

BELIEFS AND ACCOUNTABILITY IN AN ISLAMIC BANK

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Abstract

An Islamic bank in Malaysia (Malpha) positions itself on being Islamic. The products and services are more expensive while employees are paid less than normal commercial banks. What bonds customers and employees to the bank are symbols of Islam: aqad (oral agreement between the bank and a customer), doa' (supplication, a prayer), the tazkirah (short religious talks at the morning meeting) and zakat (or almsgiving). Bank Malpha uses aqad (oral agreement between the bank and a customer) and Doa (supplication, a prayer) to form the basis of belief systems that influence the relationship with a customer. With regard to intermediaries, reciprocity (a form of trust) underpins the relationship between the bank and its intermediaries (housing developers and lawyers for example). This bonding is reinforced by a boundary system: the shariah committee. The shariah committee assesses the shariah (lawful according Islam) compliance and also engages with employees regarding shariah issues. This promotes learning through words and dialogue. However there is little documentation on customer recovery. If indeed non-performing loans are a key performance indicator for this Islamic bank, the challenge for this Islamic bank is to identify key processes to manage customer recovery.

Keywords: Islam, Beliefs, Islamic Bank, Shariah Committee, Accountability

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1 Introduction

There has been a rapid and accelerating growth in Islamic banking throughout the world (Olson and Zoubi 2008). Most of the literature that has explored the fast emergence of Islamic banking has done so focusing on the shariah-compliant transactions that banking institutions undertake, e.g., mudaraba, murabaha, bai bithaman ajil (Monger & Rawashdeh, 2008). Meanwhile, the internal processes and structures that help to present and maintain an Islamic bank's Islamic character, and which provide the means by which the bank enacts its accountability, have been conspicuously understudied.

The Islamic banking industry can be viewed as providing solutions for Muslim customers and also options for other customers in general. According to statistics provided by Bank Negara Malaysia (BNM), the central bank of Malaysia, current global Islamic banking assets and assets under management have reached USD750 billion. The total assets of these 400 banks worldwide are expected to exceed USD7 trillion in the near future (Bhatti 2007).

Malaysia leads the way in the international issuance of Islamic bonds (Permatasari and Rae

2010). The growth in Islamic bonds has arisen from international banks which have established Islamic windows or business units. For example, Hong Kong Shanghai Banking Corporation Plc (HSBC) used to be the largest sukuk (Islamic bonds) underwriter in Malaysia until September 2010 when Commerce International Merchant Bank (CIMB), a Kuala Lumpur-based company, took the dominant market position (Qayum and Permatasari 2010). CIMB, which covers 11 countries, sees its operations growing into other countries as Islamic finance becomes a source of funding for major infrastructure projects around the world.

In 2009, the Australian Federal Government committed to establishing a regulatory framework for Islamic banking in Australia (Bell 2009). This was not only in recognition of the over 300,000 Muslims who call Australia home (Bhatti 2007) but also to position Australia as an Islamic finance hub to compete against Malaysia.

The purpose of the present paper is to help accounting academics and practitioners understand the language of Islam as well as the notions of accountability that operate within the Islamic banking system. An understanding of the psychological and social implications of the key processes and

structures underpinning Islamic banking, including an appreciation for its language and belief systems will be especially helpful for non-Islamic accountants – as well as general business practitioners – who wish to leverage the services of Islamic banks and the Islamic windows within existing commercial banks to create value of their organizations' customers and shareholders.

This paper does not set out to engage in the legality (according to Islamic principles) or otherwise of these products (see Maurer, 2010 for an excellent review of substance over form). Rather, this paper seeks to provide an understanding of the language of accountability within Islam and applies this understanding to a case study of an Islamic bank in Malaysia.

2 Literature review

Islamic banks are described as '... a new type of enterprise that aims to abide by Islamic principles' (Maali et al. 2006, p. 267). In the accounting literature, some scholars argue that Islamic banks should have 'credibility' to show their legitimacy (e.g. Gambling et al. 1993). They argue that Islamic banks have to really do what they claim and appear to be doing. Islamic banks '... may be expected to continue to act in that way in the future' (Gambling et al. 1993, p. 195). Indeed, accountability is one of the important principles that govern Islamic banking transactions.

2.1 Islam and accountability

Accountability can be viewed as a relationship in which there is "the giving or demanding of reasons for conduct" (Abdul Rahman, 1981, p.56). Implicitly, there are two main strands to accountability: for what and to whom. The Islamic word *Taklif* broadly captures this idea of accountability for what and for whom. In particular, *Taklif* refers to the day of judgment (*Yawm al-Hisab*), where everyone is held to account for their actions or inactions to God (Abdul-Rahim & Goddard, 1998). As Sulaiman et al. (2008) note, the Islamic word *amanah* (Al-Qur'an 35:39) recognizes the key notion of God's entrusting of the earth to man, which leads to a vice-regency relationship. In the context of Islamic banking, Islamic banks are accountable to not just the legal prescriptions characterizing their environment, but to God Almighty as well. Accordingly, Muslims view their role as trustees who are accountable to their community (*ummah*) and to God for the use of God's given resources.

In Islam, the notion of accountability clearly includes the sacred. However, Islam does not distinguish between the sacred and the secular; there is no divide between the material and spiritual worlds. Accountability, therefore, is viewed as an

all-encompassing relationship, which covers the mutual, non-temporal relationships involving fellow human beings (including such stakeholders as shareholders, customers, employees, etc.), the broader community (*ummah*), and ultimately God.

The broad notion of *shura* (by whom) develops this idea of accountability to include due consultation with others (Lewis 2007). In this consultation, there is never any deviating from the law of Islam (also known as *sharia*). Another element of *sharia* is the notion of the sanctity of the contract where every person should fulfill every contract because every contract will be questioned on the Day of Judgment (Al-Qur'an 17:34).

The quality or standard of accountability that occurs in the relationships and transactions between people are captured by the Islamic words *adl*, *qist* and *ihsan*. *Adl* means equity or balance. A balanced transaction is also just (Gibson et al. 2001). Islam advocates the maintenance of justice under all circumstances and in all aspects of life (Al-Qur'an 6:152; 5:9). *Qist* refers to the 'share, portion, measure, allotment, [or] amount' needed to give everyone and everything their proper due (Siddiqi 2001). *Ihsan* resembles benevolence that can be related to moral values (Hosmer 1995), where there is leniency, politeness, forgiveness and removing hardships for others without any obligations (Beekun & Badawi, 2005). There are also service motives under the concept of *ihsan* where consideration of others' needs is important (Lewis 2010). It is under this issue of accountability that this paper develops the notion of *zakat* or almsgiving.

The overall accountability to the broader society is better understood by looking at the fulfilment of the *zakat* obligation. *Zakat* is a religious obligation and a levy accepted by Islam on a Muslim income and wealth to be distributed to defined beneficiaries, such as the poor and indigent (Davis & Robinson, 2006). Scholars have argued that Islamic organisations should be *zakat*-oriented rather than profit-oriented (Triyuwona & Gaffikin, (2001). In this way, the *zakat* concept encourages Muslims to make profits (under *shariah* guidance) and to distribute some of the profit out of concern for the social welfare of others in the community. From an accountability perspective, an Islamic bank making a profit is perfectly acceptable, as long as it is abiding by the principles of Islam.

Three important principles govern Islamic banking: mutual risk and profit sharing between parties (bank and customers), the assurance of fairness for all and asset- or business-based transactions. Acquiring trust from stakeholders (e.g. customers and employees) is both crucial to an Islamic bank's success and is a proxy of a bank's perceived accountability. Islamic banks do not compete on having lower costs compared with other forms of banking but rather on being *shariah* compliant. Moreover, the economic goal is not the

singular focus, as Islamic banks are expected to contribute to social development as well. The notion of trust by customers and employees underpins the accountability of an Islamic Bank. We develop the concept of trust below.

Kramer (1999, p. 571) notes that other researchers (Bromiley and Cummings 1996; Lewis and Weigert 1985; McAlister 1995; Tyler and Degoe 1996) have argued for trust 'to be conceptualized as a more complex, multidimensional psychological state that includes affective and motivational components'. He observes that some scholars (e.g. Mayer et al. 1995; McAlister 1995;) have proposed that organizational trust must include the social and relational aspects of trust-related choices. Their arguments, Kramer observes, concentrate on the needs of trust 'to be conceptualized not only as a calculative orientation toward risk, but also a social orientation toward other people and toward society as a whole' (Kramer 1999, p. 571). This social orientation towards people (customers and employees in this paper) forms the frame of our research.

Research question 1: What processes does an Islamic bank undertake to build trust with employees and customers?

2.2 Islamic finance in Malaysia

The earliest roots of Islamic finance in Malaysia can be traced back to as early as 1963, though the first full-fledged Islamic bank was only established in 1983. Lembaga Tabung Haji, or Pilgrims Fund Board, was established with its goal to help Muslims save money, free from *riba* (interest or usury), for their pilgrimage. This was a saving mechanism through which a devout Muslim might set aside regular funds to cover the costs of performing the annual pilgrimage. These funds were in turn invested in productive sectors of the economy, aimed at yielding return uncontaminated by *riba*. The first Islamic bank, Bank Islam Malaysia Berhad (BIMB), was set up in 1983 and operated singly throughout the first 10 years period before the BNM introduced the Islamic Banking Scheme (IBS). The IBS allowed initially three conventional banking institutions to offer Islamic banking products and services using their existing infrastructure, including staff and branches. Subsequently, IBS, also known as an Islamic banking window, was offered to all other conventional banks.

In Malaysia, the Islamic banking industry recorded a growth of assets of 22% to MYR192 billion for the year 2008. This amount is equivalent to 15% of the total banking industry in Malaysia. Malaysia has two banking systems, conventional and Islamic, working side by side. As at 2008, total financing given by Islamic banks and IBS was MYR107.719 billion (or 14.9%) as compared with conventional banks MYR614.08 billion. Currently,

there are 17 Islamic banks, of which six are foreign owned, operating in Malaysia. There are 22 conventional banks, of which 13 are foreign while only nine are local. The increase in the number of banks operating in Malaysia is due to the liberalization of the banking industry.

In general, the banking industry is highly regulated and this applies to the Islamic banking sector. In this kind of industry, how banks shape their control structure is very much influenced by a regulatory body, such as a central bank. For example, a shariah committee is required in Islamic banking by the central bank to ensure banking operations comply with shariah requirements.

From devout Muslim customers' point of view, the responsibility of seeking God's *redha*, or consent, is obligatory upon every individual Muslim. This includes obtaining *halal* financing or loans which are supposed to be free from *riba*. It follows that they have to rely on (or trust) Islamic banks to provide the solutions. As argued by Gambling et al. (1993, p. 202), devout Muslims 'expect the [shariah committee] to be able to [ensure] this'. Luhmann (1979) views this as trust in systems. This trust in systems is further enhanced by the fact that Islamic banks are systems regulated by BNM.

2.3 Trusting in shariah: The Shariah Committee

Existing or prospective customers, especially Muslims, who deal with Islamic banks, have an expectation that any financial transactions are in conformity with shariah. This can be seen as a form of trust or expectation that they have towards Islamic banks. Trust in this sense entails responsibility (Flores and Solomon 1998) on the part of Islamic banks. Moreover, Beekun and Badawi (2005) argue that managers are responsible for ensuring that Islamic banks engage only in *halal* activities, and that day-to-day business activities are conducted in a transparent and ethical manner along the criteria of *adl*, *qist* and *ihsan* (Hosmer 1995; Siddiqi 2001). It can be argued that bank branch managers who portray these behaviours or encourage their branch employees to internalize them are effectively building a trusting relationship with their customers. Clearly, shariah underpins the economic transactions between a bank and its customers.

2.4 Shariah Advisory Committee and Shariah Department/Unit

In Malaysia, the interpretation of and compliance with shariah occurs at two levels: a nationally-based Shariah Advisory Committee and a bank-specific Shariah Department/Unit. The principles of the shariah are:

1. Prohibition of *riba*. No-one (person or bank) may profit from interest-based lending which is

perceived as an unfair or usury (Abu-Tapanjeh, 2009);

2. Prohibition of gharar or undue risk (Kuran, 2005). Contracts should be transparent, minimize risk, and not seek to profit from uncertainty about the price, quantity or quality of the goods and services (Iqbal, 2010). In other words, risk sharing is recommended;

3. Prohibition of maysir. Related to gharar, there must not be any profit from gambling or games of chance (Iqbal & Mirakhor, 2004).

4. No undertaking of 'haram' activities such as producing liquor and gambling (Pitluck, 2008)

As required by BNM, all Islamic financial institutions must have their own independent shariah committee (SC) whose main duties and responsibilities are, inter alia, to advise the board of directors of a financial institution on shariah matters. The goal is to ensure that the banking business operations comply with shariah principles at all times. The SC has to endorse and validate all relevant documentation related to financial products. For example, terms and conditions contained in the proposal form, contract, agreement or other legal documentation used in executing the transactions must be validated and endorsed. These include the product manual, marketing advertisements, sales illustrations and brochures used to describe the financial products. In this light, the Shariah Committee for each bank can be viewed as a boundary system (Simons, 1995), giving rise to the second research question.

Research Question 2: How do boundary systems of an Islamic bank influence the building of trust with its employees and customers?

3 Research method

The research used the case study method to explore the two research questions. The procedures adopted included sending a formal letter to the chief executive officer (CEO) for approval. This was followed by a face-to-face discussion cum interview with the CEO. Visits were made to branches and the head office and semi-structured interviews were conducted with 13 managers, ranging from the CEO to head-office managers to branch managers. Each interview lasted at least thirty minutes to over an hour. These were followed up with telephone interviews and emails to verify information. Documentary sources from Malpha Bank and the public domain were also used. A triangulation of interviews was done by studying each individual company's documents, such as internal branch manuals, memos and annual reports.

3.1 Malpha Bank

Malpha Bank is a relatively small Islamic bank (based on its assets and network of branches) and commenced its operation less than 10 years ago as a

full-fledged Islamic financial institution that operates under the Islamic Banking Act (1983). The name has been anonymised to protect the identity of the bank as well as the employees who shared confidential and sensitive material in the interviews.

The number of staff in a branch or service centre ranges from four to 24 employees. A typical branch would have only 15 employees. Besides tellers staffed for normal banking operations at counters, there are two to three executives in charge of sales and customer service. Malpha Bank centralizes most of its operations in its head office. For example, all financing approvals are done by the retail processing centre, one of units under the credit management division at the head office. At the branch level, the activities are directed more towards identifying customers, getting correct documentation and giving recommendations. However, branches are still responsible for identifying, measuring and mitigating the credit risk in the overall credit appraisal process. The bank has a network of 48 branches and service centres throughout the country. It currently places emphasis on retail and consumer products and services. Accordingly, this study excludes institutional banking, which falls under the wholesale banking unit at the head office.

In 2004, Malpha launched a program, based on the industry's best practices, in structure, processes and systems '[to] ... attain efficiency and speed in its delivery system comparable to that of the industry'. The program mandates '... financing origination and marketing are to be specialized at branches or delivery points while processing, approvals and credit administration is centralized. It reduced the number of employees (around 230 employees, saving USD34 million in order to address its high cost structure.

Strategy is determined by the head office, and branches are profit centres which implement and adapt the strategy. For example, top management at the head office would decide which financial products are to be given more focus and which less. The bank monitors financing portfolios and adjusts its focus accordingly to limit concentration of risk to any particular financing (Document 3-3, 2006). Branches are given targets for each financial product, depending on the locations. Annual budgeted targets cascade down to each branch, which in the process breaks them down to monthly targets. One interviewed branch manager stated the following:

For our branch, targets are not that hefty or high. For example, the Hire Purchase (HP) target is USD1.3 million and the new directive is to shift to commercial instead of consumer (i.e. more on motor vehicles) recently this year. [That means] we go for commercial HP (e.g. machines and equipments) and construction.

Malpha Bank competes in property financing, hire purchase financing (ranging from motor vehicles to machines and equipment), and structured personal financing (tawaruk). It also generates fee-based

revenue through other services, such as Islamic motor vehicle insurance (takaful) and Islamic wills (wasiat). In 2007, Malpha claimed 21.8% (US 1 billion) of total Islamic home financing in Malaysia. This is a large section of home financing, since other Islamic banks' combined share constitutes only 34.6% and the remaining 43.6% is captured by conventional banks which have IBS windows. For structured personal financing, Malpha has positioned itself in a niche through providing financing (or loans) to army personnel who are to retire within five years. Home financing is predominantly secured through intermediaries, such as property developers and legal firms, as well as branch managers' personal contacts and word-of-mouth referrals from existing customers. Hire purchase financing is most commonly obtained through intermediaries, such as car dealer salesmen. Final customers come to branches for documentation and signing purposes, during which branch employees have direct contact with them. Building and maintaining good relationships with these intermediaries is important and is considered one of the control mechanisms in achieving the bank's objectives and strategy.

3.2 Control systems and key performance indicators

In general, the banking industry is highly regulated and this includes this Islamic banking sector. In this kind of industry, how banks shape their control structure is very much influenced by a regulatory body, such as a central bank. For example, an SC is required in Islamic banking by the central bank to ensure banking operations comply with shariah requirements. Morning meetings at branches are preceded by tazkirah and doa'. A tazkirah has been a traditional way of sending religious messages, teachings and reminders by preachers to their followers.

3.3 Morning Briefing and Tazkirah

The morning briefing, which starts at 8:45 a.m. and lasts until 9:30 a.m., is intended to review performance and update employees on relevant information. In Malpha, the morning briefing starts with a tazkirah and a do'a. The tazkirah is essentially a short talk with a religious moral. It is sometimes given by the branch manager and sometimes by one of the bank's clerics. Guidelines on how to conduct the tazkirah, along with any showcased materials, are prepared by the head office. Managers, however, are not required to use the head office supplied materials, which are basically based on the teachings from the Qur'an and hadith.

Branch managers vary in their selections of materials and also the way to conduct the tazkirah. For example, one branch uses internal emails from the head office as its source. While the material is

not originally meant for tazkirah, the branch manager views that as valuable for this purpose. She describes:

Some of the emails sent by the head office are good to be reflected upon. And I know not everybody reads them. So we make use of these materials [newsletter] from emails.

Another branch uses a book on the Prophet Muhammad's traditions for its tazkirah materials. The aim of a tazkirah is to provide spiritual enhancement and also serve as a reminder to employees regarding their duty. Hence, the practice implicitly influences the accountability of both the bank and its employees.

The teachings from Qur'an and hadith, which the tazkirah is generally based upon, provide guidance to Muslims that all their deeds will be accounted for on the Judgment Day. It is viewed as a way to get closer to God. Accordingly, as a way to maintain consistency with Islamic values, bank employees might view their roles as helping the community to attain its needs by promoting access to the financial opportunities represented in the bank's products.

It is worth noting that the tazkirah is used not just at the branch level. It also operates at the corporate level. For example, all corporate-level delivered training programs include elements of religious teachings and values based on the Qur'an and sunnah. Tazkirah are also used when the bank's Shariah Unit visits a branch for a shariah compliance assessment.

The use of the tazkirah to incorporate qur'anic teachings and values into the bank's operations was further supported by the use of Yaasin. In Malaysia, the recital of Yaasin chapter, especially on Friday nights, has become the norm. This practice commonly takes place in a mosque and is conducted in the midst of a large congregation, although it can also be performed in one's own house where the owner may organise a kenduri, or thanksgiving for a specific purpose. The Yaasin recital conducted at Malpha Bank can be seen as providing a religious face to the institution. Reciting qur'anic verses is considered an ibadah and will be rewarded by God, and therefore its practice can be viewed as reinforcing to its employees – as well as the Malay Muslim society in general – the Islamic nature of the bank.

While the Yaasin recital may not bring accountability in a direct way to any given individual employee, many Muslims believe it is an act of piety that can remind one of the Creator. Furthermore, it challenges the employee to consider the extent to which his/her duties and acts, including the interactions he/she has with customers and fellow employees, are consistent with the teachings of the Qur'an.

3.3.1 Beliefs: Symbols at an Islamic Bank

The doa' (prayer) and aqad (the recital of the contract in front of witnesses)

Aqad and doa' are two practices related to Islamic banking. In line with the goal to portray an Islamic image through its banking practices, as discussed earlier, Malpha Bank has formalized both practices in all contractual arrangements (e.g. house financing) and doa' in deposit-related products (e.g. to open a savings account). With regard to property financing, branches are required to follow a specific set of procedures. These include (a) a bank officer has to explain to the customer the concept of financing types, (b) a bank officer has to explain the important terms and conditions in a letter of offer, (c) a customer signs the letter of offer, (d) a bank officer does aqad (oral agreement) with the customer depending on financing types, (e) a bank officer reads doa' (says prayer) and (f) a bank officer explains to the customer the importance of paying one's debt and the consequences if the customer fails to do so, from the Islamic point of view. By explaining the terms, the bank is giving an accurate representation of its product, which is tantamount to acting fairly with customers. Moreover, the act prevents customers from feeling cheated with hidden costs that they may later find out about after an agreement has been signed. Aqad and doa' may be viewed as symbols of religious practices which reinforce customers' expectations of an Islamic bank — an element of trust. Furthermore, they also encompass the benevolence dimension of trust: to act in the customer's interest.

3.3.2 What follows is an extract of the doa'

Oh God you are witnessing this agreement/contract. Thus give us the strength to fulfil all the terms stipulated in this agreement so that we are among those who are honest. Please grant our customer the easiness and excess to make repayment which is dutiful obligation of him/her. Oh God please do not leave us in sinful condition but to forgive us; do not leave us in sorrow but to ease us; do not leave us in debt ridden but to repay all our debts. (Source: Malpha Bank)

Doa' is a way of asking God to grant whatever one wishes, be it a good thing to take place or a bad thing to be kept from happening. When financiers, which is typically done through their agents (i.e. the bank employees) make doa', they are asking God to make it easy for debtors to pay their debts. Through the doa', the bank shows kindness and consideration

to customers and acts in the interest of the customers. This respect underpins the reciprocity inherent in ummah and is further attested to in the bank's annual report:

Among [Malpha Bank's] core values include contributing to the community and the society at large. ... [W]e will continue to invest in the communities where we work and live as essentially our responsibility is to ensure that our reach are beyond the realm of the financial industry' (Annual Report 2005, p. 10).

As one example of the bank's commitment to its community, Malpha Bank has consistently during the past three years provided support to people to perform hajj (pilgrimage).

The aqad process itself brings weight to both parties to abide with the terms of contract. As mentioned by one interviewee,

I feel more bonded to the agreement simply by hearing God's name being mentioned. You feel more obliged to what you are doing.

Meanwhile, as noted by one of the interviewed managers:

It is best to tell [customers] everything in black and white. ... At our bank it is required... if you don't do, it is against shariah and considered null [from Islam's perspective]. You have to be accountable to God. It gives this God fearing feeling in you... if you know what I mean.

For financing letter of offer we really (stress) use aqad and read doa at the end. Every clauses/terms have to be explained in details. It's the duty of the officer in charge. Only after the customer has agreed the letter is signed."... "[W]e are really making an effort to practise the Islamic way in the business dealings.

This is a manifestation of building relationships with customers by practising transparency as well the sanctity of the contract under the principles of vice regency. At the end of a transaction, reminding customers and bank officers of God's warning to honour one's debt is a spiritual way of enhancing one's responsibility to pay all debts when they come due. Thus, it is clearly shown that the practice of integrating moral reasoning, through both doa' and aqad, may contribute to a broader management control process and in turn organizational effectiveness.

In Table 1, we examine the symbols of Islam that bond employees and customers. In this table, quotes from managers are highlighted and the underlying social and control implications of the underlying values and beliefs are developed more fully.

Table 1. Highlights of Malpha Bank's Performance Management System

Belief Systems (formal and informal)	Description
<i>Aqad</i> and <i>doa</i> ' procedures	<ul style="list-style-type: none"> • By explaining terms, the bank is giving accurate representation of its product which is tantamount to acting <i>fairly</i> to customers. It can also be argued that Malpha Bank had portrayed clear and specific <i>shariah</i> procedures with regard to handling financing agreement which could give positive influence on procedural fairness. • <i>Aqad</i> and <i>doa</i>' viewed as symbols of religious practices reinforce customer's expectation of an Islamic bank — an element of trust. The practices also encompass <i>benevolence</i> dimension of trust that is to act in the customer's interest. 'For financing letter of offer we really (stress) use <i>aqad</i> and read <i>doa</i> at the end. Every clauses/terms have to be explained in details. It's the duty of the officer in charge. Only after the customer has agreed the letter is signed'. • <i>Aqad</i> process brings weight to both parties to abide with terms of contract. 'I feel more bonded to the agreement simply by hearing God's name being mentioned. You feel more obliged to what you are doing'.
Community involvement	<ul style="list-style-type: none"> • Distribution of <i>zakat</i> (almsgiving) to the poor and the needy — annual activity which requires employees' participation and at times in remote areas to extend the payment. Another example is the bank's involvement in helping flood victims. These activities and programs are efforts to portray Malpha Bank as contributing to society and to reflect Islamic in nature. Ezzamel (2009) argues that accounting can make certain activities visible to render them knowable and thus contribute to identification and thus meeting customers' expectation. Simons (1995) argues formal beliefs can be used as symbols of what Malpha Bank represents. And Free (2008) concludes the finding of his study that 'trust can be invoked in both ritualistic and instrumental ways' (p. 630).
Morning Meeting: • <i>Tazkirah</i>	<ul style="list-style-type: none"> • The short talk preceding other agendas provides discussion and understanding of religious values that closely related to the bank's core values. This is to instil Islamic values among employees which in turn guide their behaviours that are congruent with those espoused by Malpha Bank.
Informal branch religious activities, e.g. <i>Qur'an</i> recital and religious talks	<ul style="list-style-type: none"> • '... we read <i>Yaasin</i> every Friday evening and extend involvement to employees of other organizations' (BM103).
Morning / Monthly Meeting • Target budgets	<ul style="list-style-type: none"> • 'We have daily-sales-performance report. From there I call sales people, talk to them, [and] go out with them. I would do follow-ups like reminding and making call'. (BM107)
• Process improvement	<ul style="list-style-type: none"> • The manager showed an informed attitude to interact with employees — interactional trust. Comments in morning meeting would improve process and, in turn, increase customer trust (ability). '... I would go to staff desks to talk or walk downstairs to observe the banking operation. I would make a general comment in the next morning meeting' (BM127). 'I want to be very open... and I keep telling my staffs about this. It has been my practice to comment somebody's mistake during morning meeting...it's not meant to lose his face but so that the mistake will not be repeated by others' (BM106).
Performance evaluation	<ul style="list-style-type: none"> • Face-to-face meeting helps engender procedural fairness in relation with employees.

3.3.3 Intermediate customers and belief systems: Reciprocity

One interviewed manager (Manager BM107) was quoted as saying the following:

Because they themselves have allocated let's say 30% to bank [A], 40% to bank [B] and so on... giving fair support. When we have walk-in customers, we would reciprocate [our solicitors] by redirecting these customers to them for the [legal] services in turn. That is partly how we play our part.

This is evidence of an informal arrangement, as opposed to a contractual obligation, between bank branches and intermediaries. Underlying this is a theoretical argument that organizational actors, whilst assumed to be self-interested, are also bound by reciprocity norms (Bosse et al. 2009) which are based on fairness. The interviewed managers recognized the importance of reciprocating the benefits that the bank has been receiving, though the bank is not bound by any specified terms. This is evidence of being fair to and building trust with customers.

3.3.4 Building relationships and boundary systems: Shariah

Boundary systems are formal systems that explicitly delineate the acceptable domain of activity for organizational participants, in terms of positive ideals and prescriptive limits. The following quotations illustrate the boundary system constraints experienced:

We can't follow other banks' rate which is quite low. Our funds come from deposits. Also, we can't simply invest in any bond market due to shariah compliance issue. There is some limitation in this regard. So we can't follow other banks. It's going to be below cost. We have to look for other market.

It is best to tell [customers] everything in black and white. ... At our bank it is required... if you don't do, it is against shariah and considered null [from Islam's perspective]. You have to be

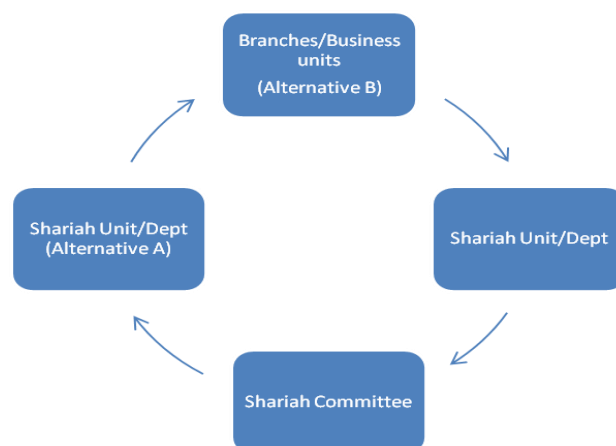
accountable to God. It gives this God fearing feeling in you... if you know what I mean.

By implementing the procedures from the boundary system, managers in this context are building fairness with customers through transparency. While the non-performing finance (NPF) level is controlled through traditional budget control, where branch managers are given specific performance targets, the Islamic religion inspired procedures pertaining to the signing of loan agreements, as discussed above, are unique ways of facilitating the attainment of the targets. Thus, it is clearly shown that the practice of integrating moral reasoning may contribute to a broader management control process and in turn organizational effectiveness.

3.3.5 Boundary system and learning

While the SC is an independent body in an Islamic bank, the shariah unit or department comprises the bank's own employees and is part of the Islamic bank itself. The shariah unit links the SC and the bank's branches/business units. Its main duty is to conduct a shariah compliance assessment (SCA) of every branch or business unit. Figure 1 below describes how the link between the SC and branches/business units may be initiated. Under alternative A, the shariah unit/department starts the process through the conduct of an SCA. This is a yearly assessment where the shariah unit executive visits a branch or business unit and makes an assessment. He/she then prepares a report for the SC and obtains its approval. It is interesting to note some of the procedures used during the conduct of the SCA. Each meeting with the branch, for example, starts with a tazkirah that relates to religious teachings. A short examination and discussion is held with the branch manager as a means for gauging the branch manager's level of understanding of shariah and halal practice in general and the consistent application of these practices.

Figure 1. Linkage between Shariah Unit and Branches



Under alternative B, it is the branches or business units that initiate the process. An example is a case where a branch/unit manager has a particular shariah-related issue that he/she needs to get an opinion or clarification on from the shariah unit. The time taken to respond to a particular issue depends on two factors, namely, whether the issue is new or existing and the level of complexity. If the issue is new and straightforward, the shariah unit will give its consultation via telephone. But in the case of high complexity, a special meeting has to be held for the SC to deliberate an opinion on the issue before the shariah unit can in turn inform the branch or business unit manager. The two-way initiation for this engagement allows learning to be engendered (Argyris 1991).

It can be argued that what the shariah unit/department does with regard to ensuring the bank's transactions are done according to shariah is akin to internal control or a governance process. In other words, an important role of the shariah unit/department is to provide integrity to the system, as well as ensuring clearly specified boundaries concerning what the bank branches can and cannot do. Any shariah non-compliance is to be reported to the SC, which under Malaysian legislation, has the power to enforce compliance with shariah. However, it is interesting to note that under alternative B, the communication between the branch/business unit manager and the shariah unit is more interactive. It allows learning for managers and the organization, which Simons (1995) considers one of the important functions of control systems.

3.4 Reflections on Malpha Bank's control systems

The principles underlying Islamic banking include risk sharing, individuals' rights and duties, property rights and the sanctity of a contract (Zaher and Hassan 2001). In financial transactions, unfair exchanges are against the principle of shariah, and thus should be avoided. This falls under the supervisory role of the SC to lend credibility to Islamic financial institutions. However, being appointed by the financial institution itself, the SC must carry out its duty without fear or favour with regard to supervising the behaviours of its appointer. Thus, there is a possible conflict of interest in the SC's role in relation to an Islamic bank (Grais and Pellegrini 2006).

In understanding the strategic position of a bank, a branch manager noted, his customers would not come to his Islamic bank if he is seen drinking or attending clubs. This raises the issue that the behaviour of the manager has to be consistent with Islamic values to recruit and retain customers. Another branch manager noted the fact that the products offered in Malpha Bank are not cheaper

than commercial banks underscores that it is the differentiation strategy that this Islamic bank pursues.

With regard to relationships with employees, one manager noted that his pay is less in the Islamic bank than with his previous commercial bank. Clearly, it is the intrinsic motivation of working for a value-driven bank that keeps valued employees. However, this form of control could be at odds with a focus on key performance measures (i.e. KPIs). The latter form of control often has a myopic focus that may erode employee motivation and reduce double-loop learning (Argyris 1990, 1991).

What was surprising in Malpha Bank was the lack of formal documentation with regard to customer recovery in the event of a customer default. Such customer recovery procedures are common in commercial banks. This lack of a customer-centric approach to likely defaulters (all the more important given the fact that one of the KPIs was non-performing loans) may cost Islamic banks dearly. They can no longer rely on the belief that Muslim customers, in fulfilling their religious duties, would naturally come in numbers to any Islamic bank. While this assumption has some merit, it is not totally correct, especially if the industry becomes more market driven. Islamic banks must not ignore the very fact that customers in general want to be well serviced.

4 Conclusion

This paper sought to explore the processes and structures through which an Islamic bank's accountability is enacted. Two broad research questions motivated this exploration. The first question explored the processes used by an Islamic bank to build trust with employees and customers. It was observed that the processes of *aqad*, *doa*, *tazkirah* and *zakat* are critical to this achievement. In particular, these processes are used to support the development of customer and employee relationships characterized by high levels of trust.

The second broad research question explored how the boundary systems of an Islamic bank influenced the building of employee and customer trust. The research pointed to the important role exerted by the Shariah Council in general and the bank's own Shariah Department/Unit in particular for achieving this objective. The Shariah Council was seen to act as both a feedback and a feed forward system of control.

Certain limitations accompany this study. First, this study was confined to the data of only one Islamic bank. The ability to generalize the results of this study is therefore potentially limited. Hence, any generalization of the results to conventional banks or other financial services should be made with considerable caution. However, on a positive note, the limited scope allows a richer study of the control systems in operation at one bank.

As a second limitation, the use of the semi-structured interviews can produce interviewer bias. It can take place during the interview and also in the analysis of transcripts (Lillis 1999). In particular, when analysing transcripts the researcher relies on his or her interpretations and classifications, which potentially creates bias.

In spite of these limitations, the research findings provide an important, albeit preliminary, understanding of the processes and structures through which an Islamic bank's "Islamicity" is maintained. Both practitioners and researchers are likely to benefit from these findings. For example, practitioners should be interested in ensuring their management practices take account of the fact that employees and customers are attracted to an Islamic bank not based on price competition, but rather on the social bonding that occurs between people of the same faith and values. Meanwhile, researchers might wish to study further the operation of social capital (Chenhall et al. 2010) in an Islamic bank setting, perhaps even focussing on the likely tensions that exist between the changing forces of the marketplace (new products, innovations) and the powerful cultural and bonding symbols of Islam. Researchers might also wish to explore the role of the shariah unit as an agent of learning. For example, the interactive use of a governance structure (the shariah committee) draws upon the intrinsic motivation of individuals to facilitate learning (Argyris 1991). Such learning minimises the adoption of defensive routines (Argyris 1990, 1991; see also Argyris and Schön, 1978). The words and dialogue enable bank employees and the shariah unit to know what is true and valid thereby shaping a powerful form of control (Tuomela, 2005). However, this form of control could be at odds with key performance measures (such as KPIs), where a myopic focus of KPIs could reduce the double-loop learning of highly motivated employees who share values and beliefs (Argyris 1990, 1991) espoused by the Islamic bank.

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