

# NURTURED BY 'KUFR<sup>1</sup>': THE WESTERN PHILOSOPHICAL ASSUMPTIONS UNDERLYING CONVENTIONAL (ANGLO-AMERICAN) ACCOUNTING

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*Conventional Accounting parades itself as an objective, value-free technical discipline which provides information to shareholders and creditors to enable them to make informed decisions. This is supposed to result in efficient allocation of resources in the economy leading to social welfare (AAA, 1975). Any infusion of normative values (such as Islamic religious values) is thus taken as unwarranted interference of a metaphysical discipline in the realm of social science, which we are told can only make accounting biased and unscientific (Watts & Zimmerman, 1986). The critical and social accounting literature (e.g. Gray et al., 1996; Tinker, 1985) confronts this posture and seeks to introduce some 'subjectivity' and humanity into accounting by recognizing its ill effects on society and the environment. However, these two schools themselves being based on the Western secularist paradigm cannot address the root problems of accounting, especially from the Islamic paradigmatic perspective. This article seeks to discover and relate the underlying philosophical assumptions (which are considered by the author to be unIslamic and hence kufr) and to relate this to the framework of conventional (Anglo-American) accounting.*

## 1. Introduction

Behind the facade of accounting as a purely technical subject, lies a reality in which accounting and society are intertwined in a complex relationship (Burchell et al., 1980). Accounting creates social reality (Hines, 1988) and in itself is influenced and moulded by society (or the dominating forces within it). This is not readily apparent to users, even accountants, who unfailingly advocate its technical neutrality. Until recently, this was echoed even in academic circles, which tends to be dominated by a positivist epistemology in mainstream accounting research especially in the USA. Within this approach, accounting is studied for its causal relationships; *what is* instead of *what ought to be* and for the purposes of predicting and projecting profitability and cash flows (Watts & Zimmerman, 1986). This has given rise to a whole discipline of finance and financial markets and fund management, which has become basically a speculative activity- a popular post-modern game in hyper-reality (McGoun, 1997).

This positivist tendency of accounting to be used for justifying speculative financial activity, for example, in the case of the mergers, acquisitions and privatisations (Briloff, 1990; Arnold & Cooper, 1999) has serious consequences for any society, Islamic or otherwise. Academic circles in the West have realised this tendency and its dire consequences for society. Hence, a discourse on the critique of conventional Anglo-American accounting has developed which takes a more comprehensive view of accounting in relation to its role in society. Various accounting journals sprang up in the late 1970's and 1980's such as Accounting, Organizations and Society, Advances in Public Interest Accounting, Critical Perspectives on Accounting and the Accounting, Auditing and Accountability Journal which provided a broader gateway for alternative types of accounting research.

## **2. The Problem: The Globalisation of Anglo-American Accounting in Diverse Cultures and Environments**

A number of researches have so far indicated that there is a relationship between accounting and culture (Gray, 1988; AlHashim & Arpan, 1992; Perera, 1989). This has given rise to the question whether the “Western” Anglo-American accounting (from here on referred to as conventional accounting) theory and practice is the appropriate system to be accepted without question by all other cultures and people of the world (Wallace 1990a). Initial research (e.g. Hove, 1986) has indicated that it is not, although the extent to which Western accounting is relevant or otherwise is a matter of debate (Baydoun & Willet, 1995). The implication seems to be that one idiosyncratic system of accounting cannot be transplanted into another cultural environment to take root in that culture without causing dysfunctional effects on the host culture and society.

Despite this, in recent years, there have been pressures<sup>1</sup> on developing countries with different cultures, religions, social, business and political environments to adopt the conventional accounting principles and standards. Consequently, their underlying philosophy is adopted without any or with negligible modification in the name of globalisation. These ‘pressures’ have been in the guise of; (i) Harmonisation of international accounting standards by the IASC (Taylor, 1987; Wallace, 1990b), (ii) the operations of multinational audit firms and their clients the multinational corporations, and (iii) the professional education imparted through the examination and qualification exporting accounting bodies of the UK e.g. ACCA and CIMA (Briston & Kedsle, 1997).

However, the spread of “Western” consumerism (Ahmed, 1992) and capitalism over the globe is not without its opponents. The resurgence of religion especially Islam in Muslim societies, questions the socio-economic values of Western capitalism and attempts to reintroduce and further develop its own socio-economic system in line with its own worldview. The author considers that the Islamic economic system needs an alternative accounting system that represents the Islamic perspective. This would provide appropriate information, which hopefully would induce user behaviour consistent with the Islamic worldview. The case for such an “Islamic Accounting” would be strengthened, if it can be shown that conventional accounting operates from a framework of values, which are inconsistent with Islamic values. This would explain (at least partly) why conventional accounting is not appropriate for Islamic organisations and users who operate on a different paradigmatic level. This research is an attempt to uncover this framework by a critical re-examination of the principles, norms, objectives and normative values which underlie conventional Anglo-American accounting.

## **3. Worldviews, Values and Their Impact on Economic Objectives, Norms and Accounting**

A worldview (*weltanschauung*) can be thought of as the set of implicit and explicit assumptions about the origin of the universe and the nature and purpose of human life (Chapra, 1992). The worldview controls the “nature of man’s reflections on almost any subject” (Chapra, 1996, p 6). Differences in world-view can lead to differences in economic values and norms, which in turn affects accounting.

According to Haralambos & Holborn (1995), values are beliefs that “something is good and desirable” (p5). Values define what is important and consequently what is worth striving for. Norms, on the other hand, are the guidelines that guide conduct in particular situations. Norms are said to define “what is acceptable and appropriate behaviour in particular circumstances” (ibid, p5).

It can thus be seen that the three terms namely the worldview, values and norms constitute the thought/ behaviour interface. Worldview is at the most general level, values at a more detailed level and finally norms at a very detailed, specific level. Every society has a shared worldview, norms and values, which give it its distinctiveness and cultural identity and delineate it from other societies and cultures. The group, which shares this cultural identity, could be of national, regional, ethnic or linguistic origins. However, when similar norms and values transcend

geographical, linguistic and even ethnic boundaries, the society tend to become a civilization, even if these linguistic, ethnic and geographical traditions remain intact among the group sharing this 'civilizational' identity.

The author differentiates two civilizations here, the Western (Anglo-American/Western European) and Islamic<sup>2</sup> civilizations. The differences in the worldviews, values and norms between the two civilizations are in part due to their sources. The West takes its values from philosophical thought<sup>3</sup> although it cannot be denied that Western values have been influenced by Judeo-Christian religion (Russell, 1995). Despite this, however, 20<sup>th</sup> Century Westerners seem to be moving away from religion (Ashford & Timms, 1992). On the other hand, Islamic civilization sources its values from its religious scriptures, the Qur'an and Sunnah, although the Muslim society has not been immune to Western philosophical developments and influence e.g. the influence of platonic and Aristotelian thought on early Islamic theology lead to the develop of "Kalam".

In recent times, for example, these influences have been through the media agencies such as e.g. CNN, BBC, Sky, etc. have an overwhelming penetration in Asia and their viewers do not have matching quality of local media. So, their people are exposed to Western images, thought processes and advertising, which all work at a subconscious level day by day.

A caveat is in order before discussing the Western worldview and values. The author recognises that like other societies, Western society is not monolithic and homogenous but reflects a continuum of values. For example, individualism and consumer culture prevails in most parts of the USA, a more communitarian approach is recognised in, for example, the Rhine model of capitalism in Germany and other parts of continental Europe, where maximisation of profits and shareholder wealth is not the main objective. The former Warsaw pact countries were at least until recently more socialistic in approach. The study by Ashford & Timms (1992), for example, indicates wide disparities among respondents in Western European countries surveyed regarding attitudes to religion, politics and other social matters.

Nevertheless, certain fundamental beliefs such as democracy, materialism, secularism and utilitarianism still pervade Western values and thought and can be considered root metaphors of being 'Western'. Haralambos & Holborn (1995), for example, note that materialism and individual achievement have been suggested as major values in Western industrial society. The notions of democracy, liberalism and secularism are some of the values, which underlie Western society and in turn affect economic behaviour and accounting. Other values include individualism, consumerism and empiricism. Certain newer values such as environmentalism, pluralism and gender equality are becoming more mainstream, but cannot, as yet, be considered core values and therefore will not be discussed.

#### **4. The Western Worldview**

The author considers the Western Worldview as a basically materialist worldview, in that it is mostly sceptical towards the concept of life after death. Even when there is a belief in God or a spiritual being, it does not seem to influence economic or political behaviour to any great extent. Thus, religion to the Occident:

**".....means a way of spending an hour or so on Sundays in practices which give him some support and strength in dealing with the problems of daily life, and which encourages him to be friendly towards other persons and to maintain the standards of sexual propriety<sup>4</sup>; it has nothing to do with commerce or economics or politics or industrial relationships....or may even look upon religion as an opiate developed by exploiters of the common people in order to keep them in subjection".**

**(as quoted in Haneef, 1997)**

Church attendance in the UK is on a steady decline. The successive scandals about the clergy results in a sense of foreboding in the British public. So, spirituality is sacrificed.

A more atheistic materialist Western view (e.g. Marxist) would hold that “matter is the primordial or fundamental constituent of the Universe, which is not governed by intelligence, purpose or final causes” (Chapra, 1992, p22). The consequence of this worldview is that material wealth and sensuous pleasures become the greatest values one could seek or attain. This in turn becomes the basis for the increasing commercial consumer culture in economics and shareholder wealth maximisation concepts in accounting.

#### **4.1 Democracy and Popular Sovereignty**

According to Held (1996) democracy means “a form of government in which, in contradistinction to monarchies and aristocracies, the people rule” (p1). The word is derived from the root Greek words *demos* (people) and *kratos* (rule). Democracy is said to have developed in the classical model in Athens around 500 BC.

Although Greek Philosophers developed the ideals of freedom, equality, respect for Law and Justice, democracy developed into the modern form through the social contract theories of Hobbes, Locke and Rousseau and ended up in the modern liberal form through the writings of John Stuart Mill. (McClelland, 1996)

John Locke’s (1632-1704) work is perhaps the most important for understanding the construction of the modern liberal economic state. His political philosophy was based on the laws of Nature, which reason and experience suggest (according to him) will provide the best practical policy for governing human communities. While Hobbes (b. 1588) had justified strong leadership as necessary to control the natural wild solitary and competitive state of man, Locke argued that man had a natural tendency to form contracts (which eventually took the form of moral laws) with his fellows for survival. He thus advocated that government was only legitimated by a social contract - a constitutional government with a separation of powers, between legislature, the executive and the judiciary (McClelland, 1996).

Although Held (1996) describes the various types of democracies, these will not be discussed here, as the importance of the democratic values in this research is not in the political sphere but the concept of popular sovereignty implicit in democracy (Hirst, 2000).

The concept of popular sovereignty holds that the people are the ultimate legislator or source of ultimate authority. Since most Western states are democracies, the sole legislative prerogative of the “Western” people implies that people are the source of all morality, norms and values that find their way through the legislature into the regulation of economic and social sectors of the community. This can be compared to other systems in which sovereignty belonged to the King (e.g. in 16<sup>th</sup> Century France) or a God-King (in China or Japan) or God Himself (as in Islam).

Since values in modern states tend to be prescribed or proscribed into Law, the concept of popular sovereignty in a democratic set-up has major implications for economic norms, regulations and laws, which in turn have direct implications for accounting.

Democracies are dependent on transparency. Vital information can and is often withheld by the powerful e.g. mad-cow fiasco in the UK. The UK professions (law, medicine, accountancy, Lloyds of London, etc) have a Royal Charter and so Courts of Law do not have jurisdiction. Secondly, the UK professions are self-regulatory and so they are infested with fears and favours redolent of feudalism. The Chief Executive of ACCA does not have an accountancy qualification. Those proposing reform to ACCA’s proxy vote system are parodied (Refer to Professor Prem Sikka’s efforts to make ACCA more transparent and accountable). If chartered professional bodies feel their income stream may be affected by their members, that is dealt with by disciplinary proceedings on tenuous grounds. So, reform by UK accountants of UK accountancy bodies is inhibited.

## **4.2 Individualism, Liberalism and Utilitarianism**

The appeal to a naturalistic conception of justice and law in the social contract developed into liberalism and individualism. According to Macpherson (1962), the roots of the liberal democracy is to be found in the liberal **new** belief in the primary moral value and the rights of the individual i.e. individualism of the 17th Century. Thus:

**“Whether the individualism of the 17th Century is deplored as undermining the Christian natural law tradition, or applauded as having opened new vistas of freedom and progress, its importance is not disputed. Nor is doubted that individualism has been an outstanding characteristic of the whole subsequent liberal tradition. Individualism as a basic theoretical position, starts at least as far back as Hobbes.”**

**(Macpherson, 1962, p1)**

Individualism was partly influenced by Kant (1724-1804) who considered that individual human beings are ends in themselves. Persons are owed respect for their autonomy, which is protected by inviolable rights. Individualism also presents itself in the guise of the importance of individual achievement, such as coming out top of the class. According to Haralambos & Holborn (1995), this individual achievement is often measured and symbolised by the quality and quantity of material possessions. This can also be seen as the basis for the rat race and cutthroat economic competition.

This individualism later gave rise to liberalism. The liberal tradition states that there are “radical and irresolvable differences over what the good for the human beings is and what their ultimate nature is thought to be” (Plant, 1991). Hence, there are no foundations to guide the West on the ultimate nature of good and bad. Therefore a communitarian conception of politics i.e. a state or society built on the basic virtues is impossible. Thus Ackerman (1980) argues that:

**“Liberalism does not depend on the truth of any single metaphysical or epistemological system....In order to accept liberalism, you need not take a position on a host of Big Questions of a highly controversial character”.**

**(Ackerman, 1980, p361)**

Hence, in the liberal democracy, the community agrees to disagree on basic values, which leads to moral pluralism i.e. that there are many equally worthwhile values and ways of life, which are incompatible with each other. Another form of individualism is influenced by classical utilitarianism put forward by Jeremy Bentham (1748-1832) that prizes the human capacity for pain and pleasure. According to Bentham, man in his political and economic relationships was and should be treated as a calculator of his own interest, and that this calculus exhausted his nature. “**Utilitarianism** is at bottom only a restatement of the individualistic principles which were worked out in the 17th Century” (Macpherson, 1962, p2).

According to Honderich (1995), “Utilitarianism is a moral philosophy which treats pleasure or desire satisfaction as the sole element in human good” and the “morality of actions entirely depends on consequences or results for human well-being. It discards religious traditions and social conventions in treating human well-being or happiness as the touchstone for all moral evaluation. In its earliest form, utilitarianism is a hedonistic doctrine i.e. treating pleasure and pain as the sole good things in human life” (p 890).

Benthamite utilitarianism led to excesses in individualism as it expounded a narrowly selfish and narrowly rationalistic doctrine. John Stuart Mill attacked it as a perversion of the fundamental liberal insights of an earlier tradition. The suggested solution was to bring back a sense of moral worth of the individual and combine it again with a sense of the moral value of the community.

The many attempts to 'repair' individualism such as that of idealism and pluralism ran into serious difficulty according to Macpherson (1962). He propounds the theory of 'Possessive individualism', which he states is the underlying unity of English political thought and the persistent and deep-rooted assumption of liberal democratic thought. This 'possessive quality' was the concept of the individual as essentially the proprietor of his own person or capacities, owing nothing to society for them. The individual is neither a moral whole nor a part of a social whole, but as an owner of himself. Freedom from dependence on the will of others is a function of possession. Society consists of relations of exchange, which are undertaken voluntarily between proprietors with a view to their own interest. "Political society is a human contrivance for protection of the individual's property in his person and goods and for the maintenance of an orderly relations of exchange between individuals regarded as the proprietors of themselves i.e. a series of market relations" (Macpherson, 1962, p264). In my opinion, this implies that the role of government is restricted to facilitating economic activity so that people can accumulate material wealth instead of promoting equitable distribution of wealth or spiritual values.

### **4.3 Empiricism**

Empiricism is a philosophy of knowledge, which claims that the body i.e. the senses, is what brings us in touch with the world of external reality. Thus, knowledge is only attainable by perception of the senses through scientific observation and experiments. Reason alone or Revelation cannot be a source of knowledge. Lock's philosophy became the first comprehensive exposition of empiricism, which was itself a spin-off of earlier scepticism and later elaborated by Berkeley (1685 –1753) and Hume (1711-1776).

Hence, the study of cause and effect relationships in natural phenomena was henceforth to occupy pride of place in research and knowledge acquisition. However, the empiricists went overboard on extending this to social sciences and ethics, where complex human interrelationships require critical or interpretative enquiry, which require value-based interpretations. The realist ontology of empiricism also led to a realist construction of ethics. For example, Hume believed that morality was a wholly human construction governed by human nature and not by a higher authority (Russell, 1995).

However, Hume's distinction between ideas and impressions (perception of patterns in our experience), and his admission that it is uncertain whether impressions arose immediately from the object or perceived by the creative power of the mind, led to more uncertainty and a feeling of more unreality. This is the exact opposite of what science is supposed to achieve; certainty and fact rather than belief and superstitions. The extension of empiricism to ethics in the contemporary postmodern scene, marked by an 'incredulity towards metanarratives' (Lyotard, 1984) has led to ethical relativism and moral pluralism.

Empiricism became the foundation of modern social science, which together with utilitarianism drives much mainstream positive accounting research and practice. It is also the reason for a preference to a positive economic and accounting theory (Watts & Zimmerman, 1980) rather than normative, value based ones.

### **4.4 Secularism**

Scientific discoveries during the renaissance, such as the heliocentric theory by Copernicus, went against the beliefs of the Roman Catholic Church, which by that time was deeply involved in politics. These discoveries were considered heretical and the Church started to persecute the scientists using the Inquisition, for example, Galileo (1564-1642) who had publicised Copernicus's work. However, according to Russell (1995), "The Inquisition was successful in putting an end to science in Italy but it did not prevent men of science from adopting the heliocentric theory, and did considerable damage to the Church by its stupidity" (p 520).

This tussle between science and religion (represented by the teachings of the Church) led to the eventual cessation of religious control (and even influence in) of politics and society in the West. The secularisation and separation of politics from religion and morality began with the writings of Niccolo Machiavelli (1469-1527), who had studied the mechanics of political power as a subject beyond, if not exclusive of, moral doctrine. He put forward a new kind of political theory basing it upon experience of history rather than any moral or abstract principles. Governing, could henceforth be justified by the end, notwithstanding the means used to achieve it. Thus, Machiavelli was clearly an early modern liberal' who liberated the ruler from responsibility to God and ethics.

Francis Bacon (1561-1626) championed the inexorable rush towards the values of scientific reason and weakening the dominance of theology and authority of scholasticism. According to him, it is only through reason that men can hope to understand and control the laws of nature, knowledge was power, and theology should be separated from philosophy. Practical affairs rather than moral speculation should drive the latter.

Secularisation was perhaps a thrust to the decay of Christian doctrine in the European mind and led to the separation of Science and Religion. The latter came to be seen as an inhibition to reason, experimentation and free enquiry and a force for indoctrinating false beliefs. Thus:

**“The power of the Church was gradually corralled into the religious sphere; the influence of religion increasingly limited to the realm of private conscience. As a result, the speculation of the theologians, scientists and philosophers, the work of artists and writers, and the policies of the princes were freed from the control of a Church with monopoly powers and ‘totalitarian’ pretensions”.**  
(Davies, 1997, p471)

The prime quality of the Renaissance was ‘independence of mind’ which meant that a person no longer needed God or religion to guide or authorise him to believe, know or taste in certain ways. Humanity was now capable of mastering the world. In the first phase the Church and its authority (and tradition) was dethroned but God still sat on His throne but became less active in man’s affairs. Man gained self-confidence and could now use God-given ingenuity to unravel the secrets of God’s universe; man’s fate could now be controlled and improved. Secularism also gave birth to biblical criticism as a scholarship and eventually led to scepticism of religion as a whole (not only Christianity and the Church), which meant the loosening of the bond between religious based beliefs, and individual, economic and social action.

Secularism had a profound effect on Western thought and on economic behaviour, as these were now freed from moral constraints of religion and economic behaviour was only restricted by man-made laws.

## **5. Capitalism, Economic Norms and Accounting**

Capitalism, along with double entry, the essence of modern accounting, is said to have started in 13th Century Italy.<sup>5</sup> During that time, several rich city-states developed in Italy, i.e. Venice, Florence and Genoa as a result of the interchange of trade and culture between Europe and the Islamic /Byzantine empires. The trade became enormous, the cities importing the luxurious silk, spices etc. from the East and exporting handicrafts to the East. Commercial capitalism arose in Italy on a vast scale. Although usury was prohibited and scorned at by Christian Law, the city-states and the Papacy, due to commercial expediency, tolerated it. The inconsistency was argued away as ‘profit’ from loans because it was for productive purposes and not for consumption expenditure (Tawney, 1927). This led to the expansion of banking and trading houses and the banking system, which eventually spread to other parts of Europe in which agencies of these bankers were established.

When trade expanded with colonialism, conquests and scientific discoveries, new trading centres emerged in other parts of Europe in Antwerp, London, Paris and Rotterdam and lastly in Germany. The increasing trade and especially the later industrial revolution resulted in the establishment of joint-stock companies, firstly as Chartered

monopolies and later as publicly traded companies on a stock exchange. Whereas the large traders of the Renaissance age were European family companies, the new industries were owned in theory at least by many people but in reality controlled by a few.

Adam Smith (1723-90) who published *The Wealth of Nations* laid down the theoretical foundations of modern economic theory and capitalism. In this work he propounded the theory of the invisible hand of the market i.e. that self-interest and a free market ensures the good of the society. In his, *Theory of Moral Sentiments*, born out of rationality and empiricism of his age, Smith argued that people are naturally inclined to selfishness and that social co-operation was an insufficient guarantee for social harmony. He opined that the latter could only be achieved by ensuring that the interests to which men dedicated themselves, often selfishly, coincide with those that promote social harmony. On the positive side, Smith was highly critical of monopolistic privileges of aristocratic society. He proposed the liberation of the spirit of enterprise through competition and a free market and insisted that the function of government was merely to protect the free market from monopoly and privilege and was against state regulation of markets. Smith's ideas, together with utilitarianism, formed the basis of modern *laissez-faire* economic theory and were the basis of Thatcherism of the 1980's.

Different writers have defined capitalism differently. Saunders (1995) defines it as "a system in which individuals or a combination of individuals compete with each other to accumulate wealth by buying the rights to use land, labour and capital in order to produce goods or services to sell them at a profit in the market" (p 1). According to Giddens (1971), quoting Marx, "capitalism is a system of commodity production"(p 46). Producers do not produce for themselves or their families but for exchange in a national or international market (Giddens, 1971).

Weber (1992) differentiates capitalism from normal pursuit of gain and desire for wealth, which he says, has existed in most times and places. Western Capitalism, according to Weber, involves a regular orientation to the achievement of profit through economic exchange. This capitalistic endeavour is associated with routinised and calculated administration within a continuously functioning enterprise, disciplined labour force and regularised investment of capital. Further, according to this Western capitalism is foreign to traditional (non-Western) enterprise, as it could only be the result of economic rationality, which represented the *summum bonum* of (Western) protestant ethic of making more and more money. In the latter ethic, acquisition is the ultimate purpose of life (although Weber contends, without any eudamonic or hedonistic mixture), in the hope that material success would lead to election for salvation. This economic acquisitiveness according to Weber (1992) is the leading principle of capitalism.

Chapra (1992) notes five distinguishing features of capitalism:

- 1 Maximum production, accelerated wealth expansion and want satisfaction in accordance to individual preferences is of prime importance.
- 2 The ownership and management of private property are viewed as essential to secure the unhindered freedom to pursue pecuniary self-interest.
- 3 Assumes that individual initiative, combined with decentralised competitive free markets is sufficient condition for optimum allocative efficiency.
- 4 Minimised role (if any) for government or collective value judgements in allocative efficiency or distributive equity.
- 5 Claims that collective social interest is served by allowing the self-interest of individuals to reign free.



From the brief explanation of capitalism above, capitalism (and as discussed below Marxism) can be seen as the extension of the materialistic worldview. The secular values of democracy, liberalism, individualism and utilitarianism are incorporated in the capitalistic economic system. Accordingly they lead to certain economic behavioural norms. According to Haralambos and Holborn (1995), “many norms can be seen as reflection of values” and “a variety of norms can be expressive of single values” (p 6). Norms as stated earlier, are guidelines to acceptable and appropriate conduct in specific situations. Norms may be written as Law (e.g. safety regulations) or carry informal sanctions such as bodily disapproval. The Western values and the resulting capitalistic economic system lead to certain norms (some in the form of Laws). These include:

- Primacy of wealth and profits. Accumulation of wealth is the norm arising from materialistic and individualistic and utilitarian values. Profit maximisation or wealth maximisation is of primary importance and the *raison d'être* for organisations and individuals. The individual pursuit of material wealth is assumed to lead to optimum social welfare.
- The pursuit of individual self-interest is justified and made easier by unregulated markets. Only market prices determine allocation and distribution of resources. Therefore, there are no moral or value judgements in production or consumption of goods and services. Hence, although usury and interest were forbidden or restricted to low rates, as it was considered unjust in the past (Tawney, 1927), it is now justified as a just reward for the use of money and the rate is decided only by market forces.
- The sanctity of, and unrestricted rights to, private property. This includes the right to destroy the property (e.g. sheep slaughtered to increase prices) as well as to will it all away as one pleases even to a cat.
- Although there is an assumption of perfect competition and information symmetry and efficiency, in reality none exist. The common law legal maxim *caveat emptor* (buyer beware) reflects the value-less acquisitive philosophy. Consumers are supposed to be careful (as in the common law principle of *caveat emptor*). As long as sellers do not flaunt the law, they can get away with gross exploitation, as there is no need to disclose all the information about a product.<sup>6</sup>
- Consumerism is encouraged through marketing efforts to create demand for wants as opposed to needs, whatever their social or environmental consequences (as long as there is no economic cost to the entity). The only restriction on consumption is affordability and prices. Easy credit expansion and availability avoid even this. There are no value-based restrictions to consumerism (except perhaps the ethical investment and fair-trade movements). e.g. supermarkets have severely curtailed independent grocery stores, pharmacies and newspaper/confectionery retail shops.
- The promotion of competition is through prices and markets. Although, capitalism professes free markets and fair competition, the actuality is cutthroat competition (for example in the microprocessor industry) and the use of intellectual property rights to restrict new entrants (e.g. the case of Intel and Microsoft). Sometimes, prices are cut below cost to get rid of new competitors. The result is an oligopolistic market, where a few firms control an industry.
- Taxation and welfare benefits are frowned upon but accepted as the cost of maintaining the system. However, there is increasing pressure to cut social benefits and reduce taxation based on production and shift the tax burden on consumers through value-added taxation instead of income-based taxation. The previous state services such as education, health and utilities are increasingly being privatised and commercialised.

## **6. Marxism: A Reaction Against Capitalism.**

As the factories got bigger in industrial Europe, and wealth became more concentrated, the exploitation of the workers began in England and other European countries. The condition of the working classes led to several humanist and socialist philosophies of the 19th centuries including socialism and Marxism.

Marx was the opposite of Smith in economics. Marx propounded historical materialism. According to him, Man's production relations are the origin of all history. Economic, political, religious and social structures (supra structures) are all constructed around the form of production within which men are engaged. This is the basis of his economic determinism. All human history is materially determined and there is a constant class struggle between the rich and the poor, the bourgeois and the proletariat. Feudalism gave way to Capitalism as a result of conflict between the bourgeoisie and the landowners. According to Marx, Capitalism would eventually give rise to communism because of its internal contradictions. In Capitalism, the exchange value was separated from use value. It is only labour which gives rise to value. Capital resulted in the alienation of the working classes by the accumulation of surplus value to the capitalist, which should rightfully belong to labour. Once the working classes realised this, they would overthrow the capitalist. Although this did happen in Russia and China, dictators who oppressed and exploited the proletariat even more than their feudal and capitalist predecessors had hijacked the system. By getting rid of private property and in the absence of spiritual /religious values man had nothing to work for and nothing motivated them. Hence, the collapse of communism in the USSR and the rush to the free market by China.

Although Marxism can be seen as the reaction to capitalistic excesses, both economic systems can be seen as characteristically Western as both propound a material worldview. While capitalism consigns metaphysical/religious beliefs to the individual domain, Marxism view the belief system as the reason for the oppression of capitalism and feudalism and therefore must be thrown out of both society and individuals. However, despite its concern for the welfare of workers, its definition of welfare also coincides with capitalism i.e. material wealth. Hence, capitalism and socialism/Marxism aim at the same objectives, material welfare but only the means to achieve it are different. While capitalism does not concern itself with equitable distribution by insisting on the free operation of markets, socialism tries to control the production centrally. However, it is the same value-free materialistic man in the centralised planning committee of socialism. In the absence of material incentives or a moral filter (Chapra, 1992) corrupt ways of acquiring wealth by the proletariats' leaders is the result. The communisation of private property resulted in social instability and fall in production due to a lack of economic incentives. The result has been capitalism has unequally distributed wealth while socialism has equally distributed poverty.

Despite the apparent success of the capitalist system, it has resulted in many problems. The concentration of power and wealth in the hands of individuals and managers and the economic deprivation of many people even in the developed West has resulted in soul searching among even the rightist elements in modern liberal economic society. Friedman's (Friedman, 1982) philosophy that business has no social obligations beyond that of following the law and maximising profits for shareholders is rejected by people who are searching for something spiritual to motivate their society. For example,

**“I am concerned by an absence of a transcendent view of life and the purposes of life and by the prevalence of the economic myth, which colours all that we do. Money is the means of life not the point of it. There must be something we can do to restore our balance. We have allowed ourselves to be distracted by the false lures of certainty which are offered by the competing traditions of science, economics and religion...Economics offers material prosperity as the only universal goal, all else follows ineluctably, according to the laws of the market and the dictates of efficiency...our hearts revolt at the thought that our purposes should be so preordained in one way or another”. (Handy, 1997, p4)**

## **7. The Accounting Implications of Western Worldviews, Values and Economic Norms.**

Many accountants and users of accounting information think of accounting as a mere technical subject. They would therefore pose the question: what have the ‘true and fair’ values, which appear in the balance sheets of modern corporations, to do with society, culture, values, religion or civilization? The link between accounting and society can be seen if one were to define accounting as Roslender (1992) defines it, not as technical value-neutral subject but as a social institution. He therefore, includes in addition to the constituent parts of accounting such as financial and management accounting, the people who practise the art, the organisations in which they are practised, and the outcomes of accounting.

Thus:

**“In the same way that science and technology are as much about the ‘greenhouse’ effect’, or the search for geologically appropriate burial sites for ‘safe’ nuclear waste, so accountancy commonly involves lost jobs, restricted choices and reduced safety standards, all of which may, quite knowingly, make the world a much worse place today, tomorrow, forever perhaps”. (Roslender, 1992, p3)**

According to Burchell et al. (1985), accounting is “coming to be seen as a social rather than a purely technical phenomenon” (p 381). They opine that the ways in which accounting emerges from and itself give rise to the wider (social) context in which it operates is slowly being recognised.

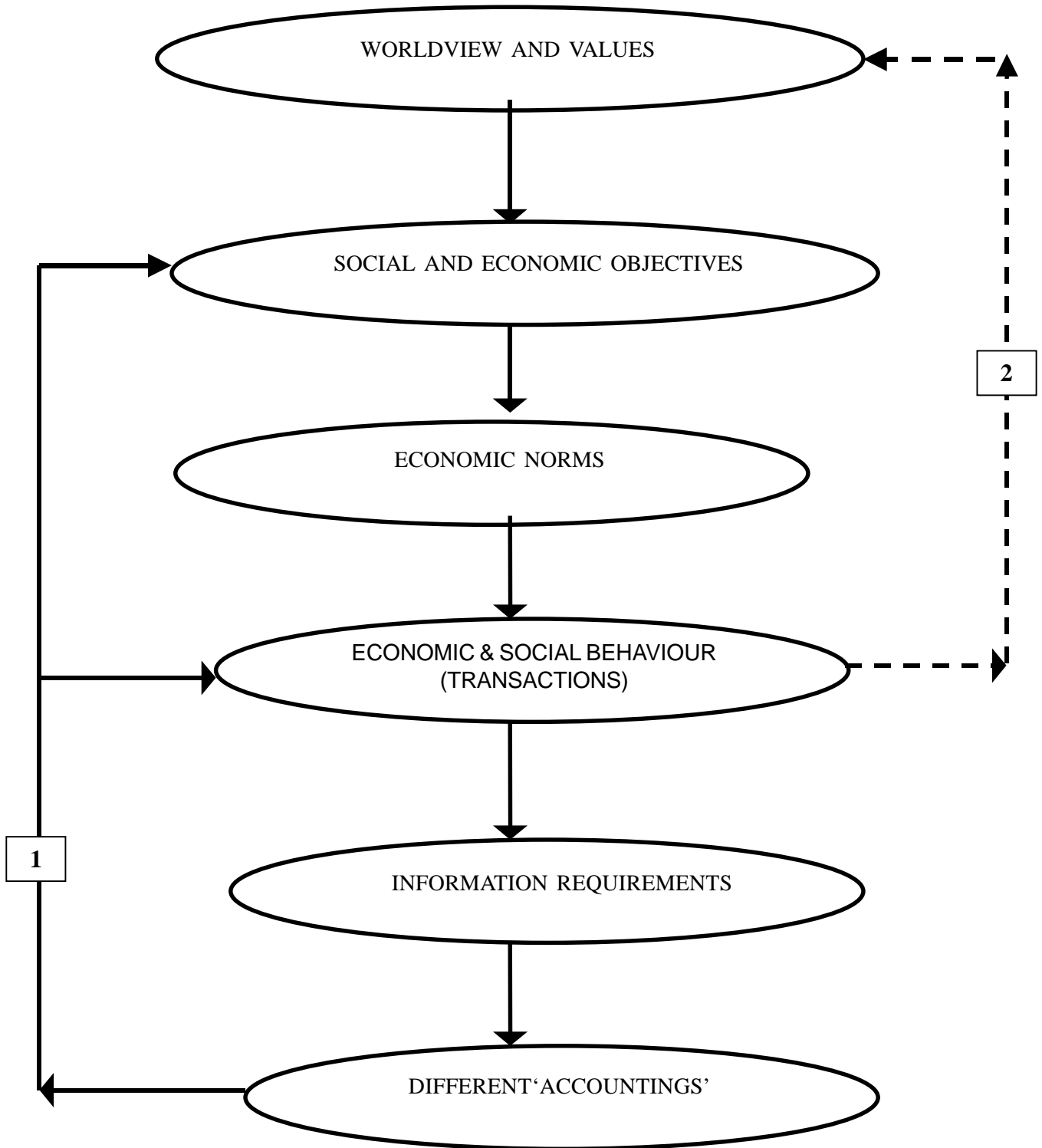
Hines (1988) views that reality does not concretely exist independently of the concepts, norms, language and behaviour of people. Although people create society, however, at the same time, their concepts, norms, language and behaviour become institutionalised. Hence, accounting both (i) reflects reality (or perceived reality) and (ii) through the rules by which accounting communicates reality (as in financial reporting) , itself constructs reality. Hence, accounting both affects and is affected by worldviews, values and perceptions of society.

The relationship of the worldviews, economic objectives, values and accounting is depicted in Figure 1. The author assumes that initially the worldview and values of the society (arising from religion or intellectual movements) give rise to its social and economic objectives<sup>7</sup>. The society then sets its economic norms and Laws accordingly, in an attempt to achieve these socio-economic objectives. These norms then regulate individual and collective social and economic life through transactional behaviour. When people associate and transact to achieve economic and social purposes, there are information requirements of both internal and external stakeholders to the various organisational set-ups because the process of organisation may involve separation of ownership from management of resources.

Accounting plays a leading role in providing this information. The transacting individuals, in order to control and guide the organisations (e.g. buying, selling shares or dismissing directors) act upon this information to achieve their social and economic objectives consonant with their worldview and values (Arrow marked 1).

However, if the accounting system used is one, which is infused with values alien to those of the host society, then the information it produces may result in incorrect economic behaviour. This in turn may result, in the long run, to a change or at least a compromise in its world-view and values (Arrow 2 in figure 1). This may lead to the achievement of different social and economic objectives, which may result in a change in the economic norms and laws to one, which is in line with the new objectives.

**Figure 1:THE SOCIETY / ACCOUNTING INTERFACE**



## **8. Impact of the Western Worldview and Values on the Framework of Conventional Accounting**

Modern corporate accounting is the result of the development of accounting in industrial and capitalistic environments. Tinker et al. (1982) observe that contemporary accounting assumes a marginalist economic theory representing a utility-based concept of value. They assert that individualism and 'objective' market price based on a utility-based concept of value is the result of a realist ontology of accounting in which an objective truth exists independent of the subject. They use a dialectical materialist epistemology of accounting to expose the partisan role played by accounting in social conflict rather than being objective and value-free as held out to be by positive accounting theorists.

Gray et al. (1996) are of the view that conventional (Anglo-American) accounting is justifiable only by reference to the conception of a 'pristine liberal economic democracy by which Western developed nations, especially North America, Britain and Australia, could be conceptualised' (p 15). Although the pristine form of the liberal economic democracy does not exist in these countries, these values, they opine are integral to the notion of contemporary Western civilization.

Arrington (1990), considers that accounting is implicated with the negative consequences of modernity through its orthodox rationality and its preoccupation with the search for an objective reality for its own sake. He suggests accounting knowledge should be based on solidarity i.e. that which is useful to the community.

Gallhofer & Haslam (1995) accuse the Benthamite (modern) accounting of focusing attention on profit in Western capitalistic economies, a focus that isolates corporate agency by expressing it in purely financial terms and which deflects attention from its social, economic and political consequences. An alternative post modern view is would conceive the accounting construct as an obsolete product of modernity which has lost all relationship to the economic reality it purports to represent. The only meaning left in annual accounts therefore, is the aesthetic signification, which vaunts the idea of **balanced accounts**, which complements the visual design of contemporary annual reports. They further consider that accounting as an instrument of the modernist project has subjugated human beings to the control of a discipline that privileges numbers in the construction of social reality.

From the above brief citations, it is clear that conventional accounting is the product of modernity and is value based. The result is that the objectives, characteristics and consequences of accounting reflect these values and norms. The materialist worldview and its related concepts of materialism, democracy, individualism, utilitarianism, liberalism and freedom, and empiricism and secularism leads to certain related economic norms. For example, (See figure 2) the materialist worldview and individualism give rise to the primacy of profits/ wealth and sanctity of private property to the extent that it can be disposed off in any manner (e.g. by destroying it or giving it by inheritance to a dog). The values of democracy and utilitarianism gives rise to consumerism and deregulated free market competition as sacred economic norms. Further, secularism and empiricism results in the absence of any religiously sanctioned moral norms in society (except those from abstract notions of natural justice). These economic norms (which are sometime legislated into legal codes) in turn reflect on the objectives and nature of conventional accounting.

For example, the primacy of profit and wealth leads to the conventional accounting objective of providing information for finance providers to make decisions, which will increase their wealth (the decision usefulness objective). The characteristics of objectivity, neutrality, historical cost, entity, going concern and monetary measurement are all geared towards the financial enrichment of shareholders and creditors even at the expense of damaging social and environmental consequences (a result of taking sanctity of individual freedom and private property rights to extremes). In addition the concepts and principles of conventional accounting also reflect the Western value and norms.

MacNeal (1970) , for example, considered that historical cost concept was the result of and appropriate for the increased used of bank debt financing in the Middle Ages, which is completely inappropriate today. Further, MacNeal (1970) trenchantly criticised the going concern theory and its consequent going concern values arguing that although a fixed asset may be carried for a long term, investors change during this period. Therefore, if investors were not given the market values, it would favour the insider who can buy up the shares, knowing the real values of the assets and rake in the profit at the time of realisation. This is tantamount to defrauding the previous shareholder who would have sold his shares for a value less than its worth. Since individualist, utilitarian values do not consider the equitable distribution of wealth, the persistence of the historical cost, prudence and going concern principles in conventional accounting may perhaps be attributed to these ‘Western’ values.

Further, the entity and monetary measurement concepts, by relegating the damaging effects on the social fabric and environment as externalities, means that accounting hides itself in the clothes of objectivity by not measuring these at all! As accounting itself creates reality by communicating it, it leads to certain behavioural consequences, which is in line with the materialistic utilitarian worldview of capitalism. These include competition, conflict and domination (Miller & O’Leary, 1987).

**Figure 2: THE LINK BETWEEN WORLDVIEWS, VALUES, ECONOMIC NORMS AND CONVENTIONAL ACCOUNTING FRAMEWORK**

WORLD VIEW & VALUE	ECONOMIC NORMS	CONVENTIONAL ACCOUNTING FRAMEWORK	
		Accounting Issue	Conventional Accounting Framework
Materialism	CAPITALISM Primacy of Profit and wealth	Objectives	Decision usefulness for investors and creditors; capital market orientation to be more money
Democracy	Deragulated markets Privatisation Consumer Sovereignty	Users	Market players and finance providers
Individualism	Sanctity of private property unrestricted disposal of property	Recognition	Monetarily measurable internal economic events
Utilitarianism	Consumerism	Measurement	Monetary, historic cost
Liberalism And Freedom	Market values Competition	Disclosure	All ‘material’ economic events
Secularism/ empiricism	Absence of religious sanction on political and	Objectivity/Neutrality	Value Fee Positivism

It can thus be seen that a worldview affects values, which in turn affect economic norms, and objectives and these in turn have implications for accounting. Different worldviews and values therefore should lead to different accountings. Hence, Islamic organisations operating under an Islamic worldview may need a different type of accounting (Islamic accounting). Under Islamic worldview, there would be a focus on different users, different objectives, different measurement and valuation, and different disclosure priorities (see for example, Khan (1994)). The author hopes to cover these in a subsequent article.

## 9. Conclusion

In contrast to the Western secular worldview, which is materialist, Islamic ontology presents a dual worldview, this world (universe) and the hereafter. What man does (in all areas) in this short life affects his prospects in the hereafter. Izetbegovic (1984) views the Islamic worldview as a distinct and unique paradigm, which is separate from the 'religious' worldview (represented by) Christianity and the secular worldview represented by the West. Therefore, in contrast to the wealth maximisation of conventional accounting, the Islamic worldview insists on the seeking of God's pleasure. Hence, an accounting system based on the accountability (rather than decision-usefulness) framework, which stresses the responsibility of the accountee to God and community in addition to investors, may be more suitable for Muslim users. Otherwise implementing the conventional accounting system in Islamic organisations may result in a mismatch between the objectives of the organisations and the tool by which their performance are reported.

Thus it can be argued that there may be real dangers to Islamic organisations e.g. Islamic banks, which seek to achieve the objectives of this worldview (*falah*), use conventional accounting to evaluate their results. It is feared that conventional accounting with its Western values inherent in its objectives, disclosure and valuation principles, will mislead users as the reality created by accounting is a materialist reality of profits rather than the social welfare, justice and equity measures which should be the mainstay of an "Islamic accounting" system. In addition to thwarting the objectives of the Islamic economic system, the behavioural consequences on individual Muslims may also be negative as it may cause them to behave materialistically forgetting their ultimate salvation in the hereafter.

## Notes

<sup>1</sup> *Kufr* literally means to 'cover' or 'conceal' although its religious meanings include infidelity, ungratefulness or unbelief. The word is not used here to derogate the West as one observer has rightly said "I found no Muslims in the West but I found Islam, and I found many Muslims in the Muslim countries but not Islam. The secular values on which Western societies rest however is based on the proposition God does not exist and if he does, he does not have much or any say in how the society is run. This itself presents a paradox to secularism as Al-Attas in Islam and Secularism has rightly observed, as by itself it is an unproved dogma which secularism was meant to curtail

<sup>2</sup> As can be seen in the workings of the IASC in its efforts to 'harmonize' international accounting standards.

<sup>3</sup> Although in contemporary times, civilization has geographical or racial connotations unconnected with religion, recent articles (e.g. Huntington, 1996; Economist, 1998) recognize Islam (and Muslims) as a contending civilization not only of the past but possibly in the future as well.

<sup>4</sup> Science related philosophers had a great influence in starting and moulding institutions in the West through the ages, including St Augustine 354-430 AD, Boethius Anicius 470 - 524 AD, Johannes Scotus Erigena 810-877, St anslem 1033-1109, St Bonaventure 1217-1274, St Thomas Aquinas 1224-1274, Francis Bacon 1561-1626, Rene Descartes 1596-1650, Thomas Hobbes 1588-1679, Benedict Spinoza 1632-1677, John Locke 1632-1704, Gottfried

Wilhelm Leibnitz 1646-1716, George Berkeley 1685-1753, Francois-Marie Voltaire 1694-1778, Jean-Jacques Rosseau 1712-1778, David Hume 1711-1776, Immanuel Kant 1724-1804, George Frederick Hegel 1770-1831, Arthur Schopenhauer 1788-1860, Soren Kierkegaard 1813-1855, Marx, Bergson, Nietzsche, Husserl, Freud, Whitehead, Bertrand Russel, Heidegger, Sartre and others.

<sup>5</sup> According to Ashford and Timms (1992), the percentage of people wishing complete sexual freedom in Western Europe has increased from 25% to 35% from 1981 to 1990, while only 41% believed that the Church should have a say in extra-marital affairs. Only 22% wanted the Church to have a say in Government Policy.

<sup>6</sup> However, Zaid (2000) has shown the Italians were not the inventors of bookkeeping.

<sup>7</sup> Although the consumer movement has resulted in many consumer protection laws, the philosophy still prevails. For example, the small print in insurance contracts, and the conditions hidden in footnotes (if at all disclosed) in advertised offers all point to caveat emptor in operation.

<sup>8</sup> This view is different from historical materialism of Marx who views that production relations (economic objectives) lead to the establishment of political and religious superstructures (worldview and values).

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