

**THE NATURE OF ISLAMIC ACCOUNTING AND CULTURAL
INFLUENCE ON PERCEIVED USEFULNESS OF
THE ISLAMIC CORPORATE REPORTING:
Perception of Moslem Accounting Academicians in Java**

**Thesis submitted in partial fulfillment of the
requirements for the degree of Master of Science in Accounting**



Name : Dwi Ratmono

NIM : C4C003099

**Master of Science in Accounting
Post Graduate Program University of Diponegoro
Semarang
2005**

**THE NATURE OF ISLAMIC ACCOUNTING AND CULTURAL
INFLUENCE ON PERCEIVED USEFULNESS OF
THE ISLAMIC CORPORATE REPORTING:
PERCEPTION OF MUSLIM ACCOUNTING ACADEMICIANS IN JAVA**

which was prepared and submitted by

Dwi Ratmono

has been retained and declared in front of the reviewers board on August 10, 2005

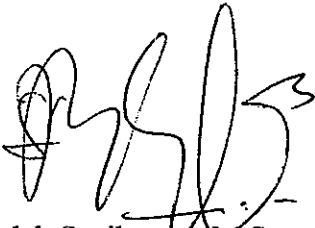
in fulfilling the requirement to be accepted

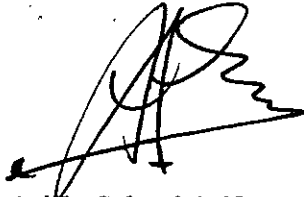
Supervisors



Prof. Dr. Imam Ghozali, M.Com, Akt


Drs. Fuad Mas'ud, MIR

Reviewers Board


Dr. Indah Susilowati, M.Sc.


Dr. Arifin Sabeni, MCom, Hons, Akt

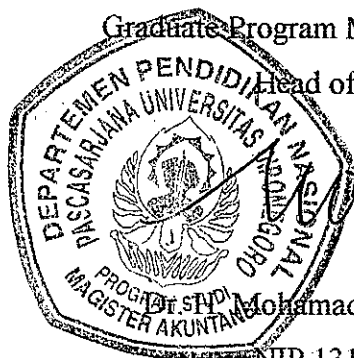

Darsono, SE, MBA, Akt

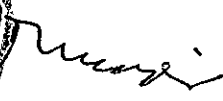
Semarang, August 2005

University of Diponegoro

Graduate Program Master of Accounting

Head of Program




Mohamad Nasir, M.Si, Akt

NIP 131 875 458

DEDICATION

This thesis is dedicated to my mother, for her continued love and support in me. Without her, this project would never have been completed.

ACKNOWLEDGMENTS

I acknowledge with sincere thanks for the encouragement, assistance and cooperation of Prof. Dr. Imam Ghozali, MCom, Akt, Chairman of my Advisory Committee, and I am also thankful to the member of my committee, Drs. Fuad Mas'ud MIR. They have been of great help to me at all times while this thesis was in progress. Their constructive comments and feedback were invaluable assets.

Special thanks to Islamic accounting scholars from International Islamic University Malaysia, Dr. Shahul Hameed, for helping me to get his dissertation freely, and Dr. Maliah Sulaiman, for sending the questionnaire of her dissertation directly to me. Their help was very important in the completion this project.

I am also thankful to Dr. Arifin Sabeni, MCom, Hons, Akt, Dr. Indah Susilowati, MSc, and Drs. Darsono, MBA, Akt, as reviewer board, for their valuable comments on my thesis. I wish to thank to Prof. Retmono for his advice especially in proper wording this thesis. I would also like to thank to my friend, Fuad, SET, MSi, who has contributed both moral and analysis support. I would like to thank Seful Komar, SE, Akt for help me to sending survey instrument out to respondents.

All of my family, provided me with all the moral support I needed, and I am very grateful for their prayers, understanding, and sacrifices during the completion of this thesis. Last, but not least, I am very grateful to Allah SWT, the Most Gracious, Most Merciful.

CERTIFICATION OF ORIGINALITY

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, this study contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree or diploma of a university or other institute of higher learning, except where due acknowledgement is made in the text of the thesis.

Signed

(Dwi Ratmono)

ABSTRACT

The objective of this study is to examine the perception of Muslim Accounting Academicians in Java on the suitability of conventional accounting for Muslim users and Islamic organizations, as well as the objectives and characteristics of Islamic accounting. The other objective of this study is also to test the cultural influence on the perceived usefulness of Islamic corporate reporting model suggested by Baydoun and Willet (1994 and 2000). The Hofstede-Gray's framework was utilized to test the hypotheses related with cultural influences on the perceived usefulness of the Islamic corporate reporting. The questionnaires returned were 115 and 103 of this was usable. A non-parametric test of median was conducted using MINITAB 13 to test the hypotheses related with the nature of Islamic accounting. Meanwhile, to test the hypotheses related with cultural influences on the perceived usefulness of the Islamic corporate reporting, this study utilize the multiple regression analysis. The results showed that Muslim accounting academicians in Java believe that Islamic organizations should follow Shari'ah principles and promote social welfare rather than concentrate on profits. There also seems to be a favourable response to the need for Islamic accounting. Most of the participants agree with the accountability objective of Islamic accounting and support the integrative and holistic nature of Islamic accounting information. The results also showed that Power Distance has the best antecedents in explaining Gray's accounting values. However, the result of this study was similar with Sulaiman's (1997 and 1998) studies, could not explain the antecedents of perceived usefulness of Islamic Corporate reporting.

Key words: conventional accounting, Islamic accounting, Hofstede-Gray framework, Islamic Corporate reporting, perceived usefulness

ABSTRAK

Tujuan penelitian ini adalah menguji persepsi dosen-dosen akuntansi Muslim di Jawa mengenai kesesuaian akuntansi konvensional untuk pengguna Muslim dan organisasi-organisasi Islami serta tujuan dan karakteristik akuntansi Islami. Penelitian ini juga bertujuan untuk menguji pengaruh budaya terhadap kegunaan model pelaporan keuangan Islami yang dipersepsikan seperti yang disarankan oleh Baydoun dan Willet (1994 dan 2000). Kerangka Hofstede-Gray digunakan untuk menguji hipotesis yang berkaitan dengan kegunaan model pelaporan keuangan Islami yang dipersepsikan. Kuesioner yang dikembalikan berjumlah 115 dan 103 di antaranya dapat digunakan. Pengujian non-parametrik median dilakukan dengan MINITAB 13 untuk menguji hipotesis yang berkaitan dengan akuntansi Islami. Sedangkan analisis regresi berganda digunakan untuk menguji hipotesis yang berkaitan dengan pengaruh budaya terhadap kegunaan model pelaporan keuangan Islami yang dipersepsikan. Hasil penelitian menunjukkan bahwa dosen-dosen akuntansi Muslim di Jawa meyakini bahwa organisasi-organisasi Islami seharusnya mengikuti prinsip-prinsip Syariah dan mendukung kesejahteraan sosial, dan tidak hanya berkonsentrasi pada laba saja. Sebagian besar responden menyatakan adanya kebutuhan akuntansi Islami dan juga setuju bahwa akuntabilitas dapat menjadi tujuan akuntansi Islami serta mendukung sifat yang integratif dan holistik dari informasi akuntansi Islami. Hasil penelitian juga menunjukkan bahwa Jarak Kekuasaan (*Power Distance*) merupakan anteseden terbaik yang dapat menjelaskan nilai-nilai akuntansi Gray. Meskipun demikian, seperti halnya penelitian Sulaiman (1997 dan 1998), hasil penelitian ini juga tidak dapat menjelaskan anteseden dari kegunaan model pelaporan keuangan Islami yang dipersepsikan.

Kata-kata kunci: akuntansi konvensional, akuntansi Islami, kerangka Hofstede-Gray, Pelaporan keuangan Islami, kegunaan yang dirasakan

TABLE OF CONTENTS

	Page
CERTIFICATE OF ORIGINALITY	i
ABSTRACT	ii
TABLES OF CONTENTS	iii
LIST OF TABLES.....	iv
LIST OF FIGURES	v
CHAPTER I: INTRODUCTION	1
1.1 Background	1
1.2 Statement of Problem	7
1.3 Objectives of the Study	8
1.4 Significance of the Study	9
CHAPTER II: LITERATURE REVIEW	10
2.1 The Nature of Accounting	10
2.2 The Western and Islamic Worldview and Values	11
2.3 The Need for Islamic Accounting	21
2.4 Islamic Accounting	24
2.5 The Objectives of Islamic Accounting	27
2.6 Characteristic of Islamic Accounting	38
2.7 Hofstede Cultural Values	44
2.8 An Alternative to Hofstede	46
2.9 Gray's Accounting Values	47
2.10 Using Hofstede-Gray's Framework	53
2.11 The Islamic Corporate Reporting Model	57
2.12 Research Hypotheses	59

CHAPTER III: METHODOLOGY	70
3.1 Research Design	70
3.2 Population and Sample	71
3.3 Research Variables.....	72
3.4 Research Instrument	74
3.5 Data Collection Method	78
3.6 Hypotheses Testing	78
CHAPTER IV: RESULTS AND DISCUSSIONS.....	82
4.1 Pilot Test of Instrument	82
4.2 Full Scale Study	83
4.3 Profile of the Respondents.....	86
4.4 Validity and Reliability.....	87
4.5 Non-response Bias Test	90
4.7 Test of Normality.....	91
4.8 Hypotheses Testing	92
4.9 Discussions.....	107
CHAPTER V: CONCLUSIONS, LIMITATIONS AND SUGGESTIONS....	115
5.1 Conclusions	115
5.2 Limitations and Suggestions for Further Research	117
5.3 Recommendations	120
 BIBLIOGRAPHY	
 APPENDICES	

LIST OF TABLES

Table 2.1: Comparative World-view and Values of Islam and Western	13
Table 2.2: Comparison of Western and Islamic Economic Norms	14
Table 2.3: Accounting Implications of Different Economic Values	14
Table 2.4: The Differences Characteristics between Western and Islamic Accounting System	19
Table 2.5: Relationship between Gray's Accounting Values and Hofstede's Cultural Dimensions	52
Table 4.1: Population and Sample Statistics of Universities Surveyed	85
Table 4.2: Profile of the Respondents.....	87
Table 4.3: Results of Reliability Test	90
Table 4.4: Result of Normality Test	94
Table 4.5: Results of Hypothesis 4 Testing.....	97
Table 4.6: Results Chi-Squares Test	99
Table 4.7: Results of Hypothesis 7 testing	104
Table 4.8: Results of Hypothesis 8 testing	105
Table 4.9: Results Hypothesis Testing of Accounting Values Influence on The Perceived Usefulness of Islamic Corporate Reporting	106

LIST OF FIGURES

Figure 2.1: The Relationship of World-view, Values, Economic Norm, and Conventional Accounting Framework	16
Figure 2.2: Result of Ingcongruency between Economic and Accounting	24
Figure 2.3: The Stewardship Concept and External Reporting	31
Figure 2.4: The Accountability Model	33
Figure 2.5: The Islamic Accountability Model	36
Figure 2.6: Culture, Societal Values, and the Accounting Subculture	50
Figure 2.7: Gray's Hypothesized	48
Figure 2.8: Accounting System: Measurement and Disclosure	53
Figure 2.9: Hypothesized Relationship among Cultural Values, Accounting Values and Perceived Usefulness of Islamic Corporate Report ...	67
Figure 4.1: Distribution Frequency of Objective Variable.....	98
Figure 4.2: Results of Regression Analysis	107

CHAPTER I

INTRODUCTION

1.1 Background

There were an increasing number of the studies related to Islamic accounting issues. These studies related to why the conventional accounting is inappropriate for Islamic organizations and the practical imperative of Islamic accounting. Hameed (2000) argues that the practical necessity for the development of an Islamic Accounting is the establishment of Islamic business and organizations which are specifically based on the Shari'ah. These socio-economic organizations are part of the Islamic economic and financial system, which is based on the Islamic world-view and values. The objectives, operations, and practical accounting requirements of these organizations need an alternative accounting. These organizations should use Islamic accounting to enable users to ensure that Islamic organizations abide by the principles of Shari'ah. However, due to lack of accepted standards for annual report disclosure, Islamic organizations still use accepted disclosure standards for conventional annual reports. Islamic banking in Indonesia use Statement of Financial Accounting Standard No 59 to prepare their financial statements.

Harahap (2002) argues that even though The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has been established, the accounting standards for Islamic banking are mostly based on conventional accounting concepts and principles. Islamic accounting is not only a matter of modifying conventional accounting to fit the needs of Islamic institutions but also need a major overhaul (Yaya, 2001). The different philosophical assumptions underlying Islamic

organizations and their different operating mechanism, some of which find no parallel in the conventional business and accounting practices, suggest a more radical change on conventional accounting.

Research conducted by Hameed (2000) showed that Malaysian Moslem accounting academicians perceived that Islamic organizations should follow Shari'ah/ethical principles and promote social welfare rather than concentrate on profits. There also seems to be a favourable response to the need for Islamic accounting among Moslem accounting academics and accountants in Malaysia. Most of the participants agree with the accountability objective of Islamic accounting and support the integrative and holistic nature of Islamic accounting information. In case of Indonesia, Yaya (2002) support the Hameed's (2000) finding. Moslem accounting academicians in Yogyakarta perceived that conventional accounting is not suitable for Islamic organizations. The respondents also have a strong consensus on some principles which can be used later as a basis for developing Islamic accounting.

There is also debate among academia about whether conventional accounting is the appropriate system to be accepted without question by all other cultures. The underlying philosophical values of secular Western Anglo-American society such as utilitarianism, secularism, and absolute property right are reflected in its accounting practices and principles. It is constructed by a capitalistic social reality with extreme concentration of power, inequalities in income and wealth, social and economic instability, and environmental destruction. These are not the objectives of any civilized society let alone an Islamic one. Changes to conventional accounting have been suggested from various perspectives: e.g. social and environmental (Gray et al., 1996),

feminist (Reiter, 1997), deep green (Cooper, 1992) and Marxist (Cooper & Hopper, 1990 as quoted by Hameed, 2000).

Research so far has indicated that there is a relationship between accounting and culture (Gray, 1988; Perera, 1989; Salter and Niswander, 1995, Douppnik and Tsakumis, 2004) and one system cannot be transplanted into another cultural environment without causing dysfunctional effects on the host culture and society. Gray (1988) linking accounting values such as professionalism, uniformity, conservatism, and secrecy with Hofstede's (1980) cultural constructs such as individualism, power distance, uncertainty avoidance, and masculinity. Assuming that religion is a subset of culture and influences on cultural values, the theoretical approach used in the culture and accounting literature provides a structure within which the relationship between religion and accounting may be examined (Sulaiman and Willet, 2003). Baydoun and Willett (1995) argued that one of possible use of Gray's (1988) theory as applied to developing countries is as a definition of the cultural relevance of accounting practices. The importance of the Hofstede-Gray paradigm in Sulaiman and Willett's study is in relation to assessing the usefulness of Baydoun and Willett's (2000) Islamic corporate reporting model rather than to the determination of the descriptive correctness of such a model. Assuming that Gray correctly identified the linkages between Hofstede's cultural dimensions and his accounting sub cultural values, it is possible to use the Hofstede-Gray framework infer the type of accounting system an ideal Islamic society should deem appropriate by examining its cultural values (Sulaiman and Willet, 2003).

Studies examining the relationship between religion and accounting (Gambling and Karim, 1991; Baydoun and Willett, 1994 & 1995) have suggested that the ethical impact of Islam on accounting has the potential to be significant. Baydoun and Willett

(1994 & 2000) developed a theory as to what should, from the point of view of consistency with ethical precepts, constitute the basis of a set of Islamic Corporate Reports. Specifically, their theory suggests that Islamic societies would be better served by an Islamic Corporate Reporting model which includes a current value balance sheet (CVBS) and a value added statement (VAS) rather than that of the traditional Western reports of historic cost balance sheet (HCBS) and profit and loss account (PL).

Sulaiman (1997 and 1998) has conducted a survey of the perceptions of Moslem and non-Moslem accounting information users in Malaysia to investigate if such a model aligns with what Moslems appear to desire. Survey respondents comprised of accountants, financial analysts, bank lending officers and zakat officers. The result indicates that there is no differences exist in the perceived usefulness of accounting information between Moslems and non-Moslems. The result also suggested that Baydoun and Willet's theory that Moslems would perceive the CVBS and the VAS to be significantly more useful than non-Moslems was not supported. The result from Sulaiman's research may be interpreted as challenging the notion, that culture in general, and Islam in particular, may have a significant influence on accounting practice (Gray, 1988; Perera, 1989; Baydoun and Willett, 1994).

Sulaiman and Willet (2001) argue that the theory of Baydoun and Willett (1994) is a normative rather than a descriptive theory. Furthermore, it is normative in the sense of addressing ethical issues about what ought to be in order for practice to be consistent with a set of religious principles. It is not normative in the sense of specifying how a specific end may be engineered through manipulation of accounting technology. Such a theory has implications at the level of what it is desirable to disclose in financial statements. It also pertains to the issue of the differences between

what users currently express as being their desire for what should be disclosed and what is actually disclosed to users. Sulaiman and Willet (2001) also argue that if Baydoun and Willett's theory of Islamic Corporate Reporting really is consistent with Islamic principles, then practice and prescription do not coincide. One possible explanation for this occurrence is the potential of Western materialist values to corrupt the value system of Moslems. Sulaiman and Willet (2003) state that Baydoun and Willet's (1994 and 2000) model is based on what Moslems ought to desire in their annual reports. However, what they actually desire may not align with the desirable. Sulaiman and Willet (2003) stated that future research should embark on the testing again of the model amongst Moslem users of accounting information.

Hameed (2000) and Yaya (2002) conducted a study on the perceptions of Moslem accounting academicians on the objectives and characteristics of Islamic accounting. They reveal that there is a positive acceptance by the Moslem accounting academicians towards Islamic values in accounting. However, in the Sulaiman's (1998) surveyed on the accountants in Malaysia, it was found that Moslems and non-Moslems were no different in their perceptions on the accounting matter. Similar finding was also found in the extension of research to the Moslem and non-Moslem accounting students in Malaysia, that there is no significant support to have different character of financial information from what is normally disclosed in Western-based accounting systems (Sulaiman, 2001).

These different findings on the issues of Islamic accounting, suggest that there is a need to conduct more empirical research on Moslem society. In case of Indonesia, Yaya (2002) has conducted a research study in Yogyakarta. However, his study was conducted in limited area and did not examine the antecedents of perceived usefulness

of Islamic corporate reporting This research, therefore, aims to extend previous research by exploring the consensus among Moslem accounting academicians in Java on the nature of Islamic accounting: the suitability of conventional accounting for Moslem users and Islamic organizations and also the objectives and characteristics of Islamic accounting under different cultural contexts.

The aims to replicate and extend from previous research (i.e. Hameed, 2000, Sulaiman 1997, 1998; Yaya; 2002) are twofold. First, in Java, there were some universities which recognized as the pioneer in the Islamic economic and accounting in discussions and curriculum. Some universities also undertake courses in Islamic civilization as part of their curriculum. These Universities usually have Islamic background such as Muhammadiyah or Nahdatul Ulama. Some universities in Java also have already published journals which encourages the articles on the Islamic accounting issues. The increasing discussions and curriculum in universities in Java showed the theoretical imperative of Islamic accounting. Second, there are developed Islamic organizations in Java with many Islamic banks and insurances which can be described as practical imperative of Islamic accounting. Further, there is a general Islamic resurgence in accounting academia from those universities as well as among Moslem businessmen who try to implement Islam in their activities. Moslem accounting academicians also have function as key carriers of Islamic culture because they play an explicit role in value socialization (Schwartz, 1999). Therefore, it is important to elicit the perception from Moslem accounting academicians from universities in Java on the Islamic accounting issue.

Douppnik and Tsakumis (2004) stated that culture is considered to be a powerful environmental factor that affects financial reporting as well as how individuals perceive and accounting information. Therefore, cultural values of Moslem accounting academicians may be can affect how they perceive the Islamic financial reporting. Sudarwan and Fogarty (1996) employed a longitudinal study to examine the relationship between cultural characteristics of Indonesian society and reporting practices. This research will also examine Indonesian cultural influence on perceived usefulness of the Islamic Corporate Reporting model. Different with Sudarwan and Fogarty (1996) who studied in country level and longitudinal in time horizon, this study is conducted in individual level and cross section. This study use Hofstede index scores, meanwhile Sudarwan and Fogarty using cultural values which is proxied by multiple variables, many of which are lacking in intuitive appeal.

1.2 Statement of the Problem

The Islamic Corporate Reporting which is suggested by Baydoun and Willet's (1994 and 2000) is based on what Moslems should to desire in their annual reports. However, Sulaiman's (1998) study documented that this model was not actually desire by Moslems users. This phenomenon showed that Baydoun and Willet's theory is a normative rather than descriptive one. These findings were different from Hameed's (2000) findings which showed the strong consensus of Malaysian Moslem accountants and accounting academicians on the objectives and characteristics of Islamic accounting. Sulaiman findings were also different with Yaya (2002) who conclude that Moslem accounting academicians in Yogyakarta have strong consensus on the Islamic accounting issues. The phenomenon which showed that Baydoun and Willet's theory

was not supported by empirical evidence and the different findings of Sulaiman's (1997&1998), Hameed's (2000), and Yaya (2002) research is the source of the problems of this research. The possibility to use Hofstede-Gray framework infer the type of accounting system an ideal Islamic society should deem appropriate by examining its cultural values also become the source of problem. The problem statement of this research focus how Moslem accounting academicians in Java perceive the need of Islamic accounting and whether their accounting and cultural values influence the perceived usefulness of the Islamic Corporate Reporting. Therefore, this research is designed to answer the following research questions:

- a. Do Moslem accounting academicians in Java perceived that conventional accounting appropriate for Islamic business organizations and Moslem users to fulfill their objectives?
- b. How Moslem accounting academicians in Java perceived the objectives and characteristics of Islamic accounting?
- c. Do the cultural values affect perceived usefulness of Islamic Corporate reporting?

1.3 Objectives of the Study

The objective of this study is aim at obtaining evidence as to the perception of Moslem Accounting Academicians in Java on the suitability of conventional accounting for Moslem users and Islamic organizations, as well as the objectives and characteristics of Islamic accounting. The other objective of this study is also to test the cultural influence on the perceived usefulness of Islamic corporate reporting model suggested by Baydoun and Willet (1994 and 2000).

1.4 Significance of the Study

This research contributes to the accounting literature in three ways:

- a. Although there have been done the research about the relationship of Hofstede's cultural values and Gray's accounting values but few have examined the relationship between Hofstede's Cultural Values and Gray's accounting values at individual level.
- b. This study also contributes in developing and validating the measurement of Gray's accounting values; secrecy and conservatism variables; at individual level using a list of specific rules and practices consistent with conservatism and secrecy.
- c. This study attempts to understand and explain the antecedents of perceived usefulness of Islamic corporate reporting model. This study extends Sulaiman's (1997&1998) studies by using Hofstede-Gray's framework to explain the perceived usefulness of Islamic corporate reporting model.

CHAPTER II

LITERATURE REVIEW

2.1 The Nature of Accounting

Kam (1990) concludes that the definition of accounting is amazing how this simple, basic question has never been answered precisely. Either the definition is too broad or too narrow. A good definition, besides providing a description so that people have an understanding of what the object is, should establish clear-cut boundaries. AICPA in 1941 formulated the following definition, which was widely quoted for many years:

Accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are in part at least, of financial character, and interpreting the results thereof.

This definition is criticized by Kam (1990) because anyone involved in the functions mentioned would be considered an accountant or doing accounting work including the financial analyst who computes financial ratios and interprets the results thereof. The American Accounting Association (AAA), in order to emphasize the broader perspective of accounting provided the following description of accounting as:

the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of information.

This definition is too general because economists provide economic information and they certainly do not consider themselves to be accountants. The Accounting Principles Board (APB) of the AICPA also got into the act with the following definition:

Accounting is service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.

Kam (1990) argues that quantitative information is wider in scope than financial or economic information. Others have offered their definitions of accounting, but none has succeeded in clearly establishing the nature of accounting.

2.2 The Western and Islamic Worldview and Values: Different Accounting for Different Worldviews

A worldview can be thought of as the set of implicit or explicit assumptions about the origin of the universe and the nature and purpose of human life (Chapra, 1992). It controls the nature of man's reflections on almost any subject. Differences in world-view can lead to differences in economic values and norms which in turn affects accounting. Values are beliefs that something is good and desirable. Values define what is important and consequently what is worth striving for. Norms, on the other hand, are the guidelines that guide conduct in particular situations. Norms are said to define what is acceptable and appropriate behavior in particular circumstances.

There were three terms namely the worldview, values and norms constitute the thought/ behavior interface. Worldview is at the most general level, values at a more detailed level and finally norms at a very detailed, specific level. Every society has a shared worldview, norms and values, which give it its distinctiveness and cultural identity and delineate it from other societies and cultures (Hameed,

2000). The group, which shares this cultural identity, could be of national, regional, ethnic or linguistic origins.

It is argued that Accounting being a social institution (Roslender, 1992 as quoted by Hameed, 2000) is not value free and objective. Conventional accounting in particular has imbedded values of the capitalist economic system, which in turn reflect the values developed from the historical experience of Europe including its enlightenment and modernist phases of development. The Western values of democracy, secularism, individualism, utilitarianism and consumerism are analysed as the underlying assumptions and rationale under which accounting works.

Capitalism can be seen as the extension of the materialistic worldview. The secular values of democracy, liberalism, individualism and utilitarianism are incorporated in the capitalistic economic system. Accordingly, they lead to certain economic behavioral norms. The Western values and the resulting capitalistic economic system lead to certain norms such as primacy of wealth and profits, the pursuit of individual self-interest is justified, and private property right.

Islam, however, has its own worldview and belief system. It is not only a ritualistic religion confined to the individual but an integrated way of life combining politics, economics, culture, religion and every aspect of human life (Hameed, 2001). This means that any separation of knowledge from religious guidance is not appropriate for Moslems as it would result in unIslamic behavior. Hameed (2000) compare the worldview and values of western and Islamic civilizations which can see in table 2.1.

TABLE 2.1
COMPARATIVE WORLD-VIEW AND VALUES OF ISLAM AND
WESTERN CIVILIZATION

Western World-View and Values	Islamic World-View and Values
Material World-View	Dual World-View: The world (universe) and the hereafter
Democracy	Khilafah: 'Shuracracy' Consultative Government
Secularism	Tawhid, Unity Of State And Religion
Individualism	Amanah: Trust Individual In The Context Of Community
Utilitarianism	Ikhtisab: Accountability; God's Pleasure <i>/ Rida</i>
Welfare	Publik Benefit/Maslaha
Liberalism And Freedom	Responsibility & Restricted Freedom

Source: Hameed (2000)

The above values lead to an economic objective of maximizing material riches as the economic objective of Western civilization. The theoretical objective of Islam is the attainment of *falah* (everlasting success) and *rida* (God's pleasure) by acting within God's law and adopting a moderate simple life style. The above values and objectives lead to certain moral/economic and legal norms and behavior. This is shown in table 2.2

TABLE 2.2
COMPARISON OF WESTERN AND ISLAMIC ECONOMIC NORMS

Western Economic Norms	Islamic Economic Norms
Primacy of profit/ wealth	Primacy of justice and social welfare
Usury restrictions /deregulated markets	Prohibition of interest. Generally non - intervention in markets
Sanctity of private property Disposal of property unrestricted	Property as trust from God. Succession law fixes share and identity of beneficiaries
Caveat emptor/ information efficiency	Information symmetry
Market values Competition	Market values Negotiation- cooperation
Consumerism	Moral filter
Welfare benefits	Zakat
Taxation	Restricted taxation

Source: Hameed (2000)

Finally, these economic/legal and moral norms of behavior have implications for accounting. This is shown in table 2.3.

TABLE 2.3
ACCOUNTING IMPLICATIONS OF DIFFERENT ECONOMIC VALUES

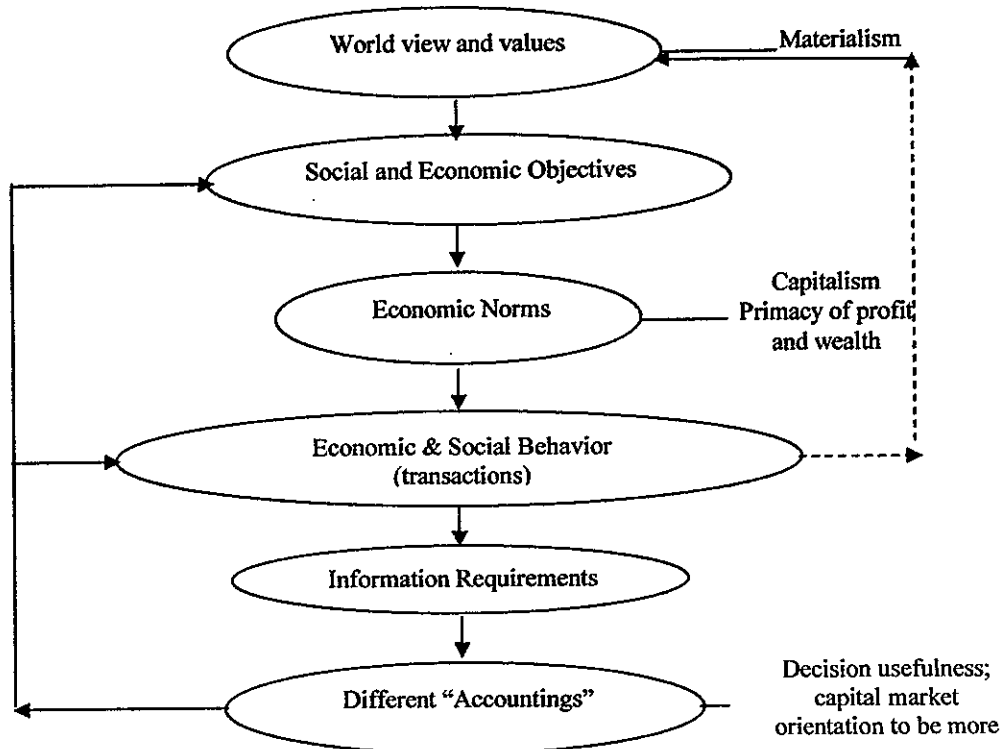
Issue	Conventional accounting	Islamic accounting
Objectives	Decision usefulness for investors and creditors; capital market orientation	Islamic accountability Falah and maslaha Social welfare orientation
Users	Market players and finance providers	Society Stakeholders
Recognition	Monetarily measurable internal economic events	Socio-economic events, include externalities, exclude shariah proscriptions, not necessarily financial
Measurement	Monetary , historic cost	Monetary and non monetary, balanced score card Current valuation
Disclosure	All 'material' economic events	Shariah compliance Socio-economic

Source: Hameed (2000)

The values and economic norm of the different societies need different accounting systems in terms of their objectives, its users, recognition and measurement characteristics and type of information disclosed consistent with their worldview. Conventional accounting is capital market oriented towards the interests of capitalistic investors and interest-based creditors. Its users are market players (speculators) and interest-based debt providers who should not exist in an Islamic society. It recognizes and records and discloses only monetarily measurable economic events using historical costs. Figure 2.1 described the relationship between world view, values, norms and conventional accounting framework. An Islamic accounting system, on the other hand, would produce information that would enable and motivate Moslems and other citizens of an Islamic society to behave in a manner consistent with the Shari'ah. It would allow the discharge of accountability towards God and society by identifying and measuring economic events whether externalities or otherwise as the users are various stakeholders in society.

FIGURE 2.1

THE RELATIONSHIP OF WORLD-VIEWS, VALUES, ECONOMIC NORMS, AND CONVENTIONAL ACCOUNTING FRAMEWORK



Source: (Hameed, 2000)

Baydoun and Willet (2000) also argue that the differences in Islamic and Western philosophy, principles and criteria will impact on accounting system. The principles that form the basis of Western Financial Accounting Systems are derived from the Western philosophy of economic rationalism, which based upon the doctrine of psychological hedonism, that social action should be determined by individuals maximizing quantifiable, personal utility functions. For present purposes the most relevant principles that derive from this social philosophy may

be stated as: a clear separation from economic intercourse, of religious considerations; the paramount importance of individual satisfaction; profit maximization as the gauge of successful performance; acceptance of the survival of the fittest rule as the best long-term strategy; and a local focus on the results of process without regard for its wider impact on the environment. These principles lead to disclosure practices which might best be described as being based upon the criteria of personal accountability and the limited disclosure of financial information' necessary to achieve such accountability.

Baydoun and Willet (2000) argue there are perceived to be a number of basic elements in an Islamic attitude towards business matters that differ from the Western viewpoint. These stem from a religious belief in the Unity of God just as much as the principles enunciated for Western accounting systems stem from the secular philosophy of economic rationalism. The Unity of God is defined by the tawhid, which requires a total commitment to the will of God and involves both submission and a mission to follow the Shari'a in all aspects of life. The belief in an all powerful, all-seeing God brings to this way of thinking a number of principles which affect the matter of information disclosure and may be contrasted to the Western principles listed above: a lack of distinction between the significance of behavior in the spiritual and secular spheres of life; a focus on community interests in the decisions and actions of firms (the principle of tazkiyah); the legitimacy of the profit motive but not a sole focus on profit and not the making of excessive profit which is tantamount to exploitation; equity between people, providing a fair share for the weak and the strong; and explicit

consideration of the environment, created in pure form by God and so to be preserved.

The impact of these principles for the practice of accounting might be summed up in two basic tenets, comparable but opposed to the criteria adopted in Western accounting systems. In contrast to the focus on the owners of the entity in Western Financial Accounting Systems, the focus in Islam on the Unity of God, the community and the environment demands a form of social accountability rather than the personal accountability found in Western societies. Similarly, for the consensus to operate effectively, a principle of full disclosure of accounting information is needed, not based upon the outcome of a political process but upon what ought to be disclosed in order to serve the objective of social accountability. Full disclosure is taken to mean, not the disclosure of everything (a clearly impractical proposition), but the disclosure of any information that should be rightfully given to members of the community in accordance with the principles of the Shari'a. Such criteria for the disclosure of financial information would be more in accordance with Islamic law than the criteria used in Western accounting systems. The differences in Islamic and Western philosophy, principles and criteria are summarized in Table 2.4.

TABLE 2.4
THE DIFFERENCES CHARACTERISTICS BETWEEN WESTERN AND ISLAMIC ACCOUNTING SYSTEM

Characteristics	Western	Islamic
Philosophical viewpoint	Economic rationalism	Unity of God
Principles	Secular Individualistic Profit maximization Survival of fittest Process	Religious Communal Reasonable profit Equity Environment
Criteria	Based upon modern commercial law-permissive rather than ethical: Limited disclosure (provision of information subject to public interest) Personal accountability (focus on individuals who control resources)	Based upon ethical law originating in the Islamic law Full disclosure (to satisfy any reasonable demand for information accordance with the Shari'a) Public accountability (focus on the community who participate in exploiting resources)

Source: "Islamic Corporate Reports" Baydoun and Willet (2000)

Triuwono and Gaffikin (1996) argue that accounting is one of the important means of reflecting reality, as different values will reflect different realities. When reality is constructed in relation to ethical values, accounting should be based upon the ethics. If accounting is not based upon the same ethics, the reality will be reflected in other presentations and in turn will mislead who are interested in it. When a reality has been socially constructed based on Islamic

values, there is a need, in order to reflect the same reality for constructing accounting based on Islamic values.

Triyuwono and Gaffikin (1996) also argue that accounting theory is at best constructed through the guidance of the Shari'ate ethics. From the ontological point of view, there is no dichotomy between realism; both of them are mutually inclusive. Under the epistemological assumptions as well, there is not any dualism between revelation and reason, religion and science, and spiritual and material. Triyuwono and Gaffikin (1996) state that the primary aim of Sharia'te accounting knowledge is to guide individuals in creating Tawhidic realities and make them to be self-consciousness about their real nature as the vicegerent of God on earth whose duty is to disseminate mercy for all creatures in the form of worship.

Gambling and Karim (1991) state that the primary duty of Moslem is to serve God in all facets of life since Islam does not recognize a division between secular and sacred activities. Accounting, if performed in accordance with Islamic law should be as much an act of worship as prayer. By contrast, the conceptual framework of accounting currently applied in the Western finds its justification in a dichotomy between business morality and private morality. The Islamic framework does not accept the secular as being distinct from the religious. Accounting theory, like Islamic life in general, is concerned with accountability. Property and resources are held in trust from God and, as in the parable of the talents, one must ultimately account to God as to how well they have been employed.

2.3 The Need for Islamic Accounting

Hameed (2000) argue that the need for Islamic accounting can be divided into two factors: push and pull factors. Pull factors were those that made conventional accounting unsuitable for Moslem users and Islamic organizations. Hameed (2000) defines pull factors as those factors that make Islamic accounting both a theoretical and practical necessity and imperative. These factors literally pull Islamic accounting into existence to meet the need of Moslem users and Islamic organizations. The pull factors can be categorized into two groups:

- a. The Islamization of Knowledge factor which provides the theoretical imperative for Islamic Accounting and
- b. The establishment of Moslem and Islamic institutions which is the practical imperative for the development of Islamic Accounting.

The problems of conventional accounting which can make it unsuitable for Moslem users and Islamic institutions and can be categorized as push factors can be summarized as follows:

- a. The objectives of conventional accounting based on decision usefulness may not be acceptable from an Islamic point of view because it seeks to concentrate and accumulate wealth to certain sections of society i.e. shareholders and creditors.
- b. Neither the assumptions of pristine liberal economic democracy nor the developed exchange economy with a developed stock market is valid for many Moslem countries.
- c. The accounting principles on which conventional accounting reports are prepared may be unsuitable for the direct and indirect equitable

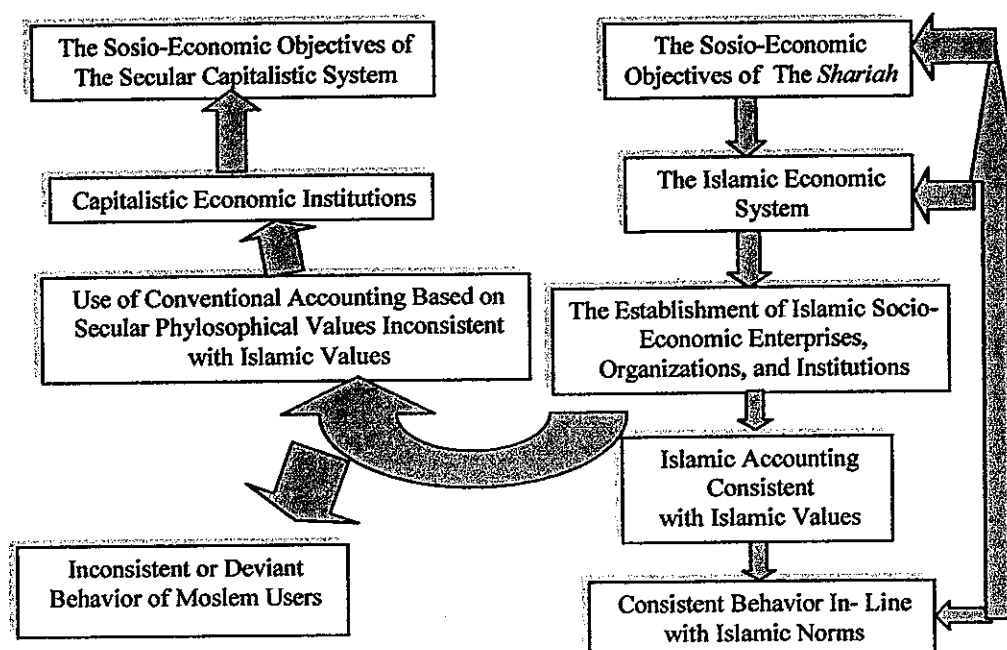
distribution of wealth and the calculation of Zakat which is the one of the most important objective of Islamic accounting.

- d. The problem with historic cost income models becomes more problematic in a Moslem environment where profit is the main means of ascertaining divisible returns to finance providers as interest is prohibited.
- e. The negative economic and social consequences of conventional accounting on the environment, society and individuals are unacceptable from an Islamic point of view.
- f. Conventional management accounting systems may leads to behavior which is dysfunctional not only in terms of organizational goal achievement but in terms of the moral and ethical consequences of individual and group Islamic behavior.

Islamization of knowledge has been defined by Abu Sulayman (1989) as quoted by Hameed (2000) as the critical examination of modern disciplines in the light of the vision of Islam and the recasting of them under categories consistent with that vision. It has been suggested that there is a need to Islamise Knowledge because there is a crisis in the Moslem mind and thought which has caused the malaise in the Moslem *Ummah*. It is well known that Moslems had a great intellectual, political and military civilization in its earliest times until the 15th Century. However, the Moslem civilization today is backward in its culture, politically degraded into disunited and often warring nation states, and full of human suffering. This is in spite of its vast human and material resources and in spite of its values and principles.

The second category of pull factors is the establishment of Islamic institutions which provides a practical need for the development of Islamic accounting. The objectives and the development of Islamic institutions emphasise the different paradigm of Islamic business. Accounting is a tool to achieve certain objectives, so in order to be usefully, it must be relevant to its purpose. Islamic institutions are established to meet the socio-economic objectives of the Shariah (Islamic law) through the implementation of an Islamic economic system. Hence, these institutions should logically use Islamic accounting, especially for monitoring to achieve their objectives, which are different from capitalist institutions. If conventional accounting which was developed to meet the needs of a capitalist economy is used instead in these institutions, a mismatch is likely (Hameed, 2003). Hence, Islamic accounting may be more appropriate to achieve the socio-economic and religious objectives of Islamic institutions and Moslem users as described in figure 2.2. It can be said that Islamic accounting is not just the technicalities of accounting for Islamic financial instruments employed by Islamic banks but also requiring whole new areas of performance measurement including the social, environmental, economics and Shariah.

FIGURE 2.2
RESULT OF INCONGRUENCY BETWEEN ECONOMIC AND
ACCOUNTING SYSTEM



Source: Hameed, 2003

2.4 Islamic Accounting

Lewis (2001) argue that 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. There were two approaches in the development of Islamic accounting:

- a. Establish objectives based on the spirit of Islam and its teaching and then consider these established objectives in relation to contemporary accounting thought.

- b. Start with objectives established in contemporary accounting thought, test them against Islamic law, accept those that are consistent with Islamic law and reject those that are not.

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have followed the second approach when formulating accounting and auditing standards for Islamic financial institutions. Others, such as Gambling and Karim (1986), Adnan and Gaffikin (1997), Baydoun and Willet (1994 and 2000), Hamed (2000) and Triyuwono (2000) have adopted the first approach and this study follow them in defining Islamic accounting.

Islamic accounting can be defined as the accounting process which provides appropriate information (not necessarily limited to financial data) to stakeholders of an entity which will enable them to ensure that the entity is continuously operating within the bound of the Islamic Shari'ah and delivering on its socio-economic objectives (Hameed, 2003). The differences between Islamic accounting and conventional accounting lie in the following item:

- a. The objectives of providing the information;
- b. What type information is identified, how is it measured; how it is recorded and communicated;
- c. To whom it is communicated (the users)

Conventional accounting aims to permit informed decision whose ultimately purpose is to efficiently allocate scarce resources available to their most efficient uses by providing information efficiency in the market. Islamic accounting, on the other hand, hope to enable users to ensure that Islamic organizations abide by the principles of Islamic law in its dealing and enables the assessment of whether the objectives of the

organizations are being met. It can be said that Islamic organizations are different from their conventional counterparts by having to adhere to certain Islamic law principles and rules and also try to achieve certain socio-economic objectives encouraged by Islam.

The type of information which Islamic accounting identifies and measures is different. Conventional accounting concentrates on identifying economic events and transactions, while Islamic accounting must identify socio-economic and religious events and transactions. Conventional accounting mainly uses historical cost to measure assets and liabilities. From an Islamic point of view, at least for the purpose of computation of Zakat, current valuation is obligatory prompting calls for a current value balance sheet.

The last category of differences is in the users of the information. Although the profession has recognized various stakeholders as the users of accounting information, the users which it focuses on are stakeholders and creditors. Islamic accounting serves the whole gamut of stakeholders recognized by the corporate reports because society as a whole can make corporations accountable for their actions and ensure they comply for their actions.

Haniffa and Hudaib (2001) argued that the conceptual framework for Islamic accounting was based on Shariah. They argued that the objectives of Islamic accounting are to assist in achieving socio-economic justice (Al-falah) and recognize the fulfillment of obligation to God, society and individual concerned, by parties involved in the economic activities. Haniffa and Hudaib divided the Islamic accounting in two aspects; technical and human. Technical Islamic accounting needs measurements for zakat purpose thereby understanding how profit is distributed. For disclosure aspects, Islamic accounting should clearly state how the organization is fulfilling its duties and

obligations according to Shariah. The human aspects of Islamic accounting should be based on morality and ethics. Khir (1992) argued that Islamic accounting was related to social responsibility or accountability. According to Hayashi (1989) Islamic accounting is integrated discipline within a social, political, and economic domain ruled by Allah or meta rule. Gambling and Karim (1991) suggested that the zakat concept was the tenet of Islamic accounting as a discipline that has a strong concern to social accounting.

2.5. The Objectives of Islamic Accounting

There were some alternative of the objectives of Islamic accounting which have been proposed by prior research. They were; (a) decision usefulness, (b) stewardship, (c) Islamic accountability and (d) accountability through *Zakat*.

2.5.1 Decision Usefulness

Karim (1995) argued that there are two methods whereby Islamic accounting concepts could be arrived at:

- a. Establish objectives (and concepts) based on the principles of Islam and its teachings and consider these objectives in relation to contemporary accounting thought.
- b. Start with the objectives established in contemporary accounting thought, test them against the Islamic Shari'ah, accept those that are consistent with Shari'ah and reject those that are not, and develop those that are unique.

The AAOIFI (1996) has adopted the second approach which easier than the first approach in the development of their "Statements of Financial Accounting" which they claim is consistent with the broader view of Islamic principles- a view which does not

require that a concept be always be derived from the Sharia. This approach is in line with the Islamic judicial principle of *ibaha* or permissibility which suggests that anything is permissible unless it is prohibited clearly by the Shari'ah. Hence, the concepts of decision useful accounting information such as relevance and reliability are immediately embraced into Islamic accounting by the AAOIFI.

AAOIFI follow the second approach due to pragmatic considerations and acceptance of its standards by Islamic Banks. They recognized that the objectives of financial accounting including accounting for Islamic bank is determine the type and nature of information which should be included in financial reports in order to assist users of these reports in making decisions. AAOIFI accept the traditional view that relevant information for users is information about the company's financial position and performance.

However, this approach has been objected by Gambling & Karim (1991) on the grounds that the conceptual framework of accounting currently applied in the West is justified in a dichotomy between business morality and private morality. Thus it cannot be implemented in other societies that have revealed doctrines and morals that govern all social, economic and political aspects of life. Further objections to this method arise from Triyuwono (2002) which argued that accounting standards for Islamic banks still have capitalistic value because using entity theory. He argued that entity theory has orientation on income for maximum utility to owners. Hameed (2003) argued that accounting for Islamic banking is not Islamic accounting but only subset of it. He argued that the methodology using by AAOIFI hence the outcome is questionable.

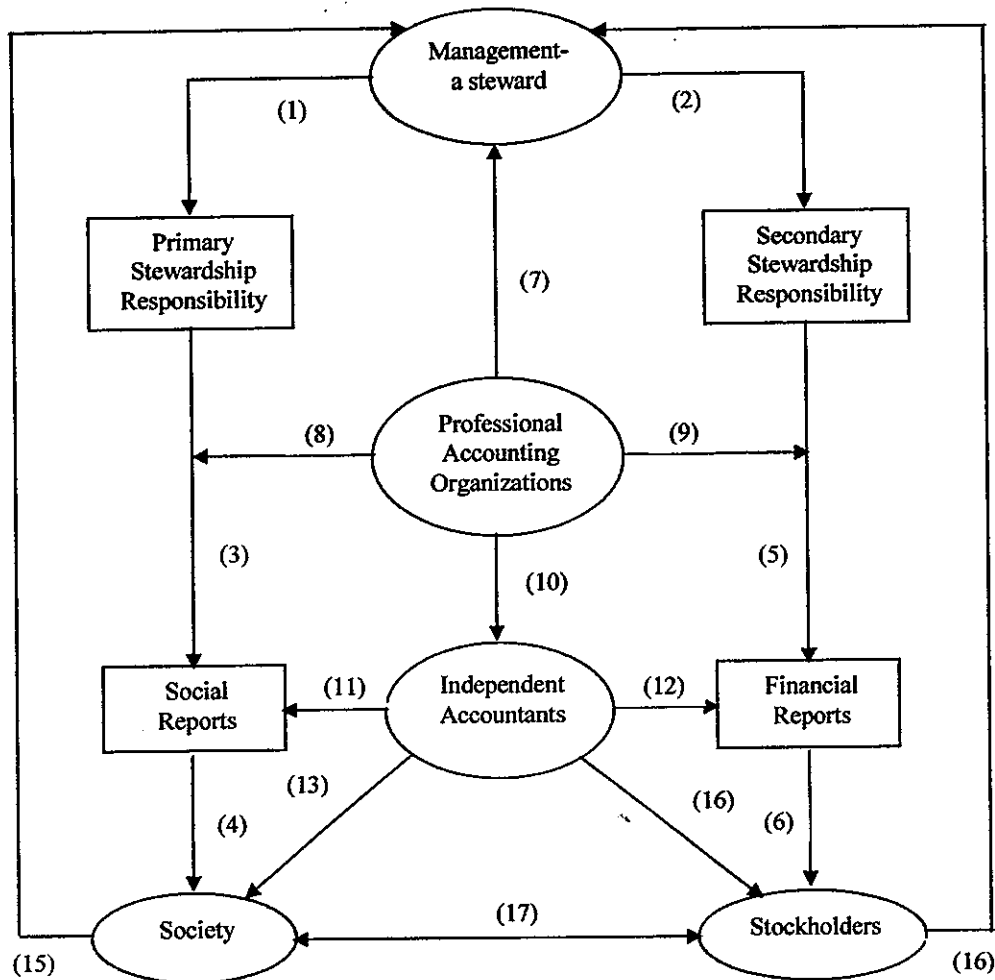
2.5.2. Stewardship

Until the mid 1960s, the objective of financial reporting was stated in terms in fulfilling the stewardship role expected of management (Beaver, 1989 as quoted by Pang and Leong, 1995). Financial statements were the prime vehicle by which management, as the steward, reported to the shareholders on the manner in which their financial resources had been employed during the preceding year. Kam (1990) argue that accounting information for decision making begins with the stewardship function. In ancient times, the steward who was in charge of the estate, had to give an accounting to the master. In Pacioli's Italy, an accounting had to be made to the silent partners after the venture was completed.

Chen (1975) concluded that the stewardship concept originates in property rights—the right to possess and the right to use. When the right to use is delegated from the owner to his agent, the agent assumes a stewardship responsibility. Two types of stewardship responsibility are discernible: the responsibility for the attainment of social welfare and the responsibility of the immediate owner's interest. She also argued that the stewardship concept changes as a result of a change in the prevailing social philosophy. Managerial stewardship concept indicates that management is responsible to the pursuit of social interest including the interest of the owners. Financial reports are reported by management on its stewardship. Therefore, it is management point of view that the accountant should adopt in order to define the objectives of financial reporting, to analyze transactions, and to provide financial statements pertinent to the evaluation of management's performance as a steward. The management is responsible for not only to its stakeholders but also to society hence to require management to report separately to report separately the two responsibilities as illustrated in Figure 2.3. It indicates that

management has (1) the primary (social) and (2) the secondary (financial) responsibility. As a steward, management is thus obligated to provide social reports (3) to discharge its primary responsibility to society (4) on the one hand and to provide financial reports (5) to discharge its secondary responsibility to stockholders (6) on the other. To facilitate these reports, the accounting profession has a responsibility to observe business activities, management attitudes and behavioral patterns (7) as a means of establishing generally accepted accounting principles for both social (8) and financial (9) reports. In addition, the accounting profession is also responsible for the development of generally accepted auditing standards and for the supervision of independent accountants (10). Independent accountants have basically two roles: they audit social reports (11) and financial reports (12). In conducting social audits, they are responsible primarily to society (13); in conducting financial audits, they are responsible to stockholders (14). Based on audited reports, society will evaluate the social performance of management (15), and stockholders will evaluate management's financial performance (16). Finally, the stockholder's views will be assimilated by social values, while various social values will be espoused by stockholders (17).

FIGURE 2.3
THE STEWARDSHIP CONCEPT AND EXTERNAL REPORTING



Source: Chen, 1975

AAOIFI (1996) also recognizes stewardship as one of its objectives. It points out that the objective of financial accounting is to contribute to the safeguarding of the assets, and to the enhancement of the managerial and productive capabilities of the Islamic bank while encouraging compliance with its established goals and policies. Mirza and Baydoun (2000) support this objective and suggest that the stewardship function must be the focus of attention of accountants of Islamic institutions in reporting to external parties.

2.5.3. Accountability

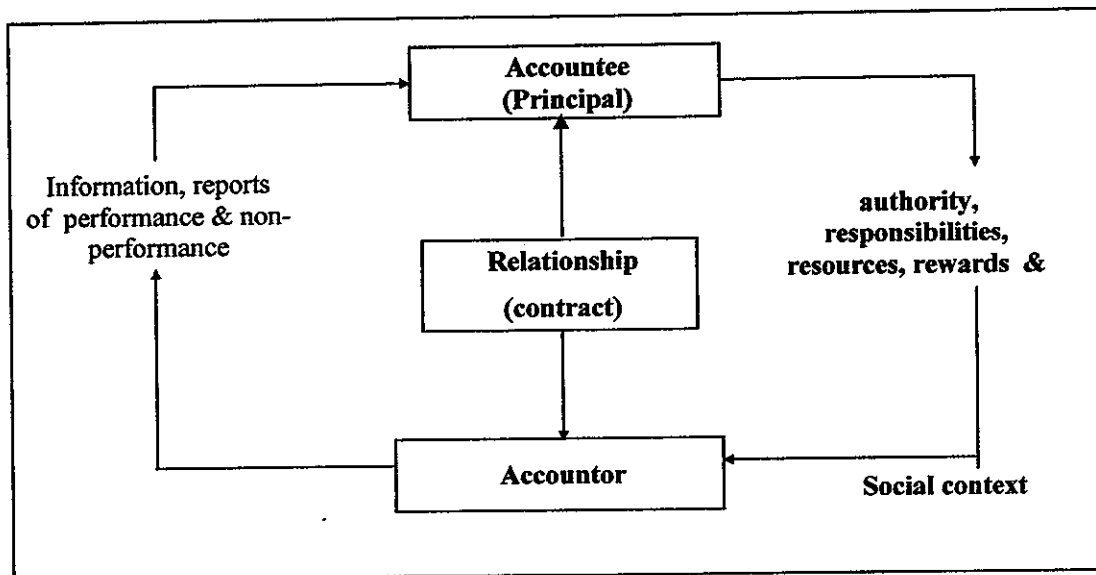
Beaver (1989) as quoted by Pang and Leong (1995) argued that by the mid 1960s, the stewardship role of financial reporting had given way to a new perspective—that of the informational role of financial reporting, of which financial statements represent an integral but subset of reporting function. This move toward an informational perspective can be said to have been the end product of the current financial environment, which has become more complex. The complexity in financial reporting today has come about because the number of user groups or constituencies who have stake or a vested interest in the nature of information disclosed has increased over time.

According to Kam (1990), two versions of entity theory exist but each leads to the same conclusion, that stewardship or accountability is of primary significance. The traditional version of entity theory sees the business firm as operating for the benefit of equity holders, those who provide funds for the entity. Thus, the entity must give an accounting to the equity holders to report to them the status and consequences of their investment. The newer interpretation sees the entity as in business for itself and interested in its own survival. Because it is concerned about its survival, the business entity gives an accounting to the equity holders in order to meet legal requirements and to maintain good relationship with them in case more funds may be needed in the future.

Meanwhile, Gray et al. (1996) as quoted by Hameed (2000), define accountability as the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible. This definition is based on a principal-agent contract model which can be seen in figure 2.4. In this model, an Accountee (principal) enters into a contractual relationship with an agent

(Accountor). The Accountee gives the power over resources along with instructions about actions and rewards to the accountor. The accountor is supposed to take certain actions and refrain from others in managing the resources given to him, to meet certain objectives and to account to his principal by giving information about his actions to him.

FIGURE 2.4
THE ACCOUNTABILITY MODEL



Source: Hameed, 2000

Meanwhile, Hameed (2000) suggest another definition of accountability would be perhaps better as the duty of an entity to use and prevent the misuse of the resources entrusted it in an effective, efficient, and economical manner, within the boundaries of the moral and legal framework of the society and to provide an account of its action to accountees who are not only the persons who provided it with its financial resources but to group within society and to society at large.

In his opinion, the accountor has a duty not only give an account (i.e. report on the performance or non-performance of these duties) but also to act or refrain from

acting in a certain way. Since the accountee is usually not in close contact with the accountant (except for employee-employer accountability), the reporting or the account makes the organization transparent as well as providing a feedback for the accountee to enable him to control the accountant and the organization.

2.5.5 Islamic Accountability

Hameed (2000) suggests that Islamic accountability model as seen in figure 2.5 can be used as the main objective of Islamic accounting. From a practical point of view, this suggestion is supported by Khir (1992) who asserts that this concept is so ingrained in the Moslem community that it will give the greatest motivation for the practical development of Islamic accounting.

The Islamic accountability model is premised on both Islamic and Moslem organizations (through their managers), and Moslem owners /investors having dual accountabilities. The first or prime accountability arises through the concept of *khilafa* in Islam whereby a man is also a trustee (*khalifa*) of Allah's (God's) resources (physical and intellectual). Under the *khilafa* concept, he is also accountable to Allah for the care of other human beings (specifically local community, society and employees, in the case of organizations), animals and environment. This primary accountability is transcendent, as it cannot be perceived through the senses and is therefore represented by a dotted arrow (1). However, this transcendent accountability is made visible (through the revelation of the Qur'an and Hadith) to both investors and managers, in the form of Islamic teachings. This is represented by the two dashed arrows (2).

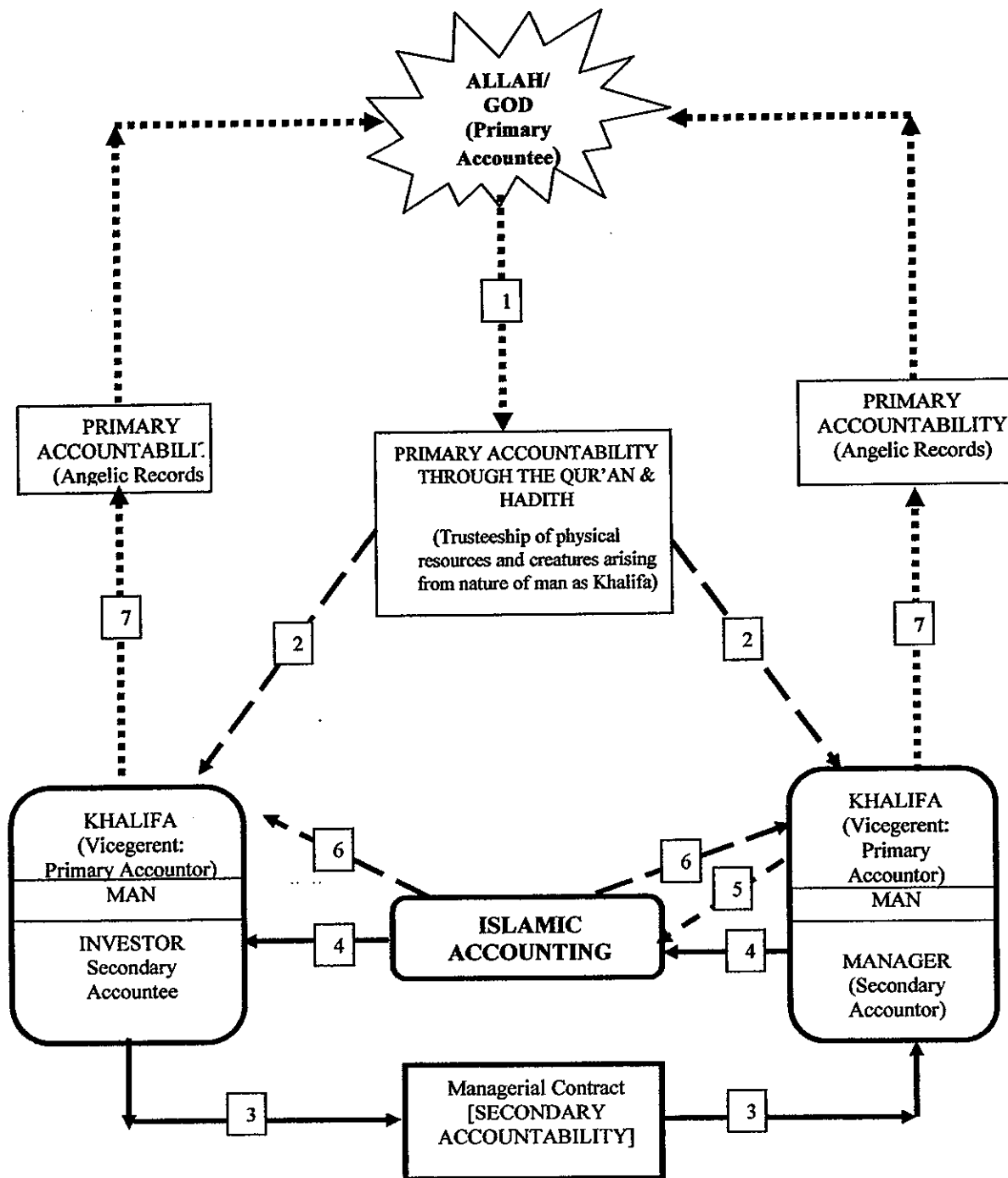
The secondary accountability is established by contract between the owner/investor and manager (e.g. through the Memorandum and Articles of Association of a company). The solid arrows in the model represent this (3). The secondary

accountability contract between the owner/investor and manager implicitly or explicitly embeds the primary accountability stipulations of Islam. As the company performs its activities the Islamic accounting system identifies, records, measures and reports these socioeconomic activities (similar to the conventional accounting system) to the investor thus discharging the secondary accountability. This is again shown in the model by the solid arrows (4), as these are perceivable by the senses. The latter completes the secondary accountability cycle.

However, the Islamic accounting system also identifies, measures and reports the socioeconomic activities pertaining to Islamic/social/economic/environmental and other issues to both the owner/investor and the manager (5 & 6). Dashed arrows show these information flows. The information thus disclosed enables both these parties to monitor the activities of the organization and ensure their primary accountabilities (measured by Qur'anic and Hadith criteria) in their capacities as *khalifas* of Allah, are discharged. The Angels record these actions and account this to Allah. However, as these latter information flows (7) are not perceptible to the senses, they are shown as dotted arrows to indicate their metaphysical nature. This information flows complete the primary accountability cycle.

The Islamic accountability model can thus be seen to have two accountability cycles, one to God and one to men. The accountability to God is partly transcendent and is, thus indicated by dotted arrows. That part of accountability relationships to God which is perceptible, is indicated by dashed arrows. Finally, solid arrows designate the normal physical accountability relationship between man and man.

FIGURE 2.5
THE ISLAMIC ACCOUNTABILITY MODEL



Source: Hameed (2000)

2.5.6. Accountability through *Zakat*

Khan (1994) argued that the objectives of Islamic accounting including accounting for Islamic banks are different from those of conventional accounting for two main reasons. First, Islamic banks deal within a Sharia framework. As a result, the nature of their transactions is different from that of conventional banks. Second, the users of information generated by Islamic banks have different needs from the users of information published by conventional accounting. Looking to the information needs of users, Khan (1994) argued that the accounting reports of Islamic banks should help the shareholders, depositors, investors and employees to determine their liability to *zakat*.

Based on the deductive approach that they use, Adnan and Gaffikin (1997) assert that the primary objective of Islamic accounting information is the provision of information to satisfy an accountability obligation to the real owner (Allah). Therefore, the overall accountability will be better operationalized, if it is directed towards the fulfillment of the *Zakat* obligation. They argue that by making *Zakat* the primary objective, one tends to avoid the unwanted practice of cheating or window-dressing in any form, as he or she believes that Allah always watches him or her. Consequently, accounting information will indirectly fulfill its users' needs as well as its societal responsibility (Adnan and Gaffikin, 1997).

Triyuwono (2000) also suggests that Moslem organizations should be *Zakat* oriented instead of profit oriented as they are now. This means that the net profit is no longer used as a basis of performance measurement as it is replaced by *Zakat* orientation. Therefore, an enterprise is directed to the achievement of higher *Zakat* payment. To achieve a *Zakat* oriented enterprise, it needs to maintain a *Zakat* oriented accounting system. Triyuwono (2000) believes that the use of *Zakat* oriented

accounting would result in a more Islamic organization as it implies certain features. Firstly, the transformation from profit maximization to *Zakat* maximization. Therefore, profit is only regarded as an intermediary goal while *Zakat* is the primary goal. Secondly, since *Zakat* has been taken as the ultimate goal, any activity policy of the enterprise must comply with the Islamic *Shariah*. Thirdly, it would inherently incorporate a balance between individual character and social character. This is because *Zakat* concept encourages Moslems to make profits (under *Shariah* guidance) and to distribute some of them as *Zakat* representing one's concern for social welfare. Fourthly, the enterprise would be encouraged to participate in releasing humans from the oppression of economic, social and intellectual factors and releasing the environment from human exploitation. Fifthly, it provides a bridge between the world and the Hereafter as *Zakat* raises human consciousness that any worldly activities are related with their destiny in the Hereafter.

2.6 Characteristics of Islamic Accounting and Islamic Corporate Reporting

The debates on the characteristics of Islamic accounting are focused on two aspects (a) financial measurement and (b) disclosures and presentations. Therefore, the following section will discuss those two aspects of Islamic accounting characteristics.

a. Financial Measurement Aspects

Most of Islamic accounting literature takes *Zakat* as a cornerstone of determining measurement tools. Khan (1994) argued that one set of the main objectives in an Islamic society is to help an individual to determine his or her liability to *zakat* and pay it promptly. In valuing *Zakat*, the majority of jurists appear to have concluded that it

should be based on the selling prices prevailing at the time *Zakat* falls due (al-Qardhawi, 1988). This implies that in accounting, Islamic business organizations should apply current cost rather than historical cost which is widely used at this time (Adnan & Gaffikin, 1997; Baydoun & Willet, 1994&2000 and Haniffa & Hudaib, 2001). Meanwhile, Khan (1994) argued that the agreed basis for calculating *zakat* on assets (or wealth) is net realizable value. But this is a limited view, because in case of those assets which are not meant for sale, the *zakat* law does not give much guidance. But they agree with Gambling and Karim (1991) who have proposed that the valuation method proposed by R.J. Chambers is most appropriate for evaluating assets in the Islamic framework. This method, known as current cash equivalent, says, the assets of a business should be evaluated according to cash or generalized purchasing power that could be obtained by selling each assets under conditions of orderly liquidation, which may be measured by quoted market prices for goods of a similar kind and condition.

The AAOIFI (1996) recognizes the current value concept of assets, liabilities and restricted investments in its statement of accounting concepts. However, due to the lack of adequate means, such a concept is not recommended. Instead of that, historical cost remains to be applied and the use of the current value financial statement is only regarded as supplementary information if the enterprise considers its importance for the potential investor and other users. Therefore, in practice, it is the historical cost which is applied by Islamic banks.

Mirza and Baydoun (2000) view this issue differently in that Islamic accounting is likely to use both historical cost and market selling prices. Therefore, an Islamic accounting system would have a dual system of asset valuation. This argument is based on the premise that an Islamic enterprise needs to adhere both to the contract and

discharge its obligation on *Zakat*. Since contract is based on past transaction and *Zakat* is based on current valuation, then the measurement needs to conform to each purpose.

Mirza and Baydoun's assertion (2000) on the application of historical cost in all (except for *Zakat* purposes) accounting calculations, is based on the arguments that historical cost is a highly reliable source of information about a firm's assets, private debts, the firms operation and cash management. In their opinion, historical cost also fits well into the concept of stewardship, which they believe is the objective of Islamic accounting. The historical cost method could highlight the fiduciary responsibility of the managers and their stewardship function. This method is most appropriate because contracts are written in historical cost numbers and this has survived over the centuries and if there were a more efficient valuation method it would have displaced the historical cost system long ago.

b. Disclosure and Presentation Aspects

Haniffa & Hudaib (2001) propose that the importance of disclosure and presentation is to fulfill the duties and obligations according to the Islamic *Shariah*. To achieve this purpose, an Islamic enterprise is expected to disclose at least: (1) any prohibited transactions they made; (2) *Zakat* obligation they have to pay and have already paid; and (3) social responsibility. Social responsibility would include charities, wages to employees, and environmental protection. This means that financial reporting in an Islamic society is likely to be more detailed than what is currently prevalent in Western societies.

Baydoun and Willet (2000) view that social accountability and full disclosures are the basis of Islamic corporate reports. The consideration of social accountability

would imply that conventional historic cost balance sheet should be supplemented with estimates of current values. They suggest the current value balance sheet be included as part of the reporting requirements of firms operating in an Islamic economy especially for calculating *zakat* obligation. Meanwhile, the income statement should be relegated to the notes because of its corruptive influence in directing people to become highly profit oriented. Also, since Islam encourages the payment of *zakat* and donation for charity, this type of reporting is most likely suitable to be incorporated. Instead of that, from an Islamic perspective, a Value Added Statement (VAS) should be applied. This is because the distributional characteristics of the VAS would support accountability in Islam through co-operative enterprise as opposed to destructive competition (Baydoun and Willet, 1997).

The VAS, however, is basically a rearrangement of the income statement. Therefore, the existence of the VAS to provide a significant difference from an income statement is questionable. Just like the income statement, the VAS is also an ex-post report which would have no influential control on the enterprise's social aspect for the current year. But to some extent it can still be used by workers to influence the enterprise on policy following the issuance of the VAS in aspects such as bonus payment. Besides, community at large could also use it to enforce the enterprise to be more aware of their social responsibility whereas an income statement has no such specific tools.

From an Islamic perspective, growth should lead to social justice and a more equitable distribution of power and wealth. Meanwhile, the VAS could provide information on wealth distribution between the different sectors of society and is likely to facilitate focusing a firm's performance from the stakeholders' point of view (Mirza

& Baydoun, 2000). Hence it would promote a conscious policy of redistribution and resource transfers among various groups of society (Sulaiman, 1997).

A social responsibility report is also suggested by Khan (1994) to be provided by an Islamic organization. He suggests that accounting reports should disclose the organization's initiative in fulfilling its social responsibility such as, contributions toward various charitable activities, development of employees, contribution to the economic development of the country, efforts to alleviate poverty and efforts to reduce income inequalities. In reporting its social performance, the negative effects of the activities of the organization need to be reflected too, in the Islamic accounting report (Hameed, 2000). This is all because in Islam, manager's accountability to society is part of his accountability to Allah as a trustee of His resources. Social responsibility accounting report is concerned with trying to present a comprehensive picture of the full extent of the organization's interactions with its external environment (Hameed and Yaya, 2003). In its development, SRA has been reported in three types of formats, (1) descriptive with the intermittent use of quantitative data, (2) financial accounting of social and environmental events, and (3) combinations of social accounts plus a series of more general statements.

Hameed and Yaya (2003) argue that in an Islamic business organization, it is a must to pay attention to the ethical treatment of employees with regard to religious duties, fair treatment and fair wages. Therefore, disclosing employment report could be expected to ensure the Islamic organizations on fulfilling their obligation toward employees and encourage the company generosity. Employment reports are reports to shareholders and others about employment. The corporate report in UK, recommends

that full employment reports should be published and provided the following data (Hameed and Yaya, 2003).

1. Numbers employed, showing totals and numbers of males and females in full-time, part time and temporary employment.
2. Locations of employment, showing the numbers employed in each of the company's home base country and overseas.
3. Age distribution of employees, showing the number of employees under 20 years and over 60.
4. Hours worked during the year showing the total paid at normal rates, the total paid at over time rates, paid and unpaid lost hours showing whether the hours were lost because of sick leave, industrial accidents, lay offs or internal and external industrial disputes; also the average required and actual working hours per week and the average paid holidays hours per annum.
5. Employee cost showing the total of wage and salary costs and of fringe benefits.
6. Pension, showing details of pension scheme including employer's and employees' contributions, the numbers of employees included and pension benefits.

Pertaining to the disclosure presentation issue, Mirza & Baydoun (2000) suggested that the Islamic financial statements require an emphasis on transparency and avoidance of manipulation, which is manifested by the full disclosure principle of Islamic corporate reports. However, Khan (1994) is pessimistic about this principle especially on firms disclosing negative information about themselves i.e. unfair treatment of employees, environmental pollution, cheating income tax calculation. Firms will think that they will be in the grip of the law if they disclose all these matters.

Therefore, Khan (1994) suggests that it is only certain transactions, which are lawful in the capitalist framework but unlawful in the Islamic framework (e.g. interest income, interest paid, investment on mark-up without taking any risk and other *riba* type transactions) that should be adequately disclosed in the financial statements of Islamic business firms. To be adequate, disclosure of unlawful transactions should involve amounts, sources and circumstances which force the firm to engage in such transactions, and the method by which such incomes or assets will be disposed of (Khan, 1994).

2.7 Hofstede Cultural Values

Hofstede develops a model of culture as the collective programming of the mind which distinguishes the member's of one human group from another (Hofstede, 1980). Hofstede argues that, much as a computer operating system contains a set of rules that act as a reference point and set of constraints to higher level programs, so culture includes a set of societal values that drive institutional form and practice (Salter and Niswander, 1995). Based on extensive survey and analysis, Hofstede outline four constructs or dimensions of common social preference that can be used to measure the base values of individual societies. Hofstede's cultural dimensions can be described below:

Individualism versus Collectivism

This dimension addresses the degree of interdependence that a society maintains amongst individuals. Individualism is the preference for a loosely knit social framework where the "I" concept is prominent. On the other hand, collectivism describes a society which prefers a tightly knit social framework where the concept of "we" prevails.

Large versus small Power Distance

Power Distance measures the way inequalities in status are handled by members of a society. Large Power Distance societies accept the established hierarchical order. In small Power Distance societies people strive for power equalisation and demand justification for power inequalities.

Strong versus weak Uncertainty Avoidance

Uncertainty Avoidance describes the extent to which the members of a society feel

comfortable with uncertainty and ambiguity. Strong Uncertainty Avoidance societies tend to have rigid codes of belief and behaviour and tend to be intolerant towards deviant persons and ideas. In contrast, Weak Uncertainty Avoidance societies maintain a more relaxed atmosphere where pragmatism is more important than theoretical principle, and deviant behaviour is more acceptable.

Masculinity versus Femininity

Masculinity addresses the way societies allocate social roles. A society is said to be Masculine if it attributes higher value to the characteristics of achievement, heroism, assertiveness, and material success. On the other hand, a society is said to be Feminine if it prefers 'nurturing' relationships, modesty, caring for the weak and quality of life.

2.8 An Alternative to Hofstede

Hofstede's cultural dimensions are only one way to describe national culture. Although his framework has been used extensively in empirical research but Hofstede's framework is not without critique (Baskerville, 2003). Doupanik and Tsakumis (2003) state that Schwartz's (1994&1999) national culture can be used as an alternative to Hofstede's framework. According to Schwartz's (1994&1999) theory, the seven value types are postulated to form three bipolar dimensions that express the contradictions between the alternative resolutions to each of three issues just described: autonomy versus conservatism, hierarchy versus egalitarianism, mastery versus harmony.

The first issue confronting all societies is to define the nature of the relation between individual and the group. One pole of this dimension describes cultures in which the person is viewed as an entity whose is embedded in the collectivity and finds meaning in life largely through social relationship, through identifying with the group and participating in its shared way of life. Schwartz (1999) labels this dimension as conservatism value type. The opposite pole of this dimension describes cultures in which the person is viewed an autonomous, bounded entity who finds meaning in his or her own uniqueness, who seeks to express his or her own internal attributes and is encouraged to do so. This value type is labeled as autonomy.

Conservatism: a cultural emphasis on maintenance of the status quo, propriety, and restraint of actions or inclinations that might disrupt the solidarity group or the traditional order (social order, respect for tradition, family security, wisdom).

Intellectual autonomy: a cultural emphasis on the desirability of individuals independently pursuing their own ideas and intellectual directions (curiosity, broadmindedness, creativity).

Affective autonomy: a cultural emphasis on the desirability of individuals independently pursuing affectively positive experience (pleasure, exciting life, varied life).

The second basic issue that confronts all societies is to guarantee responsible behavior that will preserve the social fabric. One polar resolution of this issue uses power differences, relying on hierarchical system of ascribed roles to ensure socially responsible behavior. People are socialized and sanctioned to comply with the obligations and rules attached to their roles. The value type expressive of this view is hierarchy. An alternative solution to the problem of responsible behavior is to induce societal members to recognize one another as moral equals who share basic interests as human basic. People are socialized to internalize a commitment to voluntary cooperation with others and to feel concern for everyone's welfare. The value type expressive of this solution is egalitarianism.

Hierarchy: a cultural emphasis on the legitimacy of an unequal distribution of power, roles and resources (social power, authority, humility, wealth).

Egalitarianism: a cultural emphasis on transcendence of selfish interest in favour of voluntary commitment to promoting the welfare of others (equality, social justice, freedom, responsibility, honesty).

The third basic issue that confronts all societies is the relation of humankind to the natural and social world. One response is actively to master and change the world, to assert control, bend it to our will, and exploit it in order to further personal or group interest. The value type expressive of this orientation is mastery. An opposing resolution of this issue is to accept the world as it is, trying to fit in rather than change or exploit it. The value type expressive of this response is harmony.

Mastery: a cultural emphasis on getting ahead through active self-assertion (ambition, success, daring, competence).

Harmony: a cultural emphasis on fitting harmoniously into the environment (unity with nature, protecting the environment, world of beauty)

2.9 Gray's Accounting Values

Gray's model of culture, societal values, and the accounting subculture began with Hofstede's proposition that societal values have institutional consequences in the form of legal, political and economic system including the pattern of corporate ownership and capital markets. Gray then extended Hofstede's model by hypothesizing the existence of accounting subsystem which drew its value system from the primary societal value system. He also argues that the value system of attitudes of accountants may be expected to be related to and derived from societal values with special reference to work related values. Accounting values will impact on accounting system. Gray (1988) derives four accounting sub cultural values (professionalism, uniformity, conservatism and secrecy) and he linked these to Hofstede's cultural dimensions. Gray's accounting sub cultural values are as follows:

Professionalism versus Statutory Control

Professionalism is a preference for the exercise of individual professional judgement and the maintenance of professional self regulation. Statutory control on the other hand, is the preference for compliance with prescriptive legal requirements.

Uniformity versus Flexibility

Uniformity is a preference for the enforcement of uniform accounting practices between companies and for the consistent use of those practices over time. Flexibility allows accounting practices to be in accordance with the perceived circumstances of individual companies, rather than to be set by predetermined, generally applicable rules.

Conservatism versus Optimism

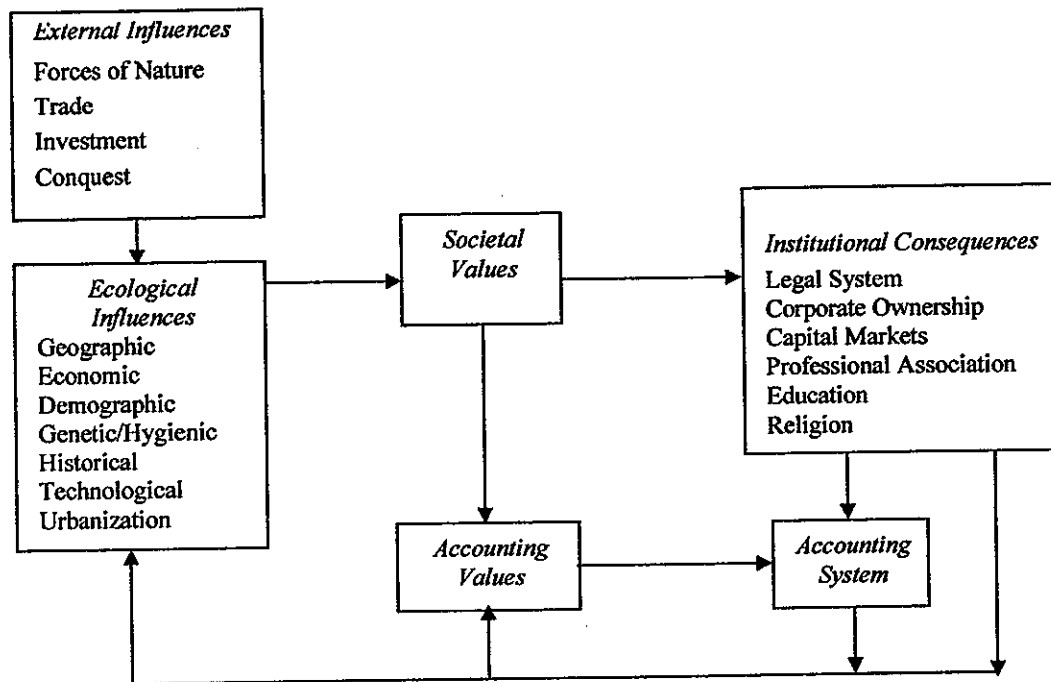
Conservatism refers to the cautious approach to measurement preferring the understatement of profit to its overstatement. Optimism refers to the more optimistic, laissez-faire, risk-taking approach and a willingness to recognise uncertain future profits.

Secrecy versus Transparency

Secrecy refers to the preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more Transparent, open and publicly accountable approach

These accounting values are linked to Hofstede's cultural construct by a model which can be seen in Figure 2.6

FIGURE 2.6
CULTURE, SOCIETAL VALUES, AND THE ACCOUNTING SUBCULTURE

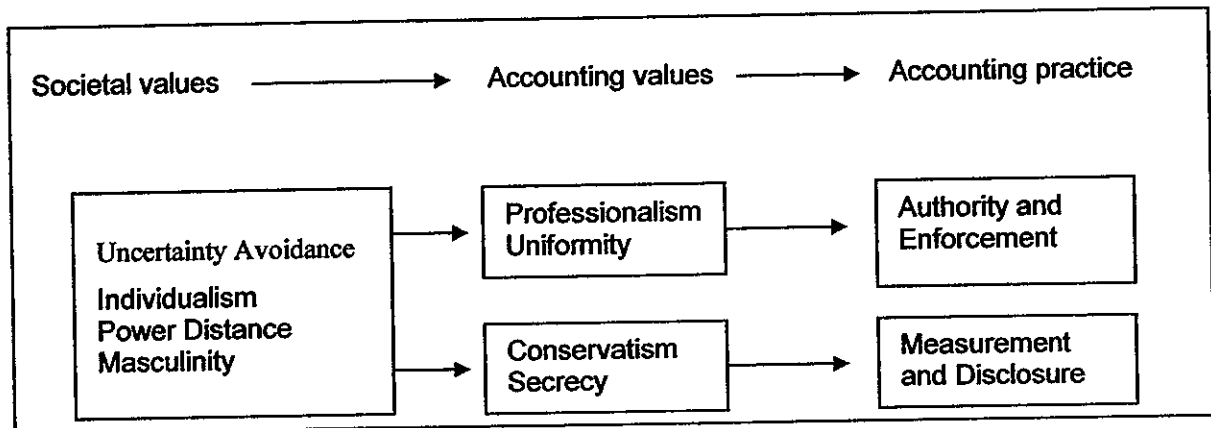


Source: Gray, 1988

Gray (1988) continued by hypothesising the relationships between societal values, accounting values and accounting practice which can be seen in Figure 2.7

FIGURE 2.7

GRAY'S HYPOTHESISED RELATIONSHIP BETWEEN SOCIETAL VALUES, ACCOUNTING VALUES, AND ACCOUNTING PRACTICE



Source: Sulaiman and Willet (2003)

Gray distinguishes the authority for and enforcement of accounting systems from the measurement and disclosure issues of accounting practice, linking the first two to the accounting sub cultural values of professionalism and uniformity. Hence, by a direct application of Hofstede's theory, cultural values (and thus religion) will affect accounting practices through the way institutions are organized and the processes that they use (Baydoun and Willett, 1995). Measurement of assets and profits, for example, would be influenced by the value of conservatism. The value of secrecy, on the other hand, would influence the nature and extent of disclosure practices.

As was shown in Figure 2.8, Gray attempts to link his accounting values to specific attributes of accounting practice in the form of authority, enforcement, measurement, and disclosure. The first two of this group are seen as being distinct from the last two. They are influenced by the values of Professionalism and Uniformity and also represent characteristics of the social and political framework in which the activity of accounting takes place. Meanwhile, the latter are influenced by Conservatism and

Secrecy and also represent what and how financial information is reported to users (Baydoun and Willet, 1995). The Islamic Corporate reporting model proposed by Baydoun and Willet (1994 and 2000) is based on premise that Islamic societies will be better served by Current Value Balance Sheet (CVBS) and Value Added Statement (VAS). This model is represented what and how financial information is reported by Islamic organizations to users. Based on data from twenty-nine countries, Salter and Niswander (1995) also find that Gray's (1988) model has statistically significant explanatory power in explaining actual financial reporting practices and is relatively weak in explaining extant professional and regulatory structures from a cultural base. This means that to explain the financial reporting, the best explanatory accounting values are Conservatism and Secrecy. Thus, this research will focus on Conservatism and Secrecy issues.

2.9.1 Conservatism

Conservatism or prudence in asset measurement and the reporting of profits is perceived as a fundamental attitude of accountants over the world. This would seem to be a significant value dimension because it is arguably 'the most ancient and probably the most pervasive principle of accounting valuation (Sterling, 1967 as quoted by Gray, 1988). The term conservatism is generally used to mean that accountants should report the lowest of several possible values for assets and revenues and the highest of several possible values for liabilities and expenses (Hendriksen and Van Breda, 1992). It also implies that expenses should be recognized sooner rather than later and that revenues should be recognized later than sooner. Thus, pessimism is assumed to be better than optimism in financial reporting. Gray (1988) argues that conservatism can be linked most closely with the uncertainty avoidance dimension. A preference for more

conservative measure of profits is consistent with strong uncertainty avoidance following from a concern with security and a perceived need to adopt a cautious approach to cope with the uncertainty of future events.

2.9.2 Secrecy

This would be seem to be significant accounting value dimension which stems as much from management as it does from the accountant owing to the influence of management on the quantity of information disclosed to outsiders (Gray, 1988). Secrecy would also seem to be closely related to conservatism in that both values imply a cautious approach to corporate financial reporting in general; but with secrecy relating to the disclosure dimension and conservatism relating to the measurement dimension. Gray (1988) argues that secrecy can be linked most closely with uncertainty avoidance because a preference for secrecy is consistent with strong uncertainty avoidance from a need to restrict information disclosure to avoid conflict and competition and to preserve security.

Meanwhile, Baydoun and Willet (1995) suggested that to use Gray's framework, one must be able to determine, by some means, whether an accounting system scores high or low on each dimensions. Then, Gray also hypothesized the relationship between his accounting values and Hofstede's cultural values as shown in Table 2.5

TABLE 2.5
RELATIONSHIP BETWEEN GRAY'S ACCOUNTING VALUES AND
HOFSTEDE'S CULTURAL DIMENSIONS

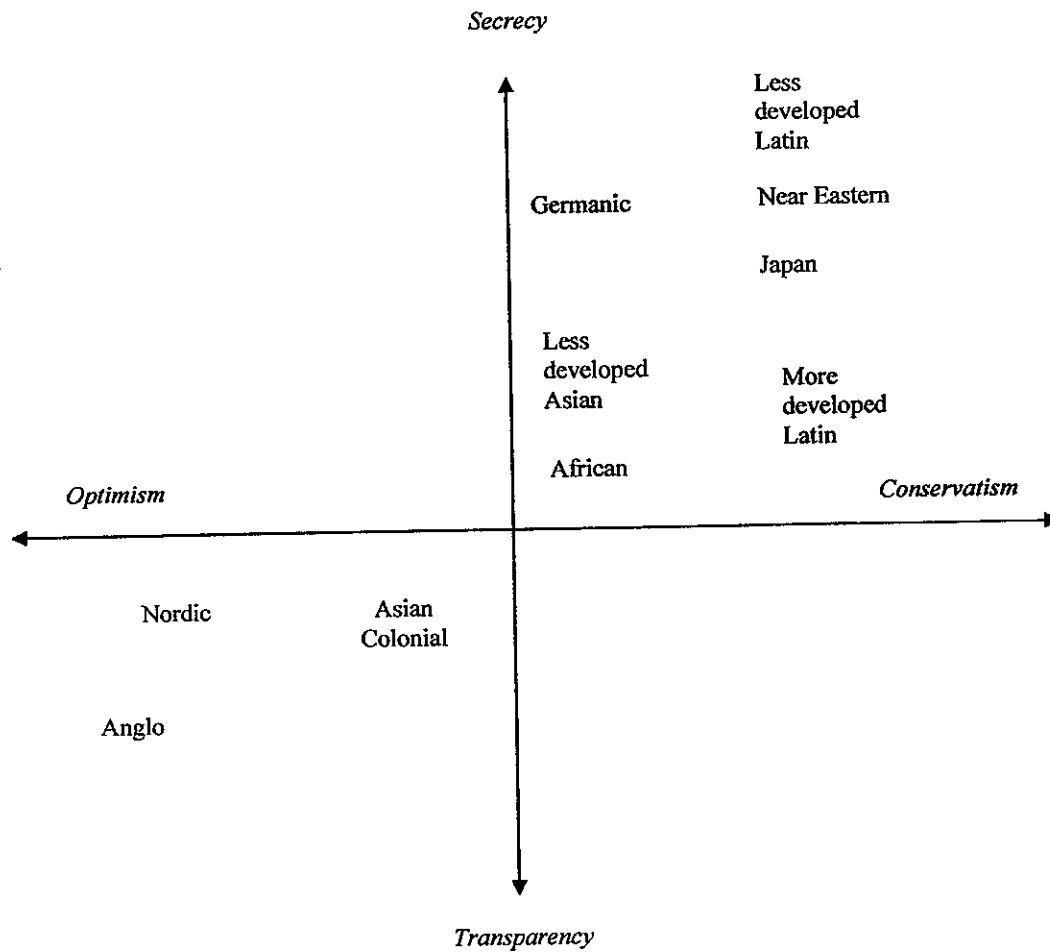
Cultural Values (Hofstede)	Accounting Values (Gray)			
	Professionalism	Uniformity	Conservatism	Secrecy
Power Distance	-	+	?	+
Uncertainty Avoidance	-	+	+	+
Individualism	+	-	-	-
Masculinity	?	?	-	-

Note: '+' indicates a direct relationship between the relevant variables, '-' indicates an inverse relationship. Question marks indicate the nature of the relationship is indeterminate

Source: Baydoun and Willet (1995)

Accounting values most relevant to the measurement practices used and the extent of information disclosed are the conservatism and secrecy dimensions. Accordingly, Gray (1988) argues that these can be combined and the classification of culture is hypothesized on a judgmental basis as shown in Figure 2.8. In making judgments in respect of these classification references has also been made to the relevant correlation between value dimensions and the resultant clusters of countries identified from the statistical analysis carried out by Hofstede (1980).

FIGURE 2.8
ACCOUNTING SYSTEM: MEASUREMENT AND DISCLOSURE



Source: Gray (1988)

2.10 Using Hofstede-Gray Framework to Develop Islamic Corporate Reporting

Sulaiman and Willet (2003) argue that to use the Hofstede-Gray framework to delineate and define what information Islamic reports should contain, it is necessary to determine how Islamic values affect the cultural dimensions of Power Distance, Uncertainty Avoidance, Individualism, and Masculinity of Islamic societies. Baydoun and Willet (1994) argue that in the Hofstede-Gray framework, Power Distance is

expected to be low. Hofstede describes three characteristics of a low Power Distance society: the first related to an interdependence between the less and more powerful members of the group, the second pertained to the existence of hierarchy not as representing unequal power but merely denoting an inequality of roles, and the third to the non-acceptable practice of privileges and status symbols. On the basis of certain verse in the Qur'an on *shura* (consultation) and hadith, it is argued that Hofstede's characterisation of low Power Distance societies aptly describes an important aspect of the ideal Islamic society.

Islam is against speculation but preaches the need to accept uncertainty, Hofstede's Uncertainty Avoidance value should therefore be weak (Baydoun and Willett, 1994). Additionally, the belief in *Qadar* or predestination in Islam is a positive affirmation of God's power, suggesting that Islam actually helps in accepting uncertainties that an individual cannot defend against. Hofstede further contends that there is a greater emphasis on regionalism and internationalism (as opposed to nationalism) in weak Uncertainty Avoidance societies. The farewell message of the Prophet reported above supports the fact that, normatively, Islam does not recognise nationalism (Sulaiman and Willet, 2003). These traits all suggest that Islamic societies should exhibit low Uncertainty Avoidance.

According to Baydoun and Willett (1994), the principle of *shura* gives the individual the right to be heard and the power to require information concerning the effect of the firm on the *ummah*. Kahf's (1991) as quoted by Sulaiman and Willet (2003) viewpoint that Islam takes a middle path between Individualism and Collectivism reconciles these aspects of Islam, arguing that Islam strikes a balance between human drives and desires on the one hand and social needs and responsibilities

on the other and calls for a balanced mix of pragmatism and dogmatism. Baydoun and Willett (1994) reason that a regard to the rights of the individual on the part of the user, and a belief in the obligations to the collectivity on the part of the preparer, will both encourage full disclosure of information. Taken together these viewpoints do not conflict but suggest that Islamic values encourage a collectivist ethic but not in the extreme so that Islamic societies rank on the low side of Individualism. Regarding Masculinity, Baydoun and Willett (1994) argue that the effect of Islamic belief on Masculinity is uncertain. According to Hofstede's definition, however, a Feminine society is (amongst other things) a society that does not show off, puts relations with people before money, and helps others, particularly the weak. Since this accord with most Moslems' perception of desirable Islamic values, it implies that Islamic societies should rank low on Masculinity.

Based upon the preceding analysis, Islamic societies ought to rank Low on the four of Hofstede's dimensions. Assuming that Gray (1988) correctly identified the linkages between Hofstede's cultural dimensions and his accounting sub cultural values, it is possible to use the Hofstede-Gray framework infer the type of accounting system an ideal Islamic society should deem appropriate by examining its cultural values Following the linkages suggested by the framework, Low Uncertainty Avoidance and low Power Distance are consistent with Islamic societies advocating an accounting system that is low on secrecy and conservatism. Salter and Niswander's (1995) conclude that Uncertainty Avoidance has a more significant relationship to Gray's accounting subcultural values than the other Hofstede dimensions of culture supports the concept of a dominant cultural value, in this context. Islam's emphasis on the need to accept uncertainty and its emphasis on equality would rank Power Distance and

Uncertainty Avoidance as the two prominent cultural values. Accordingly, an Islamic society would favour a more transparent disclosure policy and less conservative measurement practice. Baydoun and Willett's (1995) extended Hofstede-Gray framework introduced the attributes of accountability and decision usefulness into the analysis of the cultural relevance of accounting, suggesting that a society exhibiting low Masculinity, (such as an Islamic society) would emphasise accountability, while highly Masculine societies would prefer information that is geared towards investment decision making (decision usefulness). Consequently, the emphasis on accountability would render Islamic corporate reporting to have a wider focus.

Baydoun and Willett (2000) proposed that low conservatism implied an Islamic society's preference for current values while low secrecy pointed to the need for full disclosure in Islamic financial reports and that the current value balance sheet be included as part of the reporting requirements of firms operating in an Islamic economy. It was also argued in the same, suggested reporting framework that the profit and loss statement should be relegated to the Notes to the financial statements because of its corruptive influence and be replaced by a value added statement.

Baydoun and Willett's suggestions, as they acknowledge, may be regarded as providing a bare minimum towards satisfying Islam's social accountability obligations. With Islam's emphasis on safeguarding the welfare of the community, a more complete Islamic Corporate Reporting model is required to include information on corporate social responsibility and the environment. The argument that there is a need for greater awareness of the social impact of firms' activities in Islamic societies necessitates the detailed description of externalities and trading practices harmful to the community.

2.11 The Islamic Corporate Reporting Model

The emphasis on the social dimension of financial accounting information led Baydoun and Willett (1994) to suggest that two essential objectives underlie the concept of accountability in Islam: full disclosure and social accountability. A financial statement that measures the performance of a firm's activities by just a single dimension, that of the bottom-line profit, is not appropriate to Islamic societies, at least not from an ethical perspective. The argument for the inclusion of the VAS and the CVBS in Islamic Corporate Reporting is primarily derived from the need to discharge the objectives of full disclosure and social accountability. The VAS is considered as being appropriate to the objective of social accountability and more in line with the concepts of justice and mutual cooperation that Islam propagates than is the PL. In disclosing the share of the value added between different sections of society (employees, government, owners and creditors as well as shareholders), the VAS concentrates more on the cooperative nature of the organization of the firm and more clearly emphasises the distribution of wealth created by the firm.

In Islam, emphasis is placed on the use of one's possessions and merit lies in extending these intelligently and distributing them with generosity. In contrast, the emphasis on the PL stresses the owners' private interests above anything else: ethical support is derived from a materialist philosophy (on which the secular capitalist mind-set is based) and the economic theories such as 'agency theory' which seek to justify its ethics on the basis of scientific rationality. Islam does not deny that Moslems will follow the road of self interest but it teaches that true self-interest is a form of altruism which guides the individual to work for the good of the community.

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

Is this prescription, therefore, incorrect or is there a way of integrating such views which explains the discrepancies. Hofstede's (1980) analysis is relevant to this point. He suggested that issues such as these should be analyzed respectively at the level of the 'Desirable', at the level of the 'Desired' and at the level of the 'Actual'. If Baydoun and Willett's (1994) theory of Islamic Corporate Reporting is relevant at the level of the Desirable rather than at the level of the Desired or the Actual, then the validity of the theory is a question of reasoning from the foundations of Islamic principles, not a question of correspondence with actual behavior and belief. From Sulaiman's (1997) survey, it would seem that there are gaps and, perhaps, even tensions in both the way accounting is practised by Moslems in Malaysia and what is seen by them as appropriate practice compared to the kinds of accounting practice which is Desirable in the sense of it being consistent with the tenets of Islam.

2.12 Research Hypotheses

2.12.1 Suitability of Conventional Accounting for Islamic Organizations

There are many literatures suggest that conventional accounting is not suitable for Islamic organizations (Gambling and Karim, 1991; Baydoun and Willet, 1994; Adnan and Gaffikin, 1997; Hameed, 2000 and Triyuwono, 2000) as mentioned in the previous section. Hameed (2000) argue that the difference in worldview and values will make difference in accounting. He argued that conventional accounting is not appropriate for Islamic organizations due to its inappropriate objectives, characteristics and consequences.

This research will obtain empirical evidence of perception Moslem accounting academicians on this issue. It is important to drive this issue because accounting standards for Islamic organizations especially Islamic banking is based on conventional accounting. Sulaiman and Willet (2003) also argued that the possible explanation for phenomena showed that Baydoun and Willet's model was not supported by empirical evidence is the potential of Western materialist values to corrupt the value system of Moslems. Hence, there is a possibility for the Moslem accountants and accounting academicians to perceive it differently from the Islamic accounting theories. This phenomenon leads the first research questions: Is conventional accounting appropriate for Islamic business organizations and Moslem users to fulfill their objectives?

In case of Malaysia, Hameed (2000) concluded that the hypothesis that Malaysian Moslem accountants and accounting academicians believe that some conventional accounting principles are suitable for Islamic organisations is accepted. Beside that, he concluded that the academicians and accountants did not believe that conventional financial statements provides appropriate information to enable Islamic

business organisations to properly disclose their Islamic accountabilities to all their stakeholders. It also appears that some conventional accounting principles, such as monetary measurement, prudence and historical cost, may be viewed as appropriate for Islamic organizations. In case of Indonesia, Yaya (2002) who examine the perception of Moslem accounting academicians in Yogyakarta also support the findings of Hameed's study. Therefore the hypotheses related with the appropriateness of conventional accounting for Islamic organizations and Moslem user can be stated as:

- H1: Moslem Accounting Academicians in Java believe that conventional accounting provides information, directs Moslem users towards unIslamic behavior.**
- H2: Moslem Accounting Academicians in Java believe that Financial Statements provided under conventional accounting provide inappropriate information for Moslem users.**
- H3: Moslem Accounting Academicians in Java believe that the conventional accounting concepts of historical cost, prudence and monetary measurement are not suitable for Islamic organizations.**

2.12.2 The Objectives and Characteristics of Islamic Accounting

Based on the literature on Islamic economics, we can infer that there is a different set of socio-economic principles between the capitalist and Islamic economic systems. This would imply that the objectives and characteristics of Islamic accounting may be different from conventional accounting as stated by some scholars of Islamic accounting which mentioned in the previous section. However, since the mainstream

accounting is based on the capitalist economic system, there is a possibility for the Moslem accountants and accounting academicians to perceive it differently from the Islamic economic system. Therefore, it is important in this research to ask respondents' perceptions as to whether there is any difference between the objectives and characteristics of Islamic accounting and conventional accounting.

Hameed's (2000) study in Malaysia concluded that Islamic/social objectives of Islamic accounting are seen by Malaysian Moslem accountants and accounting academicians as more important than the economic objectives such as the maximisation of shareholder wealth. Yaya (2003) who conducted study in Yogyakarta, found that Moslem Accounting Academicians in Yogyakarta perceived the objective of Islamic accounting is different from the objective of conventional accounting, which is decision usefulness. He argued that, since this consensus is widely supported by the respondents, the development of Islamic accounting could be brought about by providing information that will enable shareholders to ensure that the organization has discharged its accountability in accordance with the *Shariah* and to induce economic behavior in line with Islamic objectives and values. Based on the above arguments and results of previous research, then the following hypothesis is stated:

H4: Moslem Accounting Academicians in Java believe that the objectives of Islamic accounting are different from the objectives of conventional accounting

The next hypothesis of the objective and characteristics of Islamic accounting relates to the importance of the users of the accounting information. As already discussed earlier, accounting information is widely influenced by the users of the information. Therefore, it is commonly understood that the type of information provided is the result of the various interests of the users of the accounting information. In

conventional accounting, there is a kind of classification of users of accounting information whereby shareholder and potential shareholders are regarded as the primary users. This practice is in line with capitalism that views the capital provider as the centre of wealth creation. Since Islamic accounting has a different worldview, it is possible that there is a difference in the level of importance of users of accounting information between Islamic accounting and conventional accounting.

Empirical findings of Hameed (2000) suggested that stakeholders other than shareholders are perceived by Malaysian Moslem accountants and accounting academicians, as important as, if not more important than, shareholders, as users of Islamic accounting information. Yaya (2002) also support this finding that Moslem Accounting Academicians in Yogyakarta believe that the level of importance of users of accounting information is different between Islamic accounting and conventional accounting, whereby in Islamic accounting the shareholder is not necessarily the most important user among the stakeholders. Therefore, the fifth hypothesis can be stated as follows:

H5: Moslem Accounting Academicians in Java believe that other users of accounting information in Islamic accounting are equally important with shareholders.

The next hypothesis of the objectives and characteristics of Islamic accounting focuses on the types of information provided. It is argued that Islam emphasizes social and religious concerns i.e. lawful and unlawful aspects of transactions. This implies that there should be some differences in the information to be disclosed between Islamic based accounting and conventional based accounting. The findings of Hameed's (2000) support the hypothesis that Malaysian Moslem accountants and accounting

academicians believe that Islamic accounting emphasizes Islamic/social information. Yaya (2002) concluded that hypothesis on the characteristics of Islamic accounting, it is found that Moslem Accounting Academicians in Yogyakarta believe that Islamic accounting should emphasize social and religious oriented information. This consensus would imply that there is a need in an Islamic accounting system to provide information to encourage the business organization to behave in an Islamic manner and discourage any un-Islamic behavior that might probably be undertaken by the organization or the users of information.

The hypothesis in this area is set up as follows.

H6: Moslem Accounting Academicians in Java believe that Islamic Accounting should give more on social and religious information.

2.12.3 The Relationship between Cultural Values and Accounting Values

Hendriksen and Van Breda (1991) argue that uncertainty is the basis for traditional accounting concept of conservatism. Gray (1988) argues that conservatism can be linked most closely with the uncertainty avoidance dimensions. A preference for more conservative measures of profits is consistent with strong uncertainty avoidance following from concern with security and a perceived need to adopt a cautious approach to cope with the uncertainty of future events. Gray (1988) hypothesizes that lower Uncertainty Avoidance societies would favor a less conservative measurement practice (see Table 2.5). Salter and Niswander (1995) argue that Uncertainty Avoidance has more significant relationship to Gray's accounting values than the other Hofstede's dimensions. Their research concluded that of conservatism measures, a significant relationship was found with uncertainty avoidance. In terms of Indonesia, Sudarwan and

Fogarty (1996) have examined the relationship among the cultural characteristic of Indonesian society and reporting practices. They found that there was positive significantly relationship between uncertainty avoidance and conservatism which support Gray's hypothesis. They also found an interesting phenomenon that there was positive relationship between power distance and conservatism although Gray did not hypothesize this relationship.

The studies conducted by Salter and Niswander (1995) and Sudarwan and Fogarty (1996) were empirical test of the Hofstede-Gray framework at the country level. However, Douppnik and Tsakumis (2004) have reviewed some studies at individual level. They argued that Gray's hypothesis can be restated at individual such as accountants from countries that rank higher (lower) in terms of uncertainty avoidance and lower (higher) in terms of individualism and masculinity will be more (less) conservative in their application of financial reporting rules. Based on Hendriksen and Van Breda's theory (1991), Gray's hypotheses and framework (1988), Sudarwan and Fogarty's finding (1996), and Douppnik and Tsakumis (2004) then the relationship between uncertainty avoidance, power distance, and conservatism can be stated as follow;

H7: The higher in terms of uncertainty avoidance and power distance, the more likely to rank highly in terms of conservatism

Gray (1988) argued that secrecy can be linked most closely with uncertainty avoidance and power distance. A preference for secrecy is consistent with strong uncertainty avoidance following from a need to restrict information disclosure so as to avoid conflict and competition and to preserve security. Salter and Niswander (1995)

suggest that the measure of secrecy have a significant positive relationship with uncertainty avoidance. A close relationship with power distance also seem in that in power distance societies are likely to be characterized by the restriction of information to preserve power inequalities. However, Salter and Niswander (1995) find that the hypothesized relationship between secrecy and power distance fails to materialize. Sudarwan and Fogarty (1996) who employed a longitudinal approach focusing on Indonesian society found that there was negative relationship between uncertainty avoidance and secrecy which use disclosure as proxy for secrecy. They also found that Gray's expectation with regard to power distance was not supported by empirical study in Indonesia. Following from this analysis it may be hypothesized that:

H8: The higher in terms of uncertainty avoidance and power distance, the more likely to rank highly in terms of secrecy.

2.12.4 The Relationship between Accounting Values and the Islamic Corporate Reporting Model

Baydoun and Willet (1994 and 2000) develop Islamic Corporate Reporting model which has transparency in disclosure of information and less conservative measurement. Baydoun and Willet (2000) proposed that low conservatism implied a preference for current values while low secrecy pointed to the need for full disclosure in Islamic Corporate Reporting. Baydoun and Willet (2000) also suggest that the inclusion for Current Value Balance Sheet and the Value Added Statement in Islamic Corporate Reporting can be considered as satisfying the concepts of full disclosure and less

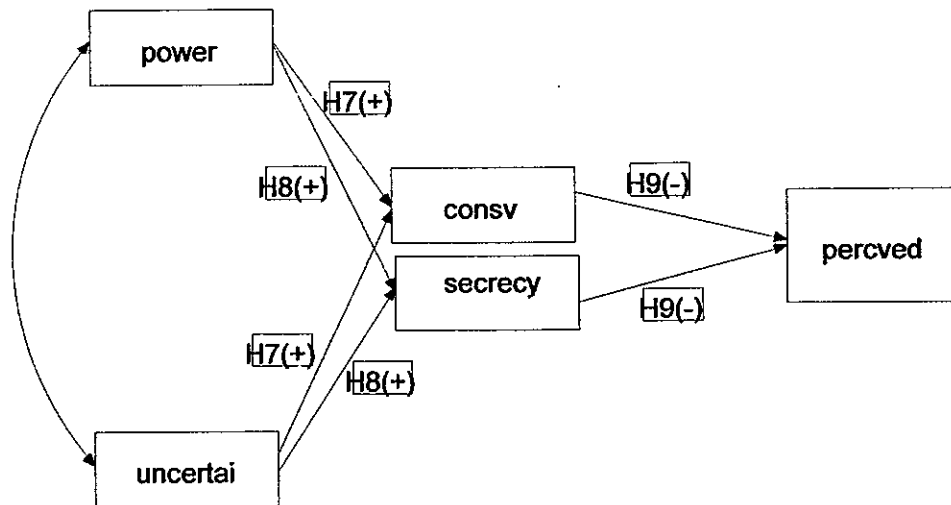
conservative.

H9: The lower in terms of conservatism and secrecy, the more likely to believe that the Islamic corporate reporting are more important than conventional accounting reporting

This study examines two part issues: the nature of Islamic accounting and cultural influence on the perceived usefulness of the Islamic Corporate Reporting model. Univariate analysis will be conducted to test the first part of this research. Meanwhile the hypotheses related with the second part of this research can be described in figure 2.9. The theoretical model shows the hypothesized relationship among cultural values, accounting values, and the perceived usefulness of the Islamic Corporate Reporting model.

FIGURE 2.9

**HYPOTHE SIZED RELATIONSHIP AMONG CULTURAL VALUES,
ACCOUNTING VALUE, AND THE PERCEIVED USEFULNESS OF
THE ISLAMIC CORPORATE REPORTING**



Note: Power: Power Distance

Uncertai: Uncertainty Avoidance

Consv: Conservatism

Secrecy : Secrecy

Perceived: Perceived Usefulness of Islamic Corporate Reporting

The theoretical model can be tested in the following stage. In the initial stage, each of the Gray's accounting values is individually regressed against Power Distance and Uncertainty Avoidance of Hofstede's construct to test hypotheses 7 and 8. In the next stage, the perceived usefulness of the Islamic Corporate Reporting as dependent variable is regressed against Conservatism and Secrecy of Gray's accounting values. If the result indicates that Conservatism has a significant positive relationship with Uncertainty Avoidance and Power Distance, then it supports the hypothesis 7. The result of regression analysis will indicated that the hypothesis 8 is supported, if

Uncertainty Avoidance and Power Distance are significantly positively related to Secrecy. The last hypotheses will be supported if Conservatism and Secrecy have a significant negative relationship with perceived usefulness of the Islamic Corporate Reporting model.

The theoretical model in figure 2.9 also shows the possibility of accounting values; conservatism and secrecy, as mediating variable on relationship between cultural values and perceived usefulness of Islamic Corporate reporting because there is a mechanism; cultural values will influence on accounting values and then accounting values influence on perceived usefulness. Douplik and Tsakumis (2004) stated that Baron and Kenny (1986) present a potential method for testing this relationship. Baron and Kenny (1986) argue that mediator-oriented research is more interested in the mechanism than in the exogenous variable itself.

However, in testing the function of Conservatism and Secrecy as mediating variable, we must scrutinize that they meet the following conditions (Baron and Kenny, 1986): (a) variations in level of Power Distance and Uncertainty Avoidance significantly account for variations in the presumed mediator, Conservatism and Secrecy (b) variations in the mediator, Conservatism and Secrecy, significantly account for variations in the Perceived Usefulness of Islamic Corporate Reporting, and (c) when conditions a and b are controlled, a previously significant relationship between the independent and dependent variables is no longer significant. Sulaiman's studies (1997 and 1998) conclude that there are no differences in the perceived usefulness of Islamic Corporate Reporting between Moslems and non-Moslems. These mean that the antecedents of different perceived usefulness of Islamic Corporate Reporting are not only different religions; Moslem or non Moslem. The theoretical model proposed by this

study may be can extend Sulaiman's studies (1997 and 1998) showing that the antecedents of perceived usefulness of Islamic Corporate Reporting may be the differences of cultural and accounting values.

CHAPTER III

METHODOLOGY

3.1 Research Design

The purpose of this research can be classified as hypotheses testing which explain the nature of certain relationship. Hypothesis testing is undertaken to explain the variance in the dependent variable that is perceived usefulness of Islamic corporate reporting. This research also has type of investigation as causal study because the researcher wants to delineate the cause of one or more problems. This study wants to delineate the antecedents of accounting values and perceived usefulness of Islamic corporate reporting.

The unit analysis is individual because the researcher will be looking at the data gathered from each individual and treating each respondent's response as individual data source. The data are gathered just once in order to answer the research questions. Thus, this research is one-shot or cross sectional study rather than longitudinal study. The survey research is thus seen as a means of evidencing consensus among Moslem accounting academicians on Islamic accounting issues. As Islamic accounting research is an exploratory study of the subject, it is considered adequate to conduct a univariate analysis on testing the issues of the nature of Islamic accounting without attempting to study relationship among different variables. Multivariate analysis is conducted to test whether cultural and accounting values influence the perceived usefulness of the Islamic Corporate Reporting

3.2 Population and Sample

This research takes Moslem accounting academicians in Java as the target research population. The Moslem of accounting academician was defined as Moslem faculty members and lectures of the Accounting Department or Economic School of the universities which recognized as actively internalizing Islamic values especially Islamic economics or Islamic accounting in their curriculum. The main reason of choosing this target population is because they are expected to be familiar with the issues of Islamic accounting. The other reason is because teacher, including Moslem accounting academicians, as a group, they play an explicit role in value socialization, they are presumably key carriers of culture, and they probably reflect the mid-range of prevailing value priorities in most societies (Schwartz, 1999).

The researcher use State and Private University Directory to obtain information about the number of accounting academicians from some universities in Java which fulfill the criteria. Because the directories did not have information about universities which have Islamic accounting or Islamic economic in their curriculum, the researcher obtain information from Forum Silaturahmi Studi Ekonomi Islam (FOSSEI). The researcher also visits the website of some universities to get the information about their curriculum and lectures.

Based on information from FOSSEI and website of each universities, this study only can identified twenty universities which fulfill the criteria. The researcher also uses personal contact to know the number of Moslem accounting academicians from those universities. This study identified 365 Moslem accounting academicians from those universities and distributed 218 questionnaires. The reason why only took 218, instead of 365 is the expectation for high response rate, therefore prefer use personally delivering the questionnaires to the head of department or lecturers

concerned rather than posting them. Therefore the number questionnaires delivered are lower than the number of population in order to reduce the uncertainty of questionnaires returned.

3.3 Research Variables

This study will obtain empirical evidence of perception on the nature of Islamic accounting hypothesizes as mentioned in the previous section. To test the issues about the nature of Islamic accounting, this research will adopt instrument developed by Hameed (2000). This instrument has been use by Hameed (2000) and Yaya (2003) which show high reliability and validity. Islamic Accounting Questionnaire using the Likert and 1 to 7 scales except for measuring the objective of Islamic Accounting (see Appendix B table 1 to table 4).

The variables related to the nature of Islamic accounting are:

- a. UnIslamic behavioral consequence of conventional accounting (UNISL)

To test the first hypothesis a score (UNISL) consisting of questions Q1.1, Q1.2, Q1.3 and Q1.4 is calculated to represent variable UNISL, with the following formula is computed.

$$\text{UNISL} = \text{mean} (\text{Q1.1, Q1.2, Q1.3, Q1.4}) \quad (1)$$

- b. Financial statements prepared under conventional accounting is not suitable (FACON)

To test the second hypothesis, a score of construct, FACON, is constructed to measure this variable better, using the responses to questions Q1.5 (a), Q1.5 (b) and Q1.5 (c). The formula used is:

$$\text{FACON} = \text{mean} (\text{Q1.5a, Q1.5b, Q1.5c}) \quad (2)$$

c. Unsuitability of conventional accounting principles (CAPRIN)

To test the third hypothesis, a multi-item score, CAPRIN is calculated consisting of questions 1.6a, 1.6b and 1.6 c.

$$\text{CAPRIN} = \text{mean (Q.1.6a, Q1.6b, Q1.6c)} \quad (3)$$

d. The objective of Islamic Accounting (OBJECTVE)

The objective of Islamic Accounting (OBJECTVE) variable is obtained from the respondents' choice on the main objective of Islamic accounting. As already discussed in the previous chapter, there are five alternatives provided. They are (1) decision usefulness; (2) stewardship; (3) Islamic accountability; (4) accountability through zakat and (5) other objective, if the respondent has a different opinion from the above alternatives.

e. The users of Islamic accounting (USER)

A score, USER constituting questions 2.2a to 2.2g is computed with the following formula:

$$\text{USER} = \text{mean (q2.2a, q2.2b, q2.2c, q2.2d, q2.2e, q2.2f, q2.2g)} \quad (4)$$

The questions were measured on a 1 to 7 scale; a score of 1 indicating that the stakeholder group is not important at all compared to shareholders while a score of 7 will mean that the stakeholder group is much more important than shareholders. A score of 4 indicates that the stakeholder group was equally important as shareholders

f. The variable of characteristics of Islamic accounting (CHARCT)

The variable of characteristics of Islamic accounting (CHARCT) is established based on questions Q2.3, Q2.4, Q2.5, Q2.6, Q 2.7, Q2.8 a, Q2.8b,

Q2.8c, Q2.8d & Q2.8e. The formula for this variable is set in the following equation.

$$\text{CHARCT} = \text{mean (Q2.3, Q2.4, Q2.5, Q2.6, Q 2.7, Q2.8 a, Q2.8b, Q2.8c, Q2.8d \& Q2.8e.)} \quad (5)$$

Meanwhile, to test the hypothesis about the relationship between cultural values and accounting values, this research will use the cultural measures as independent variable with the five-item, 7-point scale of Dorfman and Howell as quoted by Mas'ud (2004). Conservatism and secrecy of accounting values as dependent variables will be measured by instrument adopted from Salter and Niswander (1995). To test the hypothesis about the cultural influence on the perceived usefulness of Islamic Corporate Reporting, this research will use the instrument developed by Sulaiman (1997) to measure the dependent variable. Conservatism and secrecy of accounting values as independent variables will be measured again by instrument adopted from Salter and Niswander (1995).

3.4 Research Instrument

The theoretical paradigm adopted by this study is the Islamic paradigm, which is a spiritual extension of a middle position of the subjective/objective dimension divide and towards an interpretive approach. For this paradigm, long-term participant observation in an organizational setting, multi-stage interviews and case studies will be appropriate for data collection methods.

However, the researcher will chose to use questionnaires and not case studies because of the difficulties in obtaining access to organizations and due to the length and time limitations, to obtain evidence of consensus among the respondents on

Islamic Accounting issues. Questionnaires can be defined as a pre-formulated written set of questions to which participants record their answers, usually within largely closely defined alternatives. In general, questionnaires are useful, where the researcher cannot observe the phenomenon directly or is impractical to do so. It allows the researcher to reconstruct the phenomena through the experience and perceptions of the participants who have observed the phenomena.

Questionnaire will be used by this study is Islamic Accounting Questionnaire (IAQ) which developed by Hameed (2000). Section 1 of the Islamic Accounting Questionnaire (see Appendix B) was designed by Hameed (2000) and will be used in this research in order to elicit the perception of the Indonesian Moslem Academics on the first research question.

The first part of this section referred to the basis, objectives, and unIslamic consequences of conventional accounting information and to inquire whether conventional accounting needs a major overhaul if at all. The second part of section 1 is intended to elicit the extent to which the participants felt that conventional accounting information (i) satisfied Islamic requirements or (ii) had unIslamic consequences. The third part of section 1 asks the participants to rank the extent to which some conventional accounting concepts thought not suitable from an Islamic perspective are appropriate or otherwise for Islamic organizations. There is also an open-ended question in which the participants are asked to insert other conventional accounting principles that were thought to be inappropriate.

Meanwhile the section 2 of Islamic Accounting Questionnaire is designed to answer the second research questions or focuses on the objectives and characteristics of Islamic accounting. In the Islamic Accounting Questionnaire, Q2.1 lists four alternative objectives of Islamic accounting from which respondents are asked to

choose one or give their own. To test the fifth hypothesis the respondents will be asked to rank the importance of some other potential users compared to shareholders (see the list of questions in table 2). If the answer shows that other users are more important than the shareholders, it would indicate that there exists a difference between conventional accounting and Islamic accounting in terms of the users of accounting information.

To test the sixth hypothesis, the researcher will ask the respondents about their perceptions on some Islamic and social information. The questions are organized into two types of statements; type A statement and type B statement (See Table 3 and Table 4 in the section 2). The type A statement is the statement that asks the respondents' agreement to the given statement. Meanwhile the type B statement is the statement in the form of a comparison with the profit figure information, which is regarded as the ultimate information in the conventional accounting information.

In theory, the characteristics of Islamic accounting would show its preference to the social and religious aspect rather than just a profitability consideration. Therefore, if the respondents show their agreement with the given statements, it could be regarded as an indication that there are differences in the characteristics of the information that needs to be disclosed between the Islamic accounting and conventional accounting.

Meanwhile, to test the Islamic corporate reporting hypotheses, this research will use instrument developed by Sulaiman (1997) to measure the perceived usefulness of respondents on the Islamic corporate reporting (see table 5). This questionnaire contains the questions show the importance of Islamic corporate reporting developed by Baydoun and Willet (1994 and 2000) as compared to

conventional accounting reports: balance sheets, profit and loss statements, cash flow statements and statements of changes in equity. This study also will develop and validate measurement of new variables, conservatism and secrecy, which are hypothesized to be determinants of perceived usefulness of Islamic Corporate Reporting. Concepts of these two variables from Gray (1988), Salter and Niswander (1995), and Hendriksen and Van Breda (1991) are used to develop scale items that will be pre- tested for validity and construct reliability. Factor analysis will be conducted for support the construct validity.

The validity and reliability of the instrument will be tested and discussed. Validity indicates the degree to which an instrument measures the construct which is under investigation. Content validity ensures that the measure includes an adequate and representative set of measures that would tap the concept. The more the scale items represent the domain or universe of the concept, the greater the content validity. This research will use of correlation analysis for the content validity of the items in the scale. If the items correlate significantly with the construct, then the items have content validity for that dimension. The theory is that if different items are measuring the same attitude or trait, then the underlying trait should be causing the covariance among the items, hence the higher the correlation, the better the items measuring the construct.

Reliability refers to the consistency of the test to produce the same results on repeated used, otherwise the measuring instrument would not be accurate over repeated use. Reliability can be divided into external and internal reliability. External reliability refers to the consistency of the measure over time. To test for such reliability, the same test could be administered twice to the same group of participants after some time lapse for test-retest reliability. This was not an option in

this research. Hence the external reliability could not be tested. However, the internal reliability of the items in the questionnaire will be tested using SPSS alpha model method. Cronbach's Alpha, which generally measures the average of all possible split-half reliability coefficients, will be calculated. If this alpha measure results in is 0.8 or above as a rule of thumb, then the items are said to be internally reliable.

3.5 Data Collection Method

There is possibility that conventional accounting is not suitable for Islamic organizations and there are some alternatives of the objectives and characteristics of Islamic accounting in the previous section. Therefore this study in order to know the perception of these issues, an empirical test needs to be conducted. For this purpose, the researchers will use a survey method using postal and self-administered questionnaires in order to get the data from the selected sample.

Survey will be used for data collection method. A survey design - through the data collection process of asking questions, provides a quantitative or numeric description of some fraction of the population i.e. a sample which can be in turn generalized to the population from which the sample is drawn.

3.6 Hypotheses Testing

After conducting normality tests, the first until the sixth hypothesis are tested using the t test and non-parametric sign test. The t- test and non-parametric sign test are appropriate because they can be used to test a hypothesis which calls for drawing just one sample. These tests tell us whether the particular sample could have come from some specified population. These tests also can answer whether any difference in central tendency between the sample and population. The t -test assumes that the

observations or scores in the sample have come from a normally distributed population. Proper interpretation of t- test based on the normal distribution also assumes that the scores analyzed result from measurement in at least an interval scale. The meaningfulness of the results of a parametric test such as t-test depends on the validity of these assumptions. Therefore, if the normally distributed assumption of t test is not meet, the hypotheses will be tested using non- parametric sign test. One of the advantages of non- parametric statistical test is make fewer assumptions about the data and may be more relevant to particular situation (Siegel and Castellan, 1988). The one-sample sign test is non -parametric alternative to one sample t-test, which uses the median rather the mean. The t-test will be conducted using SPSS analysis tools. A non-parametric test of median will be conducted using Minitab as SPSS did not have corresponding univariate tests.

The first and second hypothesis will test using non- parametric sign test for median or t-test of mean to allow for the possible non-normality of the population distribution.

H1: mean/median of UNISL > 4

H2: mean/median of FACON > 4

H3: mean/median of CAPRIN > 4

For the fourth hypothesis, the data will be analyzed by using chi-square test of frequency. The chi-square test is suitable for analyzing responses data which differ in frequency (Siegel and Castellan, 1988). The technique is of the goodness of fit type in that may be used to test whether a significant difference exists between and observed numbers of responses falling in each category and an expected number. The four hypothesis will be supported if there is a significant difference between

respondent's perceptions of Islamic accountability as objective of Islamic accounting and the other perception of objective of Islamic accounting.

In testing the hypothesis on users of Islamic accounting (H5), the non-parametric sign test of median or the t-test of means is employed. The following equation will be used in testing the hypothesis.

$$H5: \text{mean/median of USER} \geq 4.00$$

In testing the sixth hypothesis, the sign test or the t test of mean is used. The hypothesis testing is based on the following equation.

$$H6: \text{mean/median of CHARCT} > 4.00$$

In testing the hypotheses of relationship between Hofstede's cultural values, Gray's accounting values, and perceived usefulness of Islamic Corporate Reporting, this research use multiple regression analysis. The research problems of this study are appropriate for multiple regression analysis since it provides a means of objectively assessing the degree and character relationship between dependent and independent variables by forming the variate of independent variables (Hair, Jr, et al 1998). The interpretation of the variate may rely on the relationship found using the value of significant regression coefficient.

Following Salter and Niswander (1995), the relationship between dependent and independent variables is tested using Ordinary Least Squares (OLS) multiple regression analysis. Therefore, it is necessary to asses the multicollinearity assumptions underlying multiple regression analysis. The common measures for assessing multicollinearity were the tolerance values, Variance Inflation Factor (VIF), and Condition Index. A common cutoff threshold is a tolerance value 0, 10 which corresponds to a VIF value above 10. Meanwhile, the threshold value of

Condition Index is in a range of 15 to 30, with 30 the most commonly used value (Hair, Jr, et al 1998).

The hypotheses testing related with cultural influence is conducted in the following stage. In the initial stage, each of the dependent variables is individually regressed against Power Distance and Uncertainty Avoidance of Hofstede's construct to test the seventh and eighth hypotheses. In the next stage, the perceived usefulness of the Islamic Corporate Reporting as dependent variable is regressed against Conservatism and Secrecy of Gray's accounting values. If the result indicates that Conservatism and Power Distance have a significant positive relationship with Uncertainty Avoidance, then it support hypothesis 7. The result of regression analysis will indicated that hypothesis 8 is supported, if Uncertainty Avoidance and Power Distance are significantly positively related to Secrecy. The last hypotheses will supported if Conservatism and Secrecy have a significant negative relationship with perceived usefulness of the Islamic Corporate Reporting model.

CHAPTER IV

RESULTS AND DISCUSSIONS

4.1 Pilot Study

Sekaran (2003) suggest that questionnaire design should focus on three areas. These areas are the wording of the questions, how the variables scaled, and the general appearance of the questionnaire. The questions of questionnaire should tap the dimensions and elements of the concept. Thus, a pilot study was conducted before the main study. To establish the highest degree of reliability, the drafts of the questionnaire were pilot tested to the member of Kelompok Studi Ekonomi Islam (KSEI) University of Diponegoro. The researcher expected that these respondents have the capability to review these drafts because they concerned on Islamic economic and accounting issues.

The drafts of the questionnaire were sent to 27 participants. There were some revisions suggested by the participants because the understandability and the clarity of the questionnaire. The most revisions were the unclear questions related with Unsuitability of conventional accounting principles (CAPRIN) and Power Distance Constructs. The Cronbach Alpha for these two constructs was 0,175 and 0,508, respectively. This indicates that construct indicators are inconsistent in their measurements. On an initial analysis of the responses to CAPRIN indicators were being answered in the “wrong direction”. The researcher suspected that the question was not understood. Some participants requested clarification to the same questions. The wording revisions were made after consulting with the advisors especially for CAPRIN and Power Distance Constructs. The questions related with CAPRIN and Power Distance construct were revised by using positively worded questions. The

revisions also include increase from 5-point scale to 7-point scale. Elmore and Beggs (1975) as quoted by Sekaran (2003) argue that an increase from 5 to 7 on a rating scale does not improve the reability of ratings. However, the respondents are expected have the high level of understanding thus increasing from 5 to 7 point scale can make better preference among the respondents.

4.2 Main Study

After evaluating the results of the pilot study and made revisions, the final draft of the questionnaire was distributed to the respondents. The questionnaires were distributed by postal and self-administered to some universities which recognized as actively internalizing Islamic values especially Islamic economics or Islamic accounting in their curriculum. The reseacher used State and Private University Directory to obtain information about the amount of accounting academicians from some universities in Java fulfill the criteria. Because the directories did not have infromation about universities which have Islamic accounting or Islamic economic in their curicculum, the reseacher obtain information from Forum Silaturahmi Studi Ekonomi Islam (FOSSEI).

Based on information from FOSSEI, the questionnaire was distributed to twenty universities which have Islamic accounting or Islamic economic in their curriculum, of which six are publicly funded and the last are private. All these universities offer courses in business or accounting. The University with the largest Moslem accounting member is Universiti of Diponegoro with 44 staffs in the department of accounting. The private universities are relatively new with fairly small number of accounting staff. Most universities sited their accounting department in the Faculty of Economics except Sekolah Tinggi Ilmu Syariah (STIS) Yogyakarta and Sekolah Tinggi Ekonomi Islam

(STEI) Hamfara Yogyakarta . It must be noted that some universities undertake courses in Islamic civilization as part of their curriculum. These Universities usually have Islamic affiliation organizations background such as Muhammadiyah or Nahdatul Ulama. There were some universities which recognized as pioneer in Islamic accounting curriculum such as University of Brawijaya, Malang and University of Trisakti, Jakarta.

The population of accounting academician was defined as faculty members and lectures of the Accounting Department or Economic School of the respective universities as the case may be. In certain universities such as School of Economic, an accounting department does not exist separately but only operates as part of the Economic School. In these cases, the lecturers teaching accounting subjects were chosen. The sample was selected as follows. In some cases, the questionnaires were given to the head of department of accounting to be given to the lecturers. To ensure a better response, the researcher went around the department to hand the questionnaires with a personal request to the faculty member to answer it. In some faculties, such as in the STIS Yogyakarta, the researcher selected only participants who were accounting lecturers as there were many law and business lecturers attached to the accounting department who were teaching non-accounting subjects and who did not have an accounting background. This was done either in consultation with the head of department or by going through the university prospectus to see what subjects the lecturers thought. The questionnaires were also distributed using e-mail to some respondents who asked it. Table 4-1 shows the number of accounting academicians in each University, the number of Questionnaires sent and the responses received.

TABLE 4.1

POPULATION AND SAMPLE STATISTICS OF UNIVERSITIES SURVEYED

University	Accounting Faculty	Quest. Delivered	No. of Responses	Response Rate (%)	Population Tested (%)
University of Wahid Hasyim	5	5	4	80.00	80.00
University of Jenderal Soedirman	41	25	14	56.00	34.15
University of Muhammadiyah Purwokerto	12	2	2	100.00	16.67
UNS	30	20	8	40.00	40.00
University of Sultan Agung	15	15	6	40.00	40.00
University of Diponegoro	44	25	20	80.00	45.45
University of Muhammadiyah Surakarta	25	10	4	40.00	16.00
University of Brawijaya	35	20	14	70.00	40.00
University of Trisakti	39	15	8	53.33	20.51
Unnes	15	8	5	62.50	33.33
University of Muhammadiyah Magelang	10	8	1	100.00	10.00
University of Islam Indonesia	20	10	6	60.00	30.00
STIS Yogyakarta	3	3	2	66.67	66.67
University of Akhmad Dahlan	10	5	2	40.00	20.00
University of Islam Bandung	6	6	4	66.67	66.67
STIE Hamfara Yogyakarta	5	5	2	40.00	40.00
University of Muhammadiyah Yogya	13	10	1	10.00	7.69
STIE SEBI Jakarta	12	10	0	0.00	0.00
University of Muhammadiyah Malang	8	6	1	16.67	12.50
STIE Stikubank	17	17	11	64.71	64.71
Grand Total	332	225	115	51.11	31.51

Source: Primary Data processed, 2005

Table 4.1 showed that questionnaire returned was 115 and 103 of this was usable. Therefore the response rate was 51,11 % and the usable rate was 46%. The relatively high response rate was encouraging and is felt to be due to personally delivering the questionnaires to the head of department or lecturers concerned rather than posting them. However, the response rate was relatively lower than Hameed's study (2000) which achieved 64% and Yaya (2003) which achieved 52%. The respondents are 67% from the conventional background and the other 33% are from the Islamic background institutions.

4.3 Profile of the Respondents

Table 4.2 shows profile of the respondents based on their gender, education level, Islamic organizations affiliation, profession, and tenure. In terms of gender, the Moslem accounting academicians are commonly male. In terms of education level, the respondents are classified into three categories: undergraduate, master, and doctor. The Moslem accounting academicians are commonly master which is accounted approximately 53,4% of total respondents. In terms of Islamic organizations affiliation, table 5.2 shows an interesting phenomenon, that most of the respondents did not have an affiliation (62,1%). Meanwhile, the respondents who have affiliation are commonly from Islamic background institutions such as University of Muhammadiyah, University of Islam Indonesia, and University of Wahid Hasyim. Most of the Moslem accounting academicians work only as lectures (82,5%) and the other also an employee of CPA firms. The Moslem accounting academicians who worked for 5 until 10 years were almost one-third of total respondents that is 33,7%.

TABLE 4.2
PROFILE OF THE RESPONDENTS

	Frequency	Percent
Gender:		
Male	69	67
Female	33	32
Education level:		
Undergraduate (S1)	37	35,9
Master (S2)	55	53,4
Doctor (S3)	11	10,7
Islamic organizations affiliation:		
Nahdatul Ulama	12	11,7
Muhammadiyah	27	26,2
None	41	62,1
Profession:		
Only lectures	85	82,5
Lectures and also CPA firm's employee	18	17,5
Tenure:		
Less than 5 years	23	25,8
5-10 years	30	33,7
11-15 years	17	19,1
16-20 years	12	13,5
More than 20 years	7	7,8

Source: Primary Data processed, 2005

4.4 Validity and Reliability

4.4.1 Validity

Validity indicates the degree to which an instrument measures the construct which is under investigation. According to Sekaran (2003) content validity ensures that the measure includes an adequate and representative set of measures that would tap the concept. The more the scale items represent the domain or universe of the concept, the greater the content validity. Content validity measures how well the dimensions and

elements of a concept have been delineated. Some of the ways in which validity can be established are through correlation analysis and factor analysis (Sekaran, 2003)

This study used both of correlation bivariate and factor analysis to test the validity of instruments. Appendix A shows the correlation bivariate between the total scores of the construct with each indicator. Appendix A showed that correlation between each indicator on the total scores of the construct was significant. Therefore, this result showed that all of the indicators were valid.

This study also develops and validates new measurement for accounting values variables, conservatism and secrecy, which are hypothesized to be the determinants of perceived usefulness of Islamic Corporate Reporting. Douppnik and Tsakumis (2004) stated that a common limitation in all the studies of culture and financial reporting is the difficulty in developing adequate measure of the accounting values. They suggested that the first step in measuring accounting value is the establishment of an operational definition. From the operational definition, a list of specific rules and practices consistent with conservatism and secrecy can be identified. This study has followed their suggestion in measuring conservatism and secrecy of accounting values.

Factor analysis is also utilized to ensure the validity of the instrument for measurement conservatism and secrecy construct. With factor analysis, the researcher can first identify the separate dimensions of the structure and then determine the extent to which each variable is explained by each dimension (Hair, Jr, et al, 1998). Appendix B shows the result of factor analysis for conservatism and secrecy construct. Output SPSS showed that Kaiser-Meyer-Olkin Measures of Sampling Adequacy (KMO MSA) value was 0,759. The value of Bartlett test with Chi-squares was 256,952 and significant at 0,000. Therefore, factor analysis can be continued (Ghozali, 2005). SPSS also

classified seven indicators into two factors based on eigenvalue > 1 . Rotated Component Matrix showed that the first until the fourth indicators of conservatism were clustered on the first factor. Meanwhile, the first until the third indicators of secrecy were clustered on the second factor. Therefore, both of conservatism and secrecy construct have unidimensionality. In other word, all of the indicators of conservatism and secrecy were valid.

4.4.2 Reliability

Reliability refers to the consistency of the test to produce the same results on repeated use, otherwise the measuring instrument would not be accurate over repeated use. The reliability of a measure indicates the extent to which it without bias and hence ensures consistent measurement across time and across the various items in the instrument. In other words, the reliability of a measure is an indication of the stability and consistency. The reliability of the items in the questionnaire was tested using SPSS Cronbach Alpha model method. If this alpha measure results in is 0.6 or above as a rule of thumb (Nunnally, 1960, as quoted by Ghozali, 2005) then the items are said to be reliable. From table 4.3 it can be seen that most of the items of variable from the Islamic Accounting Questionnaire were reliable. This is evidenced by the Cronbach's Alpha figure of around 0.6 for all items.

**TABLE 4.3
RESULTS OF RELIABILITY TEST**

Variables	Cronbach's Alpha
UnIslamic behavioral consequence of conventional accounting (UNISL)	0,8045
Financial statements prepared under conventional accounting is not suitable (FACON)	0,8888
Unsuitability of conventional accounting principles (CAPRIN)	0,7211
The objective of Islamic Accounting (OBJECTVE) ¹	-
The users of Islamic accounting (USER)	0,8152
Characteristics of Islamic accounting (CHARCT)	0,8723
Power Distance (POWER)	0,8024
Uncertainty Avoidance (UNCER)	0,8486
Conservatism (CONSV)	0,8112
Secrecy (SECRECY)	0,7678

Source: Primary Data processed by SPSS 11,5

4.5 Non-response Bias Test

Response rate achieved by this study was 51 %. This means that the respondents who answered the questionnaire are greater than the respondent who did not answer it. However, the usable rate was only 46%, showed that the respondents who completely answer were less than respondents who did not give complete answer. Therefore, non-response bias test must be conducted. Non-response bias test was conducted by comparing early respondents with late respondents, as proxy for the sample who did not participate, in terms of their answer to the questionnaire. The researcher assumed that the late respondents were respondents who response after the dateline given (one month after the researcher sent the questionnaire). There were 24 late respondents and 79 early respondents. Non-response bias was conducted by compare the late and early respondents answer. T-test is employed to compare the independent sample. The result

¹ This variable has single indicator only and measured using ordinal scale

is presented in Appendix C which shows that there is no differences significance response between early and late respondents.

4.6 Test of Normality

The hypotheses testing for the nature of Islamic accounting need normality test. The t-test can be conducted if the data is normally distributed. The sign median test is used when the data does not meet this assumption. Kolmogorov-Smirnov and Shapiro-Wilk is used to detect the normality of data. The null hypothesis is data normality distributed and the alternative hypothesis is otherwise. Table 4.7 showed the result of normality test

TABLE 4.4
RESULT OF NORMALITY TEST

Variables	Kolmogorov-Smirnov Test		Shapiro-Wilk Test	
	Statistics	p-value	Statistics	p-value
UNISL	0,134	0,002	0,916	0,000
FACON	0,155	0,000	0,925	0,000
CAPRIN	0,105	0,034	0,967	0,041
USER	0,144	0,000	0,948	0,003
CHARCT	0,156	0,000	0,903	0,000
Power Distance	0,054	0,200	0,982	0,336
Perceived Usefulness	0,165	0,000	0,906	0,000
Conservatism	0,095	0,080	0,970	0,069
Secrecy	0,130	0,003	0,940	0,001
Uncertainty Avoidance	0,114	0,015	0,947	0,003

Source: Primary data processed by SPSS 11,5

The probability of significance for variables related to the nature of Islamic accounting are significant at 0, 05 level. Therefore the null hypothesis is rejected and the conclusion is data for those variables is not normally distributed. Data normally distributed is only for variable Power Distance. Therefore, to test hypotheses related with the nature of Islamic accounting, parametric statistic is not suitable.

4.7 Hypotheses Testing

In this part, the hypotheses set out in chapter II will be tested and the findings reported and interpreted. The first purpose of the study is to present evidence of the perception of Moslem accounting academicians in Java on the nature of Islamic accounting: the objective and characteristics of Islamic accounting and whether conventional accounting is inappropriate for Islamic organizations and users. As this is an exploratory study of the subject, it is considered adequate by the researcher to conduct a univariate analysis on the data without attempting to study relationship among different variables. The test of normality showed that the data for variables related with the nature of Islamic accounting is not normally distributed. Thus, the hypotheses related with the nature of Islamic accounting will be tested using non-parametric sign test of median. A non-parametric test of median will be conducted using MINITAB 13 as SPSS did not have corresponding univariate tests.

5.8.1 The Appropriateness of Conventional Accounting for Islamic Business Organizations and Moslem Users

Accounting is said to be the language of business. Each language has its own nuances and accounting is not free from this phenomenon (Hameed, 2000). As argued in chapter II, accounting helps to construct reality and itself is a construction of its environment. The fact that Anglo-American accounting, shaped in the environment of Western philosophy and history, is being used to assess and monitor the performance of Islamic business organisations could be a problem.

Given the socio-economic principles, under which Islamic and Moslem business operate, the information that is required may vary from what conventional accounting is attuned to provide. The researcher argued in Chapter II that the objectives, characteristics and consequences of conventional accounting do not make it a suitable information tool for Moslem users and organisations. This inappropriateness can be categorised into three aspects:

- a. Conventional accounting may in effect direct Moslem users towards unIslamic behaviour.
- b. Conventional accounting may not provide appropriate information for Moslem users (various stakeholders and Organisations)
- c. The concepts of conventional accounting such as historical cost and monetary measurement concept may be unsuitable for adoption by Islamic organisations.

To elicit answers to these questions, three hypotheses are and tested.

a. **Conventional accounting results in UnIslamic behaviour**

The hypothesis to be tested is that Moslem Accounting Academicians in Java believe that conventional accounting provides information, which directs Moslem users toward Islamic behaviour. To test the hypothesis a score (UNISL) consisting of questions Q1.1, Q1.2, Q1.3 and Q1.4 (see Appendix D) was calculated with the following formula: $UNISL = \text{mean}(Q1.1, Q1.2, Q1.3, Q1.4)$. The hypothesis will be accepted if the median of UNISL is greater than 4. The results are presented in table 4.5

TABLE 4.5
RESULTS OF HYPOTHESES TESTING RELATED TO
NATURE OF ISLAMIC ACCOUNTING

Variables	Below	Equal	Above	Median	p-value
UNISL	16	9	78	5,250	0,0000
FACON	33	9	61	4,670	0,0027
CAPRIN	46	9	36	3,670	0,8878
USER	8	12	78	5,500	0,0000
CHARCT	6	1	90	5,900	0,0000

Source: Primary Data processed by MINITAB 13

From table 4.5, it can be seen that the p value is less than 0.05 for the sign tests. This indicates that the difference between the population median and the test value of 4 is significant and cannot be ignored. The hypothesis that the median of UNISL is greater than 4 is accepted. It can thus be inferred that Moslem Accounting Academicians in Java believe that conventional accounting does not lead to Islamic behaviour.

b. Conventional accounting provides inappropriate information

The second hypothesis in this section as follows: Moslem Accounting Academicians in Java believe that Financial Statements provided under conventional accounting provide inappropriate information for Moslem users. A score, FACON, is constructed to measure this concept better, using the responses to questions Q1.5 (a), Q1.5 (b) and Q1.5(c). The formula used is: $FACON = \text{mean}(Q1.5a, Q1.5b, Q1.5c)$. The results are presented in table 4.5 above. From Table 4.5, it can be seen that the p-value is less than 0.05, indicating that the hypothesis that Moslem Accounting Academicians in Java perceive that conventional accounting information is not suitable for Moslem users is supported.

c. Conventional accounting concepts are not suitable for Islamic organizations.

The third hypothesis is set up as follows Moslem Accounting Academicians in Java believe that the conventional accounting concepts of historical cost, prudence and monetary measurement are not suitable for Islamic organizations. To test this hypothesis, a multi-item score, CAPRIN was calculated consisting of questions 1.6a, 1.6b and 1.6c. The formula is $CAPRIN = \text{mean}(Q.1.6a, Q1.6b, Q1.6c)$. The results are presented in table 4.5. The p values is 0,8878 for the sign test indicate that the probability of the sample having come from a population containing a median of less than 4 almost 88,78%. Hence the hypothesis is not supported. In other word, Moslem Accounting Academicians in Java believe that some conventional accounting principles are suitable for Islamic organizations.

From the results of testing the above three hypotheses in this section, it can be inferred that the respondents perceived that conventional accounting does not appear to direct Moslem users to Islamic behaviour. The Moslem Accounting Academicians in Java also perceived that the information it provides may be not suitable for Islamic organizations and users. However, it appears that some conventional accounting principles, such as monetary measurement, prudence and historical cost, may be viewed as appropriate for Islamic organizations.

5.8.2 The Objectives and Characteristic of Islamic Accounting

The researcher has argued in Chapter II that an Islamic accountability as the main objective of Islamic accounting. Therefore, social and environmental objectives should be given at least equal weight as profits. Further, the researcher has suggested in Chapter II that the stakeholders other than shareholders are equally important than shareholders as users of Islamic accounting information. To further this, the type of information (non-financial, integrative, and holistic) disclosed by Islamic accounting and its recognition and valuation principles, needs to be different from those of conventional accounting. In the subsections below, the results of testing the hypotheses related to the objectives, users and characteristics of Islamic Accounting will be presented.

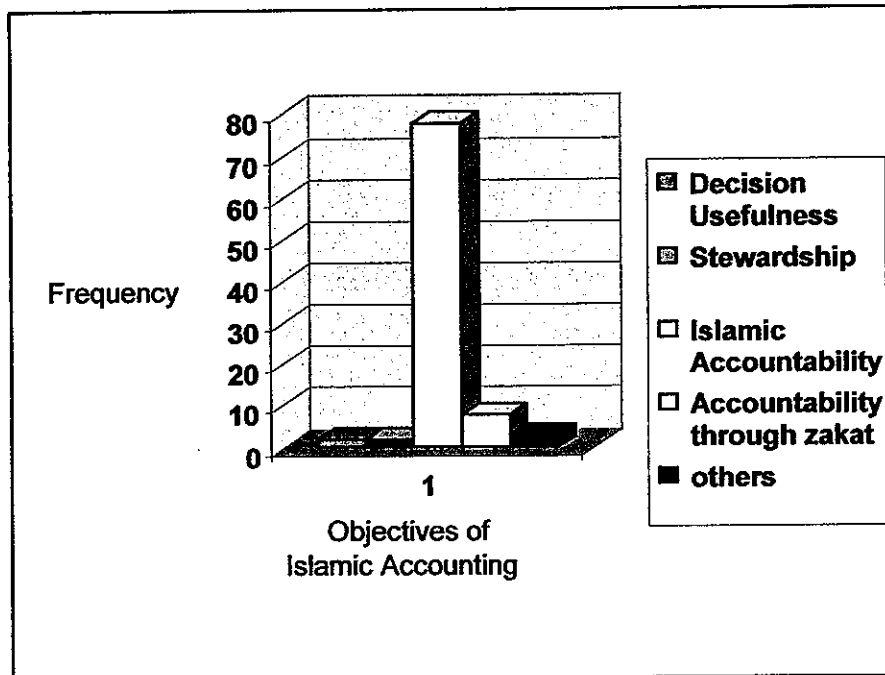
a. The Objectives of Islamic Accounting

The first hypothesis to be tested refers to the objective of Islamic accounting. In conventional accounting, the primary objective is held to be decision-usefulness for investors and creditors. As discussed in chapter II, decision-usefulness has come to imply usefulness for investors and creditors to make financial decisions to increase their wealth measured in cash flows. Baydoun and Willet (1994, 2000), Hameed (2000, 2003) and Sulaiman (1998) have argued that this cannot be the main objective of Islamic accounting. Further, it cannot be more important than other social, religious and environmental objectives. This notion is tested as follows: Moslem Accounting Academicians in Java believe that the objectives of Islamic accounting are different from the objectives of conventional accounting.

The objective of Islamic Accounting (OBJECTVE) variable is obtained from the respondents' choice on the main objective of Islamic accounting. As already discussed in the previous chapter, there are five alternatives provided. They are (1) decision usefulness; (2) stewardship; (3) Islamic accountability; (4) accountability through zakat and (5) other objective, if the respondent has a different opinion from the above alternatives.

Based on the data obtained from the field research, it is found that 1,9 % (2 cases) of the respondents choose decision usefulness, 1,9 % (2 cases) choose stewardship, 75,7 % (78 cases) choose Islamic accountability and 7.8 % (8 cases) choose accountability through zakat, while the rest 2,9% (3 cases) choose others. The frequency distribution of the option is shown in Figure 4.1

FIGURE 4.1
DISTRIBUTION FREQUENCY OF OBJECTIVE VARIABLE



Source: Primary data, processed by Microsoft Excel

The data was analyzed by using a chi square test of frequency since chi-square test is suitable for analyzing responses data which differ in frequency and measured by ordinal scale (Siegel and Castellan, 1988). The technique is of the goodness of fit type in that may be used to test whether a significant difference exists between and observed numbers of responses falling in each category and an expected number. The fourth hypothesis will be supported if there is a significant difference between respondent's perceptions of Islamic accountability as objective of Islamic accounting and the other perception of objective of Islamic accounting. The result is shown in the following table.

TABLE 4.6
RESULTS OF CHI-SQUARES TEST

Objectives of Islamic Accounting	Observed Number	Expected Number
Decision Usefulness	2	18,6
Stewardship	2	18,6
Islamic Accountability	78	18,6
Accountability through zakat	8	18,6
Others objectives	3	18,6
Chi-square statistics	238,452	
Asymp. Sig	0,000	

Source: Primary data, processed by SPSS 11,5

The difference of the obtained frequency to its expected frequency is significant below 5% confidence level (p value = 0.000) as shown in Table 4.6. This means that the probability of the expected frequency being equal is almost nil. Therefore it can be said that the hypothesis is supported and the Islamic accountability is the most accepted objective as the framework of Islamic accounting.

b. The Users of Islamic Accounting

Stakeholders other than shareholders may be same important as users of Islamic accounting information. Since conventional accounting focuses on shareholders and creditors, it may not provide the information required by other stakeholders. To find out whether these other stakeholders were viewed as the same important as users of Islamic accounting information than shareholders, the respondents were asked to rank the importance of other stakeholders such as employees, government, community, consumer groups and benevolent loan creditors. A score, USER constituting questions 2.2a to 2.2g is computed with the following formula:

USER= mean (q2.2a, q2.2b, q2.2c, q2.2d, q2.2e, q2.2f, q2.2g)

The questions were measured on a 1 to 7 scale; a score of 1 indicating that the stakeholder group was not important at all compared to shareholders while a score of 7 would mean the stakeholder group is much more important than shareholders. A score of 4 indicates that the stakeholder group was equally important as shareholders. The following hypothesis was tested: Moslem Accounting Academicians in Java believe that other users of accounting information in Islamic accounting are equally important with shareholders. The non-parametric sign test of median was employed.

The results in table 4.8 indicate the p value was less than 0.05, indicating that the median was significantly more than 4. Hence the hypothesis is supported, that stakeholders other than shareholders are perceived by Moslem accounting academicians in Java, as important as, if not more important than, shareholders, as users of Islamic accounting information.

c. The Characteristics of Islamic accounting

Conventional accounting tends to emphasise financial information in line with its monetary measurement concept (Hameed, 2000). It does not measure what is not reducible in monetary terms. Hence externalities i.e. negative and positive consequences caused by the accounting entity are not reported, as they do not have a direct financial cost or benefit for the entity itself. From the Islamic perspective, however, economic institutions such as businesses are also social institutions having a responsibility to Allah, their stakeholders and environment (Baydoun and Willet, 1994, 2000). As such, externalities, especially negative consequences, irrespective of financial considerations,

should be reported by an Islamic accounting system. The system should also provide non-financial information concerning employee-employer relationships, discharge of contract, details of prohibited transactions under Islamic law, (if any, and their reasons), environmental and communal responsibilities undertaken and the amount of Zakat payable and paid (Khan 1994).

Baydoun and Willet (1994, 2000), Triuwono (2000), Hameed (2000), and Yaya (2001) further argued an integrated system of reporting both financial and non-financial information is in line with the integrative concept of Islamic enterprise, This would induce Moslem users to look for integrated performance measures when evaluating their investments and not motivated to look for the profit figure first, as in conventional annual reports. In addition, the accounts should be Shari'ah audited; the term Shari'ah used in a broad sense encompassing not only strict legal compliance but also social compliance- an Islamic equivalent of the social audit. Khan (1994) and Gambling and Karim (1991) also argued that as the calculation of a *Zakatable* base requires the use of current values, a current valuation system would be adopted by Islamic accounting.

The non-financial information is especially relevant to Moslem users of Islamic organisations because, the user requires assurance that the organisations have conducted their activities within the Shari'ah, for which purpose, the institution was set up in the first place. In order to elicit empirical evidence on the type of information, the following hypothesis is tested: Moslem Accounting Academicians in Java believe that Islamic Accounting should give more on social and religious information.

To test the hypothesis, another score, The variable of characteristics of Islamic accounting (CHARCT) is established based on questions Q2.3, Q2.4, Q2.5, Q2.6, Q

2.7, Q2.8 a, Q2.8b, Q2.8c, Q2.8d & Q2.8e. The formula for this variable is set in the following equation:

$CHARCT = \text{mean} (Q2.3, Q2.4, Q2.5, Q2.6, Q 2.7, Q2.8 a, Q2.8b, Q2.8c, Q2.8d \& Q2.8e.)$ The non-parametric sign test of median was utilized since data for this variable was not normally distributed. It can be seen from Table 4.8 that the p value is less than 0.05. Hence, the hypothesis is supported that Moslem accounting academicians in Java believe that Islamic accounting emphasizes Islamic/social information.

5.8.3 The Cultural Influence on the Perceived Usefulness of The Islamic Corporate Reporting Model

The second purpose of the study is to examine the cultural Influence on the Perceived Usefulness of The Islamic Corporate Reporting Model. The hypotheses related were hypothesis 7, 8, and 9. These hypotheses proposed the relationship between Hofstede's cultural values, Gray's accounting values, and perceived usefulness of the Islamic Corporate Reporting Model which shown is Figure 2.9.

a. Relationship between Hofstede's Cultural Values and Gray's Accounting Values.

Following Douplik and Tsakumis (2004), this study examined the relationship between Hofstede's Cultural Values and Gray's accounting values at individual level. The research hypotheses related with Hofstede-Gray's framework was tested following Salter and Niswander (1995). Conservatism and Secrecy as dependent variables was individually regressed against Power Distance and Uncertainty Avoidance of Hofstede's

construct to test the seventh and eighth hypotheses. Multiple regression analysis was employed to test the hypotheses.

The hypothesis 7 was stated as the higher in terms of uncertainty avoidance and power distance then the more likely to rank highly in terms of conservatism. To test this hypothesis, conservatism as dependent variable is regressed on uncertainty avoidance and power distance. Appendix E showed the results of the hypothesis 7 tested. The model is statistically significant, meanwhile coefficient of determination was only 6,9 %. Therefore uncertainty avoidance and power distance only can explain 6,9% the variation of conservatism. Multicollinearity is detected using Variance Inflation Factor (VIF) and Condition Index which show that no evidence for multicollinearity problem (see Appendix E).

The result of hypotheses 7 testing is shown in Table 4.7. Gray (1988) hypothesized that there was positive relationship between conservatism and uncertainty avoidance. However, the result of this study showed that this relationship was not statistically significant. This result is different with Sudarwan and Fogarty (1996) who find that there was positive significance relationship between uncertainty avoidance and conservatism. However, this study is consistent with Sudarwan and Fogarty (1996) who find that the higher in terms of power distance then the more likely to rank highly in terms of conservatism although Gray did not hypothesize a relationship between these variables. This is evidenced by coefficient parameter for power distance on conservatism which has positive sign (0,217) and significant at 0,010.

TABLE 4.7
RESULTS OF HYPOTHESIS TESTING OF POWER DISTANCE AND
UNCERTAINTY AVOIDANCE INFLUENCE ON CONSERVATISM

$$\text{Conservatism} = f(\text{Power Distance; Uncertainty Avoidance})$$

Variables	Coefficients	t-value	p-value
Constant	11,702	2,958	0,004
Power Distance	0,217	2,622	0,010
Uncertainty Avoidance	0,023	0,207	0,836
R Square	0,069		
F-value	3,578		
Sig. F	0,032		
N	103		

Source: Primary data, processed by SPSS 11,5

The hypothesis 8 was stated as the higher in terms of uncertainty avoidance and power distance then the more likely to rank highly in terms of secrecy. To test this hypothesis, secrecy as dependent variable is regressed on uncertainty avoidance and power distance. Table 4.8 showed the results of the hypothesis 8 tested. The model is statistically significant at 0,000, meanwhile coefficient of determination was 19,5%. Thus, uncertainty avoidance and power distance can explain 19,5% the variation of conservatism. Multicollinearity is detected using Variance Inflation Factor (VIF) and Condition Index which show that No evidence of multicollinearity problem found in this study (see Appendix E).

TABLE 4.8
RESULTS OF HYPOTHESIS TESTING OF POWER DISTANCE AND
UNCERTAINTY AVOIDANCE INFLUENCE ON SECRECY

$$\text{Secrecy} = f(\text{Power Distance; Uncertainty Avoidance})$$

Variables	Coefficients	t-value	p-value
Constant	2,223	0,747	0,457
Power Distance	0,294	4,783	0,000
Uncertainty Avoidance	0,161	1,891	0,062
R Square	0,195		
F-value	11,635		
Sig. F	0,000		
N	103		

Source: Primary data, processed by SPSS 11,5

Table 4.8 showed that the relationship between uncertainty avoidance and secrecy was not statistically significant. This result is different with Gray's hypothesis and Sudarwan and Fogarty's (1996) finding. Sudarwan and Fogarty (1996) who conducted longitudinal study in Indonesia found support of positive relationship between uncertainty avoidance and secrecy. Gray (1988) also hypothesized that there was positive relationship between power distance and secrecy. As shown in Table 5.15, the coefficient of parameter power distance was 0,294 which significant at 0,000. Thus, Gray's hypothesis of this relationship was supported by this study. The result which indicates positive relationship between power distance and secrecy is also consistent with Sudarwan and Fogarty (1996).

b. Relationship between Conservatism, Secrecy, and Perceived usefulness of the Islamic Corporate Reporting Model

Sulaiman's studies (1997 and 1998) conclude that there is no differences exist in the perceived usefulness of Islamic Corporate Reporting between Moslems and non-Moslems. These mean that the antecedents of different perceived usefulness of Islamic Corporate Reporting are not different religion; Moslem or non Moslem. This study extends Sulaiman's study by proposed the theoretical model using Hofstede-Gray framework. The proposed model showing that the antecedents of perceived usefulness of Islamic Corporate Reporting may be the differences of cultural and accounting values. The hypothesis 9 was stated that the lower in terms of conservatism and secrecy then the more likely to believe that the Islamic corporate reporting are more important than conventional accounting reporting. The result of OLS regression of this hypothesis was shown in Table 4.9

TABLE 4.9
RESULTS OF HYPOTHESIS TESTING OF ACCOUNTING VALUES
INFLUENCE ON THE PERCEIVED USEFULNESS OF THE ISLAMIC
CORPORATE REPORTING

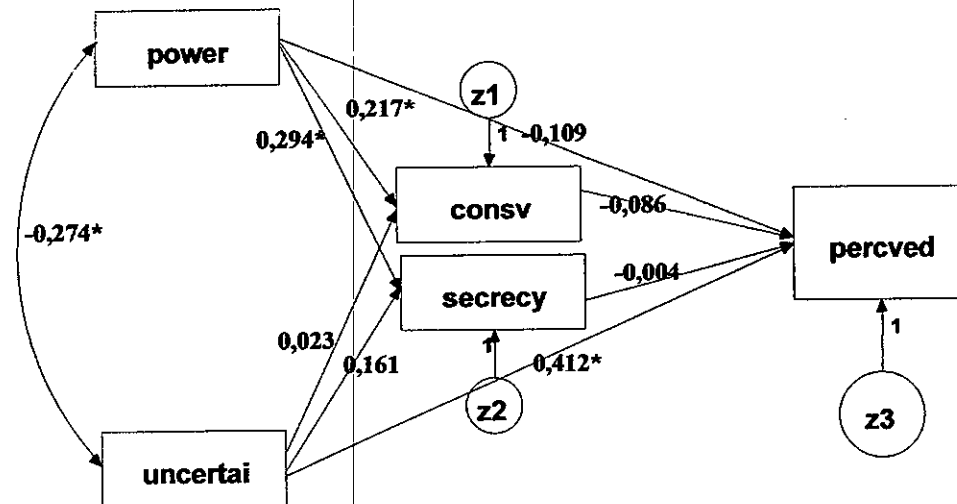
Perceived Usefulness= f (Conservatism; Secrecy)			
Variables	Coefficients	t-value	p-value
Constant	29,976	17,430	0,000
Conservatism	-0,004	-0,033	0,974
Secrecy	-0,086	-0,914	0,363
R Square	0,011		
F-value	0,521		
Sig. F	0, 596		
N	103		

Source: Primary data, processed by SPSS 11,5

The result of this study was similar with Sulaiman's (1997 and 1998) studies, fail to conclude the antecedents of perceived usefulness of Islamic Corporate reporting. As shown in Table 4.9, the model is not statistically significant and the coefficient determination was very low. Although this study utilized the Hofstede-Gray's framework which commonly used to explain the choice of financial reporting but this study did not find that the accounting values influence the perceived usefulness of the Islamic corporate reporting.

The overall results also showed that variations in level of uncertainty avoidance were not significantly account for variations in the presumed mediator; conservatism and secrecy and also variations in the mediator, conservatism and secrecy, were not significantly account for variations in the Perceived Usefulness of Islamic Corporate Reporting (figure 5.2). Therefore, according to Baron and Kenny (1986), conservatism and secrecy did not meet the conditions as mediator variables.

FIGURE 4.2
RESULTS OF REGRESSION ANALYSIS



Note: * = significant at 0,05 level

Source: Primary Data processed by SPSS 11,5

5.9 Discussions

The main purpose of this study consists of two parts. The first purpose was to examine the perception of Moslem accounting academicians on the suitability of conventional accounting for Islamic organizations and Moslem user and also the objectives and characteristic of Islamic accounting. Six hypotheses were stated and univariate test was employed. The results show that the respondents perceived that conventional accounting do not direct Moslem users towards Islamic behavior and that conventional accounting needed major modification for Islamic organizations. This finding is consistent with Yaya (2002) and Hameed (2000). Respondents of this study have the same characteristics with Yaya (2002) who elicit the perception of Moslem

accounting academicians in Yogyakarta and considered that the respondents have same level understanding on the Islamic accountings issues.

The second hypothesis was supported then we can conclude that Moslem Accounting Academicians in Java perceive that conventional accounting information is not suitable for Moslem users and Islamic organizations. This result is consistent with Yaya (2002) and Hameed (2000) who conclude that the respondents perceived that the information provided by conventional accounting do not allow them to properly disclose their Islamic accountabilities. There was an interesting phenomenon because the third hypothesis was not supported. It appears that some conventional accounting principles, such as monetary measurement, prudence and historical cost, may be viewed as appropriate for Islamic organizations. Both Moslem accounting academicians in Java and Malaysia perceived that those principles were appropriate for Islamic accounting. Moslem accounting academicians were very familiar with principles of conventional accounting such as monetary measurement and historical cost. Despite this, there was still debate in Islamic accounting researchers on the measurement and disclosure principles were should be used by Islamic accounting (see Baydoun and Willet (1994 and 2000); Taheri (2000); Mirza and Baydoun (2000); Yaya (2002), Triyuwono (2002); Haniffa *et al* (2004)). Thus, there is a possibility for the Moslem accounting academicians in Java to perceive it differently from the Islamic accounting theory suggested by Baydoun and Willet (1994). In the case of measurement, Haniffa *et al* (2004) state that an Islamic accounting is likely to use both historical cost and market selling prices. The dual system of asset valuation is likely to enable firms to accommodate contracts and satisfy the various claimants. It also enables them to fairly discharge their social obligations, especially the payment of *zakat*.

The other explanation why the respondents perceived the conventional accounting concepts of historical cost, prudence and monetary to be suitable for Islamic organizations could be due to the perception that general belief that accounting is concerned with money and prudence principle serves as a protection to absent shareholders and creditors from overvaluing the assets. This belief comes from convergent behavior that proposes that the work environment will influence a person values and behavior (Addler et al, 1986; Kelley et al, 1987). In this case, the Moslem accounting academicians exhibit convergent tendencies because they adopt the Western World-View and values which have implications for accounting values (see Table 2.3). Thus, they believe that some conventional accounting principles, such as monetary measurement, prudence and historical cost, may be viewed as appropriate for Islamic organizations. Conversely, if they believe that some conventional accounting principles, such as monetary measurement, prudence and historical cost, are not appropriate for Islamic organizations, thus they steadfastly conform to their home-culture values (Islamic values) and influence behaviours, they will be portraying divergent tendencies.

Based on the result of the test on hypothesis 4, it can be said that the objective of Islamic accounting is different from the objective of conventional accounting. This result is consistent with Hameed (2000) and Yaya (2002). Since this consensus is widely supported by the respondents, the development of Islamic accounting could be brought about by providing information that will enable shareholders to ensure that the organization has discharged its accountability in accordance with the *Shariah* and to induce economic behavior in line with Islamic objectives and values. Then based on hypothesis 5 testing on the users of Islamic accounting, it was found that Moslem accounting academicians in Java believe that the level of importance of users of

accounting information is different between Islamic accounting and conventional accounting, whereby in Islamic accounting the shareholder is not necessarily the most important user among the stakeholders.

Finally, on testing hypothesis 6 on the characteristics of Islamic accounting, it is found that Moslem accounting academicians in Java believe that Islamic accounting should emphasize social and religious oriented information. This consensus would imply that there is a need in an Islamic accounting system to provide information to encourage the business organization to behave in an Islamic manner and discourage any un-Islamic behavior that might probably be undertaken by the organization or the users of information (Yaya, 2002). The strong consensus among Moslem accounting academicians on certain principles showed that these principles can be used later as a basis for developing Islamic accounting.

The result of hypothesis 6 testing was similar with Hameed (2000) and Yaya (2002) and also support the Islamic accounting theory which suggested that Islamic accounting should emphasize social and religious oriented information. This implies that the principles of *Shari'ah* should drive accounting and reporting policies for Islamic organizations. Since adherence to *Shariah* is a form of worship, managers of Islamic organizations must balance between wealth allocations to firm's claimants and to oneself by taking into account the welfare of both fellow humans and also the environment when making choices on accounting and reporting policies. By doing so, managers of Islamic organizations are able to fulfill obligations to *Allah*, society, the environment, and self and also to achieve socio economic justice and success in this world and hereafter.

The general conclusion from the hypotheses testing on the suitability of conventional accounting for Islamic organizations and the objective and characteristics of Islamic accounting is that Moslem accounting academicians in Java believe that Islamic organizations should follow Shari'ah/ethical principles and promote social welfare rather than concentrate on profits. There also seems to be a favourable response to the need for Islamic accounting among Moslem accounting academicians in Java. Most of the participants agree with the accountability objective of Islamic accounting and support the integrative and holistic nature of Islamic accounting information. Although the respondents are not convinced about the unsuitability of the conventional accounting concepts of historic cost, prudence and monetary measurement, for Islamic organisations and Moslem users, they generally agree that conventional accounting is not suitable in terms of its objectives, the information it provides and its behavioural effects.

The results also showed that in case of Indonesia, Power Distance has the best antecedents in explaining Gray's accounting values. This result are different with Salter and Niswander (1995) who argue that Uncertainty Avoidance has more significant relationship to Gray's accounting values than the other Hofstede' dimensions. However, this result is consistent with Sudarwan and Fogarty (1996) who hypothesize that, if culture and accounting are related, then changes in cultural dimensions should be related to changes in accounting values over time. They found that in case of Indonesian society, there was a positive significance relationship between power distance and conservatism although Gray did not hypothesize this relationship. Hosftede (1991) showed that Indonesia was the country which has large power distance. Indonesia have high rank on Power Distance Index (PDI) which show that Indonesia has large extent to

which the less powerful members of organizations within a country expect and accept that power is distributed unequally. Therefore, it was reasonable that this construct has significant relationship to Gray's accounting values than the other Hofstede's dimensions. In terms of uncertainty avoidance, Hofstede (1997) showed that Indonesia was a country with weak uncertainty avoidance. Although, Hendriksen and Van Breda (1991) argue that uncertainty is the basis for traditional accounting concept of conservatism and Salter and Niswander (1995) also argue that Uncertainty Avoidance has more significant relationship to Gray's accounting values than the other Hofstede's dimensions but this study showed that in case of Indonesia, this dimension was not related with accounting values. This is may be because Indonesia society has weak uncertainty avoidance, therefore accounting concepts are not established based on uncertainty avoidance. The result also supports Gray's theory (1988) that secrecy can be linked most closely with power distance. A close relationship with power distance also seem in that in power distance societies are likely to be characterized by the restriction of information to preserve power inequalities.

The other explanation for the significant relationship between power distance and accounting values comes from Schwartz's (1999) culture dimensions. One of his dimensions is conservatism which emphasize on maintenance of the propriety and status quo. For this purpose, the appropriate accounting techniques are conservatism; which refers to the cautious approach to measurement preferring the understatement of profit to its overstatement, and secrecy; which refers to the preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing. Schwartz (1999) argue that hierarchy and conservatism values relate positively because a view of the social actor

(individual or group) as embedded in a collectivity of interdependent, mutually obligated others underlies. In the other hand, egalitarianism and autonomy values related positively because a view of the social actor as an autonomous entities underlies them both. It must remember that hierarchy relying on power differences, therefore it is reasonable that accounting values; secrecy and conservatism are appropriate to maintain the propriety and status quo as emphasized by power distance value.

The Hofstede-Gray framework also utilized to examine the antecedents of different perceived usefulness of Islamic Corporate reporting. Sulaiman (1997 and 1998) has documented that the antecedents of this difference was not religion (Moslem or non Moslem). Based on analysis at individual level, the result showed that the Hofstede-Gray framework can not explain the perceived usefulness of Islamic corporate reporting. Conservatism and Secrecy values did not negative significance relationship with perceived usefulness of Islamic Corporate reporting. The model, although has developed Sulaiman's studies which only used category variables (Moslem and Non Moslem), appears still parsimony to explain why respondents perceived that Islamic Corporate reporting was useful. Doupnik and Tsakumis (2004) argue that content analysis and opinion surveys like this study, have been used to examine the relation between culture and accounting values. However, they argue that experimental approach appears to be the one methodology best suited to examine Gray's framework using individuals as the unit of analysis. Although, the researcher hopes that the Moslem accounting academicians are familiar with Islamic Corporate reporting, but it appears that the questionnaire is still not enough to give description about the usefulness of the elements of the Islamic corporate reporting. Thus, future agenda is needed to extend this issue by using experimental approach.

CHAPTER V

CONCLUSIONS, LIMITATIONS, AND RECOMMENDATIONS

5.1 Conclusions

The objective of this study is to examine the perception of Moslem accounting academicians in Java on the suitability of conventional accounting for Moslem users and the objectives and characteristics of Islamic accounting. In addition it also aimed at obtaining empirical evidence on the cultural influence on the perceived usefulness of Islamic corporate reporting. From the testing of the hypotheses related to the nature of Islamic accounting, it was found that:

- a. The respondents perceived that conventional accounting does not direct Moslem users towards Islamic behavior (hypothesis 1) and that conventional accounting needed major modification for Islamic organizations.
- b. Moslem accounting academicians in Java believed that financial statements provided under conventional accounting impeded the fair allocation of wealth between stakeholders or hinder the making of appropriate decisions to control the organizations to ensure the attainment of their objectives (Hypothesis 2). Despite this, the respondents perceived that the information provided by conventional accounting do not allow them to properly disclose their Islamic accountabilities.
- c. However, the respondents perceived the conventional accounting concepts of historical cost, prudence and monetary to be suitable for Islamic organizations (hypothesis 3). This finding could be due to the perception that general belief that accounting is concerned with money and prudence principle serves as a protection to absent shareholders and creditors from overvaluing the assets.

- d. Moslem accounting academicians in Java also believed that decision-usefulness is not the main objective of Islamic accounting (Hypothesis 4). In fact they strongly perceived that Islamic accountability to be the main objective of Islamic accounting as their median score for this question was more than three.
- e. Further, Moslem accounting academicians in Java believed that in contrast to conventional accounting, shareholders are not more important users of Islamic accounting than other stakeholders especially, benevolent loan creditors, employees, government and the community (Hypothesis 5). This lends increasing support to an accountability framework for Islamic accounting.
- f. Finally, the respondents believed that Islamic accounting emphasizes Islamic/social information rather than purely financial information on profits, cash- flows and financial position (Hypothesis 6). Specifically, they perceived that Islamic accounting should provide wider holistic information on environmental impact, employee-manager relationship and working conditions, Islamically prohibited activities and social impact on the community. Further, the respondents perceived that current values should be used in the balance sheet and called for Shari'ah audit and the inclusion of externalities.

Meanwhile, the results of hypotheses testing related to the cultural influence on the perceived usefulness of Islamic corporate reporting were:

- a. The result of this study showed that the relationship between conservatism and uncertainty avoidance was not statistically significant. However, this study found that the higher in terms of power distance then the more likely to rank highly in terms of conservatism although Gray did not hypothesize a relationship between these variables.
- b. This study also found that the relationship between uncertainty avoidance and secrecy was not statistically significant. The result indicated positive relationship between power distance and secrecy.
- c. The result of this study failed to conclude the antecedents of perceived usefulness of Islamic Corporate reporting. Although this study has utilized the Hofstede-Gray's framework which commonly used to explain the choice of financial reporting but this study did not find that the accounting values influence the Islamic financial reporting.

5.2 Limitations of the Study and Suggestions for Further Research

This research had several inherent limitations. In particular several important aspects of Islamic accounting could not be investigated due to the length and time limitations. These include the structure of questionnaire and the in-depth discussion of recognition and measurement system for Islamic accounting. The theoretical paradigm adopted by this study is the Islamic paradigm, which is a spiritual extension of a middle position of the subjective/objective dimension divide and towards an interpretive

approach. For this paradigm, long-term participant observation in an organizational setting, multi-stage interviews and case studies will be appropriate for data collection methods for further research.

This study, as is the case for normative ethical research in general, fail to take into account the actual condition of the reporting the Islamic business enterprises. Maali's *et al* (2003) analysis suggest that that social reporting by Islamic banks falls significantly short of expectations for entities whose operations are based on Islamic principles. The Islamic banks tend to disclose only the items to help to construct a positive image, such as matters relating to charity and *Zakat*. However, Islamic banks tend not to disclose issues that are potentially important to the stakeholders. Therefore, future research can consider the issues about the actual reporting practice of Islamic organizations.

The scope of the empirical research was also restricted due to cost and time considerations to Java. The other limitation was the measurement. Hence, the perception survey needs to be extended to Moslems in other area and culture to broaden the consensus. The range of accounting principles tested could also be extended in future research to include conventions other than the historical cost, prudence and monetary measurement principles tested in this research. This would be a basis to confirm or refute the compatibility of conventional accounting principles to Islamic accounting.

The other limitations of this study were the measurement of cultural and accounting values. Douppnik and Tsakumis (2004) argued that one of the greatest difficulties in measuring accounting values utilizing an opinion survey like this study is the development of a valid survey instrument. Thus, future research can extended this

study by using better measurement of accounting values. Future research can also utilize experiment to test the Hofstede-Gray framework. Douppnik and Tsakumis (2004) stated that experiment appears to be the one methodology best suited to examine Hofstede-Gray framework using individuals as the unit of analysis. Using experimental approach to answer the questions related with cultural influence on accountant's application of financial reporting could present more long term relevance from a research perspective. Future research also can use Hofstede (1994) Value Survey Module (VSM) as part of the experimental instrument to ensure that accountants selected for the study differ on cultural values.

This study also had limitation on the measurement of Hofstede's (1980) cultural values because Hofstede's cultural dimensions were only one way to describe national culture. His framework has been used extensively in empirical research, partly because his cultural dimensions indices easily can be used as independent variables in statistical analyses. However, Hofstede's work was not without its critics (Baskerville, 2003). Future research can investigate the possibility of using Schwartz's (1997) framework in lieu of Hofstede's to explain influence of culture on financial reporting. This alternative set of quantitatively measured cultural dimensions gives accounting researchers an opportunity to empirically explore the links between accounting and different perhaps more refined dimensions that characterize national culture. Schwartz's score have the advantage of being based on more recent and arguably more generalizable samples.

This study has extended Sulaiman's (1997&1998) studies by using Hofstede-Gray framework to explain how the Moslem accounting academicians perceive the usefulness of Islamic Corporate Reporting. However, the parsimony model could not explain the perceived usefulness. Therefore, future research can develop the model

which is used by this study. The development model can regard the other Hofstede's cultural values such as individualism and masculinity or Schwartz's (1994) dimensions such as hierarchy, autonomy, conservatism, mastery, and harmony.

5.3 Recommendations

The results of this study suggest that manager of Islamic organizations should adopt the accounting policies that are consistent with the requirements of the *Shari'ah*. Their accounting policies need to fulfill contractual obligations to various parties, including mankind, the environment and to Allah. Accounting regulation in an Islamic society needs to be general and flexible, and not like its Western counterpart. Disclosure in financial reporting of Islamic organizations should consider various stakeholders. Different with disclosure of conventional annual report, there has to be substantial additional disclosure about social performance of organization's operations, including the allocation and utilization of *zakat*.

In terms of measurement, Islamic organization should use both historical cost and current value. The use of historical cost for asset valuation satisfies the stewardship objective. On the other hand, for calculating and paying *zakat*, the use of current value would be appropriate. In short, Islamic organizations should provide appropriate information which not necessarily limited to financial data to stakeholders which will enable them to ensure that the entity is continuously operating within the bound of the Islamic *Shari'ah* and delivering on its socio-economic objectives

BIBLIOGRAPHY

- AAOIFI. 1996. *Accounting and Auditing Standards for Islamic Financial Institutions*. Manama, Bahrain: Accounting and Auditing Organization for Islamic Financial Institutions.
- Adler, Nancy J, et al. 1986. From the Atlantic to the Pacific Century: Cross-Cultural Management Reviewed. *Journal of Management Volume 12 No 2*
- Adnan, M.A. and Gaffikin. 1997. The Shariah, Islamic banks and accounting concepts and practices. *Proceedings of the International Conference 1: Accounting Commerce and Finance: The Islamic Perspective*. Sydney, Australia.
- Baron, Reuben M and David Kenny. 1986. The Moderator-Mediator Variable Distinction in Social Psychological Research: Conceptual, Strategic, and Statistical Consideration. *Journal of Personality and Social Psychology Vol 51 No 6, 1173-1182*
- Baskerville, Rachel F. 2003. Hofstede Never Studied Culture. *Accounting, Organizations and Society 28 (2003) 1-14*
- Baydoun, N. and R. Willett. 1994. Islamic Accounting Theory. *Proceeding of AAANZ Annual Conference*, Sydney, Australia.
- Baydoun, N. and R. Willet 1995. Cultural Relevance of Western Accounting System to Developing Countries. *Abacus*, Vol 31, No. 1.
- Baydoun, N. and Willet, R. 1997. Islam and accounting: ethical issues in the presentation of financial information. *Accounting, Commerce and Finance: The Islamic Perspective*. 1 (1): 1-24.
- Baydoun, N. and Willet, R. 2000. Islamic corporate reports. *Abacus*. 36 (1): 21-91.
- Chen, R. 1975. Social and financial stewardship. *The Accounting Review*. 61(1): 1-21.
- Chapra, U.M.1992. *Islam and the Economic Challenge*, Leicester (UK): The Islamic Foundation.
- Clark, F., Craig, R., and Hamid, S. 1996. Physical asset valuation and zakat: insights and implications. *Advances in International Accounting*. 9: 195-208.

- Cooper, C. 1992. The Non and Nom of Accounting for (M)Other Nature. *Accounting Auditing and Accountability Journal*. Vol.5, No.3, 1992.
- Douplik, Timothy, and George Tsakumis. 2004. A Critical Review of Test of Gray's Theory of Cultural Relevance and Suggestions for Future Research. *Journal of Accounting Literature* 2004;23
- FASB. 1996. *Statement of Financial Accounting Concepts*. Norwalk, Connecticut: Financial Accounting Standard Board.
- Gambling, Trevor dan Rifaat Abdel Karim. 199., *Bussines and Accounting Ethics in Islam*. London: Mansell
- Ghozali, Imam. 2005. *Analisis Multivariate dengan Program SPSS*. Badan Penerbit Universitas Diponegoro
- Gray, S.J. 1988. Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally." *Abacus*, 24(1), 1-15.
- Hair, Jr. et. Al. 1998. *Multivariate Data Analysis*. Prentice Hall
- Hameed, Shahul. 2000. *The need for Islamic Accounting: Perception of Its Objectives and Characteristics by Malaysia Accountants and Academics*. Ph.D. Thesis. University of Dundee.
- Hameed, Shahul. 2001. Islamic accounting - accounting for the new millenium? *Paper of the Asia pacific Conference 1-Accounting in the New Millenium*. Kota Bahru, Malaysia.
- Hameed, Shahul. 2003. Islamic Accounting, A New Push. *Akauntan Nasional : Januari/Februari 2003*
- Hameed, Shahul and Rizal Yaya. 2003. The Future of Islamic Corporate Reporting: Lessons from Alternative Western Accounting Reports. *Paper accepted for the International Conference on Quality Financial Reporting and Corporate Governance 28-29 Juli 2003*
- Haneef, M.A. 1997. Islam, the Islamic worldview and Islamic economics. *IJUM Journal of Economics and Management* 15 (1): 39-65.
- Haniffa, R. and Hudaib, M. 2001. A conceptual framework for Islamic accounting: The Shari'a paradigm. *Paper of the International Conference on Accounting, Commerce & Finance: The Islamic Perspective*. New Zealand.
- Haniffa, Ros, Muhammad Hudaib and Abdul Malik Mirza. 2004. Accounting Policy Choice within The Shari'ah Islami'iah Framework. *Working paper University of Exeter*

- Harahap, Sofyan Safri. 2002. The Disclosure of Islamic Values-The Analysis of Bank Muamalat's Indonesia Annual Report. *Paper of the National Conference on Islamic Economic System I Universitas Islam Indonesia, 13-14 Maret 2002*
- Hendriksen, Eldon S and Michael Van Breda. 1991. *Accounting Theory*. McGraw-Hill 5th ed.
- Hofstede, Geertz. 1980. *Culture's Consequences: International Differences in Work-Related Values*. Sage Publications, London.
- Hofstede, Geertz. 1997. *Culture and Organizations: Software of the Mind*. Mc Graw-Hill
- Kam, V. 1990. *Accounting Theory*. 2nd Ed. New York: Wiley.
- Kelley, Lane. 1987. Assessing the Effects of Culture on Managerial Attitudes: A Three-Culture Tests. *Journal of International Business Studies, Summer 1987*
- Khan, M.A. 1994. Accounting issues and concepts for Islamic Banking. Ins. *Development of an Accounting System for Islamic Banking*. London: The Institute of Islamic Banking & Insurance.
- Khair, M. 1992. Accounting in a changing society. Ins. Harahap, S.S. (edit) *Akuntansi, Pengawasan & Manajemen dalam Perspektif Islam* (Accounting, Auditing and Management from an Islamic Perspective). Jakarta: Trisakti University.
- Lewis, Mervyn K. 2001. Islam and Accounting. *Accounting Forum Volume 25 No 2 June 2001*
- Maali, Bassam, et al. 2003. Social Reporting by Islamic Banks. *Discussion Paper in Accounting and Finance University of Southampton*
- Mas'ud, Fuad. 2004. *Survai Diagnosis Organisasional: Konsep&Aplikasi*. Badan Penerbit Universitas Diponegoro
- Mathews, M.R. and Pereira, M.H.B. 1996. *Accounting Theory and Development*. Melbourne: Thompson Publishing.
- Mirza, M & Baydoun, N. 2000. Accounting policy in a riba free environment. *Accounting, Commerce and Finance: The Islamic Perspective Journal*. 4 (1): 30-40.
- Pang, Yang Hoong and Leong Kwong Sin.1995. The Financial Reporting Environment and Its Implications for Accounting Regulation. *Contemporary Issues in Accounting* edited by Pang Yang Hoong 1st ed.
- Perera, MHB 1989. Towards a framework to analyse the impact of culture on Accounting. *The International Journal of Accounting (Abstract)*. Vol. 24, 1989, pp42-56.

- Reiter, S. 1997. The ethics of care and new paradigms for accounting practice. *Accounting, Auditing and Accountability Journal* Vol. 10, Number 3, 1997, p299-324.
- Robins, Stephen P. 2001. *Organizational Behavior*. Prentice-Hall, Inc.
- Salter, S.B. and Niswander, F. 1995. Cultural Influence on the Development of Accounting Systems Internationally: A Test of Gray's (1988) Theory, *Journal of International Business Studies*, 26(2), 379-397.
- Schwartz, Shalom H. 1999. A Theory of Cultural Values and Some Implications for Work. *Applied Psychology: An International Review*, 48 (1), 23-47
- Sekaran, U. 2003. *Research Methods for Business: A skills building approach*, 2nd Edition. New York: John Wiley & Sons Inc.
- Siegel, Sidney and John Castellan,. 1988. *Non Parametric Statistics for Behavioral Sciences*. McGraw-Hill
- Sudarwan, M and TJ Fogarty. 1996. Culture and Accounting in Indonesia: an empirical examination. *The International Journal of Accounting Vol 31*
- Sulaiman, M. 1997. *Testing a Theory of Islamic Corporate Reporting: The Case of Malaysia*. Ph.D. Thesis. University of Otago.
- Sulaiman, M. 1998. The Usefulness of Current Value Balance Sheet and the Value Added Statement to Muslims: Some Evidence from Malaysia. *Accounting, Commerce & Finance: The Islamic Perspective*, 2(2): 24-66
- Sulaiman, M. 2001. Testing a model of Islamic Corporate Financial Reports: some experimental evidence. *IIUM Journal of Economics and Management*, 9 (2): 115-39
- Sulaiman, M and Roger Willet. 2003. Using the Hofstede-Gray framework to argue normatively for an extension of Islamic Corporate Reports. *Malaysian Accounting Review*, (2003), Vol 2 (1)
- Taheri, Mohammad.R, 2000, *The Basic Principles of Islamic Economy and Their Effects on Accounting Standards-Setting*, [www. islamic_ accounting. com](http://www.islamic_accounting.com)
- Triuwono, I. & M. Gaffikin (1996), "Shari'ate Accounting: An ethical construction of Accounting Knowledge", paper presented at the 4th *Critical Perspectives on Accounting Symposium*, New York, 1996.

Triyuwono, Iwan. 2000. Akuntansi Syariah: Implementasi nilai keadilan dalam format metafora amanah (Shariah Accounting: Implementation of justice in a form of trust metaphor). *Jurnal Akuntansi & Auditing Indonesia*. 4(1): 1-34.

Triyuwono, Iwan, 2002. Kritik atas Konsep Teori yang Digunakan dalam Standar Akuntansi Perbankan Syari'ah (Critique on Theory Concept Using on Islamic Banking Accounting Standards). *Paper Seminar dan Musyawarah FOSSEI Forum Studi Islam dan Lingkungan Fakultas Ekonomi Universitas Brawijaya*

Wolk, J.F. and Tearney, M.G. 1997. *Accounting Theory: A Conceptual and Institutional Approach*. 4th ed. Ohio: South Western College Publishing.

Zaid, O.A. 1997. Accounting books and reports in the Islamic State. *Proceedings of the International Conference 1: Accounting Commerce and Finance: The Islamic Perspective*. Sydney, Australia.

Yaya, Rizal. 2001. From Conventional Accounting to Islamic Accounting, Does It Need A Slight or An Extensive Overhaul?, *Jurnal Akuntansi dan Auditing Indonesia* Vol. 5 No. 2 Desember 2001

Yaya, Rizal. 2002. Objectives and Characteristics of Islamic Accounting: Perceptions of Muslim Accounting Academicians in Yogyakarta, Indonesia, *Thesis International Islamic University Malaysia*