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ACCOUNTABILITY VERSTEHEN: A STUDY OF ACCOUNTING IN STATE RELIGIOUS COUNCILS IN MALAYSIA

This paper reports in-depth case studies of financial management and accounting practices in two Islamic religious, public service organisations in Malaysia, using a grounded theory methodology. There are two main purposes of the paper. The first is to provide an example of how a grounded theory study is undertaken in practice and to encourage its use in similar and different settings. The second is to contribute to the understanding of financial management and accounting in religious, public service organisations in general and in Islamic organisations in particular. The methodology used was a combination of Strauss and Corbin (1990, 1998) and Glaser (1978). The grounded theory which emerged used Weber's (1947,1949,1968) concept of verstehen to explain the differences in accounting practice. The study showed that the broader social, historical and religious contexts in which organisations are embedded, together with the power relationships within them, resulting in unique accounting verstehen and also therefore in unique accounting practices.

Keywords: religious organisations, grounded theory, financial management, accounting

ACCOUNTABILITY VERSTEHEN A STUDY OF ACCOUNTING IN STATE RELIGIOUS COUNCILS IN MALAYSIA

INTRODUCTION

This paper contributes to public service financial management and accounting research in two ways. The first is a contribution to the use and development of interpretive methodology in such research in general and grounded theory in particular. Humphrey and Scapens (1996) were concerned that the growth in case study research had failed to realise the potential of 'explanatory' case studies in providing more challenging reflections on the nature of accounting knowledge and practice and that prior case studies had not generated much 'new theory'. They argued that 'for accounting research to become more explanatory of accounting as a social practice, case based researchers have to recognise that theory both informs, and is developed by observation'. Such research needed to be 'more directly involved in conversations concerning theories of the organisational and social functioning of accounting'. However, by deliberately avoided recommending the adoption of any particular methods, their paper did not provide guidance as to how such theories might be constructed. This paper argues for the use of grounded theory as one such method and applies the method in practice to develop an 'accounting theory'. Grounded theory was developed by two sociologists, Glaser and Strauss, in the 1960's. Glaser (1978) defined it as 'a general methodology of analysis linked with data collection that uses a systematically applied set of methods to generate an inductive theory about a substantive area'. The number of studies using grounded theory has grown steadily since the original treatise and it has attracted a number of management researchers (e.g. Turner, 1981, Gummesson, 1991). Its use in accounting research has been limited. Parker and Roffey (1997) point out the dearth of studies in accounting using grounded theory despite its 25 years of development and its potential to make a significant contribution to interpretive research. They advocate its use to examine its potential utility in the accounting domain and to inform the contemporary methodological debate in

accounting research. They conclude that rigorous grounded theory research, which has methodological discussion firmly embedded in its procedures..... would improve the quality of management accounting and control field research=... and >.offers itself as an under utilised and potentially valuable addition to future accounting theory development=.

The second contribution of this paper is to our knowledge of financial management and accounting in religious organisations in general and to Muslim organisations in particular. This is achieved by two case studies of accounting practices as embedded in two religious, public service organizations in Malaysia. **Malaysia is a federation of fourteen Malay States. It has about eighteen millions inhabitants with sixty percent being Muslims. As a federal structure, the Malaysian Constitution clearly stipulates the division of power between the federal and the state governments. In the Malaysian Constitution, religion has been identified as within the jurisdiction of the State. The State King is also the Head of the religion of Islam in his State. In every state, the State Islamic Religious Council (SRC) was established to administer Islamic affairs. The primary duty of SRCs is the management of Islamic Taxes (*Zakat*). This raises issues of both financial accountability and religious accountability, as *Zakat* is one of the pillars of Islamic faith. *Zakat* is essentially wealth tax and those eligible to receive benefits from *Zakat* are laid down by Islam and include the poor and destitute; and those in the path of God. Nowadays this is taken to include the establishment of hospitals and schools, and a wide range of social security schemes and the SRC-s are a very significant public service providers.**

There is a limited literature directly concerned with accounting in such organizations. This literature is mainly concerned with accounting in churches and focuses on prescribing "good" accounting practices. Very few of these studies try to explain accounting practices in use (Booth, 1993). Laughlin (1988,1990) is an exception who provides insight into accountability and accounting practices in a western Christian church environment and more recently Irvine (1996) and Parker (1998,2001,2002) have provided more interpretive studies of accounting practices in religious organisations. Karim and Ali (1989) and Karim (1990,1995) have studied financial reporting and auditing in Islamic Banks. However, there has been no extensive and systematic

study of accounting as a situated social practice in Islamic religious settings.

Two main themes emerge from the prior literature. First, there has been a concern with the inadequacies of accounting practices in churches. The solution advocated for these problems are generally for churches to follow "good commercial practices" (e.g. Rowe and Giroux, 1986, Zietlow, 1989, Faircloth, 1988). Second, there has been an emphasis on the differences between the "spiritual" and "non-spiritual" or the "sacred" and "secular" aspects that need to be taken into account in study of accounting systems and in their design and implementation (Booth 1993, Laughlin, 1988,1990).

Studies of Western Christian churches indicate that accounting practices may interact with the spiritual dimension of a church. Accounting usage may be linked to management issues that are involved with the survival of the Church, and to be implicated in the process of the centralization of control (Booth, 1993). Laughlin (1988 and 1990) provides an insight to the nature of accounting systems at various levels in the Church of England. In understanding the uses of accounting, specific attention was paid to the issue of historical context and unique features of the organization. An understanding of this variety in the accounting systems had to be related to an understanding of the social dynamics of the Church. Laughlin's use of the sacred and secular metaphor emphasizes the role of belief systems of religious organizations in explaining the use of accounting. The sacred/secular divide, therefore, separates the legitimate-part of a church from its profane support activities which include accounting systems (Booth, 1993). Accounting is regarded as an irrelevancy to the life of the organization and only tolerated to the extent that it supports the sacred.

Parker's (1998,2001,2002) study developed a grounded theory of the financial management strategy of a community welfare organisation in Australia, founded by Christian religious denominations. This study found that the organisation was coping with a dynamic, complex and at times inhospitable environment. Yet, its strategic financial orientation emerged as a key, proactive response to that environment. In this case, the issue of sacred/secular was not found to be important. Irvine (1996), however, found that the notion of a sacred/secular division would be

a useful starting point for a study of any religious organisation. In her study in a local church in Australia she revealed that accounting was not generally portrayed as being contrary to the spiritual aims of the church. This may be partly due to the greater uniformity in beliefs within a local church, and the church's responsibility for its own resourcing. Within this church an interest was displayed in the accounting system. The past and present treasurers and churchwardens displayed a keen awareness of the spiritual emphasis of the church, but they saw no inconsistency or division between the operations of those aspects and church accounting. Although there was resistance to the notion that accounting might dominate spiritual concerns, there was little evidence of resistance to the use of accounting in principle; in fact, accounting was used on various occasions to objectify goals, and also to justify opinions on various financial matters.

METHODOLOGY

The methodology adopted by this study combines a general model of interpretive research based on that developed by Russell (1996) and grounded theory methods of data analysis and theory construction developed by Strauss and Corbin (1990) and Glaser (1978). It commenced with a broad description of the phenomenon to be studied following Glaser's approach whereby the research problem should emerge rather than be forced by the methodology. For instance, in this study, although the initial phenomenon to be studied was the accounting practices in the case studies, it emerged that the core phenomenon was the accounting verstehen of the organisation. The empirical work followed and the researchers emerged themselves in the data by interviews, document searches and participant observation. This was undertaken in two stages of data collection and analysis and development of theory. The first stage was predominately concerned with obtaining and understanding of the organisations and of the pertinent phenomena. Following analysis of the data from the first field study a period of theoretical reflection was undertaken and an emerging theory constructed. This was reported in Abdul Rahman and

Goddard (1998). The second stage entailed detailed testing and further development of this emerging theory resulting in a validated grounded theory of accounting the in the two organisations, which is reported in this paper.

This methodology views the research process as being iterative, involving ongoing analysis and reflection through stages of exploration of an initial phenomenon. The researcher gradually discovers the issues and questions of centrality to the informants and develops an emergent theoretical perspective. Through further reflection and data analysis the researcher eventually develops a theoretical understanding of the phenomenon being studied.

The empirical analysis and theory construction was undertaken using Strauss and Corbin's (1990) grounded theory procedures. They described grounded theory as 'a method that uses a systematic set of procedures to inductively derive a grounded theory about a phenomenon'. The central aim is to construct a theory by grounding it in a rigorous observation of the phenomenon, 'in interplay with data and developed through the course of actual research' (Strauss and Corbin, 1998). The theory will often be complex, formulated through iterative analysis of data, and through the development of core concepts whose relationships are investigated in order to generate an explanatory theoretical framework which emerges from the data collected (Strauss 1987). The task is, therefore, to interpret the varied perceptions of the participants in the research process in order to construct a 'theory that is conceptually dense' (Strauss and Corbin, 1990). Analysis of the data is itself an emergent process and the researcher seeks to gradually develop an empathy with the data, to understand what they tell of the participants' realities and the process through which they unfold. The researcher needs to constantly construct alternative interpretations until he is satisfied that the representation is a faithful account.

The procedures comprise three interrelated aspects: theoretical reflections, coding and theory generation. Theoretical reflection of prior theories of accounting studies serves to generate the theoretical frameworks to be used by the study. This approach, as asserted by Clifford (1994), provides a powerful theoretical framework informed by prior literature to serve as a guide for the process of data analysis. This is considered appropriate since the grounded theory researcher

cannot profess neutrality and distance from the research subject in the way that the positivist researcher attempts. Nonetheless, Strauss (1987) specifically delineates the importance of the researcher's academic and professional experience in coding, categorizing and verifying data in grounded theory research. Prior theories and the researcher's experience serve as guides for interpreting the emerging concepts through the close scrutiny of field notes, interview transcripts and other documents.

Coding is the process of analysing the data and proceeds through several stages (Strauss and Corbin, 1990, 1998). *Open coding* is the process of breaking down, examining, comparing, conceptualising, and categorising data collected by the researcher's observation/interview/reflection notes as well as interview transcripts. These categories are discovered when concepts are compared one against the other and appear to pertain to a similar phenomenon. Thus concepts are grouped together under a higher order, more abstract concept called a category.

Axial Coding follows open coding. Once initial open coding has been conducted, the researcher then recombines the data by making connections between categories. The grounded theory researcher describes the properties of initial categories by the use of theoretical memos. *Theoretical memos* are written theoretical questions, coding summaries, and hypotheses, used to monitor and stimulate coding, and as a basis for theory integration. They are used to reflect upon and explain meanings ascribed to phenomena by actors and researchers; to identify relationships between codes; to clarify, sort and extend ideas; and to record crucial quotations or phrases.

The final stage of coding is *selective coding* which requires the selection of the focal core category, that is, the central phenomenon which has emerged from the axial coding process. All other categories derived from that axial coding process must be related in some way to this focal core code, either directly or indirectly (Parker and Roffey, 1997).

The final grounded theory can be explained in accordance with the 'paradigm model' as developed by Strauss and Corbin (1990) and illustratively used by Parker (1998). The 'paradigm model' is a process of connecting categories or conceptual data developed from the process of

open and axial coding, by relating, restructuring and rebuilding the data into various patterns with the intention of revealing links and relationships.

The *central phenomenon* is the central idea or central event that is considered to be the most significant and which becomes an inherent part of the organisational properties. The *causal conditions* are the events or incidents that lead to the occurrence or development of a phenomenon. The *context* refers to the specific set of properties that pertain to a phenomenon. The *intervening conditions* are the conditions which describe the environment in which the individual examples of phenomenon occur. They are not part of the phenomenon or the causal conditions, but they also contribute to the particular phenomenon or to the causal conditions. The *action/interactional strategies* are the processes of managing, handling, carrying out, or responding to a phenomenon. The action/interactional strategies are processual, and evolving in nature. They are also purposeful, goal-oriented, done for some reason and in response to or to manage a phenomenon. The *consequences* are the result of action and interaction strategies. They may be actual or potential, and happen in the present or the future.

STUDY METHODS

The primary objective of this study was to explain accounting as a social practice and to develop an explanation of accounting in religious organisations located in different cultures to those found in the West. Culture, values and religion have been argued by many to be important in shaping the role of accounting (e.g. Rosenberg et. al, 1982, Laughlin, 1990, Dent, 1991). Based on the preliminary review of literature relating to the study of accounting in its organisational and social contexts and also by focussing upon Booth (1993) framework-s for research on accounting practices in religious organisations, three initial research questions were formulated to serve as a guide to the data collection process.

1. What is the perceived role of accounting practices in Islamic State Religious Councils

(SRC=s)?

2. How and to what extent do cultures, religious values and socio-political environments influence the way accounting is being practised in the SRCs?
3. Does a conflict between `secular= and `sacred= activities in the organisation exist and how do the participants perceive the role of accounting in relation to this?

In order to examine these questions, two State Religious Councils (SRC) organizations namely, ASRC and BSRC were selected. For the purpose of confidentiality the real name of each state is concealed. These were chosen to provide a range of cultural settings.

There were two stages of data collection.

Field Study 1

The first stage of data collection took place over a period of one month. This stage involved firstly, semi-structured interviews with the staff of ASRC and BSRC. Semi-structured interviews were adopted in order to allow the interviewees a degree of freedom to explain their thoughts and to highlight any areas of particular interest that they had, as well as to enable certain responses to be questioned in greater depth, for example, to bring out and resolve any apparent contradictions (Horton et. al, 1996). This form of interviewing also revealed certain aspects which had not previously been identified and which were able to be followed up in further questioning as well as in later interviews and/or investigated empirically. Ten personnel in ASRC and fourteen in BSRC were interviewed over a period of one month. These included the chief executives, senior management, accounting staff and religious officers.

Secondly, at this stage, documents such as annual reports, proposal papers, newspaper cuttings, minutes of meetings etc. were also collected and compiled. This enabled a more detailed analysis of the functioning of individual units and members of the organisations to be made. This documentation also helped in the identification of issues facing the organisations and its members. This method enabled interview findings to be studied in context and provided a

triangulation process whereby the reliability of interview data and of the documents collected could be ensured.

The initial field study was reported in Abdul Rahman and Goddard (1998). The aim of the second field study was to test the emergent theories and to develop new relationships and concepts.

Field Study 2

The second stage commenced some six months after the first and comprised three months of data collection, involving follow-up semi-structured interviews, participant observation, and document collection. In the semi-structured interviews, open-ended questions were constructed based on the theories that had emerged during the first stage. This allowed participants to give feedback on the preliminary theories and gave them adequate opportunity to explain in more detail. More detailed discussion was developing at this stage due to the fact that there were more issues to be discussed and clarified.

Participant observation was adopted primarily `to get a good feel for what it-s like out there= (Nahapiet, 1988). However, due to practical restrictions set by both organisations, only the `observer as participant= method of data collection could be adopted for the current study (Adler and Adler, 1987, Denzin, 1970,1978). The researcher was not permitted to actively participate in the organisations=activities, but was granted permission to discuss matters with any members of the organisations and was given a place to sit in both organisations. In addition, the researcher was given permission to be present at a number of meetings. This method was found to serve the purpose of exposing the meanings, perceptions and interactions from an insider-s perspective and to shed light on the phenomenon under investigation in an everyday life situation or setting (Jorgensen, 1989).

GROUNDED THEORY

This section briefly outlines the coding analysis undertaken using the grounded theory methodology, commencing with the open and axial coding procedure, before arriving at the final stage of selective coding.

Open and Axial Coding

Open coding of interview, document and observational data commenced with the identification of provisional categories, which are, the early conceptual names assigned to data fragments (Locke 2001). The provisional categories were next examined and compared with each other to identify any natural groupings that existed. The groupings which were derived solely from immersion in the data and captured substantive aspects of the research situation are termed substantive categories. They represented another level of conceptual generality in the data and were allocated appropriate labels. Other groupings were derived from the researchers own disciplinary sensibilities and introduced sociological and organisational meaning to the data. These are termed theoretical categories. The process of axial coding followed, whereby the relationships between substantive and theoretical categories were explored using theoretical memos, as described above.

The whole process is illustrated in Table 1. This provides brief descriptions of the original 32 provisional categories and shows how they were grouped into 11 substantive and theoretical categories.

Selective Coding and Theory Generation

The final procedure involved using the grounded theory methodology to perform the process of *selective coding*. This requires the selection of the focal core category, that is, the central phenomenon which has emerged from the axial coding process. All other categories derived from axial coding process must be related in some way to these focal core codes, either directly

or indirectly. This was achieved using a simplified version of Strauss and Corbin's paradigm model. In this way a theoretical framework of interrelated concepts was developed showing posited relationships between the central concept (the focal core category which represents the central phenomenon), its conditioning (or influencing) concepts, the action/interaction strategies in response to, or managing the core, and their consequences.

The Central Phenomenon: Values and Perceptions of Accountability

The central phenomenon to emerge from this study is the understanding organisational members share concerning the meaning of accountability and accounting. This understanding, or

Substantive and theoretical category	Provisional category
(1) Influence of power structures on organisational decision making processes	1. The existence of power elite groups 2. Power and decision making process 3. Authority in the decision making process 4. Organisational control by coercion or consent
(2) Managerialist culture and values	5. Level of involvement of accounting staff in organisational management 6. Staffing levels 7. Professional training and exposure to contemporary accounting techniques 8. Inter - departmental conflicts and tensions. 9. Professionalism and authoritative leadership
(3) Islamic culture and values	10. Relationships between the >Ulama= (clergy) and management. 11. Centrality of religious activities: religious vs. commercial activities
(4) Traditional Malay culture and values.	12. Organisation change and increase in power of Sultan in ASRC.
(5) Accounting values	13. Ex post reporting. 14. Accounting information and probity of expenditure.
(6) Centrality of accountability	15. Coercive and consensual use of authority in decision making process. 16. Formality of accountability relationships. 17. Power Elite and Accountability

	18. Personal vs. Managerial Accountability. 19. Accountability and fraud.
(7) Financial control practices and processes.	20. Financial regulation procedures 21. Budgetary processes and the usage of budgetary data for control purposes.. 22. Emergence of use of performance measures and Zakat collection in BSRC.
(8) Financial decision making processes	23 Financial decision making processes
(9) Financial reporting process	24. Accounting and the external auditing requirement. 25. Accounting and the community
(10) Role of accounting and authority of the accountant	26. The role of accounting practices 27. Adequacy of financial information. 28. Accounting perceived as a routine process. 29.The authority of the accountant
(11) Relationship between accounting practices and the mainstream religious activities	30. Existence of distinct religious and non-religious occupational groupings with different attitudes. 31. Centrality of religious activities: religious vs. commercial activities. 32. Acceptance of accounting as a valid organisational practice.

Table 1. Summary of Coding Process

»accounting verstehen«, underpinned the way in which accountability processes in general and accounting practices in particular were undertaken and perceived.

Weber (1949) considered persons to be »cultural beings endowed with the capacity and will to take a deliberate stand toward the world and to lend it meaning=. He conceived that the social action of individuals includes both a social and a subjective meaning and verstehen is a method of obtaining an »interpretive understanding= of such social action (Kalberg 1994). Moreover, he conceptualised social action as involving one of four types of meaningful action: means - end rational, value rational, affectual or traditional. **It is the concept of value rational action (wertrational) that most informs this research, when action is »determined by a conscious belief in the value for its own sake of some ethical, aesthetic, religious or other form of behaviour=** Weber (1968). However, Weber uses the individual as a unit of social analysis as a means of understanding how individuals act in concert. Indeed he

defines the concern of the sociological enterprise in terms of action by individuals in delimited groups and the identification of patterned regularities of action (Kalberg 1994). Accounting practices can be viewed as one such patterned action in an organisation comprising individual actors. Parker and Roffey (1997) note that grounded theory (and ethnomethodology) has *verstehen* (understanding) as a goal in a phenomenological sense. The usefulness of the concept of *verstehen* in this study is that it provides a link between culture and action. It can therefore explain the process by which culture, a social phenomenon, interrelates with accounting practice, the product of individuals=actions. This process is usually omitted from studies investigating culture and accounting. The accounting *verstehen* phenomenon that emerged in this study refers to the set of values and beliefs held by individuals, that causes them to develop particular accounting practices. It comprised a set of values influenced by Islam, Malay society and Western managerialism combined with a perception of individual and organisational accountability. The value mix held by organisational members, and therefore also the accounting *verstehen*, was different in ASRC and BSRC.

The Islamic value system is derived from the original source which is Revelation, confirmed by religion and affirmed by intellectual and intuitive principles (e.g. Al-Attas, 1995; Abu-Sulayman, 1993; Al-Faruqi, 1982). Muslims consider humans to be vicegerents of God. Thus, whatever worldly possessions a Muslim has are to be held in a stewardship capacity - that is simply in trust from God (Abu-Sulayman, 1993). Islam does not concede to the dichotomy of the sacred and the profane (Al-Attas, 1995; Al-Faruqi, 1982). The world view of Islam encompasses both the worldly aspect and the religious aspect, in which the worldly aspect must be related in a profound and inseparable way to the religious aspect (Al-Attas, 1995). Islam has also developed its own concept of accountability (*Taklif*) which means that everyone is accountable for his actions or inaction-s on the day of judgment (Al-Safi, 1992). Both organisations reflected the presence of the Islamic value system. The objectives and the mission of both organisations clearly stipulate that the aim of the organisations is to serve the Muslim public. The characteristics and the activities of the organisations are, in

general, reflective of Islamic beliefs and principles. All employees as well as the management were Muslims and they also shared a belief in the stated objectives of the organisations. The main activities of the organisations were centred around Islamic activities such as managing Islamic funds and carrying out welfare activities.

Another important value system, which may also explain the kind of power relationships in ASRC, was that of Malay culture, with its traditional class system. The line of power is vertical, from top to bottom. At the apex of the triangle stands the ruling monarch, followed by those belonging to the royal class with the titles raja or tengku, ascribed by birth. Below the royal class are the nobility or the titled gentry. Below the nobility are the 'free men=(orang merdeka) and at the bottom of the social scale were the Adept-bondsmen@ and the slaves. The study of ASRC reveals the strong influence of the traditional social class system. Even though, it may not reflect such a highly structured system as shown above, it does suggest that it was the concept of Kingship still binds the fabric of the power relationships and the culture of ASRC which could be described as traditional Malay. The power elite of the Royal family was a significant factor in the way the staff exercised their authority in organisational management and decision making. This was associated with the passive involvement of staff in managerial decision making and their lack of authority. In addition the role of accounting and the authority of accountant were very limited in that organisation. It was observed that most staff in ASRC shared a concern about their lack of authority and they felt that they did not play much role in decision making processes in the organisational activities and policy making. Most of them shared concern over managerial problems and the limitations of the organisation but felt that they could not change the situation.

The influence of the traditional Malay culture in BSRC although present, was found to be limited. A managerialist culture was found to be more predominant. This emergent culture seemed to partly stem from its location in a city where the organisation was more exposed to commercial and modern life. Thus, the organisational culture was more influenced by managerialist values from the outside world. There was consequently more active

involvement in managerial decision making among the staff of BSRC and accounting practices also seemed to be more meaningful. The accountant also had more authority in financial decision making and accounting as a professional activity was held in more esteem.

The issue of accountability also emerged as central to understanding accounting in the two organisations. In particular the organisation members' perceptions of what constituted accountability in their workplaces was most important. There were many facets to these perceptions including to whom accountability was due and to what extent, and by what means accountability should be demonstrated. Moreover, these perceptions were highly interrelated with their values. However, the aspect of accountability that emerged as being most important was the dichotomy between personal and organisational accountability. Personal accountability seemed to be at the core of most actors and was rooted in the Islamic concept of *taklif*, by which each person is directly accountable for their deeds and will answer directly to God on the day of judgement. Organisational accountability, although acknowledged, was far less influential. There would appear to be little room for practices concerned with organisational accountability, such as accounting, to contribute to achieving *taklif* and this may explain why such practices are not held in high esteem but were still accepted. In ASRC the traditional Malay culture combined with deeply held Islamic beliefs resulted in an almost complete marginalisation of accounting. In BSRC, the Malay influence was far less strong than the emerging managerialist culture and accounting was deemed to be more important. However, the importance of accounting did not approach that found in Western organisations in either BSRC or ASRC and this was almost certainly explained by the different cultural, social and historical context. The combination of values and perceptions of accountability provides a powerful conceptual framework, or *verstehen*, for organisational members to undertake accounting.

Conditioning Context

From the above discussion it can be seen that there were at least four conditioning contexts that influence the nature of the central phenomenon in each organisation. First, power relationships have contributed to the accounting verstehen and to the way organisational processes were conducted. Second, and closely related, is the underlying influence of traditional Malay culture. This is especially evident from the way power was exercised in both organisations. ASRC was much more influenced by traditional Malay culture, demonstrated in the way the *Sultan*, representing the power elite group, played a very dominant role in organisation activities. Organisational accountability was closely associated with meeting the needs of the Sultan who was not concerned with accounting information. The combination of both personal and organisational accountability having little regard for accounting led to its marginalisation. However, the third conditioning context, emerging managerialist cultures, was found to be more influential in BSRC. Unlike in ASRC, BSRC staff were more active in, and felt more part of, the decision making process. Managerial professionalism had also become part of the organisations culture and organisational accountability had a higher profile. Fourth, the Islamic value system was one of the major underlying influences on the central phenomenon, particularly with respect to influencing the core perceptions of personal accountability. The predominance of personal accountability, itself characterised by *taklif*, over organisational accountability may well have been the source of the relatively low esteem that accounting was held in both organisations.

Action/interactional processes

Interactional processes are processual and evolving in nature and comprise major activities which are directed at managing, handling and carrying out or responding to a phenomenon. Three interactional processes were identified in the current study concerned with accounting practices, namely the way financial control was exercised; the financial

decision making process and the financial reporting process. The way in which accounting practices were carried out was a response to the accounting verstehen in each organisation.

Financial control was exercised through budgeting practices, the use of financial regulations and the use of performance measures. ASRC was characterised by very routine budgeting practices and limited use of budgeting; no formal financial regulations and no formal target performance measures. BSRC was also characterised by routine budgeting practices but budgeting information was used to aid planning. BSRC also adopted formal financial regulatory procedures that were reviewed regularly and made some effective use of performance measures. Financial decision making process in both organisations was found to be undeveloped. The lack of sophisticated accounting and management techniques to either evaluate alternative courses of action or as a means of financial analysis may be partly attributable to the lack of necessary expertise and to a shortage of staff, but certainly reflected the low regard for accounting in both organisations. However, with regard to financial reporting process, there was a contrasting picture in ASRC and BSRC. In ASRC, annual financial reports were not produced regularly and nor were they up-to-date whereas in BSRC, the financial information system was well organised, financial statements were produced regularly and were up-to-date. The members of the organisation also considered the system to represent the main mechanism for achieving financial accountability.

It can be seen that the accounting practices in each organisations were a response to the accounting verstehen in each organisation. In ASRC, where the accounting verstehen was characterised by a traditional Malay culture and marginalised accounting, the accounting practices were extremely limited. In BSRC where the accounting verstehen was characterised by an emerging managerialist culture which valued organisational accountability practices, accounting practices were more developed though still limited.

Consequences

The consequences of the accounting *veheresten* as the central phenomenon in both organisations were evident in two areas, namely, the role of accounting and authority of the accountant and the relationship between accounting and religious activities. Staff in both organisations perceived accounting to be an important tool for the organisations. However, the role of accounting and the authority of the accountant was found to be very restricted. Accounting was regarded as little more than a technology to record financial transactions and information and the authority of the accountants, especially in financial decision making processes, was found to be minimal. In the case of ASRC, the accountant was not actively involved in the decision making process. The production of external annual financial statements was not considered to be an important process nor were the reports themselves considered important documents. They were not kept up-to-date and there was not much emphasis placed on them by the management. The role of accounting and the accountant in BSRC seemed to be more important, though still very limited. The accountant was encouraged to take part in decision making, and although financial reporting was directed towards meeting the external auditing requirements, it was considered to be the main mechanism for achieving financial accountability.

However, the low standing of accounting practices in both organisations however appeared not to be due to them being located in the secular domain as there was no evidence to suggest that there was a dichotomy between secular and sacred activities in either organisation. There appeared to be no strong resistance to the use of accounting or other management practices *per se*. On the contrary, as a result of more involvement in commercial activities especially by BSRC, the need for accounting tools and practices was seen as necessary support tools and techniques for performing core religious organisational activities. The low esteem for accounting practices, appears not to be due to an antipathy towards the secular but rather to the accounting *verstehen* and particularly the predominance of personal, *taklif* accountability. If each person is personally responsible to God, then organisational accountability is attributed much less importance. Consequently,

processes which are designed to achieve organisational accountability such as accounting are also attributed less importance.

Insert Diagram 1. Here

Diagram 1. Grounded theory of accounting in religious organisations.

The whole social process discovered in the research is summarised in diagram 1. There are three main interacting aspects of the phenomenon studied. First, at the core is the accounting verstehen comprising a set of values and perceptions of accountability and accounting held in common by organisational members. The verstehen is socially constructed and conditioned by a context comprising a set of power structures and relationships and a set of values derived from the religious, national and managerial setting. These conditioning contexts not only influence the social construction of the accounting verstehen but are also influenced by it. Finally accounting practices are an outcome of the verstehen which influences the actions of organisational members and results in differing practices. However, these phenomena are not static but in a constant state of flux.

CONCLUSIONS

The main methodological contribution of this paper is that it provides researchers with an example of how a grounded theory study is undertaken in practice. An interpretative, grounded theory methodology was found to be relevant for studying accounting practices

in the complex environment of religious organisations. The strength of this methodology is in its ability to reveal the complexity of human values and culture and their integration with aspects of organisational practice. The method which informed this research (Russell 1996) required an iterative approach to theory development whereby initial theoretical perspectives was tested by reference back to the research site. In this way a deep theoretical understanding, or grounded theory, of the phenomenon was constructed. The theories that emerged were grounded in context and arrived at through continuous interaction and interpretation with the data in a rigorous and structured way. This was achieved by using coding procedures to analyse data and identify concepts and a paradigm model to explain how these concepts related with other. Without prior hypotheses being determined, but with some theoretical insights obtained from a literature review, the study discovered the meanings and practice of accounting practices in the organisations concerned. These were interpreted and used to develop an emergent theory in the first stage which was further developed and tested in the second stage.

The paper also contributes to the understanding of accounting in religious organisations. As outlined above only limited accounting research has been conducted in religious organisations. The dominant theme of this research has concerned the sacred/secular divide. Laughlin (1988 and 1990) uses the *Asacred* and *Asecular* metaphor to emphasise the role of the particular belief systems of religious organisations in explaining the uses to which accounting is put. The sacred and secular divide was asserted to be the underlying social dynamic of all churches and perhaps of all religious organisations. Laughlin's starting point in considering accounting systems in the Church of England was to give some insight into the underlying nature, or *Acentral dynamic* of religious organisations (Laughlin, 1988). The *Asacred* and *Asecular* divide, separates the *Alegitimate* part of a church's activities from profane support activities. Booth (1993) asserts that accounting, as a support activity, is profane (Booth, 1993) and is an irrelevancy to the life of the organisation and only tolerated if it supports the sacred. There is a necessary interaction between secular and sacred, particularly in organisational terms through various support

activities around the sacred core. This means that the tension between them will be a fundamental aspect of organisational life (Booth, 1993). In Parker's study the issue of sacred vs. secular did not emerge as a key issue. Irvine (1996), however, found that although there was resistance to the notion that accounting might dominate spiritual concerns, there was little evidence of resistance to the use of accounting in principle.

In our study, in both organisations the resistance to secular management solutions and methods, evident in Laughlin (1990) and Booth's (1993) studies was not generally found. Accounting practices in both organisations were, however, less developed and there was low esteem for accounting practices. Nevertheless, this phenomenon, did not appear to stem from the existence of a sacred/secular divide. The difference between the findings can be explained in terms of accounting *verhesten*. The Islamic *verhesten* is characterised by Islamic values and beliefs concerning the all encompassing nature of Islamic and also by the *Taklif* notion of personal accountability to God. This may marginalise accounting compared to Christian organisations because such practices are not perceived as central to individual's achievement of personal accountability which is at the core of their beliefs. This different conception of the sacred and the secular and of *Taklif* is difficult for non Muslims to comprehend and this is a problem of *verhesten* itself. As Weber himself stated, "many...values towards which experience shows that human action may be oriented, often cannot be understood completely....The more radically they differ from our own ultimate values....the more difficult it is for us to understand them empathically" (Weber, 1968).

The study of the SRC's also showed that important differences in accounting practices occur between organisations within the same religious denomination. These differences are due to the different accounting *verhesten* in each organisation which emerge from the differences in the complex contexts of power and other cultural influences within which the organisations are located.

The theoretical framework developed in this research provides an approach to the understanding of the nature of accounting and management practices in religious organisations. This may encourage future researchers to further test and develop the

framework in a variety of empirical settings including similar types of Islamic organisations in other Muslim countries and similar organisations in different religious environments, as well as public service organisations generally.

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