

Enhancing Management Accounting Practice through Islamic Values: A Case Study of a Malaysian Islamic Bank

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ABSTRACT

This is a concept paper discussing how certain Islamic principles are infused into the overall management accounting practices of an Islamic Bank which was incorporated in Malaysia. The Bank has successfully integrated these principles in its management system and in turn has created a unique approach to management accounting practices for an Islamic Financial Institution (IFI). This approach earned the Bank, the prestigious National Award for Management Accounting (NAfMA) in 2008 for the best practice solutions award category in recognition of the Bank's effective applications of management accounting system and tools that has had a positive impact of daily practice. This paper discusses the strategies employed by the Bank and its application of Islamic values.

Keywords: *Management Accounting Practices; National Award for Management Accounting (NAfMA); Islamic Bank; Shariah; Islamic Principles*

INTRODUCTION

In Islam, the *Shariah* (Islamic law) regulates all aspects of life, socially and ethically as well as criminal and civil jurisdiction. *Shariah* which literally means “the way to the source of life” is the legal framework within which the public and private aspects of life are regulated for those living in a

legal system based on Islamic principles of jurisprudence (Maudidi, 1986). The legal framework is based upon the *Al Quran* and *sunnah* (the way of life prescribed as normative for Muslims on the basis of the teachings and practices of Prophet Muhammad S.A. W and interpretations of the *Al Quran*). It deals with many aspects of day-to-day life including politics, economics, management, business, family and social issues. Because of this, Islam plays an important role in shaping and enforcing ethical behaviour and consequently dictates how cultural values should be observed to its followers (Lewis, 2001). Gray (1988) and Perera (1989), on the other hand, evince that cultural values are a determinant of accounting practices. The Islamic business culture and ethics therefore should have a great influence towards management accounting practices in any organisation. Past studies have largely focused on influence of Islam on financial accounting (Baydoun and Willet, 2000; Maliah, 1998). However, according to Maliah (2005), literature examining Islam's influence on managerial accounting is non-existent. This study therefore attempts to fill this gap in the literature.

In Malaysia, in the field of management accounting, the National Award for Management Accounting (NAfMA) is the most prestigious management accounting award to be conferred on any Malaysian company. Its aims include giving recognition to companies which adopt best practices in management accounting and which strive to create value that leads to business excellence. The award is also designed to promote the application of management accounting techniques and systems within companies in Malaysia in pursuit of world class business performance. A local fully fledged Islamic bank (from hereon referred to as "the Bank") won the 2008 award in recognition of its effective application of management accounting systems and tools in the running of the bank. A major factor in this success was the infusion of Islamic values into the bank's management accounting practices.

The main difference between the secular capital market system and the Islamic economic system relate to objectives. While profit maximisation is the primary goal of a capitalist system, Islamic objectives rely on a faith-based approach that mandates the conduct of business transactions in accordance with *Shariah* (Haron & Azmi, 2009). Lewis (2001) observes that *Shariah* principles claim to regulate all aspects of life, and to encompass both criminal and civil jurisdictions. Thus individuals should observe ethical

standards in every action made and decision taken, to conform to *Shariah* principles. This paper describes the implicit practices of Islamic values in the strategies deployed by the Bank and why they were important components of the Bank's NafMA Best Practice Framework; in doing so the Bank has created a unique management accounting model that has provided the Bank with a competitive edge over its rivals.

NafMA

The NafMA is jointly organised by the Malaysian Institute of Accountants (MIA) and the Chartered Institute of Management Accountants (CIMA), Malaysia Division, and developed based on the International Federation of Accountants (IFAC, 1998) Conceptual Framework on Management Accounting. The NafMA framework is based on eight areas which include leadership, management accounting information, resource management, customer/market focus, partnership management, value creation (management accounting practices), business results/performance measurement and corporate social responsibility (Sulaiman et al., 2005).

This paper discusses why and how Islamic values if properly defined and strategically applied can be a powerful practice in support of the objectives of an organisation in line with the set of criteria laid down by NafMA.

ISLAMIC BUSINESS ETHICS

Islam not only permits business, but also encourages its followers to do business. Rahman(1994) explains that there are a large number of Islamic concepts and values defining the extent and nature of business activity. In a more recent study, Maliah (2005) proposes that in order to understand how Islam influences managerial accounting, one needs to appreciate the Islamic concepts of accountability and responsibility.

Accountability

In Islam, an individual is required to discharge his accountability in accordance with the responsibilities laid down in the *Shariah* (Maliah, 2005). As one of the primary objectives of an accounting system is to aid

accountability, accountants thereby should be accountable in performing their duties based on Islamic ethical norms. All resources made available to individuals are made so in the form of a trust. Individuals are trustees for what they have been given by Allah (God) in the form of a trust (Lewis, 2006). Therefore, man who is appointed by God as *khalifah* (*vicegerent on earth*) is accountable to God and to what is done with the resources entrusted to them. As stated in the *Al Quran*,

‘Soon will Allah observe your work, and His Messenger, and the believers: soon will you be brought back to the Knower of what is hidden and what is open: then will He show you the truth of all you did.’
(At-Taubah 9:105)

Accordingly, man should not take personal interest and all resources should be managed with full *amanah* (trustworthiness). Furthermore, the resources given by God also need to be distributed with *adl* (justice) and fairness. This concept of *adl* or justice promotes the distribution of wealth so that it does not remain concentrated on a few individuals, and everyone is entitled to receive what he or she deserves. Monopolies and price fixing are prohibited; hoarding is also forbidden when the intention is to force up prices in times of scarcity. Similarly, vendors of goods should not hide any defects in goods or lie about the weight or quality of the goods.

However, one is permitted to accumulate wealth that is left over after meeting legitimate and reasonable requirements (Maudidi, 1986). In the event of accumulation of wealth, one should pay *zakat* (alms giving), being one of the ways to distribute wealth to society so that the gap between the rich and poor remains narrow, so that all members of society can be treated equally.

Responsibility

Islam does not wish that the economic race takes place in an atmosphere of cold impartiality, moral neutrality and social apathy but it deems it desirable that the participants in the economic race should be considerate and sympathetic to one another (Maududi, 1986). The aim of the Islamic economic system is to allow people to earn their living in a fair and profitable way without exploitation of others, so that the whole society

may benefit (Lewis, 2001). Furthermore, Islam places a greater emphasis on responsibilities than on rights. The emphasis on the well-being of the community is clear. Therefore, managerial accounting from an Islamic perspective will not only concentrate on the achievement of the goals of a company, but must also satisfy the needs of the wider economic environment.

In addition to the above two concepts, all business activities conducted by an Islamic bank should not violate the norms of Islamic ethics as enunciated by the *shariah*. These include; (1) freedom to contract; (2) prohibition of *riba* (usury); (3) avoidance of *gharar* (excessive uncertainty); (4) freedom from *qimar* (gambling) and *maisir* (unearned income); (5) freedom from price control and manipulation; (6) entitlement to transact at fair prices; (7) entitlement to equal, adequate and accurate information; (8) freedom from *darar* (detriment) and (9) mutual cooperation and solidarity (Razali, 1999; Saiful Azhar, 2005; Obaidullah, 2005). Besides that, Islamic banking also prohibits conducting business involving prohibited commodities such as pork and liquor. *Riba* (interest) is prohibited in Islam as a way to promote the principles of justice and to prevent concentration of wealth in the hands of a few people (Razali, 1999). The Arabic word *Gharar* means risk, uncertainty and hazard and any contracts under excessive uncertainty are not allowed. *Maisir* involves the creation of risk for the sake of risk and applied the context of games of pure chance that involve unearned income. In *maisir* transactions, the loss of one party means the gain for the other party (Aznan, 2006).

Islam therefore, may have a significant influence towards management accounting practices through the application of Islamic ethical values in business activities. Indeed, the key to sound management accounting practices in Islam rests with the ethical values of managers. Therefore there is a need to study how Islam influences the management accounting practices in an organisation.

ISLAMIC PRINCIPLES AND THE NAFMA BEST PRACTICE FRAMEWORK

The Islamic principles practiced by the Bank and the way in which they are connected with the NAFMA framework is presented in Figure 1 below.

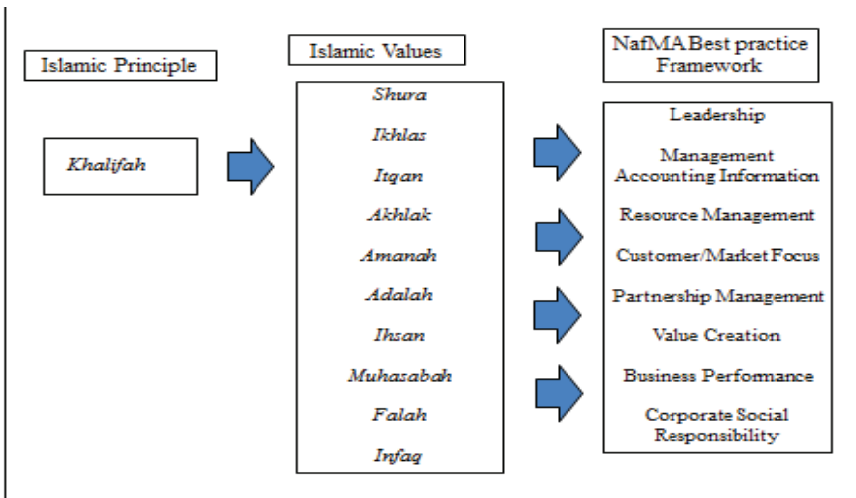


Figure 1.0: Conceptual Framework

Where *Khalifah* is vicegerency; *Shura* is mutual consultation; *Ikhlas* is sincerity; *Itqan* is perfect quality of work; *Akhlak* is best ethical conduct; *Amanah* is honesty; *Adalah* is fairness and justice; *Ihsan* is excellence; *Muhasabah* is self-evaluation; *Falah* is success, and *Infaq* is spending to meet social obligations.

Leadership

An excellent and competent leadership is essential for any organisation. Quality leaders have the capacity to transform strategic constraints into new challenges and with their level of authority they can influence the culture and provide direction for subordinates (Vries, 1996). In addition, findings by Vries (1996) suggest that effective leadership is the determining factor in creating a high performance organisation. In the NAFMA Best Practice Framework, Sulaiman et al. (2005) describe leadership as top management's commitment and responsibility in steering the organisation towards attaining its vision and strategic goals. It focuses more on management support for the management accounting applications in the company. In this aspect, the Bank has a clear and comprehensive strategic framework which comprises vision and mission and this is crucial in inspiring the whole workforce in the organisation.

Vision and Mission

The Bank's vision is to be a strong, progressive and modern Islamic bank offering innovative, quality and competitive products and services and ultimately deliver the best value to its stakeholders. Furthermore, the vision is also supported with a mission i.e. to build the Bank into a modern, dynamic and strong Islamic bank that would play a role in providing a viable alternative to the conventional system and hence contribute to the development of modern Malaysia. Every planning decision made by each department and business unit and in fact, every action and activity conducted by the members of the Bank should align with the corporate vision and mission. The Bank is led by the top management and the top management is empowered by the Bank's vision and mission in attaining strategic goals and objectives.

Management Accounting Function Unit

Sulaiman et al. (2005) note that for the Bank, the responsibilities and commitments of top management in the application of management accounting principles and techniques are fundamental to achieving the company's vision and mission. The primary effort of the top management in implementing management accounting concepts in the core business activities is through creating a special management accounting function unit, namely the Management Reporting Section (MRS) which is distinct from the financial accounting function. The function of this section is to provide Management Reports to the Board as well as reviewing any management accounting applications and monitoring costs and budgets throughout the Bank. In addition, it interacts with other aspects of the management process which focus more towards operational activities, control and change and direction setting.

Strategic Key Performance Indicators

The Bank interprets its vision and mission into day-to-day management of all departments by establishing specific strategies and communicating them to all units in the Bank. In order to translate the strategies into action, the management first define all the strategies accordingly and characterise them into an integrated set of objectives and measures i.e. key performance indicators (KPIs). These KPIs support the strategies and are then assigned to the departments and business units according to their functions and characteristics. These KPIs will also be discussed on a monthly basis

at the top management level and also when there is a need to make any improvements.

On top of that, for each individual member of staff, performance will be evaluated yearly based on performance through the concept of *Al-Falah*, literally prosperity and success. Every employee is given group and individual KPIs and their performance is measured based on the KPIs assigned to them. This indirectly creates an action oriented culture within the Bank as every action should come with good purpose and result.

Strategic Management Committee

A Strategic Management Committee has been established consisting of Chief Operating Officer, Chief Financial Officer and all Heads of Departments. The main function of this committee is to manage the corporate strategic and planning process as well as charting the long-term directions of the Bank. The committee identifies the critical success factors of the Bank and communicate these to all branches and units for future strategic planning purposes. In terms of management accounting applications, the committee always rely on the information given by the Management Reporting Section which specifically focuses on the financial implications of alternative business strategies. The information provided also includes an analysis of the Bank's product markets and costs structures as well as competitors' costs.

Total Quality Management

The Bank's Top management is very committed to the concept of Total Quality Management which refers to methods by which management and employees practice the process of continuous improvement. The involvement of employees in the Bank is vital in order to achieve excellence in business through a continuous quality programme. The main employees' involvement programme is the Quality Control Circle (QCC) which consists of a small group of staff coming from the same unit or department who meet regularly to identify and solve work related problems. The main objective of this programme is to promote the culture of continuous improvement and good teamwork. Therefore, within the Bank, a continuous improvement process becomes the culture and norm. The process not only drives the development of products but also influences the employees' work attitudes. This process also inculcates among staff a sense of responsibility and accountability that result in improved quality and excellent job performance.

The concept of leadership is however a contentious issue in Islam. Many have argued that leadership in Islam should be a personal choice and should be left to an individual's discretion. However, the *Al Quran* has made it clear that those who are elected leaders should consult their followers and even the Prophet Muhammad consulted his followers on all matters related to his leadership. As stated in the *Al Quran*;

'Consult them in matter, and when you reach a decision, place your trust in Allah, surely Allah loves those who put their trust in Him'
(Ali-Imran 3:159)

This consultation process is defined in *Al Quran* as *shura* (mutual consultation). As part of the culture of the Bank, every member is encouraged to discuss and consult his / her superior prior when making any decision or judgment. One of the examples as to what extent Islam influences management accounting applications is through the implementation of the QCC in TQM programme. The concept of *shura* is the basic foundation of these activities. Members of the QCC group must have some discussions related to work or come out with new product innovation and subsequently the results or decision made will be presented to superiors who will in turn communicate the findings to top management. The overall quality improvement activities are therefore part of the mutual consultation between staff and top management.

One of the tools to realise the vision and mission of an organisation is by formulating strategic objectives. For the Bank, the strategic objective is based on the *Ikhlas* (sincerity) principle, developed from the 'IKHLAS' acronym, i.e.:

1. I for Innovative in doing things
2. K for Knowledgeable in work
3. H for Honest in dealings
4. L for Loyal to the Bank
5. A for Action oriented in achieving desired results
6. for Service oriented in meeting customers' expectations

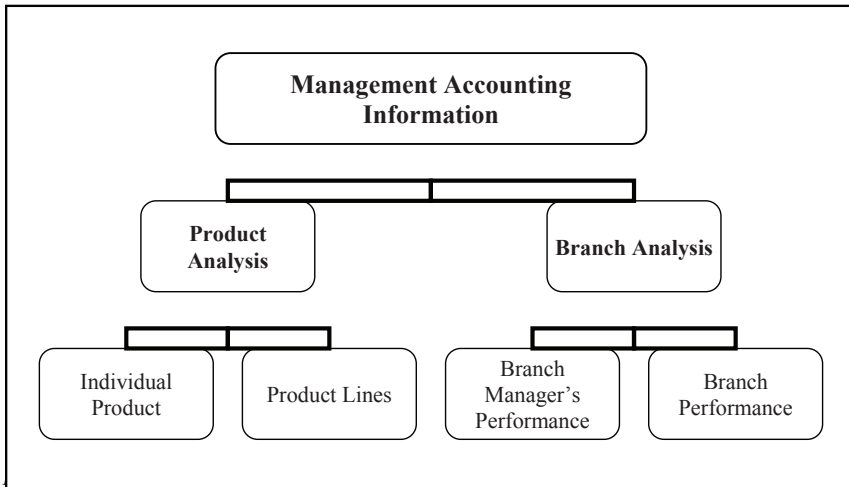
This strategic objective provides guidance for each of the Bank's employees to move forward in achieving the Bank's goals. In order to achieve the

goals of the Bank every member should be innovative, knowledgeable and committed in whatever he/she does. Moreover, the concept of honesty/trustworthiness is essential as these are obligatory elements for conducting business. Every action should come with good purpose and result in the service provider organisation meeting the customer's expectations. All elements in this strategic objective are, therefore, carried out based on sincerity and faith in Allah (God). All activities must therefore follow the will of Allah with the main intention of obtaining God's blessing apart from achieving material objectives.

Management Accounting Information

Sulaiman et al. (2005) note that from the NafMA perspective, management accounting information describes the strategic functions of management accounting in the formulation and implementation of the company's objectives, where effective management accounting information is regarded as accessible, reliable and timely information.

To meet this requirement, a comprehensive and reliable computerised accounting system is developed and used throughout the Bank and all its branches to accurately trace resources consumed. This system is also used by management accounting functional unit in assigning costs i.e. direct and indirect costs to specific cost objects. In addition, the management accounting functional unit also uses the information generated from the system in making decisions in terms of variance analysis on total financing and overhead cost as compared to budget. In the Bank, the management accounting information is analysed through segmental reporting based on products and branches or business units. This analysis is focussed on the cost structure and the profitability of both products and branches. Figure.2 shows the analysis of management accounting information in the Bank.



Product Analysis

There are a number of financial products offered by the Bank which have been classified into five categories i.e. deposit, investment, financing, trade financing and card services. Mirroring the conventional bank system, the bank generally offers five product lines, namely:

1. general account
2. investment account
3. other deposits
4. fund-based, and
5. fee-based.

Furthermore, the **individual products** such as asset financing-i, *bai-bithaman-ajil* (project financing-i) and *ijara* (hire-purchase-i) are categorised under one line which is a fund-based product line. Similarly, *wakalah* (bills of exchange-i) and *kafalah* (bank guarantee-i) are categorised under the fee-based product line. Under general account, the product line includes the *Al-Wadiah Savings-i* and the *Al-Wadiah Current-i*.

The management accounting unit then analyses profits by product lines and also by individual product within the product lines on a monthly basis. However, the report on the profitability of each individual product is not produced at monthly intervals. In terms of cost allocation, all direct costs plus a share of indirect costs (only those where approximations can be

made of the resources consumed by products) are allocated. In addition, the Bank also highlights any attention-directing information by identifying those products where losses are reported, hence indicating the need for special studies to ascertain if their incremental revenue and spending justify discontinuation. These special studies not only provide a strategic review of the costs and profitability of the Bank's products but they also assist directly in decision making.

Branch Analysis

Branch profitability is also analysed on a monthly basis. The analysis of branch profitability focuses on measurement of the performance of each branch and evaluation of the performance of branch managers. In evaluating the economic viability of branches, the Bank uses historical branch profitability analysis as it provides attention-directing information which could be used to identify those branches that appear to be making losses.

A branch manager's performance is evaluated based on the amount of new financing and deposits, costs of branch to income ratio and the ability to keep within the budget for controllable items of expenses. As a motivational tool, the Bank operates performance-related payment schemes for branch managers. This is one of the efforts from the top management to improve the co-ordination of strategic measures and business processes.

It is important to note that in Islam, the element of doubt and uncertainty must be removed from inter-personal engagements. In business trading, it is clearly stated in the *Al Quran* that all business activities and parties' rights and obligations are to be fully documented for verification and this is stated in the *Al Quran* as follows:

'Believers, when you contract a debt for a specified term, write it down. Let a scribe write it between you in justice ... and let the debtor dictate, not diminishing the sum he owes ...'

(Al-Baqarah 2:282)

For the Bank, this verse is evidenced in obligatory recordings and reporting of every activity in business affairs including management discussions and decision makings in a perfect manner and with a great quality of work. As the Prophet Muhammad had said that:

*‘Allah loves to see one’s job done at the level of **itqan** (to arrange and dispose of things in a scientific and artistic way in order to obtain the most perfect results)’.*

(Narrated by Ahmad)

This hadeeth can be seen as promoting the Islamic view on the meaning of quality work and optimal performance. Prophet Muhammad, for example, whenever he had been given a task, would define the task, plan it, implement the plan and complete the task successfully with a very high quality of work. Similarly with management accounting information, all strategic planning, cost structures and performance need to be documented properly and up to the *itqan* level.

Resource Management

Resource management in the NAFMA Best Practice Framework focuses on the overall career development for accounting personnel as well as for other employees within the organisation. Specifically, it addresses issues on career opportunity, training, recognition, incentives and other continuous improvements.

The Bank plans for the skill development of its employees particularly management accounting personnel within the organisation. Several opportunities, recognitions, programmes and other continuous improvements have been set for employees to enhance their competency and ability. They are also encouraged to participate in training and courses relevant for skills development and hence give an opportunity for them to have wider exposure and experience in their job field. The Bank also has the ‘Muamalat Academy’ which is a centre of education and training for internal staff to develop their potential skills through training and courses conducted.

Table 1 shows the list of improvement activities undertaken by the departments and branches.

On the other hand, rewards and incentives programmes are designed to encourage employees to behave in ways that will result in attainment of the Bank’s strategic goals while at the same time meeting their personal objectives. Since 2006, the Bank has introduced an Annual

Branch Performance Award to spur staff at branches to achieve excellent performance in meeting targets as set in the KPI: a monetary reward for the best performing branch, based on certain assessment criteria; achievement of sales or disbursement, growth of consumer financing outstanding, growth of total deposits and strengthening asset quality. There are also cash rewards to individual staff for performance excellence, as measured by the KPI assigned to each individual staff member. In addition, promotion to a better position, benefits accompanied by salary revision are also offered to staff that have performed well during the year.

Table 1: List of Improvement Activities

No.	List of Improvement Activities	Management Accounting Technique Applied	Functional Area/ Department	Savings Achieved/ Benefits Derived
1.	System capabilities to cater for significant financing growth	Productivity Analysis	Human Resource 48 Branches	Reduced costs of four officers to be covered by only one officer
2.	Paperless documentation	Cost-Benefit Analysis	Finance	Reduced cost of filing as the documents can be saved in "Financing Tracking System" database with backup system
3.	Zero NPF and Delinquent accounts reported as zero-risk characteristic of product	TQM (Quality Improvement Activities)	Consumer Business Development Department	Zero value of provision, increase the profit margin
4.	Process Efficiency	Productivity Analysis	48 Branches	Reduced time spent on processing and focus more on excellent customer service

In terms of resource management, particularly for human resources, the fundamental principles are accountability and responsibility derived from the concept of *khalifah*. As a trustee for God's resources, the Bank manages its human capital fairly and there is no favouritism and inequality in practice. For example, the Bank has embarked on the Celestial Management Training (CMT) program in collaboration with another Islamic bank in Indonesia. The main objective of the training is to inculcate the values in the Islamic

spiritual framework that should be the driving motivation and the spirit of any business. The Celestial Management is based on the principles of worshipping God in every aspect of work activities in the Bank. Therefore, in any single element of management in the Bank, Islam has played a proactive role and influence, simultaneously shaping the whole business system in the organisation.

Customer/Market Focus

In assessing the customer/market focus criterion, NAFMA highlights the steps taken by the organisation in establishing its market niche and in fulfilling customers' needs and satisfactions. Strategically, it addresses techniques used in meeting market demand.

Several steps have been taken by the Bank in obtaining greater market share and in fulfilling customers' needs and satisfaction. The initiatives taken by the Bank can be assigned to one of three categories:

1. understanding market and customer
2. building customer relationship
3. determining customer satisfaction

Understanding Market and Customers

To ensure the relevance of current products and develop new opportunities, the Bank would consider short-term and long-term requirements, expectations and preferences of customers and markets. By conducting market research such as site visits, interviews, financial planning consultation, surveys etc., the Bank would achieve comprehensive knowledge and understanding of current market conditions as well as customer preferences.

Building Customer Relationships

One of the ways of achieving a strong relationship with customers is through empowerment of employee participation, by providing frontline employees with the knowledge, rewards and sufficient competence to provide high quality service to the customer (Bowen and Lawler, 1992; Asyraf Wajdi and Nurdianawati Irwani, 2007). In the Bank, the front desk staff are given sufficient training in communicating directly with customers. A standard operating procedure (SOP) is designed as a quick reference and serves as a guide for documentation and disbursement of financing facilities offered by

the Bank as well as monitoring and supervision of such facilities. The SOP therefore ensures standardisation on the services provided to the customers.

Customer Satisfaction

The ultimate objective of understanding customers and building strong relationships with customers is to maximise customer satisfaction. For the Bank, it is deemed that profitability will be optimised by maximising customer satisfaction and hence the Bank has taken appropriate steps to meet customers' needs, including the efficient management of customer complaints. The Bank has special detailed written procedures for the handling of customer complaints: all complaints must be verified, investigated and solved promptly; furthermore, each complaint should be recorded and documented for future improvement.

The Bank allows accounts to be opened for those individuals who are in need of accounts, and not just those whose income levels can create wealth for the Bank. Moreover, it provides loans to those who are in desperate need for capital loans regardless of whether financial collateral can be provided. For the Bank, the needs of individuals and their trustworthiness are given the highest priority when opening accounts or applying for loan financing. All staff in the Bank are urged to follow Prophet Muhammad's *akhlak* in liaising with customers, as in Islam the individual that has the greatest *akhlak* is Prophet Muhammad. Abu Hurairah narrated that Prophet Muhammad said,

'Indeed I have been sent to complete the best of character (akhlaq).'
(Narrated by Ahmad and Hakim)

The staff have to be polite, kind and courteous whenever they deal with clients as demonstrated by Prophet Muhammad when communicating with the people. These good *akhlak* elements have been embedded in the SOP and considered as an example of best practice for all staff to follow.

Partnership Management

Sulaiman et al. (2005) regard Partnership management in the NAFMA Best Practice Framework as the organisation's strategic approach to managing relationships with its various stakeholders which include government, suppliers, customers, employees and the community at large to achieve

a win-win situation for all parties concerned. Table 2 lists the initiatives undertaken by the Bank to foster closer relationships with its ‘partners’.

The Bank’s attachment with government can be seen in terms of full adherence to guidelines and rulings by relevant authorities such as Bank Negara Malaysia (BNM). Several meetings have been conducted with BNM in updating the current regulatory requirements. Apart from that, BNM will conduct audits on the Bank and whenever assistance is needed by BNM, the Bank is willing to offer full support and cooperation.

Table 2: Partnership Management

Partners	Initiatives
Government	<ul style="list-style-type: none"> - Full adherence to BNM guidelines and rulings - Regular meetings with BNM - Encourage government to have placements in the Bank’s deposit - Developed a new financial product with Ministry of Defence for armed forces personnel
Employees	<ul style="list-style-type: none"> - Attractive remunerations, benefits and incentives - Extending benefits to family members - Creating conducive working environment
Local Community	<ul style="list-style-type: none"> - ‘Masih Ada Yang Sayang’ programme

In encouraging staff to remain dedicated and committed, the Bank offers an attractive remuneration package including incentives and benefits, not just for employees but also to family members. For example, medical benefits are extended to family members and cash rewards paid out to staff children that have achieved excellent results in their examinations. Furthermore, the Bank has also created a conducive working environment through the provision of the best facilities for staff. However, the management also believes that working environment is more than just a desk, a chair and a computer but also depends on communications and relationships among the staff.

In managing the relationship with the local community, the Bank expands its corporate social responsibility by providing social welfare needs and services to poor families and orphanage institutions. There are many activities held which involve the community such as the ‘Masih Ada Yang Sayang’ (There are those who still care) programme. This is a yearly

programme held in the Islamic month of Ramadan in which the Bank selects and aids the one-hundred most needy families throughout Malaysia to celebrate the 'Eid-ul-fitr'.

The core business of the Bank is therefore to promote equity and fairness in the distribution of economic assets for the betterment of society. The Bank acts as a vicegerent and steward of God's possessions and thus, the management of other stakeholders is as important as making profit. The decision making process in allocating resources is not just focused on serving the interest of shareholders but also serving the interest of other stakeholders such as government, employees and the local community. Furthermore, the distribution of wealth to the stakeholders is made based on the *amanah* (trustworthy) principle whereby equal and fair allocation ensures that everyone will get what they deserve.

Value Creation

The value creation element is the core variable of the NAFMA Framework assessment as it determines whether the application of management accounting creates value for the organisation. Value is built not just by focusing on accounting numbers alone but also by concentrating on economic analysis of productive processes, sales and customer profitability and the value of employees and assets, both tangible and intangible (Sulaiman et. al., 2005).

The role of management accounting is critical in enhancing the real value of the Bank as it provides several benefits to the Bank especially in terms of cost control and management and reduction of waste of resources in business processes. Hence, the Bank applies management accounting techniques in its day-to-day business processes and decision making, such as budgeting and budgetary control, segmental profitability reporting, value chain analysis, risk management and benchmarking. These are summarised in Table 3.

Table 3: Management Accounting Applications

No.	Techniques	Purpose	Benefits
1.	Financial Statements and Ratio Analysis	To ascertain the financial health of the Bank on monthly basis To keep the Board of Directors informed of the performance of the Bank	The ratios are used as performance indicators and hence as a benchmark tool
2.	Segmental Performance Reporting	To provide useful information on performance by business units, branch and product	Enable informed decision-making on product allocation policy Detailed information on business units and branch performance
3.	Budgetary Control	To monitor the Bank's actual performance and immediate action to be taken for short and long term improvement	Ascertain the business strategy, annual operation and strategic planning
4.	Productivity Analysis	To monitor performance of the Bank between specific periods To gauge performance between other competitors on specific operational areas	Track the performance of a product within specific operational areas
5.	Trend Analysis	To identify any changes in performance trends of a product	Facilitate decision-making that would maximize profitability of the Bank
6.	Value Chain Analysis	To separate the business system into a series of value-generating activities	Provide better understanding of the activities through which the Bank develops a competitive advantage and creates value
7.	Benchmarking	To compare the Bank's performance to market / competitors	Enable the Bank to develop plans on how to make improvement or adopt best practice
8.	Total Quality Management	To encourage staff to get involve in quality improvement activities To identify and solve problems that are related to working together	Facilitate enhancement of the competitiveness of the Bank
9.	Risk Management	To balance risk and desired level of return To identify, measure and manage risks	Support strategic and business planning Fewer shocks and unwelcome surprises

Islam teaches individuals to be excellent in every aspect of life and at all time. Hence, in the case of conducting business, managers and employees should uphold excellence in every single thing they do and they have to ensure that the value will be maximised which means, providing the best value-added service or product to the key stakeholders. Therefore, it is the responsibility of each staff member to pursue perfection or excellence in whatever job they do. It applies to any constructive activity or work such as controlling and managing costs, improving assets quality and managing risks of the Bank. Every endeavour of creating value to the Bank will be complemented with the *ihsan* (excellence) principle. This principle will guide staff to act according to the God's will as the true meaning of *ihsan* is doing job seriously as if they see God, and even though they do not see Him, they undoubtedly believe that He is constantly watching over them.

Furthermore, in making decisions on specific issues related to value creation of the Bank, the principle of *shura* has always been practiced. For example, in preparing budgets, *shura* plays an important role. Everyone, including lower level, staff is encouraged to participate in budget setting and thus will result in a participative budget. This is to ensure that the decision is made collectively and that everyone will be responsible for the final decision. Moreover, with *shura*, it will provide an opportunity for others to express opinions and hence, lead to a more considered decision.

Business Results / Performance Measurement

The element of business results / performance measurement in the NAFMA Best Practice Framework focuses on the application of the various management accounting techniques and their implication for business results and organisational performance.

Based on the Financial Institution Rating (FIR) made by Rating Agency Malaysia Berhad (RAM), Malaysia's premier credit rating agency, the Bank is credited with offering a high level of security for the timely payment of financial obligations. This level of rating indicates that the Bank has a sound credit profile and has no significant financial problems. The rating is based on a high liquidity asset ratio which of 59.8% as at the end of the financial year December 2007. RAM noted that this ratio was the highest among local commercial banks.

Furthermore, for capital adequacy, the Bank's overall Risk Weighted Capital Adequacy Ratio (RWCAR) was maintained at 13.6% and this ratio was well above BNM's minimum requirement of 8.0%. This is strengthened by the Bank's enlarged capital base following the issuance of preference shares and Islamic Sub-Bonds. In general, the Bank's capitalisation is adequate in respect of its asset quality and expected business growth. This stable ratio is a direct result of stronger risk management approaches from the Bank in integrating the control and optimisation of the principal risk areas of market, credit and operational risks.

In terms of profitability, the net financing margin had improved from 2.21% in 2006 to 2.29% as at end of 2007. Furthermore, the financing to deposits ratio had edged up from 42.21% as at the end of 2006 to 47.19% as at the end of 2007. This shows that, the amount of financing is sufficient to cover the deposits. All these were achieved through the expansion of its commercial banking business by setting up five specialised centres throughout Malaysia. These will permit the Bank to leverage its branch network to provide a more personalised customer service.

Indeed, improvements in Bank performance are attributable to the continuous application of management accounting techniques and several initiatives that have created value for the Bank. One of the improvements that the Bank has adopted is better synchronisation of internal (management) and external (regulatory body) reporting through efficient control processes which have resulted in timely reporting.

As an Islamic organisation, the Bank's roles and responsibilities are not only focused to the financial needs of various stakeholders, but importantly on how it conducts the business, and the measures used in order to make sure that all activities are in line with *Shariah* requirements. Thus the measurements used should be based on the Islamic code of ethics towards the objective of achieving *falah* (success), not only in business activity but also in creating a balanced and just society. The performance indicators set by the Bank are based not only on financial, but also on non-financial measures, such as conformance to Islamic ethics and values. For example, *Al-Falah*, a performance measurement indicator for the staff covers both their productivity and the ethical values they have exhibited in achieving their goals. In order to translate strategies into action, management first characterised strategies as an integrated set of objectives and measures,

forming key performance indicators (KPIs). Every staff member was given both group and individual KPIs, and their performance was measured based on these KPIs. However, staff were only evaluated as being ‘excellent’ if they had achieved perfect target financial goals, as well as practicing *amanah* (trustworthy) and *ikhlas* (sincerity) in performing their job. Thus, in evaluating a staff member’s ethical values in performing their work, there will be peer assessment as well as a superior officer’s appraisal. For the Bank, ‘how did you achieve’ is as important as ‘what did you achieve’ as had been indicated by the Prophet Muhammad.

*‘Allah does not look at your appearance or your possessions; but
He looks at your heart and your deeds’*

(Narrated by Abu Hurairah)

Corporate Social Responsibility

Corporate social responsibility (CSR) from Bursa Malaysia’s perspective is determined not by how a firm spends money, but how the firm makes money. CSR also is not just concerned with giving back to society, but also with receiving from society in terms of attaining competitive advantage. In addition, it also involves cultural transformation in a company as it integrates corporate social responsibility concepts into its operations and decision making.

The Bank had embarked on several programmes for the community in its range. Every year, in the month of Ramadan, the Bank and the entire Bank’s staff are encouraged to contribute, whether by cash, household items or clothes to needy families in the local community through the “Masih Ada yang Sayang” scheme, as discussed above, and recently extended to the branch level across Malaysia. In 2007, the Bank also made a significant contribution to the flood victims in Johor and Pahang; the main objective of the donation was to provide in-kind assistance and essential items for victims at the various relief centres.

Zakat (alms giving) is obligatory to all individuals and organisations. Similarly, the Bank is also required to pay business *zakat*. Therefore the Shariah Advisory Council had agreed to establish a special committee namely ‘Jawatankuasa Tabung Mawaddah’ (Mawaddah Fund Committee) which is responsible to manage and distribute Bank’s business *zakat* to the people who are eligible to receive *zakat*.

The concept of CSR is therefore a natural commitment by an Islamic bank and has been well practiced by the Bank. The Bank always takes into prime consideration the social implications that may be brought about any decision or action taken by the Bank. Apart from that, the Bank is also responsible in distributing economic assets for the good of society at large. This is in line with God's requirement to do *infaq* (spending to meet social obligations) as stated in the *Al Quran*,

'And fear Allah as much as you can, listen and obey and spend (infaq) in charity for the benefits of your own souls. And those who saved from the covetousness of their own souls, they are the ones who achieve prosperity'

(At-Taghabun 64:16)

Furthermore, the Islamic value of *ikhlas* (sincere and pure) has always been practiced by the Bank in rendering corporate social responsibilities initiatives to the society. All endeavours in pursuing social duty to the community do not have to be justified by material return and all are based on purity of intention to fulfil the duty as a servant of God. Profit is not the main objective but uplifting the social condition of the community is the utmost important goal.

CONCLUSIONS

Accounting practice is influenced not only by economic variables, but also institutional, political and cultural environments. The dynamics of accounting practice might be better understood by analysing how players behave in Organisations, according to the norms, values and beliefs of the organization (Guthrie & Parker, 1990; Baker & Bettner, 1997). This present study is not the first to incorporate non-financial performance measurement as an assessment tool in a banking context: Hussain and Gunasekaran (2002) and Hussain (2003) both reveal that uncertainty of economic conditions pressure the management of banking and financial institutions to seek survival, forcing management to think more in terms of long term success, establishing a strategy in which non-financial performance measurement becomes important.

Islamic values applied together with modern management accounting practices (as promoted by NAFMA and IFAC) have been successfully practised by the Bank in achieving its goal of remaining a strong, progressive and modern Islamic Bank, offering innovative, quality and competitive products and services. The Bank does not solely depend on management accounting techniques to improve its performance but virtuous Islamic values are applied throughout to ensure the spiritual aspects are also satisfied. For the Bank, every activity and transaction must be carried out in a perfect manner and with an *itqan* (perfect quality) level of work, following the Islamic values promoted by Prophet Muhammad. In addition, the Bank's staff are also encouraged to uphold *ihsan* (excellent) in every single thing they do.

The measurements used are not just based on quantitative indicators but also on qualitative Islamic ethical values such as *amanah* (trustworthiness) and *ikhlas* (sincerity and purity) and with the faith in Allah. This is in line with the proposition of Shahul Hameed et al. (2004) in enhancing performance measures for Islamic banks which incorporate and embrace compliance with *Shariah* principles as well as practising the Islamic code of ethics throughout the organisation. The core business of the Bank is therefore to promote equity and fairness in the distribution of wealth for the betterment of society. This is in line with the Islamic principle that as *khalifah* (vicegerent on earth), so that the Bank has to take care of society's needs and allocate resources fairly.

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