

Accountability and Islam

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Abstract

Accounting in the broad sense is central to Islam, since accountability to God and the community for all activities is paramount to a Muslim's faith. Based on *shari'a* – the divine law of Islam – a comprehensive ethic can be formulated specifying how commerce should be conducted, how business should be organized and governed, and how financial reporting should be made. Such obligations pose distinctive challenges to the implementation of systems of accountability under Islam, and these issues, along with the inevitable gap between the ideal and the reality, are explored in this paper.

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THE ESSENCE OF ACCOUNTABILITY

One of the primary objectives of an accounting system is to aid accountability. Those in charge of economic resources must give account of their stewardship, irrespective of whether the transactions and resources in question are those of a government organization or a private sector entity. This stewardship function has been a regular feature of organized human activity from the earliest times (Brown, 1905; Brown, 1962; Stone, 1969). Originally specified at the level of the individual property owner, nowadays accountability would be described in terms of an accounting by management (either public or private) to assist in the efficient allocation of resources by providing information, either for *ex post* monitoring of performance or for *ex ante* decision-making by those responsible for making investment decisions (Whittington, 1992).

Yet accountability also has broader economic and social purposes and objectives and no more so than under Islam in which economics, politics, religious and social affairs – especially accounting – fall under the jurisdiction of the divine law of Islam – the *shari'a*. The literal meaning of the Arabic word *shari'a* is 'the way to the source of life' and, in a technical sense, it is now used to refer to a legal system in keeping with the code of behaviour called for by the Holy Qur'an and the *hadith* (the authentic tradition). Calder (2002: 1981) defines Islamic law as 'a hermeneutic discipline which explores and interprets revelation through tradition'. The Holy Qur'an (the revelation) and *sunna* (the Prophet's example as recorded in *ahadith* or the traditions), define clearly what is true, fair and just, what are society's preferences and priorities, what are the corporate roles and responsibilities, and also, in some aspects, spell out specific accounting standards for accounting practices.

In the Holy Qur'an, for example, the word *hesab* is repeated more than eight times in different verses (Askary and Clarke, 1997). *Hesab* or 'account' is the root of accounting, and the references in the Holy Qur'an are to 'account' in its generic sense, relating to one's obligation to 'account' to God on all matters pertaining to human endeavour for which every Muslim is 'accountable'. All resources made available to individuals are made so in the form of a trust. Individuals are trustees for what they have been given by God in the form of goods, property and less tangible 'assets'. The extent to which individuals must use what is being entrusted to them is specified in the *shari'a*, and the success of individuals in the hereafter depends upon their performance in this world. In this sense, every Muslim has an 'account' with *Allah*, in which is 'recorded' all good and all bad actions, an account which will continue until death, for *Allah* shows all people their accounts on their judgement day (S4:62). This adds an extra dimension to the valuation of things and deeds compared to those already embodied in conventional financial statements.

Thus the basic similarity between *hesab* in Islam and 'accounting' lies in the responsibility of every Muslim to carry out duties as described in the Holy Qur'an. Similarly, in a business enterprise, both management and the providers of capital are accountable for their actions both within and outside their firm. Accountability in this context means accountability to the community (*umma*) or society at large. Muslims cannot, in good faith, compartmentalise their behaviour into religious and secular dimensions, and their actions are always bound by the *shari'a*. Islamic law thus

embodies an encompassing set of duties and practices including worship, prayer, manners and morals, along with commercial transactions and business practices.

BUSINESS PRINCIPLES

Muslim ought to conduct their business activities in accordance with the requirement of their religion to be fair, honest and just toward others. Business activity, in consequence, must be broadly inspired and guided by the concepts of *tawhid* (oneness and unity of God), *ihsan* (goodness), and *tawakkal* (trust in God) while regulated, within those boundaries, by a legal framework committed to values such as justice and the ban on *riba* (interest) and the prohibition of *ihtikaar* (hoarding) and other malpractices. In fact, a large number of Islamic concepts and values define the extent and nature of business activity (Rahman, 1994). There are many positive values such as *iqtisad* (moderation), *adl* (justice), *ihsan* (kindness par excellence), *amanah* (honesty), *infaq* (spending to meet social obligations), *sabr* (patience) and *istislah* (public interest). Similarly there are a number of values which are negative, and thus to be avoided: *zulm* (tyranny), *bukhl* (miserliness), *hirs* (greed), *iktinaz* (hoarding of wealth) and *israf* (extravagance). Economic activity within the positive parameters is *halal* (allowed and praiseworthy) and within the negative parameters *haram* (prohibited and blameworthy) which has to be moderated. Production and distribution which are regulated by the *halal-haram* code must adhere to the notion of *adl* (justice). Collectively, these values and concepts, along with the main injunctions of the Holy Qur'an, provide a framework for a just business and commercial system.

Trade and commerce

Just as Islam regulates and influences all other spheres of life, so it also governs the conduct of business and commerce. Many verses in the Holy Qur'an encourage trade and commerce, and the attitude of Islam is that there should be no impediment to honest and legitimate trade and business, so that people earn a living, support their families and give charity to those less fortunate. Nevertheless, Muslims should not allow their business activities to dominate so that making money becomes a first priority and they neglect religious duties; in particular, all trading must cease during the time of the Friday congregational prayer. Nor must the future be overlooked : upon death one is expected to leave behind a family and descendants who perpetuate the law of God, a permanent contribution which will benefit the community, and a source of income for the poor and the needy and/or to generate job opportunities for future generations.

Work and production

Islam requires every individual to work and to produce. Prophet Muhammad teaches: 'Never be lazy and helpless' (Rahman, 1994:9). There is no good in an individual who does not want to produce and earn money. To Muslims, the unproductive hand is an unclean impure hand. The route to economic achievement is hard work and assumption of risk. It is not through inheritance. That is why Islamic law (by a detailed description in the Holy Qur'an) defines exactly how the estate is distributed after death. An individual's power of testamentary disposition is basically limited to one-third of the net estate (ie. the assets remaining after the payment of funeral expenses and debts) and two thirds of the estate passes to the legal heirs of the deceased under the compulsory rules of inheritance, providing for every member of

the family by allotting fixed shares not only to wives and children, but also to father and mothers.

Thus what Abbas Ali (2005, p52) describes as the 'Islamic Work Ethic', implies that work is a virtue in light of a person's needs, and is a necessity for establishing equilibrium in one's individual and social life (Nasr, 1984). The centrality of work and deed in Islamic thinking is succinctly addressed in the Holy Qur'an (6:132): 'To all are degrees (or ranks) according to their deeds.' In this context, useful work is that which benefits others and society. Subsequently, those who work hard are acknowledged and are rewarded.

Consumption

Pursuing economic activities, however, must be based on moral and legitimate foundations. Islam preaches moderation and a balanced pattern of consumption. Luxury and over-consumption is condemned, as is poverty. Every being has a minimum requirement to be able to live in dignity. The system is balanced out through the act of *zakat* (almsgiving as an essential part of the system and faith). If this source is not enough, the Islamic government would apply a temporary tax on the rich and affluent to balance the budget as a religious duty (*fard kefaya*).

Social responsibilities

Individuals are expected to feel socially responsible for others in the community. One cannot enjoy life while others cannot. In general, the aim of the Islamic economic system 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. Islam also emphasises the welfare of the community over individual rights. Where Muslims live under a non-Islamic Government, *zakat* must still be collected from the Muslims and spent for the good of society.

Business ethics

Under Islam, the paramount rule in business is honesty and fair dealing (Hussain, 1999). A Muslim business person should therefore be a person of high moral values who would not set out to deceive or exploit others. Monopolies and price fixing are prohibited. Generally the market should be free and not subject to manipulation. This is so that people will not be exploited by the more powerful in business transactions. Those engaging in trade and commerce should behave equitably. Vendors of goods should not hide any defects in them, nor lie about the weight or quality of the goods. Dealing in stolen goods is prohibited. Hoarding is forbidden when the intention is to force up the price in times of scarcity and so profit at the expense of others.

Products should be useful and not harmful as defined in the Holy Qur'an and Islamic law. Trading and investment can only be undertaken in activities which are not prohibited in Islam (prohibitions include gambling, alcohol, pornography and anything that is harmful to society). Agriculture and employment is encouraged as is dignity of labour, and the prompt payment of a fair wage.

Property

While God is the absolute and eternal owner of everything on earth and in the heavens, man has been appointed His vice-regent on earth and entrusted with the

stewardship of God's possessions. Ownership of property is therefore a trust (*amanah*) to be enjoyed conditionally so long as man follows the *shari'a* and remains worthy of the trust. People have the right to use natural resources for the benefit of mankind. But earth is a trust from God and should be looked after by those who have charge of it and who will ultimately be accountable to God for their actions.

Rights to property in Islamic law may be divided into three categories - public property, state property and private property (Normani and Rahnama, 1995). Islam respects private property and the right of ownership is protected. Property may be acquired through inheritance, gift, purchase or by taking up common property and/or things on it.

Transactions and contracts

The general principle of the Islamic law of contract is contained in the Quranic verse: 'O you who believe! Fulfil all obligations' (S5.1). The definition of contract (*al-'uqd*) is similar to that in the common law, but is wider in that it includes dispositions which are gratuitous as well as endowments and trusts. A contract consists of an agreement made between two or more people. Islamic law provides freedom of contract, so long as the terms do not conflict with the *shari'a*. In particular, it permits any arrangement based on the consent of the parties involved, so long as the shares of each are contingent upon uncertain gain and are a function of productive transformation of resources.

The basic principles of the law are laid down in the four root transactions of (1) sales (*bay*), transfer of the ownership or corpus of property for a consideration; (2) hire (*ijâra*), transfer of the usufruct (right to use) of property for a consideration; (3) gift (*hiba*), gratuitous transfer of the corpus of property, and (4) loan (*ariyah*), gratuitous transfer of the usufruct of property. These basic principles are then applied to the various specific transactions of, for example, pledge, deposit, guarantee, agency, assignment, land tenancy, *waqf* foundations (religious or charitable bodies), and partnerships, one of the main forms of business organisation, and the basis of much Islamic financing (Lewis and Algaoud, 2001; Hassan and Lewis, 2006). The other main type of enterprise is, of course, the modern corporation, and Islamic principles provide a clear conception as to how companies should be organized and governed.

BUSINESS ORGANIZATION

When Muslim countries emerged from World War II, the economic organization and business and commercial practices in operation were overwhelmingly those inherited from the Western colonial powers. Islamic economics developed as a social discipline in response to this environment, with the aim of establishing or restoring Islamic authority in areas where Muslims increasingly were falling under the sway of Western ideas (Maudadi, 1975 [1947]; Ahmad, 1980; Nasr, 1994; Kuran, 1995). How firms are organized, directed and controlled, in short what is now called corporate governance, is one aspect of this broader agenda (Lewis, 2005). Yet, despite considerable interest in the topic of corporate governance recently by organizations such as the Islamic Development Bank (Chapra and Ahmed, 2002) and AAOIFI (2003), there is not even as yet a unified expression in Arabic to represent the meaning of corporate governance (Sourial, 2004).

By contrast, the English terminology has clear origins. The word 'governance' comes from the Greek word *kybernan*, meaning to 'steer', 'guide' or 'govern', which then passed etymologically from the Greek to the Latin *gubernare* and the Old French *governer*. At its broadest, governance – the act of governing – refers to the relationship between the governors and the governed, such as that between the government and the people, and has at its basis the decision-making powers ceded by individuals to those in authority so that the common interests of society can be served.

This definition brings out the point that governance in all manifestations is essentially about decision-making: by whom, for whom, and with what resources. These three dimensions of decision-making apply irrespective of whether we are examining the governing of a nation or, as in this case, the governance of an organization such as a business enterprise.

While there may not be in Islam official juristic recognition of the concept of corporate governance as such, an examination of the principal legal sources of the Holy Qur'an and *sunna* reveals clear guidelines about decision-making processes in an Islamic context. In particular, Islamic law and its distinctive Islamic institutions imply very different implications for decision-making than conventional approaches. Islamic corporate governance necessarily has a wide commission, with obligations extending beyond shareholders, financiers and management to suppliers, customers, competitors and employees, embracing the spiritual as well as the temporal needs of the Islamic community. Specifically, the concepts of *shura*, *hisba* and the *shari'a* supervisory process and religious audit establish the basic building blocks of a system of Islamic corporate governance and business organization. This framework becomes apparent when we consider the three dimensions of decision-making: by whom, for whom, and 'with what' resources and thus 'to whom' accountability is due for the use of resources.

By whom. The Holy Qur'an is very clear on the issue of 'by whom'. Consider the following verses:

'And consult them on affairs (of moment). Then, when thou has taken a decision, put thy trust in Allah.' (Al-Imran 3:159)

'Those who respond to their Lord, and establish regular prayer; who (conduct) their affairs by mutual consultation; Who spend out of what We bestow on them for sustenance.' (Ash-Shura 42:38)

In fact, according to The Presidency of Islamic researches in the commentary on Sura Ash-Shura, 'consultation' is the key word of the Sura, and suggests the ideal way in which a good man should conduct his affairs. The commentary goes on to note that this principle was applied to its fullest extent by the Prophet Muhammad in his public and private life, and was fully acted upon by the early rulers of Islamic society. The *Shura* or Consultative Council had its origins in pre-Islamic times where it comprised a council of tribal elders. Originally, it constituted an informal forum of deliberation where decisions were arrived at when discussing new problems. During these deliberations, the problems in question were thrown open for general discussion. Members of the council were invited to express their considered personal opinions,

and these opinions were thrashed out until a consensus of opinions was reached. Islam introduced improvements in accordance with the moral principles enunciated by the Holy Qur'an (Stork, 1999).

Thus the basic message of Sura Ash-Shura, to 'live true in mutual consultation and forbearance, and rely on Allah', contains the essence of governance from an Islamic perspective. Those who wish to serve Allah must ensure that their conduct in life is open and determined by mutual consultation between those entitled to voice, for example, in affairs of business, as between partners or parties interested, and in state affairs as between rulers and ruled. Since the Holy Qur'an clearly mandates that any decision involving more than one party requires access and consultation on the basis of principles of *shura*, Islam encourages the participants to work together freely and frankly when arriving at decisions (Shaikh, 1988). Institution of a shuratic decision-making process explains how decision-making in business and other activities can meet Islamic moral values. Decision-making is an important trust from God, and Islam demands from those holding this trust to engender truthfulness, justice, consultation and a spirit of consensus-seeking among participants during group decision-making. On the basis of *shura*, leaders must encourage others to participate in decision-making. An employee would be expected to contribute his or her knowledge to the formulation and implementation of the organizational vision, and consultative procedures should be applied to all affected ie shareholders, suppliers, customers, workers and the community (Baydoun, Mamman and Mohmaud, 1999).

For whom. 'For whom' is straightforward in Islam because the starting points are from Allah. The ultimate ends of business and economics, indeed any human activity, are to Allah, and the means employed should not deviate in any way from the holy law of Islam, the *shari'a*. A code of approved social behaviour was developed by the Prophet Muhammad, and his companions were later appointed, when the Islamic community expanded in the early days of the Islamic state, to institutionalise, perpetuate and preserve the codes and ensure compliance with the principles of *shari'a*. Under the early Abbasids (750 CE onwards), the institution of *hisba* was established to ensure compliance with the requirements of *shari'a*. An office of local administration, the office of the 'inspector of the market', continued into Islam from Byzantine times (Schacht, 1964). Its holder was given the title *muhtasib* (and his office called *hisba*), and the functions were Islamicised by entrusting its holder with discharging the collective obligation in the Holy Qur'an to 'encourage good and discourage evil', making the *muhtasib* responsible for enforcing Islamic behaviour in terms of community affairs and behaviour in the market, such as accuracy and honesty in business dealings. Duties traditionally carried out by the *muhtasib* include: correct weights and measures, fair trading rules, checking business frauds, auditing illegal contracts, keeping the market free, and preventing hoarding of necessities (Abdul Rahman, 1998).

Hisba, like the institution of *shura*, is a long-standing tradition of Islamic society that can be seen to represent a core element of Islamic corporate governance. The role of the institution became significant during the expansion of the Islamic state as the number of business and commercial activities expanded, exemplifying the nature and extent of the adoption of an ideal system of sacred law in early Islam. To what extent the office could be revived in its traditional form is problematical. Nevertheless, the institution of *hisba* survives in terms of the right of every Muslim, irrespective of the

presence or absence of an officially appointed *muhtasib*, to come forth as a 'private prosecutor' or enforcer of Islamic standards of governance (Schacht, 1964:52).

With what and to whom. The third plank of the Islamic corporate governance system is the process of religious supervision to guarantee that all of the enterprise's operations, contracts and procedures conform with the Islamic moral code. To a Muslim, all resources are God-given, and ownership of wealth belongs to God. Individuals are only trustees and it is to God that accountability is ultimately due. The purpose of the religious audit is to assure both insiders and outsiders that God's law are being followed by the firm in its business dealings. The processes involved in religious supervision are illustrated most clearly in the case of Islamic financial institutions (Algaoud and Lewis, 1999), but the governance principles operate across the full range of business activities. The functions of the religious auditors, as spelt out in the organization's articles of association, are threefold. First, the religious supervisors give advice to the board and the management about the religious acceptability of the firm's contractual arrangements and new product development. Second, an independent report is provided to inform shareholders as to the compliance of management with Islamic principles and to the extent that the business is run Islamically. Third, there is an audit involved with the special almsgiving levy, *zakat*, to establish that the *zakat* fund is being correctly assessed and properly administered and distributed. In these various ways, the religious supervisory process will testify that the articles of association, stipulating that the organization run its business in accordance with Islamic law, are in fact met.

FINANCIAL REPORTING DUTIES

Shuratic decision-making procedures provide a vehicle for ensuring that corporate activities and strategies are fully discussed and that a consensus-seeking consultative process is applied within the firm and across shareholders, employees, suppliers, customers and other interested parties. The institution of *hisba* offers a framework of social ethics, relevant to monitor the corporation, with the objective to obligate the correct ethical behaviour in the wider social context. It also empowers individual Muslims to act as 'private prosecutors' in the cause of better governance by giving them a platform for social action. The third pillar of the system is the discipline provided by Islamic religious auditing, which is a device to solicit juristic advice, monitor compliance with Islamic precepts and collect *zakat*. This extra layer of auditing and accountability for resource use ensures that the enterprise operates as an Islamic concern.

Yet no system of governance, however well conceived, will influence organisational behaviour unless it is embedded in an appropriate ethical or moral climate and the principals involved in decision-making set the pattern in the priorities and attitudes. The same is true of the interface between the firm and the general community as reflected in the financial reporting obligations needed for full accountability to the *umma*. In an Islamic society, the development of accounting theory should be based on the provisions of Islamic law along with other necessary principles and postulates which are not in conflict with Islamic law. It goes without saying that Islamic law has very clear views on the basic principles as to how financial reporting and accounting practice should be undertaken in terms of objectives based on the spirit of Islam and its teachings (Lewis, 2001).

Disclosure

If the purpose of accounting information is to serve the public interest, it follows that in an Islamic context the *umma* has the right to know about the effects of the operations of the organisation on its well-being and to be advised within the requirements of *shari'a* as to how this has been achieved. Accountability is thus interpreted as being, first and foremost, accountability to God through making information freely available. Truthful and relevant disclosure of information is important, in different aspects of Islamic life. There are responsibilities such as paying *zakat*, the calculation of which requires disclosure of the worth of assets and liabilities in terms of the religious obligation to succour the poor, for it indicates a Muslim's capacity to do so. Full disclosure is necessary for predicting future obligations and assessing investment risk.

Six verses in the Holy Qur'an refer to 'relevance'. One meaning of the 'relevance' referred to is disclosure of all facts (S2:71) '... Now hast thou brought the truth ...' also, based on (S4:135) 'O ye who believe! Stand out firmly for justice ...'. Essentially, these are directives to call it 'how it is' in all things. Financial information is relevant from an Islamic viewpoint only when it includes the attribute of 'truth', and fair and accurate disclosure of the matters at hand. On this basis, doubt must arise whether compliance with the conventional accounting practice of being 'conservative' regarding asset valuation and income measurement can conform with *shari'a*, any more than would deliberate optimism and overstatement.

Materiality

Adequate disclosure requires that a financial statement should contain all material information necessary to make it useful to its users, whether it is included in the financial statements, the notes accompanying them, or in additional presentations. Since the Holy Qur'an discloses the truth and best way for living in the world (S5:16), so disclosure of all necessary information for the accomplishment of faithful obligations and the making of economic and business decisions consistent with that ethos is the most important tenet of an Islamic accounting system.

Sura 2:282-3 in particular puts commercial morality on the highest plane as regards the bargains to be made, the evidence to be provided, and the doubts to be avoided. Understandable information is an accountability necessity applicable to financial information in an Islamic accounting framework, in which the information is not to deceive the user, nor decrease understanding in such a way as to lead to a wrong decision. By decreeing that financial information should be disclosed part by part, materiality of financial affairs should be obvious in the context of the disclosure. In general, the materiality of accounting information in an Islamic framework is considered relevant if it is related to *shari'a* requirements.

Record keeping

According to the Holy Qur'an, followers are required to keep records of their indebtedness:

'Believers, when you contract a debt for a fixed period, put it in writing. Let a scribe write it down fairly ... and let the debtor dictate, not diminishing the sum he owes ...' (S2:282).

Islam thus provides general approval and guidelines for the recording and reporting of transactions. Underpinning Islamic belief is the requirement that doubt and uncertainty be removed from inter-personal engagements. In business affairs, trading and the like, it clearly is evident that all parties' rights and obligations are to be fully documented for verification and exploration. Verses place an emphasis on recording material credit loans and transactions, and advise that these transactions should be signed by debtors (to acknowledge their indebtedness and the amount thereof), the ultimate in verification processes.

Reliability

Askary and Clarke (1997) identify nineteen verses in the Holy Qur'an placing emphasis on the reliability of matter [2 (283), 3 (122, 159), 4 (58, 81), 7 (89), 8 (2, 27, 49, 61), 12 (11, 64, 66), 23 (8), 27 (39), 33 (72), 65 (3), 70 (32), 81 (21)]. As with every other aspect of Islamic secular life, reliability extends into the area of accounting. If published financial information is unreliable, many followers will be unable to accomplish their religious responsibilities, they will be unable to assess their capacity to assist the disadvantaged, or their capacity to pay *zakat*. If the managers of business entities are to be honest to the business entities' owners, *Sura* 4:58 indicates that they must produce true and complete, reliable, financial disclosure for them. This verse places an emphasis on making over trusts to their owners ('Allah doth command you to render back your Trusts to those to whom they are due ...'). In other verses, there is an emphasis on the need to fulfil obligations.

Transparency

Reliable information must also be presented correctly and fully, including details of all the transactions undertaken. *Sura* 11:84-85, for example, says '... give full measure ...'. True disclosure of financial facts, and the provision of them without any deceit or fraud in order to satisfy users' requirements, is thereby essential for accomplishing such obligations and to facilitate the making of decisions on investment and business matters.

Balance sheets

Islamic financial statements must show the financial impact of financial transactions and other consequences of Islamic economic activities. Accurate changes in the financial position must be determinable from the balance sheet, along with how those changes arose from the income statement. Under Islam, the elements of financial position would include all items which are subject to financial evaluation, assets, liabilities and the residual benefits, based on the Holy Qur'an. Many verses in the Holy Qur'an deal with various aspects of property and assets. An Islamic asset includes all valuable property resulting from previous events belonging to the owner. Such an asset should not be usurped and if obtained in a lawful (*halal*) way has economic benefits for its owners. Lawful acquisition is a critical aspect of 'asset' in this context; rights to interest income are never recognised. Liability is defined in Islam either as a faithful obligation, or any debt to other persons or business entities. Again, in respect to both, the paying of interest is prohibited under the prohibition of *riba* (Algaoud and Lewis, 2006). Finally, equity in residual benefits is obtained

directly from the financial evaluation and contrasting assets and liabilities. Legality is again an issue : *sura 2:279* decrees that Muslim equity should not be mixed with unlawful (*haram*) properties.

THEORY AND REALITY

How are we to reconcile these religiously-derived principles with the practical reality of business and commercial life in Muslim countries? If Islamic principles were applied, business organization would be marked by the concept of *shura* and the application of *shuratic* decision-making processes involving consultation and consensus-seeking, along with the institution of *hisba* providing a framework of social ethics and empowering individual Muslims to act as 'private prosecutors' in the cause of better governance and social action.

This is the ideal. The reality is probably closer to what Abbas Ali (2005, p172) calls a 'sheikocracy': hierarchical authority, rules and regulations contingent on the personality and power of the individuals who make them, subordination of efficiency to personal relations and personal connections, indecisiveness in decision-making, informality among lower level managers and a generally patriarchal approach. Nepotism is often evident in selecting the upper-level managers. Tradition plays a significant role in the life of individuals and groups. Extended families, friendships and personal relationships reinforce group orientation and duties. Class origin and kinship is significant.

The Arab executive lives in a society where family and friendship remain important and prevalent factors even in the functioning of formal institutions and groups. Consequently ... the Arab executive relies upon family and friendship ties for getting things done within his organization and society (Muna, 1980, p12).

Such divergences between theory and practice has resulted in two responses (at least) among Muslims. One is a fatalistic acceptance of the *status quo*. Ali considers that Muslims, and Arabs in particular, hold two sets of identity. One is immediate, social and spatially particular. The other is historical, cultural and global (Ahmad, 1984). Violation of particular principles, cherished in the early days of Islam, is common because the basic aspects of the reality of Arab politics and organizations are the personalized nature of authority, tribalism, and fluidity and alternating fission and fusion of group coalitions and alliances (Ali, 2005, p124).

He argues that the two identities are reconciled by the Islamic equivalent of 'doublethink'.

'Doublethink, a term used by George Orwell [in the classic work *1984*] for holding two contradictory beliefs simultaneously, in Arabia and other Muslim countries, depicts a condition where the ideal (Islamic principles) is held officially, but violated in practice. At the organizational level, this situation produces what Child (1976) calls mental cheating. Managerial behaviour, which remains strictly within the framework of the authoritarian and hierarchical structure of the organization, seeks to prepare subordinates to accept decisions already made by managers and to

improve the individual manager's images in a society where Islamic and tribalistic values still have some important influence. The intention of managers, in this case, is not to create a situation of real consultation, but rather to create a feeling of consultation ' (Ali, 2005, p122).

The other response is what Deepak Lal (1998) refers to as the call to purify Islam from all the corruptions that have crept in over the centuries into Muslim lives, and thereby recreate the 'golden era' of Islam. The period of the four rightly guided caliphs (Abu Bakr, Omar ibn-al-Khattab, Othman and 'Ali) is generally regarded as an ideal time, when Islam was practised perfectly and, with the dramatic conquests and the expansion of the Islamic state, it appeared that 'God smiled on Muslims' (Lal, p50).

The difficulty with this response is the potential for perpetual disappointment. As Lindholm (1996) observes:

'In the memory of Muslims ever since, this period appears as a divine ordered social formation flowering under the benign regime of the community's duly elected representative — the Caliph.'

'Muslim thought is saturated with longing for a return of this idealized era when ordinary men and women are imagined (in the soft glow of collective memory) to have acted together selflessly under the leadership of just and divinely guided Caliphs to realize the will of Allah in the world of human beings - a realization validated concretely through the vast power and wealth acquired by the victorious army of the faithful' (p80).

Even allowing for 'apocryphal exaggeration' (Atiyah, 1955, p36) and some less than ideal circumstances ('three of the four caliphs were assassinated', Watt, 1996, p40), the hold of this period of history over Muslim thinking remains strong, and results in a very different worldview from that held by most Christians. As Lindholm remarks:

'Remembering their glorious world-conquering past, Muslims have not pictured the 'City of God' in the Christian manner as beyond ordinary ken, achieved in the radiant future by faith and renunciation. For them, God's mandate was actually realized in historical reality, under the authority of the Prophet himself and the four pious rulers after him' (p79).

'Recalling their millennial past, the Muslim devout, unlike their Christian cousins, have never inwardly consented to the disjuncture between the religious experience of the community of believers (equal before God, led by the Prophet and his deputies) and the reality of power-seeking secular rulers prone to political intrigue and the use of physical coercion' (pp80-1).

These differences may be reflected in responses to public policy issues relevant to business and commercial affairs. In terms of the principles outlined in earlier sections of this paper, the distinctive characteristics of Islamic economics are that it is Godly, ethical, humanly, and moderate and balanced (Khaliffa,2003). Business should reflect

all of these four characteristics, and be conducted by Muslims in accordance with the requirements of their religion to be fair, honest and just towards others. One commentator (although not a Muslim) has even drawn attention to the 'sharp practices' of Western companies such as Enron, the 'misdeeds' of auditing firms such as Arthur Andersen, and what would seem to be an 'immoral core' at the heart of capitalism, which is contrasted with the moral certainty of Islam with respect to business ethics (Wilson, 2003).

However, any claims to a moral high ground must be tempered by the poor record of many Muslim countries in terms of corruption. An earlier article (Iqbal and Lewis, 2002) documented the evidence using the World Bank data base. While some OIC countries such as Kuwait, Malaysia, Qatar fall into the highest quartile on the corruption index (indicative of a strong control of corruption), a large number fall into the first and second quartiles (indicating poor control of corruption). In terms of the Transparency International's Corruption Perception Index for 2003, the highest ranking OIC countries are Oman (ranked 26), Bahrain (27) and Qatar (32), while the lowest ranked Muslim countries are Sudan (106), Indonesia (122) and Bangladesh (133). Further details can be found in the Global Corruption Report (2004).

The Iqbal and Lewis article goes on to compare the Islamic and Western approaches to corruption providing, in the process, the first systematic analysis of corruption in terms of the Islamic intellectual heritage. On this point there can be no misunderstanding: they document that *shari'a* unequivocally condemns corruption as a severe threat to the social, economic and ecological balance. Furthermore, there seems little doubt that the widespread existence of corruption and the continuance of corrupt behaviour in the business community would be corrosive and damaging to any attempts to implement a system of Islamic corporate governance and business organization.

The authors argue that Islam and the West can learn from each other with respect to governance and corruption. Indicative, perhaps, of the Islamic historical view, and the desire for a return to an ideal era inspired by a renewal of faith, Islam views corruption as a moral problem to be fought by developing greater internal fortitude rather than relying on external law enforcement. Most Western researchers, by contrast, consider that corruption is more than a moral issue and, at its core, is a problem of bad governance. Unquestionably, Islamic societies can benefit from the practical stratagems and administrative and civil reforms now emphasized in the Western approach – in short, from better governance. The indices suggest that these approaches do work. Nevertheless, there are going to be some situations where the external constraints are weak. Here the West can benefit from reviving the idea, now largely bypassed, that there is a significant moral and ethical dimension to reducing corruption, needed in such circumstances to stiffen resolve and foster self-restraint.

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