility, which is one of the main pillars of the Islamic economic system.

Reviewing Islamic accounting literature shows that there is no consensus on the methodological approach that should be followed in developing Islamic accounting standards. However, as the next section indicates, in spite of the criticism of the second pragmatic approach, the current projects for developing Islamic accounting standards have decided to follow that approach in developing their standards, at least in the short run. According to Karim (1995), AAOIFI, among those projects, did not provide clear justification for following that approach. Reviewing literature also shows that there is a lack of the studies that investigate this issue and provide clear justification for utilising this approach in developing Islamic accounting standards. Many questions are still looking for answers about the reasons behind favouring the pragmatic approach over the constructive approach. Is it for the purpose of achieving harmonisation with international accounting standards? Is it due to the influence of the colonising period, which, according to some researchers (e.g. Alnesafi (2010) and Altarawneh and Lucas (2012)), played an important role in shaping the accounting systems of the colonised countries? What is the feasibility of using the constructive approach for developing Islamic accounting standards and what are the implications of choosing this approach for the international accounting harmonisation efforts? More importantly, what are the institutional settings surrounding Islamic accounting standardisation projects and governing their decision on the most appropriate approach for Islamic financial reporting? Some of these questions have been partially answered by some researchers who put Islamic accounting standardisation projects under scope. Yet, some other questions are to be investigated in this study in an attempt to fill the gaps in accounting literature.

3.5 Islamic Financial Reporting Standardisation Projects

Since the early 1980s, there have been claims concerning the inadequacy of conventional accounting from the Islamic perspective. Nasir and Zainol (2007) argue that although the western accounting standards are useful in providing a structural framework for financial reporting, they do not address Islamic financial reporting issues and do not accommodate Shariah requirements, which form the centre of all Islamic business activities. The need for harmonised accounting practices that meet Shariah requirements has led to the establishment of ambitious projects for developing a framework for Islamic financial reporting standards. Some of these projects were initiated by national accounting bodies (e.g. Malaysia, Pakistan and Indonesia) while others were initiated through the establishment of international bodies (e.g. AAOIFI). For the purpose of this particular study, two of these projects are subject to in-depth investigation as case-studies, namely the case of the AAOIFI and the Malaysian project for Islamic financial reporting[1]. Some aspects of these two projects have been explored and evaluated by some researchers. This section provides a critical review of the literature that has been written on these two projects, while the historical and contextual details of both projects are provided in Chapter six based on primary and secondary data.

3.5.1 Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

The most famous project for developing Islamic accounting standards is the establishment of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) in 1990. Based in Bahrain, this private standard setting body was established by Islamic banks and other interested parties with the purpose of preparing and promulgating accounting, auditing and governance standards for IFIs based on Shariah precepts (Karim 2001).

Literature review shows that most of the literature describing the circumstances and motivations behind the establishment of AAOIFI has been written by Dr Rifaat Ahmad Abdul-Karim, the first Secretary General of AAOIFI. In his articles[2], Dr Karim describes the circumstances prior to the establishment of AAOIFI. He indicates that there was a great extent of variation in IFIs accounting practices as a result of the absence of clear guidelines on how this emerging industry needs to report its activities. He argues

[1] Justification on the reasons behind selecting these two cases is provided in Chapter 5
[2] See Karim (1990), Karim (1995) and Karim (1999)

that such variations adversely affected the comparability of IFIs financial reports and the credibility of these reports in the eyes of market players. Consequently, there was an urgent need for harmonising IFIs accounting practices.

Alongside market pressures on IFIs to unify their accounting practices, Karim (1995) argues that IFIs have taken the initiative to regulate their financial reporting as a result of their fear that the regulatory bodies in the countries where they operate may intervene to mandate their national accounting regulations. He indicates that this is one of the main factors that motivated IFIs to take the initiative and establish the independent standards setting body of AAOIFI with the purpose of self-regulating their financial reporting rather than leaving this matter to regulatory authorities.

In addition to its Shariah standards[1], AAOIFI has issued forty standards including twenty six accounting standards, five auditing standards, seven governance standards, and two ethical standards. The number of standards issued by AAOIFI constitutes, according to Vinnicombe (2010), a substantial body of work within a relatively short period of time. He also indicates that AAOIFI has achieved considerable success in terms of its growing membership and the acceptance of its standards by the regulatory authorities and IFIs in Islamic countries[2].

Many authors have acknowledged the importance of AAOIFI's efforts (See for example Karim 1990, Karim 1999, Vinnicombe 2010, Mohammed *et al.* 2016). They consider AAOIFI establishment as a step in the right direction to establish harmonised accounting practices and enhance the comparability and transparency of IFIs financial

---

[1] Shariah standards are out of the focus of this thesis.

[2] AAOIFI standards have been adopted in six countries – namely, Bahrain, Jordan, Oman, Qatar, Sudan, and Syria. In addition, AAOIFI accounting standards have also been used as the basis of national accounting standards in jurisdictions such as Indonesia and Pakistan. In other jurisdictions including Brunei, Dubai International Financial Centre, Egypt, France, Kuwait, Lebanon, Malaysia, Saudi Arabia, South Africa, United Arab Emirates and United Kingdom as well as in Africa and Central Asia, AAOIFI accounting standards have been used voluntarily as the basis of internal guidelines by leading Islamic financial institutions. For more information see http://aaoifi.com/adoption-of-aaoifi-standards/?lang=en

reporting. However, AAOIFI's standards have not escaped criticism. Among others, Maurer (2010) argues that AAOIFI standards are too general and flexible which provides room for manipulation. Kamla (2009) criticises the overemphasis of AAOIFI on technical and instrumental issues related to *Zakat* calculation and interest prohibition while ignoring other fundamental issues related to the appropriateness of the contemporary financial reporting objectives from an Islamic perspective[1].

Within the context of the continuous debate on whether accounting standards for Islamic entities can be imported from conventional accounting or should be developed based on a pure Islamic framework, Karim (1995) clarifies that both approaches were considered by AAOIFI. However, AAOIFI decided that the efficiency gained from the previous work of international accounting bodies would facilitate a timely implementation of its own standards without violating Shariah (AAOIFI, 2003 cited in Vinnicombe 2010). Consequently, AAOIFI chose to follow the pragmatic approach. Yet, for some scholars, the procedures through which AAOIFI has deduced the 'best practices' out of the existing accounting practices in order to cater for Islamic financial reporting needs are "suspicious" (Maurer 2002, p. 659). In this regard, some believe that in borrowing accounting frameworks developed for certain countries, special consideration should be given to society's institutional arrangements in terms of the legal, political and economic system and its educational, moral, and religious values which impact accounting practices (Mathews and Perera, 1991, cited in Karim 1995). However, Gambling and Karim (1991) argue that the current conceptual framework of conventional accounting is justified based on a separation between business and private morality; thus, it cannot be applied in other societies which have revealed doctrines and morals governing all economic, political and social aspects of life. Gambling *et al.* (1993) further

[1] ISRA (2013) research paper supports this argument by indicating that the main difference between AAOIFI and IFRS centres on the presentation, recognition and measurement of certain financial instruments and requiring some disclosures to convey Shariah compliance.

ascertain that "[n]either Western accounting theory nor Western accounting standards explicitly deal with the morality of the objectives of commercial accounting entities, or even of the methods by which they are pursued" (p. 196). Within the same vein, Karim (1995) argues that the objectives of financial reporting according to the conceptual frameworks developed by Western standard setters tend to focus primarily on providing useful information for the purpose of making rational economic decisions by primary decision makers. This narrow perspective of accounting, in his opinion, gives no weight to non-market considerations such as social responsibility, which is central from the Islamic viewpoint of accountability.

The above argument raises doubts about the reliability of the pragmatic approach followed by AAOIFI in developing Islamic accounting standards since AAOIFI could not avoid the influence of Western capitalist thoughts on which conventional accounting has been based. Maurer (2002) and Yaya (2004) state in this context that AAOIFI's objectives are to a great extent the same as those objectives currently prevailing in conventional accounting. According to Maurer (2002), AAOIFI still adopts the provision of information decision-usefulness for large investors and ignores other stakeholders' interests despite the fact that the point of reference should be the overall objectives of Shariah and Islamic accountability, not the interests of specific users' rights and needs (Khan, 1994 cited in Yaya 2004). This leads to the conclusion that AAOIFI's conceptual framework is not in line with the Islamic worldviews but instead a mixture of Western and Islamic concepts, practices and values. Maurer (2002) adds that AAOIFI still embraces the spirit of capitalism and market ideology. He argues that embracing Islamic values and spirit would render conventional accounting objectives and principles irrelevant. This has led Kamla (2009) to assert that AAOIFI failed to appropriately create an alternative culture of accounting inspired by Islamic values but rather reconstructed the already existing western accounting practices.

In a recent paper by Kamla and Haque (2017), they refer to the dominance of the 'intellectual imperialism' and 'Anglo-American logic' in shaping IFIs accounting practices. They argue that AAOIFI, in its current approach, has contributed in strengthening that dominance. In this context, they identify three key 'local collaborators' which have had a great influence on AAOIFI and contributed in strengthening that dominance of the international accounting harmonisation (IAH) logic: IFIs, regulatory bodies in Islamic finance markets, and Muslim elites including bankers and Shariah scholars involved in both AAOIFI's and IFIs' Shariah boards. According to Kamla and Haque (2017), those collaborators are embedded in the capitalist, market-oriented mind-set. They "delineated their interests in aligning AAOIFI standards with the IAH logic under IFRS"; however, at the same time, they benefit from "portraying AAOIFI as uniquely Islamic, responsible for ensuring Shari'a compliance by IFIs" (p. 16). Therefore, in order to maintain their interests, Kamla and Haque (2017) believe that AAOIFI, the same as IFIs, exercises 'identity staging' to sustain the Islamic image of IFIs in the eyes of Muslim public, while its objectives, thoughts and standards embrace the IAH logic. Kamla and Haque (2017) conclude by saying that AAOIFI has been unable to exercise a real challenge to conventional accounting practices and thoughts. It has also been unable to provide an alternative to the market-logic of developing accounting standards, as any attempt to do so is perceived by IFIs as impractical and hinders market-competition. Consequently, AAOIFI have always been keen not to depart significantly from conventional practices to maintain IFIs' support to its standards (Kamla and Haque 2017).

Kamla and Haque (2017) present strong critiques of AAOIFI performance. Their critiques are based on the market orientation of IFIs and some other organisational and individual actors associated with AAOIFI. Those actors push towards more integration with the international economic and financial reporting agenda. However, Kamla and Haque (2017) fail to provide clear evidence on how AAOIFI has responded historically to such pressures. Moreover, they tend to include some mixed[1] and contradictory remarks in their article. For instance, while they claim that the above actors guide AAOIFI in a certain direction and describe AAOIFI as a mostly passive respondent to those actors, they indicate that some IFIs and regulatory bodies are currently moving away from AAOIFI's standards as those standards do not achieve their interests. This implies that AAOIFI does not act passively; rather, it may adopt policies and add requirements that contradict the market-oriented interests of those actors. Moreover, Kamla and Haque (2017) do not address the potential role of other regulatory, societal and institutional factors in shaping AAOIFI's policies and the weight of such factors historically.

Similarly to Kamla and Haque (2017), Levy and Rezgui (2015) refer to the role of IFIs in making coercive pressure on AAOIFI to embrace the market values and achieve more convergence with IFRS at the expense of sustaining religious values and priorities. They also indicate a similar role of AAOIFI's Accounting and Auditing Standard Board (AASB) members in making normative pressures in that direction, especially that most of those members are influenced by conventional accounting practices. Levy and Rezgui's (2015) study can also be criticised for generalising the findings of an exceptional event[2] on the overall performance of AAOIFI. Yet, their study provides good insights into the potential role that IFIs (as an important stakeholder for AAOIFI standards) and the AASB members (as insider actors) can play in influencing AAOIFI's policies and priorities.

[1] There is also mixing in Kamla and Haque's (2017) article between the accounting and Shariah standards of AAOIFI. Additionally, Kamla and Haque (2017) mix between AAOIFI's current situation and the situation of Islamic finance industry which has been recently more commercialised and market oriented.

[2] Levy and Rezgui's (2015) study is based on investigating an 'emergency situation' that lead AAOIFI to follow exceptional procedures to amend its standard 'FAS 17'.

In general, reviewing the literature that has been written on AAOIFI shows that researchers have mainly criticised the pragmatic approach chosen by AAOIFI in developing its standards. However, they have not evaluated the other ‘constructive’ approach and its challenges and have not investigated why AAOIFI has chosen not to employ that approach. It seems that there is a missing part in the picture and there is a need for further research to investigate these issues. In addition, AAOIFI was established in 1990 before the era of IFRS. Since then, there have been significant institutional changes at the international level. The world has witnessed rapid developments in the field of financial reporting regulations and standards. Islamic finance industry has also experienced changes in which IFIs have been more market oriented (Haniffa and Hudaib 2010, Mohammed and Mustafa 2013). Given those developments, there is a lack of studies which are dedicated to explore different contextual and institutional settings and demands surrounding AAOIFI’s performance at different stages of its history from the establishment until now. It is also not clear how AAOIFI has satisfied those institutional demands when setting its priorities and if those priorities have changed over time. Past studies provide critiques of AAOIFI based on a ‘static’ overview; they focus either on its overall situation (Maurer 2002, Kamla 2009, Kamla and Haque 2017) or on some specific events (Levy and Rezgui 2015) while not providing dynamic historical accounts to investigate the potential changes in its performance over time that may have been triggered by the surrounding institutional changes.

3.5.2 The MASB’s Project of Islamic Financial Reporting

The MASB project for Islamic financial reporting standardisation was initiated at the same time of the establishment of the MASB itself. According to the MASB website, the purpose of that project was to develop a stand-alone set of accounting standards for IFIs in the first instance. The project was also intended to extend its focus at a later stage to develop standards for all business entities operating according to Islamic business principles, including those entities dealing with IFIs. However, that project was subject to dramatic changes over time. These changes resulted firstly in abandoning its main objective in developing separate standards and requiring IFIs to follow the Malaysian approved standards. The MASB, instead, issued guidelines in a form of technical release that explain the application of its national standards to Islamic transactions. Later on, with the MASB plan to achieve full convergence with IFRS, it announced that it would not issue any further guidelines on Islamic financial reporting to avoid being considered as a local interpretation of IFRS. Alternatively, the MASB declared that it would work in cooperation with the IASB to accommodate Islamic financial reporting needs within the IFRS framework[1].

Reviewing accounting literature shows that, while AAOIFI has been under the scope of many researchers, the MASB Islamic financial reporting project has been comparatively little researched. Only few studies have been coducted to explore the Malaysian attempt to develop Islamic accounting standards, explain the challenges which faced it over time, and invistigate the reasons behind the shifts in its agenda.

Among these studies is a book chapter by Nasir and Zainol (2007) which provides some details about the early stage of that project. After exploring the influence of Islam on the efforts of international accounting harmonisation, Nasir and Zainol (2007) present the calls for developing Islamic accounting standards and the efforts made by AAOIFI in this regard. They move then to present the Malaysian attempt to develop Islamic accounting standards as another example. They indicate in this resepect that, with the development of Islamic finance industry and the rapid growth of Islamic capital market, Malaysia recognised the need for accounting standards that address the features of Islamic

[1] Full details about the MASB project and its historical policy in relation to Islamic financial reporting are presented in Chapter Six.

based transactions. They mention that Malaysia supported AAOIFI's project when it was established. However, Nasir and Zainol (2007) state that, given the local Islamic banking practices in addition to the regulatory framework and economic structure in Malaysia, local accounting standards were needed in order to bridge the gap in areas which the Malaysian approved standards and AAOIFI's standards did not address. This led the newly established governmental body of MASB to initiate a project for developing Islamic accounting standards. Nasir and Zainol (2007) move then to explore the progress of that project and the issuance of its first standard. They try to clarify the objectives of that standard and the factors that were taken into consideration when developing it. However, given the fact that Nasir and Zainol (2007) wrote their presentation about the MASB project in 2007, they did not have the chance to explore and explain the dramatic changes which have been experienced by the project after that year.

Mohammed and Mustafa (2013) and Mohammed *et al.* (2016) briefly comment on the shift of the MASB’s agenda in relation to Islamic financial reporting. They believe that the stance on reporting has changed over time, reflecting the fact that IFIs practices echo their conventional counterparts’ practices, moving away from their sacred aims. This, in their opinion, has led MASB to have the viewpoint that IFRS is applicable to IFIs since there is no significant difference between their products and conventional products.

In addition to the information available in the MASB’s website about that project and the reasons of abandoning its first objectives (see Section 6.3.2), some details have been presented in this regard in a report issued by AOSSG (2010)[1]. According to the report, the MASB had come to the conclusion that IFRS does not conflict with Shariah perspective; the fundamental difference between Islamic and conventional financial

[1] The Asian-Oceanian Standard-Setters Group (AOSSG) is a grouping of the accounting standard-setters in the Asian-Oceanian region. The group has been formed to discuss issues and share experiences on the adoption of International Financial Reporting Standards. The MASB is the leading member of its Islamic Finance Working Group.

reporting is not about recognition and measurement issues but the extent of disclosure to be provided to users. In addition, the report indicates that the MASB believes that financial reporting is merely a recording function that does not affect Shariah validity of transactions. It also believes that IFRS application to Islamic financial transactions would lead to practical benefits as a reporting entity would overcome the difficulty of reporting under different frameworks. Besides, IFRS application would eliminate any arbitrage opportunity that may arise from different accounting treatments (AOSSG 2010).

It can be noticed that the above studies only present a general descriptive overview of the MASB Islamic financial reporting project with the purpose of exploring the Malaysian experience, among other experiences, in developing Islamic standards. This is without attempting to critically evaluate the outcomes of that project. Ibrahim and Siswantoro (2013) try to fill this gap and provide a critical review of the MASB project. This review is not focused on specific issues but it rather provides different, and sometimes unconnected, remarks about that project. These remarks can be summarised by the following points:

- The MASB in the beginning followed a very similar approach to what AAOIFI has done. Moreover, the MASB referred to AAOIFI standards even though they claimed developing 'original' standards based on the Malaysian experience.
- The MASB could not avoid the influence of conventional accounting practices and standards. They argue that conventional accounting is still the basis of that project.
- They criticise setting Islamic accounting requirements in a form of technical releases as supplementary guidelines to conventional standards. In their opinion, this may show that conventional accounting practices and philosophy is in line with Islamic teaching.

- They argue that the MASB's attempt to justify its pragmatic approach by the lack of intellectual resources is a weak justification. They indicate that many Muslim scholars have tried to establish a foundation for Islamic accounting based on Islamic teachings (constructive approach).
- They criticise the MASB dependence on the Shariah scholars in the Shariah Advisory Council of Bank Negara Malaysia to overcome the setback of manpower and to legitimate the MASB decision in 2009 that required IFIs to follow the Malaysian conventional standards. They argue that the opinion of those scholars cannot be relied on as they only know the general 'appearance' of accounting principles and concepts. They maintain that the spirit of capitalism would not be seen if we just observed the appearance of those concepts without understanding their implications.

Generally, Ibrahim and Siswantoro (2013) have developed their evaluation of the MASB project based on a normative viewpoint on what the contents of Islamic accounting standards ought to be. In other words, they make their argument from the constructive approach viewpoint. However, they fail to explain why the MASB project has chosen the pragmatic approach since the very beginning and why it has continued to be more 'pragmatic' in adopting conventional accounting practices over time until reaching the point of totally abandoning its first agenda and attempting to accommodate Islamic accounting needs within the IFRS framework.

Indeed, Mohammed and Mustafa (2013) and Mohammed *et al.* (2016) try to find an answer and attribute these changes to wider institutional changes in the Islamic financial industry itself. However, their presentation of these institutional changes is very brief, focuses on very limited factors, and lacks the necessary in-depth investigation that takes different institutional and contextual factors into consideration. This is due to the fact that neither article was dedicated to investigate these institutional changes; but rather, such changes were presented briefly as part of exploring the Malaysian experience in this field.

3.6 Conclusion and Literature Gaps

The literature review presented in this chapter shows that the notion that accounting represents a set of measurement techniques which are isolated from their context has been widely challenged. This in turn has imposed a serious challenge to the international accounting harmonisation efforts. A wide range of contextual and institutional factors have been identified as potential drivers for differences in the accounting needs between societies as well as industries. One of these factors is religion, which, in the case of Islamic business entities, leads to certain requirements that should be attained in their financial reporting. The past literature has addressed the need and calls for a special accounting framework and standards that meet such requirements. It has also identified methodological approaches for developing such a framework which have been considered by some ambitious projects for developing Islamic accounting standards. These projects have been subject to wide criticism in the literature due to their inability to avoid the influence of conventional accounting practices. However, based on the literature review provided in this chapter, certain limitations and gaps can be identified.

In general, there is a consensus in the literature that Islamic principles have the potential to influence accounting practices in Muslim countries. Also, there is an emphasis in the literature on the need for giving special considerations to the financial reporting issues of Islamic financial industry. In this respect, the relevant accounting literature has tried to consider the ‘theoretical’ pros and cons of different alternative approaches available for the projects that attempt to meet Islamic financial reporting needs. However, there is a lack of studies that examine the reasons behind the preference of those projects to apply certain approaches rather than others in practice. Moreover, the past literature has not provided a clear picture of the different institutional settings and demands surrounding such projects and governing their decision on the most appropriate approach for regulating Islamic financial reporting. In addition, the projects for setting Islamic accounting standards have been mostly addressed in the literature as examples when investigating some issues related to Islamic financial reporting. There is a lack of research dedicated to examine such projects in depth with the purpose of evaluating their performance, understand the process of setting their standards and identify the challenges facing and the factors influencing them[1].

The attempts for setting Islamic accounting standards were initiated before the era of IFRS. Since then, there have been many institutional changes at the international level. Business environment has been more globalised. The world has witnessed rapid developments in the field of financial reporting in which it has been moving to adopt one set of financial reporting standards internationally. Islamic finance industry itself has experienced remarkable changes and IFIs have been more market oriented (Haniffa and Hudaib, 2010, Mohammed and Mustafa, 2013). There is a lack of studies which are dedicated to explore the impact of these developments on Islamic financial reporting standardisation projects and examine how these projects have responded to such institutional developments at the different stages of their history. It is not clear how these projects satisfy such emerging institutional demands when setting their priorities and if those priorities have changed over time according to the aforementioned developments in the institutional environment. In this context, reviewing the two cases of AAOIFI and MASB projects and the literature written about their performance shows that their strategies for standardising and regulating Islamic financial reporting have experienced

[1] Ibrahim and Siswantoro (2013), Levy and Rezgui (2015) and Kamla and Haque (2017) are among the very few who conducted studies dedicated to examine the Islamic financial reporting projects from certain perspectives.

changes over time. The extent of these changes has not been consistent in both contexts; rather, such changes have been more intensive and substantial in the case of the MASB project[1]. The literature shows that there is a lack of studies that provide historical accounts to investigate these changes and identify the factors that have triggered them over time. More importantly, there is a lack of comparative studies that explain the reasons behind the heterogeneity between such projects even though they are supposedly under the influence of the same institutional demands.

From another perspective, research in the field of Islamic accounting as well as accounting for IFIs has had a great emphasis on the religiously based differences which produce a need for a financial reporting framework that addresses such differences. This makes the research in this field unrealistic. Maali (2005) argues that it is worthy to remember that although religion has an important impact on the perception about Islamic financial transactions and the accounting treatment of such transactions, it is not the ultimate determinant. For instance, it has been recognised that the projects for developing Islamic accounting standards have considered contemporary accounting practices and standards in addition to religious based requirements in developing their framework (following the pragmatic approach). Accordingly, a wide range of institutional 'secular' factors need to be identified and taken into consideration when investigating the factors that influence the financial reporting framework needed by IFIs. Actually, some researchers have attempted to address this gap and demonstrate the role of other factors. Among those researchers are Levy and Rezgui (2015) and Kamla and Haque (2017), who elaborate on the role of 'international accounting harmonisation logic' and 'market logic' in influencing AAOIFI standards. However, more comprehensive study is needed in which the role of various institutional demands should be examined vertically

[1] More details about the historical changes that have been experienced by each case-study are provided in Chapter Six

(investigating the interaction between various factors, demands and logics) and horizontally (over time).

Finally, setting financial reporting standards is an intellectual process. This process requires highly qualified human actors who have considerable knowledge in the industry for which they are setting standards. Those actors are expected to have a critical role not only in determining the content of the standards but also shaping the organisational policies of the standard setting bodies. However, the literature shows that the role of internal actors in those bodies is under-researched. While no studies have been conducted to investigate the role of those actors in shaping the MASB's policies historically, Levy and Rezgui (2015) and Kamla and Haque (2017) refer to a potential role of certain actors who are involved in AAOIFI in influencing its standards and policies (e.g. Shariah scholars and AASB members). However, these two studies lack the necessary focus and depth in analysis since they present the role of those individual actors as part of the influence of other organisational actors such as IFIs and national regulatory bodies. Moreover, they were selective in presenting the role of specific actors while ignoring the role of others who may have a greater role in shaping and directing AAOIFI' policies. Furthermore, there is still a gap in understanding the historical role of actors in maintaining, or resisting, the vision of setting a distinctive framework for Islamic financial reporting. Exploring this issue is crucial especially in the context of the Malaysian project, which has experienced dramatic change over time.

The above limitations and gaps in the accounting literature have motivated conducting this research which aims to achieve the following objectives:

1- To explore the institutional and contextual settings that have been surrounding Islamic accounting standardisation projects historically.

2- To explore how different institutional logics and demands have contributed in shaping the organisational policies of these projects and governed their decision on the most appropriate approach for regulating Islamic financial reporting.
3- To investigate the reasons behind the strategy changes which have been experienced historically by these projects.
4- To investigate the reasons behind the heterogeneity between these projects in their strategies for dealing with IFIs financial reporting.
5- To investigate the role of actors in shaping the organisational policies of these projects and the role of those actors in maintaining (or resisting) the vision of setting a distinctive framework for Islamic financial reporting.

Informed by these research objectives and the theoretical framework discussed next chapter, this study seeks answers for the following research questions:

1- How have standard-setting bodies experienced and responded to different institutional logics in their efforts to develop Islamic financial reporting standards and regulations?
2- Why have different standard-setting bodies responded in different ways to different institutional logics over time?
3- What is the role of actors in shaping the strategies of Islamic financial reporting standardisation projects and how have they contributed to the success or failure of their vision?

CHAPTER 4: Theoretical Framework: Institutional Logics Perspective

4.1 Introduction

In order to achieve the research objectives and answer the research questions, this study adopts Institutional Logics Perspective (hereafter ILP) as a theoretical and analytical framework for organisational and institutional analysis. The choice of ILP as a theoretical framework is informed by the literature gaps identified in the previous chapter which recognise the need for understanding the institutional complexity and the role of agency in Islamic accounting standardisation. The purpose of this chapter is to explore the main concepts, principles and assumptions that constitute ILP and how they are applied in this thesis.

This chapter is organised into three main sections. The first section provides a brief overview of ILP and its definition. The second section presents ILP assumptions in terms of the multiplicity of institutional logics and organisational response to this multiplicity. The following section presents the theoretical position of ILP regarding the agential role of actors. In addition, it provides an overview of the concept of institutional entrepreneurship from the viewpoint of ILP framework. The concept of institutional entrepreneurship is used in this thesis as a supplementary theorisation in an attempt to further its explanatory analysis on the phenomenon under research.

4.2 Institutional Logics Perspective: Overview and Definition

Friedland and Alford (1991) started a new direction in organisational and institutional studies by establishing the seeds of institutional logics perspective. Since then, ILP has experienced considerable theoretical and empirical development. This framework has been a valuable tool in responding to the criticism of the over-emphasis of the neo-institutional theory on institutional isomorphism and organisational homogeneity. Institutional logic perspective, by contrast, argues that institutional environment is pluralistic, and society is composed of a set of interdependent, yet sometimes contradictory, inter-institutional logics accompanied by different belief systems and sources of rationality (Friedland and Alford 1991). This makes ILP a distinctive metatheory that explains not simply the homogeneity, but also the heterogeneity of organisations (Thornton and Ocasio 1999, Thornton *et al.* 2012).

Thornton *et al.* (2012, p. 2) define institutional logics perspective as "a metatheoretical framework for analysing the interrelationships among institutions, individuals, and organisations in social systems". Greenwood *et al.* (2010) argue that organisational structures and managerial practices are shaped and legitimated by institutional logics. Hence, in order to understand how and why organisations show similarity and variation in such structures and practices, it is necessary to understand the relationship between organisations and the logics constituting their institutional context.

This theoretical framework helps answer the question of how individual and organisational actors are influenced by their position in different social locations in an inter-institutional system. It also helps understand how individuals and organisations are situated in multiple institutional logics and explain the diverse effects of this situation on organisational behaviour and cognition (Thornton *et al.* 2012).

4.3 Institutional Logics and Organisational Responses

4.3.1 Institutional Orders: the Inter-institutional System of Society

The main theoretical contribution made by Friedland and Alford (1991) is based on the pioneering idea of perceiving society as an inter-institutional system. They argue that society is shaped by different institutions or 'institutional orders' which coexist and potentially contradict each other. Thornton *et al.* (2012) state that ILP utilises a sub-system approach in which society is identified as distinctive conceptualised institutions. Each institution is characterised by a cluster of norms supported by cultural symbols and material practices which govern and provide meaning to a recognised area of life. In this sub-system, it is possible to determine which norms are more salient than others in a specific location. This is because individuals and organisations are more likely to be centred in one or more institutional orders than others (Thornton *et al.* 2012, Besharov and Smith 2014).

Friedland and Alford (1991) identified five institutional orders in the western society: the bureaucratic state, democracy, capitalistic market, nuclear family and Christian religion. This work was then utilised by Thornton (2002) who developed industry logics in a form of ideal types. These ideal types have been advanced and expanded to comprise a range of institutional orders in Thornton's further works (Thornton 2004, Thornton and Ocasio 2008, Thornton *et al.* 2012). In their most recent framework, Thornton *et al.* (2012) suggest an inter-institutional system comprised of seven institutional orders: family, community, religion, state, market, profession, and corporation. These orders are referred as X-axis in their suggested typology (See Thornton *et al.* 2012, p.73).

In addition, each of those institutional orders is comprised of elemental categories which represent the cultural symbols and material practices underlying that order. In other words, each order has a distinct set of expectations (logics) that shape and describe its rationality. Since they are part of the social system in a given society, the behaviour, interests and preferences of individuals and organisations are shaped, influenced and legitimised by the rationality driven by the underlying logics of these institutional orders (Friedland and Alford 1991). Thornton *et al.* (2012) refer to these elemental categories as the Y-axis. According to Thornton *et al.* (2012), the principles, symbols and practices of each institutional order shape in different ways “how reasoning takes place and how rationality is perceived and experienced” (p. 2). This means that rationality differs according to the different logics of different institutional orders. More interestingly, multiple institutional rationality may exist in a particular context, which leads individuals and organisational actors to respond differently, being influenced by different reference systems in their responses (Lounsbury 2008, Greenwood *et al.* 2010).

According to this notion of institutional orders, ILP differs from the principles of neo-institutional theory, which assumes mindless cognition and institutional (non-rational) view of rationality. Also, it does not imply institutional isomorphism but rather allows for cultural and institutional heterogeneity since culture is shaped by different institutional settings and orders (Thornton *et al.* 2012). This heterogeneity allows for individual and organisational autonomy in which organisations define rationality depending on the values, practices and root metaphors of their home (or dominant) institutional orders (Friedland and Alford 1991, Thornton *et al.* 2012).

4.3.2 The Multiplicity of Institutional Logics in Organisations

Meyer and Rowan (1977) describe institutional environments as being pluralistic. They argue that, as a result of this plurality and in their search for external support and stability, organisations incorporate and abide to all sorts of institutional demands. This view has been shared by Friedland and Alford (1991), who refer to the multiplicity of institutional logics that organisations incorporate and may or may not be incompatible. Similarly, Thornton *et al.* (2012) state that organisations embody multiple institutional logics and reflect them in their structures as well as practices. Greenwood *et al.* (2010) used the term ‘institutional complexity’ to point out to the situations in which organisations face different sorts of pressures derived from multiple institutional logics. They call for understanding how organisations respond to such complexity in their institutional environment.

The issue of institutional logic multiplicity has attracted a considerable amount of attention in the literature. Scholars have investigated this issue and its implications from different perspectives and in different fields. Besharov and Smith (2014) provide a brief review of the literature which has addressed this issue. They indicate that the literature suggests different conclusions in terms of the consequences of institutional logics multiplicity within organisations. They clarify that while some scholars associate logics plurality with instability and conflict, others describe the possibility of compatible coexistence of logics or 'logic blending'. They refer to some cases in the literature where the existence of multiple logics is seen as a threatening factor which may lead to organisational demise while in other cases this makes organisations more stable, sustainable, and innovative. However, they argue that the existing literature offers a little evidence on the circumstances in which these different outcomes arise.

Besharov and Smith (2014) affirm that the key point of difference in the literature is concerning the relationship between logics and whether they reinforce or contradict each other. Meyer and Höllerer (2010, p. 1251) identify different relationships that may emerge between different institutional logics by saying that "logics may peacefully coexist, compete, supersede each other, blend or hybridize, or reach a temporary truce". In this context, Besharov and Smith (2014) refer to some studies where organisations can embody more than one institutional order in a relatively compatible way. Similarly, by referring to some empirical cases in the literature, Kodeih and Greenwood (2014) argue that institutional logics can interact and co-exist peacefully in several ways in which neither specific order can be considered dominant. On the other hand, Friedland and Alford (1991) in their early theorisation believe in the inconsistent nature of different institutional logics. This is because each set of logics is associated with a different belief system and source of rationality. Similarly, Thornton *et al.* (2012) emphasise that each institutional order provides a unique view of rationality, which leads to contradictions within organisations as organisations are situated in and influenced by different spheres of different institutional orders.

Some scholars attribute the status of conflict and competition between institutional logics to the dilemma that satisfying one institutional demand may violate others (Pfeffer & Salancik, 1978 cited in Pache and Santos 2010). Heimer (1999) argues in this context that "the adoption of a policy or practice that sends a favourable message to one audience may simultaneously send an offensive message to another" (p. 18). Therefore, some scholars do not see any chance for two logics to equally dominate a single field. This is because as new logics dominate a specific field, organisational actors accommodate and adjust their norms and practices so as to be consistent with those associated with the new dominant logics (Ezzamel *et al.* 2012).

4.3.3 Organisational Responses to Institutional Logics

Friedland and Alford (1991) criticise the argument made by DiMaggio and Powell (1983) about the passive organisational compliance to institutional demands and the proposition of isomorphic organisational fields. Instead, they emphasise that organisational fields have the potential to show differences, contradictions and autonomy in organisational forms and practices as they are attached to different societal-level institutional orders. Pache and Santos (2010) argue that not all organisations respond to competing institutional demands in a similar way since institutional logics are enacted differently by different organisations. They ascertain that organisations have the opportunity to exercise strategic choice in responding to different logics that shape their institutional context. Similarly, Greenwood *et al.* (2011) in their article "Institutional

Complexity and Organisational Responses" postulate that since organisations experience institutional complexity to different degrees, this implies that they will show differences in how they respond to this complexity.

As stated earlier, organisational structures and practices are manifestations of various institutional logics. Therefore, in order to understand the behaviour of organisations and their use of such structures and practices, it is necessary to understand the relationship between organisations and the logics constituting their institutional context. It is argued here that, in their search for external support and endorsement from the referent audiences, organisations respond and incorporate "all sorts of incompatible structural elements" (Meyer and Rowan 1977, p. 356). The nature of organisational response to institutional demands is critical here. This is because the way in which an organisation responds to such demands has substantial implications on the social legitimacy of that organisation and its access to critical resources (Greenwood *et al.* 2011). Failure to pursue organisational practices legitimated by prevalent logics can have adverse consequences. Organisational survival itself might be at stake (Greenwood *et al.* 2010, Greenwood *et al.* 2011).

Thornton *et al.* (2012) suggest that utilising ILP for studying organisational responses to institutional logics is an exciting new topic for research. However, despite recognising the importance of understanding how organisations respond to multiple institutional logics underpinning their institutional context, Kodeih and Greenwood (2014) report that most empirical studies have been dedicated to the institutional field with the purpose of understanding how institutional orders promote, diffuse and maintain their logics at that level. They add that very few studies have explored how organisations cope with and react to the demands of those logics. Pache and Santos (2010) agree on this fact and state that while institutional scholars acknowledge the existence of multiple, conflicting institutional demands which impact organisational behaviour, there is still a lack of a clear framework that allows to understand and predict systematically how organisations would behave and respond to the influence of such conflicting institutional prescriptions.

Recently, there have been some attempts to understand and theorise the patterns in which organisations deal with and respond to their institutional complexity. Among others, Greenwood *et al.* (2010) track the issue of organisational downsizing in Spain. They examine the influences of different institutional orders on organisational downsizing and suggest that organisations respond to their institutional contexts in different but patterned ways. They developed certain patterns according to which organisations behave and make decisions with regard to downsizing. This work was extended by another theoretical paper by Greenwood *et al.* (2011). In this paper, they explore how the organisational field structure (fragmentation, formal structuring/rationalisation, and centralisation/unification) and organisational aspects or 'filters' (field position, structure, ownership and governance, and identity) influence organisational responses. Another example on the theorisation of organisational responses to institutional logics is a paper by Pache and Santos (2010). In their paper, Pache and Santos (2010) attempt to provide a more systematic model of organisational responses that takes into consideration intra-organisational political relationships. Building on the model of Oliver (1991), they hypothesise organisational responses to multiple institutional logics depending on the centrality of these logics to organisational mission and goals and depending on the extent to which these logics are represented within an organisation as well as the balance of power between different logics' representatives.

4.3.4 Historical Contingency of Institutional Logics

Historical contingency of institutional logics is one of the key meta-theoretical assumptions of ILP. Thornton *et al.* (2012) assume that the prevalence of particular institutional logics within an organisation and the relationships between these logics varies over time and across contexts. For example, modern societies are generally more influenced by the logics of the state, professions, corporation, and market, while, in earlier societies, greater influence can be observed for the logics of family and religion. Although the dominance of institutional orders varies over time, Thornton *et al.* (2012) assert that the emergence and rise of a particular institutional order relative to another does not always follow a linear progression in a sense that the prevalence of one institutional order does not necessarily replace another completely.

Thornton and Ocasio (2008) argue that recognising historical contingency as a meta-theoretical assumption in ILP aims to examine if the effects of institutional demands change over time. They further add that the aim of this assumption is not to theorise organisational behaviour based on this contingency but rather to examine whether theories on organisational behaviour assumed to be universal over time and space are in reality particular to a certain time and institutional context.

4.3.5 Institutional Logics Perspective in Accounting Research

ILP has been widely used in organisational studies to explain organisational practices and behaviour. In the field of accounting, ILP and the concept of institutional logics have been commonly utitlised in management accounting and management control system studies (See for example: Townley 1997, Hyvönen *et al.* 2009, Jayasinghe and Wickramasinghe 2011, Ezzamel *et al.* 2012). Some of these studies used the term ‘logics’ even though they did not make use of Friedland and Alford’s (1991) approach and its developments.

On the other hand, there is little use of ILP framework in financial accounting research. In this regard, some organisational studies have investigated the institutional logics prevailing in accounting firms and how such logics have changed over time (Thornton *et al.* 2005, Greenwood and Suddaby 2006, Lander *et al.* 2013). However, there is a lack of studies investigating issues such as the role of institutional logics in determining the choice of accounting practices, systems and standards at the organisational as well as national levels; the role of institutional logics in the process of setting accounting standards; and the institutional logics that shape the decisions and policies of accounting standard setting bodies. Among those who have tried to address such issues are Guerreiro *et al.* (2012) who combined Oliver's (1991) model with the concept of institutional logics to investigate the motivations for the voluntary adoption of IFRS by unlisted companies in Portugal. Susela (1999) conducted an interesting study in this context, investigating the conflict of interests in the standard setting process in Malaysia with a special focus on goodwill standards. Despite the fact that she did not make use of Friedland and Alford's (1991) work and did not utilise the term 'logic', she used the principles of ILP as a theoretical framework. In this article, Susela (1999) depends on the work of Streeck and Schmitter (1985) and Puxty *et al.* (1987) who identify four 'organising principles' of accounting regulations: state, profession, market and community. She clarifies that within each principle, there are actors who represent and defend the interest of that principle. Based on analysing those actors' discourse, Susela (1999) concludes that the process of setting goodwill standards had been shaped by the interaction and competition between actors' interests and the balance of power between those actors. She suggests that the standard setting process was not dominated by the same interests (logics); rather, the balance of power had shifted over time from profession to market representatives and the standard setting process was accordingly more dominated by the market.

Moving to the Islamic accounting research, literature review shows that, to the best of the researcher's knowledge, ILP has not been utilised in this field. Even though Kamla and Haque (2017) used the term 'IAH logic' to indicate the increasing domination of international accounting harmonisation influence on AAOIFI standards, they utilised the 'collaborative theory of imperialism' as a theoretical framework. The scope of Islamic accounting research has been greatly dominated by religiously based demands that differentiate Islamic accounting from conventional accounting practices. However, as stated by Maali (2005), although religion has an important impact, it is not the ultimate institutional determinant of the accounting system of Islamic business entities. Hence, there is a need for understanding the wide range of factors and institutional demands that shape the financial reporting of such entities. Likewise, understanding Islamic accounting standardisation projects requires understanding the institutional logics that influence these projects and how they balance (or prioritise) various demands when setting their standardisation strategies.

4.3.6 Islamic Financial Reporting Standardisation: Institutional Logics and Organisational Responses

As case studies, this research focuses on two projects initiated by AAOIFI and MASB for setting Islamic accounting standards. Understanding these projects requires comprehensive understanding of their contextual and institutional settings. ILP is deemed relevant for this purpose, given the variety of institutional considerations, demands and factors that govern the issue of developing Islamic accounting standards.

This research investigates the role and influence of two institutional logics on the aforementioned projects in the first instance. These institutional logics are religion logic and profession logic. Both institutional logics have a substantial influence, with different degrees, on these two projects. This study looks at religion as an important institutional order represented by the religious beliefs, principles and values which govern every aspect of life including business and accounting practices[1]. This institutional order is assumed to be the ultimate source of legitimacy for the projects which are mainly established to develop accounting standards in line with Islamic principles. On the other hand, the profession order is represented in this study by the contemporary accounting and financial reporting practices which find their roots in the western capitalistic system that focuses on maximising shareholders' wealth. The influence of this institutional order can be seen in the normative, professional pressure exerted by the widely prevailing and accepted system of financial reporting practices created and advocated by internationally dominating professional bodies (e.g. IASB).

Greenwood *et al.* (2011) call for not restricting the focus of institutional logics studies on two competing logics. This is because any findings based on this restricted scope may not be valid, given the great extent of complexity in the institutional environment of organisations. This complexity might be underestimated and misinterpreted under this narrow scope. Hence, Greenwood *et al.* (2011) call for comprehensive understanding of various institutional logics available in a given context as "logics may reinforce each other" (p. 332). Similarly, within the context of Islamic accounting studies, Maali (2005) calls for investigating a wide range of institutional 'secular' factors that underpin Islamic financial reporting. Taking this argument into consideration, in addition to the seven institutional orders identified by Thornton *et al.* (2012) and the four 'organising principles' addressed by Susela (1999), this research also

[1]Hamid (1993, p. 131) states that "Islam has the potential for influencing the structure, underlying concepts and the mechanisms of accounting in the Islamic world"

looks into the role of the state, market and community logics in shaping Islamic accounting standardisation projects[1].

Moreover, in addition to investigating how Islamic accounting standardisation projects have experienced the influence of different institutional logics, this study aims to examine how these accounting standard-setting bodies have responded historically to those different logics. As stated earlier in Section (4.3.3), the issue of organisational responses to institutional logics is under-researched in the institutional logics literature (Pache and Santos 2010, Kodeih and Greenwood 2014). Therefore, it is necessary to address this issue in a unique field such as Islamic financial reporting, which is governed by various rationalities, each with a different source of legitimacy.

This research explores the organisational responses of two projects in two separate contexts with different institutional settings. Moreover, one of these projects is at the national level of Malaysia while the other (AAOIFI) is aimed at promoting its standards internationally. Understanding and taking such differences into consideration provides rich and comprehensive insights into the determinants of developing Islamic accounting standards as well as the reasons behind the heterogeneity between the strategies of Islamic accounting standardisation projects. The ILP literature supports understanding such differences within a given field as there can be multiple institutional rationality in that field, which may lead individual and organisational actors to respond differently, being influenced by different reference systems in their responses (Lounsbury 2008, Greenwood *et al.* 2010). This makes it interesting and, at the same time, necessary, to examine the contextual differences between the two projects under research in order to provide a clear and comprehensive understanding of the institutional logics underpinning the issue of developing Islamic reporting standards both nationally and internationally.

[1] The idea of incorporating additional institutional orders was in mind since the beginning of doing this research. However, the decision to incorporate these three particular institutional orders was taken with the emergence of some insights on these orders during the pilot study.

In addition, the project initiated by the MASB to develop a stand-alone set of Islamic accounting standards has experienced dramatic changes in its agenda. This makes it an interesting case study for investigation in order to understand the potential institutional shifts that have led to such changes in the MASB's policies over time. This is taking into consideration Thornton *et al.*'s (2012) argument on the historical contingency of institutional logics, which suggests that the prevalence of particular institutional logics within an organisation and the relationships between these logics vary over time.

Finally, this research aims to investigate the role of influential organisational actors, who act as 'representatives' of particular institutional orders, in promoting and defending specific organisational polices rather than others (Thornton *et al.* 2012). Investigating this enquiry is in line with ILP which is featured by its balanced view of the agential role of actors and absolute institutional demands. The next sections provide insights into the role of agency and actors according to ILP.

4.4 The Role of Actors, Agency and Institutional Entrepreneurship

4.4.1 Social Structure and Agency in the Institutional Logics Perspective

Thornton *et al.* (2012) address the historical debate in social sciences between the scholars who emphasise the constraints of social structure on action and those who focus on how individuals and organisations make change by creating, transforming and maintaining institutions through their actions. The later party tends to isolate an organisation from its social context and focus on analysing the rationality of actors' roles and decisions. By contrast, institutional theorists focus on the impact of actors' social environments on their behaviour, preferences and decisions. They suggest that organisational patterns of action are shaped by institutional structures not simply by instrumental considerations (Meyer and Rowan 1977, DiMaggio and Powell 1983). In this regard, neo-institutional theory proposes that actors' behaviours are determined by their need to be regarded legitimate within their institutional environment. Consequently, this theory was used to advocate and explain organisational homogeneity within organisational fields. In fact, neo-institutional theory contributes to organisational studies by highlighting the importance of social environments in which organisations are embedded and explaining the isomorphic observations among organisations influenced by similar institutional pressures. However, it has been criticised for its over-socialised view of action, over-emphasis on the passive behaviour of organisational and individual actors and the inability to explain their agentive behaviour (Oliver 1991, Hirsch and Lounsbury 1997).

In their theorisation, Friedland and Alford (1991) reject the methodological assumptions of rational choice theory. At the same time, they deny the structural deterministic view of neo-institutional theory. Instead, Friedland and Alford (1991) view individuals' behaviour as being 'nested' within the prevalent institutional settings which provide certain opportunities and constraints on their behaviour. According to Thornton *et al.* (2012, p. 6), the core assumption of the institutional logics perspective is that "the interests, identities, values, and assumptions of individuals and organisations are embedded within prevailing institutional logics". Given the availability of multiple institutional logics, each with its own sense of rationality, individuals have the ability to exert agency in choosing on which of those multiple logics they may depend in their actions (Friedland and Alford 1991). In other words, individual and organisational actors are partly autonomous since they are capable of conceptualising actions and acting upon alternative views of rationality. According to this view, the behaviour of those actors is institutionally enabled and constrained rather than institutionally determined.

Thornton *et al.* (2012, p. 78) conceptualise this view in a few words by saying that human behaviour is "situated, embedded and boundedly intentional behaviour". According to them, this assumption, which is known as 'embedded agency', distinguishes ILP from the rational choice model, which presumes individualistic interests, and from the macro-structural determinism, which emphasises the primacy of structure over action. Alternatively, ILP provides a balanced view of social structures and agency. This interplay between institutional structures and individual agency shapes organisational decisions, behaviours and outcomes (Thornton and Ocasio 2008).

4.4.2 Actors as 'Carriers' of Institutional Logics

The organisational decision is influenced by those actors who bring to the decision making process their own interpretation of rationality. Therefore, actors are seen as carriers of institutional logics (Friedland and Alford 1991, Thornton *et al.* 2012). Pache and Santos (2010) highlight the role of those actors, who play the role of 'internal representatives' of certain institutional logics, in promoting organisational policies consistent with the logics they represent. Similarly, Besharov and Smith (2014) argue that even though institutional logics influence actors' cognition and action, those actors influence and determine how logics are instantiated within organisations. ILP helps in this context in understanding "how actors' selections are conditioned by specific frames of reference that inform the sensemaking, the vocabulary of motivation and the identities that actors bring to situations" (Ezzamel *et al.* 2012, pp. 283-284).

ILP offers a set of social justifications upon which actors draw in order to support their practices (Friedland and Alford 1991). However, actors' practices can also both reinforce and challenge the logics considered appropriate within a given context. In this respect, Thornton and Ocasio (2008, p. 100) emphasise this mutual relationship between logics and actors, stating that "[i]nstitutional logics shape rational, mindful behaviour, and individual and organisational actors have some hand in shaping and changing institutional logics". This creates a form of institutional entrepreneurship, which is addressed in detail next section.

4.4.3 Institutional Entrepreneurship

While neo-institutional research focuses mainly on the constraints under which actors operate, studies on institutional entrepreneurship explore the opportunities that enable actors to exercise agency and initiate change in their institutional settings. The concept of institutional entrepreneurship was first introduced by DiMaggio (1988). He termed those actors who mobilise resources to initiate changes that result in transforming existing institutional structures or creating new ones by 'institutional entrepreneurs'. Thornton *et al.* (2005) define institutional entrepreneurs as "individual and organisational actors, who create opportunities for innovation and institutional and organisational change by exploiting cultural discontinuities" (p. 129). Thornton *et al.* (2012) clarify in this respect that institutional entrepreneurs take advantage of the incompatibilities, conflicts, and contradictions in institutional logics in order to further their interests.

Battilana *et al.* (2009) provide a more detailed definition of institutional entrepreneurs. They define institutional entrepreneurs "as change agents who, whether or not they initially intended to change their institutional environment, initiate, and actively participate in the implementation of changes that diverge from existing institutions" (p. 70). According to this definition, not all change agents are considered institutional entrepreneurs. Actors must fulfil two conditions to be regarded as institutional entrepreneurs. The first condition is that they should initiate a divergent change that breaks with the institutionalised template within a given institutional context. The second condition is to actively participate in promoting and implementing change, regardless of whether the divergent change is successfully implemented or not. Battilana *et al.* (2009)

suggest that institutional entrepreneurs can initiate their proposed change within the borders of an organisation and/or within a broader institutional context.

The concept of institutional entrepreneurship has been widely used by empirical studies in various fields including cultural studies (Lawrence and Phillips 2004), organisational studies (Tracey *et al.* 2011), environmental studies (Child *et al.* 2007), medicine (Sotarauta and Mustikkamäki 2015, Geilinger *et al.* 2017), technology and software (Garud *et al.* 2002, Munir and Phillips 2005), microfinance (Dorado 2013) and accounting firms (Greenwood and Suddaby 2006). Research drawn on institutional entrepreneurship shows that institutional entrepreneurs can be individuals or groups of individuals (Lawrence and Phillips 2004, Maguire *et al.* 2004) organisations or groups of organisations (Garud *et al.* 2002, Greenwood *et al.* 2002). Institutional entrepreneurship can also be initiated by either peripheral or central actors. For instance, a study by Greenwood and Suddaby (2006) describes the emergence of the multidisciplinary practices pioneered by elite accounting firms, while a study by Maguire *et al.* (2004) examines how peripheral institutional entrepreneurs leverage skills and develop strategies to create and legitimise new practices, in the context of HIV/AIDS community in Canada.

The process of institutional entrepreneurship implies developing new institutions that diverge from existing institutions (Battilana *et al.* 2009). This requires the development of certain strategies by institutional entrepreneurs to legitimise the proposed institutional change. Institutional entrepreneurship studies focus mainly on the discursive strategies used by institutional entrepreneurs to introduce and legitimise the new institutional arrangements. Such discursive strategies includes the use of framing, rhetoric, narratives and theorisation (e.g. Greenwood *et al.* 2002, Maguire *et al.* 2004). However, the non-discursive strategies such as utilising economic resources and social and political capital have received less attention (e.g. Garud *et al.* 2002, Misangyi *et al.* 2008).

In addition to the above empirical literature that uses the concept of institutional entrepreneurship, there have been some attempts to provide a theorisation of the process and conditions of institutional entrepreneurship. In this context, based on a review of prior theoretical and empirical studies, Battilana et al. (2009) suggest a model for of the process of institutional entrepreneurship (see Figure 3.1). In this model, they propose two key enabling conditions for institutional entrepreneurship. The first is the field characteristics, which include technological disruption, social upheaval, competitive discontinuity and the degree of heterogeneity (the presence of multiple institutional orders) and institutionalisation. The second enabling condition for institutional entrepreneurship is actors' social position. They indicate that the social position of actors, whether individuals or organisations, is important in the process of institutional entrepreneurship since it plays a role in getting access to the resources needed in order to actively engage in that process. Moreover, in their model, Battilana *et al.* (2009) identify three sets of activities that institutional entrepreneurs should be involved in to implement change. These activities are (1) developing and sharing a vision of the need for change; (2) mobilising people to gain others' support and acceptance of new practices; and (3) motivating others to achieve and sustain the vision, or in other words, institutionalising change.

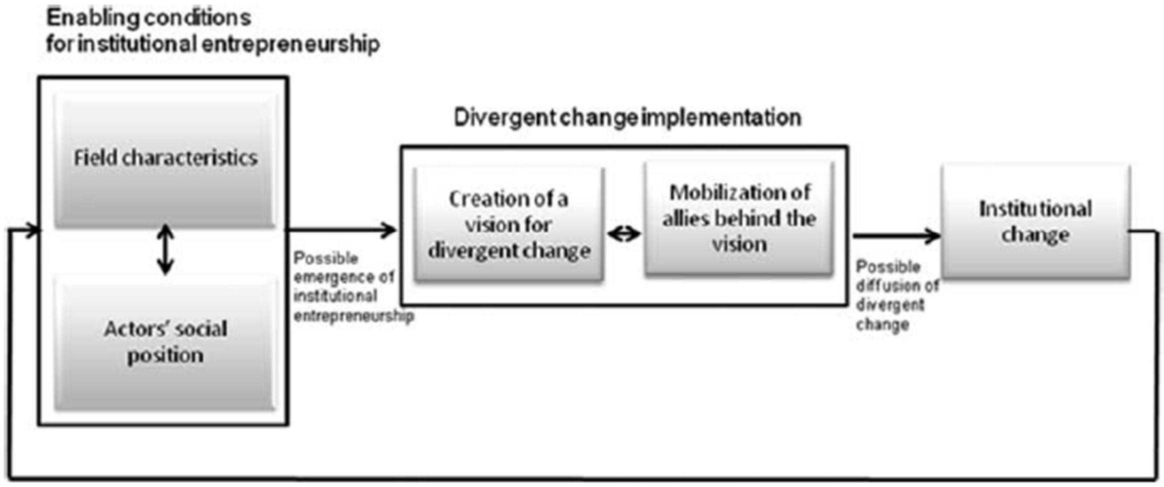


Figure 4-1: Model of the process of institutional entrepreneurship (Battilana *et al.*, 2009)

However, Battilana *et al.* (2009) warn institutional entrepreneurs, who initiate change that breaks with existing institutions, that they might be challenged and face resistance arising from other actors who are institutionally embedded in the current institutional settings. Therefore, they suggest that any change that departs from the existing institutional arrangements should be less radical to alleviate resistance and fear reaction. Battilana *et al.* (2009) indicate that institutional entrepreneurs use some strategies in their endeavour to implement and promote their vision. This includes allies and resources mobilisation[1], building a sustainable coalition and reducing the inherent resistance among opponents by emphasising the failure of existing institutional settings and demonstrating the advantages of the new proposed vision. In so doing, institutional entrepreneurs usually manipulate cultural symbols and practices through the use of vocabularies and storytelling in addition to rhetorical and discursive strategies (Thornton and Ocasio, 2008, Battilana *et al.*, 2009, Thornton *et al.*, 2012).

[1] Battilana *et al.* (2009) state the mobilising resources involve financial resources and resources related to social position such as formal authority and social capital.

Research on institutional entrepreneurship has found in ILP a good framework for explaining how this process takes place. Identifying society as a composition of multiple institutional logics helps in providing a tool for understanding the motivations, opportunities and enabling conditions of institutional entrepreneurship. In this context, Thornton *et al.* (2012) suggest that the multiple embeddedness of actors in different institutional orders triggers institutional entrepreneurship. This is because the multiplicity of institutional logics increases social actors' awareness of the presence of different alternatives which provide an opportunity for agency and, in turn, for institutional entrepreneurship (Thornton *et al.* 2005, Greenwood and Suddaby 2006).

Institutional entrepreneurs use structural overlap to instigate change by moving from one societal sector to another. In implementing change, those entrepreneurs contrast, combine or switch categories from different logics available in a particular field (Ezzamel *et al.* 2012). Thornton *et al.* (2005) suggest that institutional entrepreneurs are aware of the 'modularity' of the cultural elements existing within institutional orders and the way they can decompose and recombine these elements in hybrid ways. Thornton *et al.* (2012) provide further theoretical and empirical illustration on this process. They utilise their ideal types of institutional orders to analyse three case studies in which institutional entrepreneurs, who were actively exposed to different institutional logics, not only blended but also segregated the elemental categories of different institutional orders. They argue that the active exposure of those institutional entrepreneurs to different institutional orders gives them the capacity to realise and innovatively utilise the elemental categories of different institutional orders to further their interests.

4.4.4 Islamic Financial Reporting Standardisation: Agency and Institutional Entrepreneurship

Understanding the initiatives made by AAOIFI and MASB for developing Islamic accounting standards requires understanding not only the institutional logics underpinning these projects but also the agential role of actors within these projects. This study adopts the notion that actors are representatives of the institutional logics in which they are embedded; therefore, actors are expected to play a critical role in giving voice to particular institutional logics and consequently giving preference to specific organisational policies that are consistent with the logics they represent (Pache and Santos 2010, Thornton *et al.* 2012). This research aims to investigate the historical role of actors in prioritising specific institutional demands and accordingly shaping the organisational policies of the two case-study projects in a certain way. In addition, given the policy changes that Islamic accounting standardisation projects have experienced historically (especially in the case of MASB), this research aims to trace the role of appointing new actors who might have different institutional tendencies in triggering such changes. Moreover, this study aims to investigate the potential role of actors, who are embedded in institutional logics conflicting with the Islamic accounting standardisation projects' objectives, in hindering and imposing resistance over these objectives.

From another perspective, it can be argued that actors involved in developing Islamic accounting standards are deeply exposed to various institutional logics prevalent in different societal sectors to which they belong. For example, those actors are part of the accountancy profession. They are also supposed to have a good background in Shariah and Islamic finance principles. Furthermore, they are embedded in particular values and norms prevalent in their own societies and they are subject to the influence of the market, economic, governance and political systems of their countries. This exposure to different institutional logics gives them the capacity to realise and utilise different elements of those different institutional logics as stated by Thornton *et al.* (2012). Thornton *et al.* (2012) clarify that the multiple embeddedness of actors in different institutional orders increases their awareness of the presence of different alternatives and triggers institutional entrepreneurship. Given this argument, this study aims to investigate if those actors have behaved as institutional entrepreneurs by taking advantage of their awareness and involvement in different institutional settings. This study also utilises Thornton *et al.*'s (2012) argument on how institutional entrepreneurs employ and rearrange the elemental categories of institutional logics. This is in order to examine the attempts of actors in the Islamic accounting standardisation projects to establish an appropriate composition of different institutional logics' elements in order to develop a framework for Islamic financial reporting.

Furthermore, in order to gain more understanding of the process of institutional entrepreneurship in the context of Islamic accounting standardisation projects, this thesis aims to provide further analysis based on Battilana *et al.*'s (2009) model of institutional entrepreneurship. This is by making reflections that aim to explain the conditions of institutional entrepreneurship in that context and the strategies followed by actors to implement their entrepreneurial vision in developing a framework for Islamic accounting standardisation. By reflecting this model on the events experienced by AAOIFI and MASB and the performance of their actors historically, this study tries to provide additional accounts into these events. These accounts can further explain the contextual differences between these two projects that have resulted in the failure of the MASB in achieving its vision in developing separate Islamic accounting standards while AAOIFI is still pursuing that vision.

It is worthy to mention here that even in the case that the MASB project is to be considered as failed institutional entrepreneurship, Battilana *et al.* (2009) argue that actors do not have to be successful in implementing change to be considered institutional entrepreneurs. They add that much can be learned by comparing successful institutional entrepreneurs with those unsuccessful ones. They indicate that past studies focus almost exclusively on the former cases which can be considered a strong bias in understanding institutional entrepreneurship. Hence, by studying the MASB project as a case of institutional entrepreneurship failure and comparing it to AAOIFI as a successful institutional entrepreneurship case, this thesis makes an important contribution to the institutional entrepreneurship literature.

4.5 Summary

This chapter presented the institutional logics perspective (ILP) as a theoretical and analytical framework of this thesis. It provided an overview of the ILP concepts, principles and assumptions and explained why this framework is relevant to the objectives of this study and how it has been applied. Moreover, this chapter presented theoretical remarks on the concept of institutional entrepreneurship as a suplementary theoretical framework for this thesis. The next chapter presents the research design used to operationalise this theoretical framework in the organisational and institutional analysis provided in the finding and discussion chapters.

CHAPTER 5: Methodology and Research Methods

5.1 Introduction

This chapter aims to present the methodological approach adopted in this study and to outline the research methods employed to achieve its objectives. It starts with a presentation that discusses the philosophical and methodological approach of this thesis and justifies the reasons behind adopting that approach in contrast to other alternative approaches. The chapter moves then to present details about the research design and the process of data collection and analysis. Finally, a brief discussion about the issues of validity and reliability is provided before concluding the chapter.

5.2 Research Paradigms and Methodological Choices

Any piece of research is approached through implicit or explicit assumptions (paradigm) about the nature of the world and the manner in which it can be explored. These assumptions have direct implications on research design and implementation (Creswell 2009). Burrell and Morgan (1979) state that "to be located in a particular paradigm is to view the world in a particular way" (p. 24). In that sense, a research paradigm is a framework that governs how to perceive, think and act, and eventually the position to be taken concerning the research subject. According to Burrell and Morgan (1979), a research paradigm consists of three levels: the philosophical level or the basic beliefs regarding the world we live in; the social level which provides a guideline about how researchers should conduct their research; and the technical level, which identifies the methods and techniques that can be adopted when conducting research. After considering the philosophical assumptions of the three methodological paradigms commonly followed by social researchers (positivist, interpretive, and critical paradigm), the researcher decided to take the stance of the interpretive research paradigm in this study.

The positivist paradigm presumes that reality is external and completely separate from human actors. Therefore, phenomena can be observed, data (facts) can be gathered and variables can be tested objectively for the purpose of finding causal relationships, testing hypotheses and making law-like generalisations (Hallebone and Priest 2009, Saunders *et al.* 2012). Remenyi (1998) argues that the positivist researcher is "independent of and neither affects nor is affected by the subject of the research" (p. 33). Thus, knowledge produced by positivist research is considered as being objective since such research is essentially concerned with the reality which is independent of social actors and their interactions (Collis and Hussey 2013). However, the main purpose of this study is not to test hypotheses to identify causal relationships between variables but rather to produce complex insights into the issue of developing Islamic accounting standards. Therefore, the positivist paradigm which, according to Saunders *et al.* (2012), tries to reduce phenomena to simplest elements is deemed inappropriate for this particular thesis.

Using the positivist paradigm, which stems from natural sciences, in social sciences is criticised. This is because it "is not regarded as an approach that will lead to interesting and profound insights into the complex problems" (Remenyi 1998, p. 33). Saunders et.al (2009) argue in this context that rich insights into the complex world are lost when such complexity is reduced completely to a series of law-like generalisations. This is inconsistent with the objective of this study, which is to provide rich contextual understanding of the Islamic accounting standardisation projects. Thus, using the reductionist approach of the positivist research paradigm, focusing on finding causal relationships between variables through statistical analysis, is insufficient to address the complexity of the institutional expectations and contextual circumstances associated with those projects. The highly-structured approach associated with the positivist paradigm could bound and constrain the research ability to provide full understanding of the issue of interest in this study by disregarding potential interesting insights (Collis and Hussey 2013). In order to gain such insights, the researcher decided that it was necessary to be a 'subjective insider' rather than, as the positivist approach suggests, an 'objective outsider' (Hallebone and Priest 2009, pp. 28-29).

Given the shortcomings of the positivist paradigm in addressing the nature of inquiry in this research, it can be argued that only a holistic research paradigm, such as the interpretive paradigm, can produce the intended deep knowledge about the phenomenon under research. Interpretivists argue that the social world is too complex; hence, it is impossible to understand this world only by finding causal relationships between some variables and testing these relationships empirically (Hallebone and Priest 2009). Instead, the interpretive paradigm assumes that each social phenomenon is unique in its nature and is determined by various contexts, circumstances, situations, and actions of social actors; consequently, the overall approach to research should be comprehensive enough to allow “much more complicated situations to be examined” (Remenyi 1998, p. 36).

The interpretive paradigm assumes that reality is socially constructed. That is through the interactions of social actors who attach certain meanings to social phenomena. Regulations, transactions, events and situations do not possess meaning themselves; meaning is conferred on them by and through human actors (Berg 2009). Therefore, reality is perceived as being subjective and the proper knowledge about social phenomena is generated only through understanding and interpreting the meanings that social actors attach to these phenomena (Berg 2009, Hallebone and Priest 2009, Saunders *et al.* 2012). This means that understanding social reality requires interpreting the ideas, intentions and inner perceptions of social actors. It is argued here that the purpose of the interpretive research is to understand and explain the world from the viewpoint of social actors involved in the social phenomena (Burrell and Morgan 1979, Bryman and Bell 2011).

This study aims to understand the role of different institutional logics in shaping Islamic accounting standardisation projects based on the perception, knowledge and experience of those actors who have been involved directly or indirectly in these projects. Those actors perceive the rationality behind following certain organisational policies differently based on the institutional logics that they represent (Thornton *et al.* 2012). This implies the subjective nature of reality as different actors may reflect different perceptions of rationality.

Moreover, this thesis adopts the viewpoint that accounting is "a social and institutional practice, one that is intrinsic to, and constitutive of social relations" (Hopwood and Miller 1994, p. 1). The implicit assumption of this study is that accounting is socially constructed, since it is a function of the changing needs in a society which are, in turn, a function of economic, cultural, social, religious and other institutional factors. This is consistent with the assumptions of the interpretive paradigm, which believes in the subjective nature of reality and assumes that reality is socially constructed (Burrell and Morgan 1979, Saunders *et al.* 2012).

As an example of the social construction of IFIs activities which impacts IFIs accounting practices and standards, it is argued in Section (2.4.2) that some IFIs contracts and transactions may look alike to an external observer if compared to those undertaken by a conventional banking. However, this perception of similarity may not hold for other people who are involved directly in the industry. This has its implications on IFIs accounting as religious demands make it necessary to address such perceived differences.

Consequently, it is necessary here that the researcher understands how actors in the case-study projects perceive such issues and how their perception shapes their decision on how to deal with IFIs accounting needs.

Moving to the critical paradigm assumptions, this paradigm usually attempts to explore a particular phenomenon and then to develop theories that can address real-world problems such as structured inequalities, labour exploitation, unequally distributed power and economic benefits, capitalist class domination, etc. (Burrell and Morgan 1979, Hallebone and Priest 2009). By doing so, critical researchers intend to influence the cognition and consciousness of the social actors involved in the social process through emancipation and “pursuit of alternative forms of life" (Burrell and Morgan 1979, p. 297).

Critical accounting research has political objectives and aims to make social critiques and promote change (Roslender 2006). It presumes that existing social conditions obstruct enlightenment, justice and freedom. Hence, rather than merely providing subjective interpretations, as interpretivists do, it challenges those interpretations that may be taken for granted (Alvesson and Deetz 2000, Myers 2013). In other words, critical researchers shall have normative beliefs that motivate and guide their research.

This study has both exploratory and explanatory dimensions. It aims to provide deep understanding of the Islamic accounting standardisation projects, the institutional and contextual circumstances surrounding them and shaping their policies, and the reasons behind the changes that such projects might have experienced historically. However, this study does not aim to provide normative solutions or discussions. Critical philosophy views the world under constant change. Hence, it suggests that critical researchers should not only seek interpretation but also influence and inform the cognition and consciousness of social actors involved in that process of change to achieve emancipation (Burrell and Morgan 1979, Hallebone and Priest 2009). Although this research does entail some features of critical thinking, it cannot be described as critical research since it does not claim to have the emancipatory view that the critical research approach adopts. It is more concerned with presenting reality 'as it is' by getting engaged in the social reality of the phenomenon under research.

5.3 Research Design: Case-study Approach

This research adopts the case-study approach as part of its design. Yin (1984) defines a case study as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used” (p. 23). The notion that accounting represents a set of measurement techniques which work in isolation from their context has been widely challenged over the last few decades. Accounting is viewed as a more “complex web of economic, political and accidental co-occurrences that mirror neither technical rationality, nor necessary progress" (Arrington and Francis 1989, p. 2). Such a view has inspired this study to follow a holistic approach in research. According to Berry and Otley (2004), the strength of the case-study approach in accounting research lies in the complete and detailed understanding of accounting practices in their organisational and societal context. Given the aim of this study in understanding the projects for developing Islamic financial reporting standards within their organisational and institutional context, the case-study approach is deemed appropriate for this study. The next sections provide further details about the rationality of using the case-study approach as well as the rationality of case-study selection.

5.3.1 Rationality of Using Case-study Approach

In addition to the above argument, this research adopts the case-study approach for the following rationalities. First, the case-study approach is suitable for the nature of the research questions posed in this study. This is because, as Yin (2014) states, the case-study approach is appropriate for conducting complex, contextualised research when a researcher is seeking answers to 'how' and 'why' research questions.

Second, according to the definition provided above by Yin (1984), the case-study approach has the advantage of investigating the phenomena in their natural setting. This improves the researcher's ability to understand and identify the contextual and environmental elements that influence the events of interest to the researcher. Consequently, the complexities of a given situation can be tackled (Gummesson 2000). Given this advantage, the case-study approach has been utilised as Islamic accounting standardisation projects cannot be studied in isolation from their surrounding context, including social, religious and other institutional demands such as the prevailing regulatory, banking, and conventional accounting practices. These factors, in their relation to each other and to IFIs financial reporting, are interrelated; thus, the "boundaries between phenomenon and context are not clearly evident" (Yin 1984, p. 23).

The third rationality of using the case-study approach is that it gives the opportunity for making analytical generalisation (Yin 2014). Case-study research usually involves one case or at most a small number of cases. These cases are not selected randomly. Hence, the possibility of generalising research results to the whole population (statistical generalisation) is limited. The inability of making statistical generalisation is considered as a limitation of the case-study approach. However, making statistical generalisation is not the purpose of this study; rather, this study aims to make analytical generalisation, which makes it consistent with the case-study approach. Yin (2014) clarifies that a case study does not represent a sample and the aim of researching a case study is to expand and generalise results to theoretical propositions (analytical generalisation) rather than enumerate frequencies (statistical generalisation). He sees that as analogous to the way scientists generalise experimental results to a theory. Yet, he argues that analytical generalisation is not necessarily an inductive approach for the purpose of generating a theory.

5.3.2 Rationality for Case-study Selection

Even though using a single case study enhances a researcher's ability to make focused observation, multiple case studies allow for wider theoretical and analytical generalisation and provide better understanding of the phenomenon being investigated (Yin 2014). Unlike when investigating a single case study, investigating multiple case studies enables a researcher to analyse data within as well as across different cases. S/he can then provide the literature with valuable insights into the reason behind and the influences of such similarities and differences (Stake 1995).

In order to achieve its objectives in providing comprehensive understanding of Islamic financial reporting standardisation efforts, investigating the contextual and institutional factors that influence these efforts and identifying the challenges that have faced them historically, this research seeks to examine two Islamic financial reporting standardisation projects as case studies. These two projects are AAOIFI and the MASB's Islamic financial reporting project.

In the beginning, when the case-study approach was identified as an appropriate approach for conducting this study, AAOIFI was chosen as the most suitable and appealing case for investigation. This is because AAOIFI is the first and most famous attempt for developing a comprehensive framework for Islamic accounting standards. It experienced a considerable success in terms of the number of its standards, growing membership and acceptance of its standards in some Islamic countries. It has been recognised that the experience of two and a half decades in this domain provides a great opportunity for providing historical accounts on the performance of that organisation and its determinants. Moreover, similar to the IASB, AAOIFI has been established as an international standard setting body that aims to develop its standards for IFIs globally. This implies that investigating the case of AAOIFI embodies an investigation of the prevailing institutional determinants that shape such efforts internationally regardless of the local demands of certain countries which could be specific to those countries and do not apply in other contexts.

However, looking from a different angle, it was also recognised that some advantages of selecting AAOIFI as a single case study can be considered as limitations at the same time, especially when it comes to disregarding the local environment of countries, which might play an important role in shaping such projects. This in turn would have an adverse impact on the ability to make analytical generalisation as a result of ignoring some important factors that might influence the phenomena under research. Accordingly, a decision was made to incorporate an additional national case in this research. The MASB's Islamic financial reporting project has been chosen alongside AAOIFI for the following reasons:

- Malaysia has been recognised as one of the most important and active centres of Islamic finance in South East Asia and the world[1]. This centre has been historically in a competitive situation with the Middle East, where AAOIFI is based[2]. This competitive situation was extended to accounting for IFIs at certain stages when the MASB's Executive Director stated that its Islamic accounting

[1] According to the Bank Negara Malaysia, Malaysia's Islamic banking assets reached USD 65.6 billion in 2016 with an average growth rate of 18-20% annually.
[2] Even though AAOIFI is based in the Middle East, it claims that it does not belong to a specific country or region and it sets standards for IFIs internationally. However, as it is presented later, some interviewees expressed their viewpoint that the influence of the Middle Eastern countries on AAOIFI cannot be ignored.

standards could become applicable to other countries in South East Asia[1]. These facts make the MASB's project an interesting case for investigation alongside the case of AAOIFI.

- Opposite to the other national projects for developing standards for IFIs which take the form of 'product-based' standardisation projects (e.g. the Indonesian case), the MASB aimed to establish a comprehensive accounting standardisation project. This makes it similar to the case of AAOIFI, which enhances the ability of making more valid comparisons.
- The MASB's project has experienced dramatic changes in its strategy for dealing with Islamic financial reporting over time (see details in Chapter Six). These strategy shifts make the Malaysian case an interesting case for the purpose of investigating the contextual, institutional and organisational circumstances that have triggered these changes over time. This is in comparison with the circumstances surrounding the other case of AAOIFI, which has showed stability to a great extent over time.
- It can be argued that in choosing and studying these two particular cases, this thesis is able to make comparisons between two different extremes. The first (MASB) has ended up with adopting the viewpoint that there is no need for developing separate accounting standards for IFIs and that IFIs accounting needs can be accommodated within the IFRS framework. The other extreme (AAOIFI) still insists in its strategy on developing separate standards for IFIs. This is in addition to the notion of benefiting from comparing national with international projects as stated above. This helps this study achieve its aim in capturing as many insights as possible about the phenomena under research. Moreover, it can be

[1] See press release dated 14 November 2000 (MASB-D10).

presumed here that the results of investigating these two cases may also apply, in a way or another, to other attempts for developing Islamic based standards, regulations and guidelines which fall in between these two extremes.

It can be implied from the above points that selecting these two case studies does not aim to achieve a 'literal' or direct replication but rather a 'theoretical' replication since this study does not predict similar results but rather contrasting results for anticipated reasons (Yin 2014).

5.4 Data Collection

The case-study approach is characterised by its holistic mode of engagement in which a researcher can use multiple sources of data including questionnaires, experiments, document analysis, interviews and observation (Yin 2014). This study utilises two main data collection methods. These methods are document analysis and semi-structured interviews. In addition, there is a limited use of other secondary data including materials available on YouTube (conferences and media interviews) and official governmental and organisational websites.

Phase	**Sources of Data**
❖ Pilot Study	➢ 3 interviews ➢ Exploratory document analysis
❖ Main Study	➢ 30 Interviews ➢ Document analysis ➢ Other secondary sources

Table 5-1: Summary of data collection process

5.4.1 Pilot Study

Before engaging in the data collection process, a pilot study was conducted. This pilot study involved interviewing one executive member from each case study. In addition, in order to acquire more independent insights into the projects under research, an additional interview was conducted with an academic interviewee who is knowledgeable in the organisational context of both cases and has a past experience in preparing IFIs financial reports. These three interviews were conducted using telephone and Skype. Moreover, the pilot study also involved exploratory, preliminary document analysis of the AAOIFI and MASB publications of standards and guidelines in addition to reviewing the materials that were available in the official websites of both organisations. Website materials included general information about the standard setting body, their organisational structure, organisational objectives, vision and mission, the due process of issuing and approving standards, news and press releases.

The aim of conducting this pilot study was to be more familiarised with the research subject as well as to acquire initial insights into the institutional environment and organisational context of each case study. In this context, information available in the case studies' websites helped provide a valuable source of data that enabled the researcher to acquire a historical overview of the projects; especially in the case of the MASB where the press releases were available since its establishment. In addition, conducting the pilot study aimed to help design and refine the interview guide and data collection plan (Saunders *et al.* 2012). The pilot study also helped in identifying the potential interviewees to participate in this study and the interviewee categories needed to achieve its objectives.

From another perspective, conducting the pilot study helped in making reflection on the research objectives at that time. This, in turn, led in further refining to the research questions and theoretical framework. For instance, this research aimed firstly to investigate the impact of two institutional determinants on developing Islamic accounting standards which are religion and profession. Conducting the pilot study was one of the main factors that encouraged this study to extend its focus to include other institutional logics such as market, state and community, as new themes and insights emerged during the pilot study. In addition, conducting the pilot study provided additional motivation to investigate the role of actors in each case study as the pilot study interviewees emphasised on the role of those actors in guiding the organisational policies of both projects in certain directions.

5.4.2 Semi-Structured Interviews

Bryman and Bell (2011) argue that a researcher should explore people's interpretations in order to understand social phenomena. This view informed this study to seek the perceptions of identified actors both within and outside the selected case studies in order to generate good understanding on the research topic. In doing so, this study employed semi-structured interviewing as the main source of knowledge. In semi-structured interviews, an interviewer prepares an interview guide which comprises a pre-established set of inquiries and questions that work as a road map to direct the interviews[1]. However, a researcher has a flexibility to ask additional questions that may arise during interviews and contribute in gaining better understanding on the explored issues. This implies that semi-structured interviews allow interview questions to vary according to the position of interviewees and their experience (Bryman and Bell 2011, Saunders *et al.* 2012)

Interviewing, semi-structured type in particular, is considered an appropriate data collection method that enables qualitative researchers to explore complex phenomena and gain insights into organisational events and social realities. It is also an essential source of

[1] Interview guide is presented in Appendix C.

data in case-study research since case studies are mostly about human affairs that need to be interpreted through the eyes of informants (Yin 2014). On the other hand, interviewing may have the shortcoming of researcher bias, inaccurate articulation and participants seeking to mislead the researcher (Bryman and Bell 2011, Saunders *et al.* 2012, Yin 2014). These issues represent potential threats to the research findings' validity and reliability[1]. Yet, such limitations can be overcome by supporting interviews with other sources of data (Yin 2014).

5.4.2.1 Interviewee Selection

Interviews were conducted with 30 participants during the main stage of data collection[2]. The purposive or 'judgmental' sampling technique was mainly used for selecting those interviewees. This sampling method enables a researcher to use their own judgment in order to select certain individuals who are able to provide valuable insights into the phenomena under research (Saunders *et al.* 2012). Several approaches were followed to identify and contact suitable interviewees. The first approach was identifying ideal interviewees based on the findings of the pilot study. Second, the researcher used his personal contacts to find and contact relevant interviewees. Third, some interviewees were asked to identify other potential interviewees (snowballing). The first approach was mostly used, given the importance of interviewing specific actors. The second approach was the easiest approach and sometimes the personal network was used to contact participants who were identified using the first approach. Unexpectedly, the third approach was effective in very few occasions as many recommended actors had already either been contacted or interviewed.

The number of targeted interviewees was not pre-determined. Rather, the approach followed was to keep interviewing additional actors until strong themes

[1] Issues in validity and reliability are addressed in Section (5.6)
[2] See Appendix B for the full list of interviewees and their categorisation.

emerged from the data and coalescing opinions among interviewees were reached (Saunders *et al.* 2012). Three criteria were used in order to identify relevant interviewees and interviewee categories: position, experience and knowledge. Accordingly, the following interviewee categories were targeted. The first was executive members as well as board and committee members who were/have been involved in each of the standard-setting bodies (the case studies) and participated in setting organisational policies and/or the process of developing Islamic accounting standards. This category was the main target of interviewee selection, given its importance in gaining clear and in-depth insights into the organisational context, in addition to understanding the institutional logics that have shaped the organisational strategies and standard setting process in each project historically. The second category was Shariah scholars and advisors, especially those involved currently or previously in the Shariah Advisory Council of Bank Negara Malaysia. Those Sharia advisors played an important role in the Malaysian case through giving the approval and, as a consequence, the religious and legal legitimacy to the application of conventional accounting standards to IFIs financial reporting in 2009[1]. Shariah scholars were also generally approached in order to explore their opinion on religion-based demands of IFIs financial reporting (religion logic). Moreover, this study approached other categories of participants in an attempt to gain insights into other institutional demands such as regulators (state logic), bankers (market logic) and practitioners who had experience in preparing IFIs financial reports (profession & market logics). Finally, this study sought to interview academics who had valuable knowledge, and sometimes professional experience, in the field of Islamic economics, finance and accounting. Interviewing those 'outsider', knowledgeable participants aimed to gain objective, unbiased opinions about the issues under investigation.

[1] See Section (6.3.2)

It is necessary to mention here that, as indicated in Appendix (B), many individuals that were chosen and interviewed in this research belonged to more than one category of these categories mentioned above. For instance, Interviewee (I-3) is an academic, Shariah scholar and board/committee member in both AAOIFI and MASB at the same time. Interviewing such participants helped in getting different insights from different perspectives from the same person, which led to interesting findings.

5.4.2.2 Interview Process

Securing and conducting interviews was not an easy task. It was a long and tedious process but it was an interesting experience at the same time. Prior to contacting potential interviewees, ethical approval from the University of Essex was obtained to carry out this stage of research. Interviewing requests were mostly sent via email. Emails sent to interviewees included a brief introduction about the research project, its objectives and the importance of their participation for this research project (see Appendix A). Interviewees were given the assurance of confidentiality of their participation. They were also informed that their participation would be audio-recorded, subject to their permission. The researcher received some replies to his initial email informing him about the possibility of interviewing or asking for additional information about the research project and the intended interview questions. However, in many cases, follow up emails/phone calls were needed.

Interviews in relation to the Malaysian case were conducted in Kuala Lumpur, Malaysia. On the other hand, due to visa restrictions in addition to the fact that participants involved in AAOIFI were not all based in Bahrain but in various countries, interviews with those participants were conducted in Kuala Lumpur, London or through Skype/Phone. It is worth mentioning here that several interviewees were asked questions about both case studies of AAOIFI and MASB, given the familiarity of those interviewees with both contexts, especially those interviewees who were/have been involved in both projects such as interviewees (I-1), (I-2) and (I-3).

Interview questions and agenda were summarised and emailed to the interviewees prior to the interview day. Providing interviewees with interview agenda enables them to prepare answers and provide relevant information. This, in turn, increases the validity of the information provided (Saunders *et al.* 2012). Before starting the interview questions, confidentiality was reassured and participants were given the chance to ask questions about interview procedures and the way in which their interviews would be used in the research project.

During interviews, although the researcher tried to follow the sequence of the interview guide, interviews were sometimes governed by the flow of interviewee thoughts. Consistently with semi-structured interviewing requirements, follow up questions were asked whenever there was a need for more explanation or when new interesting themes or facts emerged and required more elaboration. Occasionally, the researcher needed to interrupt interviewees to ensure that the interview session remained on track.

In conducting interviews, the researcher was concerned about two issues. The first is asking sensitive questions, especially when interviewing actors who hold sensitive position in their organisations. The researcher tried to overcome this issue by leaving sensitive questions to the end of the interviews in an attempt to make interviewees more comfortable and increase their confidence in the researcher after a long friendly discussion. The second issue of concern was ‘reflexivity’. This is when the researcher biases interviewees’ responses and accordingly they state what they believe the researcher wants to hear (Bryman and Bell 2011, Cassell 2015). Nevertheless, it was observed that most interviewees had strong opinions and sometimes showed strong disagreement with the researcher's statements. This could be attributed to the fact that most interviewees occupied positions that required them to be clear and strong-minded.

All the interviews were audio-recorded, except for two interviews in which the interviewees did not give permission for recording even though confidentiality was assured. However, they did not have a problem in making notes. Recording the interviews helped the researcher in ensuring data accuracy especially when direct quotes were used. It also increased his focus and enabled him to ask follow-up questions as his concentration was not disturbed by taking notes.

In total, interviews were conducted with thirty participants. Follow up interviews were conducted with five of them. In these follow up interviews, the interviewees were either asked about new emergent issues or asked to provide further elaboration and clarification on some issues which were discussed during the main interviews. All the interviews were administrated on a one to one basis, except for one interview which involved two participants upon their request. The interviews varied in length between the longest one which lasted for 146 minutes (divided into two sessions) and the shortest one which lasted only 23 minutes as the interviewee had to apologise to attend an urgent meeting. The average interviewing time per participant was 68 minutes (including the time of the follow up interviews).

The interviews were conducted in English or Arabic depending on the common language between the interviewer and interviewee. They were also transcribed in their original languages. The researcher was keen not to translate Arabic transcripts into English as he recognised that valuable meanings can be lost in translation, which could affect the accuracy of the data collected. However, some important statements were translated in order to be included as direct quotations. Special care was taken in translating these pieces of data in order to find the right wording. In addition, some interviews (including those conducted in English) involved using Arabic terms. In such cases, these terms were left in Arabic, but analysed using their English meaning whenever it was possible[1].

5.4.3 Documentary Analysis

Documents are an important source of information about organisations. According to Bryman and Bell (2011) and Yin (2014), documentary evidence can serve many purposes in case-study research. Documents can be used to build up a profile of an organisation and gain insights into the strategies, actions and decisions taken by its management. Documents are also helpful in identifying important actors and events associated with a particular phenomenon. Moreover, documents can be used effectively to corroborate and support evidence from other sources.

Documentary evidence used in this research comprises the following documents issued by AAOIFI & MASB:

- The conceptual framework document of AAOIFI
- AAOIFI accounting standards in addition to selected governance standards which involve reporting requirements (e.g. Governance Standards No. 7: 'Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions')
- The MASB's Statement of Principles SoPi-1: 'Financial Reporting from an Islamic Perspective'.
- MASB's Islamic financial reporting guidelines, technical release and discussion papers
- Financial Reporting Act 1997 (Malaysia)
- MASB's Press releases & AAOIFI's news and announcements[2]

---

[1] For example, the term 'Non-*Halal*' transactions which means prohibited transactions.
[2] These materials are available on the official websites of AAOIFI and MASB.

- AAOIFI Secretary General's and MASB Chairman's statements
- Organisational profile information such as the organisational objectives, vision and mission of AAOIFI and MASB.
- Contextual and historical details that are available on the MASB website under the name of 'Financial Reporting from an Islamic Perspective'[1] and in the introduction of the standard book of AAOIFI.

Some of these documents were given codes in order to refer to them easily in the analysis and discussion chapters (see Appendix D for a full list of documents and their codes)

Documents served in this study in several ways. They were firstly used in the pilot study for field familiarising and contextual exploration. In addition, some of the above documents were helpful in identifying the key events and actors in each case study. The documents were also a primary source used in preparing for the interview questions. Most importantly, they were used alongside the interview data in producing research findings. They provided another source of data for comparison and ensured that interviews were analysed in the right context.

5.4.4 Other Secondary Data

In addition to the aforementioned sources of data, this study utilised other secondary sources. These included information available in governmental websites and some materials available on YouTube, such as AAOIFI annual conferences and media interview with AAOIFI's Secretary General in 2016. Secondary sources also included academic publications which were helpful for 'telling the story' behind the establishment of Islamic financial reporting standardisation projects (e.g. Karim 1990, Karim 1995, Karim 2001, Nasir and Zainol 2007).

[1] See http://masb.org.my/pages.php?id=28

5.5 Data Analysis

Data Analysis in qualitative studies is an ongoing process which starts simultaneously with the data collection process (Bryman and Bell 2011). In this study, immediately after each interview, the researcher wrote a brief summary which was contrasted with the relevant documents and previous interviews. This allowed the researcher to produce preliminary analysis and identify emerging themes. Moreover, the process of early reflections and interpretations gave the researcher the chance to develop ideas for further inquiry and to seek clarifications on certain points in the following interviews.

Once all the interviews were conducted and transcribed, the researcher started thinking about suitable analytical strategies to guide the data analysis process. Yin (2014) suggests four analytical strategies: relying on theoretical proposition; working on data from the 'ground up'; developing a case description; and examining plausible rival explanations. In addition, he suggests five analytical techniques which can be used within those analytical strategies: pattern matching, explanation building, time-series analysis, logic models, and cross-case synthesis.

Consistent with the nature of this study, its theoretical framework and research questions, a combination of analytical strategies were used. First, the researcher started with 'playing with data' (Yin 2014). This was by organising data chronologically and according to the events and sources in order to identify important concepts, patterns, events and actors. The researcher moved then to develop a case description (Chapter Six) in which he presented a historical narrative on each case study since he establishment until the date of conducting this study, with a particular focus on the most critical events in these projects' life.

The following stage involved a thematic analysis of the data. In this stage, the data was analysed according to the pre-determined themes that were part of the interview design and were derived from the theoretical propositions (e.g. religion logic, profession logic, market logic, community logic, state logic, competing logic, historical contingency of logics, the role of certain actors, actors embeddedness, actors entrepreneurship, etc.). All the data was analysed sentence-by-sentence and placed under their relevant themes and sub-themes. The NVivo computer software was used at this stage, which helped in keeping the data organised under their themes. In addition, the researcher worked simultaneously on the data from the 'ground up' as well at this stage. This was by keeping his eyes open to any emerging themes that were not covered by the theoretically informed themes[1]. In the final stage of data analysis, the researcher established links between different narratives, events, themes, and theoretical propositions in order to develop theoretically informed insights that answer the research questions and achieve the research objectives.

Alongside these analytical strategies, the researcher made use of some analytical techniques suggested by Yin (2014). In this respect, pattern matching was used to capture the prevailing institutional logics that shaped the organisational policies and drove the organisational rationality of each case-study at each historical stage. The researcher also sought to build explanations in order to provide answers to how each case study experienced and responded to multiple institutional logics and why they showed heterogeneity in their responses. Moreover, the researcher provided both within and cross-case synthesising in order to compare, contrast and then present the research findings.

[1] Among those emerging themes: the role of big audit firms, the role of higher education, the scarcity of human resources and actors' change resistance. .

5.6 Issues of Validity and Reliability

Validity and reliability are issues related to judging the quality of research design. Validity is concerned with the accuracy, integrity, and generalisability of research findings, while reliability is concerned with the replicability of the research findings using the same research design and procedures (Gummesson 2000, Bryman and Bell 2011, Yin 2014). Particular attention was given to these criteria throughout the research process. This is because inappropriate selection of data collection and analysis methods are likely to have an adverse impact on research quality.

In terms of research validity, two aspects of validity can be identified: internal validity and external validity. External validity is concerned with the question of whether the research findings can be generalised beyond the immediate case study to the whole population. It can be argued here that, generally, statistical generalisation is not the aim of qualitative research; yet, external validity can still be achieved through analytical generalisation (Yin 2014). This is consistent with the aim of this study in which analytical rather than statistical generalisation is intended, as discussed in Section (5.3.1).

Internal validity is concerned with the accuracy and truthiness of the results produced and the causal relationships and inferences made in the research. The internal validity of this study was supported, as suggested by Yin (2014), by pattern matching. This was by comparing empirical data with pre-determined theoretical propositions and existing literature to insure their consistency. Moreover, internal validity was also enhanced through contrasting data from different sources and seeking further clarifications through follow-up interviews.

Finally, with the purpose of enhancing the reliability of this research, the researcher was keen in this chapter to make the research process and steps as transparent as possible. This is by documenting and providing detailed information about this process as presented in the previous sections.

5.7 Conclusion

This chapter presented the philosophical and methodological stance taken in this study in addition to details about the research design and the process of data collection and analysis. This thesis has adopted the stance of interpretive research paradigm as a suitable methodological approach that can provide valuable insights into the phenomenon under scope. In its research design, this thesis has followed a case-study approach informed by semi-structured interviews and document analysis. Furthermore, it has employed a selection of strategies and techniques addressed by Yin (2014) in the process of analysing its data and presenting its findings. Combined with the theoretical framework chapter, this chapter provided the foundation for the empirical work presented in the following chapters.

CHAPTER 6: The Islamic Financial Reporting Standardisation Projects of AAOIFI and MASB: Case-Study Historical and Contextual Background

6.1 Introduction

This chapter aims to provide a comparative-historical review of the two case-study projects of AAOIFI and MASB. The aim of this 'parallel' review is to identify the key events that represent 'turning points' in the history of each of these projects. In this regard, both projects have gone through different stages since they were established. Each stage has been featured by certain policies, strategies and priorities. Exploring these historical stages is essential in order to gain insight into the contextual background of these projects, which is helpful in providing better understanding of the determinants that have shaped their strategies over time.

This thesis is considered in line with the 'comparative international accounting history' (CIAH) research calls as proposed by Carnegie and Napier (1996). Carnegie and Napier (1996) indicate that literature on the accounting history has typically focused on the accounting development in one region or specific country. This, according to Carnegie and Napier (2002), "risks overlooking important linkages, parallels and contrasts" (p. 689). Hence, Carnegie and Napier (1996) called for comparative international accounting history research that assists in exploring and explaining cross-national differences in the accounting development over time. CIAH research helps understand such differences within their historical and contextual settings[1]. In other words, it studies accounting in the context in which it develops and operates (Hopwood 1983, Napier 1989, Perera 1989, Cooke and Wallace 1990, Saudagaran 2009). By so doing, CIAH helps identify different actors, events and institutional factors that have

[1] Carnegie and Napier (2002) identified a framework of seven dimensions (period, places, people, propagation, products and profession) that can be utilised in CIAH research.

contributed in shaping the development of accounting practices, systems and standards across different contexts (Carnegie and Napier 2002).

The comparative-historical review presented in this chapter is based on the information gathered about both projects through document analysis and field study interviews. This information is then matched and combined with materials available in the literature about the history of these projects. This chapter is organised into two main sections. The first section provides a detailed view on the historical circumstances prior, during and after the establishment of AAOIFI. It also explores the approach followed by AAOIFI for developing standards and gaining acceptance for these standards. The second section explores the MASB's project for Islamic financial reporting. It provides a historical account on the way in which the MASB has dealt with Islamic financial reporting and how its approach has changed dramatically over the last two decades.

6.2 Case Study 1: Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

6.2.1 AAOIFI: Establishment and Objectives

The story behind the initiative taken by Islamic financial institutions[1] to establish AAOIFI was narrated by its first Secretary General, Dr Rifaat Ahmad Abdul-Karim. He described the circumstances prior to the establishment of AAOIFI. According to Karim (1999), accounting practices followed by IFIs in preparing their financial reports were to a great extent unregulated. IFIs established in-house advisory bodies called 'Shariah Supervisory Boards' (SSBs) to ensure the compliance of their activities with Islamic business principles. Among their responsibilities, these SSBs were responsible for examining, modifying and advising the appropriate accounting treatments which have to

[1] The founding members of AAOIFI are: The Islamic Development Bank, Dallah Al Baraka, Faysal Group (Dar Al Maal Al Islami), Al Rajhi Banking & Investment Corporation, Kuwait Finance House, and Albukhary Foundation (AAOIFI, 2010, XXVI).

be in conformity with Shariah. This process was usually based on deliberation between an IFI's management, external auditors and those Shariah supervisors, which means that every IFI developed its own accounting policies that governed its activities (Karim 1995, 1999). This resulted in a great extent of work duplication since similar accounting issues were faced by Islamic banks (Vinnicombe 2010). In addition, according to Karim (1999), this process resulted in significant variations in the accounting practices between IFIs and even within the same IFI over time. He argues that such variations were due to the fact that there was no complete match between the accounting treatments proposed by the accounting standards on which IFIs relied when preparing their financial statements and the characteristics of Shariah compliant contracts. Karim (1999) indicates that these variations affected the comparability of IFIs financial reporting and its credibility in the eyes of market players. As a result, IFIs faced increasing pressure in order to unify their accounting practices. IFIs, therefore, took the initiative to self-regulate their financial reporting and establish the independent standards setting body of AAOIFI.

Interviewee (I-7), a former ranking executive in AAOIFI, confirmed that there was an urgent need at that time for standardising IFIs' financial reporting practices in order to increase the credibility of this emerging industry. Interviewee (I-8) further added that AAOIFI was established to fill the gap in the international accounting standards which did not address Islamic financial transactions.

> At that point of time there was a gap. That gap is still there because we believe that these Islamic finance transactions are not addressed by most international standards. Islamic finance had started growing at that point of time and Islamic financial institutions had this problem. Regulators had a problem regarding ensuring uniformity. So, they all felt a need for an accounting standard setting body... Actually, there was a big gap and AAOIFI was found to fill in that gap (I-8, Executive in AAOIFI).

Interviewee (I-8) also referred to regulatory pressures on IFIs to achieve uniformity in their accounting practices. In this context, Karim (1990, 1995) clarifies that, at that time, IFIs feared that regulatory bodies could intervene to regulate and mandate certain accounting practices on IFIs. This was, as he believes, another important motivation that led IFIs to self-regulate their financial reporting practices rather than leave this matter to regulatory authorities. Interviewee (I-8) confirmed that fact and stated that regulatory authorities sometimes mandate irrelevant regulations because they do not appreciate the specificity of Islamic transactions.

A few years before the establishment of AAOIFI, intensive efforts were made at both administrative and technical levels. A working paper was presented by the Islamic Development Bank, one of the founding members of AAOIFI, during the annual meeting of its board of governors in Istanbul in March 1987 (AAOIFI-D1). That working paper was the cornerstone for the establishment of AAOIFI[1]. Following to that paper, the efforts continued and some committees were formed to discuss the appropriate method for preparing Islamic accounting standards. These efforts finally resulted in the establishment of AAOIFI which was registered on the 27th of March 1991 in the Kingdom of Bahrain as an international autonomous non-profit making corporate body[2] (AAOIFI-D1).

When established, the objective of AAOIFI was to develop accounting and auditing standards for IFIs (AAOIFI-D1, p. XIII). However, over time, those objectives have been subject to continuous revision, amendment and broadening. The most recent objectives of AAOIFI have been expanded to include developing governance, ethical and Shariah standards in addition to accounting and auditing standards; disseminating its thought through holding seminars, publication of periodical newsletters and reports; offering educational and training programs and certification; and approaching regulatory bodies, Islamic financial institutions and accounting and auditing firms around the world

[1] This is according to Dr Hamed Hassan Merah, the current Secretary General of AAOIFI, in his interview with CNBC Arabia. Available at: https://www.youtube.com/watch?v=x5g0A7bVS4k&t=1038s

[2] AAOIFI was formerly known as ‘Financial Accounting Organisation for Islamic Banks and Financial Institutions (FAOIBFI)’.

in order to promote the implementation of AAOIFI's standards and gain wider awareness and acceptance[1].

6.2.2 AAOIFI: Post-establishment Period, Acceptance and Current Situation

Since its establishment, AAOIFI has issued 94 standards consisting of 54 Shariah Standards, 26 Accounting Standards, 5 Auditing Standards, 2 Codes of Ethics and 7 Governance Standards. Those standards constitute, according to Vinnicombe (2010), a substantial body of work within a relatively short period of time.

AAOIFI's standards aim to serve IFIs. However, as is the case of the IASB, AAOIFI has no legal power to enforce its standards in the countries where IFIs operate (Karim 2001). As executives in AAOIFI, interviewees (I-8) and (I-7) acknowledged that fact. Yet, they indicated that AAOIFI has made considerable efforts to promote the implementation of its standards through lobbying and cooperating with the national regulatory bodies of those countries. Karim (1990) suggests that this is the most effective strategy to promote AAOIFI's standards, given the fact that IFIs operate mostly in governmentally driven economies. He believes that the advantage of this strategy is that it gives regulators a say in the process of developing standards and, at the same time, acts as a 'buffer' for IFIs from any possible direct regulatory intervention.

Moreover, Vinnicombe (2010) argues that AAOIFI faces another challenge comparable to that of the IASB in that it sets standards for entities located in different parts of the world. Consequently, its standards need to be acceptable to various regulatory regimes and different political, social and economic contexts. However, he indicates that in spite of this problematic issue and the fact that AAOIFI has no power of enforcement, it has experienced considerable success in terms of the number of its standards, growing membership and the acceptance by some Islamic countries. In fact, AAOIFI's

[1] See the full list of AAOIFI's objectives at: www.aaoifi.com/objectives/?lang=en

membership has expanded to include more than 200 members from more than 40 countries. Those members mainly represent IFIs in addition to regulatory and supervisory authorities, professional bodies and accounting and auditing firms (AAOIFI-D1). In addition, AAOIFI standards have been implemented in some countries either as mandatory or voluntary standards. Moreover, those standards have been used by regulators in some countries as the basis for developing their national accounting standards[1]. Interviewee (I-9), an executive in AAOIFI, indicated further that even in those countries which do not recognise AAOIFI standards, those standards are widely used by IFIs as guidance on how to report their transactions in the financial statements.

After it started to issue accounting standards, AAOIFI realised the need for issuing Shariah standards that clarify the Shariah, legal requirements of Islamic financial products. According to a former executive in AAOIFI, interviewee (I-7), issuing Shariah standards aimed to strengthen the base for issuing accounting standards. However, many participants refer to the fact that issuing Shariah standards has become a priority for AAOIFI at the expense of developing and updating accounting standards.

> AAOIFI has lost priority by focusing on Shariah standards instead of improving accounting standards… Even though it is called Accounting and Auditing Organisation, that is not currently the main scope of its work. It has lost priority (I-11)

Interviewee (I-10), an AAOIFI board member, stated that AAOIFI has been very successful in issuing Shariah standards which have become a benchmark for IFIs around the world. However, that has been at the expense of its accounting standards which are applied only in some countries. Interviewee (I-29), an Islamic financial institution's CFO,

---

[1] AAOIFI standards have been adopted in six countries – namely, Bahrain, Jordan, Oman, Qatar, Sudan, and Syria.. In addition, AAOIFI accounting standards have also been used as the basis of national accounting standards in jurisdictions such as Indonesia and Pakistan and in other jurisdictions including Brunei, Dubai International Financial Centre, Egypt, France, Kuwait, Lebanon, Malaysia, Saudi Arabia, South Africa, United Arab Emirates and United Kingdom as well as in Africa and Central Asia, AAOIFI accounting standards have been used voluntarily as the basis of internal guidelines by leading Islamic financial institutions. For more information see: http://aaoifi.com/adoption-of-aaoifi-standards/?lang=en

believes that AAOIFI needs to rethink about its strategy and focus more on updating its accounting standards based on the industry's feedback instead of "celebrating the issuance of a number of Shariah standards every year". Some participants believe that the over-focusing of AAOIFI on Shariah standards while neglecting the importance of updating accounting standards is the main reason for the limited acceptance of AAOIFI accounting standards.

> There are still many standards that must be developed by AAOIFI in order to cater for Islamic transactions. The industry needs those standards quickly… Unfortunately, AAOIFI has not been able to come up with standards soon enough in order to cater for the rate that Islamic transactions have been growing…There is a big gap between what the industry needs and what AAOIFI produce (I-2, former board member in AAOIFI and former executive in the MASB).

The Deputy Secretary General of AAOIFI, Omar Mustafa Ansari, acknowledged this fact in his historical review of AAOIFI performance over the last 25 years[1]. He stated that the largest number of standards was developed between 1996 and 2006. Since then, the process of developing and updating standards has been slowed down because there was a belief that those standards were good enough. However, he indicated that AAOIFI has recently recognised that there is still room for improvement and it is the time now to 'gear up again'.

From another perspective, some participants believe that AAOIFI has also failed in developing an effective strategy for marketing its accounting standards. This makes it unable to expand the mandatory adoption of those standards to new countries.

> AAOIFI has not been able to penetrate internationally, except for a few countries. Meaning, they need to convince the market regulators…Although they have developed many standards for many years, those standards are now obsolete and outdated... Now, they are doing some revisions on some standards, which is good, but more importantly, AAOIFI should position itself at the international level as a credible accounting standard setter for Islamic financial institution. I don't see that they are doing it in a right way (I-11, Professor in accounting and former standard setter).

[1] This is in front of the 10th Annual AAOIFI – World Bank Conference on Islamic Banking and Finance, 6th-7th of December 2015, Manama-Kingdom of Bahrain. Available at: https://www.youtube.com/watch?v=Ipi6z85gQ_4

Within this context, a senior executive in AAOIFI, interviewee (I-8) admitted these two weaknesses over the last period of AAOIFI's life and added that the international development in terms of the wide acceptance of IFRS around the world has also played a role in restraining the acceptance of AAOIFI standards. He stated that although the application of AAOIFI standards does not contradict most IFRSs, this factor has been a serious challenge facing AAOIFI in its efforts to promote its standards internationally.

On the other hand, some participants expressed that they are optimistic about the ability of the new AAOIFI executive team to revive the role of AAOIFI in terms of developing and updating its accounting standards. In this respect, in December 2015, the Deputy Secretary General of AAOIFI, Mr Omar Mustafa Ansari, announced a 4 years strategic plan[1]. This plan involves more focus on marketing and promoting AAOIFI's standards. It also involves procedures to develop new accounting standards and update the existing ones[2]. In fact, reviewing the newsletters issued by AAOIFI since then shows that AAOIFI's Accounting and Auditing Standard Board (AASB) and its sub-committees have been very active on the ground comparing with the previous period.

6.2.3 AAOIFI's Strategy in Financial Reporting Standardisation

Before exploring the methodological approach used by AAOIFI in developing its framework, two points must be clarified about AAOIFI's strategy in developing and issuing standards. The first is that AAOIFI develops standards to deal only with financial reporting issues of Islamic financial products and transactions. In other words, AAOIFI

[1] This is in front of the 10th Annual AAOIFI – World Bank Conference on Islamic Banking and Finance, 6th-7th of December 2015, Manama-Kingdom of Bahrain. Available at: https://www.youtube.com/watch?v=Ipi6z85gQ_4

[2] This involves, among other procedures, separating the accounting and auditing board from the governance and ethics board. Accordingly, AAOIFI is currently comprised of three boards: Accounting Board, Governance and Ethics Board and Shariah Board. Moreover, according to the plan, there will be different accounting committees working on different standards instead of having one accounting committee in an attempt to enhance the quality of standards and speed up the process of developing and updating standards.

does not develop standards for areas or items where there are no Shariah issues such as inventory or PPE[1] as indicated by Interviewee (I-8), an Executive in AAOIFI:

> We have a policy that in areas that don't have Shariah issues or in areas where there are no products which have a different structure from those conventional products, we don't need to have separate standards, we can follow the generally accepted accounting standards.

Moreover, Interviewee (I-8) indicated that even when there is a need for a special accounting standard, AAOIFI does its best to be close to the international accounting standards but keeps differences in two situations. The first is when there is a Shariah need for such a difference, such as reporting for Zakat purposes. The second is when there is a need for reflecting the distinct nature of an Islamic financial product and when conventional accounting practices are not able to fully reflect the true contractual nature of that product and its risk and reward profiling.

The second point about AAOIFI's approach, which is interrelated to the first point, is that AAOIFI's standards are not developed to be applied by IFIs as the only set of standards. In other words, AAOIFI' standards can be applied alongside the locally accepted standards whether they are national or international. This also applies for those countries which mandate the application of AAOIFI standards. That is because AAOIFI's standards deal only with the specificities of Islamic financial products and transactions. Interviewee (I-7), a former ranking executive in AAOIFI, stated in this respect that AAOIFI has never required the exclusive application of its standards; it aims only to support IFIs in addressing the uniqueness of their activities. He indicated that this policy has contributed to some extent to the practicality of those standards and enhanced their acceptance, even in those countries that follow conventional accounting standards.

---

[1] AAOIFI's Conceptual Framework requires getting back to the generally accepted accounting principles for areas that are not addressed by its standards and conceptual framework, provided that those practices do not conflict with Shariah principles.

6.2.3.1 AAOIFI's Methodological Approach in Developing Financial Reporting Standards

The literature review provided in Chapter Three shows that there is ongoing debate on the methodological approach that can be followed for developing Islamic accounting framework and standards. In this regard, AAOIFI states in the introduction of its standards book that it carries out its objectives in developing standards for IFIs "in accordance with the precepts of Islamic Shariah which represents a comprehensive system for all aspects of life" (AAOIFI-D1, p. XIII). However, when setting its conceptual framework, AAOIFI states that the principles of its framework are "consistent with the precepts of the Islamic Shariah" (AAOIFI-D2, p. 5). The question that can be raised here is, does the 'consistency' with Islamic principles necessarily mean developing standards 'based on' or 'in accordance with' these principles? In fact, going through the conceptual framework of AAOIFI to find an answer for that question shows that AAOIFI's approach is closer in its objectives to achieving 'consistency' with Shariah principles rather than being 'based on' Shariah.

Going back in the history, Karim (1995) clarifies that two methodological approaches were considered by AAOIFI when it was established. The first was to start from Islamic teachings in order to determine what ought to be the objectives and principles of financial reporting (Constructive Approach). The second was to examine the objectives, concepts and principles of conventional accounting against Shariah, accept those which were consistent with Shariah and reject or amend those which were inconsistent (Pragmatic Approach)[1]. Karim (1995) indicates that, after long discussion and consultation involving Shariah scholars, Islamic bankers and officials in central banks, it was agreed that both approaches were in compliance with Shariah principles and the decision was taken to follow the pragmatic approach.

[1] Literature on both approaches is addressed in Section (3.4).

In this respect, AAOIFI states in the preface of its first standard[1] that "it is not harmful to begin where others have ended if what has been developed by others is beneficial and does not contradict the Islamic Shari'a" (FAS1, Preface). However, as addressed in Chapter 3, this approach is questioned in terms of its outcomes and whether the approach starting from 'what others have ended' (i.e. conventional accounting standards) leads to the same results of developing standards starting from the Islamic based objectives of financial reporting.

6.2.3.2 Participants' Perception of AAOIFI's Standardisation Approach

When the participants were asked about their opinion about AAOIFI's approach for developing standards, there was a consensus that both approaches are acceptable from the perspective of Islamic ruling. Participants agreed that, in principle, the application of the pragmatic approach does not violate Shariah principles as long as this application does not produce practices that conflict with these principles. This, as Sulaiman (2003) suggests, is consistent with the Islamic judicial principle of permissibility (*Ibaha*), which implies that everything is permissible unless it is clearly prohibited by the Shariah.

However, some participants who came from an academic background, such as interviewees (I-3) and (I-27) believe that although the pragmatic approach is permissible in principle, the priority should ideally be given to developing standards based on Shariah principles and objectives. Interviewee (I-22) used an argument grounded in the social perspective of accounting. He argues that developing standards based on the conventional objectives of accounting means abiding to the decision usefulness objective of financial reporting. This implies producing useful information for specific users only (shareholders) while disregarding other users in the society whose interests cannot be

[1] Financial Accounting Standard No.1: General Presentation and Disclosure in Financial Statements of Islamic Banks and Financial Institutions

ignored in Islam[1]. This is consistent with Maurer (2002), Kamla (2009) and Kamla and Haque (2017), who believe that embracing Islamic values and spirit would render conventional accounting objectives and principles irrelevant from the Islamic perspective.

Interviewee (I-10), a board member in AAOIFI, agreed that the point of reference when setting the conceptual framework and objectives of AAOIFI's standards should be the Islamic ruling. However, he argued that, when it comes to the technical issues, there is a need to look at the contemporary practices and conventions in the modern business world. Moreover, it was observable that, opposite to the aforementioned opinions by interviewees who came mainly from academic and Shariah background, practitioners such as (I-28), (I-29) and (I-30) supported the pragmatic approach of AAOIFI. They think that it is not rational to depart from international accounting practices and norms in the current globalised business environment.

> AAOIFI doesn't have the power to develop standards from scratch. If AAOIFI wants its standards to be acceptable, it needs to look at what others have done and then modify and develop their work to be consistent with IFIs' needs. Otherwise, AAOIFI will face resistance (I-30, former senior accountant in an IFI).

6.2.3.3 Bridging Gaps with IFRS

Even though AAOIFI has chosen the pragmatic approach in developing standards, it gives substantial consideration to Shariah requirements and features. It also takes the local needs of IFIs in different countries into account. This results in gaps between AAOIFI standards and international financial reporting practices in terms of the recognition, measurement and reporting requirements of some items in the financial statements[2].

A senior executive in AAOIFI, interviewee (I-9), stated that, given those gaps and the widespread acceptance of IFRS regime which does not accept the duality of

---

[1] Detailed analysis from the social and community perspective is presented in Section (7.2.3.1)

[2] For instance, interviewee (I-24) indicated that AAOIFI requires the recognition of a third category in addition to equity and liabilities in the credit side of the balance sheet for the purpose of recognising investment accounts.

accounting requirements, some IFIs face a dilemma if they want to comply with some AAOIFI requirements when those requirements conflict with IFRS. He indicated that AAOIFI took this issue seriously in its strategic plan announced in 2015. It has consequently decided to bridge the gaps between its standards and IFRS, especially when it comes to those issues that do not affect the Shariah compliance of its standards. Interviewees (I-8), (I-9) and (I-10) believe that bridging gaps with IFRS would enhance the acceptance of AAOIFI standards.

> In AAOIFI we will bring things closer to globally accepted accounting principles, so the differences would be minimised, and I can expect that more and more regulators will be coming and accepting our standards, accounting regulators as well as banking, capital market and insurance regulators. We hope it is going to happen this way (I-8, ranking executive in AAOIFI).

However, interviewee (I-8) stresses on the issue that bridging gaps with IFRS does not mean sacrificing the original objective of AAOIFI which is reflecting Shariah features and requirements.

> Yes, we want to close gaps with IFRS, but at the same time we are clear that we are different, Islamic financial institutions and their transactions are different… honestly, I do not see a global sort of accounting standards which is applicable to all banks including Islamic banks, honestly I don't believe in that (I-8).

He clarified that AAOIFI will keep differences whenever there is a Shariah need for such differences and whenever conventional accounting practices are not able to reflect the contractual nature of Islamic financial products.

6.2.3.4 AAOIFI's Membership in the IASB Islamic Finance Consultative Group

Recognising the features of Islamic finance and the calls for addressing the financial reporting requirements of this industry, the IASB established the 'Islamic Finance Consultative Group'[1]. This group is an advisory group. It focuses on the challenges that

[1] This group was called firstly "Consultative Group on Shariah-Compliant Instruments and Transactions"

may arise in the application of IFRSs to Islamic financial transactions and products[1]. Ahmed (2012) quoted from the IASB board member, Robert Garnett, in this regard that the IASB is willing to accommodate Islamic financial products in its standards. This requires, according to Garnett, a detailed discussion with AAOIFI to have better understanding of their concerns. Accordingly, AAOIFI was invited to this group. However, as indicated by some interviewees, it refused to join the group in the beginning. Yet, it accepted that later and hosted the third meeting of the group on the 9th of April 2015. When asked about the reason behind the initial rejection of the IASB invitation to that group, interviewee (I-8), a ranking executive in AAOIFI, commented:

> We won't call it rejection. Yes, we did not join in the beginning, but I won't call it rejection… I believe that the point of reference was not clear at that time. We were not sure if we become a member in that group, what the outcome of that group is and what it is actually going to do. We did not want to become a part of a process we were not clear about (I-8).

Another executive, interviewee (I-9), stated that the IASB has different agenda according to which it aims to achieve the international accounting harmonisation without giving consideration to the nature of an entity. He indicated that such agenda conflict with AAOIFI's philosophy. Therefore, AAOIFI was firstly reluctant to get involved in any group established by the IASB. He added that AAOIFI was afraid that its membership in that group could have an adverse impact on AAOIFI's standards and reputation and show it merely as a part of the IASB and its agenda, not as an independent organisation with distinctive objectives. He indicated that, however, AAOIFI accepted the IASB invitation after having a clear idea about the objectives of the group and realised that it was just an advisory group that aimed to examine the application of IFRSs to certain Islamic financial transactions. He further added that, when joining the group, AAOIFI hoped that its membership would help Islamic finance industry have its voice heard by the IASB.

---

[1] For more information about this group and its members, see: http://archive.ifrs.org/About-us/IASB/Advisory-bodies/Working-groups/Pages/islamic-finance-consultative-group.aspx

However, he insisted that any financial reporting framework for IFIs should be developed by those who are involved directly in this industry and have clear understanding of its needs. Therefore, he and interviewee (I-7), a former ranking executive in AAOIFI, stated that it is less likely for such cooperation to be developed to the level of working together on developing special IFRSs for IFIs as some interviewees (e.g. I-2, I-22, I-24) and researchers (e.g. Mohammed *et al.* 2015) called for.

6.3 Case Study 2: The MASB's Project of Islamic Financial Reporting

6.3.1 The MASB's Project of Islamic Financial Reporting: Historical Overview, Establishment and Objectives.

Similar to many countries in its region and the world, Malaysia was under the control of different European colonisations including the Portuguese, Dutch and British colonisation. Interviewees (I-18) and (I-23) stated that colonisation worked on creating a separation between the spiritual and temporal aspects of life. This resulted in only certain aspects of Islam being practiced in certain occasions. However, after independence, there have been some movements to revive the role of Islam as a way of life. This includes reviving the economic principles in Islam.

The Malaysian governments have realised these movements and taken a supportive position through the establishment of agencies and issuance of legislations that facilitate and support these movements. In this context, the enactment of the Islamic Banking Act 1983 has enabled the establishment of Islamic banks in Malaysia. Since then, Islamic finance industry has witnessed a rapid growth. This has resulted in Malaysia becoming one of the most important Islamic finance centres in South Asia and the world.

According to the Bank Negara Malaysia, Malaysia's Islamic banking assets reached USD 65.6 billion in 2016 with an average growth rate of 18-20% annually[1].

Nasir and Zainol (2007) state that Malaysia recognised the uniqueness of Islamic based transactions and the need for a financial reporting framework that reflects such uniqueness. They indicate that Malaysia firstly supported AAOIFI in its project for developing standards. According to Mohammed and Mustafa (2013), the Central Bank of Malaysia had no objection to AAOIFI standards as long as they did not contradict national regulations. However, Nasir and Zainol (2007) indicate that, given the differences in the local Islamic financial practices as well as the regulatory framework and economic structure in Malaysia, local standards were needed to bridge the gap in areas which neither the Malaysian approved standards nor AAOIFI's standards addressed[2]. As a result, since it was established in 1997, the MASB has launched a national project on Islamic financial reporting. The purpose of that project was developing a comprehensive stand-alone set of Islamic accounting standards (MASB-D2)[3]. According to Nasir and Zainol (2007), the Malaysian project, by contrast to AAOIFI's project, aimed to develop its standards not only for IFIs but also for all entities working according to Islamic business principles. This was clarified in the MASB's press release (MASB-D10) which indicated that the MASB would initially focus on the existing operations of IFIs and then move to develop standards for Islamic-based transactions of commercial institutions.

---

[1] http://www.bnm.gov.my/index.php?ch=fs_mfs&pg=fs_mfs_bank

[2] According to MASB-D17, "the MASB found that the Islamic accounting standards available, namely those issued by AAOIFI, were designed for specific uses of limited types of contracts. They were not broad enough to deal with Malaysian products... For example, in the early 2000s Malaysian Islamic banks often used *bai inah*, a form of sale-and-buyback, to structure various products such as personal financing and credit cards; despite its common use in Malaysia, AAOIFI accounting standards ignore *bai inah* because its Shariah board deems it an impermissible transaction".

[3] In the press release (MASB-D10), the MASB clarified that in developing its Islamic accounting standards the MASB would use AAOIFI practices as the basis for review. However, those practices would be customised according to the economic requirements of the country.

The first standard in the Malaysian project was issued in 2001 under the name 'Presentation of Financial Statements of Islamic Financial Institutions' or 'MASB FRSi-1'. That standard aimed to describe the presentation and disclosure requirements for IFIs financial reporting and to provide general guidelines for the contents and structure of IFIs financial statements. This standard also aimed to harmonise IFIs accounting practices especially in areas where Shariah requirements allow for alternative accounting treatments (Nasir and Zainol 2007). In developing that standard, the MASB gave consideration to various local and international aspects such as the local regulatory framework, AAOIFI accounting standards, accounting standards issued by international bodies (e.g. IAS/IFRS), the Company Act 1965, Bank Negara Malaysia guidelines, the Basle requirements and the fundamental Shariah requirements (Nasir and Zainol 2007, Ibrahim and Siswantoro 2013). This implies that the MASB chose to follow the pragmatic approach which had been followed firstly by AAOIFI and looks at the applicability of the contemporary accounting practices and regulations (Ibrahim and Siswantoro 2013). It also implies that the MASB was subject to different local and international demands which it needed to take into consideration in developing its Islamic financial reporting framework.

In addition to its first Islamic standard issued in 2001, the MASB announced in 2004 that the work was ongoing to prepare four Islamic accounting standards on *Ijarah* (leasing), *Zakat*, *Murabahah* (deferred sales) and *Takaful* (insurance) (See Press Releases MASB-D11 & MASB-D12).

6.3.2 The MASB's Project of Islamic Financial Reporting: Strategy Shifts

A few years after its establishment, the MASB Islamic financial reporting project experienced a substantial change in its objectives. The MASB abandoned its plan for issuing separate standards and withdrew its first Islamic standard. According to MASB's website, the MASB's project was ceased after consultation with the Shariah Advisory

Council of Bank Negara Malaysia and research conducted by a staff team who was doubtful about the feasibility of issuing separate Islamic accounting standards (MASB-D2).

When investigating the circumstances surrounding these changes in the MASB's policy, some interviewees, such as (I-2), (I-13) and (I-24), pointed out that, since it was established, the MASB's project was subject to a serious debate about the feasibility and practicality of issuing requirements for Islamic financial reporting in a form of separate standards. The research conducted by the MASB staff indicated that most conventional accounting principles can be applied to Islamic transactions and events if supplemented with additional disclosures to explain how these principles are applied on Islamic transactions (MASB-D2). Therefore, the MASB was reluctant in pursuing its policy of issuing separate Islamic accounting standards. As a result, in 2006, the requirements that were originally planned to be issued as standards were issued as technical releases (i.e. technical releases of Zakat and Ijara) (MASB-D13).

Later on, in September 2009, the MASB issued the Statement of Principles i-1 (SOP i-1) 'Financial Reporting from an Islamic Perspective'[1], which officially required IFIs to follow the Malaysian approved accounting standards unless there is a Shariah prohibition[2]. The MASB, as a part of the new strategy, decided to continue in issuing additional guidelines on Islamic financial reporting in a form of pronouncements and technical releases which supplement the Malaysian approved standards and discuss their application to Islamic transactions[3]. In developing those guidelines, there was an emphasis on using the pragmatic approach to deal with Islamic financial reporting issues. The statement of principles (SOPi-1) states in this respect that "[i]n developing the

[1] This document is used in the document analysis under the code (MASB-D1).
[2] Starting from 2012, the Malaysian approved accounting standards have been identical to IFRSs
[3] According to (MASB-D3, IN6), "[i]n the event that there are issues relating to accounting for Shariah compliant transactions that require additional guidance not provided for in the approved accounting standards, such guidance would be provided in the form of other technical pronouncements".

Statement, the Board had decided to consider established principles in conventional accounting thought, then accept those that are consistent with Shariah, modify or reject those that are not, and add provisions for Shariah requirements where conventional equivalents are absent" (Appendix B, B1).

Another development has recently shaped financial reporting of all listed firms in Malaysia including IFIs. This development is represented by the MASB plan for full convergence with IFRS starting from 2012[1]. As part of the convergence plan, an IFRS-compliant framework, the Malaysian Financial Reporting Standards (MFRS) framework, was introduced in November 2011 to be in effect starting from the 1st of January 2012[2]. In this framework, the Malaysian Financial Reporting Standards (MFRS) have been word-for-word in agreement with all IFRSs.

IFRS convergence had its impact on the MASB's policy of issuing Islamic technical releases. In 2012, there was a plan to issue technical releases based on the Discussion Papers that were issued in 2011 (on *Takaful*, *Sukuk*, and Shariah Compliant Profit-sharing Contracts). The MASB's Chairman stated that as a result of the MASB commitment to IFRS convergence, "the MASB subsequently became wary that issuing TRs may be misconstrued as local interpretations of IFRS – which may not be acceptable to the IASB" (MASB-D7). He clarified that, accordingly, the MASB would not issue any further technical release. Instead, he indicated that the MASB would consider some other routes to accommodate Islamic financial reporting matters. Among those routes that he mentioned is assisting and educating accountants by the Malaysian Institute of Accountants (MIA) on how to treat Islamic transactions based on IFRS. He also indicated

[1] "2012 is a significant milestone in MASB's history. It is the year that we have fully adopted the IFRS into Malaysia" (MASB's Chairman, MASB-D6).
[2] See press release dated 19 November 2011 and titled: MASB issues internationally compliant accounting framework and new FRSs (MASB-D15).

the possibility of lobbying the IASB to accommodate Islamic financial reporting issues in its standards.

With regard to the later route mentioned by the MASB's Chairman, it can be noticed that the MASB has been recently trying to play a leading role in regulating and accommodating Islamic financial reporting needs within the IFRS framework. This can be seen through the chairing of the MASB of the Asian-Oceanian Standard-Setters Group (AOSSG)'s Islamic Finance Working Group[1] and, more importantly, chairing the IASB' Islamic Finance Consultative Group[2]. Moreover, to help achieve this objective, the MASB has established the 'Standing Committee on Islamic Financial Reporting' which is comprised of representatives from the Islamic financial industry in addition to academics, regulators and audit firms. This committee has been given the responsibility of advising the board on whether a certain accounting standard can be made applicable to Islamic financial transactions and whether or not there are Shariah concerns. The committee reports any Islamic financial reporting issues along with their suggested solutions to the IASB directly or indirectly through the AOSSG[3].

> We're trying to explain to IASB that they are coming up with standards that do not make sense for certain Islamic instruments in order for them to tweak the standards to accommodate Islamic transactions (I-1, MASB ranking board member).

Year	Events
Before 1997	Malaysia supported AAOIFI efforts for developing Islamic accounting standards
1997	The establishment of MASB and its project for developing Islamic financial reporting standards.

[1] The Asian-Oceanian Standard-Setters Group (AOSSG) is a grouping of the accounting standard-setters in the Asian-Oceanian region. The group has been formed to discuss issues and share experiences on the adoption of International Financial Reporting Standards (IFRS).
[2] This group was established by the IASB in 2013 to look at the application of IFRSs to Islamic financial products and transactions. This group is comprised of representatives from accounting and regulatory bodies and academic institutions. The group has been recently chaired by Mohammad Faiz Azmi, the MASB's chairman between 2009-2015, who played a fundamental role in motivating the IASB to establish this group (see Section 8.2.2)
[3] This committee has replaced the Working Group 36 (WG36) which was responsible for advising the MASB on the appropriateness of accounting practices for entities engaging in Islamic finance and the development of an Islamic based financial reporting framework.

2001	The MASB issued its first Islamic standards: 'Presentation of Financial Statements of Islamic Financial Institutions' or 'MASB FRSi- 1'.
2004	The MASB announced a plan for issuing four Islamic standards.
2006	The MASB issued two technical releases for *Zakat* and *Ijara* which were previously planned to be issued as standards in 2004.
2009	The MASB issued the Statement of Principles (SOP i-1) 'Financial Reporting from an Islamic Perspective' , which officially required Islamic financial institutions (IFIs) to follow the Malaysian approved accounting standards and withdraw 'MASB FRSi- 1'.
2012	-The MASB started full convergence with IFRS. -The MASB announced that it would not issue any further Islamic technical releases and announced its commitment to accommodate Islamic financial reporting needs within IFRS.

Table 6-1:Key historical events in the MASB's project for Islamic financial reporting

6.3.3 Participants Responses about the Reasons behind Shifting the MASB's Agenda on Developing Islamic Accounting Standards

When investigating the reasons behind the shift in the MASB's agenda, which resulted in ceasing it policy for developing separate Islamic standards, information as well as perceptions were sought from different participants including those who were/have been involved in the MASB. Several reasons were stated and various opinions were expressed by those participants.

Some participants believe that financial reporting does not affect the Shariah compliance of Islamic financial products. Therefore, IFIs need to report the substance of those products regardless of their legal form. The legal contractual features of Islamic products can be shown, in their opinion, using additional disclosure and notes. Accordingly, they think that the Malaysian approved accounting standards, which have been recently based on IFRS, are mostly applicable to the substance of Islamic transactions and, consequently, there is no need for separate standards. This viewpoint was shared especially between those coming from a strong conventional accounting background such as interviewees (I-1), (I-4) and (I-28)[1].

[1] Detailed discussion on the MASB's stance on this issue is provided in section (7.2.2.2).

Interviewee (I-1), a ranking board member in the MASB, referred to several reasons behind the shift in the MASB's policy. These reasons include the lack of experts who are "clever enough to develop standards that can withstand the test of every transaction that is being done". Also, he referred to the lack of financial resources that can be devoted for this process. Moreover, similarly to Maurer's (2010) argument, interviewee (I-1) expressed his fear that standard duality would create an opportunity for manipulation under the name of reporting the uniqueness of Islamic based transactions[1]. However, the main reasons to which he attributed the shift in the MASB's policy are the applicability of IFRS to Islamic transactions and the need for harmonisation with international accounting standards. He emphasised in his interview that additional disclosure is adequate in order to reflect the Islamic characteristics of transactions.

Interviewee (I-2), a former ranking executive in the MASB and one of the key actors in its ceased Islamic accounting project, also highlighted the lack of financial resources as well as 'intellectual' individuals who are knowledgeable in both accounting and Shariah. He emphasised the uniqueness of Islamic transactions and the need to report for such transactions differently. He stated that the MASB's decision to adopt conventional standards for Islamic transactions does not reflect his position. Yet, he believes in what he called the 'practicality' of that decision. The practicality of the MASB decision to follow IFRS for IFIs financial reporting was also advocated by other interviewees as well.

> I think that's the only solution that I can see at the moment… I wish that we can have separate standards for Islamic institutions but I think that it is not practical at the moment (I-22, professor in accounting, IIUM).

The worldwide implementation of IFRS especially after IFRS adoption by the EU in 2005 had a critical impact on the MASB project for Islamic financial reporting. Almost

[1] Some of the examples he gave are avoiding consolidation by reporting Ijara transactions and dealing with lease that is finance lease in substance as operating lease

all participants shared similar views about the need for harmonisation with international accounting standards as one of the main reasons behind ceasing the first objectives of the MASB's Islamic financial reporting project. Participants stressed on the fact that IFRS have been the mainstream in the financial reporting field around the world. Therefore, in their opinion, it is not feasible to ignore it and develop separate standards.

> If you develop your own standard, will it be recognised outside the country? When you talk about reporting standards, you need standards that are recognised globally, and IFRS is there. Even though IFRS might not meet the criteria for Islamic financial instrument reporting, it is the only available option… That is the reason why I think the tendency has been to look into IFRS and how Islamic reporting structure can be accommodated within whatever standards are available now (I-3, Malaysian academic and member of the MASB's Standing Committee on Islamic Financial Reporting).

On the other hand, although some participants acknowledged the importance of IFRS convergence, they stressed that they are not satisfied with the way in which Islamic financial reporting is practiced in Malaysia. They expressed their doubts about the sufficiency of IFRS in reflecting the Islamic characteristics of Islamic transactions and events. They also expressed their doubts about the effectiveness of the MASB's declared commitment in working in cooperation with the IASB on accommodating Islamic financial reporting needs[1].

6.4 Summary

The Islamic financial reporting standardisation projects of AAOIFI and MASB have gone through different historical stages since they were established. Each stage is featured by certain policies, strategies and priorities. This chapter has provided a comprehensive view over the historical and contextual background of each of these two case-studies. Even though both accounting bodies started their Islamic financial reporting standardisation projects with similar objectives under similar circumstances, they have ended up with

[1] Detailed discussion on the role of IFRS harmonisation efforts and its impact on Islamic financial reporting is provided in section (7.2.2)

significantly different approaches in how to deal with Islamic financial reporting. The MASB has decided to fully converge with IFRS and to accommodate Islamic financial reporting needs within the IFRS framework. On the other side, even though it has recently announced a policy for bridging the gaps with IFRS, AAOIFI still insists on the insufficiency of IFRS and the need for dedicating special standards to deal with IFIs financial reporting demands.

For the purpose of providing comprehensive understanding of the reasons behind the heterogeneity between the organisational policies of AAOIFI and MASB in relation to Islamic financial reporting, the next chapter provides a detailed analysis of the institutional logics that have played a role in shaping these policies differently over time. Understanding these logics is essential for understanding the institutional determinants that have influenced AAOIFI performance and strategies during different phases of its history. It is also essential for understanding the reasons behind the dramatic shifts that have been experienced by the Malaysian project for Islamic financial reporting.

CHAPTER 7: Islamic Financial Reporting Standardisation Projects: Institutional Logics and Organisational Responses

7.1 Introduction

The purpose of this chapter is to explore the institutional logics that have shaped and governed the Islamic financial reporting standardisation projects of AAOIFI and MASB. It also aims to investigate how these projects have historically responded to their institutional logics and why they have shown heterogeneity in their response.

This chapter is organised in two main sections. The first section provides the research findings on the institutional logics that underpin the Islamic financial reporting standardisation efforts as experienced by each project. It also explores the deliberations that each project has followed in order to meet the demands and expectations of those logics. The second section provides a discussion that synthesises the research findings presented in the first section. It aims to show how each institutional logic has simultaneously contributed in shaping the way in which AAOIFI and MASB have set their strategies for regulating and standardising Islamic financial reporting. It then moves to explain the heterogeneity between AAOFI and MASB in the way they have responded to different institutional logics prevailing in their own context.

7.2 Institutional Logics and Organisational Responses in Islamic Financial Reporting Standardisation Projects

Greenwood *et al.* (2010) argue that organisational structures and practices are shaped and legitimised by different institutional logics. Hence, in order to understand how and why organisations show similarity and variation in such structures and practices, it is necessary to understand the relationship between organisations and the logics constituting their institutional context. As presented in Chapter Six, the projects of AAOIFI and MASB have shown clear variation in their strategy for Islamic financial reporting standardisation. Therefore, based on the above argument by Greenwood *et al.* (2010), understanding such variation requires a comprehensive understanding of the institutional settings surrounding these projects at different historical stages and how they have chosen to respond to these institutional settings.

Given the plurality of institutional environment and the variety of institutional considerations, demands and expectations that influence Islamic financial reporting, this study investigates the role of five institutional orders in shaping Islamic financial reporting standardisation projects[1]. These are religion, profession, community, state, and market orders. According to Thornton *et al.* (2012), the principles, symbols and practices of each institutional order shape in different ways "how reasoning takes place and how rationality is perceived and experienced" (p. 2). In other words, each institutional order has a distinct set of expectations (logics) that shape and describe its rationality. This section provides a thorough analysis of the principles, values and cultural symbols which are associated with each of these institutional orders and give rise to certain material practices and expectations. This is for the purpose of providing a clear understanding of the role of those institutional logics in shaping different strategies and decisions taken by both projects under scope. It also provides an analysis on how AAOIFI and MASB have responded to and addressed the demands and expectations of each institutional order and the deliberations they have followed in order to meet those demands.

7.2.1 Religion Logic

The word 'Islam' means total submission to the will of God. This 'submission' implies that Muslims should adhere to the religious requirements in all aspects of their life. From the Islamic point of view, people are required to act as trustees and agents of God on the

[1] See Section (4.3.6)

earth to manage its resources. Therefore, they are accountable to God for the way they use their wealth (Ariff and Iqbal 2011). They are required to make sure that they invest their wealth in the best permissible way and to avoid unlawful business activities.

The revival of Islamic business and economic thoughts in the 1970s led to an increasing desire among Muslims to conduct their business activities according to Islamic principles (Maali and Napier 2010). This desire resulted in the emergence and expansion of the Islamic banking industry, which offers a wide range of Shariah compliant financial instruments. The fundamental objective of such instruments is to enable Muslims to obtain financing and invest their savings in a Shariah compliant way (Gambling *et al.* 1993). Accordingly, IFIs, as managers of clients' funds, are required to make sure that funds are managed according to Shariah principles and the return on investing funds comes from activities permitted by Shariah (Abdul Rasid *et al.* 2011).

This has its implications on IFIs financial reporting. In this respect, Islamic business entities in general and IFIs in particular are expected to produce detailed information with regard to the Shariah compliance of their activities and to honestly disclose any transaction forbidden by Shariah. IFIs financial reporting is also expected to reflect the Islamic contractual nature of the financial products and transactions. This is because the contractual arrangements determine if those products are permissible or forbidden by Shariah. Reflecting the contractual nature of IFI's products has been an urgent need recently in order to distinguish Islamic financial products from their conventional counterparts and ensure their compliance to Shariah, especially after the increasing claims that IFIs' products have been recently mimicking conventional banking instruments (Mohammed and Mustafa 2013, Kamla and Haque 2017). Moreover, IFIs are expected to produce information that helps Muslim individual as well as organisational users fulfil their religious obligations (e.g. *Zakat* reporting). Providing disclosure that sufficiently covers those issues helps IFIs' investors, clients and the general public to evaluate the compliance of IFIs with Shariah principles[1].

7.2.1.1 Religion Logic in the Context of AAOIFI

AAOIFI has been keen since its establishment to gain religious legitimacy. Reviewing AAOIFI's objectives, conceptual framework and standards shows that there is a great emphasis that it does its activities in developing standards in accordance with Islamic principles. For instance, after listing its objectives, AAOIFI stresses the point that it "carries out these objectives in accordance with the precepts of Islamic Shariah which represents a comprehensive system for all aspects of life" (AAOIFI-D1, p. XIII). Similarly, in its conceptual framework, AAOIFI claims that nothing in the conceptual framework should lead to non-compliance with Islamic principles. The conceptual framework further states that AAOIFI's approach is based on "the identifications of aspects that require disclosure and greater transparency to abide by the principles and ideals of the Islamic Shariah" (AAOIFI-D2, p. 6)

AAOIFI also emphasises that its standards aim to help information users ensure the compliance of IFIs' activities with Islamic principles. This emphasis can be perceived as an attempt to give IFIs activities religious legitimacy. Actually, the objective of gaining public confidence and religious legitimacy is expressed clearly in AAOIFI's standards and conceptual framework. This is due to the IFIs need to establish themselves as reliable and trustful institutions that are able to invest public's savings according to Islamic principles[2].

Accordingly, when determining the information needs of users, AAOIFI has firstly recognised the need for "information which can assist in evaluating the IFI's compliance

---

[1] Detailed discussion on the IFI's financial reporting issues are provided n section (2.4)

[2] In the preface of AAOIFI's Financial Accounting Standard No.1, it stresses that the absence of trust in IFIs' ability to work in full compliance with Islamic principles may lead investors to refrain from investing their savings in those entities.

with the principles of Shariah in all of its financial and other dealings" as a primary information need (AAOIFI-D2, p. 7). Moreover, in its conceptual framework, AAOIFI states that one of the main rationalities behind developing that framework is to help demonstrate to IFI's financial statements users that the entity they are concerned with complies, in form and substance, with Islamic principles (AAOIFI-D2). Similarly, when identifying the objectives of IFIs financial reporting, AAOIFI's conceptual framework clarifies that such reporting should firstly provide information about the compliance of those entities with Shariah principles and objectives.

AAOIFI's requirements aim not only to ensure the disclosure on the Shariah compliance of IFIs' activities, but also to ensure enough disclosure on the non-compliant activities. It requires IFIs to provide information about the "manner in which prohibited earning and expenditure, if any, were recorded and dealt with" (AAOIFI-D2, p. 9). Within this context, AAOIFI's Financial Accounting Standard No.1 requires disclosing and separating any earning generated form sources or methods prohibited by Shariah as well as any expenditure on activities prohibited by Shariah. It also requires disclosing the way in which an IFI intends to eliminate such earning in order to ensure that it is spent on charitable purposes according to Shariah's rules (para. 15)[1]. Moreover, AAOIFI's conceptual framework identifies Shariah non-compliance as one of the issues that need to be taken into consideration when determining the qualitative materiality of particular events or transactions. Providing such requirements by AAOIFI can also be seen as an attempt to enhance the transparency and religious legitimacy of IFIs' activities.

Another key aspect in AAOIFI's conceptual framework and standards is the importance of reflecting the legal form of Islamic financial products. A key tenet of the financial reporting framework of IFRS is the concept of 'substance over form', whereby

[1] These requirements are consistent with the reporting requirements of disclosing non-halal income as addressed by Sulaiman (2003)

any transaction is measured and reported according to its economic substance rather than legal form. However, reflecting the contractual aspects of Islamic financial products is crucial for determining their compliance with Shariah (Shafii and Zakaria 2013). Therefore, AAOIFI's conceptual framework considers reflecting the legal form of those products equal in its importance to reflecting their substance.

> If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with its substance and economic reality as well as the legal form (AAOIFI-D2, p. 31).

Interviewees (I-8), (I-10) and (I-24) emphasised that AAOIFI's approach aims to reflect the contractual nature, risk profile and legal form of Islamic financial transactions in order to prove their compliance with Shariah principles even if their substance is similar to conventional products[1].

> You have to compare apples with apples and oranges with oranges… International accounting standards treat everything as apples even if they are oranges. We have a different opinion here, and oranges have to be reflected as oranges (I-8, Executive in AAOIFI).

Within this context, the Deputy Secretary General of AAOIFI stated that IFIs would face a 'reputation risk' which might ruin the industry if they could not reflect the Islamic contractual characteristics of their products and differentiate them from conventional ones. This is because IFI's shareholders, investors and clients would not see the difference between IFIs activities and their conventional counterparts[2].

Reviewing AAOIFI efforts in this regard shows that it has made great efforts to develop standards that address the financial reporting of various Islamic financial products. These efforts have led to developing 26 accounting standards. Most of them are

---

[1] Interviewee (I-20) added in this respect that IFIs which report their activities based on IFRS are not able to clearly reflect the contractual reality of their products, which makes it sometimes difficult to differentiate their activities from conventional financial activities, when their substance is similar.

[2] The Deputy Secretary General of AAOIFI, Omar Mustafa Ansari, in front of the 10th Annual AAOIFI – World Bank Conference on Islamic Banking and Finance, 6th-7th of December 2015, Manama-Kingdom of Bahrain. Available at: https://www.youtube.com/watch?v=Ipi6z85gQ_4

in a form of product-based standards which provide accounting and reporting requirements for particular financial products. The purpose of these requirements is to ensure addressing the specificities of IFIs products and reflecting their contractual aspects.

In addition to the issues stated above, AAOIFI has worked on addressing some religiously based financial reporting needs. An example of that is providing guidelines on *Zakat* determination and reporting[1]. *Zakat* reporting has been identified by the conceptual framework of AAOIFI as one of the objectives of IFIs financial reporting. Accordingly, Financial Accounting Standard No.1 requires IFIs to prepare a statement on the sources and uses of *Zakat* fund and identifies that statement as one of the primary financial statements of IFIs. Moreover, given the importance of *Zakat* and its dependence on the measurement criteria of IFIs' assets and liabilities, AAOIFI has dedicated a special standard, 'Financial Accounting Standards No. 9', to deal with *Zakat* accounting and reporting issues[2].

7.2.1.2 Religion Logic in the Context of the MASB

Influenced by the movements of Islamisation and reviving the role of Islam in all aspects of life in addition to the rapid growth of Islamic finance industry in the 1980s and 1990s, the MASB initiated its project for developing Islamic financial reporting standards. However, the esteem of such movements has declined under the influence of globalisation and the efforts of the Malaysian governments to liberalise the economy and embrace capitalism. This has also influenced the Islamic financial industry in Malaysia, which "is becoming more liberalised and integrated with the international financial system" (MASB-D13).

---

[1] *Zakat* requirements were under special emphasis by most interviewees, given the importance of *Zakat* as one of the five pillars in Islam.

[2] The aim of this standard is to set out accounting rules for the treatment and determination of *Zakat* base, measurement of elements included in the *Zakat* base, and disclosure of *Zakat* in the different financial statements (FAS No. 9)

Looking at different stages of its history, the MASB has recognised the need for regulating and developing guidelines for Islamic financial reporting. However, there have been different policies in dealing with this need starting with developing separate standards, moving to issuing supplementary guidelines[1] that discuss the application of national standards on Islamic transactions, ending with the commitment to accommodate Islamic financial reporting needs within IFRSs in cooperation with the IASB.

Reviewing the guidelines and other documents issued by the MASB in relation to Islamic financial reporting shows that there is an emphasis on conveying the message that the MASB has given careful consideration in developing those documents to Shariah principles. In addition, in what can be perceived as an attempt to gain religious legitimacy and to prove the acceptability of its approach from the Islamic viewpoint, the MASB attached to the Statement of Principles (SOPi-1) a special appendix[2] to provide a detailed explanation of the MASB's deliberations in relation to Islamic financial reporting at that time. This is in the form of an assessment, from an Islamic perspective, of financial reporting users and their information needs; the objective of financial statements, the underlying assumptions and qualitative characteristics of financial statements; the elements of financial statements and their recognition and measurement.

Within the same context, the MASB stressed that the shifts in its policy and the abandonment of its first agenda for developing separate Islamic standards took place after consultation with the Shariah Advisory Council (SAC) of Bank Negara Malaysia (BNM)[3]. However, interviewee (I-24), an academic from ISRA who was involved in

---

[1] Among those guidelines: Technical Release i-1 (TR i-1): Accounting for Zakat on Business; Technical Release i-2 (TR i-2): Ijarah; Technical Release i-3 (TR i-3): Presentation of Financial Statements of Islamic Financial Institutions (FRS i-1 previously); and Technical Release i-4 (TR i-4): Shariah Compliant Sale Contracts; Discussion Paper i-1 (DP i-1): Takaful; Discussion Paper i-2 (DP i-2): Sukuk; Discussion Paper i-3 (DP i-3): Shariah Compliant Profit-sharing Contracts.
[2] Appendix B: 'Assessment of Framework for the Preparation and Presentation of Financial Statements from an Islamic perspective'
[3] The views of the Sharia Advisory Council of BNM are attached as well to the SOPi-1 in a separate appendix.

some meetings of the MASB's Standing Committee on Islamic Financial Reporting, indicated that when the SAC scholars approved the applicability of the Malaysian approved accounting framework, they assessed its general concepts and assumptions and approved them in principle without going through details. He believes that those scholars might change their opinion if they went through details[1]. He actually indicated that there are still some Shariah scholars in Malaysia who do not agree on certain issues when it comes to reporting IFIs activities according to the conventional standards.

According to the MASB current approach, IFIs are required to follow the Malaysian approved accounting standards in order to report the 'substance' of their activities and products. Some interviewees who are involved in the MASB and its Standing Committee on Islamic Financial Reporting stressed the sufficiency of that approach[2]. They believe that there is a room for IFIs to reflect the legal and contractual nature of Islamic financial products using additional notes and disclosure. Technical releases, in their opinion, are considered good and sufficient guidance for IFIs if they need to provide additional disclosure on the characteristics of their products and transactions.

> The Board believes that the primary difference between financial reporting from an Islamic perspective and its conventional counterpart is not that of recognition and measurement, but the extent of information displayed (SOPi-1, Appendix A, A5).

However, other interviewees believe that the MASB standards (which are currently identical to IFRS) and its additional guidelines are not sufficient as a framework for providing reliable and transparent reporting by IFIs. Interviewees such as (I-11), (I-13), (I-22) and (I-24) gave several examples about Islamic financial products whose characteristics are not reported properly under IFRS requirements. Interviewee (I-11), a professor in accounting and former standard setter, stated in this context that:

---

[1] This is consistent with Ibrahim and Siswantoro's (2013) argument in this regard.

[2] Among those: interviewees (I-1), (I-3), (I-4), (I-5) and (I-6).

> The nature of transactions is different. The business relationship is different. The banker relationship is different. In terms of the legal forms, it is different. In terms of substance, there are some similarities in substance; yet, the form is different… It's not enough to look at the similarity between some conventional and Islamic products as the MASB does… In Islamic financial transitions, if you don't reflect the legal form you are not reflecting true things… Additional disclosure is not the solution because there are recognition and measurement issues… Specific Islamic financial products need specific accounting treatments, but let's set that aside. Just focus on a very general issue about Islamic financial institutions, the issue of non-Halal income. How do you treat it? How do you disclose it (according to IFRS)? (I-11)[1]

The issue of disclosing non-Halal income was also under scope by other interviewees, given the sensitivity of this issue for the Shariah legitimacy of IFIs activities. In this respect, according to Islamic Technical Release No.3 (TRi-3):

> An IFI is encouraged to disclose: (a) the amount and nature of earnings realised from sources or means which are not permitted by Shariah; (b) the amount and nature of expenses not permitted by Shariah; and (c) the manner of disposal of prohibited earnings (para 36).

It is interesting here to note the difference between the expressions used by AAOIFI and MASB in relation to this disclosure. While the MASB uses the expression "An IFI is encouraged to disclose", AAOIFI uses a stronger expression by saying "The financial statements should disclose" (FAS1, para 15). Also, the MASB does not determine the form of such disclosure while AAOIFI clearly requires this disclosure to be part of the elements of the financial statements.

Similarly, there is less emphasis in the MASB reporting guidelines on reporting the Shariah compliance of IFIs activities compared with the AAOIFI framework. Interviewees advocating the MASB approach believe that such reporting can be communicated using additional disclosure and notes. They also believe that Shariah audit report is adequate for those who want to ensure the Shariah compliance of IFIs. However,

[1] This statement is consistent with a statement by Dr Mohamad Nedal Alchaar, the former secretary general of AAOIFI who indicated that "[i]n order to appreciate the necessity for distinctive international accounting standards for Islamic finance, it is important to bear in mind the specific characteristics of Islamic financial institutions (IFIs). The operations of IFIs are conceptually and markedly different from those of conventional financial institutions" (cited in KPMG and ACCA, 2010, p.14).

interviewees (I-11) and (I-22) expressed their doubt about the ability of additional disclosure to convey a clear message about Shariah compliance. Interviewee (I-22) indicated that additional disclosure made by IFIs in reality is not satisfying; therefore, there should be clear requirements in this regard.

7.2.2 Profession Logic

Most Islamic countries were under western colonisation for different periods of time ranging between few decades (e.g. Syria, Iraq, Egypt) and more than one century (e.g. Malaysia, Algeria). Even though Islamic countries have achieved their independence, the common denominator between these countries is that they have been largely attached to and influenced by the western colonising countries' systems politically, economically, legally, and even culturally.

Within the accounting context, the imperial legacy still has its influence on the accounting systems of Islamic countries (Kamla and Haque 2017). Despite recognising the inconsistency of Western accounting thoughts with the philosophical principles of Islam (Ibrahim 2000b), they are still dominating accounting practices and accounting education in Islamic countries[1] (particularly the Anglo-American accounting system) (Alnesafi 2010, Altarawneh and Lucas 2012). In addition, the establishment of some international institutions such as the World Trade Organisation (WTO), the World Bank (WB) and the International Monetary Fund (IMF) contributes in strengthening that dominance by insisting on some Islamic countries, among other developing countries, to adopt IFRS as a benchmark for their financial reporting standards (Kamla and Haque

[1] In 1997, the Arab Society of Certified Accountants called for all of its 22 member countries to adopt the international accounting standards (currently IFRS) as their national GAAP, in the "Dubai Declaration" (Altarawneh and Lucas, 2012)

2017). That is regardless of the suitability of such standards for their particular socio-economic context.

Historically, Islamic financial institutions have faced pressures to harmonise their financial reporting practices (Karim 1999). The key challenge for IFIs has been finding a relevant financial reporting framework that can address the unique aspects of Islamic transactions and allow for comparability between IFIs and between those entities and their conventional counterparts without affecting the Shariah compliance of their reporting (Shafii and Zakaria 2013).

On the ground, two separate reports produced by KPMG and ACCA (2010) and AOSSG (2011) indicate that IFIs follow a number of reporting frameworks around the world. In some countries IFIs use IFRS, while in some other countries they use partly converged IFRS-based standards, IFRS with some additional requirements for IFIs, or special standards for IFIs exclusively. At the international level, the reports indicate that although there is still a belief that some aspects of Islamic financial reporting are not addressed by IFRSs, they remain the only internationally recognised set of standards that provides IFIs with a consistent framework and makes them comparable with their conventional counterparts.

7.2.2.1 Profession Logic in the Context of AAOIFI

In the search for the best way to achieve its objectives in developing financial reporting standards for IFIs, AAOIFI considered different methodological approaches when it was established. Two options were mainly considered at that time. The first was to start from Islamic teachings (Constructive Approach). The second was to start with what had been established in the contemporary conventional accounting thoughts and standards[1] (Pragmatic Approach) (Karim 1995). AAOIFI has chosen the pragmatic approach, which

[1] Literature on both approaches is addressed in Section (3.4).

makes it consistent with international financial reporting practices and thoughts at the expense of developing standards derived purely from the principles and objectives of Islamic rulings.

Utilising conventional accounting objectives, concepts and assumptions can be seen clearly in the conceptual framework of AAOIFI. Reviewing this framework shows that AAOIFI derived most of its framework's objectives, concepts and assumptions from those objectives, concepts and assumptions established in conventional accounting and, if necessary, it tried to amend and add to them in order to be more accommodating to the needs of IFIs' financial reporting.

Interviewees who were previously involved in AAOIFI (e.g. I-7) and those who are currently involved (e.g. I-8; I-9; I-10) emphasised the pragmatic approach of AAOIFI and maintained that AAOIFI has never tried to 'reinvent the wheel'[1]. They admired the quality of the current international accounting standards which, as they stated, have been developing over a long period of time and accepted widely around the world. This, in their opinion, makes it difficult for AAOIFI to ignore and depart from this well-established framework[2]. Vinnicombe (2010) cited in this regard that AAOIFI believes that the efficiency gained from the previous work of international accounting bodies will facilitate a timely implementation of its own standards without violating Shariah. However, AAOIFI's approach has been subject to wide criticism from Shariah scholars and academics as addressed in Section (3.4.1).

[1] Similarly, as an emphasis on this approach, the AAOIFI's Accounting and Auditing Board members have recently advised AAOIFI's General Secretariat and the technical teams that "the draft standards are expected to be formulated through a technical methodology that takes into account relevant international standards and contemplate convergence wherever possible, without compromising Shari'ah rules and precepts" (AAOIFI-D5).

[2] Participants' perception of AAOIFI's approach is presented in detail in Section (6.2.3.2)

One of the most common criticisms in this context is the dependence of its framework on the conventional concept of 'decision usefulness'[1] (Maurer 2002, Kamla 2009, Maurer 2010). This concept concentrates on the information usefulness to individual shareholders and capital providers, while the focus in Islam ought to be on the wider interests of society in addition to the interests of those who are conventionally considered as primary information users (Ibrahim 2000a, Ariff and Iqbal 2011). Analysing AAOIFI's conceptual framework and standards shows that there is actually a noticeable emphasis on safeguarding the interests of capital providers and providing them with information that assists in decision making[2].

> The usefulness of information must be evaluated in relation to the objectives of presenting financial statements which are focused on helping their primary capital providers make decisions (AAOIFI-D2, Conceptual Framework, p. 26)[3].

On the other hand, some conventional accounting concepts and principles that AAOIFI has amended to be more suitable for Islamic reporting requirements were also criticised by some interviewees. For instance, interviewees (I-1) and (I-4), who advocated the applicability of IFRS to IFIs' reporting, strongly criticised AAOIFI's approach which deals equally with the substance and form of transactions and makes it necessary to reflect both of them in the financial reports. Those interviewees indicated that the focus of AAOIFI on reporting the legal reality and contractual implications of IFIs' activities may result in some requirements with which neither accountants nor regulatory authorities are familiar. In their opinion, not being in line with the prevailing practices would definitely result in an adverse impact on the acceptance of AAOIFI's standards. As an example,

---

[1] This concept has been identified in the literature as the main source of contradiction between Islamic and conventional accounting (Ibrahim, 2000a).

[2] More analysis on the issue of the decision usefulness objective and AAOIFI is provided in Section (7.2.3.1)

[3] The conceptual framework adds that the priority of choosing a specific accounting method over other alternatives and making a specific disclosure choice should be based on the objective of information usefulness for decision making.

those interviewees raised the controversial issue of investment accounts treatment according to AAOIFI's standards:

> If you look at AAOIFI, they did create another line between liability and equity to report investment account capital, whereas in IFRS, there's no such thing as in between; it is either liability or equity. Of course, you need additional disclosure to explain what the product is all about. You don't really need a different classification… That would not probably help make it acceptable to the masses (I-4, Partner of Ernst & Young-Islamic Financial Services).

In fact, the acceptance of AAOIFI standards has been seriously challenged by the worldwide implementation of IFRS, which has been the benchmark and mainstream of accounting practices around the world. This can be clearly seen with the fact that listed companies in over than 116 countries around the world prepare their financial statements according to IFRS (IFRS 2015). This makes it difficult for IFIs to depart from this internationally recognised financial reporting framework. That challenge was acknowledged by the Deputy Secretary General of AAOIFI in his presentation on the strategic plan of AAOIFI[1]:

> Right now, we are facing some big challenges. The biggest challenge that we are facing now is the globalisation of accounting and financial reporting standards. IFRS, except for the US, is becoming the only acceptable accounting framework and even between American standards and IFRS, the convergence project is already going on. Globally, IFRSs are getting the real status of an accounting bible. They are taking the role of the divine guidance for accounting fraternity.

Almost all interviewees acknowledged the aforementioned challenge. More seriously, in line with what Kamla and Haque (2017) mentioned in their article, interviewee (I-7), a former ranking executive member in AAOIFI, referred to the fact that some major IFIs, which previously implemented AAOIFI standards, are currently refraining from the AAOIFI framework because of the trends of international accounting harmonisation.

---

[1] This is in front of the 10th Annual AAOIFI – World Bank Conference on Islamic Banking and Finance, 6th-7th of December 2015, Manama-Kingdom of Bahrain. Available at: https://www.youtube.com/watch?v=Ipi6z85gQ_4

Another executive in AAOIFI, interviewee (I-8), argued that in 1991, when AAOIFI was established, international accounting standards were not accepted and adopted at a scale as they are now. He tried to explain the motivation of Islamic countries to require the application of IFRS for all listed firms including IFIs. He attributed that to 'push and pull factors'. He indicated that countries like Indonesia, Saudi and Turkey, as members of G20, are subject to pressures to adopt IFRS. Also, regulators in some countries require IFRS implementation from the prudence and discipline perspective (push factors). However, some other countries, such as Malaysia, adopt IFRS as part of their national economic development plans to attract foreign investments. Therefore, they need to have a financial reporting framework which matches with the major economy in the world (pull factors)[1].

In fact, AAOIFI has reacted to that development at the international scene and reviewed its position from the international accounting harmonisation efforts. Consequently, it has decided to follow a new strategy that aims to bridge the gaps between its standards and IFRS especially in areas that do not affect the Shariah compliance of its standards[2]. According to interviewees (I-8), (I-9) and (I-10), this new policy enhances the acceptance of AAOIFI standards in the current globalised business environment.

> We honestly believe that IFRSs are high quality standards, and we don't want our followers to be significantly different from the global practices… We will keep our standards simple and brief, and we will leave the detailed application guidance and other things to IFRS… Our framework allows that you may refer to IFRS unless it has a Shariah implication, so the idea is to harmonise as maximum as possible without compromising product reporting and Shariah (I-8, Executive in AAOIFI).

Interviewee (I-30) commented of this new policy by stating that:

---

[1] The MASB's chairman comments on IFRS adoption in Malaysia: "We are also pleased to note from international commentators that they perceive that our local capital markets have been enhanced by the adoption of IFRS in Malaysia and that the MASB is seen as a role model for new IFRS adopters" (MASB-D8).

[2] See Section (6.2.3.3)

> AAOIFI needs to be realistic. We are not at the same scale of power to face the international standards of IASB. AAOIFI does not have the financial resources, quality standard setting process, and researchers [that IASB has]. We need to be realistic. If the convergence could be achieved, that would be perfect (I-30, Senior Accountant in an IFI).

However, this development in AAOIFI's strategy is likely to attract more critiques of its approach, especially among those who believe that AAOIFI's policies contribute in deepening the dominance of the Anglo-American accounting practices at the expense of developing practices based on Islamic values[1].

7.2.2.2 Profession Logic in the Context of the MASB

The MASB initiated a project for developing a separate set of Islamic financial reporting standards. However, this project did not totally depart from conventional accounting practices but rather took those practices into consideration in developing its first standard (Nasir and Zainol 2007). According to interviewee (I-2) who was part of the MASB's project, this fact resulted in overlaps between some aspects of that standard and the requirements of the MASB's conventional standards. Such overlaps were actually expected, given the fact that those who were involved in that project came from conventional backgrounds and that there was a "lack of intellectual resources in the country that possess expertise in both accounting issues and the Shariah principles" (MASB-D10).

At a later stage, when the MASB's project shifted its policy from developing separate standards to developing supplementary guidelines that support its conventional standards, the influence of conventional accounting practices and thoughts increased. This can be seen clearly in the MASB's Statement of Principles (SOPi-1) which emphasises the pragmatic approach in regulating Islamic financial reporting.

> In developing the Statement, the Board had decided to consider established principles in conventional accounting thought, then accept those that are

[1] See Kamla and Haque (2017) for example

> consistent with Shariah, modify or reject those that are not, and add provisions for Shariah requirements where conventional equivalents are absent (SoPi.1, Appendix B).

Furthermore, as a part of the MASB plan to converge with IFRS starting from 2012, the Malaysian-approved accounting standards have been made identical with IFRS (MASB-D15). This implies that, in reality, Malaysian IFIs, among other listed entities, have been required to apply IFRS.

The official position of the MASB, which was presented by a ranking board member, interviewee (I-1), adopts the notion that IFRS are applicable to the substance of Islamic financial contracts. He argued that having different principles for Islamic financial products does not justify different reporting practices.

> If you are talking about business, business is set up with the view of making profit. Accounting is there to reflect what this decision will make, but it doesn't necessarily mean that there are two separate companies, Islamic and non-Islamic, because, to us, business is business. Now you may want to carry out the business in a particular way, but it doesn't justify another set of accounting standards… As a board, we don't accept that just because you are applying certain principles, it means that you have separate accounting standards... So, we are accounting for the economic activities and we don't have a religious lens on it… We don't believe that there is a need for a separate set of accounting standards (I-1, ranking board member in the MASB).

Within the context of the debate about the importance of reflecting the legal form of Islamic financial products, opposite to AAOIFI's position, interviewee (I-1) indicated that the MASB does not agree on different recognition and measurement requirements for the purpose of showing the legal consequences of Islamic financial products. He stated that the MASB believes that the IFRS framework is good enough to cater for Islamic financial products. Thus, IFIs among other business entities are expected to report the economic reality and substance of their activities under IFRS. Yet, he argued that, if necessary, IFIs can still show the Islamic characteristics of their products by providing additional disclosure and notes[1]. Moreover, interviewee (I-1) added that if stakeholders have concerns about the compliance of IFIs to Shariah principles, they can refer to the Shariah audit report section in the annual report.

In fact, the data analysis shows that the MASB has used this discourse widely to defend and justify its position. In addition, using this discourse, the MASB has made great efforts to promote this approach nationally and internationally through its influence in the AOSSG in addition to chairing the IASB Islamic Finance Consultative Group[2]. Moreover, the participants who are involved in the MASB's Standing Committee on Islamic Financial Reporting such as interviewees (I-4), (I-5), (I-6) and (I-14) seem to be totally convinced of that discourse used by the MASB's officials to defend its position[3]. Investigating their opinions shows that they believe that using IFRSs for all industry sectors is justified in a way or another as they are not based on 'pre-religious assumptions'; therefore, they can cater for all kinds of businesses and transactions. In addition, there was a general perception among most of the interviewees involved in the accounting profession in Malaysia that IFRSs are high quality standards that have developed over a long period of time to represent the 'best practice' framework in the accounting field. They believe that IFRS helps produce high quality, unbiased information about the substance of any sort of transactions, including those Islamic ones. Moreover, there was almost a consensus among those participants that the decision of convergence with IFRS is one of the main reasons for abandoning the MASB's agenda for developing separate Islamic accounting standards. Interviewee (I-11) further argued in

---

[1] The Statement of Principles (SOPi-1) provides detailed explanation about the MASB position from the substance & form debate in the context of Islamic financial reporting.
[2] "Promoting the adoption of IFRS within Islamic banking has been of particular importance to the MASB" (MASB Chairman, MASB-D6).
[3] The MASB's Standing Committee on Islamic Financial Reporting is responsible for advising the MASB on the development and maintenance of financial reporting framework for entities engaged in Islamic finance.

this regard that Malaysia has taken the decision of full IFRS standardisation rather than achieving harmonisation only, as it was the case in the past.

> There is a shift from the harmonisation agenda towards international standardisation… Because of that, the financial reporting for Islamic financial institutions has to shift as well. If we have our own separate national standard for Islamic financial institutions, it will not fit well with that development (I-11, Professor in accounting and former standard setter)

Similarly, interviewee (I-4) believes that IFRS convergence agenda have changed the MASB priority in relation to Islamic financial reporting.

> I believe we have the bigger agenda of trying to converge with IFRS in 2012. Those are the reasons why, rather than trying to issue our own standards in Islamic finance, we ought to try other routes to do it" (I-4, Partner of Ernst & Young and member in the MASB's Standing Committee on Islamic Financial Reporting).

The route he mentioned in his interview was using the MASB influence to lobby IASB and "get it to hear us out about what's the implication of Islamic finance on IFRS" (I-4). As presented in Section (6.3.2), that approach was considered by the MASB's Chairman as an effective alternative way to accommodate Islamic financial reporting needs. However, some academics and standard setters such as interviewees (I-11), (I-13) and (I-24) were sceptical about the feasibility of such approach. They were not optimistic that the IASB would effectively consider Islamic financial reporting demands in developing IFRSs.

> I don't see real evidence yet. They (MASB) are involved, yes, but I don't think they are working very hard to lobby and to bring the idea that we are different; Islamic financial transactions are different and should be treated differently… Do they have the political wing? Do they have the support of the IASB Board?… I don't put much hope in this agenda (I-11).

From a different perspective, the participants referred to the fact that current accounting thinking, both academically and professionally, has been embedded in conventional accounting practices in general and IFRS in particular. According to interviewee (I-24), the embeddedness in conventional accounting thoughts and the familiarity with its practices could be the reason behind the comfortability in using IFRS for Islamic financial reporting in Malaysia.

> It may be because we are more familiar with IFRS. When you are more expert on something, you adopt it and you see there are no issues. So, what you are good at, it might influence you (I-24, Academic in ISRA)

Within this context as well, interviewee (I-3) indicated that it is difficult to depart from the mainstream and the dominant regulatory framework.

> Actually, sometimes, when you develop standards and you want your standards to be implemented, you have to work within the general requirements of the regulators. If you depart from the norms, then people are not going to use your standards (I-3, Malaysian academic and member in the MASB's Standing Committee on Islamic Financial Reporting).

The embeddedness of actors in conventional accounting practices and thoughts has been identified as one of the most important challenges for developing and implementing an Islamic financial reporting framework in Islamic countries in general and in Malaysia in particular. More details on this issue are presented in Section (8.3).

7.2.3 Community Logic

Community logic related to Islamic financial reporting finds its root in the religious philosophical principles of Islam. From the Islamic point of view, human is a representative of God. Therefore, it is his or her responsibility to look after God's creations (Ketola *et al.* 2009). God has given humans the sacred duty of the stewardship of earth's resources; consequently, individuals are expected to be socially responsible to others in doing their business activities. According to Ariff and Iqbal (2011), Islamic business principles, "allow people to earn their living in a fair and profitable way without exploitation of others, so that the whole society may benefit". They add that the emphasis in Islam is on "the welfare of the community over individual rights ... [and] the interests of the entirety of the Muslim society, rather than on the special interest of individual Muslims" (p. 45).

Within the context of accounting and corporate reporting, it has been a common sense in the contemporary accounting thoughts that capital providers are considered the primary user group whose information needs ought to be accommodated. However, from an Islamic perspective, all stakeholders should be taken into consideration equally in conformity to the spirit of fairness and justice in Islam (Haniffa and Hudaib 2002). This makes the 'decision usefulness' objective in its conventional meaning unacceptable in Islam. Instead, an accounting system which is based on the framework of accountability (rather than decision-usefulness) and focuses on the responsibility of an accountee to be accountable to God and society in addition to capital providers could be more suitable for Muslim users, corporations and societies. Otherwise, the implementation of conventional accounting practices in Islamic entities may result in an incompatibility between their objectives and the tools by which they report their performance (Ibrahim 2000a, 2000b).

Based on this argument, business entities operating according to Islamic principles are expected to incorporate more reporting on the social aspects of their activities than that provided by other entities which are not governed by moral or religious considerations. Such reporting should be directed to a wide range of stakeholders who are involved in and affected by the activities of those entities. This includes stockholders, employees, suppliers, customers, competitors, governments and, more importantly, the society as a whole, since the society has the right to know the effects and contributions of every organisation on its well-being[1].

Theoretically, Islamic finance industry has emerged with the intention of reviving the social function of wealth. IFIs' general objective does not differ from conventional

[1] See Section (2.4.5) for more details about Islamic business entities social reporting expectations.

banks as they aim to attract individuals' savings and channel them into different economic activities. However, IFIs are not supposed to consider profitability per se as the only criterion for doing business. They should also consider social outputs and contributions. IFIs are established to contribute to the social security of the society through different mechanisms, such as *Zakat*, *Qard Hasan*[1], charity contribution and investing in socially beneficial projects (Abdel-Magid 1981, Ibrahim 2000a, Farook *et al.* 2011). Consequently, IFIs' reporting is expected to reflect their contributions towards such issues. In addition, IFIs annual reports are expected to be directed not only to the benefits of their shareholders but also to the benefits of all stakeholders concerned.

Within the context of this particular study, it can be argued that any attempt to develop accounting standards for IFIs needs to take social reporting requirements and expectations into consideration. This is because the notion of being socially accountable to the community is deeply rooted in the spirit of Islam.

7.2.3.1 Community Logic in the context of AAOIFI

Consistent with the presentation provided in the previous section on community logic, exploring the participants' views showed that there is an emphasis on the Islamic business principles that allow people to earn their living and make profit in a fair and ethical way without the exploitation of others.

> Under Islam there is a great emphasis on the public good. That is while it is legitimate for you to make a profit in your business; it is not a profit at any cost. It is not a profit arising out of exploitation or taking advantage of less privileged people… Islam emphasises more on such general good even arising out of private enterprises (I-19, Academic).

Interviewees (I-10) and (I-16) stressed that Islam requires its followers to make a balance between material, moral and spiritual considerations when conducting business.

---

[1] Qard Hasan is a benevolent, free-interest loan to those who are in exceptionally difficult financial circumstances.

> It's long recognised, as long as it is done through a halal way, there is no limit for anybody to create his wealth. He (a Muslim) can be a millionaire or billionaire in terms of wealth accumulation as long as it is done in a correct manner, a Shariah compliant way, in addition to that, he has the responsibility to pay *Zakat* and is encouraged to do charity as well. It is a balanced kind of thing from the Shariah point of view (I-16, Shariah Scholar/Academic in ISRA).

From the reporting perspective, some academic interviewees such as (I-23), (I-27) and (I-30) indicated that recently, contemporary corporate reporting has witnessed increasing trends of ‘CSR reporting’. However, in their opinion, this reporting is still in its majority ‘shareholder-oriented’, whereas, as interviewee (I-27) expressed, accounting in Islam is a ‘justice tool’ and therefore reporting from the Islamic perspective should be unbiased to specific user groups at the expense of others. Besides, interviewee (I-27) added that conventional financial reporting does not provide a suitable framework for *Zakat* and does not include requirements on *Qard Hasan*. An Islamic financial institution’s CFO, interviewee (I-29), suggested that such issues do not need to wait for international standards to accommodate; rather they need local guidelines to be issued by local authorities based on local needs.

Reviewing AAOIFI work shows that there are considerable efforts made in this regard. These efforts cover two main areas. The first is the societal and ethical expectations of IFIs activities. The second is the way of communicating and reporting such issues to various stakeholders.

AAOIFI emphasises that Islamic principles aim to balance the interests of society with those of individuals. Financial Accounting Standard No.1 states that IFIs act as a vehicle to attract individuals’ savings and invest those savings in a way that benefits both individuals and community at large (Preface). Similarly, the Governance Standards for Islamic Financial Institutions No.6 asserts that IFIs play an important role in promoting an atmosphere in which commercial activities can be undertaken in the best interest of society consistently with Shariah principles (para. 32). According to that standard as well, IFIs are different from other businesses due to their public purposes and wider range of stakeholders (para.3). Consequently, those who are in charge of IFIs governance are “held to the highest fiduciary standards since they are accountable not to the equity holders who appointed them but also for the safety of all key stakeholders as well as the community the IFI serves” (para. 3).

It can be noticed that the issue of IFIs social responsibility has been mainly addressed in AAOIFI’s governance standards. This is through dedicating a special standard for that purpose[1]. That standard aims to prescribe a uniform guideline on CSR activities and ensure that these activities are communicated in a uniform, truthful, transparent and comprehensive way to relevant stakeholders to whom an IFI is accountable (para. 8). The objective of the standard is to encourage IFIs to “take a proactive role in applying CSR to all aspects of their operations” (para. 9).

Consistent with the Islamic view, which entails that social responsibility incorporates both forbidding evil and injustice and enjoining good and justice, that standard includes prescriptions of positive actions to be undertaken as well as negative actions to be avoided. Moreover, based on their relative importance, social conduct and disclosure requirements under that standard are classified into two categories. The first category includes mandatory requirements for which disclosure should be made on specific responsibilities which an IFI must fulfil. The second category of requirements includes recommended social conduct and voluntary disclosures associated with that conduct. [2]The standard requires that mandatory requirements apply to all IFIs regardless of their size, legal form or the country in which they operate, while the recommended section is only applicable to IFIs which have the capacity to comply with its requirements

[1] Governance Standards for Islamic Financial Institutions No. 7: ‘Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions’
[2] The disclosure requirements of that standard are required to be presented in a separate CSR report or other reports that are specifically targeted towards the general public (para. 34-35).

(para. 2). The logic behind this classification, according to appendix C of the standard, is based on the Qur'anic principle of not imposing responsibilities on individuals (and, in extension, organisations) beyond their endurance.

Moving back to its accounting standards, in its conceptual framework, AAOIFI identifies information that assists in evaluating the IFI's ability to carry out its social responsibility as one of the common information needs of financial reports users. Accordingly, it considers producing this information as one of the objectives of IFIs financial reporting. Moreover, the conceptual framework and Financial Accounting Standard No.1 identify the statement of source and use of *Zakat* and charity fund and the statement of source and use of *Qard* fund as primary statements that IFIs need to prepare.

In the context of *Zakat* reporting, *Zakat* has been given special consideration in AAOIFI's requirements, given its importance in Islam[1]. *Zakat* has been identified by the conceptual framework of AAOIFI as one of the objectives of IFIs' financial reporting. Financial Accounting Standard No.1 requires IFIs to prepare a separate statement of sources and uses of *Zakat* fund as part of the 'complete set of financial statements'. Moreover, given the importance of this item in addition to its interrelation with IFIs' assets and liabilities measurement issues, AAOIFI has dedicated a separate standard to deal with *Zakat* accounting and reporting (FAS No.9) [2].

On the other hand, although AAOIFI's conceptual framework and standards have taken the social aspects of IFIs activities into consideration, its approach has been criticised for its dependence on the conventional concept of 'decision usefulness'[3]. Interviewee (I-27) stated in this context that financial reporting standards should make a

---

[1] It is interesting to mention here that, given its importance, *Zakat* was the first thing that came to most of interviewees's attention when they were asked about the social contribution of Islamic business entities.
[2] The aim of this standards is "setting out accounting rules for the treatments related to the determination of *Zakat* base, measurements of items included in the *Zakat* base and disclosure of *Zakat* in the financial statements" (Financial Accounting Standards No. 9, Preface).
[3] See Section (3.5.1)

balance and achieve the interests of different stakeholders equally. Therefore, AAOIFI is not supposed to be biased in its standards to a specific user group at the expense of others. However, he admitted the difficulty of addressing the information needs for every single user group, given the time and cost constraints. Interviewee (I-13), a professor in accounting and MIA council member, believes that AAOIFI's conceptual framework is still wider in its focus than the conventional conceptual framework of IASB.

Analysing AAOIFI's conceptual framework shows that there is an emphasis on safeguarding the interests of capital providers in terms of providing them with information that assists in making their decision.

> The usefulness of information must be evaluated in relation to the objectives of presenting financial statements which are focused on helping their primary capital providers make decisions (AAOIFI-D2, Conceptual Framework, p. 26).

This emphasis can also be seen in determining the qualitative characteristics of high-quality accounting information. AAOIFI's conceptual framework identifies the decision usefulness of information for capital providers as one of the main characteristics. It adds that the priority of choosing a specific accounting method over other alternatives and making a specific disclosure choice should be based on the objective of information usefulness for decision making.

However, when determining the primary financial statements that IFIs need to prepare, the conceptual framework declares that primary financial statements should provide information that "assist[s] the capital provider and other users in their decisions" (AAOIFI-D2, p. 12). In this statement, AAOIFI's conceptual framework does not ignore the needs of other stakeholders. Nevertheless, it can be clearly seen that it gives capital providers the priority by naming them firstly and specifying them particularly among other users. Furthermore, AAOIFI's conceptual framework concludes by stating that the main objective of financial accounting is to provide information that assists the users of financial reports in "making decision both with regards the financial aspects as well as the Shariah compliance considerations" (AAOIFI-D2, p. 37). In this statement, the conceptual framework does not determine clearly who those 'users' are. However, in the following section of the conclusion, it is stated that according to the entity perspective which AAOIFI adopts, "the information presented in financial statements is, nonetheless, targeted primarily at capital providers" (AAOIFI-D2, p. 37). Yet, this statement is followed again by stating that adopting this perspective does not preclude IFIs from including information relevant to other stakeholders in their financial statements. It can be argued here that even though there is an emphasis in the AAOIFI's conceptual framework on the concept of decision usefulness of accounting information to the main users of capital providers, it seems that AAOIFI is keen to demonstrate that its framework does care about other stakeholders as well. This implies that the literature that overly criticises AAOIFI's framework for its dependence on the concept 'decision usefulness'[1] is, to some extent, amplifying this issue by not showing the whole picture, not acknowledging AAOIFI's social requirements and recommendations, and mixing between AAOIFI's policies and IFIs' current practices in this regard[2].

7.2.3.2 Community Logic in the Context of the MASB

Theoretically, as stated in Section (7.2.3), there is an emphasis in Islam on the social aspects of business activities. The community has the right to know how a business contributes, either positively or negatively, to its welfare. Consequently, corporate reporting should be directed toward a wide range of stakeholders. This reporting should include both financial and non-financial aspects of business activities. Malaysian interviewees stressed on these principles. According to interviewee (I-11):

[1] Such as Maurer (2002), Kamla (2009) and Kamla and Haque (2017)
[2] Detailed discussion on IFI's current social practices and reporting is presented in Section (7.2.3.3).

> In the case of disclosure, the needs of the stakeholders of Islamic banks are different in a sense that their interest is not merely business, commercial interest, but more of social and ethical interests. So, their needs for information will definitely be different. It is not restricted to the normal conventional western way of accountability. It is very much horizontal accountability, accountability to mankind as a whole and accountability to God, which require certain information to be provided in a more transparent manner, more comprehensive manner (I-11, Professor in accounting and former standard setter).

Interviewee (I-22) added in this context:

> I think what should be in Islamic banks is, rather than you report only the profit maximization, the profit and loss. At the same time, I would also like to see welfare reporting, what they have done to the society… as AAOIFI mentioned, a statement of charity, a statement of *Zakat*. So, these are what we expect Islamic institutions to disclose to the market, which is not found in the existing requirement because it is not required by IFRS (I-22, Professor in accounting, IIUM).

The data analysis shows that the MASB's project for developing Islamic standards did not set up clear agenda that clarified its position towards social reporting, except for a plan announced in 2004 to issue a specialised standard for *Zakat* measurement and reporting (issued later as a technical release)[1]. However, in 2009, when the MASB abandoned its plan to develop separate Islamic accounting standards, it explained its position and its expectation with regard to IFIs' social reporting in the Statement of Principles (SOPi-1). The MASB states in this document that its framework is based on providing information that mainly meets the needs of capital providers. However, it acknowledges that such information may not sufficiently meet the needs of the other user groups. Accordingly, the Statement of Principles (SOPi-1) recommends that

> [f]inancial reports shall be prepared to meet the information needs of users without limiting the reports to the information needs of any user group or groups. Islam upholds the principle of social accountability. An entity does not only owe a fiduciary duty to investors, but is accountable to society as a whole. The preparation of financial reports to meet the needs of investors may not necessarily meet the needs of other users. Thus, additional information may be included in financial reports to meet the needs of those other users (Para 3-4).

[1] Reviewing documents (MASB-D11), (MASB-D12) and (MASB-D13) shows that this technical release was planned to be issued as a separate standard under the abandoned project for developing Islamic dedicated standards.

In other words, the MASB admits that its reporting framework is short of meeting the needs of different user groups and the social reporting requirements from the Islamic perspective. Therefore, it encourages taking these needs into consideration when preparing corporate reporting. The MASB believes that such needs can be accommodated using additional disclosure. This disclosure can be done, according to Appendix B of the Statement of Principles (SOPi-1), in a form of notes or separate social and environmental reports.

Ranking board members in the MASB, interviewees (I-1) and (I-4) advocated the MASB position in this regards. They argued that there are currently some alternatives in the contemporary reporting system that help in providing social disclosure such as sustainability reporting and integrated reporting. They added that there is nothing to stop IFIs providing disclosure on how they conduct their activities and the impact of those activities on the society. However, some other interviewees still criticised the MASB's approach. They believe that providing pronouncements and recommendations to encourage social reporting does not have that same power as it is the case if issuing dedicated standards, especially in light of the fact that the contemporary reporting framework is still 'shareholder-oriented'.

7.2.3.3 Current IFIs' Social Practices and Reporting

In order to understand the relative weight of community logic in shaping and influencing the standardisation policies of AAOIFI and MASB, it is important to explore the social practices and reporting made by IFIs and the importance given to them by the Islamic finance industry.

Consistently with the findings of Aribi and Gao (2010), the participants involved in this study indicated that current IFIs' reporting does not differ from that of conventional banks. They argued that IFIs' reporting has the same shareholder-oriented focus of their conventional counterparts. Moreover, when they were asked about IFIs' social reporting, some participants attributed the fact that Islamic based businesses do not give importance to social reporting to a problem in the business model itself. In line with Haniffa and Hudaib (2010), Kamla and Rammal (2013) and Kamla and Haque (2017), they believe that IFIs are not contributing enough to the welfare of the society and they still operate under the capitalistic mentality which seeks wealth maximisation regardless of the society's interests.

> The industry should work out for the community but the industry is not doing so, so you should not blame accounting!...The Islamic financial industry should be focusing on social issues. Then accounting will also need to report it. If they are not doing that, then reporting will be useless. If we want to report on social welfare, what would we put in there?, which the industry is not doing. So, that is the shortcoming that we have. We have to change the industry to be more encompassing of the social welfare, then the need of reporting will come naturally (I-11, Professor in accounting and former standard setter).

Interviewee (I-23) supported this statement and added that even though social caring values are embedded in Islamic teaching, when IFIs act socially and report for their social activities, they do so under the influence of conventional trends of social reporting that have recently emerged in the west. Some other participants also questioned IFIs' activities per se and wondered if those activities are 'Shariah-compliant' or 'Shariah-derived'. They argued that what IFIs are looking to achieve is the compliance with Shariah rather than being inspired by upper objectives of Shariah.

> IFIs still operate in capitalistic environment…IFIs comply with the ruling, but they do not comply with the general objectives. The ideal situation is that you comply with both. Not complying with the objective does not make your transaction invalid. Nowadays we talk about *Makased Al-Shariah* (Shariah objectives). *Makased* is not something that will invalidate the underlying contract. It is something that is desirable for you to fulfil. Not fulfilling it will not make things *Haram* (prohibited), but of course you should strive in order to fulfil it. You know, to a certain extent [IFIs] are neglecting this nowadays… People are talking about the value propositions on Islamic finance, you know, there are concerns about fulfilling the higher objective of Islam (I-3, Malaysian academic and Sharia board member in AAOIFI).

Similarly, interviewees (I-21) and (I-25) referred to the fact that Islamic finance industry has been restricted by its over-focus on the contractual aspects of its products. This is at the expense of achieving the Shariah objectives that underpin such contracts and products. This leads to the fact that IFIs' activities are legally correct but morally unable to achieve the socio-economic objectives of Islam.

Within the same context, a professor in accounting, interviewee (I-22), argued that there should be a distinction between Shariah advisers who set in IFIs Shariah supervisory boards and advise them in their operations and those 'Shariah economists'. She stated that Shariah advisers always work to ensure that everything is Shariah compliant, while, Shariah economists want to ensure the fair distribution of wealth and argue that Islamic banks should contribute in helping people improve their life conditions. Another Malaysian academic, interviewee (I-11), gave an example in this respect by questioning IFIs' position from 'microfinance' which is needed badly in Islamic countries in order to improve their economy. He indicated that most IFIs tend to refrain from microfinance because of its low profitability.

In this discussion, it was necessary to hear from bankers and IFIs representatives to understand their perspective on this issue. Those participants admitted that their institutions seek profit maximisation and condemned putting too much expectation from IFIs. In this respect, after listing the achievements and contributions of its bank to the society, interviewee (I-5), a CEO of an Islamic bank, indicated that his bank is owned by a large number of shareholders who invest their savings in this bank to get profit. He argued that those shareholders might not be rich; therefore, he needs to take care of their interests. He wondered why people expect more from an Islamic bank and they know it is not a charity organisation. Similarly, interviewee (I-6) stated that IFIs need to make a balance between different considerations. This includes ensuring the Shariah compliance of their activities, looking after shareholder's interests, and being responsible to society. However, he stressed that IFIs need to make profit. Otherwise, they would not be able to contribute to the society. A former IFI accounting practitioner, interviewee (I-30), believes that there is 'over-expectation' from IFIs. He clarified that Muslim traders are only required by Shariah to conduct business in a permissible (Halal) way without harming others and to pay *Zakat*. He indicated that paying charity and other contributions to the society are not mandatory but encouraged in Islam; those who do these activities are promised with great reward in the hereafter but they are not obligated to do so.

Interviewee (I-30) also referred to another interesting issue. This issue is using CSR activities by IFIs in order to acquire religious and social legitimacy. Interestingly, it is stated clearly in AAOIFI's Governance Standard No.7[1] that the standard helps IFIs engage in productive CSR activities and disclose these activities to their stakeholders in order to ensure that IFIs legitimacy and reputation are preserved. However, this standard points out that CSR activities are misunderstood and some IFIs engage in activities that are not within the definition of CSR as advised by Islamic scholars; rather, they are perceived to be marketing ploys with the aim of enhancing their reputation with little social and environmental improvements. It states that CSR activities must assist individuals as well as societies to improve their living and environmental conditions and that Islam refuses conducting CSR activities for the purpose of enhancing one's own image[2].

7.2.4 State Logic

Islamic countries have been influenced by their colonising countries' systems. The impact of this influence can be particularly seen in the political, legal and economic systems of

[1] Governance Standards No. 7: 'Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions'

[2] See Appendix B of the standard.

those countries. In addition, the political and economic ideologies (e.g. Capitalism and Communism) which dominated the international scene in the 20th century found a fertile ground in some of those countries. At that time, some countries chose to follow the Communist camp (e.g. Syria) while some others chose to implement Capitalist policies (e.g. Turkey). Also, some countries were swinging between the influences of both systems (e.g. Egypt). At the same time, the Islamic world witnessed some political movements of 'Islamisation'. The purpose of those movements was the establishment of political, legal and economic systems claimed to be grounded on Islamic principles (e.g. Iran, Pakistan, Sudan). These different influences play an important role in determining the extent in which a government can/should intervene in the different aspects of the economic life of the country.

Within the context of accounting regulation, political and economic systems determine the distance between the central governmental authorities and accounting associations and bodies. The ideological and philosophical influences mentioned above have also played an important role in shaping the accounting systems of developing and Islamic countries (Alnesafi 2010).

7.2.4.1 State Logic in the Context of AAOIFI

Going back in the history, IFIs firstly emerged as distinct entities in the financial industry which was dominated by the conventional mode of finance. At that time, there was a fear that national regulatory bodies may intervene to impose certain regulatory frameworks which might not fit with the nature of IFIs activities (Karim 1995). Interviewees with a long experience in the Islamic financial industry (e.g. I-29 and I-30) also highlighted that there was confusion in how regulatory bodies should deal with this emerging industry, given the religious sensitivity of its activities. Interviewee (I-29) stated that in some cases IFIs were under the pressure of losing their 'licence' if they did not comply with the national regulatory guidelines. The first Secretary General of AAOIFI, Karim (1995), states that, consequently, some Islamic financial institutions took the initiative at that time and established the independent standards setting body of AAOIFI with the purpose of self-regulating their financial reporting rather than leaving this matter to their regulatory authorities.

Interviewee (I-8) argued that, in general, there are two reasons of fear from the intervention of regulatory authorities. The first is when business entities want to avoid following the regulatory requirements and standards. However, he argued that this does not apply to the case of AAOIFI as it issues stricter additional requirements on IFIs. The second reason in his opinion, which applies to the AAOIFI's context, is the fear that regulatory bodies would not fully understand the nature of IFIs' activities.

> If they don't understand me well, they won't treat me fairly. So, AAOIFI addresses this issue. It reflects the accounting requirements that actually are more appropriate for reporting for Islamic financial institutions (I-8, Executive in AAOIFI).

The AAOIFI's initiative has achieved its aim in avoiding conventional accounting requirements on IFIs in a few countries which implement its standards. However, even though AAOIFI has made considerable efforts to promote its standards, many other countries are still reluctant to adopt them. According to a former senior executive in AAOIFI, interviewee (I-7), central banks in some countries have strict procedures and require the same conventional requirements to be applied on all entities regardless of the nature of their activities. Therefore, IFIs find themselves with no choice other than applying conventional practices and standards. He added further that central banks in those countries have no problem with Islamic financial products but they need some mechanisms for such products to comply with their national requirements and monitoring systems. Consequently, AAOIFI found itself in need of collaborating with those national regulatory bodies in order to address their concerns.

Actually, the need for this collaboration was also due to the fact that, as indicated by a Malaysian banking regulator, interviewee (I-5), AAOIFI is a private standard setting body which is not 'backed by the force of law' to implement its standards. This is opposite to the case of national regulatory bodies which have the legal enforcement power. The need for such collaboration was also addressed by Karim (1990), who suggests that, since IFIs mostly operate in governmentally-driven economies, AAOIFI can only find its way to implement its standards by working together with national banking regulators, central banks and professional accounting bodies.

Interviewee (I-8), a ranking executive in AAOIFI, indicated that the policy of collaboration between AAOIFI and regulatory authorities has been ongoing since AAOIFI establishment[1]. He added that AAOIFI always approaches regulators, consults them and hears their concerns when preparing exposure drafts. He also pointed out that AAOIFI has representatives of regulatory authorities in its different boards. However, the attempt to achieve a close relationship between AAOIFI and regulatory bodies could raise a question about the way that AAOIFI can maintain its independency in light of this policy. Also, it is not clear what the line of distinction is between what can be considered as 'collaboration' and 'intervention'. For example, as a hosting country, there could be a concern about the role of the central bank of Bahrain and weather it has a role in AAOIFI's decisions or it keeps a distance in order to maintain the independency of AAOIF. Similarly, this applies to the regulatory bodies which are members in AAOIFI

[1] AAOIFI emphasised this policy of collaboration with different national regulatory bodies as part of its recent strategic 4 years plan. See the word of the Deputy Secretary General of AAOIFI in front of the 10th Annual AAOIFI – World Bank Conference on Islamic Banking and Finance, 6th-7th of December 2015, Manama-Kingdom of Bahrain. Available at: https://www.youtube.com/watch?v=Ipi6z85gQ_4

and if they play a role directly or indirectly in influencing AAOIFI's decisions through their membership[1].

When raising these questions to executive members in AAOIFI, interviewee (I-9) stated that the central bank of Bahrain provides a great support to AAOIFI but this support is unconditional and does not impair its independency. He added that the central bank of Bahrain is aware of the importance of AAOIFI independency and it always tries to keep a distance from AAOIFI's own policies. Interviewee (I-8) supported this statement and underestimated the influence of central banks on AAOIFI's policies. He added further that central banks generally influence AAOIFI "to develop something not to do something in a specific manner".

7.2.4.2 State Logic in the Context of the MASB

The Financial Reporting Foundation (FRF) and the Malaysian Accounting Standards Board (MASB) comprise the financial reporting regulatory structure in Malaysia. Both were established under the Financial Reporting Act 1997[2]. The MASB is responsible for developing accounting standards in Malaysia while the FRF is the trustee body responsible for oversighting the MASB's performance and funding arrangements. Both bodies have representatives of all parties concerned in the standard setting process, including preparers, users, regulators and accounting professionals.

The MASB defines itself as an independent authority. However, its independency is questioned given the following facts. First, the members of the MASB are appointed by the Minister of Finance. Second, the Minister of Finance appoints three advisors to the MASB from Bank Negara Malaysia, the Securities Commission and the Registrar of Companies. Third, the Minister of Finance, according to the Act, has the authority to give

---

[1] AAOIFI membership consists of founding members, associate members which are IFIs from different countries around the world, members representing regulatory & supervisory authorities, observing members and supporting members (AAOIFI, 2010).

[2] See Financial Reporting Act 1997 at : http://www.masb.org.my/pdf.php?pdf=2013jan-financial%20reporting%20act%201997%20act%20558.pdf&file_path=pdf

the MASB directions of a 'general nature'[1]. Within this context, Nasir and Zainol (2007) state that Malaysia has adopted the capitalist economic approach which is based on private enterprises with strong governmental support and control. However, they clarify that the Malaysian government interventions are rare.

Investigating the governmental policies in Malaysia shows that Malaysian governments have realised the post-independence movements towards reviving the role of Islam in all aspects of life including business activities. Therefore, and as a part of their national development strategies, Malaysian governments have encouraged Islamic financial industry to work alongside its conventional counterpart. Furthermore, this industry was supported by legislations which facilitate, govern and monitor its activities.

The tendency of the Malaysian governments to encourage Islamic financial industry was translated in the accountancy profession by initiating the MASB project for developing Islamic accounting standards.

> So, arising from that intent from the government to develop Islamic banking activities in Malaysia, that desire must be translated into whatever is necessary in order to cope that desire including coming up of Islamic accounting standards (I-2, Former board member in the MASB).

According to Nasir and Zainol (2007), the project gave careful considerations to the local regulatory framework and economic structure in Malaysia. However, as stated before, the MASB decided later to cease that project and require IFIs to follow the Malaysian approved standards. Since IFIs are under the purview of the Central Bank of Malaysia (BNM), the MASB sought the views of the Shariah Advisory Council (SAC) of BNM on its Statement of Principles (SOPi-1), which requires IFIs to follow conventional standards[2]. This can be perceived as an attempt to give its decision legal as well as

[1] See Section 15 of the act

[2] Those views were attached as well to the SOPi-1 in a separate appendix. Those views are based mainly on discussing three elements: substance over form, recognition of elements of the financial statement and time value of money.

religious legitimacy. The SAC at that time approved, in principle, on the MASB proposal. In justifying this approval, interviewee (I-19), a Shariah Advisor in BNM, stated that there is no objection for using conventional practices providing they do not violate Shariah principles[1].

> If there is something that is good, that is workable, that is beneficial to us, I do not see any objection to adopting it… We have been doing that for many years. I mean you take the system in any Islamic country. Saudi Arabia? Have they developed their own systems? So, I think we should adopt a sort of liberal approach so that we keep in tandem with the others (I-19, Shariah Advisor in BNM).

Nonetheless, the opinion given by the SAC can be questioned as it was given based on reviewing the general concepts and principles of the conventional accounting framework without going through details. According to another Shariah advisor in BNM:

> The Shariah Advisory Council of Bank Negara will look at the structure and concept at the macro level and then if the issue is okay then they will give their endorsement to the structure not to the details and maybe to put some conditions here and there (I-16, Shariah advisor in BNM).

This is consistent with a statement given by an academic from ISRA, interviewee (I-24), who indicated that the SAC assessed the general concepts and assumptions of that framework and approved this proposal in general without going through the technical issues related to specific Islamic financial contracts and transactions. He believes that the SAC might change its opinion if its scholars went through those detailed issues. This view is also shared by Ibrahim and Siswantoro (2013). In this context, interviewee (I-4), a member in the MASB's Standing Committee on Islamic Financial Reporting, commented on some issues that were approved by the SAC. He indicated that in the past, the concepts of time value of money and substance over form were controversial. However, the decision that was made by SAC makes those conventional concepts acceptable. In his opinion, this has paved the way for the acceptance of IFRS.

[1] This is consistent with the Islamic judicial principle of permissibility (*Ibaha*) which suggests that everything is permissible unless it is clearly prohibited by the Shariah as stated by Sulaiman (2003)

The Malaysian commitment to fully converge with IFRS starting from 2012 makes the notion of having different accounting guidelines for IFIs more difficult. This can be seen clearly in the decision of the MASB not to continue in issuing supplementary Islamic technical releases to avoid being considered as local interpretations of IFRS as announced by the MASB chairman's statement in 2012 (MASB-D7). Commenting on IFRS convergence in Malaysia, the members in the MASB's Standing Committee on Islamic Financial Reporting, interviewees (I-3) and (I-4), stated that previously regulators were responsible for mandating accounting requirements based on the local needs. However, after IFRS convergence everything has to be solely based on the professional requirements of IFRS and all listed companies including IFIs have no choice other than reporting according to IFRS. From the institutional logics perspective, this can be seen as a shift from state logic to profession logic since Malaysian companies are required to apply whatever IFRSs require regardless of the national requirements and needs.

7.2.5 Market Logic

The calls for developing Islamic accounting standards have been mainly motivated by the emergence of Islamic banking industry and the wide acceptance of its products. This industry has created an urgent need for accounting standards that govern and harmonise its accounting practices.

IFIs obtain their legitimacy in the market from their nature as Shariah compliant institutions. Therefore, it is critical for these institutions to convey that image in the eyes of their stakeholders in general and their shareholders and clients in particular who are eager to conduct their business activities according to Islam. Annual reports are one of the important tools that IFIs can use to communicate their Shariah compliance with their stakeholders. The disclosure of IFIs' distinctive features would help IFIs' investors, clients and the general public evaluate the Shariah compliance of IFIs. This in turn is expected to enhance their competitive position in the markets where IFIs work together with their conventional counterparts.

The challenge for IFIs' financial reporting, according to Shafii and Zakaria (2013), has been finding a relevant financial reporting framework that can address the aspects of Islamic financial activities and allow for international comparability between IFIs themselves and between IFIs and their conventional counterparts without violating Shariah principles.

7.2.5.1 Market Logic in the context of AAOIFI

Due to its unique nature and the absence of clear and unified accounting guidance, the Islamic financial industry experienced variation in the accounting practices between its institutions and within the same institution over time (Karim 1999)[1]. Karim (1999) and Nasir and Zainol (2007) indicate that these variations hinder the comparability of the IFIs' financial reporting and their credibility in the financial market. IFIs had thus faced increasing pressure to harmonise their accounting practices. Consequently, those institutions took the initiative and established the standard setting body of AAOIFI in 1991. This implies that the establishment of AAOIFI itself was driven by the need of the industry to achieve a sort of harmonisation in the accounting practices and enhance its credibility in the market.

IFIs were firstly established based on the promise that they would conduct their activities in a Shariah-compliant manner. Therefore, it is necessary that IFIs annual reports include enough information about the Shariah compliance of those activities. AAOIFI has recognised the importance of communicating such information with different stakeholders. Analysing AAOIFI's objectives, conceptual framework and standards shows that there is great emphasis on providing disclosure requirements that can achieve

---

[1] See section (6.2.1)

an adequate level of transparency regarding the Shariah compliance of IFIs. This emphasis can be perceived as an attempt to give IFIs religious legitimacy, which in turn enhances the competitive position of IFIs in the market as Sharia compliance entities.

Actually, this is not a secret as the objective of gaining stakeholders' confidence and religious legitimacy is mentioned clearly in many places in AAOIFI's standards and conceptual framework. AAOIFI, in the introduction of its standards, states that its activities intend both to enhance the confidence of financial statements users in the information produced by IFIs and to encourage those users to deposit their funds and invest in IFIs and use their services (AAOIFI-D1, p. XIII). AAOIFI's Financial Accounting Standard No.1 points out that the absence of trust in the IFIs' ability to work efficiently in full compliance with Islamic principles may lead investors to refrain from investing their savings through IFIs (Preface). It adds that a Muslim shareholder, depositor or costumer chooses an IFI in preference to other IFIs because of their confidence in its ability to achieve their interests in conformity with Islamic principles. This confidence comes mainly from disclosing adequate information by an IFI that helps users in evaluating its performance[1].

It is worthy to mention here that the efforts of AAOIFI to ensure IFIs' Shariah compliance have been extended to its governance standards. AAOIFI has issued a number of governance standards that require IFIs to establish special governance structures, to follow certain governance procedures, and to issue certain governance reports that aim to ensure Shariah compliance and, in turn, enhance religious legitimacy and public confidence in IFIs' activities. This is in addition to its CSR standard, which aims to help IFIs engage in productive CSR activities and disclose these activities to their stakeholders

---

[1] See Appendix B of the standard.

in order to ensure that IFIs legitimacy and reputation are preserved as stated in its Appendix (B).

Moreover, AAOIFI has developed standards that reflect the unique aspects of Islamic financial products. This is critical from the marketing point of view. According to the Deputy Secretary General of AAOIFI, IFIs would face a ‘reputation risk’ which might ruin the industry if they do no differentiate their activities from conventional finance and reflect the Islamic characteristics of their products. This is because IFIs’ shareholders, investors and clients would not be able to recognise the difference between IFIs and their conventional counterparts.

In developing its standards, AAOIFI seems to be keen in getting IFIs involved in this process. This is by inviting the industry to provide feedback and comments on its exposure drafts. Moreover, an executive in AAOIFI, interviewee (I-9), indicated that the process of standard development is usually initiated after surveying the needs of the industry. He also declared that AAOIFI is keen to expand its membership to include more IFIs from different parts of the world. In this context, Levy and Rezgui (2015) argue that IFIs are one of the most influencing stakeholders for AAOIFI. They refer to a historical event in which IFIs made pressures on AAOIFI to modify its requirements in 2008 through ‘emergency’ amendments of AAOIFI FAS.17 to be more consistent with IFRS requirements. Interviewee (I-9) was asked about the potential role of IFIs in influencing AAOIFIs’ standards and policies. In his answer, he did not deny this influence. He indicated that it is not surprising that IFIs influence AAOIFI work through their membership and comments, especially when talking about its founding members. However, he emphasised that such influence does not necessarily mean mandating certain policies on AAOIFI.

From another perspective, the growing IFIs membership in AAOIFI does not necessarily mean more acceptance to its accounting standards. AAOIFI is still facing serious challenge in getting their standards implemented in new jurisdictions especially after the worldwide acceptance of IFRS as stated by AAOIFI executives, interviewees (I-8) and (I-9). Other interviewees attributed the low level of acceptance of AAOIFI's standards to the fact that IFIs nowadays cannot depart from IFRS requirements. That is because this newly emerging sector finds itself in a position where it needs to compete with the conventional banking sector which has been well established in the market[1]. In this competitive environment, IFIs need to follow and imitate the tools that are available in the prevalent system. This includes structuring their products, which, according to some interviewees, imitate the substance of conventional products, as well as the way they report those products[2]. The interviewees argued further that although Islamic financial industry has witnessed rapid growth recently, it is still a 'minority' in most countries[3] and far from the position where it can pressurise to impose different requirements. They believe that IFIs need to be part of the prevailing system if they want to survive.

To sum up, AAOIFI has found itself historically under two conflicting market pressures. The first is to maintain the religious image of IFIs as institutions operating according to Shariah principles. The second is to develop standards that do not totally depart from the prevailing accounting practices in order to avoid hindering IFIs'

---

[1] Maali and Napier (2010) argues that while religious concerns are important factors in setting IFIs financial reporting practices, those practices should also take into consideration the need of Islamic banks to commercially compete with other conventional banks. This competition requires harmonised financial reporting practices.

[2] Interviewee (I-30), a practitioner in an IFI, commented on the need of IFIs to compete with conventional banking that not all those who deal with IFIs are Shariah-sensitive. He states that some people deal with IFIs based on the return or the facilities they provide.

[3] The number of Islamic countries which do not allow for financial institutions other than those operating according to Islamic principles is very few (e.g. Sudan and Iran). Most countries allow for dual banking systems to operate alongside each other (as it is the case in Malaysia).

competitiveness in the market. This can explain the recent AAOIFI's plan for bridging the gaps with IFRS as stated in Chapter Six.

7.2.5.2 Market Logic in the Context of the MASB

The MASB has recognised the uniqueness of Islamic financial industry since it was established in 1997. Since then, the MASB has made efforts to provide financial reporting guidelines for this industry. This is because the absence of such guidelines could hinder the credibility of IFIs and their ability to establish themselves in the Malaysian financial market (Nasir and Zainol 2007). According to the MASB technical release TRi-3:

> It has become increasingly evident that in the long run the lack of additional guidance may also hamper the development of Islamic investment vehicles as well as a robust Islamic capital market.

Historically, there have been different policies in the MASB on how to deal with IFIs' reporting needs. These policies have been ranging between developing separate standards to developing Islamic technical releases which support conventional standards to the recent attempt to accommodate Islamic financial reporting needs in IFRS. The historical common denominator in all of these stages was the attempt of the MASB to get Islamic financial industry involved in developing and implementing its policies. In this regard, the MASB in its Statement of Principles (SOPi-1) emphasised its consultative approach in which it encourages IFIs, among other stakeholders, to raise any issue to the board when "they believe that divergent practices have emerged regarding the accounting for a particular Shariah compliant transaction or event, or when there is doubt about the appropriate accounting treatment and it is important that a standard treatment be established" (para. 21).

In order to get their voice heard, it can be noticed that the MASB Standing Committee on Islamic Financial Reporting involves representatives from the Islamic financial industry in addition to those who represent regulators and audit firms.

Interviewee (I-5), who is one of those representatives in the standing committee, stated that:

> Well, the standing committee is there to provide our feedback to the standard setting body on the impact of any standards on the industry. We provide feedback to the MASB in terms of what is required by the industry. Also, through the MASB, we provide input and to some extent influence the direction of the IASB on matters pertaining to Islamic finance…We are here to make sure that the standards available for financial institutions run in a Shariah consistent manner and are able to disclose their activities in a comparable and reflective manner (I-5, CEO of an Islamic bank).

From another perspective, when investigating the attitude of the Islamic financial industry toward the MASB policies, the interviewees gave different opinions. For instance, interviewee (I-11) stated that practitioners in the market do not totally agree with the MASB current approach. He further illustrated by noting that practitioners are not totally satisfied with the conventional treatment of some Islamic financial products as prescribed by IFRS. He consequently argued:

> If we believe in free market, let the free market prevail…If those in the industry feel that they are not reflecting the financial transactions truly and fairly, let them (MASB) come back to us later. Look, this is what happened. It's those in the industry themselves who realised the problem (I-11, Professor in accounting and former standard setter).

However, he as well as some other interviewees indicated that despite this fact, there is no enough push from the industry to raise such issues. This is because, in his opinion, practitioners are still "comfortable with IFRS" as "they have been trained that way". Interviewee (I-4), Partner of Ernst & Young and member in the MASB's Standing Committee on Islamic Financial Reporting, stated in this context that accounting requirements are driven by the industry. Therefore, changing those requirements requires a push from the industry players themselves. However, he believes that IFIs currently are less likely to push toward developing separate standards. This is justified by the IFIs' need to compete with their conventional counterparts in the market. This competition, according to interviewee (I-15), requires comparable financial statements. Most interviewees agreed in this regard that competition is one of the main reasons behind the comfortability of IFIs to be part of the IFRS convergence plan in Malaysia.

Another point that was raised by some interviewees is that, in line with Mohammed and Mustafa's (2013) argument, IFIs practices nowadays imitate conventional banking practices and move away from their sacred objectives. Therefore, they believe that the stance of reporting has also changed accordingly over time reflecting that fact. This, in their opinion, has encouraged the MASB to adopt the viewpoint that IFRS is applicable to IFIs since there is no real difference in substance between the product of IFIs and conventional finance.

At the national level, Malaysia has set ambitious economic development plans in which it works hard to liberalise the economy and attract foreign investments (Muniandy and Ali 2012). When investigating the influence of such policies on the accounting system, interviewees asserted that Malaysia has decided to fully converge with IFRS as a part of its policy to be part of the global economy. Interviewee (I-1), a ranking executive in the MASB, acknowledged this objective. He argued that financial statements need to be understandable by international investors and that, by following IFRS, IFIs attain great benefit. This is because international investors are more likely to accept Islamic financial industry if it uses 'their rules' to explain how it operates. He further suggested that IFIs need to make sure that their products are competitive and attractive for non-Muslims as well. Other interviewees shared similar views:

> You have to bear in mind that to be in the mainstream, you need to be accepted not just by Muslims. You need to be accepted by non-Muslims as well… What makes sense to them at the end of the day is the economic reality, is it really more competitive as compared to conventional? (I-4, Partner of Ernst & Young-Islamic Financial Services and member in the MASB's Standing Committee on Islamic Financial Reporting).

> I think we should adopt a sort of liberal approach so that we keep in tandem with the others. We should not isolate ourselves and say, 'look! We are very different. We are not like you' (I-19, Shariah advisor in Bank Negara Malaysia).

Surprisingly, it was noted here that the national body of MASB has recognised the need of IFIs to compete internationally in order to attract foreign investments, whereas, the international standards setting body of AAOIFI has mostly paid attention to the need of IFIs to compete in their local, national markets.

7.3 Discussion: Competing Institutional Logics, Logics Domination Map and Organisational Response

This section provides a discussion that synthesises the research findings presented in the previous section in addition to those provided in Chapter Six. It aims to show how each of the institutional logics, which have been explored in Section (7.2), has simultaneously contributed in shaping the way in which AAOIFI and MASB have set their policies for regulating and standardising Islamic financial reporting.

7.3.1 Islamic Financial Reporting Standardisation: Competing Institutional Logics

The previous section (Section 7.2) has explored the institutional logics that underpin the issue of standardising and regulating Islamic financial reporting as experienced by the two case studies of AAOIFI and MASB projects. Five institutional orders have been identified as the most influencing factors on those projects. This is consistent with institutional logics theorisation which assumes that a single organisation is likely to operate simultaneously under the influence of different institutional orders (Friedland and Alford 1991, Scott 2005, Greenwood *et al.* 2010, Thornton *et al.* 2012). Detailed analysis has been provided on how each of these orders has defined and shaped the rationality behind the decisions, policies and strategies followed by both projects at different stages of their history.

Over the history of the AAOIFI and MASB projects, each institutional order has played a significant role in pushing toward achieving certain objectives that are expected from IFIs' financial reporting. Achieving these objectives is perceived as the ultimate rationality from the perspective of that particular institutional order. This is based on the norms, values and principles associated with that order. This has been reflected in each project in a form of efforts to incorporate certain 'material practices' that aim to satisfy the 'symbolic representation' of each institutional order (Thornton *et al.* 2012).

Research findings show that there has been tension between those different norms, values and principles and their associated expectations. Both projects have consequently made efforts to make a balance in compliance with different demands associated with different institutional logics. However, given the contradictive nature of some of those demands, it seems that achieving this balance has been a difficult task, if not impossible, as satisfying some demands requires defying others (Pache and Santos 2010).

Institutional logics theorists have realised the multiplicity of institutional logics surrounding an organisation and shaping its structure and practices. Greenwood *et al.* (2010) used the term 'institutional complexity' to point out to the situations where organisations face different sorts of pressures derived from multiple institutional logics. Those institutional logics, according to Thornton *et al.* (2012), interact, compete and cooperate with each other for the purpose of gaining cultural space and attracting individual and organisational attention and patronage.

In their early theorisation, Friedland and Alford (1991) stress the contradictory nature and inconsistency between institutional logics. This is because each set of logics is associated with a different belief system and source of rationality. However, based on the data analysis provided in Section (7.2), different patterns of interaction can be identified between the institutional orders that govern Islamic financial reporting. These patterns range between supportive, reinforcing, coexisting, competitive, and contradictive relationships.

Data analysis shows that, on the ground, there are two main logics underpinning the issue of setting Islamic accounting standards, regulations and guidelines. These two logics are the logics of religion and profession. Religion logic is represented by the need to capture and reflect the Shariah compliance as well as the contractual nature of Islamic financial products and transactions in the financial reports. This logic has been translated into efforts dedicated to develop specialised guidelines and standards for that purpose. On the other hand, profession logic is represented by the internationally prevailing conventional accounting thoughts and practices that have been identified as the 'best practices' in the accounting and financial reporting field. This logic has been advocated and institutionalised recently by international bodies (e.g. IASB). The proponents of profession logic believe in the neutrality of accounting and financial reporting process, as discussed by many interviewees. Those interviewees consequently argued that the 'economic substance' of Islamic transactions needs to be accounted for and reported based on the conventional practices and standards. They also maintained that the existence of one international set of financial reporting standards that is applied in all contexts and industries is justified, given the benefits gained from its application.

These two logics have been interacting and competing with each other over time to shape how the accounting bodies of AAOIFI and MASB need to deal with Islamic financial reporting at different stages of their history. The competition between these two logics can be seen clearly from the very beginning through debating over the starting point for developing Islamic accounting framework. At that stage, the question was over whether this framework should be developed from scratch based on Islamic principles and objectives (religion logic) or by utilising the accounting objectives and concepts that were already available (profession logic). The decision was taken to follow the second approach provided that those conventional accounting objectives and concepts are examined against Islamic objectives and principles. This has put both logics against each other in a direct competition with different degrees of dominance over time in both projects[1].

The competition between religion and profession logics has been an ongoing situation. This can be seen at different stages of AAOIFI and MASB's lives. For instance, in its recent strategic four years plan, AAOIFI has recognised the widespread implementation of IFRS and set a policy for bridging the gaps between its standards and IFRSs. However, AAOIFI made it clear that bridging gaps with IFRS does not mean sacrificing the original objective of AAOIFI which is reflecting Shariah features and requirements[2]. Similarly, even though the MASB ceased its projects for developing separate Islamic accounting standards and required IFIs to follow its conventional standards, it has adopted alternative approaches for the purpose of addressing Islamic financial reporting needs and requirements[3].

The competition between logics has not been restricted to the religion and profession logics. Research findings reveal that the logics of community, state, and market have also been part of this competition in order to attain their own expectations and demands. However, based on the rationality perceived by each of them, those institutional logics have been either supportive or contradictive to the influence of each of the main logics of religion and profession.

Historically, community logic has been supportive to religion logic. This is because community logic related to Islamic financial reporting finds its roots in the religious philosophical principles of Islam as stated in Section (7.2.3). Community logic refuses conventional reporting principles which focus on the interests of s specific information user group whose ultimate goal is wealth maximisation. Instead, community logic calls

[1] See the domination map next section.
[2] See sections (6.2.3.3) and (7.2.2.1)
[3] See sections (6.3.1), (6.3.2) and (7.2.2.2)

for wider attention that accommodates the information need of various stakeholders (Baydoun and Willett 2000, Ibrahim 2000a, Ibrahim 2000b, Haniffa and Hudaib 2002, Othman and Thani 2010, Ariff and Iqbal 2011, Bala 2012).

The influence of community logic can be seen clearly in AAOIFI's Conceptual Framework and the MASB Statement of Principles (SOPi-1), which both acknowledge the information needs of different societal stakeholders. They also acknowledge the inadequacy of conventional reporting for the needs of the various user groups as expected from an Islamic perspective. Moreover, in order to satisfy the demands of community logic, AAOIFI in particular has dedicated some of its accounting and governance standards to clarify the requirements regarding *Zakat*[1] and other CSR activities (from the Islamic viewpoint) and how to provide sufficient reporting for such activities[2].

However, according to Haniffa and Hudaib (2010), Islamic financial industry has undergone a transformation in which the noble sacred intention of Islamic finance has been "distorted by secular goals" (p. 85). This results in IFIs imitating the business model of their conventional counterparts as well as their CSR activities and reporting. Consequently, due to that 'commercialisation' of IFIs' business objectives and activities, the influence of community logic and Islamic social reporting expectations have been recently marginalised by the industry itself.

State logic has been influencing Islamic financial reporting standardisation projects in different directions over time. When IFIs emerged in the market, state logic entailed putting those entities subject to conventional regulations regardless of the nature of their activities. AAOIFI has been consequently established as an independent standard setting body in order to avoid that intervention of national regulatory bodies. In other words, it

---

[1] It has to be mentioned here that *Zakat* reporting is a religiously based requirement per se.

[2] In the context of the MASB, the only technical release which is related to one of the IFIs social responsibilities is 'Technical Release i-1 (TR i-1), Accounting for Zakat on Business'. This technical release was planned to be issued as a separate standard under the abandoned project.

was established to avoid the influence of state logic. However, AAOIFI has found itself in need for a sort of collaboration with those regulatory bodies in order to implement its standards. Hence, the independence of AAOIFI has been questioned as those regulatory bodies may play a role in influencing AAOIFI's policies. Recently, AAOIFI has been under indirect pressure from those regulatory bodies especially after IFRS convergence in many countries where IFIs operate. This pressure can partly explain the recent plan of AAOIFI to bridge the gaps with IFRS in order to enhance its standard acceptance.

On the other hand, The MASB, as a governmental agency, has been under direct influence of the state's different national policies over time. In other words, the MASB has been under the pressure of working consistently with the overall national policy. This can be seen through the fact that the MASB was historically influenced by the state policy to support the emerging industry of Islamic finance in the 1980s and 1990s. However, later on, the MASB has been mainly influenced by the national economic development plans that aim to liberalise the economy and attract foreign investments. This led the MASB to announce its commitment for the full convergence with IFRS starting from 2012 consistently with the international integration governmental policies.

Market logic has also had its own influence on the Islamic financial reporting standardisation projects. The calls for developing Islamic accounting standards have been mainly influenced by the emergence of Islamic banks. The newly established IFIs attained their legitimacy in the financial industry from the nature of their operation as Shariah compliant financial institutions. The compliance of IFIs' activities with Shariah principles has been considered as a competitive advantage for those institutions in the financial market, especially for those stakeholders who are 'Shariah sensitive'. Therefore, market logic has been consistent with religion logic in supporting the efforts for developing Islamic accounting standards that can help reflect IFIs' Shariah compliance.

On the other hand, those emerging IFIs find themselves in a position where they need to compete with conventional financial institutions which have been established in the market for a long period of time. This competition requires comparable financial statements that enable local and foreign investors to make fair comparisons between IFIs and their conventional counterparts. The competition has recently been strong, especially after the 'commercialisation' of IFIs' objectives and activities. Accordingly, as an internationally recognised set of standards, IFRS requirements have been increasingly more accepted and implemented by IFIs around the world. The role of this competition in shaping IFIs's financial reporting is acknowledged by (Maali and Napier 2010) in their study on the Jordan Islamic Bank. They indicate that while religious concerns were important factors in setting the early financial reporting practices, there was a strong tension with other factors such as the need for Islamic banks to commercially compete with other conventional banks. This could not be achieved, as they believe, without harmonised financial reporting practices. Moreover, this competition has led IFIs to mimic conventional financial products under Islamic labels. This factor has strengthened the argument of those who support the application of IFRS (profession logic supporters) to the substance of IFIs' products as, in their opinion, there is no real difference between Islamic financial products and their conventional counterparts.

This dilemma of the market's conflicting demands has been addressed by Shafii and Zakaria (2013). They indicate that the key challenge for IFIs financial reporting has been finding a relevant financial reporting framework that can address the unique aspects of Islamic financial transactions and allow for comparability between IFIs as well as comparability with conventional financial institutions without hindering Shariah reporting requirements. This means that market logic has been simultaneously supportive and contradictive to each of the religion and profession logics. However, the relative extent to which market logic has been supportive (or contradictive) to religion and profession logics has varied over time and across contexts (See the next section for more details).

Furthermore, it is also interesting to note that market and state logics have been reinforcing each other recently by sharing the values of liberalising economy and attracting foreign investments. It can be argued here that the overall outcome of this interaction between market and state logics has lent more support to profession logic. This is consistent with Greenwood *et al.* (2011) who state that "logics may reinforce each other" (p. 332).

To sum up, Islamic financial reporting standardisation projects have been under the influence of two main institutional logics, the logics of religion and profession. Those two institutional orders have been dominating those projects and competing with each other to attain their perceived rationality. These projects have also been influenced by the institutional demands of community, state and market logics. In order to impose their values and achieve their expectations, those three institutional orders have interacted in a way that supports the domination of the logics of religion and profession, which have been already dominating and competing in the field.

However, as indicated by Ezzamel *et al.* (2012), scholars do not see any chance for two logics to equally dominate a single field. This is because as new logics dominate a specific field, organisational actors accommodate and adjust their norms and practices in order to be consistent with those associated with the new dominant logics. This argument is in line with the assumption of historical contingency of institutional logics as suggested by Thornton *et al.* (2012). Therefore, in order to understand how those institutional logics have historically shaped the two case-study projects of AAOIFI and MASB and find out the reasons behind their changing policies, it is necessary to understand the historical 'domination map' of those institutional orders.

7.3.2 Institutional Logics Domination Map and Organisational Responses

The previous section provided what can be described as a 'static overview' of the institutional logics that underpin Islamic financial reporting standardisation projects and the patterns of relationships that can be identified between these logics. However, the 'historical contingency of logics' as one of the key meta-theoretical assumptions of ILP, assumes that the prevalence of particular institutional logics within an organisation and the relationships between these logics, vary over time and across contexts (Thornton *et al.* 2012). Hence, in order to provide more insightful discussion on the projects of AAOIFI and MASB and explain the changes in the standardisation strategy of each project over time, this section provides a 'dynamic view' over the 'domination map' of the institutional orders that have shaped these projects. In addition, having explored how these two standard-setting bodies have experienced the influence of different institutional logics, this section aims to examine how each body has historically responded to those different logics. As stated in Section (4.3.3), the issue of organisational responses to institutional logics is little researched in the institutional logics literature[1]. Therefore, it is necessary and, at the same time, interesting to investigate this issue in a unique field such as Islamic financial reporting, which is governed by various rationalities, each with a different source of legitimacy.

The competition between different institutional logics makes it inevitable for Islamic financial reporting standardisation projects to prioritise the demands associated with some institutional orders at the expense of others. This has resulted in different organisational responses which have been reflected in different strategies followed by

[1] Greenwood *et al.* (2010) indicate that most institutional logics studies focus on the multiplicity of institutional logics within a certain field or organisation while not showing how that field or organisation responds to their surrounding institutional logics. They call for more understanding on how organisations respond to such complexity in the institutional environment.

each of AAOIFI and MASB projects based on the relative prevalence of each institutional order in their own institutional context.

It is worth remembering her that Friedland and Alford (1991) criticise the argument made by DiMaggio and Powell (1983) about isomorphic organisational fields. Instead, they argue that organisational fields have the potential to produce differences, contradictions and autonomy in the organisational forms and practices as they are attached to different societal-level institutional orders. Pache and Santos (2010) argue in this context that not all organisations respond to competing institutional demands in a similar way since institutional logics are enacted differently by different organisations. Similarly, Greenwood *et al.* (2011) hold that since organisations experience different degrees of institutional complexity, they show differences in how they respond to this complexity. This argument by ILP theorists makes it a distinctive meta-theory that explains not only homogeneity, but also the heterogeneity of organisational behaviour (Thornton and Ocasio 1999, Thornton *et al.* 2012). This heterogeneity allows for organisational autonomy in which organisations define rationality depending on the values, practices and root metaphors of their home (or dominant) institutional orders (Friedland and Alford 1991, Thornton *et al.* 2012). This section tries to explore the heterogeneity between the projects of AAOIFI and MASB at different historical stages. This is by analysing how the dominance of certain institutional logics has shaped their decisions and strategies. ILP literature encourages understanding various heterogeneities within a field such as the Islamic financial reporting field where there are multiple institutional rationalities which may lead individuals and organisational actors to respond differently, being influenced by different reference systems in their responses (Lounsbury 2008, Greenwood *et al.* 2010).

7.3.2.1 Institutional Logics Domination Map and Organisational Response in the Context of AAOIFI

Organisational structures and practices are manifestations of institutional logics. Therefore, in order to understand the behaviour of an organisation and its use of such structures and practices, it is necessary to understand the relationship between that organisation and the logics constituting their institutional context (Greenwood *et al.* 2010, Thornton *et al.* 2012).

Historically, reviewing the motivations behind the establishment of AAOIFI shows that it was established as an independent standard setting body in order to avoid the intervention of the regulatory bodies in the countries where IFIs operate. In other words, it was established to avoid the influence of the state logic. At that time, the logic of state entailed putting those entities subject to conventional regulations regardless of the nature of their activities, meaning that state logic was consistent with the logic of profession. Moreover, in order to establish itself in the market, the newly emergent Islamic financial industry needed to enhance the confidence in its activities, as Shariah compliant activities, in the eyes of its different stakeholders. This required an effective tool of communication with stakeholders. However, at that time, each IFI chose to report its activities based on 'in-house' deliberation, which resulted in variations in the reporting practices between different IFIs and within the same IFI over time. This variation reduced the comparability and credibility of IFIs' financial reporting in the eyes of their stakeholders (Karim 1999). Consequently, Islamic financial institutions have taken the initiative to regulate and harmonise their financial reporting and established the independent standards setting body of AAOIFI. To put it differently, the idea of AAOIFI establishment itself was mainly triggered and motivated by the influence of two institutional orders, state and market.

During the next stage, the process of establishing AAOIFI's approach, conceptual framework and standards was mainly influenced by the logics of two other institutional orders, the orders of religion and profession. In this respect, as a response to the accounting professional demands, AAOIFI did not try to 'reinvent the wheel' and chose to start from the existing generally accepted accounting practices in developing its framework. However, even though AAOIFI could not depart in its approach from conventional accounting objectives and practices, it required that those objectives and practices should not contradict Islamic principles. This can be seen as an attempt to prioritise religion logic which IFIs were originally inspired by. In other words, religion logic necessitated developing AAOIFI's conceptual framework consistently with the principles of Shariah. In addition, supported by market logic at that time, religion logic required developing conceptual framework and standards that help address Shariah reporting requirements; meet the needs for communicating the Shariah compliance of IFIs' products and activities; and reflect the legal contractual characteristic of their products. The research findings presented in this chapter show that AAOIFI has been keen in its framework and standards to achieve these objectives even if they entail deviation from some essential conventional concepts and assumptions of accounting such as 'substance over form'. Moreover, as stated in Section (7.3.1), community logic has been always consistent with and supportive to religion logic. This can be seen clearly by dedicating special standards and requirements that address *Zakat* and other social reporting needs.

Shortly after its establishment, AAOIFI has recognised the need for approaching regulatory bodies, which it firstly avoided their intervention, in order to promote its standards. This collaboration with regulatory bodies has brought back the state logic into the logics map. Even though AAOIFI identifies itself as an independent standard setting body, this collaboration has entailed hearing to those regulatory bodies, taking their opinion into consideration and trying to accommodate their demands. In exchange, AAOIFI's objectives have received support from regulatory bodies and central banks of some Islamic countries.

IFIs were firstly established in order to meet Muslims' need to conduct their business activities, invest their savings and obtain finance according to Islamic principles (Gambling *et al.* 1993). However, over time, in order to get more acceptance as a part of the financial industry, IFIs have undergone transformation in which their sacred intentions have been "distorted by secular goals" (Haniffa and Hudaib 2010, p. 85). This is represented by the commercialisation of IFIs' activities, which makes seeking profit and wealth maximisation as the main, if not the ultimate, objective for those activities[1]. Haniffa and Hudaib (2010) argue that this transformation has been experienced as a result of political-economic factors as well as the interaction and competition with the conventional sector in the market. Along with this transformation in IFIs' objectives, the international financial reporting scene has also witnessed an important development represented by the worldwide acceptance of IFRS as the 'best practice' framework in the accounting and financial reporting field.

These two developments have changed the domination map of institutional logics underpinning Islamic financial reporting. This change was firstly represented by an increasing weight of profession logic. In this respect, AAOIFI has recognised the new developments at the international scene and their impact on the acceptance of its standards. Accordingly, it has tried to keep as close as possible to IFRS requirements. In addition, as a result of the commercialisation of the Islamic financial industry's objectives, IFIs have found in reporting according to IFRS a necessity if they want to be in a competitive position with their conventional counterparts. Therefore, IFIs have been more inclined to follow IFRS, as a globally recognised set of standards, at the expense of

[1] This transformation in IFIs' objectives can be seen from the institutional logics perspective as shifting from religion logic to market logic in the field of Islamic financial industry.

AAOIFI requirements. This implies that market logic has been recently supporting financial reporting harmonisation agenda even though IFIs have been still in need of reflecting the uniqueness of their financial products in the annual reports. Theoretically, the behaviour of market logic implies that the demands and subsequent material practices associated with certain institutional logics may experience change over time due to external factors. This has been reflected in this study by the change in the priorities that can attain market logic expectations (prioritising IFRS over AAOIFI standards). Moreover, there has been an increasing commitment by accounting regulatory bodies around the world to follow IFRS regardless of their local circumstances and needs. Consequently, IFIs have been under additional pressure to follow IFRS as a state official requirement.

These developments have significantly changed the institutional logics domination map. According to the new map, both market and state logics support profession logic which has attained prominent dominance at the expense of religion logic. However, this does not imply the exclusion of religion logic from the logics map, as Thornton *et al.* (2012) argue that the rise of a particular institutional order relative to another does not always follow a linear progression. In other words, the prevalence of one institutional order does not necessarily mean replacing another.

The consequences of this dramatic change in the logics domination map have had its influence in the recent policies of AAOIFI[1]. AAOIFI's response to these changes can be seen in the recent strategic plan that was announced by AAOIFI in 2015. According to that plan, AAOIFI would continue setting and developing its Islamic financial reporting standards. However, in doing so, it would work as much as possible to bridge the gaps with IFRS especially for those issues that do not really affect the Shariah compliance of

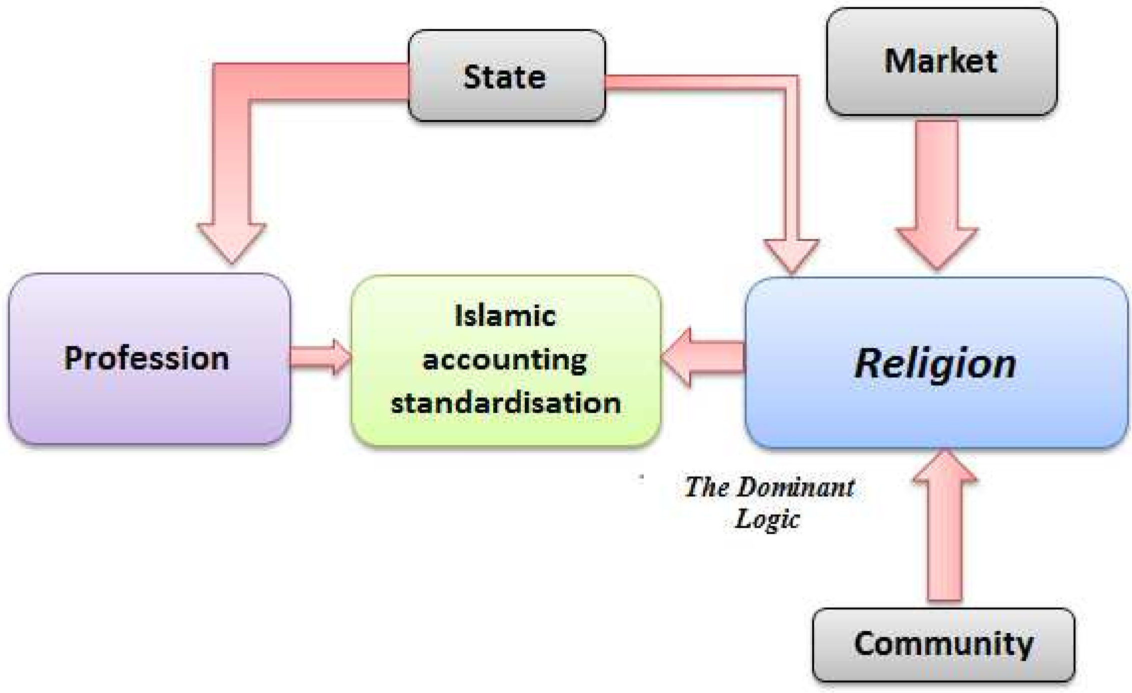
[1] See Sections (6.2.3.3) and (6.2.3.4)

its standards. Moreover, AAOIFI has realised the inevitability of cooperating with the IASB to get its voice heard at the international financial reporting scene. Accordingly, AAOIFI has accepted the IASB invitation to join its Islamic Finance Consultative Group.

The description of the current situation of AAOIFI and its current logics map that shapes its responses as presented in this thesis is consistent with Kamla and Haque's (2017) paper. In that paper, they argue that AAOIFI policies have been shaped and dominated by the influence of international accounting harmonisation logic and the values of market, capitalism and wealth maximisation which have been supported by Muslim countries' regulatory bodies at the expense of enabling and maintaining religious values and demands. However, this thesis addresses what Kamla and Haque (2017) failed to do which is making a distinction between the current situation of AAOIFI and its situation at the time of establishment.

The shift in AAOIFI's institutional logics domination map as described in the above analysis can be represented by the following figure. This figure clarifies how the relative influence of each logic on AAOIFI's approach and policies has changed over time. It has to be noted here that, in this figure, the relative size represents the relative historical weight of each logic' influence:

➢ **Logics' domination map on establishment**



➢ **Current logics' domination map**

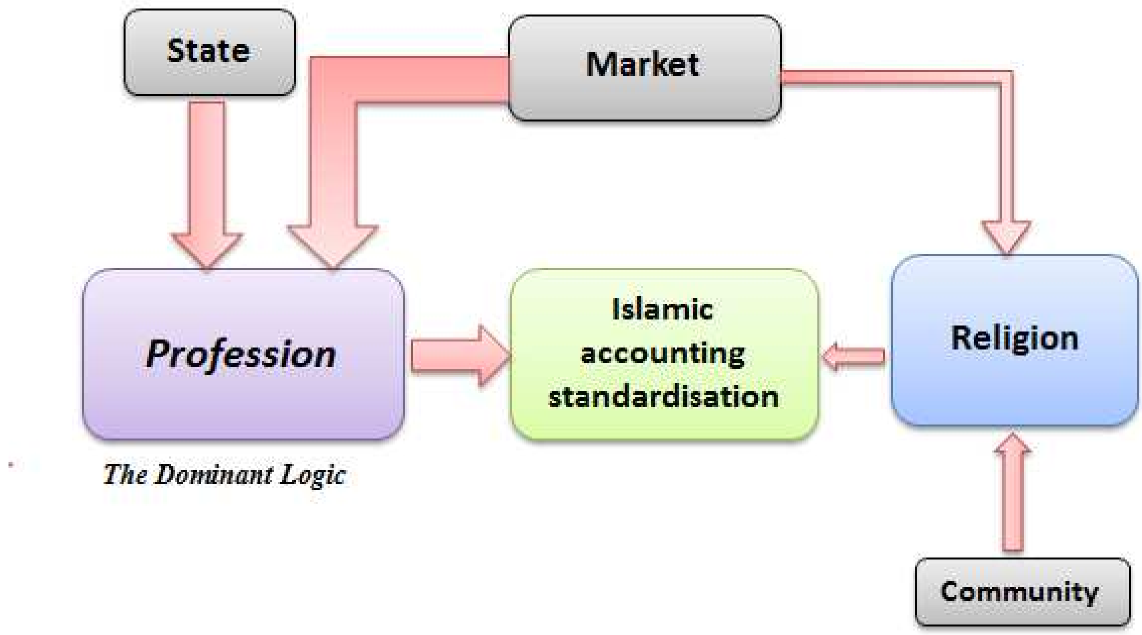


Figure 7-1: Institutional logics' domination map in the context of the AAOIFI's Islamic financial reporting standardisation project (Source: author)

7.3.2.2 Institutional Logics Domination Map and Organisational Response in the Context of the MASB

The institutional logics domination map of the Malaysian Islamic financial reporting standardisation project has generally experienced similar historical changes to those identified in the context of AAOIFI. However, as a national standard setting body, the MASB has been subject to some institutional demands that are not available in AAOIFI's context. Those demands have strengthened the dominance of certain institutional logics. Consequently, the MASB's response to its institutional context has been more substantial than AAOIFI's response.

Similar to AAOIFI, the MASB Islamic financial reporting project was motivated by the influence of market and state logics. However, while AAOIFI was established in an attempt to avoid the influence of the state logic, the Malaysian project was initiated by a governmental agency with a full support from the Malaysian government, which issued several legislations to facilitate, govern and monitor Islamic financial industry.

After establishment, the process of setting Islamic accounting standards under that project was primarily dominated by the religion logic of Shariah. This was by attempting to sufficiently address Shariah reporting requirements in that project. Religion logic was also supported by community logic as it was the case of AAOIFI. In addition, the MASB paid attention to other considerations in developing its project as well, as stated in Section (6.3.1). Among those considerations are the local regulatory framework of Malaysia (state logic) and accounting practices and standards issued by international accounting bodies (profession logic).

The MASB has experienced the same developments that have been experienced by AAOIFI and changed its institutional logics domination map for the favour of profession logic. One of those developments is represented by the increasing pressures towards the acceptance of IFRS especially after the EU adoption. The other development is IFIs being more commercialised in their objectives. However, the MASB's response to those developments has been more remarkable than AAOIFI's response[1]. The MASB decided in 2009 to abandon its policy on issuing separate standards. Instead, it announced in its Statement of Principles i-1 (SOP i-1)[2] that IFIs are required to follow the Malaysian approved accounting standards unless there is a Shariah prohibition. In that statement, the MASB also announced that it withdraws its first and only Islamic standard and that it is going to issue additional guidelines on reporting for Islamic financial transactions in a form of pronouncements and technical releases that supplement the Malaysian approved standards and discuss their application to Islamic transactions.

It is worth noting here that the MASB has consulted the Shariah Advisory Council of Bank Negara Malaysia on the applicability of its new approach. The Shariah Advisory Council has approved this proposed approach, in principle, based on the information that has been given to it[3]. In this respect, consulting the Shariah Advisory Council in those changes can be seen as an attempt to get both religious and legal legitimacy for the MASB's new approach. In other words, the MASB tried to use the logics of state and religion for the favour of achieving and legitimising its new agenda.

Moving back to understand the changes in the institutional logics map, it seems that by 2009 there was new positioning represented by the domination of certain logics at the expense of others. This is through the domination of profession logic supported partially by state and market logics, at the expense of religion logic. Even though technical releases did not have the same legal power of standards, the influence of religion logic can still be seen in the logics map through the continuous issuance of those

[1] See Section (6.3.2) for detailed presentation
[2] Statement of Principles i-1 (SOP i-1): 'Financial Reporting from an Islamic Perspective'
[3] The approval of the Shariah Advisory Council was questioned by some interviewees as stated in Section (6.3.4.2), who argued that the council would not perhaps have agreed if it had been consulted on the detailed issues.

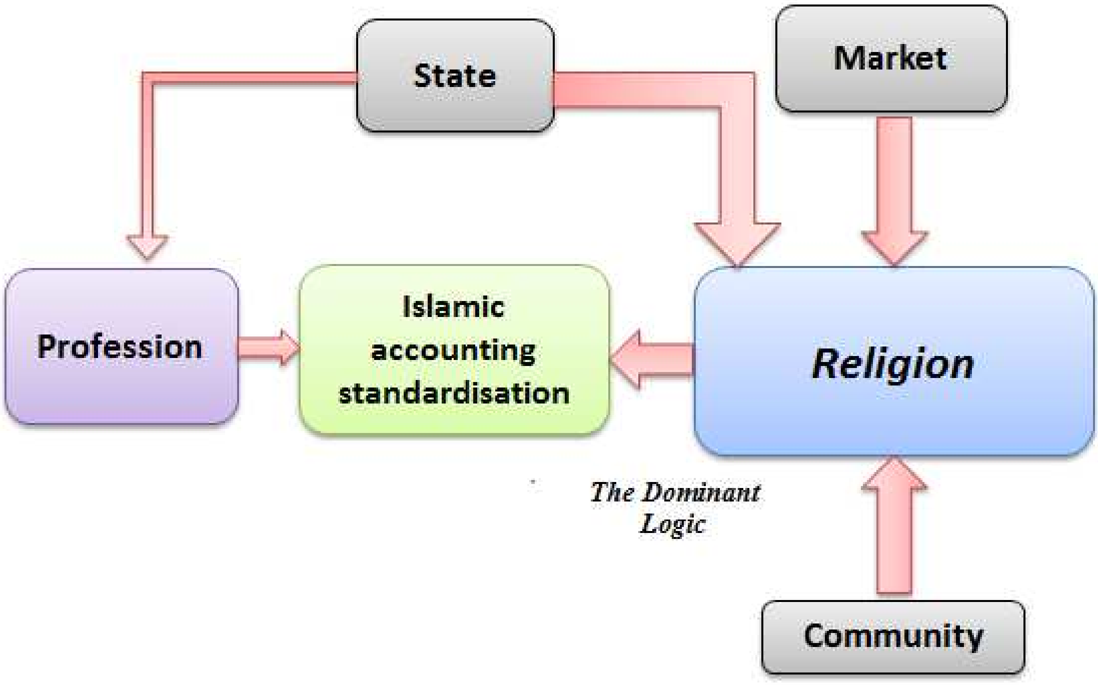
technical releases to meet the need for special guidelines that address Shariah reporting requirement.

In the late 2000s and early 2010s, IFIs have been more influenced by the increasing market-oriented trends of liberalisation policies and attracting foreign investments. Those trends can be identified as a common theme that has been dominating in Malaysia at the macro (state) level as well. In an attempt to be consistent with those movements, the MASB set a commitment for full convergence with IFRS, as an internationally recognised set of financial reporting standards, starting from 2012.

The consequences of this movement on Islamic financial reporting have been represented by increasing pressure on IFIs to report their Islamic financial transactions in full accordance with IFRS. This means more domination for the profession logic accompanied by an increasing support from the market and state logics. In this context, it can be argued that state logic has been, to a great extent, merged with profession logic since Malaysian companies including IFIs are required to apply whatever IFRSs require regardless of the local needs. This can be seen in the recent response of the MASB represented by the abandonment of issuing supplementary Islamic technical releases in order to avoid being considered as local interpretations of IFRS. On the other side, supported by community logic which has been significantly marginalised by the industry, the existing influence of religion logic has been recently limited to the MASB commitment to raise any controversial reporting issue that might face Islamic financial industry to the IASB.

Based on the above description, the shift in the MASB's logics domination map can be represented by the figure 7-2 clarifying how the relative influence of each logic on the MASB's approach and policies has changed over time. It is worthy to mention here that similar events of logic shifts were identified by Susela (1999) in setting the goodwill accounting requirements in Malaysia[1].

➢ **Logics' domination map on establishment**



➢ **Current logics' domination map**

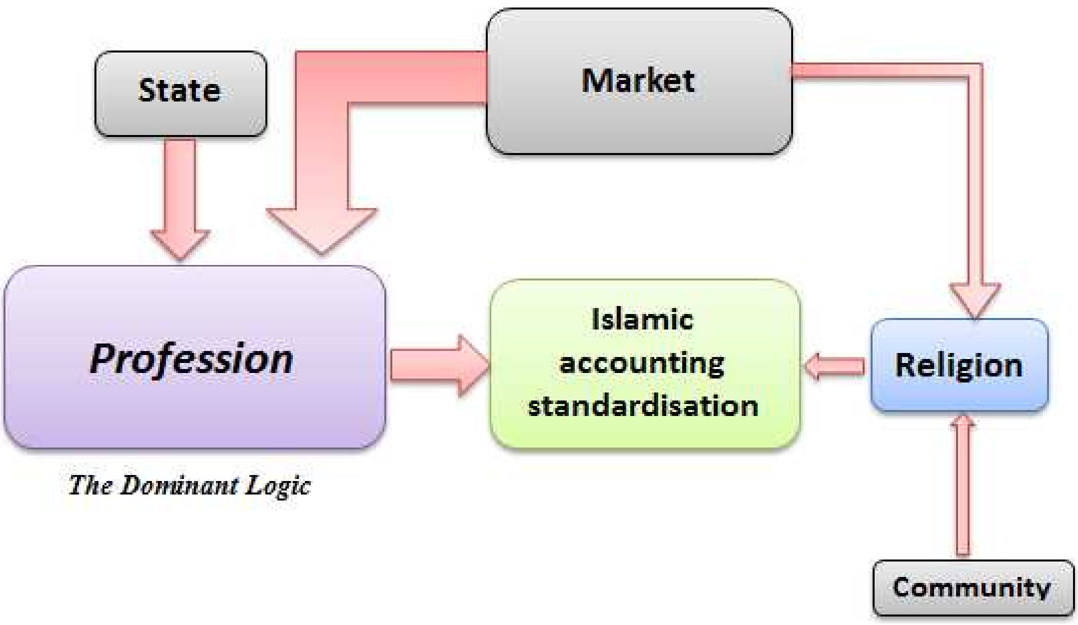


Figure7-2: Institutional logics' domination map in the context of the MASB's Islamic financial reporting standardisation project[1] (Source: author).

---

[1] See Section (4.3.5)

7.3.3 Heterogeneity of Organisational Responses between AAOIFI and MASB

As presented in the previous section, the institutional domination maps of AAOIFI and MASB have been subject to similar shifts over time. The outcome of those shifts has been represented by great dominance of the profession logic, supported by state and market logics, at the expense of religion and community logics. However, it is noticeable that AAOIFI and MASB have shown variation in the way they have reacted and constructed their organisational response to those dramatic shifts. The MASB's project has abandoned its first objective in developing separate Islamic accounting standards. In fact, it has literally ceased any plan for issuing any form of Islamic guidelines that were planned to be issued before. Instead, the MASB has announced a new approach in which it raises any financial reporting issue that might face Islamic financial industry to be accommodated within IASB's standards. On the other side, it can be observed that AAOIFI has not abandoned its objective in developing Islamic accounting standards although it has committed to close the gap, as much as possible, between its standards and IFRS.

Theoretically, in their search for external support, organisations incorporate all sorts of rationalities associated with the different institutional logics that construct their institutional context. However, organisations show differences in how they respond to the complexity in their institutional environment as they experience this complexity in different ways and to different degrees (Greenwood *et al.* 2011). Ezzamel *et al.* (2012) ascertain that as new logics dominate a specific field, organisations accommodate and adjust their norms and practices so as to be consistent with those associated with the new dominant logics. Accordingly, it can be argued that the radicality and intensity of organisational response to the changes in the logics domination map is proportional to the intensity of those changes and the extent of new logics dominance, as experienced by an

[1] The relative size in this figure represents the historical weight of each logic's influence.

organisation. By reflecting this argument on the two case studies of AAOIFI and MASB, it can be argued that the heterogeneity of organisational responses between AAOFI and MASB can be attributed to the different degree of dominance of those prevailing institutional orders in their institutional context.

In fact, the discussion above about the changes in the logics domination map shows that profession logic has recently shown greater dominance in the context of the MASB than in AAOIFI's context. This has been accompanied by greater support from the state and market logics as well in the Malaysian context (see Figure 7.1 in comparison to Figure 7.2). However, in spite of the increasing dominance of profession logic and the decline of religion logic influence in AAOIFI's context, religion logic still plays a considerable role in influencing as well as giving legitimacy to its commitment to develop standards that cater for the Islamic financial reporting needs. Actually, this may lead to another reason to which the heterogeneity of organisational responses between AAOFI and MASB can be attributed, which is the centrality of institutional logics to organisational mission.

Pache and Santos (2010) believe that not all organisations respond to competing institutional demands in a similar way since institutional logics are enacted differently by different organisations. They argue that the nature of institutional demands and their centrality to organisational mission and goals determine the extent to which those demands are negotiable when conflicting logics start to challenge them. They also highlight that those demands which are deeply rooted in the core mission of an organisation are not easy to be challenged. This is because the logics of those demands prescribe which goals are legitimate to pursue.

In this respect, reviewing the organisational mission of AAOIFI and MASB shows that AAOIFI's mission is:

> [s]tandardization and harmonization of international Islamic finance practices and financial reporting in accordance to Shari'ah[1].

Accordingly, it can be clearly noticed that religion logic is deeply embedded in this mission. This makes it difficult for AAOIFI to depart from that logic as it attains the legitimacy for its existence from that logic. This justifies the decision of AAOIFI to continue issuing Islamic accounting standards in spite of the 'secular' institutional pressures and the dramatic changes in its logics domination map. On the other hand, the MASB's mission is:

> to develop and promote high quality accounting and financial reporting standards that are consistent with international best practice for the benefit of users, preparers, auditors and the public in Malaysia. In a wider context, the MASB seeks to participate in and contribute to the development of a single set of financial reporting standards for international use[2].

This mission may justify the fact that even though the MASB's first project for developing separate Islamic standards was ruled to a great extent by religion logic, this logic has been historically negotiable. Consequently, when this logic showed conflict with the MASB's overall mission, the MASB chose to prioritise the logics that are more consistent with its mission. Therefore, it has taken the decision to accommodate Islamic financial reporting needs within the framework of IFRS, consistently with the demands of profession logic.

In addition, Pache and Santos (2010) add another factor that contributes to the heterogeneity of organisational responses. This factor is the internal representation of institutional logics. They argue that the heterogeneity of organisational responses is also a function to the extent to which prevailing institutional logics are represented within an organisation and the balance of power between different logics' representatives. This raises a question about the role of actors in AAOIFI and MASB in prioritising certain

---

[1] See: http://aaoifi.com/our-mission/?lang=en
[2] See: http://masb.org.my/pages.php?id=10

logics and promoting certain organisational responses at the expense of others. The role of those actors who act as logics' representatives is explored in the next chapter.

7.4 Conclusion

The above analysis and discussion suggests that different institutional logics have shaped and governed different historical stages of the AAOIFI and MASB projects for Islamic financial reporting standardisation. Five institutional orders have been identified as the most influencing factors in these projects – namely, the orders of Religion, Profession, Community, State, and Market. Over the history of AAOIFI and MASB projects, each institutional order has played a significant role in pushing toward achieving certain objectives that are expected from Islamic financial reporting. Achieving those objectives is perceived as the ultimate rationality from the perspective of that particular institutional order. This is based on the norms, values and principles associated with that institutional order.

Those logics have competed and interacted with each other in different ways to formulate a 'logics domination map' that has experienced dramatic changes over time. According to this map, both projects were originally initiated as a result of the influence of state and market logics. Those logics necessitated the development of harmonised standards and guidelines that unify financial reporting practices and enhance the credibility of Islamic financial industry in the market. Supported by those two orders in addition to the need for societal-oriented reporting as prescribed by community logic, the process of developing Islamic accounting standards has been dominated by religion logic. Attaining religion logic has required developing financial reporting requirements that help address Shariah reporting needs; communicate the Shariah compliance of IFIs' products and activities; and reflect the legal contractual characteristic of their products. Yet, the dominance of religion logic was shared with profession logic. This was by recognising the infeasibility of departing from conventional financial reporting practices in developing the conceptual framework, standards and guidelines of these two projects.

Over time, the institutional logics map has experienced substantial changes resulting in strengthening the dominance of profession logic at the expense of religion logic due to the worldwide acceptance of IFRS. This dominance has been supported by state and market logics after the movements of economic liberalisation and the need for attracting foreign investments in addition to the commercialisation of Islamic financial industry's activities. Community logic has been also marginalised to a great extent by the industry as a result of that commercialisation. These changes have resulted in different strategic responses by AAOIFI and MASB. Those responses have been represented by considerable efforts recently made by AAOIFI to bridge the gaps with IFRS in order to enhance the acceptance of its standards. While, on the other side, the MASB has followed a new approach in which it abandoned issuing any guideline on Islamic financial reporting. Instead, it has announced its commitment to raise any Islamic financial reporting issue that may arise to be accommodated within IFRS framework.

Finally, this chapter suggests that the heterogeneity of organisational responses between AAOFI and MASB can be attributed to the different degree of dominance of those prevailing institutional logics in each institutional context. In addition, this heterogeneity is also attributable to the centrality of those logics to organisational mission and goals. In this context, the role of actors in prioritising certain logics and promoting certain organisation responses at the expense of others is questioned. Exploring this issue is the main purpose of next chapter.

CHAPTER 8: Islamic Financial Reporting Standardisation Projects: The Role of Actors

8.1 Introduction

The purpose of this chapter is to investigate the role of actors in each case study from two different, but interrelated, perspectives. This is firstly achieved by looking at the role of actors, who act as 'representatives' of particular institutional orders, in promoting and defending certain organisational polices at different historical stages of the two case-study projects of AAOIFI and MASB. In addition, this chapter investigates the embeddedness of actors in certain institutional orders and the impact of that embeddedness on IFIs' financial reporting. Secondly, for the purpose of gaining further understanding on the role of actors, this chapter extends its analysis to incorporate remarks based on the institutional entrepreneurship theorisation. In doing so, it utilises Thornton *et al.*'s (2012) theoretical remarks and Battilana *et al.*'s (2009) theoretical model to examine the entrepreneurial behaviour of AAOIFI's and MASB's actors. Investigating these enquiries is in line with ILP, which is featured by its balanced view of institutional demands and the agential role of actors.

This chapter is organised into two main parts. Each part is comprised of three sections. The first part presents an overview of the role of influential actors in both AAOIFI and MASB projects in giving voice to certain institutional logics and shaping their policies accordingly over time. It then moves to explore the issue of the institutional embeddedness of different actors involved directly and indirectly in practicing and regulating IFIs' financial reporting and the impact of that embeddedness on the current IFIs' reporting requirements and practices. The second part explains how actors in both projects followed certain entrepreneurial strategies to implement their vision in developing a framework for Islamic financial reporting. It then proceeds to explore the activities in which those actors were involved to promote and implement their vision and the extent to which they were successful in such activities. A discussion and summary section is presented at the end of each part which aims to synthesise research findings. In addition, a conclusion for the whole chapter is provided in the final section.

8.2 The Role of Actors in Shaping the Organisational Policies of AAOIFI and MASB

In Chapter Seven, a detailed analysis has been provided on the role of certain institutional orders in shaping the distinct features of different historical stages of the Islamic financial reporting standardisation projects of AAOIFI and MASB. However, ILP calls for understanding the agential role of actors in giving voice to certain institutional orders in which actors are embedded. More precisely, institutional logics perspective rejects the structural deterministic view of the neo-institutional theory. At the same time, it rejects the methodological assumptions of rational choice theory. Instead, Friedland and Alford (1991) view individuals' behaviour as being 'nested' within certain institutional settings which provide certain opportunities and constraints on their behaviour. Given the availability of multiple institutional logics in a certain context, each with its own sense of rationality, individuals have the ability to exert agency in choosing which of those multiple logics they may depend on in their actions (Friedland and Alford 1991). In other words, actors are partly autonomous since they are capable of conceptualising actions and acting upon alternative views of rationality. According to Thornton *et al.* (2012), those actors act as 'agents' or 'representatives' of particular institutional orders. Accordingly, they shape organisational behaviour and promote certain organisational policies consistently with the logics which they represent.

Inspired by this argument, this study investigates the role of actors in prioritising certain institutional logics and shaping, accordingly, the organisational policies of the Islamic financial reporting standardisation projects of AAOIFI and MASB.

8.2.1 The Role of Actors in the Context of AAOIFI

Data analysis shows an important role of certain influential actors in initiating, supporting and implementing the idea of founding an independent accounting standard setting body for IFIs. The story behind the idea of initiating AAOIFI was narrated by the current Secretary General of AAOIFI, Dr Hamed Hassan Merah, in his interview with CNBC Arabia[1]. He quoted from the former president of the Islamic Development Bank (IDB), Dr Ahmad Mohammad Ali, that the IDB's internal auditor raised to him the issue of the inability of conventional accounting practices to reflect the true nature of Islamic financial products and transactions. The auditor had suggested the establishment of an organisation that could work on developing and issuing standards to address the uniqueness of those products and transactions. This suggestion was supported by the IDB's president at that time and translated into a working paper which was presented during the annual meeting of IDB's board of governors in 1987. According to Dr Hamed Hassan Merah, that working paper was the cornerstone for the establishment of AAOIFI. A former ranking executive in AAOIFI, interviewee (I-7), confirmed these details and indicated that this initiative received a great support not only from IDB' board members but also from other well-known bankers in the Islamic financial industry as well[2]. Those bankers were the same pioneers who contributed beforehand to the establishment of the industry itself in the 1970s and 1980s. Interviewee (I-30), a senior accountant in an IFI, added in this context that at that time those bankers believed in the noble purpose of

---

[1] See Hamed Hassan Merah's interview with CNBC Arabia. Available at: https://www.youtube.com/watch?v=x5g0A7bVS4k&t=1038s

[2] In particular, interviewee (I-7) referred to the contribution of the Saudi prince, banker and businessman, Mohammed Alfaisal, in supporting the initiative of AAOIFI.

Islamic finance and the importance of this industry in the economic development of Muslim societies. Consequently, according to interviewee (I-30), they were fully supportive to any initiative that aimed to push this emerging industry ahead.

Following the IDB's working paper, intensive efforts were made on the ground at both administrative and technical levels. These efforts paved the way for the establishment of AAOIFI in 1991. In this regard, many interviewees refereed to the role of the first Secretary General of AAOIFI, Professor Rifaat Abdul Karim, in leading these entrepreneurial efforts at the establishment stage. According to an IFI's CFO, interviewee (I-29), Professor Rifaat was one of the very few qualified people who had a considerable knowledge in both accounting and Shariah. Interviewees who were/have been involved in AAOIFI's work admired his role and indicated that he was able to build a good team who received a great support from major IFIs as well as some regulatory bodies and central banks. This team had worked hard in the first few years of AAOIFI's life to push AAOIFI agenda forward and achieved considerable success in setting effective administrative, technical and marketing policies.

However, some interviewees referred to the fact that after the notable achievements that were attained by that team, AAOIFI has experienced a period of recession in terms of developing, updating and gaining acceptance for its standards. Interviewees (I-3), (I-11), (I-13) and (I-9) argued that the decline in AAOIFI performance can be clearly seen during the period that followed Professor Rifaat Abdul Karim as a Secretary General.

> He [Rifaat Abdul Karim] was very active in developing standards, pushing standards. But unfortunately, the secretary generals who came after him were not as active as he was. So, there was negligence, I mean, this is not only from me, this is from those people who were involved in developing standards from the very beginning. When I talk to them, they express their frustrations and some of them pulled from becoming members in the working groups. So, not much development has taken place since then, so slowly. I mean when there is not much development, not much things are being developed and it is being

> neglected, so people lose interest toward standards (I-3, Board member in AAOIFI).

Interviewee (I-3) further argued that accounting standards should be up to the international level to gain acceptance. He stated that, however, the focus of AAOIFI was scattered during that period and AAOIFI did not realise the importance of updating and enhancing the quality of its standards to follow the developments in the industry. Interviewee (I-9), an executive in AAOIFI, confirmed this statement and clarified that during the period of Dr Mohamed Nedal Alchaar, the Secretary General who came after Rifaat Abdul Karim, the focus was on organising conferences and providing professional training programmes[1] rather than developing and updating standards. He indicated that Dr Nedal was talented in the general administrative affairs; however, he did not direct his efforts in the right way to enhance the process of accounting standard development. Interviewee (I-9) added that Dr Nedal was a 'professional person' who was educated in the West and did not have the Shariah background. These factors, in his opinion, led to the fact that not many achievements were made in his time in terms of standard development. Interviewee (I-11) commented in this context by saying that:

> Dr. Rifaat was very clear in his direction. Whoever came after him, they were there because they were just interested to be there, rather than knowing the strategic direction where we should be moving. Those people were just interested to work, instead of those who understand the needs of the industry, how to move the industry forward. So, there is a difference (I-11, Professor in accounting and former standard setter).

Furthermore, Interviewee (I-11) quoted that Rifaat Abdul Karim was not satisfied with the way that AAOIFI is performing. He mentioned in this context:

> You know I asked him what is the future of AAOIFI? You know what he said sincerely to me? 'Forget about AAOIFI' (I-11, Professor in accounting and former standard setter).

[1] AOOIFI provides training programmes and certifications such as 'Certified Islamic Public Accountant' and 'Certified Shariah Advisor and Auditor'

On the other hand, the same interviewees who criticised AAOIFI performance in that period expressed that they are optimistic about the ability of the recent AAOIFI executive team to revive the role of AAOIFI as a leading body in developing Islamic accounting standards. An AAOIFI board member, interviewees (I-3), and an AAOIFI executive member, interviewee (I-9), admired the personality of the current Secretary General of AAOIFI, Dr Hamed Hassan Merah, as an 'active' and 'dynamic' person who has made great efforts within a short period of time to revive the position of AAOIFI. In this respect, interviewee (I-9) indicated that the efforts of Dr Merah have been directed to reconstruct its internal system and standard setting process. More precisely, he clarified that the new executive team is currently working laboriously to establish an 'institutionalised system' which involves clear rules in terms of committees' appointments and standard setting procedures.

Within the accounting context, interviewee (I-9) indicated that the new executive team has recognised how challenging the international accounting harmonisation efforts are for the acceptance of AAOIFI standards. It has also recognised the urgent need for updating those standards to accommodate the new developments in the industry. He stated that even though the new team believes in the uniqueness of Islamic financial reporting needs, it has set a plan to update those standards in a way that brings them closer to IFRS requirements as much as possible. Interviewees (I-8) and (I-9), both executive member in AAOIFI, emphasised that closing gaps with IFRS does not imply the intention of the AAOIFI executive team to converge with IFRS requirements but instead to eliminate the unnecessary differences that do not affect the Shariah compliance of AAOIFI standards. They stressed that AAOIFI is proceeding with its primary objectives in developing standards that meet the reporting needs of Islamic financial industry.

Moreover, in addition to closing the gaps with IFRS, interviewee (I-9) added that AAOIFI's plan involves other procedures to enhance the acceptance of its standards. Those procedures include making more efforts to promote AAOIFI's accounting standards among IFIs and regulatory bodies in different countries[1]. It is interesting in this context to mention that, according to some interviewees who joined AAOIFI' executive team during different periods of time, such as (I-7), (I-9) and (I-29), the process of marketing and promoting AAOIFI standards has depended sometimes on the personal networks of certain individuals in AAOIFI, especially its Secretary Generals. According to interviewee (I-9), this strategy has achieved success in many occasions, given the feature of Arab and Muslim societies, where the social position of individuals plays an important role in the social and business life.

On the other hand, another executive member in AAOIFI, interviewee (I-8), tried to reduce the importance of certain individuals' personality in making a significant difference in AAOIFI's policies. He argued that AAOIFI has an institutionalised system which makes it difficult to attribute the success or failure in certain aspects to certain individuals. Nevertheless, interviewee (I-8) did not deny that there have been variations in the focus at the top level of AAOIFI at some stages. In this respect, he stated that AAOIFI was suffering in some periods in terms of financial and organisational affairs; yet, it made considerable achievements in terms of developing standards. However, in other periods, the standard development process fell back; yet, AAOIFI was doing well in organising conferences, raising awareness and developing professional programmes.

[1] This plan was announced by the Deputy General Secretary of AAOIFI, Mr Omar Mustafa Ansari, in front of the 10th Annual AAOIFI – World Bank Conference on Islamic Banking and Finance, 6th-7th of December 2015, Manama-Kingdom of Bahrain. Available at: https://www.youtube.com/watch?v=Ipi6z85gQ_4

8.2.2 The Role of Actors in the Context of the MASB

Investigating the circumstances surrounding the MASB's project for Islamic financial reporting shows a significant influence of certain actors in determining the distinctive features of that project at different historical stages. The information given by the participants involved in this study indicates that those actors play an important role in shaping the decision on how to report Islamic based transactions in Malaysia.

Historically, the MASB's project was initiated by staff members who believed in the inadequacy of conventional accounting from the Islamic perspective. Those staff members acted upon this belief and made great efforts to pursue their objective in developing separate standards that addresses the needs of Islamic financial reporting. Those efforts succeeded in developing and issuing the first standard under that project in 2001. However, according to some interviewees, the following years witnessed the appointment of some staff members and board members who adopted a different viewpoint. Those new members, according to interviewee (I-28)[1], were 'talented' but they had a different philosophical view and did not have the same esteem towards the objectives of that project. When he was asked to explain what he meant by 'different philosophical view', interviewee (I-28) stated:

> I mean, how you see things, your view of the world. Like what I said before, if you are 'Shariah sensitive' then the world will be a little different than when you don't have that sensitivity. If you are a totally conventionally-trained person, you may not have the enthusiasm to look into the Shariah perspective. I mean, you'll tend to think it is okay from that perspective. If you are Shariah-trained, then you would think, 'no, we should comply more from the perspective of Shariah' (I-28, Academic in ISRA and former accountant in an IFI).

Those newly appointed members were from a very professional background and mostly from the Big Audit Firms. They had a different perspective on how to deal with

---

[1] Interviewee (I-28) is an academic in ISRA. He has been involved in some meetings of the MASB's Standing Committee on Islamic Financial Reporting. He also has a good knowledge about the MASB's history and its project for Islamic financial reporting.

Islamic financial reporting. They were from the standpoint that conventional accounting practices and standards are applicable to the substance of Islamic financial transactions with additional disclosure, if necessary. Talking about the thoughts which those members brought to the MASB, interviewee (I-11) stated:

> They had very strong views. Some of these people also had views like, 'Well, accounting is accounting, although we have different Islamic financial products, they can be treated using the existing accounting standards'. Soon, IFRS came and strengthened their views… Along with the new set of people came in a new mind-set, new understanding, different understanding, and that changed many things (I-11, Professor in accounting and former standard setter).

Interviewee (I-13), a professor in accounting and an MIA council member, described the changes that this "different school of thought" brought to the MASB. He indicated that those members have contributed in changing the MASB policies over time starting from issuing technical releases instead of separate standards and ending by requiring IFIs to comply with IFRS.

Interestingly, many interviewees indicated that the turning point, which made a great impact on the MASB's policies toward Islamic financial reporting, was the appointment of Dato' Mohammad Faiz Azmi as a Chairman to the MASB in 2009. In addition to being partner and Executive Chairman of PWC audit firm, this person has been involved in many accounting professional and regulatory bodies locally and internationally. He was described by interviewee (I-13) as a "big liberal" who has strong views against developing separate standards for Islamic purposes. Interviewee (I-13) described his attitude that has shaped the MASB's policy toward Islamic financial reporting since 2009 by saying:

> He is a very strong guy. His inclination to IFRS, out of 100 is 110%. According to him, no-no to AAOIFI standards in Malaysia…no-no to other standards besides IFRS…To him what IASB has done was good enough to cover all industries, all types of institutions (I-13, Professor in accounting and MIA council member).

Even though he was a board member in AAOIFI at a certain stage, Dato' Mohammad Faiz Azmi has recently shown great resistance to AAOIFI accounting standards and heavy promotion of the applicability of IFRS to the Islamic financial industry locally and internationally[1]. According to a standard setter, interviewees (I-12), Dato' Faiz always argues that accounting is a neutral, technical tool and that different principles for Islamic financial products do not justify different reporting practices.

On the ground, after issuing the first standard under the MASB's project, there was a debate inside the MASB on the feasibility of going forward in the policy of issuing separate standards. Those who were in charge of the project were consequently reluctant about the format in which they needed to issue Islamic accounting guidelines. It can be noticed in this context that some requirements which were firstly planned to be issued as standards were issued later as technical releases (i.e. technical releases of *Zakat* and *Ijara*). In 2009, the impact of Dato' Faiz's appointment as MASB chairman was very noticeable. In the same year he was appointed, the MASB issued the Statement of Principles i-1 (SOP i-1) which withdrew the first Islamic standard and required IFIs to follow the Malaysian approved accounting standards. Yet, the MASB decided to continue in issuing additional guidelines on Islamic financial reporting in a form of technical releases. A few years later, in 2012, with the implementation of the IFRS convergence plan, Dato' Faiz stated:

> [T]he MASB subsequently became wary that issuing TRs may be misconstrued as local interpretations of IFRS – which may not be acceptable to the IASB (MASB-D7).

He clarified that, accordingly, the MASB would not issue any further Islamic technical releases. Instead, he indicated that the MASB would consider some other routes to accommodate Islamic financial reporting matters. Among those routes, he mentioned

[1] Dato' Mohammad Faiz Azmi has been recently appointed as a Chairman of the IASB' Islamic Finance Consultative Group which look at the application of IFRS to Islamic financial products.

accommodating Islamic financial reporting issues within IFRS framework through lobbying the IASB.

Interviewee (I-11), a professor in accounting and former standard setter, commented on Dato' Mohammad Faiz Azmi's personality and attitude by saying that he actually represents a group of people who have the same understanding and way of thinking. He described him as a 'spokesman' of that group of actors which advocates the 'profession logic' and is considered a majority in the accounting profession in Malaysia. He clarified further that historically Dato' Mohammad Faiz Azmi has been able to get the support of that group easily in order to implement his policies. Other standard setters such as interviewees (I-13) and (I-12) supported this statement and indicated that this was not the case with Dr Nordin Zain who was the key person in the MASB's Islamic financial reporting initiative. Interviewees (I-13) stated that the way in which Dr Nordin Zain promoted his approach was not effective enough to 'mobilise' influential people and obtain their support. He argued that developing such a project needs strong leaders who are skilled in marketing change and getting the support of others in the industry.

> It depends on the leadership…You'll need a strong figure to sell the idea. You'll need supporters who can support the idea all the way… you need strong supporters to support the leader who can bring change. We didn't have that, so all efforts collapsed. When you promote something, you have to do your study, you have to look at the institutional players. If you want to win the battle, you must have a strong foundation, strong supporters. Then, you can move forward. (I-13, Professor in accounting and council member in MIA).

On the other hand, a partner of Ernst & Young and member in the MASB's Standing Committee on Islamic Financial Reporting, interviewee (I-4), did not agree with the argument that certain individuals have been able to make a substantial influence in the MASB's policies. He argued that those actors work within the framework of the overall national policy. He added that different stakeholders are involved in the MASB's decisions including regulatory bodies, audit firms and the Islamic financial industry itself.

He indicated that those stakeholders are represented in the MASB's Standing Committee on Islamic Financial Reporting, where they share and debate their views. However, some interviewees who came from an academic background and were involved in some meetings of that committee such as (I-13), (I-24) and (I-12) raised the issue of the dominance of the Big Audit Firms on its decisions, especially that the chairman and other influential members in that committee are partners in those firms. They argued that although that committee includes different representatives from the industry and regulatory bodies as well, those representatives are not experts in accounting. Consequently, in their opinion, those members are not totally aware of the accounting implications of following certain policies. Indeed, as stated in Section (7.2.2.2), interviewing some of those committee members such as interviewees (I-5), (I-6) and (I-14) showed that they were not well versed in accounting. Besides, it seemed that they had been totally convinced of the discourse used by the MASB's officials.

Interviewees (I-13) and (I-12) argued that Big Audit Firms' representatives are able to influence and lobby the MASB's Standing Committee to follow certain policies that serves their firms' interests and makes their work easier. Hence, interviewee (I-13) called for the involvement of independent people in that committee such as academicians who do not have interests in imposing certain practices.

> The composition should be people who are really independent, like academicians, who do not have interests in the practice. If you are the one who practices and the one who approves the rules, for sure you will find rules, standards, guidelines, which make your life easier, rather than finding what is right but difficult (I-13, Professor in accounting and council member in MIA).

Another issue was raised about the members of the MASB's Standing Committee on Islamic Financial Reporting and the MASB staff in general. This issue is the embeddedness of those actors in conventional accounting practices and thoughts. In addition to his argument above, interviewee (I-13) criticised the MASB's Standing

Committee and argued that "the way they look into issues is from their backgrounds, rather than what is supposed to be". Interviewee (I-24), specified more and attributed the current MASB approach to the fact that its current staff members are more familiar and expert in IFRS. The issue of actors' embeddedness in certain institutional logics is to be discussed in detail in the next section.

8.3 Institutional Embeddedness of Actors

According to Thornton *et al.* (2012), the core assumption of the institutional logics perspective is that "the interests, identities, values, and assumptions of individuals and organisations are embedded within prevailing institutional logics" (p. 6). Similarly, Besharov and Smith (2014) argue that individuals as well as organisations are more likely to be centred in and act upon the logics of certain institutional orders than others. In other words, actors who play the role of representatives of certain institutional logics act according to the rationality perceived from the perspective of those logics (Pache and Santos 2010). The embeddedness of actors in certain institutional settings was markedly addressed by most participants in this study. This embeddedness, according to interviewees, is not restricted to one group of actors, but is rather at different levels including regulators, standard setters, academics, auditors and accountants.

8.3.1 Institutional Embeddedness of Regulators

Most Muslim countries were under the western colonisation for different periods of time. Even though those countries have achieved their independence between 1940s and 1960s, the common denominator between those countries is that they have been largely attached to and influenced by the western colonising countries' systems politically, economically, legally, and even culturally. The influence of Islam in the real life has consequently declined as argued by some interviewees. This is, in their opinion, because colonisation has succeeded in creating a separation between the spiritual and temporal aspects of life, which has resulted in the fact that only certain aspects of Islam are being practiced on some occasions. Interviewee (I-17), a professor in Law and Shariah advisor in BNM, supported this argument by giving Malaysia as an example. He stated that Malaysia, as a commonwealth country, has copied its regulations from the British laws. He further added that most Malaysian lawyers and regulators received their education in the UK and brought the Western values and principles into practice in Malaysia.

Within the context of accounting and financial reporting, some researchers suggest that colonisation has played an important role in shaping the accounting systems of the colonised countries (Alnesafi 2010, Altarawneh and Lucas 2012). Many interviewees agreed with these findings and attributed them to two main factors. The first factor is that accounting regulations are generally prepared and approved by regulators who are educated in the West and influenced by the Western education. An academic in ISRA, interviewee (I-23), argued that it is very difficult to establish an Islamic accounting system in light of the embeddedness of regulators in the Western values. Another academic and former practitioner in an IFI, interviewee (I-27), assumed that central banks in Islamic countries are able to require the application of AAOIFI standards or any Islamic based accounting system. However, in his opinion, regulators do not have the 'enthusiasm' to do so. He indicated that, by contrast, regulators have been recently more committed to the application of any accounting system that can improve their country's position internationally regardless of its suitability to local needs. The second factor is that a national accounting system needs to be consistent with the overall regulatory requirements in the country. However, in most cases, those requirements are influenced by the Western laws and regulatory frameworks due to either the historical colonisation legacy or the current globalisation pressures. In this context, interviewee (I-3) stated:

> Actually, sometimes, when you develop standards and you want your standards to be implemented, you have to work within the general requirements of the regulators. If you depart from the norms, then people are not going to use your standards (I-3, Malaysian academic and Sharia board member in AAOIFI).

8.3.2 Institutional Embeddedness of Standard Setters

There was a common concern amongst most interviewees that developing accounting standards to cater for IFIs needs requires qualified people who are well versed in both accounting and Shariah. However, the interviewees referred to the point that, historically, most of those who have been in charge of the process of setting and approving Islamic financial reporting standards and guidelines belong to the Big Audit Firms who came originally from a conventional accounting background with little knowledge in Shariah.

Investigating those claims on the ground in the Malaysian context shows that, in addition to the representatives of IFIs and regulatory bodies, those who represent the accounting profession in the MASB’s Standing Committee on Islamic Financial Reporting belong to the Big Audit Firms. Moreover, the research findings presented in Section (8.2.2) indicate that those Big Audit Firms’ representatives dominate the decision of that committee with little influence of other members who seem to be convinced to a large extent in the argument of those dominant members in the committee.

When some interviewees were asked about the role of those dominant actors in shaping the MASB’s policy over time, they strongly agreed that the competence of those actors in conventional accounting plays an important role in prioritising the application of conventional accounting practices to Islamic financial transactions. Some went further, as stated in Section (8.2.2), and attributed the abandonment of the first objectives of the MASB’s Islamic financial reporting project to the philosophical and educational background of those actors who joined the MASB in the mid and late 2000s. Interviewee (I-11) described the background of those actors and the circumstances at that stage by saying:

> Their background in Islamic finance was very shallow…They managed to get some people to sit in the board with Shariah background, but whoever those scholars are, they might not be able to contribute much due to the limitation in their understanding of accounting. So, there is a big gap…We cannot expect that much with the kind of expertise that they have (I-11, Professor in accounting and former standard setter).

Moving to AAOIFI's context, reviewing the background of the current accounting committee and AASB members shows that most of those members are Big Audit Firms partners[1]. Similarly to the Malaysian context and consistently with Levy and Rezgui (2015) argument, some interviewees expressed their doubts that the conventional background of those members may influence the process of developing standards for IFIs. Practitioners who have been involved in some activities and meetings in AAOIFI such as interviewees (I-29) and (I-30) argued in this context that it would be difficult for those members to act neutrally and depart from the templates which they are used to according to their conventional background. They added that those members may act unintentionally according to a pre-existing system of reference[2] when they deal with certain transactions.

However, opposite to the research findings stated above in relation to the Malaysian case, interviewing and reviewing the profiles of some of those members showed different observations. In more details, most AAOIFI's AASB members as well as AAOIFI staff members appear to have considerable Shariah background, Shariah training or experience in Islamic banking in addition to their conventional accounting background[3]. Moreover, when forwarding the concern that the conventional background of those actors may impact their performance, interviewee (I-10) indicated that:

> I don't think so, because you know, the members of the board are scholars from different backgrounds and even though some auditors come from Big Four

[1] 8 out of 10 accounting committee members are big audit firms partners.
[2] The system of reference which they mean is the international financial reporting practices and requirements.
[3] Similarly, Levy and Rezgui (2015) indicate that AASB members express that they have double proficiency in both religion and accounting matters.

> accounting firms, some of us have extensive background in Shariah accounting or Islamic accounting standards. Like myself actually, it has been more than 10 years of being working in Islamic accounting standards and also being part of a National Shariah Board. My understanding of Shariah is not minimum because I have been in the area for a long time… I myself have been the chairperson of the conventional accounting standard board of (his country)[1]… Some others perhaps are truly from conventional background or Big Four without Shariah backgrounds, but again the persons with conventional backgrounds also appreciate and engage in discussions with other persons in the board (I-10, AASB member in AAOIFI and senior executive in one of the Big Audit Firms).

The above analysis suggests that there is a significant difference between the MASB and AAOIFI in terms of the extent of institutional embeddedness of their members and the type of institutional settings which those members are imbedded in. Such differences have played a role in differently shaping the historical and current policies of each standard setting body.

8.3.3 Institutional Embeddedness of Accountants and Auditors

It was surprising when conducting this study to find out that the situation of embeddedness in conventional accounting practices and thoughts is not limited to regulators and standard setters. Research findings suggest that accountants and auditors who are involved in preparing and auditing IFIs annual reports are also embedded to a great extent in conventional accounting. For instance, investigating the opinion of some practitioners who participated in this study such as interviewees (I-29)[2] and (I-30)[3] shows that they are comfortable in accounting for IFIs' activities according to IFRS. Moreover, although they agreed that IFRS requirements are not totally sufficient to address some Islamic financial reporting needs, they did not consider that as an urgent issue which threatens the value and credibility of information produced by IFIs.

Academic interviewees who are exposed to IFIs current financial reporting practices such as (I-13), (I-22) and (I-28) indicated that IFIs' accountants are familiar with IFRS

---

[1] The name of the country was kept anonymous to protect the participant's identity
[2] CFO in an IFI
[3] Senior Accountant in an IFI

requirements; therefore, they are comfortable in reporting the substance of Islamic financial transactions following IFRS, regardless of the appropriateness and sufficiency of such reporting. They also referred to the lack of relevant Shariah knowledge between IFIs' accountants and auditors that enables proper reporting for Islamic financial products.

> Accountants are happy and they really agree with what they are doing. I think they prefer to use IFRS rather than another set of standards. If you ask them "Why don't you include proper additional information for that?" It's because they don't have Shariah background and they don't really understand Shariah requirements. They feel that whatever they do is correct…They already have templates. They just copy and paste in those templates (I-22, Professor in accounting, IIUM).

> The accounting now is primarily based on the conventional understanding of business. Maybe this is because of the mind-set of practitioners since they were trained in the conventional way...They don't really respect Sharia issues or Sharia needs that much...So the mind-set is like that. We need to change the mind-set (I-28, Academic and former accountant in an IFI).

Interviewee (I-11), a professor in accounting and former standard setter, agreed with interviewee (I-28) that IFIs accountants do not appreciate the 'sensitivity' of Shariah issues. He gave an example of non-halal income disclosure. He argued in this context that IFI's accountants do not bother to provide proper disclosure on non-halal income as they do not appreciate its sensitivity. Within the same vein, a board member in AAOIFI, interviewee (I-3), argued that there are currently various Islamic accounting and auditing certifications; however, the appreciation of such issues cannot be only theoretical. He, therefore, called for more involvement of IFIs' accountants and auditors in the product set-up in order to understand the specificities of IFIs' products and the ultimate aim underlying those products. Interviewee (I-22) further argued that IFIs' accountants are required to challenge the current reporting practices. This, in her opinion, requires good understanding and training on both accounting and Shariah requirements. However, consistently with Kamla and Haque (2017), a former IFI senior accountant, interviewee (I-30), indicated that accountants nowadays, including those who work for IFIs, do not give importance to Shariah training while they consider obtaining Western professional training and certificates as an advantage and a source of prestige status in the job market. Interviewees addressed this embeddedness as a constraining factor of a proper Islamic financial reporting.

8.3.4 Institutional Embeddedness of Islamic Financial Industry's Actors

As previously revealed, Islamic financial industry has been diverged from the spirit of its first objective. On establishment, the ultimate purpose of IFIs activities was to enable Muslims to invest their savings and acquire finance in a Shariah compliant manner. However, over time, IFIs have experienced commercialisation in their objectives and practices, which have been imitating those of conventional financial institutions. This commercialisation was reinforced by the fact that most IFIs around the world work in capitalistic oriented systems where seeking profit and wealth maximisation is the ultimate goal of business activities.

Some interviewees attributed the commercialisation of IFIs to the mentality of those who are in charge of running those institutions. In their opinion, those actors are still working according to the capitalistic mentality. Interviewee (I-3) argued that Islamic financial industry cannot move to the ideal situation unless it has the 'right people' who understand the spirit of Islamic economic and business principles.

> You might have a very beautiful principle, but you don't have people to drive it. Mostly, those people who are running Islamic finance nowadays are from conventional background. They don't have the Islamic world-view, they don't understand Sharia, they don't understand all these Islamic principles. They still think in a capitalistic way, they still think within the conventional framework…So, we need to change the values before talking about setting standards (I-3, Member in the MASB's Standing Committee on Islamic Financial Reporting/Sharia board member in AAOIFI).

A senior accountant in an IFI, interviewee (I-30), agreed on the fact that most IFIs staff, executive and director members came from the conventional financial background and still work in that mentality. He gave examples from the Kuwaiti Islamic financial industry to support his argument. In one of these examples, well-known conventional bankers acquired an IFI and appointed executive members who got their banking experience through working for conventional banks. In another example, the main owners of a conventional bank decided to provide Islamic financial products and converted that bank to become an Islamic bank. Interviewee (I-30) clarified that their decision was not religiously based. It was because they realised that Islamic finance is more profitable than conventional finance in Kuwait. He argued that, therefore, it is no wonder why IFIs are still managed in the same mentality of conventional finance.

When investigating the impact of this fact on financial reporting, interviewees argued that accounting requirements are driven by the industry. Therefore, changing those requirements needs a push from the industrial players themselves. However, IFIs currently are less likely to seriously push toward developing different financial reporting requirements. This is due to three factors. The first factor is that IFIs actors do not appreciate the need for Islamic financial reporting as indicated by most interviewees. The second factor is the belief that since financial reporting does not affect the Shariah compliance of IFIs transactions, those transactions can be reported according to any financial reporting system. The third is that IFIs, because of their 'commercial mentality', need to compete with their conventional banks in the market. This competition, according to interviewee (I-15)[1], requires comparable financial statements, which has led IFIs to prefer following whatever financial reporting system is prevailing in their business environment.

[1] Deputy General Manager, Securities Commission Malaysia- Islamic Markets

8.3.5 The Role of Education in the Institutional Embeddedness of Actors

The role of universities and educational institutions in making change and raising awareness about the uniqueness of Islamic financial products and the importance of reporting such products differently has been questioned by several interviewees. Those interviewees believe that the educational system contributes in creating and deepening the embeddedness of graduates in conventional accounting thoughts and practices. This is due to the fact that most academic staff members in the higher education institutions in Muslim countries received their education in Western universities, where they were taught conventional accounting philosophy and practices. The interviewees stressed the responsibility of universities for enhancing and moving Islamic financial reporting education forward. In this respect, accounting professors in three different higher education institutions, interviewees (I-11), (I-13) and (I-22), acknowledged that educational institutions are not doing what they are supposed to do in this regard. They indicated that Islamic financial reporting principles are only being taught through a few simplistic courses in some universities by a few specialised academic staff members.

> If you look at the education of Islamic financial reporting, we don't have accounting professionals to teach… In most universities, there is only one person on accounting for Islamic financial transactions. So, what do you expect?... I am currently an adviser in one university where I conducted two workshops on Islamic accounting. Students themselves who are going to be the future of this industry do not really understand what Islamic accounting is…They are much more familiar with conventional accounting (I-13, professor in accounting/ISRA).

Interviewee (I-22) indicated that some universities offer Islamic-oriented programmes. However, she stated that the paradox in such programmes is that even though students are taught that they need to know Shariah requirements, they are taught that they need to follow IFRS in the real life. She stressed that the market needs graduates who understand Islamic financial transactions and act critically and creatively when recording and reporting such transactions.

Within this context, a ranking executive in AAOIFI, interviewee (I-7) pointed out that AAOIFI has recognised this gap in the educational systems and consequently offered training programmes such as the ‘Certified Islamic Public Accountant’ programme in an attempt to fill this gap. He argued that those programmes aim to provide graduates with good knowledge about IFIs’ accounting, auditing and financial analysis. However, interviewee (I-27), a professor in accounting and former accounting practitioner in an IFI, was doubtful about the ability of such programmes to change the status quo. He believes that, ideally, graduates should be equipped with deep knowledge in Shariah business philosophy and rules before being taught the principles of Islamic accounting. He argued that graduates who are taught conventional accounting and western business values for four years or more are not expected to work in different mentality if they follow such intensive programmes and pass the test. That is because, to use his own words, “you behave the way you were brought up”.

8.4 Discussion on the Role of Actors and Institutional Embeddedness in Shaping Islamic Financial Reporting Standardisation Projects

8.4.1 The Role of Actors in the Heterogeneity of Organisational Responses

Pache and Santos (2010) argue that actors play the role of ‘internal representatives’ of certain institutional logics. Accordingly, they promote organisational policies consistent with the logics they represent. Reflecting this argument on the Malaysian case, the MASB project for developing separate Islamic financial reporting standards was initiated by actors who believed in the need for accounting and reporting Islamic based transactions differently. They believed that the conventional financial reporting framework is not adequate from the Islamic perspective. In other words, those actors represent the logic of religion order and advocate its demands. However, new appointments had taken place in the MASB bringing actors who had a different standpoint. Those actors promoted the applicability of conventional accounting practices to all transactions in all industries including Islamic financial industry. In other words, those actors were supportive to the logic of profession and consequently played the role of profession order representatives in the MASB. Over time, those actors gained more influence and more power in the MASB. This led to increasing resistance to the MASB's Islamic financial reporting project. This resistance can be seen clearly in the efforts made by those actors to challenge that project and raise a debate within the MASB over the feasibility of accomplishing in its agenda.

The conflict between these two groups, who represent two competing logics (religion logic vs. profession logic), continued at that stage and the opponents of that project carried on making pressure to challenge its objectives. Those actors continued gaining more power and dominance within the MASB over time. This dominance was supported by external development in the surrounding institutional environment, especially after the worldwide adoption of IFRS. In fact, this development has strengthened their position and their discourse within the MASB. However, their pressures did not lead those who are in charge of that project to give up and abandon their vision. Greenwood and Hinings (1996) highlight that organisations are likely to resist institutional pressures and demands when an alternative template is advocated internally by at least one internal group. Therefore, the institutional pressure of profession logic, which was supported by some internal actors, was not able to completely stop the efforts to develop an Islamic financial reporting framework.

Yet, this is not to say that the increasing influence of the opponent group did not have an impact on the progress of that project. Greenwood *et al.* (2011) argue that "organisational responses to multiple institutional logics are likely to be reflexive of the interests of the most influential group" (p. 344). They add that "when only one logic is represented, it is that logic that will be embedded in organisational decisions and behaviours. In contrast, when multiple logics are represented, the outcome will depend upon the distribution of power within the organisation" (pp. 248-249). In fact, the increasing influence of that opponent group resulted in changing some plans within the MASB's project. That was by issuing the financial reporting requirements of *Zakat* and *Ijara* in a form of technical releases instead of standards as it was firstly planned[1].

The resistance group (profession logic proponents) did not achieve the full dominance until 2009 when the key figure in the MASB's Islamic financial reporting project left the MASB and, at the same year, a new chairman with a strong attitude against that project was appointed. In that year, a new stage started. This stage has been featured by the ultimate dominance of those who represent and advocate profession logic at the expense of those who support religion logic demands. On the ground, this dramatic change has been translated into officially requiring IFIs to prepare their reports according to the conventional Malaysian accounting standards, and later, according to IFRS.

Big Audit Firms' representatives in the MASB have been an important part of the resistance group. Those representatives have played a significant role over time in supporting the demands of profession logic and directing the MASB's policies towards more incorporation of IFRS requirements. Those representatives have been described by Kamla and Haque (2017) as 'local collaborators' who empower and sustain the globalisation of the accounting profession and international accounting harmonisation at the expense of local needs and differences.

On the other hand, by reflecting the theoretical argument presented above on the context of AAOIFI, it can be argued that AAOIFI's accounting board and committee have been historically comprised of different stakeholders who represent different logics. However, it can be noticed that the group of actors who advocate the demands of religion

---

[1] See Sections (7.2.2) and (6.2.2).

logic have been mostly the dominant group. Even though, at a certain stage, some actors who came from conventional and professional backgrounds were appointed in the top hierarchy of the organisation, the impact of those actors was limited to the fact that they did not show appreciation to the main objectives of AAOIFI. This led to the decline in AAOIFI performance at certain stages in terms of developing and updating its accounting standards which had an adverse impact on the acceptance of those standards. Yet, those actors found themselves in need for working within the general framework of AAOIFI which is dominated by actors who advocate religion logic.

Moreover, even though there have been increasing pressures on AAOIFI to be consistent in its standards with IFRS requirements, actors representing religion logic insist that any plan to bridge the gaps with IFRS should not sacrifice Shariah reporting demands. This confirms Susela' (1999), Pache and Santos' (2010) and Greenwood *et al.*'s (2011) argument that organisational responses depend on the overall balance of power of logics' representatives within an organisation. They believe that the most powerful actors are more likely to determine organisational responses to multiple institutional logics in a way that reflects their interests.

The representatives of other institutional logics, especially those who represent market and state logics, have also played an important role in supporting profession logic and the stance of its representatives in both case-study projects. Both accounting bodies have had regulators and IFIs' representatives in their different boards, committees and working groups. Those representatives have recently found in IFRS application and international accounting harmonisation a way to achieve their interests. In this regard, as stated in Section (7.3.1), IFRS has been applied in many countries under either external pressures from international organisations or internal pressures to pursue economic development plans, liberalise economies and attract foreign investments (push and pull factors). In both cases, IFRS convergence has been seen by regulators as a necessity for the economic development of their countries. Similarly, IFIs have been looking at reporting under IFRS regime as an effective way to compete in the market and get engaged in the global business environment. That is especially after the transformation that has been experienced by the Islamic finance industry in which IFIs have been seeking wealth maximisation in the first instance (Haniffa and Hudaib 2010).

In more details, investigating the role of market and state logic representatives in the context of the MASB shows that the members who represent regulatory bodies and IFIs in the MASB's Standing Committee on Islamic Financial Reporting (previously Working Group 36) support its current approach in dealing with Islamic financial reporting issues. Research findings suggest that they are totally satisfied with the discourse that IFRS application brings great benefits to the Islamic financial industry. On the other side, research findings suggest that regulators and IFIs representatives have been able to practice pressure on AAOIFI to get involved in the international financial reporting harmonisation efforts. In this context, Kamla and Haque (2017) argue that those actors have played a critical role in pushing AAOIFI for more acceptance of the international accounting harmonisation logic. That is because, otherwise, they would alter their support to AAOIFI's standards and guidelines. This can justify the recent AAOIFI strategy for bridging the gaps with IFRS and its acceptance to join the IASB Islamic Finance Consultative Group.

To sum up, it can be concluded that, in addition to the impact of the surrounding institutional settings, actors who are embedded in certain institutional logics have played an important role in differently shaping the organisational policies of the Islamic financial reporting standardisation projects of AAOIFI and MASB. By doing so, those actors have contributed to the heterogeneity between AAOFI and MASB in their organisational policies towards Islamic financial reporting. This heterogeneity can be attributed, in addition to the factors that have been addressed in Chapter Six, to the extent to which prevailing institutional logics are represented inside an organisation and the balance of power between different logics' representatives.

Finally, it is worthy here to mention the argument of Thornton *et al.* (2012), who assert that organisational change takes place due to either external events or internal contradiction. This argument can justify the reason behind the severe change that the MASB has experienced, given the availability of those two factors in the Malaysian context; whereas, in AAOIFI context, the relative internal compatibility between actors has played a role in alleviating the impact of external events to some extent.

8.4.2 The Role of Institutional Embeddedness of Actors in Islamic Financial Reporting

The institutional embeddedness of actors at different levels in western regulatory frameworks, conventional accounting principles and capitalistic values is another important issue that was addressed by most interviewees. This issue was addressed as a constraining factor on any project for developing and promoting a framework for Islamic based financial reporting. The problematic issue of institutional embeddedness of actors was raised as a serious issue especially when it comes to the members of standard-setting bodies who are expected to contribute in pursuing such projects. An important question was raised here which is, how those actors are expected to make change and participate in developing a different financial reporting framework if their beliefs are determined by the institutional settings they wish to change. This dilemma has been called by some scholars 'the paradox of embedded agency' (Holm, 1995; Seo and Creed, 2002 cited in Battilana *et al.* 2009).

Similarly, the interviewees raised the problem of the institutional embeddedness of regulators in western regulatory frameworks. Regulators, especially in Islamic countries, are expected to approve and support the initiatives for developing an Islamic based framework for financial reporting. However, in reality, those regulators have not shown appreciation to such initiatives which are not compatible with the regulatory templates they used to work upon. It can be argued here that regulators' embeddedness has been an enabling factor for the current actors in the MASB (profession logic proponents). It has enabled them to change the MASB's policy for Islamic financial reporting and obtain the regulatory authority approval for that change (i.e. Central Bank). On the other side, the embeddedness of regulators has been, to a great extent, a constraining factor for the acceptance of AAOIFI standards.

More importantly, it can be argued that the successful implementation of the requirements issued by any accounting regulatory body depends on accountants and auditors' understanding of those requirements and their recognition of their importance. It was expected in the beginning of this study that practitioners would by supportive to reporting IFIs' activities according to an Islamic based financial reporting framework. However, on the ground, research findings indicate that those practitioners have been comfortable with the current financial reporting practices, if not resistant to any other practices with which they are not familiar. According to some interviewees, the reason behind this fact is that practitioners do not appreciate the sensitivity of IFIs activities and the need to reflect and report the nature of those activities differently. This was attributed in turn to the lack of Shariah awareness in addition to the education systems in Muslim countries. In this context, interviewees questioned the role of universities and educational institutions in making change and raising awareness about the Islamic perspective of financial reporting. It is believed in this respect that educational systems contribute in creating and deepening the embeddedness of graduates in conventional accounting practices and thoughts. Accordingly, it can be concluded that unless universities and other educational institutions realise their role in raising awareness and pushing Islamic financial reporting principles forward, the current financial reporting practices are not expected to be challenged. Hence, any call or attempt to develop and implement Islamic financial reporting standards requires, firstly, creating a new 'culture of corporate reporting' among accountants, auditors, standard setters and regulators.

8.5 The Role of Actors as Institutional Entrepreneurs

Developing an Islamic financial reporting framework implies initiating change in the contemporary prevailing norms and practices that have been taken for granted in the accounting field. Actors who mobilise resources to initiate change that results in transforming existing institutional structures or creating new ones are termed 'institutional entrepreneurs' (DiMaggio 1988). Utilising ILP, Thornton *et al.* (2012) identify the factors that motivate institutional entrepreneurship. They argue that innovative and entrepreneurial behaviour are more likely to occur during the periods of cultural and institutional disruption. That is because institutional conflict reveals new ideas and opportunities for innovation. Institutional entrepreneurs take advantage of the incompatibilities, conflicts, and contradictions in the institutional settings in order to further their interests. Battilana *et al.* (2009) argue in this context that actors exposed to contradictory institutional arrangements are less likely to take those arrangements for granted. Instead, they tend to take a critical distance from existing institutional arrangements, question them, and possibly diverge from them.

Moreover, Thornton *et al.* (2012) argue that the multiple embeddedness of actors in different institutional orders contributes effectively in triggering institutional entrepreneurship. They argue that the active exposure of those actors to the contradictory and complementary nature of different institutional orders gives them the capacity to realise and take advantage of the elemental categories of those orders and create innovative solutions. This is because the multiplicity of institutional logics increases their awareness about the presence of different alternatives, which provides an opportunity for agency and, in turn, for institutional entrepreneurship (Thornton *et al.* 2005, Greenwood and Suddaby 2006, Thornton *et al.* 2012).

In terms of the techniques which they follow to implement change, Thornton *et al.* (2012) clarify that institutional entrepreneurs "synthesize novel combinations of ideas and borrow ideas that may have been commonplace in one community for implementation in another context where they are more valued or valued in a different way" (p. 110). Utilising their ideal types of institutional orders in analysis, Thornton *et al.* (2012) elaborate that institutional entrepreneurs, who are actively exposed to different institutional logics, segregate and blend the elemental categories of different institutional orders in an attempt to change the prevailing, taken-for-granted institutional arrangements. Thornton *et al.* (2005) argue in this context that institutional entrepreneurs are aware of the 'modularity' of cultural elements existing within institutional orders and the way they can decompose and recombine these elements in hybrid ways. Consequently, those entrepreneurs contrast, combine or switch categories from different logics available in a particular field (Ezzamel *et al.* 2012).

8.5.1 Institutional Entrepreneurship in Islamic Financial Reporting Standardisation Projects

Reflecting the argument presented in the previous section on the context of this thesis shows that the emergence of Islamic finance itself can be regarded as institutional entrepreneurship and the first pioneers of Islamic finance can be identified as institutional entrepreneurs. Those pioneers, who had considerable Shariah knowledge in addition to their professional background and business experience, had recognised the incompatibility of conventional banking principles to Islamic business rulings[1]. This incompatibility led some Muslims to refrain from dealing in conventional banking products, whereas others found themselves having no choice other than dealing with conventional banks to pursue their business activities, even though they operated against their values. Islamic finance pioneers acted accordingly to fill the gap. They tried to create combinations between conventional banking instruments and Islamic business principles in order to develop certain banking mechanisms that are compliant with Shariah. Even though, according to interviewee (I-30), those actors found difficulty in the beginning in convincing the regulators in some countries of the credibility of their movement, they pursued their goals and achieved considerable success. This success can be seen clearly in the wide acceptance of Islamic finance products around the world.

A similar scenario had taken place in the context of IFIs accounting and financial reporting. In 1980s and 1990s, different actors recognised the problematic issues and loopholes in conventional financial reporting concepts, principles and practices from the Islamic perspective and their incompatibility to the expectations and demands of IFIs financial reporting. Accordingly, individual efforts were made by some IFIs to overcome such issues and develop appropriate accounting practices for IFIs as stated in Sections (3.5.1) and (6.2.1). However, those efforts complicated the problem instead of resolving it, given the adverse impact of those individual efforts on the comparability and, in turn, the credibility of IFIs' financial reports. Consequently, an initiative was taken by some actors who were involved in that process to establish the standard setting body of AAOIFI with the aim of developing a standardised financial reporting framework consistent with

[1] The narrative provided in this paragraph is based on stories provided by interviewee (I-30) about the establishment of Islamic banks in Kuwait and Gulf Countries. Interviewee (I-30) is a Kuwaiti academic and former senior accountant in one of the Kuwaiti Islamic financial institution.

Islamic principles. Similar initiatives had taken later by some accounting bodies in other countries such as the initiative taken by the MASB in Malaysia. In developing their conceptual framework, those initiatives borrowed some conventional accounting concepts, principles and practices that are consistent with Islamic principles and excluded or amended those which contradict those principles. Moreover, they introduced new concepts and practices in order to cater for certain Islamic financial reporting requirements. This innovative combination, which has been addressed in the literature as the 'pragmatic approach', is consistent with the mechanisms and techniques which institutional entrepreneurs usually follow, as explained above. Accordingly, actors involved in initiating and developing those projects are qualified to be considered institutional entrepreneurs as they seek to change institutionalised accounting arrangements and create a new framework that accommodates IFI's financial reporting needs.

In fact, in consistence with Thornton *et al.* (2012)' argument, an important factor contributed effectively in triggering the entrepreneurial projects of AAOIFI and MASB. This factor was the exposure of the actors who were involved in initiating and pursuing the objectives of those projects to different institutional orders. Those actors were part of the conventional accountancy profession in the first place. At the same time, they had considerable Shariah knowledge as well as long working experience in Islamic banking industry. That multiple exposure increased their awareness about the presence of other alternatives in their surrounding environment. This awareness provided them with an opportunity to behave as institutional entrepreneurs and make use of those different alternatives. This was by utilising, segregating and combining different values, objectives, principles and practices that were available in their complex institutional context in an innovative way as stated above.

It is worthy to mention here that Thornton *et al.* (2012) expect that institutional orders that are more complementary with each other would have greater transposition capacity between their elemental categories than those institutional orders that are in diametric conflict. By reflecting this argument on the context of this thesis, Islamic financial reporting standardisation projects tried to combine the symbols and practices of profession order with those of religion order. Those symbols and practices show compatibilities as well as contradictions. This can be seen in the fact that some conventional accounting concepts and principles are acceptable from the Islamic point of view while others are unacceptable or inappropriate. This means that those two orders are not expected to show great transposition capacity. Consequently, any combination between the elements of those orders with the purpose of creating a new reporting framework is not expected to show stability. That can partly justify the instability that the projects of AAOIFI and MASB have shown over time. That can also justify the recent AAOIFI endeavour to bridge the gaps with IFRS. This policy can be seen as an attempt to reduce the contradictory points, alleviate their impact, and focus more on the points of compatibility which is hoped to give a sort of stability to AAOIFI approach.

In addition, further reflections can be made based on Thornton *et al.*'s (2012) typology of change in the field level institutional logics (see Table 8.1). This typology illustrates how the landscape of field level institutional logics changes over time according to different modes of change. Thornton *et al.* (2012) identify three forms of transformational change in this typology: replacement, blending, and segregation. In addition, they identify four forms of developmental change: assimilation, elaboration, expansion, and contraction. In developmental change, most prevailing practices and symbolic representations remain, while only some others change, whereas more radical changes in symbolic representations and practices can be observed in the transformational change.

Forms of Change	**Definition**
Transformational Change	
Replacement	One institutional logic replaces another
Blending	Combining dimensions of diverse logics
Segregation	Separation of logics from a common origin
Developmental Change	
Assimilation	Incorporation of external dimensions
Elaboration	Endogenous reinforcement
Expansion	Shift from one field to another
Contraction	Decrease in logic's scope

Table 8-1:Typology of Change in Field-Level Institutional Logics (Thornton *et al.* 2012)

Reviewing the strategies followed by AAOIFI and MASB in developing standards shows that actors in both projects tried to achieve a transformational, blending form of change. That was by borrowing and combining different values, objectives, concepts and practices from different institutional orders to best cater for Islamic financial reporting demands. However, as stated before, the MASB has experienced dramatic change in its agenda. This change has resulted at the end in requiring IFIs to follow IFRS. Yet, the MASB's actors do not denied Islamic financial reporting needs. They have declared their commitment to work hard on accommodating those needs within the IFRS framework. That is, as indicated by interviewee (I-1), by lobbying the IASB to consider Islamic financial reporting requirements in developing its standards. When examining this approach against the modes of change identifies above, it can be argued that the new strategy of the MASB to cater for Islamic financial reporting demands is an attempt to achieve developmental, assimilation change as defined by Thornton *et al.* (2012):

> "Assimilation is similar to blending, in that elements of one logic are combined into a prevalent logic. In assimilation, unlike blending, the core elements of the original logic prevail, with new practices and symbols made part of the prevalent logic" (p. 165).

Actually, this mode of change is less radical in implementing change than the blending form of change which was intended to be used first in the MASB.

In their presentation of the techniques followed by institutional entrepreneurs to change their institutional environment, Thornton *et al.* (2012) emphasise the ability of those actors to segregate and combine the elements of different institutional logics in an innovative way to create new institutional arrangements. Therefore, the transformational, blending form of change can be identified as an entrepreneurial strategy according to Thornton *et al.*'s (2012) presentation. However, a question can be raised in the context of assimilation form of change. Given the fact that the core elements of the original prevailing logics are not changeable, can the developmental assimilation change still be considered as another entrepreneurial strategy? In other words, can the MASB current approach for Islamic financial reporting be considered as institutional entrepreneurship? This question is to be answered based on Battilana *et al.*'s (2009) theorisation which provides an explanation on the conditions and process of institutional entrepreneurship.

8.6 Battilana *et al.*'s (2009) Model of Institutional Entrepreneurship

In addition to the above analysis, which is based mainly on the institutional logics perspective of institutional entrepreneurship as addressed by Thornton *et al.* (2012), there is a need for a framework that provides further explanation about this process. This is for the purpose of gaining more understanding on institutional entrepreneurship in the context of Islamic financial reporting standardisation and providing further explanation about the heterogeneity between AAOIFI and MASB and the reasons behind that heterogeneity. In addition, there is a need for a framework that explores the conditions of successful institutional entrepreneurship and explains how and why some institutional entrepreneurs succeed while others fail in making and sustaining their proposed change. That is given the fact that actors in AAOIFI have succeeded, to a great extent, in pursuing the objectives of their entrepreneurial project while the MASB's actors could not sustain their first objectives in developing Islamic standards. In searching for such a framework, the researcher decided to utilise Battilana *et al.*'s (2009) model of institutional entrepreneurship which is based on the outcome of a comprehensive review of institutional entrepreneurship literature. This model explores and explains the process of institutional entrepreneurship starting from the emergence of institutional entrepreneurs, moving to the implementation of their proposed change and ending with the possible institutionalisation of change (see Figure 4-1). In its analysis, this part of the chapter explores the conditions of institutional entrepreneurship and the activities that actors involve in to implement change, as addressed by Battilana *et al.*'s (2009) model, and make reflections on the two case-study projects of AAOIFI and MASB.

8.6.1 Conditions of Institutional Entrepreneurship

In their definition, Battilana *et al.* (2009) identify certain criteria that should be available in actors to be considered as institutional entrepreneurs. They define institutional entrepreneurs as "change agents who, whether or not they initially intended to change their institutional environment, initiate, and actively participate in the implementation of, changes that diverge from existing institutions" (p. 70). According to this definition, not all change agents are institutional entrepreneurs. Actors must fulfil two conditions to be regarded as institutional entrepreneurs. The first condition is that they should initiate divergent change that breaks with the institutionalised templates within a given institutional context. The second condition is to actively participate in the implementation of this change. Battilana *et al.* (2009) clarify further that such change might be initiated within the boundaries of a certain organisation or within the broader institutional context.

Examining the first condition in the context of Islamic financial reporting standardisation projects shows that both projects of AAOIFI and MASB initiated change which deviates from the prevailing financial reporting's norms and practices. This change breaks with the "field's shared understanding of the goals to be pursued and how they are to be pursued" (Battilana *et al.* 2009, p. 69). In other words, those projects fulfil that first criterion for institutional entrepreneurship as identified by Battilana *et al.* (2009). On the other hand, non-divergent change, according to Battilana *et al.* (2009), is the change that is aligned with the prevailing institutional arrangements in the field. They clarify that change agents who do not introduce change that diverges from the common institutional references are not qualified to be termed institutional entrepreneurs. Actually, the definition of non-divergent change can be applied to the current MASB's approach for Islamic financial reporting as it does not aim to break with the contemporary prevailing financial reporting framework (i.e. IFRS framework); instead, it aims to assimilate Islamic financial reporting demands within that framework. Consequently, this approach is not qualified to be considered as institutional entrepreneurship according to Battilana *et al.*'s (2009) theorisation.

However, from a different point of view, the MASB does not totally abandon its first view about some Islamic financial reporting requirements that need to be met. The MASB still acknowledges those needs. However, it seeks to accommodate them within the prevailing international financial reporting framework. In other words, according to Thornton *et al.*'s (2012) typology of change, it adopts developmental change which is less radical than the transformational change followed previously. Even though it needs more time to be attained, this developmental change gives the MASB the advantage of alleviating the political and institutional resistance while accommodating Islamic financial reporting needs gradually. Therefore, it can still be argued that, in its current approach, the MASB has chosen to follow another entrepreneurial strategy. This entrepreneurial strategy aims to achieve developmental, non-radical change which seeks to make considerable change but in the long run.

Moving to the second condition of institutional entrepreneurship, actors must mobilise resources and actively participate in the implementation of their divergent change to be considered as institutional entrepreneurs. In this respect, since establishment, AAOIFI has been making great efforts to pursue its vision. It has set certain administrative, operational and marketing strategies in order to achieve its objectives in developing and promoting its standards around the world. In fact, AAOIFI has achieved considerable success in establishing itself internationally as a leading standard setting body for IFIs even though its standards are now mostly applied consultatively rather than mandatorily. This implies that AAOIFI is qualified to be regarded as institutional entrepreneur by fulfilling both conditions of institutional entrepreneurship as identified by Battilana *et al.*'s (2009) model.

Similarly, the MASB has set a structural framework and due process in order to pursue its project for developing separate Islamic accounting standards. Those efforts succeeded in issuing the first standards under that project in 2001. However, The MASB project was ceased and replaced by agenda that might not be qualified to be considered as institutional entrepreneurship according to Battilana *et al.*'s (2009) model. Given this fact, can the first objectives of the MASB's project be considered as institutional entrepreneurship? In this context, Battilana *et al.* (2009) ask the question, "how far do actors have to go in the implementation of change to qualify as institutional entrepreneurs?" (p. 70). Answering the question, they argue that actors do not have to be successful in implementing change to be considered institutional entrepreneurs. Hence, the first agenda of the MASB for developing separate Islamic standards is also qualified to be considered institutional entrepreneurship. This is in spite of the fact that the project was ceased and replaced by different approach which does not seem to directly break with the prevailing institutional settings. The same applies to AAOIFI. The limited mandatory implementation of its standards does not affect the fact that AAOIFI has been behaving as institutional entrepreneur.

As stated before, the MASB's current approach can still be arguably considered as a distinctive entrepreneurial strategy since it aims to make developmental, gradual change which achieves its objectives in the long run. Identifying the current MASB's approach as a form of institutional entrepreneurship helps in making comparisons and investigating the reasons behind the success of the actors who defend this approach in implementing their vision. However, even if the current approach is not to be regarded as institutional entrepreneurship and even if the MASB first project is to be considered as failed institutional entrepreneurship, Battilana *et al.* (2009) argue that much can be learned by comparing successful institutional entrepreneurs with those failed ones. They add that past studies had focused almost exclusively on the successful cases of entrepreneurship, which can be considered a strong bias in understanding this area. Battilana *et al.* (2009) clarify that it could be more difficult to detect and study failed entrepreneurial attempts in retrospect. However, not doing so would hinder the ability to identify the combination of factors that result in making some cases of divergent change implementation successful while others failed[1]. Within the context of this study, that combination of factors, that Battilana *et al.* (2009) refer to, includes those factors addressed in Chapters Six and Seven causing heterogeneity in the organisational responses between AAOIFI and MASB. In addition, more factors are to be presented in the next section when discussing divergent change implementation.

---

[1] Comparing a successful case of institutional entrepreneurship with a failed one is one of the contributions of this part of the thesis as addressed in Section (9.4.2).

Before moving to discuss the implementation of change proposed by the case-study actors, it is worthy to mention that Battilana *et al.* (2009), as part of their model, identify two conditions that enable institutional entrepreneurship. These conditions are the field characteristics (including the presence of multiple institutional orders) and actors' social position (including the multiple embeddedness of actors and their exposure to various institutional logics). Both conditions have been addressed in Section (8.5.1) as important factors that triggered the entrepreneurial projects of AAOIFI and MASB

8.6.2 Divergent Change Implementation

Battilana *et al.* (2009) identify three sets of activities that institutional entrepreneurs undertake in change implementation: (1) developing and sharing a vision of the need for change; (2) mobilizing people to gain others' support and acceptance; and (3) motivating others to achieve and sustain the vision, or in other words, institutionalising change. These three categories are interrelated and intertwined even though they are presented as distinct sets of actions. Understanding the activities that actors undertake to implement change is crucial in this study in order to gain further understanding of the heterogeneity between the organisational context of AAOIFI and MASB and the reasons behind this heterogeneity. It is also useful to understand how actors that have been recently involved in the MASB have succeeded in promoting their approach (accommodating Islamic financial reporting needs in IFRS framework) at the expense of the old approach (developing separate standards).

8.6.2.1 Creating a Vision for Divergent Change

Given the fact that the change promoted by institutional entrepreneurs tends to break with the institutional arrangements taken for granted by people in a certain field, institutional entrepreneurs must craft a vision for divergent change in a way that appeals to other actors in the field and motivates them to implement it. Battilana *et al.* (2009) suggest that institutional entrepreneurs follow three forms of vision framing, namely diagnostic framing, prognostic framing, and motivational framing. Diagnostic framing aims to expose the problems of existing arrangements and prove their failure. Prognostic framing seeks to promote the proposed change as superior to previous arrangements. In other words, institutional entrepreneurs engage in de-legitimating the existing institutional arrangements and legitimating the new ones. The third, motivational framing, seeks to provide compelling reasons to support the new vision. This involves using social skills to convince and motivate different stakeholders by relating the change vision to their interests.

Actors in both projects of AAOIFI and MASB were involved, to different extents, in all kinds of framing. This can be observed through the discourse used by the interviewees who were/have been involved in both projects and argued in their favour. However, it can be argued that the focus was on the diagnostic framing and the inability of contemporary accounting to cater for Islamic financial reporting needs. More specifically, those who were behind the initiatives of those projects focused on the problematic issues that faced IFIs in reporting and accounting for their transactions according to conventional accounting. In this respect, the focus on the incompatibility of conventional accounting to Islamic financial reporting demands was not limited to the level of accounting practices. It went beyond that to focus also on the contradictions at the level of the overall objectives of accounting (see Sections 7.2.1 and 7.2.3). Such contradictions render the tools by which Islamic entities report their performance incompatible with their overall objectives (Ibrahim 2000a, Ibrahim 2000b).

The focus on conventional accounting failure from the Islamic perspective (diagnostic framing) leads in turn to the notion that the only solution is by developing specialised standards to address Islamic financial reporting needs. It can be argued here that there was an implicit promise on the superiority of the proposed framework from the Islamic viewpoint (prognostic framing). Motivational framing was also used by both projects. This was by focussing on the advantages of developing such standards for Islamic financial industry in terms of enhancing the comparability and credibility of IFIs' financial reporting in the eyes of different stakeholders (Karim 1990, 1999)[1]. Both projects were also keen to communicate the importance of their efforts with regulatory and supervisory authorities which were working hard at that time to establish appropriate monitoring mechanisms and regulatory frameworks for that emerging industry.

Within this context as well, Battilana *et al.* (2009) argue that institutional entrepreneurs need to be more skilled in framing and sharing their vision than actors who seek non-divergent change. This is in order to face the challenge of having to justify the divergence from taken-for-granted practices in addition to the challenge of framing their vision of change in a way that enables others to understand and endorse it despite its unfamiliarity to them. In this respect, it can be argued that AAOIFI actors have been more skilled in framing and promoting their vision than the actors who initiated the MASB's project. More details on this issue are to follow in the next sections.

8.6.2.2 Mobilising Allies

Initiating and implementing divergent change requires the acceptance and support of other actors in the field. According to Battilana *et al.* (2009), the previous literature had addressed how institutional entrepreneurs mobilise allies through discursive strategies which aims "to reduce inherent contradictions in the coalition, and at the same time exacerbate contradictions among opponents by emphasising the failure of existing institutionalised practices and norms and demonstrating that adoption of the proposed vision will assure improvement" (p. 81). However, Battilana *et al.* (2009) raise an

---

[1] See section (7.2.5) as well.

additional issue that has been little researched in the institutional entrepreneurship literature. This issue is using different types of resources, including financial and social resources, to mobilise allies and secure their endorsement and support for change implementation.

8.6.2.2.1 Mobilising Allies Using Discourse

After articulating a vision, institutional entrepreneurs need to convince actors, who are embedded in the existing institutional settings, of the need for change. This requires particular skills to communicate and promote that vision successfully. The importance of having such skills increases in a high institutionalised field than in a fragmented field. This is because actors in a field featured by a high level of institutionalisation are embedded in certain institutionalised arrangements. This embeddedness makes it difficult to get the field's actors deviate from those taken-for-granted arrangements. In this case, institutional entrepreneurs use storytelling and rhetorical strategies in order to promote their vision and mobilise allies (Battilana *et al.* 2009, Thornton *et al.* 2012). Such rhetorical strategies refer to the prevailing institutional logics and connect the institutional entrepreneurs' vision to familiar institutional templates while they emphasise the need for change at the same time (Battilana *et al.* 2009). In other words, those rhetorical strategies resonate with the values and interests of actors who are embedded in the dominant institutional arrangements while suggesting change simultaneously.

IFRS framework is based on concepts, objectives, principles and practices that have been evolved over a long period of time. This framework has recently become taken for granted as the best outcome that the accounting profession has reached and the best tool to achieve harmonisation in financial reporting practices around the world. This makes the deviation from those standards very difficult. Given this highly institutionalised environment, consistently with Battilana *et al.* (2009), actors in Islamic financial reporting standardisation projects have promoted their vision in a way that aligns with the overall discourse that currently dominates the accounting field. More precisely, they used the same conventional concepts, principles, and objectives in order to justify their vision for developing Islamic accounting standards. As an example of this, the first Secretary General of AAOIFI, Rifaat Abdul Karim, used some conventional accounting concepts in his articles such as the 'comparability' and 'credibility' of accounting information to demonstrate the need for AAOIFI establishment[1]. Another example is that actors who were involved in the MASB's first project (e.g. interviewees I-2 and I-11) used a discourse that focuses on the need for reflecting the Shariah aspects of transactions as a way to achieve 'true view' and 'faithful representation' of those transactions. Similarly, they emphasised the need for reporting prohibited transactions as a way to achieve 'transparency' in financial reporting. In doing so, they utilised the same prevailing logics in the accounting field to convince others who are embedded in those logics of their vision.

8.6.2.2.2 Resource Mobilisation

In addition to the financial resources, Battilana *et al.* (2009) identify resources related to the social position of institutional entrepreneurs as the key resources that play an important role in mobilising allies to support the implementation of change. According to Battilana *et al.* (2009), institutional entrepreneurs attain their social position in a certain field from their formal authority or social capital in that field.

In addition to the fact that formal authority enhances actors' ability to implement change as they have the power of decision making, having that authority helps legitimise their proposed change in the eyes of potential allies. Besides, institutional entrepreneurs can also use their informal position in their own social network to attain political support

[1] See Karim (1990, 1995, 1999)

from other actors in the field. Battilana *et al.* (2009) indicate that institutional entrepreneurs who are not themselves central to their field and do not possess formal authority or social position that enables them to mobilise others are more likely to cultivate ties with actors who are. Institutional entrepreneurs, in this way, leverage the endorsement of those higher status actors to gain legitimacy for their vision and then mobilise other actors in the field behind it.

Since establishment, actors in AAOIFI have made great efforts to obtain the support of different stakeholders to their vision including regulators, practitioners, bankers and academics. Those actors have worked sincerely and utilised their own social and professional network to promote AAOIFI's approach and mobilise allies, as indicated by executive members involved currently or formerly in AAOIFI such as interviewees (I-7), (I-9) and (I-29). Moreover, those actors have sought the support of actors who have higher status position in an attempt to get advantage of their formal authority and social position[1].

In terms of the formal authority, AAOIFI was established as an independent standard setting body. This implies that AAOIFI's actors have no formal authority that they can use to implement their agenda. However, as indicated by Karim (1990), since it was established, AAOIFI has followed a strategy that has been based on lobbying and cooperating with regulatory bodies in different countries to implement its approach. Social networking has also played a critical role in the process of creating links with regulatory bodies. In other words, AAOIFI's actors have cultivated ties with organisational and individual actors who possess formal authority to overcome the fact of not having this authority on the ground.

[1] A former ranking AAOIFI executive, interviewee (I-7), stated in this context that AAOIFI has been able to lobby the Saudi prince and businessman, Mohammed Alfaisal, and got his support to AAOIFI initiative since the early stage of its establishment.

Moving to the Malaysian context, actors who were involved in the MASB Islamic financial reporting standardisation projects had the formal authority that helped legitimising their vision. However, the research findings presented in Section (8.2.2) suggest that those actors were not skilled enough in social networking and mobilising allies. Consequently, those actors were not able to effectively promote their approach and mobilise central actors in the field behind their agenda. By contrast, actors who were against their vision had the superiority in their social capital and their ability to mobilise people. Those opponent actors used their influence against that project, which led at the end to ceasing the MASB's policy for developing separate Islamic accounting standards.

8.6.2.3 Institutionalising Change

Institutionalisation of change is the third set of activities in the of process of divergent change implementation as addressed by Battilana *et al.* (2009). Institutionalising change involves activities that aim to maintain the proposed change and motivate others to achieve and sustain the vision.

Investigating this issue in the context of this thesis shows that some activities can be looked at as attempts to institutionalise change initiated by AAOIFI and MASB projects. For instance, since establishment, actors who have stood behind AAOIFI's initiative have made considerable efforts not only to mobilise central actors in the field behind their vision but also to create awareness among stakeholders of the importance of their vision. This has been with the purpose of sustaining their vision and making sure that it turns to be a way of thinking and a culture of reporting. According to the executives of AAOIFI, interviewees (I-8) and (I-7), the activities of promoting and raising awareness have taken place in different forms. This includes organising conferences, conducting workshops, issuing reports and publications, and formal visits of AAOIFI secretariat to regulatory bodies in different countries. In addition, as stated in Section

(8.2.1), actors who were involved in AAOIFI establishment worked hard in the first few years of AAOIFI's life to institutionalise AAOIFI's work. This was by setting a due process for issuing standards in addition to establishing a statute that involves clear administrative, technical and marketing policies. That statute has also been subject to continuous improvement as indicated by Hamed Merah, the current Secretary General of AAOIFI[1].

Moving to the Malaysian context, research findings indicate that actors in the MASB were ambitious in their objectives for developing an institutionalised framework for Islamic accounting, distinctive from conventional accounting thoughts and requirements.

> We want Islamic accounting standards to have the same high standard of due diligence and credibility as the accounting standards accepted by the International Accounting Standards Board (MASB chairman, Zainal Abidin Putih, MASB-D11).

In order to pursue their objectives, those actors set a due process and created a working group (Working Group 36) involving regulators, academics, practitioners and bankers. Yet, research findings show that, unlike the case in AAOIFI, there was little evidence of activities conducted by those actors aiming to sustain their vision and promote wider institutionalisation of their approach. This resulted in that project collapsing once those actors left the MASB, as their successors did not have the same esteem to pursue their vision. By contrast, as indicated in the previous section, actors who established an alternative approach to deal with Islamic financial reporting have had more skills in institutionalising their approach and promoting their discourse locally and internationally. They have succeeded in creating links with regional organisations (e.g.

---

[1] See Hamed Hassan Merah's interview with CNBC Arabia. Available at: https://www.youtube.com/watch?v=x5g0A7bVS4k&t=1038s

AOSSG) and international bodies (e.g. IASB) to institutionalise and promote their alternative vision.

8.6.3 Divergent Change Resistance

The low degree of institutionalisation is addressed by Battilana *et al.* (2009) as an enabling factor for institutional entrepreneurship. That is because a lower degree of institutionalisation is associated with a higher level of uncertainty in a field, which provides opportunity for strategic action. In contrast, a high degree of institutionalisation in a field like the accounting profession can be considered a challenging factor for divergent change implementation since actors in such a field are embedded in a relatively stable framework that has been evolved and institutionalised over a long period of time. According to Battilana *et al.* (2009), institutional entrepreneurs in such a case need to introduce their vision and mobilize allies in a way that entails loosening the institutional embeddedness of those who are being mobilised. Battilana *et al.* (2009) add that institutional entrepreneurs are most likely to face political opposition from those who benefit from the current institutional arrangements, especially if the proposed change threatens their social position in the field.

Resistance arising from the embeddedness of actors in the existing taken-for-granted institutional settings has been widely observed in both contexts of MASB and AAOIFI. This resistance has resulted in AAOIFI straggling in getting acceptance for its approach and standards in the countries where IFIs operate. However, the consequences of this resistance were more intensive in the MASB context leading to dramatic shifts in its policy and ending up with abandoning its project for developing separate Islamic accounting standards.

Battilana *et al.* (2009) suggest in this regard that the projects which diverge from existing institutions must be less radical in presenting and implementing their vision to alleviate reactions of fear between potential allies. Institutional entrepreneurs must promote their vision in a way that resonates with the values and interests of those allies. It can be argued here that the pragmatic approach used by Islamic financial reporting standardisation projects was the right choice as it was less radical in implementing change than its alternative, the constructive approach. Moreover, AAOIFI's actors were also successful to some extent in presenting their vision in a way that does not totally contradict the current institutional arrangements. In addition, those actors have always emphasised that AAOIFI develops standards to deal only with IFIs reporting issues and does not develop standards for areas or items where there are no Shariah issues[1]. On the other hand, it can be argued that the MASB's actors were more radical in presenting their vision. For instance, it was declared in the press releases (MASB-D10) and (MASB-D11) that the MASB's Islamic accounting standards would have that same weight of IFRS and that those standards would be applied not only to IFIs but also to other commercial institutions. It was also declared that the MASB would seek to export its approach to other countries in the South Asian region. Introducing this vision for change in such a radical way contributed in creating fear of change between different actors. That led in turn to strong opposition to the MASB agenda.

In order to face the challenge of actors' resistance, Battilana *et al.* (2009) emphasise that institutional entrepreneurs need to possess a high level of framing mastery. They argue that institutional entrepreneurs must frame their vision for change in a way that enables others not only to understand but also to endorse that vision despite its unfamiliarity to them. It was interesting here to observe that the opponents of MASB project were able to skilfully frame a counter vision for Islamic financial reporting. Those actors were also able to effectively promote that counter vision and mobilise allies behind

[1] See Section (6.2.1.3)

it. In so doing, they developed a strong discursive strategy defending the applicability of conventional accounting framework to IFIs' financial reporting. This discursive strategy was used skilfully during the interview with the ranking board member in the MASB, interviewee (I-1). That discourse was also conveyed to other stakeholders and influential actors in the field through the meetings and workshops arranged by the MASB in the last few years. The influence of that discourse was clearly observed in the argument of most Malaysian interviewees who participated in this study.

8.7 Institutional Entrepreneurship of Actors: Summary and Discussion

The analysis provided on the role of actors from the institutional entrepreneurship perspective has extended the research findings presented in the first part of this chapter as well as those presented in Chapter Seven. It has provided more insights into the heterogeneity between the organisational context of AAOIFI and MASB and the reasons behind that heterogeneity. This is by explaining how actors in those projects followed certain entrepreneurial strategies to implement their vision of change and the extent to which those actors were successful in their strategies. Utilising the institutional entrepreneurship theoretical remarks of Thornton *et al.* (2012) and the theoretical model of Battilana *et al.* (2009), this study has provided analysis and comparisons at two levels: (1) between the contexts of AAOIFI and MASB; (2) between the former and current organisational strategy of the MASB.

Analysing actors' behaviour from the institutional logics perspective shows that those actors, who were exposed to different institutional influences, were aware of the contradictory demands of different institutional logics underpinning IFI's financial reporting. Benefiting from their awareness of and exposure to different institutional logics, those actors attempted to initiate innovative combination between the elements of those different logics with the purpose of making change and developing an appropriate framework for IFI's financial reporting. Utilising Thornton *et al.*'s (2012) typology of change, two forms of institutional change have been identified. While AAOIFI's and the former MASB's approach aimed to achieve a transformational, blending form of change, the current approach followed by the MASB can be seen as an attempt to achieve developmental, assimilation change.

In order to provide more understanding of the process of institutional entrepreneurship, its conditions, and the necessary activities of this process, this chapter has extended the analysis utilising Battilana *et al.*'s (2009) model of institutional entrepreneurship. Based on a comprehensive review of literature, this model explores the process of institutional entrepreneurship from the emergence of institutional entrepreneurs to the implementation and institutionalisation of their proposed change. According to this model, actors in both AAOIFI and MASB's project are qualified to be termed institutional entrepreneurs since they initiated divergent change that breaks with the prevailing institutional arrangements and made efforts to implement that change. However, the current approach of the MASB in dealing with Islamic financial reporting demands is not qualified to be described as institutional entrepreneurship according to Battilana *et al.*'s (2009) conceptualisation, given the fact that it does not diverge from the core elements of conventional accounting framework.

This study emphasises a key point that has been addressed by Battilana *et al.*'s (2009) model. Ceasing the MASB's Islamic financial reporting standardisation project implies that actors who were in charge of that project failed in their attempt to initiate divergent change. However, this does not affect them being recognised as institutional entrepreneurs. Moreover, this fact does not reduce the importance of this study. By contrast, comparing a failed institutional entrepreneurship process with a successful one and investigating the reason behind its failure is considered an important contribution, since this kind of comparison and examination is little researched in the literature.

In order to provide more analytical insights, this study has, arguably, identified the current MASB's approach as a distinctive entrepreneurial strategy that aims to achieve developmental, less radical change in the long run. This is given the declared objective of actors behind that approach who claimed their commitment to accommodate IFIs' financial reporting needs within the IFRS framework. This assumption has provided this research study with an opportunity to analyse and compare the entrepreneurial behaviour of each group of actors (current and former MASB's actors) and investigate the reasons behind the superiority of the current actors in promoting their approach.

Research findings indicate that actors in both projects of AAOIFI and MASB have been enabled by the field characteristics as well as their social position in that field to behave as institutional entrepreneurs and initiate change. Those actors have been involved, to different extents, in certain activities that have been addressed by Battilana *et al.* (2009) as essential activities for successful implementation of change[1]. However, research findings suggest that AAOIFI's actors have been more successful than those actors who stood behind the MASB's project in framing their vision, mobilising resources and allies behind that vision and institutionalising it.

AAOIFI's actors have benefited in this regard from their social position and their skills in promoting their vision in a way that resonates with the values and interests of different stakeholders. It can be argued here that those actors were able to establish AAOIFI as an independent body and were successful in promoting its distinctive approach and mobilising allies behind it. However, the MASB's actors can be flawed for not being able to institutionalise their vision away from the overall agenda of the MASB.

[1] This includes three sets of activities (1) developing and sharing a vision of the need for change; (2) mobilising people to gain others' support and acceptance; and (3) motivating others to achieve and sustain the vision, or in other words, institutionalising change.

That project was part of the MASB and therefore it was influenced by its overall policy determined by actors who did not actually have the same esteem in pursuing that project's objectives. In this regard, research findings indicate that both projects face resistance from the other field's actors who are embedded in the field's institutional arrangements. However, while AAOIFI has been successful, to some extent, in following certain strategies to alleviate the impact of that resistance, it can be argued that the MASB's project failed in facing this challenge. This can be attributed to three interrelated factors: (1) the inability of the MASB's actors to develop an effective strategy to frame and promote their vision of change in a way that resonates with the interests of other actors in the field; (2) the skilful approach that has been followed by the opponent actors in framing, promoting and institutionalising their counter vision; (3) the central social position of the opponent actors in the field and their ability to develop an effective social networking strategy to defend their alternative approach.

8.8 Conclusion

Consistently with ILP, which is featured by its balanced view of the agential role of actors and institutional demands, this cahpter has provided an analysis on the role of actors in shaping the organisational policies of Islamic financial reporting standardisationa project over time. Research findings indicate that actors within those projects have played a critical role in giving voice to certain institutional orders in which they are embededd. Accordingly, they have contributed in promoting certain organisational policies in different historical stages consistently with the logics they represent.

Based on these research findings in addition to those findings presented in Chapter Six, this study suggests that the heterogeneity of organisational responses between AAOFI and MASB can be attributed to three factors: the different degree of dominance of those prevailing institutional logics in each institutional context; the centrality of those logics to organisational mission and goals; and the extent to which prevailing institutional logics are represented inside an organisation and the balance of power between different logics' representatives.

Moreover, the conventional embeddedness of different actors who are involved directly and indirectly in practicing and regulating IFIs' financial reporting has been addressed as a constraining factor for the projects of developing and promoting an Islamic financial reporting framework. Given this embeddedness, especially between standard setters and accountants, this research suggests that it is less likely for those actors to make substantial change and participate effectively in developing or implementing different (Islamic-based) financial reporting framework, since their cognition is determined by the institutional settings which they are supposed to change. Research findings suggest that educational institutions contribute to a great extent in creating and deepening this embeddedness between their graduates. Accordingly, this chapter concludes that any call or attempt for developing and implementing Islamic financial reporting framework requires, firstly, creating a new 'culture of reporting' among those actors.

From another perspective, benefiting from their exposure to different institutional logics, actors in Islamic financial reporting standardisation projects initiated innovative combinations between the elements of those logics with the purpose of developing an appropriate framework for IFI's financial reporting. Accordingly, those actors have been identified in this chapter as institutional entrepreneurs. Actors in both case-study projects of AAOIFI and MASB have been involved in activities identified by Battilana *et al.* (2009) as crucial activities for successful institutional entrepreneurship. Yet, research findings suggest that AAOIFI's actors have been more successful than the MASB's in those activities. Moreover, both projects have faced resistance from actors who are embedded in the field's institutional arrangements. However, while AAOIFI has been successful in alleviating the impact of resistance, the MASB's actors failed in facing this challenge. It can be concluded here that those factors have also contributed to the heterogeneity between AAOIFI and MASB organisational context and the failure of the MASB's agenda to develop Islamic accounting standards.

CHAPTER 9: Summary and Conclusion

9.1 Research Overview

Islamic finance has been recognised as an important player in the financial industry. It has achieved great acceptance and expanded rapidly since its emergence in the 1960s with annual growth of 10-12% according to the World Bank[1]. This industry attains its legitimacy in the market based on the promise of the Shariah compliance of its activities, which makes it appealing for Muslims who wish to invest their savings, obtain finance and conduct their business activities according to Islamic principles (Gambling *et al.* 1993). In this regard, annual reports are an important tool for IFIs to communicate the Shariah compliance of their activities not only with shareholders and clients but also with different stakeholders concerned. Recognising the importance of financial reporting for IFIs and the implications of Shariah on their accounting practices, there have been some initiatives for developing accounting standards that aim to harmonise IFIs accounting practices and address the financial reporting issues resulting from the nature of their activities.

The purpose of this thesis is to provide a comprehensive understanding of the Islamic financial reporting standardisation projects and the institutional and contextual settings that have shaped their efforts historically. In doing so, this thesis has explored different institutional logics and demands that have contributed in shaping the organisational policies of these projects and governing their decision on the most appropriate approach for standardising Islamic financial reporting. It has also investigated the reason behind the changes which have been experienced historically by these projects resulting in significantly heterogeneous strategies for dealing with Islamic financial

[1] See: http://www.worldbank.org/en/topic/financialsector/brief/islamic-finance

reporting. These enquiries have been addressed taking into consideration the role of agents (individual actors) in this process.

This thesis has employed institutional logics perspective (ILP) as a theoretical framework for institutional and organisational analysis. This framework is featured by its balanced view of social structures and agency, which has helped achieve the research objectives stated above. Moreover, in order to further advance its analysis on the agential role of actors, this thesis has incorporated theoretical remarks derived from the notion of institutional entrepreneurship. Informed by this theoretical framework and its research objectives, this study has sought answers to the following research questions:

1- *How have standard-setting bodies experienced and responded to different institutional logics in their efforts to develop Islamic financial reporting standards and regulations?*
2- *Why have different standard-setting bodies responded in different ways to different institutional logics over time?*
3- *What is the role of actors in shaping the strategies of Islamic financial reporting standardisation projects and how have they contributed to the success or failure of their vision?*

Methodologically, this thesis has adopted the stance of interpretive research paradigm. In addition, in its research design, this thesis has followed a qualitative, case-study approach informed by semi-structured interviews and document analysis. Two Islamic accounting standardisation projects have been under scope in this thesis as cases studies: the case of AAOIFI and the MASB's project for Islamic financial reporting. A total of 30 interviews were carried out with participants from within and outside these two projects. The list of interviewees included standard setters, regulators, Shariah scholars and advisers, practitioners, bankers and academics. Interviews were supplemented by document analysis in addition to other secondary sources including governmental websites, media interviews and prior academic studies. The data were analysed through the lens of ILP, following a selection of data analysis strategies and techniques identified by Yin (2014).

9.2 Summary of Key Findings

Chapter Six has provided a historical and contextual presentation of the two case-study projects of AAOIFI and MASB. The research findings presented in this chapter show that these projects have gone through different historical stages since they were established. Each stage has been featured by certain policies, strategies and priorities. It was interesting to find out that although both accounting bodies started their Islamic financial reporting standardisation projects with similar objectives under similar circumstances, they have ended up with significantly heterogeneous approaches in how to deal with Islamic financial reporting. The MASB has decided to fully converge with IFRS and to accommodate Islamic financial reporting needs within IFRS framework. On the other side, even though it has recently announced a policy for bridging the gaps with IFRS, AAOIFI still insists on the insufficiency of IFRS and the need for dedicating standards to deal with IFIs financial reporting requirements.

ILP assumes that a single organisation is likely to operate simultaneously under the influence of multiple institutional orders (Friedland and Alford 1991, Scott 2005, Greenwood *et al.* 2010, Thornton *et al.* 2012). Greenwood *et al.* (2010) argue that organisational structures and practices are shaped and legitimised by those different institutional logics. Hence, in order to understand how and why organisations show similarity and variation in such structures and practices, it is necessary to understand the relationship between organisations and the logics constituting their institutional context.

Informed by this argument, Chapter Seven has investigated the role and influence of five institutional orders (religion, profession, market, state and community) in shaping the standardisation policies of the case-study projects of AAOIFI and MASB over time. It has also investigated how each project has responded historically to the competing, and sometimes conflicting, demands of these institutional orders.

Research findings suggest that each institutional order has had its own influence on the case-study projects through pushing toward achieving certain requirements and objectives that are expected from IFIs financial reporting. Achieving these objectives is perceived as the ultimate rationality from the perspective of that particular institutional order based on the norms, values and principles associated with it. This has been reflected in each project in a form of efforts to incorporate certain 'material practices' that aim to satisfy the 'symbolic representation' of each institutional order (Thornton *et al.* 2012).

Chapter Seven has tried to identify certain patterns of interaction between different institutional orders that underpin Islamic financial reporting standardisation. The findings show that, historically, Islamic financial reporting standardisation projects have been under the influence of two main institutional orders, the orders of religion and profession. These two orders have been dominating those projects and competing with each other to attain their perceived rationality. Islamic financial reporting has also been subject to certain institutional demands from community, state and market orders. In order to impose their values and attain their demands, these institutional orders have interacted in a way that supports the domination of either of the main orders of religion and profession which are already prevailing and competing in this field.

Given this tension between different institutional logics and their associated expectations, both projects have made efforts to strike a balance in compliance to different demands associated with different institutional logics. However, considering the contradictive nature of some demands, it seems that achieving this balance has been a difficult task, if not impossible, as satisfying some demands requires defying others (Pache and Santos 2010). This fact makes it inevitable for Islamic financial reporting standardisation projects to prioritise the demands associated with some institutional orders at the expense of others. This in turn has resulted in different organisational responses which have been reflected in different strategies followed by AAOIFI and MASB based on the relative dominance of each institutional order in their own institutional context.

Consistently with the 'historical contingency of institutional logics' assumption[1], research findings suggest that the aforementioned five institutional orders have been competing and interacting with each other in different ways over time to formulate a 'logics domination map' which has experienced dramatic changes over time. According to this map, both projects were originally initiated as a result of the state and market logics' pressures. Those logics necessitated the development of harmonised standards and guidelines that unify financial reporting practices and enhance the credibility of Islamic financial industry in the market (Karim 1999, Nasir and Zainol 2007). Supported by those two orders, in addition to the need for societal-oriented reporting (community logic), the process of developing standards was dominated by religion logic. Attaining religion logic entailed developing financial reporting requirements that address Shariah requirements, communicate the Shariah compliance of IFIs' products and activities, and reflect the legal contractual characteristic of those products. Yet, the dominance of religion logic was shared with profession logic. This was by recognising conventional accounting practices as a starting point in developing the conceptual framework, standards and guidelines of both projects.

[1] According to this assumption, Thornton *et al.* (2012) assume that the prevalence of particular institutional logics within an organisation and the relationships between these logics varies over time and across contexts.

Over time, institutional logics map has experienced substantial changes resulting in increasing the dominance of profession logic at the expense of religion logic as a result of the worldwide efforts for accounting harmonisation. This dominance has been supported by state logic and market logic after the increasing movements of economic liberalisation and the commercialisation of Islamic financial industry's activities. Community logic has been marginalised to a great extent at this stage as a result of that commercialisation. Such changes have triggered strategic responses by each case-study project. These responses have been represented by considerable efforts made by AAOIFI to bridge the gaps with IFRS in order to enhance the acceptance of its standards. On the other side, the MASB's response has been more substantial. Over two phases (2009 & 2012), the MASB moved gradually to follow a totally new approach in which it abandoned issuing any standard or guideline on Islamic financial reporting. Instead, it has announced its commitment to accommodate IFIs financial reporting requirements within the IFRS framework in collaboration with the IASB.

Research analysis suggests that the heterogeneity of organisational responses between AAOFI and MASB can be attributed to the different intensity of change in their logics domination map which has made them experience different degrees of logics dominance (see Figures 7.1 & 7.2). It can be argued here that profession order, with great support of the market and state logics, has been almost the ultimately dominant order in the context of the MASB. However, religion order still has a considerable weight and plays an important role in influencing AAOIFI and giving legitimacy to its standards. In other words, this research argues that the radicality and intensity of organisational response to the changes in the logics domination map is proportional to the intensity of those changes and the extent of dominance of the new prevailing logics, as experienced by an organisation. From another perspective, this study suggests that the heterogeneity of organisational responses can also be attributed to the centrality of those new dominant logics to organisational mission and goals. This is in consistency with Pache and Santos's (2010) argument that the nature of institutional demands and their centrality to organisational mission and goals determines the extent to which those demands are negotiable when conflicting logics start to challenge them. This thesis argues in this regard that religion logic has been hardly challengeable in the case of AAOIFI since it is deeply rooted in its core mission and prescribes what goals are legitimate for AAOIFI to pursue. However, this is not the case of the MASB as a governmental agency that perceives the rationality in being part of the international accounting harmonisation agenda. This can explain why religion logic has been historically negotiable when other logics challenge its feasibility.

Consistently with ILP, which is featured by its balanced view of social structures and agential role of actors, Chapter Eight has investigated the role of actors in each case-study project from two different, but interrelated, perspectives. This is firstly by looking at the role of actors in promoting certain organisational policies during different historical stages of these projects. The chapter moves then to extend its analysis by incorporating remarks from the institutional entrepreneurship theorisation as addressed by Thornton *et al.* (2012) and Battilana *et al.* (2009).

The research findings presented in Chapter Eight indicate that actors within each standard setting body have played a critical role in giving voice to certain institutional orders in which they are embedded. Accordingly, actors, who act as 'agents' or 'internal representatives' of particular institutional orders (Pache and Santos 2010, Thornton *et al.* 2012), have contributed in promoting certain organisational responses over time consistently with the logics they represent. In more detail, the empirical findings show that the appointment of actors who advocated the demands of profession order in the

MASB resulted in creating two conflicting groups of actors who represented two competing logics (religion logic vs profession logic). The profession logic proponent group exercised resistance to the MASB Islamic financial reporting project. This resistance increased with the increasing dominance of that group over time, supported by the external developments in the surrounding institutional environment. This continued until that group achieved the ultimate dominance by 2009 when the MASB officially announced ceasing its strategy for issuing Islamic accounting standards. On the other hand, looking at the context of AAOIFI from the same lens, it can be argued that AAOIFI has been historically influenced by different stakeholders who represent different institutional orders. However, the group of actors who advocate the demands of religion logic has been mostly the dominant group in AAOIFI. This may justify the relative stability of AAOIFI's approach over time. Accordingly, this study suggests that logics' agents have also had a role in the heterogeneity of organisational responses between AAOFI and MASB. This is according to the extent to which prevailing institutional logics are represented inside an organisation and the balance of power between different logics' representatives as suggested by Pache and Santos (2010).

Interestingly, the research findings presented in Chapter Eight also show that actors who are involved directly and indirectly in preparing, regulating and standardising Islamic financial reporting are deeply embedded in western regulatory frameworks, conventional accounting principles and capitalistic thinking. This fact is considered a constraining factor for any project for developing and promoting a framework for Islamic based financial reporting. Given this embeddedness, especially between standard setters and accountants, this research suggests that it is less likely for those actors to make substantial change and participate effectively in developing or implementing a different

(Islamic-based) financial reporting framework, since their thoughts are determined by the institutional settings which they are supposed to change.

From another perspective, research findings indicate that, benefiting from their exposure to different institutional logics, actors in Islamic financial reporting standardisation projects initiated innovative combinations between the elements of those logics with the purpose of developing an appropriate framework for IFI's financial reporting. Accordingly, those actors have been identified in this thesis as institutional entrepreneurs. In this regard, actors in both case-study projects have been involved, to different extents, in certain activities that have been addressed by Battilana *et al.* (2009) as essential activities for successful institutional entrepreneurship. Yet, research findings suggest that AAOIFI's actors have been more successful than the actors who initiated the MASB's project in framing their vision, mobilising allies behind that vision and institutionalising it. Moreover, both projects have faced resistance from actors who are embedded in the field's institutional arrangements. However, while AAOIFI has been successful in alleviating the impact of resistance, the MASB's actors failed in facing that challenge due to (1) the inability of the MASB's actors to frame and promote their vision of change in a way that resonates with the interests of other actors in the field; (2) the skilful approach that has been followed by the resistant actors in framing, promoting and institutionalising their counter vision; (3) the central social position of the resistant actors in the field and their ability to develop an effective social networking strategy to defend their alternative approach.

9.3 Research Conclusion

This study indicates that Islamic financial reporting standardisation projects have experienced a great extent of complexity in their institutional environment. It suggests that those projects have been shaped historically by the dominating institutional logics in their institutional environment and the influential actors within each standard setting body who represent those logics and pursue their demands. This study concludes that the heterogeneity which the projects of AAOFI and MASB have shown in their organisational strategies is attributed to: (1) the different degree of dominance of those prevailing institutional logics in each institutional context; (2) the centrality of those logics to the organisational mission and goals; (3) the extent to which prevailing institutional logics have been represented inside an organisation and the balance of power between different logics' representatives; and (4) the extent to which actors have been able to promote their entrepreneurial vision and mobilise allies behind it.

9.4 Research Contribution and Implications

This study has made important empirical and theoretical contributions to the literature. This is in addition to its policy implications as outlined in detail in this section.

9.4.1 Empirical Contribution

This study contributes to different streams of literature. Firstly, it contributes to the international accounting literature. It particularly contributes to those studies that have examined the factors that produce international differences in the financial reporting practices and needs (e.g. Gray 1988, Perera 1989, Cooke and Wallace 1990, Choi and Mueller 1992, Ashraf and Ghani 2005, Ball 2006, Zeghal and Mhedhbi 2006, Schroeder *et al.* 2009, Muniandy and Ali 2012, Nobes and Parker 2012). That is by shedding light on the religion of Islam as one of those factors. This factor influences the accounting practices and requirements in some Muslim majority countries as well as some business entities that operate in accordance to its principles. While most prior studies in this area focus on the influence of Islam in isolation from other factors, this study addresses that influence alongside other ‘secular’ factors that shape accounting practices and requirements.

This research also contributes to the Islamic accounting literature, especially that stream of literature which explores and evaluates the attempts to develop Islamic financial reporting standards and guidelines. The contribution of this study comes from enriching this literature with a deep understanding of these projects, the factors that have governed their policies and shaped their outcomes, and the challenges that have faced them historically. By doing so, this research fills the gap between the studies which provide descriptive narratives about the circumstances that surrendered and motivated the establishment of these projects (Karim 1990, Karim 1995, Karim 1999, Nasir and Zainol 2007, Rustiana 2016) and those studies which provide critical accounts on the projects without involving deeply in analysing their contextual settings and institutional environment that have impacted their decision on the most appropriate approach for Islamic financial reporting standardisation (Maurer 2002, Kamla 2009, Ibrahim and Siswantoro 2013, Levy and Rezgui 2015, Kamla and Haque 2017). In addition, those prior studies have mostly provided only a ‘static overview’ of the Islamic financial reporting standardisation projects. Therefore, another unique contribution of this research study arises from its distinctive longitudinal exploration which has investigated the contextual and institutional settings surrounding these projects over different historical stages.

Moreover, the role of actors in shaping the strategic decision of these projects has been little researched in the above studies (see for example, Levy and Rezgui 2015, Kamla and Haque 2017). Using ILP as a theoretical framework has enabled this study to provide valuable insights into the role of actors (logic representatives) in prioritising certain policies in Islamic financial reporting standardisation consistently with the logics which they represent. Moreover, this study has also utilised the notion of institutional entrepreneurship to provide additional accounts on the efforts made by those actors to pursue and promote their entrepreneurial vision for Islamic accounting standardisation. Highlighting and investigating the role of actors in these projects is an important empirical contribution of this thesis.

From another perspective, prior literature has mainly examined Islamic financial reporting standardisation issues through focusing on one project. It has failed to conduct comparisons between different projects (either national or international) in the field. Consequently, it has lost the opportunity of providing deep understanding of such controversial issues and identifying the determinants that shape such projects in different contexts. An interesting contribution has been made in this study by providing comparative analysis that highlights the differences between two projects in two separate contexts.

In fact, the comparative empirical findings presented in this thesis also contribute to the field of organisational studies. In this respect, using ILP in this thesis has helped avoid the narrow perspective of institutional diffusion and its associated notion of organisational 'isomorphism' (DiMaggio and Powell 1983). This has enabled this thesis to add a contribution to organisational studies by providing valuable insights into the factors that may lead to heterogeneous behaviour of organisations working under similar conditions to achieve the same objective. The importance of these insights comes from the complexity of the field of IFIs financial reporting, which is governed by multiple institutional logics, each with distinctive rationality.

9.4.2 Theoretical Contribution

Theoretically, this study contributes to the rapidly growing body of literature that uses institutional logics perspective as a theoretical framework. In this regard, religion has been identified by Friedland and Alford (1991) and Thornton *et al.* (2012) as one of the institutional orders that constitute the 'interinstitutional system'. However, this identification was limited to a very specific context which is the influence of Christianity in Western societies. Thornton *et al.* (2012) admit that such a narrow focus represents a strong bias[1]. The unique contribution of this study is by shedding light on the religion of Islam as an important institutional order influencing a particular phenomenon (accounting practices and standards) in a context beyond the Western world (Islamic world). This is considered as an extension of the use of ILP to a new empirical context.

From another perspective, Greenwood *et al.* (2011) indicate that most ILP researchers have restricted themselves with two assumptions about how the institutional complexity has to be approached. These are (1) the narrow focus by considering only two logics and (2) the assumption of their incompatibility. Under this limited scope, "the extent of complexity experienced may be underestimated or misinterpreted; and, the particular responses observed may not be properly understood" (Greenwood *et al.* 2011, p. 332). This thesis is in response to Greenwood *et al.*'s (2011) call for a deeper examination of the settings in which there are more than two institutional logics that may not only compete but also coexist and reinforce each other. In this regard, this thesis has provided evidence that Islamic financial reporting standardisation projects have been historically shaped by five institutional logics (Religion, Profession, Market, State and Community), each with different rationality and source of legitimacy. It has also shown how some of those logics have worked in collaboration with each other to pursue their demands and reinforce their perceived rationality[2]. By doing so, this thesis contributes to the studies that address the institutional complexity underpinning organisational

[1] Thornton *et al.* (2012) argue further that the influence of religion in other non-western societies is more salient.
[2] As it has been the case with community logic in its relation to religion logic and the case of the market logic recently in its relation to profession logic.

environment (Greenwood *et al.* 2010, Greenwood *et al.* 2011). It also contributes to the emerging studies in which researchers provide evidence on the potentiality of multiple logics to coexist and reinforce each other (Goodrick and Reay 2011, Waldorff *et al.* 2013, Venkataraman *et al.* 2016).

Another theoretical contribution of this study is demonstrating the usefulness of using supplementary perspective such as institutional entrepreneurship alongside ILP for the sake of gaining clear understanding of the agential role of actors. Using this supplementary framework, this study provides evidence that supports the argument of Thornton *et al.* (2012) about the ability of actors who are exposed to different institutional logics to create an innovative combination between the contradictive elements of those logics in order to advance their interests. However, this study associates the success of actors in pursuing their vision to certain factors and activities that have been identified by Battilana *et al.* (2009) as necessary activities for successful institutional entrepreneurship.

Within the same context, this study has offered a comparison between a successful case of institutional entrepreneurship (AAOIFI) and an unsuccessful case (MASB). Battilana *et al.* (2009) argue in this context that much can be learned by comparing successful institutional entrepreneurs with those failed ones. They clarify that past studies have focused almost exclusively on the successful cases of entrepreneurship, which is considered a strong bias in understanding this phenomenon. In fact, they acknowledge the difficulty of detecting and studying failed entrepreneurial attempts retrospectively. However, in their opinion, not doing so would hinder the ability to identify the combination of factors that results in making some cases of divergent change implementation successful while others not. Conducting this comparison in this thesis is considered another important contribution to the field of institutional entrepreneurship research.

Moreover, this study has also offered a comparison between the contextual and institutional settings that have been prevailing historically in two different contexts (over time and across contexts). In this regard, it has both benefited from and provided evidence on the assumption of the 'historical contingency of institutional logics', which assumes that the prevalence of particular institutional logics within an organisation and the relationships between these logics vary over time and across contexts (Thornton *et al.* 2012). Carrying out this study adds to the ILP literature which lacks such comparative-historical studies as indicated by Thornton *et al.* (2012).

Furthermore, this study has addressed and provided evidence on the resistance of actors to certain institutional logics. This phenomenon has been particularly salient in the context of the MASB, where certain actors take advantage of the discourse associated with the accessible logics in the field to exercise resistance over other logics and advance their own logics which they are embedded in. This issue has been little researched in the ILP literature (see, for example, Greenwood and Hinings 1996, Townley 1997, Alawattage 2011). Little attention has been paid in this respect to the ability of actors to compromise, avoid or defy certain logics. This has made it an interesting and, at the same time, an important issue for investigation in this research.

Finally, it can be argued that valuable analytical and theoretical generalisation can be derived from this thesis concerning the complexity of the institutional environment of standard setting bodies. In such environment, this thesis argues that it is not valid to simply assume (as most ILP based studies do) that only two institutional orders are competing to pursue their logics and expectations; rather, a complex net of orders can be identified in such bodies competing, supporting or reinforcing each other. The rationality of each order and the relationship between those orders can change over time influenced by the macro institutional developments in the society, as described by the institutional logics domination maps presented in section (7.3.2). From another perspective, this thesis has demonstrated that actors within standard setting bodies can play a critical role in promoting (or resisting) certain organisational policies based on the institutional logic which they are embedded in. The organisational policies and priorities of those bodies are ultimately determined by the balance of power between those different logics' representatives. Other valuable analytical insights that can be theoretically generalised are concerning the factors that lead to the heterogeneous organisational strategies of those organisations working under similar conditions to achieve the same objective, as outlined in the research conclusion (Section 9.3).

In addition to the fact that this thesis has extended the use of ILP to a new empirical context, the theoretical insights, discussion and generalisations made by this thesis would further contribute to the development of ILP as a comprehensive theoretical framework for examining and explaining different phenomena.

9.4.3 Policy Implications and Recommendations

The accounting implications of the moral and economic principles of Islam have led some scholars to consider it as 'confounding' factor for international accounting harmonisation (Hamid *et al.* 1993). Hence, Islamic accounting standardisation projects have been recognised as a challenge to the efforts of developing an international set of accounting standards that are applicable to all industries and in all countries equally (Karim 2001, Ibrahim 2007, Kamla and Haque 2017). In fact, it seems that the IASB has recognised this fact and started some efforts to accommodate IFIs accounting needs in its standards through the establishment of a consultation group for that purpose in cooperation with national (MASB) and international bodies (AOSSG, IFSP and recently AAOIFI). The practical importance of this research arises from exploring the contextual and institutional determinants of Islamic accounting standardisation projects and examining the mutual influence between their and the international accounting harmonisation efforts. Understanding these issues helps pave the way for developing an effective collaboration between those bodies that achieves the interests of all stakeholders and parties concerned. This in turn would contribute to the betterment of Islamic financial industry as well as the effectiveness of IASB standards in addressing the needs of this emerging industry.

From another perspective, understanding the influence of different contextual, religious and secular factors on Islamic accounting standardisation and the role of actors in this regard is beneficial for standard setters, policymakers and regulators. This study does not claim the statistical generalisation of its findings. Yet, these findings are of a great benefit to any potential (or current) attempt to develop standards that cater for the needs of Islamic business entities. In this context, it was observable during the field study that there is an 'understanding gap' among the participants of the case-study projects who do not show appreciation to the specificity of the contextual settings of the other projects. This led those participants to strongly, and sometimes aggressively, defend their own approach and underestimate the efforts of other projects while claiming that they are working to the betterment of the Islamic finance industry. Conducting this study improves standard setters and regulators' understanding of the contextual and institutional determinants that govern Islamic financial reporting in different countries. This understanding helps achieve 'knowledge transfer' between Islamic accounting standardisation projects, which is helpful for building bridges between these projects as a first step to achieve international harmonisation of Islamic financial reporting.

Moreover, this study suggests that human actors play a critical role in pursuing the objectives of Islamic accounting standardisation projects. In this regard, it provides valuable insights into how those actors develop entrepreneurial strategies for creating their vision, mobilising allies and resources behind it, and institutionalising it. This research provides evidence that the failure in pursuing appropriate strategies to promote the objectives of Islamic accounting standardisation projects may result in the failure of those projects. In this context, it seems that AAOIFI has recognised this fact historically and followed certain policies to promote its approach and standards internationally[1]. Yet, this study suggests that AAOIFI needs to make more efforts in this respect, given the increasing pressures of international accounting harmonisation.

This study has also highlighted the conventional embeddedness of actors, who are involved directly and indirectly in practicing and regulating IFIs' financial reporting, as a constraining factor for developing and promoting an Islamic financial reporting framework. Given this embeddedness, this research suggests that it is less likely for those actors to make substantial change and participate effectively in developing or implementing a different (Islamic-based) financial reporting framework, since their thoughts are determined by the institutional settings which they are supposed to change. Accordingly, this study concludes that any attempt for developing and implementing Islamic financial reporting standards requires, firstly, empowering the religion logic and creating a new 'culture of corporate reporting' among those actors. Higher education institutions have a great responsibility in this regard since they contribute to a great extent in creating and deepening the conventional accounting embeddedness between graduates as indicated by research findings. These institutions may need to review their syllabuses to involve materials on accounting from an Islamic perspective or, at least, to raise awareness about the existence of 'alternative accounting thinking'. In addition, those institutions need to encourage critical thinking among students so that they do not take the usefulness and appropriateness of conventional accounting practices and thoughts for granted. This thesis, therefore, calls for effective collaboration between AAOIFI and

[1] See Section 8.6.2.3

universities to promote Islamic accounting principles and values, similar to that collaboration between accounting bodies such as ACCA and ICAEW and universities inside and outside the UK, which contributes in disseminating the Anglo-Saxon accounting practices and thoughts.

9.5 Research limitations and Potential Avenues for Future Research

Despite the contributions of this study to the existing literature, it is, undeniably, not without limitations. Some of those limitations can be overcome by dedicating more time and efforts in future research; yet, others are more difficult to overcome. First, as it is the case of any research, this study is subject to the limitations of the methodological approach and research methods followed to achieve the research objectives. Some of those limitations were highlighted in Chapter Five which also presented the efforts made by the researcher to overcome or alleviate the impact of those limitations. Besides, in some occasions, this study faced accessibility issues to some interviewees whose institutions did not give consent for interviewing[1] and some documents which the researcher was not able to obtain[2].

This study also suffers limitation in terms of the case generalisation. Although this study was carried out using multiple case studies, it does not provide a basis for statistical generalisation. As a result, the findings of this study may turn out to be localised or specific to the case studies selected in this research. Similar studies can be extended to examine other projects or other countries that issue standards or guidelines for Islamic financial reporting. Such studies may provide further insights into the institutional

---

[1] For example, Bank Negara Malaysia (the Central Bank of Malaysia) apologised for not giving approval to interview some of its staff in connection to Islamic financial reporting. Another example is that even though the researcher managed to personally contact and interview members in the MASB standing committee on Islamic financial reporting, the consent for interviewing executive members in the MASB was restricted to one participant (Interviewee I-1).

[2] For example, the inability of the researcher to get access to the research papers which were prepared prior to the establishment of AAOIFI.

determinants and organisational responses prevailing across various other contexts or even guide us towards the appreciation of new logics governing this issue. Those studies may extend their interviewee sample to include accounting information users whose perception is not addressed in this thesis. They may also make different reflections about Islamic accounting standardisation projects by utilising different theoretical perspectives.

Theoretically, this thesis utilised ILP as a theoretical framework. This framework is criticised for ignoring the moral dimension (Cloutier and Langley 2013). Values are represented in Thornton *et al.*'s (2012) theorisation as a mean to attain legitimacy. In that sense, actions are considered to be legitimate based on their conformity to certain institutional logics, rather than their fairness or moral righteousness. Consequently, even though this thesis examines a phenomenon (IFIs financial reporting) which is supposed to have religious and moral dimensions, it lost the chance to explicitly adopt a normative, moral attitude that presents the ethicality and fairness of the current Islamic accounting standardisation practices. Ignoring this dimension in this thesis is also a result of its nature as an interpretive study which aims to present the reality as it is without giving normative solutions or prescribing what is right and what is wrong. Future studies in this field may adopt a more 'critical' approach and incorporate more normative, moral dimensions.

Despite that limitation, utilising ILP in this thesis was useful in providing valuable insights into the determinants of Islamic accounting standardisation projects and the role of agency and actors in those projects. Given its usefulness, this thesis suggests extending the use of ILP to examine the changes in the institutional logics underpinning Islamic finance and IFIs practices as a whole. A study has been conducted in this context by Haniffa and Hudaib (2010) who indicate that Islamic finance has experienced a dramatic shift in its objectives. Utilising ILP is expected to add valuable insights into this phenomenon which ultimately contributes to our understanding of this industry.

9.6 Epilogue

The way in which the religion of Islam impacts accounting practices and requirements has created an interesting arena for research. This thesis has provided insights into how this religion interacts with other institutional and contextual factors to shape the projects that have been initiated with the purpose of providing accounting standards and guidelines for entities labelled as Islamic business entities. This thesis has also provided interesting findings about the engagement of actors in this secular-sacred interaction. The researcher humbly claims that his thesis has added a valuable contribution to the existing literature. He also hopes that it will create further interest in conducting future research that furthers our understanding of accounting in its relation to religions.

References

Abdel-Magid, M. F. (1981). 'The theory of Islamic banking: accounting implications', *International Journal of Accounting*, 17(1), 79-102.

Abdul Rasid, S. Z., Abdul Rahman, A. R. and Wan Ismail, W. K. (2011). 'Management accounting systems in Islamic and conventional financial institutions in Malaysia', *Journal of Islamic Accounting and Business Research*, 2(2), 153-176.

Adnan, M. A. (1996). *An investigation of accounting concepts and practices in Islamic banks: the cases of Bank Islam Malaysia Berhad and Bank Muamalat Indonesia*, unpublished thesis (Ph.D), University of Wollongong.

Ahmed, A. A. A. (2012). 'Accounting in Islamic Perspective: A timely opportunity a timely Challenge', *ASA University Review*, 6(2), 11-31.

Al-Mehmadi, F. B. S. B. (2004). *The external reporting needs of investors in Islamic banks in Saudi Arabia: an exploratory study of full disclosure*, unpublished thesis (Ph.D), University of Dundee.

Al-Shammari, B., Brown, P. and Tarca, A. (2008). 'An investigation of compliance with international accounting standards by listed companies in the Gulf Co-Operation Council member states', *The International Journal of Accounting*, 43(4), 425-447.

Alawattage, C. (2011). 'The calculative reproduction of social structures–The field of gem mining in Sri Lanka', *Critical Perspectives on Accounting*, 22(1), 1-19.

Alkhtani, S. S. (2010). *The relevance of International Financial Reporting Standards to Saudi Arabia: stakeholders perspectives*, unpublished thesis (Ph.D), University of Stirling.

Alnesafi, A. (2010). *The Triangle of Influences (Capitalism, Colonialism & Globalisation) on Accounting Regulation: The Case of Kuwait*, unpublished thesis (Ph.D), The University of Essex.

Altarawneh, G. and Lucas, M. (2012). 'Understanding the dominance of Western accounting and neglect of Islamic accounting in Islamic countries', *Journal of Islamic Accounting and Business Research*, 3(2), 99-120.

Alvesson, M. and Deetz, S. (2000). *Doing critical management research*, London: Sage.

AOSSG (2010). 'AOSSG Survey: Financial Reporting Issues relating to Islamic Finance'. [pdf] Asian Oceanian Standard Setters Group. available: http://www.aossg.org/docs/AOSSG_IF_WG-Research_Paper_11Oct2010.pdf [Accessed 10 August 2016].

AOSSG (2011). 'AOSSG Survey: Accounting for Islamic Financial Transactions and Entities'. [pdf] Asian Oceanian Standard Setters Group. available: http://www.aossg.org/docs/Publications/AOSSG_Survey_Report_2011_FINAL_CLEAN_29_12_2011.pdf [Accessed 15 August 2016].

Aribi, Z. A. and Gao, S. (2010). 'Corporate social responsibility disclosure: A comparison between Islamic and conventional financial institutions', *Journal of Financial Reporting and Accounting*, 8(2), 72-91.

Ariff, M. and Iqbal, M. (2011). *The foundations of Islamic banking: Theory, practice and education*, Cheltenham: Edward Elgar Publishing.

Arrington, C. E. and Francis, J. R. (1989). 'Letting the chat out of the bag: deconstruction, privilege and accounting research', *Accounting, organizations and society*, 14(1-2), 1-28.

Ashraf, J. and Ghani, W. I. (2005). 'Accounting development in Pakistan', *The International Journal of Accounting*, 40(2), 175-201.

Askary, S. and Clarke, F. (1997). 'Accounting in the Koranic verses', in *Accounting, Commerce and Finance: the Islamic Perspective International Conference I*, University of Western Sydney, Macarthur.

Baker, C. R. and Barbu, E. M. (2007). 'Evolution of research on international accounting harmonization: a historical and institutional perspective', *Socio-Economic Review*, 5(4), 603-632.

Bala, H. (2012). 'Corporate social responsibility (CSR) of business organizations in Niger State, Nigeria: An Islamic perspective', *International Journal of Psychology and Counselling*, 4(4), 41-48.

Ball, R. (2006). 'International Financial Reporting Standards (IFRS): pros and cons for investors', *Accounting and Business Research*, 36, 5-27.

Barth, M. E. (2008). 'Global financial reporting: Implications for US academics', *The Accounting Review*, 83(5), 1159-1179.

Battilana, J., Leca, B. and Boxenbaum, E. (2009). 'How Actors Change Institutions: Towards a Theory of Institutional Entrepreneurship', *The academy of management annals*, 3(1), 65-107.

Baydoun, N. and Willett, R. (2000). 'Islamic corporate reports', *Abacus*, 36(1), 71-90.

Belkaoui, A. R. (1988). *The new environment in international accounting: Issues and practices*, New York: Quorum Books.

Berg, B. L. (2009). *Qualitative Research Methods for the Social Sciences*, 7th ed., Boston: Allyn & Bacon.

Besharov, M. L. and Smith, W. K. (2014). 'Multiple institutional logics in organizations: Explaining their varied nature and implications', *Academy of Management Review*, 39(3), 364-381.

Bischof, J., Brüggemann, U. and Daske, H. (2010). 'Asset Reclassifications and Bank Recapitalization during the Financial Crisis', *Social Science Research Network Working Paper Series*. [online] Available at: https://ssrn.com/abstract=1628843[Accessed 10 August 2016].

Bova, F. and Pereira, R. (2012). 'The determinants and consequences of heterogeneous IFRS compliance levels following mandatory IFRS adoption: Evidence from a developing country', *Journal of International Accounting Research*, 11(1), 83-111.

Bryman, A. and Bell, E. (2011). *Business research methods*, 3rd ed., Oxford: Oxford University Press.

Bucheery, R. A. M. (2001). *True and Fair View-An Islamic Perspective*, unpublished thesis (Ph.D), University of Surrey.

Burrell, G. and Morgan, G. (1979). *Sociological paradigms and organisational analysis*, London: Heinemann.

Carmona, S. and Ezzamel, M. (2006). 'Accounting and religion: a historical perspective', *Accounting History*, 11(2), 117-127.

Carnegie, G. D. and Napier, C. J. (1996) 'Critical and interpretive histories: insights into accounting's present and future through its past', *Accounting, Auditing & Accountability Journal*, 9(3), 7-39.

Carnegie, G. D. and Napier, C. J. (2002) 'Exploring comparative international accounting history', *Accounting, Auditing & Accountability Journal*, 15(5), 689-718.

Cassell, C. (2015). *Conducting research interviews for business and management students*, Los Angeles: SAGE.

Chand, P. and White, M. (2007). 'A critique of the influence of globalization and convergence of accounting standards in Fiji', *Critical Perspectives on Accounting*, 18(5), 605-622.

Child, J., Lu, Y. and Tsai, T. (2007) 'Institutional entrepreneurship in building an environmental protection system for the People's Republic of China', *Organization Studies*, 28(7), 1013-1034.

Choi, F. D. and Mueller, G. G. (1992). *International accounting*, NJ Englewood Cliffs: Prentice-Hall

Cloutier, C. and Langley, A. (2013). 'The logic of institutional logics: Insights from French pragmatist sociology', *Journal of Management Inquiry*, 22(4), 360-380.

Collis, J. and Hussey, R. (2013). *Business research: A practical guide for undergraduate and postgraduate students*, Basingstoke: Palgrave macmillan.

Cooke, T. E. and Wallace, R. O. (1990). 'Financial disclosure regulation and its environment: A review and further analysis', *Journal of Accounting and Public Policy*, 9(2), 79-110.

Creswell, J. W. (2009). *Research design: Qualitative, quantitative, and mixed methods approaches*, Thousand Oaks: Sage publications.

DiMaggio, P. and Powell, W. W. (1983). 'The iron cage revisited: Collective rationality and institutional isomorphism in organizational fields', *American Sociological Review*, 48(2), 147-60.

DiMaggio, P. J. (1988). 'Interest and agency in institutional theory' in Zucker, L. G., ed., *Institutional Patterns and Organizations: Culture and Environment*, Cambridge: MA: Ballinger, 3-21.

Ding, Y., Jeanjean, T. and Stolowy, H. (2005). 'Why do national GAAP differ from IAS? The role of culture', *The International Journal of Accounting*, 40(4), 325-350.

Dorado, S. (2013) 'Small groups as context for institutional entrepreneurship: An exploration of the emergence of commercial microfinance in Bolivia', *Organization Studies*, 34(4), 533-557.

Dyreng, S. D., Mayew, W. J. and Williams, C. D. (2012). 'Religious social norms and corporate financial reporting', *Journal of Business Finance & Accounting*, 39(7-8), 845-875.

El-Gamal, M. A. (2003). 'Interest and the paradox of contemporary Islamic law and finance', *Fordham Int'l LJ*, 27(1), 108-149.

Ezzamel, M., Robson, K. and Stapleton, P. (2012). 'The logics of budgeting: Theorization and practice variation in the educational field', *Accounting, organizations and society*, 37(5), 281-303.

Farook, S., Kabir Hassan, M. and Lanis, R. (2011). 'Determinants of corporate social responsibility disclosure: The case of Islamic banks', *Journal of Islamic Accounting and Business Research*, 2(2), 114-141.

Friedland, R. and Alford, R. R. (1991). 'Bringing Society back in: Symbols, Practices and Institutional Contradictions' in Powell, W. W. and DiMaggio, P. J., eds., *The New Institutionalism in Organizational Analysis*, Chicago: University of Chicago Press, 232-263.

Gallhofer, S. and Haslam, J. (2007). 'Exploring social, political and economic dimensions of accounting in the global context: the International Accounting Standards Board and accounting disaggregation', *Socio-Economic Review*, 5(4), 633-664.

Gambling, T., Jones, R. and Karim, R. A. A. (1993). 'Credible organizations: self-regulation v. external standard-setting in Islamic banks and British charities', *Financial Accountability & Management*, 9(3), 195-207.

Gambling, T. and Karim, R. (1991). *Business and Accounting Ethics in Islam* London: Mansell.

Garud, R., Jain, S. and Kumaraswamy, A. (2002) 'Institutional entrepreneurship in the sponsorship of common technological standards: The case of Sun Microsystems and Java', *Academy of management journal*, 45(1), 196-214.

Geilinger, N., Haefliger, S., von Krogh, G. and Pachidou, F. (2017) 'Institutional entrepreneurship in Alzheimer's disease treatment' in *The Elgar Companion to Innovation and Knowledge Creation*Edward Elgar Publishing.

Goodrick, E. and Reay, T. (2011). 'Constellations of institutional logics: Changes in the professional work of pharmacists', *Work and Occupations*, 38(3), 372-416.

Gray, S. J. (1988). 'Towards a theory of cultural influence on the development of accounting systems internationally', *Abacus*, 24(1), 1-15.

Greenwood, R. and Suddaby, R. (2006) 'Institutional entrepreneurship in mature fields: The big five accounting firms', *Academy of management journal*, 49(1), 27-48.

Greenwood, R., Suddaby, R. and Hinings, C. R. (2002) 'Theorizing change: The role of professional associations in the transformation of institutionalized fields', *Academy of management journal*, 45(1), 58-80.

Greenwood, R., Díaz, A. M., Li, S. X. and Lorente, J. C. (2010). 'The multiplicity of institutional logics and the heterogeneity of organizational responses', *Organization Science*, 21(2), 521-539.

Greenwood, R. and Hinings, C. R. (1996). 'Understanding radical organizational change: Bringing together the old and the new institutionalism', *Academy of Management Review*, 21(4), 1022-1054.

Greenwood, R., Raynard, M., Kodeih, F., Micelotta, E. R. and Lounsbury, M. (2011). 'Institutional complexity and organizational responses', *The academy of management annals*, 5(1), 317-371.

Greenwood, R. and Suddaby, R. (2006). 'Institutional entrepreneurship in mature fields: The big five accounting firms', *Academy of management journal*, 49(1), 27-48.

Guerreiro, M. S., Rodrigues, L. L. and Craig, R. (2012). 'Voluntary adoption of International Financial Reporting Standards by large unlisted companies in Portugal–Institutional logics and strategic responses', *Accounting, organizations and society*, 37(7), 482-499.

Gummesson, E. (2000). *Qualitative methods in management research*, Thousand Oaks, Calif.: Sage.

Hallebone, E. and Priest, J. (2009). *Business and management research: paradigms and practices*, Basingstoke: Palgrave Macmillan.

Hamid, S., Craig, R. and Clarke, F. (1993). 'Religion: a confounding cultural element in the international harmonization of accounting?', *Abacus*, 29(2), 131-148.

Haniffa, R. and Hudaib, M. (2002). 'A theoretical framework for the development of the Islamic perspective of accounting', *Accounting, Commerce and Finance: The Islamic Perspective Journal*, 6(1&2), 1-71.

Haniffa, R. and Hudaib, M. (2007). 'Exploring the ethical identity of Islamic banks via communication in annual reports', *Journal of Business Ethics*, 76(1), 97-116.

Haniffa, R. and Hudaib, M. (2010). 'Islamic finance: from sacred intentions to secular goals?', *Journal of Islamic Accounting and Business Research*, 1(2), 85-91.

Heimer, C. A. (1999). 'Competing institutions: Law, medicine, and family in neonatal intensive care', *Law and Society Review*, 17-66.

Hirsch, P. M. and Lounsbury, M. (1997). 'Ending the family quarrel toward a reconciliation of “old” and “new” institutionalisms', *American Behavioral Scientist*, 40(4), 406-418.

Hopwood, A. G. (1983) 'On trying to study accounting in the contexts in which it operates', *Accounting, organizations and society*, 8(2-3), 287-305.

Hopwood, A. G. and Miller, P. (1994). *Accounting as social and institutional practice*, Cambridge: Cambridge University Press.

Hyvönen, T., Järvinen, J., Pellinen, J. and Rahko, T. (2009). 'Institutional logics, ICT and stability of management accounting', *European Accounting Review*, 18(2), 241-275.

Ibrahim, S. H. M. (2000a). *The need for Islamic accounting: perceptions of its objectives and characteristics by Malaysian Muslim accountants and accounting academics*, unpublished thesis (Ph.D), University of Dundee.

Ibrahim, S. H. M. (2000b). 'Nurtured by Kufr: The western philosophical assumptions underlying conventional (Anglo-American) accounting', *International Journal of Islamic Financial Services*, 2(2), 19-38.

Ibrahim, S. H. M. (2007). 'IFRS vs AAOIFI: The clash of standards?', *MPRA Paper No.12539* [online], available at: https://mpra.ub.uni-muenchen.de/12539/ [Accessed 15 February 2014].

Ibrahim, S. H. M. and Siswantoro, D. (2013). 'Should Islamic Accounting Standard Follow to International Financial Reporting Standards (Ifrs)? a Lesson From Malaysia', *Media Riset Akuntansi, Auditing dan Informasi*, 13(1), 35-58.

Ibrahim, S. H. M. and Yaya, R. (2005). 'The emerging issues on the objectives and characteristics of Islamic accounting for Islamic business organizations', *Malaysian Accounting Review*, 4(1), 75-92.

Ibrahim, Z., Marshall, A. and Abdul-Rahman, R. (2013). 'Islamic Social Disclosure (ISCR) of Malaysian Public Listed Companies: Empirical Findings', *British Journal of Economics, Finance and Management Sciences*, 7(1), 26-46.

IFRS (2015) *The global reach of IFRS is expanding* [online], available: http://www.ifrs.org/Features/Pages/Global-reach-of-IFRS-is-expanding.aspx [Accessed 05 August 2016].

Irvine, H. (2008). 'The global institutionalization of financial reporting: The case of the United Arab Emirates', *Accounting Forum*, 32(2), 125-142.

ISRA (2013). 'An appraisal of the principles underlying International Financial Reporting Standards (IFRS) : a Shari'ah perspective - Part 1', in Research Paper No. 54/2013, International Shari'ah Research Academy, Kuala Lumpur, Malaysia.

Jayasinghe, K. and Wickramasinghe, D. (2011). 'Power over empowerment: Encountering development accounting in a Sri Lankan fishing village', *Critical Perspectives on Accounting*, 22(4), 396-414.

Judge, W., Li, S. and Pinsker, R. (2010). 'National adoption of international accounting standards: An institutional perspective', *Corporate Governance: An International Review*, 18(3), 161-174.

Kamla, R. (2009). 'Critical insights into contemporary Islamic accounting', *Critical Perspectives on Accounting*, 20(8), 921-932.

Kamla, R. and Haque, F. (2017). 'Islamic accounting, neo-imperialism and identity staging: The Accounting and Auditing Organization for Islamic Financial Institutions', *Critical Perspectives on Accounting*. In Press, Corrected Proof, 27 June 2017.

Kamla, R. and Rammal, G. H. (2013). 'Social reporting by Islamic banks: does social justice matter?', *Accounting, Auditing & Accountability Journal*, 26(6), 911-945.

Kantakji, S. (2003). *The Role of the Islamic Civilization In Developing The Accounting Thought*, unpublished thesis (Ph.D), University of Aleppo.

Karim, R. A. A. (1990). 'Standard setting for the financial reporting of religious business organisations: the case of Islamic banks', *Accounting and Business Research*, 20(80), 299-305.

Karim, R. A. A. (1995). 'The nature and rationale of a conceptual framework for financial reporting by Islamic banks', *Accounting and Business Research*, 25(100), 285-300.

Karim, R. A. A. (1999). 'Accounting and Auditing Standards for Islamic Financial Institutions', in *Proceedings of the Second Harvard University Forum on Islamic Finance: Islamic Finance into the 21 Century*, Massachusetts, Center for Middle Eastern Studies, Harvard University, 239-241.

Karim, R. A. A. (2001). 'International accounting harmonization, banking regulation, and Islamic banks', *The International Journal of Accounting*, 36(2), 169-193.

Ketola, T., Siwar, C. and Hossain, T. (2009). 'An analysis of Islamic CSR concept and the opinions of Malaysian managers', *Management of Environmental Quality: An International Journal*, 20(3), 290-298.

Kodeih, F. and Greenwood, R. (2014). 'Responding to institutional complexity: The role of identity', *Organization Studies*, 35(1), 7-39.

KPMG and ACCA (2010). 'Harmonising financial reporting of Islamic finance', [pdf], available at: http://www.accaglobal.com/content/dam/acca/global/PDF-technical/financial-reporting/tech-af-hfrif.pdf [Accessed 15 October 2015].

Lander, M. W., Koene, B. A. and Linssen, S. N. (2013). 'Committed to professionalism: Organizational responses of mid-tier accounting firms to conflicting institutional logics', *Accounting, organizations and society*, 38(2), 130-148.

Lawrence, T. B. and Phillips, N. (2004) 'From Moby Dick to Free Willy: Macro-cultural discourse and institutional entrepreneurship in emerging institutional fields', *Organization*, 11(5), 689-711.

Levy, A. and Rezgui, H. (2015). 'Professionnal and Neoinstitutional Dynamics in the Islamic Accounting Standards-Setting process' in Boje, D. M., ed., *Organizational Change and Global Standardization: Solutions to Standards and Norms Overwhelming Organizations*, London: Routledge, 143-172.

Lewis, M. K. (2001). 'Islam and accounting', *Accounting Forum*, 25(2), 103-127.

Lounsbury, M. (2008). 'Institutional rationality and practice variation: New directions in the institutional analysis of practice', *Accounting, organizations and society*, 33(4), 349-361.

Maali, B. (2005). *Financial Accounting and Reporting in Islamic Banks: The Case of Jordan*, unpublished thesis (Ph.D), University of Southampton.

Maali, B., Casson, P. and Napier, C. (2006). 'Social reporting by Islamic banks', *Abacus*, 42(2), 266-289.

Maali, B. and Napier, C. (2010). 'Accounting, religion and organisational culture: the creation of Jordan Islamic Bank', *Journal of Islamic Accounting and Business Research*, 1(2), 92-113.

Maguire, S., Hardy, C. and Lawrence, T. B. (2004) 'Institutional entrepreneurship in emerging fields: HIV/AIDS treatment advocacy in Canada', *Academy of management journal*, 47(5), 657-679.

Maurer, B. (2002). 'Anthropological and accounting knowledge in Islamic banking and finance: rethinking critical accounts', *Journal of the Royal Anthropological Institute*, 8(4), 645-667.

Maurer, B. (2010). 'Form versus substance: AAOIFI projects and Islamic fundamentals in the case of sukuk', *Journal of Islamic Accounting and Business Research*, 1(1), 32-41.

McGuire, S. T., Omer, T. C. and Sharp, N. Y. (2011). 'The impact of religion on financial reporting irregularities', *The Accounting Review*, 87(2), 645-673.

Meyer, J. W. and Rowan, B. (1977). 'Institutionalized organizations: Formal structure as myth and ceremony', *American Journal of Sociology*, 340-363.

Meyer, R. E. and Höllerer, M. A. (2010). 'Meaning structures in a contested issue field: A topographic map of shareholder value in Austria', *Academy of management journal*, 53(6), 1241-1262.

Mir, M. Z. and Rahaman, A. S. (2005). 'The adoption of international accounting standards in Bangladesh: An exploration of rationale and process', *Accounting, Auditing & Accountability Journal*, 18(6), 816-841.

Mirza, M. and Baydoun, N. (1999a). 'Accounting policy choice in an interest-free environment', In: *The Islamic Perspective International Conference*, Jakarta, Indonesia, 15-18 February.

Mirza, M. and Baydoun, N. (1999b). 'Do Islamic societies need their own accounting and reporting standards?', *Journal of the Academy of Business Administration*, 4(2), 39-45.

Misangyi, V. F., Weaver, G. R. and Elms, H. (2008) 'Ending corruption: The interplay among institutional logics, resources, and institutional entrepreneurs', *Academy of Management Review*, 33(3), 750-770.

Mohammed, N. F., Ahmad, A. E. and Fahmi, F. M. (2016). 'Accounting standards and Islamic financial institutions: The Malaysian experience', *Journal of Islamic Banking and Finance*, 4(1), 33-38.

Mohammed, N. F., Fahmi, F. M. and Ahmad, A. E. (2015). 'The Influence of AAOIFI Accounting Standards in Reporting Islamic Financial Institutions in Malaysia', *Procedia Economics and Finance*, 31, 418-424.

Mohammed, S. A. and Mustafa, M. H. (2013). 'The need of accounting standards for Islamic financial institutions: evidence from AAOIFI', *Journal of Islamic Accounting and Business Research*, 4(1), 64-76.

Muniandy, B. and Ali, M. J. (2012). 'Development of financial reporting environment in Malaysia', *Research in Accounting Regulation*, 24(2), 115-125.

Munir, K. A. and Phillips, N. (2005) 'The birth of the 'Kodak Moment': Institutional entrepreneurship and the adoption of new technologies', *Organization Studies*, 26(11), 1665-1687.

Myers, M. D. (2013). *Qualitative research in business and management*, London: Sage.

Namaghi, D. M., Azarberahman, A., Pradesh, A. and Azarberahman, J. (2012). 'Theoretical Bases of Islamic Accounting and Challenges Ahead', *International Journal of Commerce, Business and Management*, 1(3), 136-139.

Napier, C. J. (1989) 'Research directions in accounting history', *The British Accounting Review*, 21(3), 237-254.

Napier, C. (2007). 'Other cultures, other accountings? Islamic accounting from past to present', In: *5th Accounting and History International Conference*, Banff, Canada, 9-11 August 2007.

Napier, C. (2009). 'Defining Islamic accounting: current issues, past roots', *Accounting History*, 14(1-2), 121-144.

Napier, C. and Haniffa, R. (2011). *Islamic accounting*, Cheltenham: Edward Elgar Publishing.

Nasir, N. M. and Zainol, A. (2007). 'Globalisation of Financial Reporting: An Islamic Focus' in Godfrey, J. M. and Chalmers, K., eds., *Globalisation of Accounting Standards*, Cheltenham: Edward Elger Publishing Limited, 261- 274.

Nobes, C. (1998). 'Towards a general model of the reasons for international differences in financial reporting', *Abacus*, 34(2), 162-187.

Nobes, C. and Parker, R. H. (2012). *Comparative international accounting*, Harlow Pearson

Oliver, C. (1991). 'Strategic responses to institutional processes', *Academy of Management Review*, 16(1), 145-179.

Othman, R. and Thani, A. M. (2010). 'Islamic social reporting of listed companies in Malaysia', *The International Business & Economics Research Journal*, 9(4), 135.

Pache, A.-C. and Santos, F. (2010). 'When worlds collide: The internal dynamics of organizational responses to conflicting institutional demands', *Academy of Management Review*, 35(3), 455-476.

Peasnell, K. V. (1993). 'Accounting in developing countries: The search for appropriate technologies', *Research in Third World Accounting*, 2(1), 1-16.

Perera, M. H. B. (1989). 'Towards a Framework to Analyze the Impact of Culture on Accounting', *International Journal of Accounting*, 24(1), 42-56.

Prather-Kinsey, J. (2006). 'Developing countries converging with developed-country accounting standards: Evidence from South Africa and Mexico', *The International Journal of Accounting*, 41(2), 141-162.

Puxty, A. G., Willmott, H. C., Cooper, D. J. and Lowe, T. (1987). 'Modes of regulation in advanced capitalism: Locating accountancy in four countries', *Accounting, organizations and society*, 12(3), 273-291.

Remenyi, D. (1998). *Doing research in business and management: an introduction to process and method*, London: Sage Publications Ltd.

Roslender, R. (2006). 'Critical Theory' in Hoque, Z., ed., *Methodological issues in accounting research : theories, methods and issues*, Spiramus Press: London, 247-269.

Rustiana, S. H. (2016). 'The Development of Syariah Accounting in Indonesia', *International Journal of Business, Economics and Law*, 9(5), 117-123.

Saudagaran, S. M. (2009). *International accounting: A user perspective*, Chicago, IL: CCH Inc.

Saunders, M., Lewis, P. and Thornhill, A. (2012). *Research methods for business students*, 6th ed., Harlow: Pearson.

Schroeder, R. G., Clark, M. W. and Cathey, J. M. (2009). *Accounting theory and analysis*, Chapel Hill: University of North Carolina.

Scott, W. R. (2005). 'Institutional theory: Contributing to a theoretical research program' in Smith, K. G. and Hitt, M. A., eds., *Great minds in management: The process of theory development*, Oxford Oxford University Press, 460-485.

Shafii, Z. and Zakaria, N. (2013). 'Adoption of International Financial Reporting Standards and International Accounting Standards in Islamic Financial Institutions from the Practitioners' Viewpoint', *Middle-East Journal of Scientific Research in Contemporary Islamic Finance and Wealth Management*, 13, 42-9.

Sotarauta, M. and Mustikkamäki, N. (2015) 'Institutional entrepreneurship, power, and knowledge in innovation systems: institutionalization of regenerative medicine in Tampere, Finland', *Environment and Planning C: Government and Policy*, 33(2), 342-357.

Stake, R. E. (1995). *The Art of Case Study Research*, Thousand Oaks: Sage.

Streeck, W. and Schmitter, P. C. (1985). 'Community, market, state-and associations? The prospective contribution of interest governance to social order', *European Sociological Review*, 1(2), 119-138.

Sulaiman, M. (2003). 'The influence of riba and zakat on Islamic accounting', *Indonesian Management and Accounting Review*, 2(2), 149-167.

Susela, S. D. (1999). '"Interests" and accounting standard setting in Malaysia', *Accounting, Auditing & Accountability Journal*, 12(3), 358-387.

Thornton, P. H. (2002). 'The rise of the corporation in a craft industry: Conflict and conformity in institutional logics', *Academy of management journal*, 45(1), 81-101.

Thornton, P. H. (2004). *Markets from culture: Institutional logics and organizational decisions in higher education publishing*, Stanford, Calif: Stanford University Press.

Thornton, P. H., Jones, C. and Kury, K. (2005). 'Institutional logics and institutional change in organizations: Transformation in accounting, architecture, and publishing', *Research in the Sociology of Organizations*, 23, 125-170.

Thornton, P. H. and Ocasio, W. (1999). 'Institutional logics and the historical contingency of power in organizations: Executive succession in the higher education publishing industry, 1958-1990', *American Journal of Sociology*, 105(3), 801-843.

Thornton, P. H. and Ocasio, W. (2008). 'Institutional logics' in Greenwood, R., Oliver, C., Suddaby, R. and Sahlin-Andersson, K., eds., *The Sage handbook of organizational institutionalism*London: Sage, 99-128.

Thornton, P. H., Ocasio, W. and Lounsbury, M. (2012). *The Institutional Logics Perspective: A New Approach to Culture, Structure, and Process*, Oxford Oxford University Press.

Townley, B. (1997). 'The institutional logic of performance appraisal', *Organization Studies*, 18(2), 261-285.

Tracey, P., Phillips, N. and Jarvis, O. (2011) 'Bridging institutional entrepreneurship and the creation of new organizational forms: A multilevel model', *Organization Science*, 22(1), 60-80.

Tyrrall, D., Woodward, D. and Rakhimbekova, A. (2007). 'The relevance of International Financial Reporting Standards to a developing country: Evidence from Kazakhstan', *The International Journal of Accounting*, 42(1), 82-110.

UNCTAD (2005). *Review of Practical Implementation Issues of International Financial Reporting Standards.* [pdf] United Nations Conference on Trade and Development. Available at: http://unctad.org/en/Docs/c2isard37_en.pdf [Accessed 05 August 2016].

Venkataraman, H., Vermeulen, P., Raaijmakers, A. and Mair, J. (2016). 'Market Meets Community: Institutional Logics as Strategic Resources for Development Work', *Organization Studies*, 0170840615613370.

Vinnicombe, T. (2010). 'AAOIFI reporting standards: Measuring compliance', *Advances in Accounting*, 26(1), 55-65.

Vinnicombe, T. and Park, D. (2007). 'The Implications of Islamic Jurisprudence for The International Harmonization of Accounting Standards', *Financial Reporting, Regulation & Governance*, 6(1), 1-23.

Waldorff, S. B., Reay, T. and Goodrick, E. (2013). 'A tale of two countries: How different constellations of logics impact action' in Lounsbury, M. and Boxenbaum, E., eds., *Institutional logics in action, Part A*, Bingley Emerald Group Publishing Limited, 99-129.

Walton, P. , Haller, A. and Raffournier, B. (2003). *International accounting*, London Thomson.

Yaya, R. (2004). 'Would the Objectives and Characteristics of Islamic Accounting for Islamic Business Organizations Meet the Islamic Socio-Economic Objectives?', *Jurnal Akuntansi & Auditing Indonesia*, 8(2), 141-162.

Yin, R. K. (1984). *Case study research: Design and methods*, Beverly Hills: Sage publications.

Yin, R. K. (2014). *Case study research: Design and methods*, Thousand Oaks: Sage publications.

Zaid, O. A. (2000). 'Were Islamic Records Precursors to Accounting Books based on the Italian Method?', *The Accounting Historians Journal*, 27(1), 73-90.

Zaid, O. A. (2004). 'Accounting Systems and Recording Procedures in the Early Islamic State', *The Accounting Historians Journal*, 31(2), 149-170.

Zeghal, D. and Mhedhbi, K. (2006). 'An Analysis of the Factors Fffecting the Adoption of International Accounting Standards by Developing Countries', *The International Journal of Accounting*, 41(4), 373-386.

Appendices

Appendix A: Invitation Letter for Research Participation

University of Essex

Date: XXXX

Participant Name: XXX
Participant Designation and Organisation: XXX

Request for Interview for PhD Project "Understanding Islamic Accounting Standardisation Projects: Institutional Logics Perspective"

Dear XXX

This letter is an invitation to seek your consent to take part in a survey I am conducting as part of my PhD degree in the Department of Accounting, Essex Business School at the University of Essex under the supervision of Dr. Kelum Jayasinghe and Dr. Murniati Mukhlisin. Below is a summary of the issues the study is considering:

National and international Islamic accounting standardisation projects are subject to different influential factors. Those projects have made noteworthy efforts in order to regulate and standardise Islamic financial reporting in a way that meets Islamic needs. Yet, conventional reporting practices still play an important role in determining the content of Islamic financial reporting and the debate over the sufficiency of those practices to Islamic needs is still ongoing. As such, this study aims to: (i) explore the determinants of the Islamic financial reporting standardisation, (ii) examine the views around the AAOIFI's standardisation efforts, (iii) investigate national regulatory efforts for Islamic financial reporting (in Malaysia), and (iv) explore the extent to which such efforts have been successful in addressing Islamic financial reporting needs

Participation in this study is voluntary. It will involve an interview of approximately 60 minutes in length. With your permission, the interview will be audio-recorded to facilitate collection of information, and later transcribed for analysis. Shortly after the interview has been completed, I will send you a copy of the transcript if necessary to give you an opportunity to confirm the accuracy of our conversation and to add or clarify any points that you wish. **All information you provide is considered completely confidential**. Your name will not appear in any thesis or report resulting from this study.

The interview is to take place in a mutually agreed upon location and date or, alternatively, through phone/Skype.

Your participation would be more than useful for this research project, given your position as (position) in (organization)

If you have any further queries or require any further information, please do not hesitate to get in touch with me.

Looking forward to hearing from you.

Yours Sincerely,

Ahmad Abras

PhD Accounting Candidate
Essex Business School
University of Essex
Colchester, CO4 3SQ
United Kingdom
Email: aabras@essex.ac.uk
Phone: +44 (0)7574612381

Appendix B: List of Interviewees

Code	Duration (Minutes)	Background							Main Designation & Organisation
		Standard setter	Regulator	Academic	Shariah scholars/ advisers	Partner/Big Audit Firm	Practitioner	Bankers/ Industry represen tatives	
I-1	58	√				√			Ranking member in the MASB & ranking executive in one of the Big Audit Firms
I-2	108	√				√			Former Executive in the MASB, former board member in AAOIFI & ranking executive in one of the Big Audit Firms
I-3	72	√		√	√				Malaysian academic, member in the MASB's Standing Committee on Islamic Financial Reporting & Shariah board member in AAOIFI
I-4	132	√				√			Member in the MASB's Standing Committee on Islamic Financial Reporting & Big Audit Firms Partner - Islamic Financial Services
I-5	65	√	√					√	CEO of an Islamic bank & member in the MASB's Standing Committee on Islamic Financial Reporting
I-6	53							√	Executive in an Islamic financial institution & observer in the MASB's Standing Committee on Islamic Financial Reporting
I-7	80	√	√	√					Former ranking executive in AAOIFI
I-8	44	√							Ranking executive in AAOIFI
I-9	50	√							Executive in AAOIFI
I-10	54	√				√			Ranking accounting board member in AAOIFI & ranking Executive in one of the Big Audit Firms
I-11	103	√		√					Professor in accounting & former standard setter
I-12	33	√		√					Professor in accounting & standard setter
I-13	107		√	√					Professor in accounting & council member in the Malaysian Institute of Accountants
I-14 / I-15	62		√						Directors in Securities Commission Malaysia-Islamic Markets
I-16	47			√	√				Shariah Advisor in Bank Negara Malaysia & Academic
I-17	60			√	√				Shariah Advisor in Bank Negara Malaysia & Academic
I-18	34			√	√				Shariah Advisor in Bank Negara Malaysia & Academic
I-19	38			√	√				Shariah Advisor in Bank Negara Malaysia & Academic
I-20	23	√							Ranking executive in the IFSB
I-21	37	√	√						Member in the IFSB
I-22	85			√					Professor in accounting, IIUM
I-23	68			√					Academic/ISRA
I-24	146			√					Academic/ISRA
I-25	41			√					Academic
I-26	42			√					Academic
I-27	78			√			√		Professor in accounting & former practitioner in an Islamic financial institution
I-28	63			√			√		Academic & former accountant in an Islamic financial institution
I-29	128						√	√	Banker & CFO of an Islamic financial institution
I-30	86						√		Senior Accountant in an Islamic financial institution

Notes about the list of interviewees:

- The column of ‘Main Designation & Organisation’ refers to the main position of an interviewee. Several interviewees had other positions in different organisations and governmental agencies as well.
- Interviewees (I-8), (I-10) and (I-11) had active involvement AAOIFI’s conferences. They had also been invited to some meetings of the MASB’s Standing Committee on Islamic Financial Reporting.
- Interviewees marked as academic in this list were mainly specialised in Islamic accounting. A few of them were specialised in Islamic law, economics and finance

Appendix C: Interview Guide

Section A: Introduction about the researcher/research

- Name of the researcher
- University & Supervisors
- Introduction about the research topic & objectives and the purpose of the interview
- Reassuring interviewees on the issue of confidentiality and anonymity of their participation.

Section B: Introduction by the interviewees

- Interviewees are asked about the nature of their role/position and their involvement in standardising/regulating/practicing Islamic financial reporting.

Section C: Interview questions (applied to all participants)

I. General questions

1. How do you see the influence of Islam on accounting practices and regulation in Muslim countries?
2. How do you see the relevance of the international accounting standards to Islamic countries & business entities?
3. Do you think that there is a need for developing special standards for Islamic business entities? Have this perception changed over time? Is there any role for international accounting harmonisation efforts in changing this perception?
4. Some argue that there is no real need for Islamic accounting standards and those standards labelled 'Islamic' aim to give IFIs extra legitimacy in the eyes of the public? Do you agree? Why?
5. Some argue that Islam should be the main guidance in all aspects of life. Therefore, Islamic accounting standards should be derived from a pure Islamic framework while others think that such standards can be developed by modifying the contemporary, conventional accounting standards (e.g. IFRS) in order to be more accommodating to Islamic accounting needs. Which approach is more convenient in your opinion? Why?
6. Some believe that requiring IFIs to follow a different set of Islamic based accounting standards would hinder their ability to compete with their conventional counterparts? What do you think?
7. What do you think about IFIs current financial reporting practices? Do IFIs reports reflect the characteristic of Islamic financial products/transactions?
8. How do you see the role of IFRS harmonisation in shaping the content of Islamic financial reporting and the way in which Islamic financial reporting is practiced?
9. What do you think about IFIs social reporting? What is the point of emphasis in IFIs reporting? To whom do/should IFIs report?
10. Do you think using IFRS for Islamic financial transactions is legitimate in the eyes of IFIs different stakeholders?
11. How and to what extent do companies claiming their compliance to Islamic principles take into consideration the principles of Islamic social responsibility and provide appropriate reporting on this issue?
12. Do you think that entities labelled 'Islamic' fulfil their obligations toward society and God as they should do according to Islamic rules and teachings?

13. Are the contemporary CSR requirements relevant to the Islamic principles of accountability and social responsibility?
14. Let's imagine that we have developed a comprehensive system for Islamic financial reporting. If you were given the opportunity to choose between this system and the contemporary accounting system based on IFRS, what would you choose to apply when it comes to Islamic transactions? Why?
15. What is your opinion about the expertise of accountants in reflecting the Islamic nature of transactions in the annual reports? Do you think they are well trained and experienced in this domain?
16. How do you see the influence of western based accounting education on Muslim accountants, auditors and standard setters in Islamic countries/in Malaysia? Do you think the conventional accounting background of accountants, audit firms and standards setters and their familiarity with IFRS plays a role in promoting IFRS application on Islamic based transactions instead of developing separate practices and standards?
17. Do you think that in Muslim countries there are competent accounting experts who can develop well prepared standards and guidelines that meet the needs for Islamic financial reporting?
18. Given the conventional accounting embedded thoughts/knowledge of the members of accounting bodies in Islamic countries, to what extent do you think that those members are able to develop a financial reporting framework that well meets Islamic financial reporting needs and attains Islamic principles and values?
19. To what extent do you think that power relations and the viewpoints of those who are in the top hierarchy in the accounting regulatory bodies would play a role in shaping the accounting practices and regulations in that country?

II. Questions specific to the context of AAOIFI (applied to participants who were involved or knowledgeable in the context of AAOIFI)

1. AAOIFI was established in 1991. Can you please tell me the story behind AAOIFI establishment? What were the circumstances and motivations behind the establishment of AAOIFI at that time? What was exactly the objective of AAOIFI when established?
2. Could you please provide me with an overview on the process of setting Islamic accounting standards in AAOIFI? What's the starting point when setting standards? Is it the commonly used accounting practices and standards or Sharia rulings? What do you think about AAOIFI's approach for Islamic financial reporting standardisation?
3. To what extent do you think the AAOIFI standards incorporate religious ruling? Do you think that the AAOIFI's current standards are truly derived from/comply with Islamic principles?
4. To what extent you think AAOIFI has succeeded in developing standards that meet Islamic financial reporting needs? How do you evaluate the content of their standards?
5. To what reason do you attribute the limited acceptance of AAOIFI accounting standards? Do you think that the conventional accounting background of standards setters and regulators in Islamic countries and their familiarity with IFRS play a role

in promoting and giving preference to IFRS application on Islamic financial transactions instead of following AAOIFI's standards?

6. How does AAOIFI promote its approach for regulating and setting standards for Islamic financial reporting? How does AAOIFI promote its standards? To what extent do you think AAOIFI has succeeded in promoting its approach and its standards?
7. How do you describe the relationship between AAOIFI and IFIs? Do IFIs make pressure on AAOIFI/MASB/accounting regulatory bodies to follow certain practices and standards?
8. How do you describe the relationship between AAOIFI and the central banks and accounting bodies in different countries? Do these bodies play a role directly or indirectly in influencing AAOIFI's decision and policies? Is there any pressure from those bodies?
9. Some criticise the recent over-focus of AAOIFI on Sharia standards while ignoring the importance of updating and developing its accounting standards. They think that not being able to update its accounting standards is the main reason behind the limited acceptance of those standards. How do you comment on this? To what reason do you attribute the inability of AAOIFI to update its accounting standards recently?
10. There is a newly announced policy in AAOIFI for bridging the gaps with IFRS. This was not the case in the past. How do you describe AAOIFI position from IFRS now and in the past? To what reason do you attribute this change in AAOIFI position, if any?
11. How do you describe the influence of international accounting harmonisation efforts on AAOIFI's standards and policies? How can AAOIFI's standards fit with the worldwide implementation of IFRS?
12. Recently the IASB has established the Islamic Finance Consultative Group in order to discuss Islamic finance needs. How do you see this initiative?
13. AAOIFI has joined the IASB Islamic Finance Consultative Group. However, it was reluctant to join in the beginning. To what reason do you attribute that initial reluctance? Under what circumstances did AAOIFI join later? Can joining this group be seen as an AAOIFI abandonment of its main objective in developing special standards for IFIs?
14. How do you see the future of financial reporting for Islamic transactions?
15. To what extent do you think that the background and the viewpoint of those who are in the top hierarchy in an organisation like AAOIFI would play a role in shaping its practices, policies and agenda? Can they drive an organisation to work away from its original objectives?
16. How do you describe the performance of those who have historically led AAOIFI over time? How do you see their contribution in shaping AAOIFI's standards and policies?
17. What is the academic and professional background of those who are in charge of preparing and reviewing Islamic accounting standards? Do you think that they have enough knowledge in both accounting and Shariah principles in order to best cater for Islamic financial reporting needs?

18. Do you think that social reporting has been accommodated properly in AAOIFI's standards?
19. In your opinion, to what extent do AAOIFI standards contribute in addressing the requirements of social reporting from an Islamic perspective?

III. Questions specific to the context of Malaysia/MASB (applied to participants who were involved or knowledgeable in the Malaysian context)

1. Can you please provide me with an overview on the MASB project for developing Islamic accounting standards? What were exactly its objectives? Who initiated that project? Under what circumstances was that project initiated? How did that project work? What were the challenges faced by that project? What is the alternative for this project now? Is this alternative adequate?
2. Who took the decision for abandoning the MASB project at that time? What were the reasons behind ceasing the MASB project for developing a separate set of Islamic accounting standards? What was the turning point in that project?
3. To what reasons do you attribute the frequent historical changes in the MASB strategies in relation to Islamic financial reporting standardisation?
4. It seems to me that serious steps toward applying IFRS on Islamic transactions have started since 2009 by issuing the statement of principles that requires the implementation of conventional standards to Islamic transactions. Do you think that the appointment of a new team at that time resulted directly or indirectly in changing the MASB strategy toward Islamic financial reporting?
5. What was the governmental attitude (e.g. Bank Negara Malaysia) from these changes? Do regulatory bodies and the central bank make pressure on the MASB to follow certain practices and standards? How do you describe the relationship with the BNM?
6. Do you think the general perception about the necessity of developing special Islamic accounting standards has changed over time? How/Why?
7. What makes a priority for the accounting regulatory bodies in Malaysia in relation to Islamic financial reporting? Is it to achieve harmonisation with International accounting standards or to address Islamic financial reporting needs?
8. Do you think that MASB cannot/ should not totally depart from the conventional accounting practices?
9. According to the MASB, the Malaysian current approach is to work in cooperation with the IASB to accommodate Islamic financial reporting needs. What do you think about this approach? Is it feasible? Do you think the IASB would take Islamic needs into consideration in its standards?
10. How does using IFRS for reporting Islamic financial transactions can be justified in your opinion?
11. How does the MASB justify and promote its current approach for regulating Islamic financial reporting? Has the MASB succeeded in promoting its approach? Is there any counter-argument in the field?
12. Do IFIs make pressure on the MASB to follow certain practices and standards? Do IFIs in Malaysia support the MASB current approach? Why?
13. Have you received feedback from practitioners or IFIs accounting departments regarding the MASB current approach? What is the content of such feedback?

14. What do you think about the current IFIs financial reporting practices? Do IFIs reflect the characteristics of Islamic financial products/transactions properly?
15. How do you see the role of big audit firms in shaping the accounting and reporting practices in Malaysia?
16. Do you think using IFRS for Islamic based transactions is legitimate in the eyes of IFIs different stakeholders in Malaysia?
17. How do you see the future of Islamic financial reporting? Is there any potential for reviving the Islamic financial reporting standardisation project?

Appendix D: List of Documents

Document Code	Title	Link	Notes
FAS1	Financial Accounting Standard No.1: General Presentation and Disclosure in Financial Statements of Islamic Banks and Financial Institutions		
AAOIFI-D1	Introduction of the Accounting, Auditing and Governance Standards Book (2010)		
AAOIFI-D2	Conceptual Framework for Financial Reporting by Islamic Financial Institutions (2010)		
AAOIFI-D3	AAOIFI Secretary General's Foreword – Dr. Hamed Hassan Merah- Accounting, Auditing and Governance Standards for Islamic Financial Institutions (2015)		Standards book (2015)
AAOIFI-D4	AAOIFI Secretary General's Foreword – Dr. Mohamad Nedal Alchaar - Accounting, Auditing and Governance Standards for Islamic Financial Institutions (2010)		Standards book (2010)
AAOIFI-D5	Announcement: AAOIFI Accounting Board held its 3rd Meeting: 2016-11-17	http://aaoifi.com/announcement/%D8%A7%D9%84%D9%85%D8%AC%D9%84%D8%B3-%D8%A7%D9%84%D9%85%D8%AD%D8%A7%D8%B3%D8%A8%D9%8A-%D8%A7%D9%84%D8%AA%D8%A7%D8%A8%D8%B9-%D9%84%D8%A3%D9%8A%D9%88%D9%81%D9%8A-%D9%8A%D8%B9%D9%82%D8%AF-%D8%A7%D8%AC-2/?lang=en	
MASB-D1	Statement of Principles i-1: Financial Reporting from an Islamic Perspective.	http://www.masb.org.my/pdf.php?pdf=SOPi-1_15Sept09.pdf&file_path=pdf	
MASB-D2	Financial Reporting from an Islamic Perspective.	http://www.masb.org.my/pages.php?id=28	This document/link includes information provided by the official website of the MASB under the name of Financial Reporting from an Islamic Perspective
MASB-D3	Technical Release i-3: Presentation of Financial Statements of Islamic Financial Institutions.	http://www.masb.org.my/pdf.php?pdf=TRi-3_15Sept09.pdf&file_path=pdf	After withdrawing FRS i-1. The remaining guidance in FRS i-1 not found in other standards was transferred to TR i-3.
MASB-D4	MASB Chairman's Statement 2009	http://www.masb.org.my/pages.php?id=83	

MASB-D5	MASB Chairman's Statement 2010	http://www.masb.org.my/pages.php?id=84	
MASB-D6	MASB Chairman's Statement 2011	http://www.masb.org.my/pages.php?id=85	
MASB-D7	MASB Chairman's Statement 2012	http://www.masb.org.my/pages.php?id=86	
MASB-D8	MASB Chairman's Statement 2013	http://www.masb.org.my/pages.php?id=87	
MASB-D9	MASB Chairman's Statement 2014	http://www.masb.org.my/pages.php?id=88	
MASB-D10	Press Release: MASB to help develop Islamic accounting standards (14 Nov 2000)	http://www.masb.org.my/press_list.php?id=132	
MASB-D11	Press Release: MASB drafts four Islamic accounting standards (4 March 2004)	http://www.masb.org.my/press_list.php?id=102	
MASB-D12	Press Release: MASB to unveil 4 new Islamic accounting standards (14 Apr 2004)	http://www.masb.org.my/press_list.php?id=103	
MASB-D13	Press Release: MASB issues accounting for Islamic financial transactions - zakat and Ijarah (10 April 2006)	http://www.masb.org.my/press_list.php?id=80	
MASB-D14	Press Release: MASB exposes IFRS-compliant standards (28 June 2011)	http://www.masb.org.my/press_list.php?id=37	
MASB-D15	Press Release: MASB issues internationally compliant accounting framework and new FRSs (19 November 2011)	http://www.masb.org.my/press_list.php?id=36	
MASB-D16	Press Release: Dato' Mohammad Faiz Azmi has been appointed as the new chair to Islamic Finance Consultative Group of the International Accounting Standards Board (30 August 2016)	http://www.masb.org.my/press_list.php?id=269	