Multiple logics within the international Islamic financial architecture: implications for Islamic financial reporting standards

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Abstract

Purpose – This paper aims to examine the existence of multiple institutional logics among a number of organisations within the international Islamic financial architecture (IIFA) whose main purpose is to promote and support the development of Islamic financial institutions (IFIs) across the globe and how IIFA relates to the role of Islamic financial reporting standards.

Design/methodology/approach – The authors review websites of 11 IIFA's constituent organisations and undertake 7 in-depth, semi-structured interviews with senior members of a selection of these organisations to identify the dominant logics by which their role and (inter)action within the IIFA are shaped.

Findings – The study findings reveal evidence of competing (and shifting) logics and political interests that seem to have led to contradictions and inconsistencies among the constituent organisations. The authors explain this by proposing a framework consisting of religion logic, market logic and corporate logic that intertwines with the underlying economic system and acts as sources of identity–legitimacy–authority for the respective organisations.

Originality/value – The authors bring to light some key issues that may pose a threat to the sustained existence of IFIs. The authors adapt the institutional logic framework and incorporate it into religion logic within the context of Islam (i.e. hifdzul-din as the first Maqasid ul-Shari'ah), resulting in some fresh theoretical perspective that may inform future research.

Keywords International Islamic financial architecture, Islamic finance, Institutional logics

Paper type Research paper

1. Islamic financial institutions and international Islamic financial architecture

As the global Islamic finance industry grows both in size and sophistication, there is increasing debate on whether Islamic financial institutions (IFIs) are able to fully observe the shariah principles in every aspect of their operation. To many Muslims, IFIs do not only fulfil their needs for permissible (*halal*) financial products but are also seen as a means towards achieving Islam's broader social goals such as upholding justice, eradicating poverty, empowering local communities and promoting accountability and transparency (Kamla, 2009; Mohammed *et al.*, 2016; Napier, 2009). One key area of debate concerns the

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development and implementation of accounting and financial reporting standards that are consistent with the fundamental principles upon which IFIs are established. Within the international Islamic financial architecture (IIFA), the responsibility for developing and issuing such standards rests with Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), established in 1991 following an agreement signed by six founding members [1]. As of May 2020, AAOIFI has issued a total of 100 standards, which include: 60 shariah standards, 26 accounting standards, five auditing standards, seven governance standards and two standards on ethics [2] for IFIs, covering aspects such as presentation of financial statements for IFIs and accounting treatment for specific Islamic finance products and mechanisms. However, standards issued by AAOIFI are non-binding, which means decisions concerning their adoption would rest with the local regulatory bodies in AAOIFI member countries or the IFIs themselves (Mohammed *et al.*, 2016).

The varying degrees to which AAOIFI-issued accounting standards are adopted by IFIs has created serious concerns regarding the sustainability of the Islamic accounting project, whose social and emancipatory goals are meant to set it apart from conventional accounting in broadly the same way as the Islamic versus conventional finance dichotomy (Kamla, 2009; Sarea, 2012). To date, the number of IFIs that fully implement AAOIFI's standards remains relatively small compared to those that prepare their financial statements according to the International Financial Reporting Standards (IFRS). Efforts to harmonise AAOIFI's standards with the local Generally Accepted Accounting Principles (GAAP) in key Islamic finance markets have also been met with limited success. Malaysia, for instance, had embarked upon an initiative to adopt AAOIFI's standards into the local GAAP in 1997. The initiative, however, was abandoned in 2001 following the Malaysian Accounting Standards Board's (MASB) decision to fully adopt the IFRS. Indonesian regulators had similarly begun to adopt AAOIFI's standards as part of the local GAAP in 1997 before eventually deciding to develop and implement their own standards for Islamic business entities from 2002 onwards. Iran, on the other hand, had never adopted AAOIFI's standards despite the country's position as one of the world's largest Islamic finance markets (GIFR, 2015).

Previous studies have attributed the limited success of the AAOIFI-led Islamic accounting projects to a number of factors. Kamla (2009; p. 929), for instance, argues that Islamic accounting in its present form – and the trajectory that it seems to have taken, is increasingly diverting from its purported ethical and moral dimensions. More emphasis is instead given on the technical and instrumental matters, particularly those related to prohibition of interests and Zakah calculations, rather than exploring more critically the enabling and emancipatory potentials of Islamic accounting. In a similar vein, Maurer (2002, 2010) criticises the AAOIFI's for its failure to properly create an alternative form of accounting that is informed by Islamic values, choosing instead to embrace the spirit of the dominant capitalism and free-market ideology by having its standards significantly built on those issued by western, international accounting bodies, especially the International Accounting Standards Board (IASB). Such an approach reflects the AAOIFI's concerns regarding global acceptance and transferability of its standards (Kamla, 2009; Lewis, 2001; Maurer, 2002) amidst growing acceptance of the IFRS as *de facto lingua franca* of accounting. The perceived similarities between the IFRS and standards issued by AAOIFI, together with the lack of enforcement power in the latter, have led many regulators and IFIs to consider it unnecessary and costly to have two different accounting standards in force (Mohammed *et al.*, 2016).

The reasons highlighted in the aforementioned prior studies arguably signify deeper underlying concern regarding the extent of inter-institutional support available to the AAOIFI in developing and gaining much wider recognition for its accounting and financial reporting standards. Unlike IFRS, whose development and implementation are backed by numerous international bodies and national regulators, the AAOIFI depends hugely on the IIFA as its principal source for such a support. The IIFA itself, however, remains a collection of individual organisations whose operations and strategies are guided by their respective objectives. While these organisations are meant to work together towards providing the necessary infrastructure for further development of the Islamic finance sector (Muljawan, 2011), the AAOIFI's experience seems to suggest limited fulfilment of such role in respect of the Islamic financial reporting standards initiative.

To date, there is still little understanding on the nature of inter (action) and cooperation among organisations within the IIFA, which, to our view, constitutes a key factor that determines the extent of institutional support accorded to accounting and financial reporting standards issued by the AAOIFI. Our paper seeks to address this gap by using insights from the institutional logic perspective (Friedland and Alford, 1991; Thornton and Ocasio, 2008; Thornton *et al.*, 2012) to examine potential inconsistencies in organisational identities and practices, as well as competing interests that are bound to make any collaborative effort within the IIFA – including on the matter of accounting and financial reporting standards for IFIs, especially problematic. In line with evidence from the institutional logics literature that highlighted the existence of competing logics, there is a need to address various issues that could result from those logics at both the organisations and organisational "field" levels (Canning and O'Dwyer, 2006; Ezzamel *et al.*, 2012; Johed and Catasús, 2015; Lounsbury, 2008; Marquis and Lounsbury, 2007; Reay and Hinings, 2009). Hence, we seek to address the following questions: What are the dominant institutional logics based on which organisations within the IIFA perceive and exercise their respective role? To what extent are these institutional logics consistent (or compete) with one another; and what effect would this have on the development and implementation of Islamic financial reporting standards? We derive our findings by reviewing websites of 11 organisations and conducting seven in-depth interviews with representatives of these organisations and experts in the field of Islamic finance.

Our paper is structured as follows. We begin by reviewing the institutional logics perspective before discussing the development of the IIFA. Our research method and findings are presented next, followed by conclusion and suggested implications.

2. The institutional logics perspective

The institutional logics perspective that informs our study traces its origin to Friedland and Alford's (1991) seminal critique of the deficits of organisation and neo-institutional theory, which they argued as to have failed to situate "actors" in a societal context (Thornton and Ocasio, 2008; Thornton *et al.*, 2012). Friedland and Alford (1991) view society as constituted by multiple institutional orders through which the broader array of organising by both people and organisation can be understood (Thornton *et al.*, 2012). These institutional orders, such as family, religion, state, market, professions, corporation and community [3], are each driven by a central logic or the "set of material practices and symbolic constructions" that guide their organising principles and provides social actors with vocabularies of motive and a sense of identity (Friedland and Alford, 1991; Thornton and Ocasio, 2008). These practices and symbols are available to individuals, groups and organisations to further elaborate, sustain, manipulate and use to their own advantage (Meyer and Höllerer, 2010; Thornton and Ocasio, 2008). The concept of institutional logic is defined further as:

> [...] the socially constructed, historical patterns of cultural symbols and material practices, including assumptions, values, and beliefs, by which individuals and organisations provide meaning to their daily activity, organise time and space, and reproduce their lives and experiences (Thornton *et al.*, 2012, p. 3).

Thornton *et al.* (2012) outline four fundamental meta-theoretical principles of the institutional logics perspective. Unlike the macro-structural approaches to institutional analysis that emphasise the primacy of structure over action (DiMaggio and Powell, 1983), the institutional logics perspective posits that the interests, identities, values and assumptions of individuals and organisations are embedded within prevailing institutional logics (Thornton and Ocasio, 2008; Thornton *et al.*, 2012). Individual and organisational actors are, thus, assumed to be partially autonomous from social structure that both constrain and enable them. The institutional logics perspective additionally argues that each of the institutional orders in society has both material (i.e. structures and practices) and symbolic (i.e. ideation and meaning) that while intertwined and constitutive of one another may still be separated analytically. Consistent with the institutional theory, the institutional logics perspective assumes that institutions are historically contingent, such that institutional orders would differ in their development and importance over time. It has been observed, for example, that market logics have become increasingly prominent in various fields (e.g. higher education publishing, healthcare, public management) over the past few decades (Cloutier and Langley, 2013; Thornton and Ocasio, 2008; Thornton *et al.*, 2012). Finally, the institutional logics perspective assumes that institutions operate at multiple levels of analysis with potential for cross-level interaction effect (Thornton and Ocasio, 2008; Thornton *et al.*, 2012).

2.1 Multiple (and competing) logics and logics change

The institutional logics perspective considers society as an inter-institutional system in which multiple logics may co-exist either as a temporary phenomenon or over a lengthy period of time (Kodeih and Greenwood, 2014; Reay and Hinings, 2009; Thornton and Ocasio, 2008). While co-existing logics can theoretically be analysed at the different levels of institutional orders, empirical studies have shown greater dynamism in logics at the level of institutional fields (Reay and Hinings, 2009; Thornton *et al.*, 2012). In addition, the existence of multiple logics comes with an inherent rivalry such that many organisational fields would be characterised by "two or more strong, competing or conflicting belief systems' (Scott, 1994, p. 211). It, thus, follows that fields can be seen as "arenas of power relations" in which the values and beliefs of the most powerful actors – through processes of structuration that suit these actors, would be reflected in the dominant logic (DiMaggio and Powell, 1983; Reay and Hinings, 2009). The most powerful actors subsequently seek to maintain the status quo by way of formal and informal rules of action, interaction and interpretation that guide and constrain decision makers (Thornton and Ocasio, 1999). The introduction of a new logic to an established field inevitably leads to rivalry between incumbent actors (i.e. supporters of the "old logic") and challenger actors who support a new logic (Reay and Hinings, 2009), following which the field would reform around the winning dominant logic (DiMaggio and Powell, 1983; Hensmans, 2003; Hoffman, 1999; Reay and Hinings, 2009). Alternatively, it has been argued that multiple logics can instead be managed in a collaborative way so that they may co-exist peacefully, reach temporary truce via compromise or even blend or hybridise (Meyer and Höllerer, 2010; Reay and Hinings, 2009).

The notion of multiple (and competing) logics offers researchers a useful and practical lens for capturing the plurality of norms and beliefs within an institutional field and for understanding the processes that underlie institutional formation and change (Baker *et al.*, 2011; Cloutier and Langley, 2013; Johed and Catasús, 2015). Competing logics, in particular, is regarded as an antecedent to or a consequence of institutional logics change or resistance to such change (Johed and Catasús, 2015; Thornton and Ocasio, 2008; Thornton *et al.*, 2012). In their proposed typology of institutional logics change, Thornton *et al.* (2012) outline three forms of transformation: replacement, blending and segregation. Replacement involves one institutional logic replacing another logic in an institutional field, such as Thornton's observation of logics change (i.e. from an editorial to a market logic) in higher education publishing (Thornton, 2004; Thornton and Ocasio, 1999). Transformation via blending is where dimensions of diverse logics are combined, leading to a new vocabulary of practice that contain labels from distinct vocabularies. Segregation, on the other hand, refers to the emergence of different field-level logics (i.e. practices, symbolic representations and vocabularies of practice) from a previously shared origin, such as Purdy and Gray's (2009) analysis of the emergence of alternative public policy logic in the field of alternative dispute resolution.

2.2 The international financial architecture (IFA) [4]

Modern financial institutions have had to endure a series of crisis over the past century. The Great Depression of 1929, for instance, caused a collapse in the American financial industry (Crotty, 2009). The 1970s and early 1980s then featured a period of global economic and financial turbulences from which a new classical macro-economic theory arose, signifying a crisis of capital accumulation (Harvey, 2005). Financial regulations were then formulated and justified using the efficient financial market theory, paving the way for new globally integrated, deregulated neoliberal capitalism (Crotty, 2009).

The Financial Sector Assessment Programme (FSAP) projected initiated jointly by the International Monetary Fund (IMF) and World Bank in 1999 can be seen as the most recent attempt by international regulators to identify and address fundamental flaws in the international financial architecture. The FSAP assessments include two components: financial stability, which falls under the remit of the IMF, and financial development, which is the responsibility of the World Bank. Additionally, Reports on the Observance of Standards and Codes (ROSCs) [5] would monitor the extent to which each participating country observes the internationally recognised standards and codes. Through the FSAP, the international community is expected to strengthen the "architecture of the international financial system" to reduce the risk of further crises (IMF, 2001). Member countries are expected to participate and implement the required structural reforms to increase the flexibility of their economies and eliminate sources of vulnerability (Köhler, 2001).

2.3 The emergence of the international Islamic financial architecture (IIFA)

A move from the international financial architecture to the IIFA has been advocated by proponents of Islamic finance who consider the former architecture incapable of addressing the needs of IFIs. Muljawan (2011), for instance, asserts that there is a need to integrate the Islamic financial system into the global financial system, and that such integration must comply not only with international prudential measures but also the Shariah principles. It is argued further that such Islamic financial architecture must be imbued with Islamic values, providing it with religious logics and identity that are consistent with the objectives of shariah (*Maqāsid ul-Shari'āh)* as contained in the Qur'an and the teachings of Prophet Muhammad (peace be upon him).

Figure 1 depicts the key events in the evolution of the IIFA over time [6]. The development of IIFA can be traced to as far back as the 6th century, during which the fundamental principles of Islamic finance such as strict prohibition of usury (*riba*), were established through Qur'anic revelations and the traditions (i.e. *hadith*) of Prophet Muhammad (peace be upon him). By the end of the 19th century, however, much of the Muslim world had become subject to western colonial powers, who introduced commercial banking into the local economy. This had been met with strong criticisms by Muslim

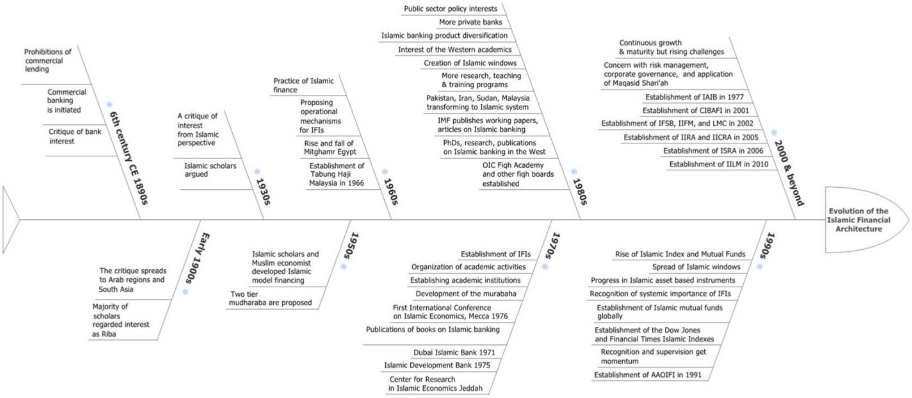


Figure 1.
Evolution of the IIFA

scholars during the 1900s-1930s who considered lending with interest as a form of usury that goes against the Islamic principles. Discontents that grew rapidly within the Muslim world in the 1950s and 1960s had then become the impetus for the development of a modern framework for Islamic finance, leading to the establishment of IFIs during the 1970s. The creation of the Islamic Development Bank (IsDB) in 1975 arguably marked the turning point in the development of IIFA, as it paved the way towards the establishment of various other organisations within the architecture. To date, the IsDB has continued to play a central role in supporting the development of Islamic finance.

Rapid growth of the Islamic finance sector since 1990s has created the need for a more resilient supporting architecture to deal with issues such as risk management, corporate governance and the application of *Maqāsid ul-Sharī'āh* more effectively. The IIFA must, thus, fulfil a number of key objectives, including: to establish universally acceptable guiding principles for the Islamic financial services industry, to establish best practices for Islamic financial services, to better streamline the *fiqh* interpretations and set up a common regulatory and supervisory regime and to ensure compliance with the relevant standards and regulations (Khan, 2009).

3. Interview and website research

We begin by reviewing the contents of the websites of 11 organisations within the IIFA to identify their respective mission and descriptions made of their role in supporting the development and operation of IFIs. We adopt the content analysis methodology in our research, which is defined as "a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use" (Krippendorff, 2012, p. 18). Content analysis is a widely used technique for studying accounting-related communication (Steenkamp and Northcott, 2007).

The review that was conducted in 2017 and 2020 aims to confirm whether their vision and missions in reality support the development of Islamic finance. Furthermore, we would like to see if there is any complementing or competing logic within the organisations. First, we present each profile of IIFA members, then evaluate their vision and missions. We then undertook seven in-depth, semi-structured interviews with three of these organisations (i.e. ISRA, AAOIFI, IRTI-IsDB), an observer from IMF, an academic specialising in Islamic political economy, a representative from central bank and a director of a zakah institution (Table 1).

Identifier code	Affiliation and location	Length
I-01	International Shari'ah Research Academy for Islamic Finance (ISRA); Kuala Lumpur, Malaysia	60 min
I-02	AAOIFI; Manama, Bahrain	60 min
I-03	Islamic Research and Training Institute – IsDB (IRTI-IsDB); Jeddah, Saudi Arabia	60 min
I-04	Durham Centre for Islamic Economics and Finance, Durham University; Durham, UK	45 min
I-05	IMF Observer; Washington DC, USA	45 min
I-06	Directorate of Islamic Banking, Bank Indonesia/Financial Services Authority; Jakarta, Indonesia	60 min
I-07	Dompet Dhuafa Zakat Institution, Jakarta, Indonesia	45 min

Table 1.
List of interviewees

We initially contacted ten individuals in 2014 and 2015, chosen on the basis of purposive sampling, yet the rest of them were unable to participate due to public opinion restriction placed by their respective organisations. Interviews were conducted almost exclusively in English that lasted about 45-60 min each. Interview questions were not pre-formulated, yet the interviewees were asked to speak freely in response to a number of phrases that we used as prompts, such as Islamic finance, financial reporting, financial architecture, shariah compliance, sustainability of IFIs and FSAP/Islamic FSAP (iFSAP). Interview data were analysed thematically according to Braun and Clarke (2006).

4. Findings

4.1 Mission and core activities of international Islamic financial architecture constituent organisations

4.1.1 Islamic Development Bank (IsDB). The IsDB is a multilateral financial institution with a stated purpose: to improve the lives of those we serve by promoting social and economic development in member countries and Muslim communities worldwide, delivering impact at scale (IsDB, 2000). Headquartered in Jeddah, Saudi Arabia, the IsDB's principal activities include participating in equity capital and extending loans and other forms of financial assistance to 57 member countries, mostly on terms and conditions that tend to be less restrictive than those imposed by the World Bank or the IMF.

4.1.2 Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). AAOIFI has a vision to guide Islamic finance's markets operation and financial reporting on shariah principles and rules and to provide Islamic finance markets with standards and guidelines that can support the growth of the industry (AAOIFI, 2020). There is evidence of AAOIFI's on-going engagement with the World Bank through their joint Annual Conference on Islamic Banking and Finance, most recently (i.e. 14th edition) held in Bahrain in November 2019. In addition, it is documented that AAOIFI has a collaboration with IASB on IFRS and the shariah-based reporting: a conceptual study of the IFRS from shariah, Islamic accounting and Islamic finance accounting perspective.

4.1.3 General Council of Islamic Banks and Financial Institutions (CIBAFI). Established in 2001 by the IsDB and 30 leading IFIs at the time, the General Council of Islamic Banks and Financial Institutions (CIBAFI) positions itself as the leading voice for the global Islamic financial services industry, with nearly 130 members from over 30 countries. The website states CIBAFI's mission, which is to support the Islamic finance and service industry (IFSI) by providing specific activities and initiatives, aiming to strengthening the growth of the industry, deepening shariah objectives in financial dealings and transactions and facilitate cooperation between members and institutions of common interest (CIBAFI, 2020).

4.1.4 Islamic Financial Services Board (IFSB). Founded in 2002 by the IsDB and the central banks of eight Muslim-majority countries, the Islamic Financial Services Board's (IFSB's) mission is to promote stability and resilience of the Islamic financial services industry. It facilitates the implementation of global prudential and supervisory standards and other initiatives that foster knowledge sharing and cooperation among its 187 member institutions. As at June 2020, there are 79 regulatory and supervisory authorities, nine international inter-governmental organisations and 99 market players (financial institutions, professional firms, industry associations and stock exchanges) operating in 57 jurisdictions (IFSB, 2020). The IFSB has to date issued 27 standards, guiding principles and technical notes for the Islamic financial services industry.

4.1.5 International Islamic Financial Market (IIFM). The International Islamic Financial Market (IIFM) was established in Bahrain in 2002 by the IsDB and the central banks of Bahrain, Brunei, Indonesia, Malaysia and Sudan. These organisations became its permanent members, in addition to over 50 financial institutions offering Islamic financial products. The vision of the organisation is to be active and well-regulated trading and capital flows across the full spectrum of shariah-compliant financial instruments internationally (IIFM, 2020).

4.1.6 International Islamic Rating Agency (IIRA). Headquartered in the Kingdom of Bahrain, International Islamic Rating Agency (IIRA) was established in 2005 with the purpose of providing independent assessments to issuers and issues that conform to principles of Islamic finance. IIRA's special focus is on development of local capital markets, primarily in the region of the Organization of Islamic Cooperation (OIC) and to provide impetus through its ratings to ethical finance, across the globe. IIRA was founded as an infrastructure institution for the support of Islamic finance as conceived by the IsDB. This puts IIRA in league with system supporting entities like AAOIFI and IFSB (IIRA, 2020).

4.1.7 International Islamic Centre for Reconciliation and Arbitration (IICRA). ICRA states its mission to help the IFIs in settling financial, commercial, banking, investment and real estate's disputes through reconciliation and arbitration with compliance of sharia law (IICRA, 2020). IICRA mentions its objectives:

- to supply the industry with its expertise in settling disputes according to Islamic shariah principles; and
- to provide consultation on diversity of products and contracts of Islamic financial services.

4.1.8 Liquidity Management Centre (LMC). LMC is a Bahraini-based Islamic investment bank, incorporated in 2002 and owned jointly by the IsDB and three other financial institutions from Bahrain, Dubai and Kuwait. Its stated vision is to enable IFIs to manage their liquidity mismatch through short- and medium-term liquid investments structured in accordance with the shariah principles (LMC, 2020a, 2020b).

4.1.9 International Islamic Liquidity Management (IILM). International Islamic Liquidity Management (IILM) is established 2010 and jointly owned by the central banks and monetary agency of ten countries and the IsDB. Based in Kuala Lumpur, Malaysia, IILM states neither a vision nor a mission on its website. However, its stated objective is to facilitate cross-border liquidity management among the IIFS by making available a variety of shariah-compliant instruments, on commercial terms, to suit the varying liquidity needs of the IIFS and to foster regional and international co-operation to build robust liquidity management infrastructure at national, regional and international levels (IILM, 2020).

4.1.10 World Zakat Forum (WZF). WZF was established was established in 2010 following collaborative efforts among zakat organisations from eight countries, and to date, there are 33 member countries (WZF, 2020). Its stated vision concerns the promotion of human welfare through fair and just distribution of wealth, which it seeks to achieve by promoting international cooperation and effective management of zakat. To this end, WZF organises a series of international conferences on the *fiqh* and management of zakat.

4.1.11 International Association of Islamic Banks (IAIB). Established in 1977, there is neither a website nor other publicly available media reports that clarifies the International Association of Islamic Banks's (IAIB's) present status. The Organization of Islamic Cooperation (OIC, to whom the IAIB was originally affiliated, also does not include IAIB in its list of members. The IAIB, however, has produced a number of documents such as the Directory of Islamic Banks and Financial Institutions published in 1994 and 1997 and the Aggregate Balance Sheet of the International Association of Islamic Banks released in 1988 that had been referred in Aggarwal and Yousef (2000), Sundararajan and Errico (2002), Choudhury and Hussain (2005). It is highly likely that the IAIB has ceased to exist, since the formation of the CIBAFI in 2001 would have rendered its functions redundant.

Our review of websites of these organisations indicates a few key areas in which enhancement would be necessary. First, some of them do not have clear statements of vision and mission; ILMC, for instance, only publishes its objectives. Second, no coherent, formal mechanism seems to exist among these organisations in terms of collectively supporting the development of IFIs. Although there is significant presence of the IsDB in the majority of these organisations, it remains unclear which organisation would play a lead role in regulating and overseeing collaborative efforts within the IIFA. For instance, the IsDB does not require borrowers to adopt a specific financial reporting standard as part of the loan agreement, leaving them free to choose between the conventional GAAP (e.g. the IFRS) and the AAOIFI's standards.

4.2 Multiple logics and coordination of efforts within the international Islamic financial architecture

Scott (1994) argues that the existence of multiple logics comes with an inherent rivalry such that many organisational fields would be characterised by "two or more strong, competing or conflicting belief systems". Despite their purported common aims of supporting IFIs and upholding the shariah principles, there is some consensus among the interviewees that coordination of efforts and collaboration within the IIFA remain fundamentally problematic. Goal congruence is a voluntary integration of organisations that share certain norms and values (Vázquez, 2006). However, in reality, there are competing organisations as described by Interviewee I-04:

> Communication among these (i.e. IIFA organisations) seems imperfect and very much rivalry rather than communicating and coordinating the activities (I-04).

Other example where this can be seen is in the matter of zakat and *waqf* [7]. These two institutions are expected to become platforms for IFIs to perform their social objectives (Kamla, 2009; Mohammed *et al.*, 2016; Napier, 2009). However, zakat and *waqf* do not work together as expressed by Interviewee I-101:

> Islamic finance is only one component within the whole framework. We have Zakat institution and Waqf institution, and other social organisations. The problem is they are all segregated; we are not working under one framework. Each and every organisation has been compartmentalized. If we are able to pull all these different organisations then we will create one theme (I-01).

At the moment, there are two international zakat organisations initiated by Malaysia and Indonesia that are trying to legitimate their existence as the IIFA organisations. However, Interviewee I-07 claimed that the zakat organisation in Malaysia is not the world zakat representative, as stated below:

> The international zakat organisation published on Malaysian website is dormant. Basically that organization is not working (I-07).

This problem is also inherent to supervisory organisations, as there seems to be an overlap between the Bahraini-based LMC and LMC (2020a) in terms of their core activities, as both organisations offer liquidity management solutions to IFIs. This is parallel with Anessi-Pessina and Cantù (2016) who argue when a new logic is introduced to an established field, rivalry is likely to arise among key actors. According to Interviewee I-01, the initiative to set up a similar institution to the IILM was due to the inactive role of the LMC:

> Actually the IILM in Malaysia is an entity to provide liquidity to the banks, you see. In Bahrain they have, long time ago, but it did not work. There was no any product that was issued, so it has died, a 'natural death' (I-01).

Interviewee I-01 may be right on the "natural death" of LMC that has declining asset growth from 2013-2019 (LMC, 2020a, 2020b). Furthermore, it is indicated that in the case of IILM, it is performing better than LMC, as it can be seen from its issuance of Sukuk that has taken part in creating liquid cross-border market, although most market players are situated in Malaysia.

Instead of competition in "institutional legitimacy and social fitness", the existing organisations are expected to contribute to a strong IIFA. This can be achieved by first ensuring goal congruence among the organisations, the mutual goal being to achieve the sustainability of the organisations and thus attain the objectives of shariah. The consistency of mission is very important to have common ground between the competing logics (Haveman and Rao, 1997; Besharov and Smith, 2014).

4.3 Market logic

As indicated in the previous section, each organisation within the IIFA is expected to play a role in promoting the development and sustainability of IFIs. However, their ability to fulfil such role depends to a large extent on the market and industry regulators that often have the final say on the extent to which standards issued by IIFA organisations may be adopted by IFIs. According to Interviewee I-02, it is crucial that IIFA receives support from the market and those in charge of regulations within a country:

> The required support must come from the regulators of the banks, followed by insurance companies, investment management and so on. It depends on who regulates all these (industries) in the respective country (I-02).

Previous literature shows that market logics have become increasingly prominent in various organisations (Cloutier and Langley, 2013; Thornton and Ocasio, 2008; Thornton *et al.*, 2012). From the above, the lack of power among IIFA must be first resolved to show that they are resilient organisations willing to cooperate with IIFA organisations to achieve favourable growth of IFIs. Is it possible to encourage its members to implement its accounting standards? Interviewee I-04 asserts that:

> We cannot in any way force them (IFIs) to adopt a particular public policy because Islamic banks act as private agents. Why private agents should comply with some public policies? Of course in a very, very much within the socialist construct you'd expect that to happen but compared to

> conventional finance, Islamic finance is very free, very liberal. They have defined themselves in neoliberal ways; banks, commercial banks, therefore they are not complying with these organisations or they don't think that they should not be bothered with it at all (I-04).

The market logic seems to allude that IIFA organisations are merely cosmetic that failed to authenticate the sustainability of IFIs. The situation is in a deadlock for the IIFA organisations to work as they should be. Therefore, Interviewee I-03 argues that a possible solution may involve a political intervention. The compromises may exist not to make organisations demise (Tracey *et al.*, 2011). For that purpose, the IRTI-IsDB invites the IMF and World Bank to sit together for financial assessment programme.

> So what we are trying to do now is to work with IMF and also World Bank as the issue is intervention. However, a country has to stabilize first its banking institutions before IMF/World Bank can intervene and the intervention must be based on Islamic perspective (I-03).

The "intervention" that involves IMF and World Bank may not work effectively in all countries, as the IMF does not exist in the Middle Eastern countries. Interviewee I-04 explains:

> There are actually issues there. One, IMF is not present in the Gulf countries; no one is bothering with IMF anyway. And on top of that all financial institutions, Islamic or not, they have to comply with conventional regulations, and then the second layer of regulations (Islamic) because they are Islamic. So they would consider that there would be transaction cost for them, through layers of regulations. But for us it is a moral responsibility that they should do but for them, because they define themselves as commercial entities, regardless of the 'Islamic' at the beginning as the suffix (I-04).

This is an exercise for regulatory agencies on how to regulate Islamic finance in the Gulf countries (the rich Middle Eastern countries) mentioned by Interviewee I-04, as Islamic finance has a different setting and force. The IMF and World Bank's intervention collides with the market power in the Middle Eastern countries.

Islamic finance is regulated as profitable organisation, which behaves in neoliberal way, as stated by Interviewee I-04 above, although they label themselves as "Islamic" at the beginning of their names. Therefore, IIFA organisations fail to approach them from religion logic as they likely to behave using market and corporate logics. Interviewee I-01 responds to this concern:

> Of course when you talk about finance, the interest is always there. All people whether they are Muslims, they are Non-Muslims, Muslim Country, Non-Muslim Country, they see the opportunity to make money, they will grab it. I mean that is the nature and that is something that we have to understand and also when we talk about Islamic Finance, provided that we preserve the fundamental of shariah, we preserve our integrity. Because in the end of the day as we know that shariah is revealed by Allah (God) as Rahmatan lil Ālamīn (I-04).

The development of the IFIs that Interviewee I-04 refers to is for *Rahmatan lil Ālamīn*, which means "blessing for the whole world". *Rahmatan lil Ālamīn* does not differentiate between who relishes the profits and in kind benefits generated from Islamic finance; anyone in the world can benefit from it. However, the issue of shifting of the logics becomes apparent that all IFIs are no longer concerned on their initial objective as a part of socially responsible on the Islamic mission they uphold.

4.4 Market logic and Accounting and Auditing Organisation for Islamic Financial Institutions

Other issue on competing logic is also addressed by Interviewee I-04 who perceived both IFSB and AAOIFI as local agents:

> IFSB would be seen as agent of Malaysian model and therefore it has not been taken up by number of countries, AAOIFI the same thing, is perceived in similar way that it is an agent of Bahrain (I-04).

This statement is supported by Interviewee I-01:

> When it comes to standard, we have to understand that different jurisdictions have different peculiarities. Take for the example of AAOIFI, AAOIFI Shariah Standard is very much Middle Eastern centric (I-01).

For Malaysia, the solution to overcome the competing logic issues is by issuing more "international" standards, such as the current shariah standards. Malaysia released the Islamic Financial Services Act (2013), in which one of the requirements of the IFSA is for the IFIs to follow shariah standards issued by Bank Negara Malaysia. Interviewee I-01 comments on whether a set of these shariah standards overlaps on the shariah standards issued by AAOIFI and whether this set of standards would be used by the international community:

> Well, in the future, possible, yes, because how we come up with the standard is that we did not only cater for the local, because you have to understand in Malaysia we have local banks, we have international banks. So that is the reason why we come up with the standard, and it is not necessarily a repetition of AAOIFI Standard, it as an enhancement. We do take into account AAOIFI Standard and Majma Fiqh Islami [8] as well as some other fatawā being given across the globe (I-01).

However, there seem to be differing views among the interviewees on the extent to which the IFRS is incompatible with the principles on which the financial reporting standards for IFI should ideally be based. One interviewee, for instance, commented on this:

> No, we don't have problem (with IFRS standards) [. . .] . You see, let's say you want to adopt IFRS. Because you can see that the uniqueness of Islamic bank, or the uniqueness of Islamic banking, these are a lawful contract where we have to follow the Sharia principles, and then those Sharia principles should be translated to a standard. So, now, we can see that AAOIFI have their standards according to IFRS [. . .] They are the same. There is no difference (I-03).

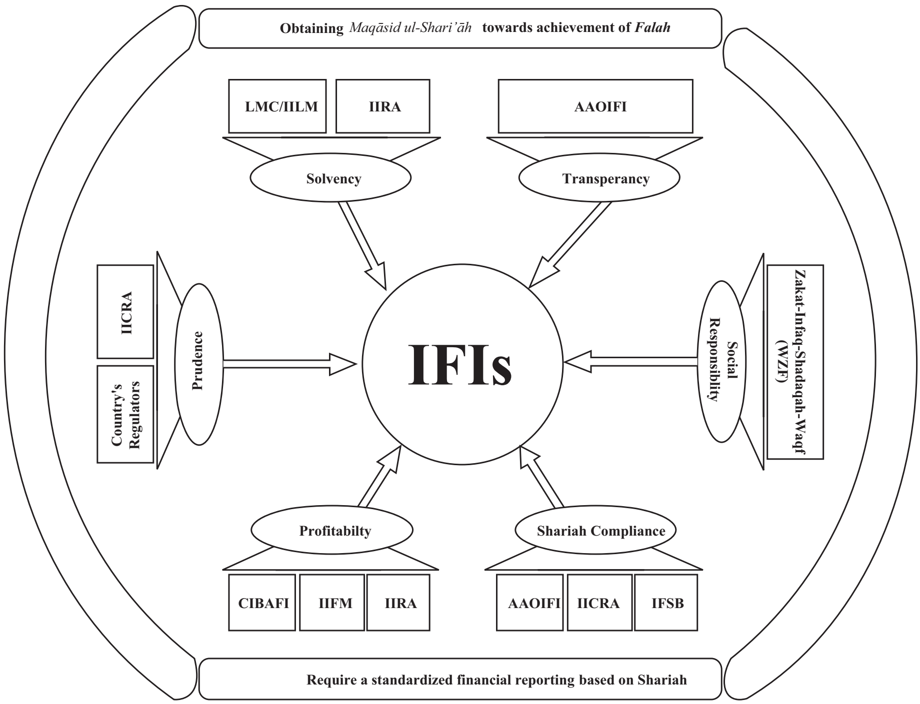
Interviewee I-03 reflects strongly the position taken by a number of national standard setters, such as MASB, in favouring full adoption of the IFRS. I-03 emphasises further that there is no real need for a comprehensive financial reporting standard for IFIs. It is instead sufficient, to revisit specific provision within the standards as and when the need arises. I-04 adds that "Then (why) do you have to revisit the whole IFRS? It does not contradict the shariah".

> No government could impose that except few such as Bahrain because AAOIFI is there; or Malaysia because IFSB is there. Second thing is very much related to the emergence of Islamic Finance where Islamic Finance is very pragmatic (I-04).

Furthermore, the FSAP does not recognise the roles of IIFA organisations and IIFA's impact on IFIs in their assessment. A major challenge is the status of the organisations under the IIFA framework, which operate without any single authority to impose their policies, standards and regulations to IFIs. The issue is as commented on by Interviewee I-04:

> Of course the major issue that we have is none of these organisations is mandatory, see IFSB or AAOIFI and that makes terribly difficult for them to have an incentive to cooperate, to communicate, and establish strategies together (I-04).

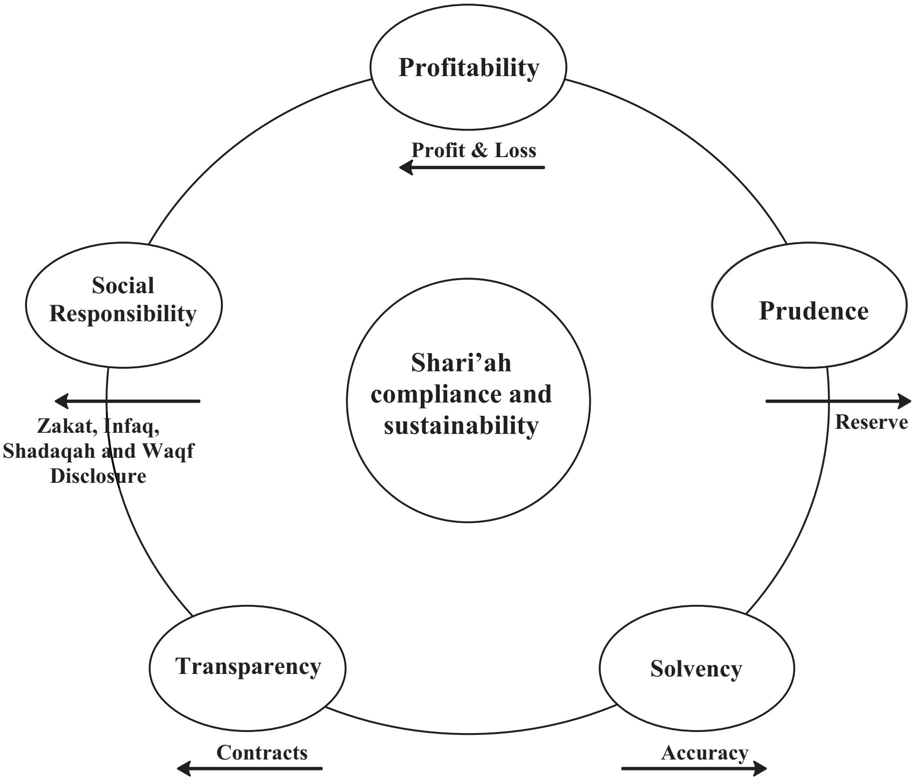
Each IIFA organisation is meant to have its own vital role in the reshaping of the IFIs, operating within the overarching spirit of achieving the *Maqāsid ul-Shari'āh*. This relates to achieving the stage of being profitable, prudence and solvent, at the same time being shariah-compliant. This is important to ensure justice to the investors, employees, customers and the rest of the stakeholders of Islamic finance. Being transparent in transactions is also a part of the effort to educate the customer, and the entire society, in differentiating what is *halal* (permissible) and *thayyib* (good) financial transactions. A central issue for accounting is to be seen not only as a reporting mechanism, but rather a supporting approach for IFIs in achieving sustainability and the stage of *Maqāsid ul-Shari'āh* (Figure 2).



Source: Authors

Figure 2. Achievement of Maqāsid ul-Shari'āh through IIFA

It is vital to assess how accounting measurement, recognition and disclosure accommodate the issues of profitability, prudence, solvency, transparency and social responsibility based on shariah. Figure 3 presents the relationships of these issues and ways to achieve a level of sustainability. The figure shows how the IFIs manage their income-generating activity through clear contracts and engagement, tax and zakat obligation and reserve and liquidity. For the IFIs to be comparable among themselves and their counterparts, one common financial reporting standard is required. It can be problematic to adopt various different financial reporting standards, such as IFRS, AAOIFI or local standards, as they have different degrees of measurement and reporting. However, Mohammed *et al.* (2019) find that IFIs tend to see AAOIFI standards as mainly a reference – rather than as the main accounting standard that needs to be complied with, when preparing their financial statements. Given the increased global acceptance of IFRS – which does not allow reporting entities to adopt other standards in meeting its presentation and disclosure requirements (see, IFRS 1), there are now further barriers to even a partial adoption of AAOIFI standards by IFIs notwithstanding their intention to do so.



Source: Authors

Figure 3. IFIs and shariah compliance and sustainability

5. Conclusion and recommendation

Our study has brought to light some key issues faced by the IIFA in providing the necessary institutional support for the development of IFIs and allowing them to work together amidst the competing logics that intertwine with – and threaten their ability to achieve their visions, missions and objectives. First, some constituent organisations of IIFA do not seem to have clear and concrete statements of vision and mission. We identify this as a shortcoming that needs to be addressed because such statements are capable of providing these organisations with a sense of identity and values that can guide their actions and create more visibility to their role in supporting the development of IFIs. Second, the increased dominance of the market logic and the shifting of logics at the level of IFIs are a major hindrance to these organisations' ability to achieve their objectives particularly in respect of being shariah-compliant and ensuring sustainability of their business operations. There is also the emerging corporate logic where IMF and the World Bank seem to be working together in exerting political intervention to promote and ensure effective implementation of the iFSAP in Muslim-majority countries.

Table 2 summarises our analysis of the IIFA's shortcomings and what we consider as a possible way forward for ensuring sustainability of IFIs. We bring some fresh perspective into the institutional logics framework of Thornton *et al.* (2005) and Ezzamel *et al.* (2012) by

Characteristics	Extant – religion logic	Emerging – market logic	Emerging – corporate logic
Economic system	Religious organisations	Neoliberalism versus Islamic system	Neoliberalism versus Islamic system
Sources of identity	The organisations must be imbued with Islamic values	Non-profit organisations (IIFA) supporting profit organisations (IFIs)	Financial reporting as a tool of accountability
Sources of legitimacy	Formal "Islamic" identity	Funding from members	Scale and scope of the organisation
Sources of authority	Objectives of Shariah (*Maqāsid ul-Shari'āh*) with reference to Al-Qur'an and teaching of Prophet Muhammad SAW	Executive directors	Multilateral financial institutions: IsDB, the World Bank, IMF
Basis of mission	Build function in society	Build legitimacy of corporation	Build stability and status of organisations through growth
Basis of strategy	Sustainability of IFIs	Authenticating IFIs' sustainability	Growth through partnership

Table 2.
Ideal types of logics within the IIFA

introducing the logic of religion. Religion logic in this case is defined within the notion of Islam as "the way of life" (*ad-dīn*), which serves as the first thing to be preserved under the objectives of shariah (*Maqāsid ul-Shari'āh*). The prominent Muslim philosopher Al-Ghazali who lived between 1058 and 1111 specifies five of such objectives, namely, the protection of religion (*ad-dīn*), life (*nafs*), intellect (*'aql*), wealth (*māl*) and lineage (*ansab*) (Chapra, 2008).

Drawing from the themes that emerged from our analysis, we propose three ideal types of institutional logics that shape the relationship and interaction (or lack of) among IIFA's constituent organisations: the religion logic, the market logic and the corporate logic. Religion logic represents the original institutional logic under which IFIs and all constituent organisations of IIFA were established and identify with, such as reflected in their respective names, their commitment to the fundamental principles laid out in the Qur'an and prophetic traditions (hadith) and their goal of serving the whole society. *The market logic* represents the identity of IIFA as a supporting institution for IFIs that are predominantly profit-oriented and from which they receive funding – yet at the same time regulate in the matters of policies, principles and standards. The corporate logic, on the other hand, stems from the understanding of different economic systems (i.e. neoliberalism vs Islamic economic system), financial reporting as a tool of accountability and the way in which the stability and status of IIFA constituent organisations are ensured.

Our study adds to and is consistent with existing evidence of increased prominence of the market logic in various organisational fields (Cloutier and Langley, 2013; Thornton and Ocasio, 2008; Thornton *et al.*, 2012) and brings to surface some key issues resulting from such logic dominating the religion logic that was meant to provide IIFA's constituent organisations with a sense of identity and values. By doing so, we facilitate further understanding of the underlying reasons for IIFA's dwindling ability to fulfil their role in supporting IFIs. We view this as an important first step towards finding a workable solution to the problems caused by the presence of multiple logics within IIFA. While we do not pretend to know what exact shape such solution would take, we envisage it as one that facilitates peaceful co-existence of the different institutional logics by means of compromise, blending or hybridisation (Venkataraman *et al.*, 2016; Meyer and Höllerer, 2010; Reay and Hinings, 2009).

Notwithstanding the insights we have offered in this paper, there remains a huge gap in current understanding of how institutional structures and actors shape the present and future of IFIs and IIFA as their supporting architecture. The findings we provide here must, therefore, be considered in the light of scarce prior literature in this specific area as well as other limitations due mainly to the relatively small number of interviewees who were willing to participate in our research. Constraints on the amount of time that the interviewees were able to spend with us had also prevented more thorough exploration of the logic of religion in the context of four other objectives of shariah (*Maqāsid ul-Shari'āh*), i.e. protection of life (*nafs*), protection of intellect (*'aql*), protection of wealth (*māl*) and protection of lineage (*ansab*), and the extent to which these objectives shape the inter (action) and cooperation among IIFA's constituent organisations. These nonetheless provide avenues for future research, potentially offering more extensive empirical investigation and further insights into the interplay – and the possibility of mutually beneficial co-existence, of multiple logics within the IIFA, as we previously suggested. For a critical perspective of accounting study, a new research could be built upon the understanding of the roles of different actors in the field who influence the organisations' involvement in harmonising Islamic financial reporting standards using the theory of political economy that stems from Islamic political dimension, termed as the "Islamic Political Economy of Accounting" theory, as proposed by Mukhlisin *et al.* (2015).

Notes

1. The founding members are: The Islamic Development Bank, Dallah Al Baraka, Faysal Group (Dar Al Maal Al Islami), Al Rajhi Banking and Investment Corporation, Kuwait Finance House and Albukhary Foundation.
2. These standards are known as financial accounting standards (FAS). The term of accounting standards and financial reporting standards are used interchangeably in this paper.
3. These institutional orders were identified in Thornton *et al.* (2012).
4. According to the IMF (2000), financial architecture broadly refers to institutions, markets and practices that governments, businesses and individuals use when undertaking economic and financial activities. For the purpose of our discussion, we concentrate on organisations that are concerned with development of IFIs.
5. The IMF has recognised 12 areas and associated standards as useful for the operational work of the IMF and the World Bank: accounting, auditing, anti-money laundering and countering the financing of terrorism (AML/CFT), banking supervision, corporate governance, data dissemination, fiscal transparency, insolvency and creditor rights, insurance supervision, monetary and financial policy transparency, payments systems and securities regulation.
6. The term Islamic financial architecture was first introduced in 2000 by the then President of IsDB, Dr Ahmad Ali Al-Madani, during his keynote speech at the fifth Harvard University Forum on Islamic Finance.
7. Zakat-*Infāq-Ṣadāqah* is organised by a dedicated organisation called the Zakat institution, while *waqf* is administered by a specific organisation called the *Waqf* organisation. If these two are included in the IIFA framework, they are expected to capture the important objective of enhancing the welfare of the society by working together with the IFIs.
8. Majma Fiqh Islami (Islamic Fiqh Academy) is an academy under Organisation of Islamic Conference (OIC) that issues Islamic *Fiqh* Resolution that has become one of references for Islamic finance operation.

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