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Abstract

Purpose – This paper aims to argue that the methodologies adopted by the conventional management accounting in selecting between or among two or more alternative courses of action, both in the long-term and the short-term decision making endeavours conflict with the overall objective (*falah*) of Islamic enterprises.

Design/methodology/approach – The paper explores relevant literatures (including the *Qur'an* and the *Hadeeth*) to ascertain the objective of an Islamic enterprise and suggest an alternative approach, in making a choice among alternative courses of action, that aligns with the Islamic socio-economic objective (*falah*).

Findings – The paper suggests that both in long-term and short-term decision making endeavours, cost-benefit comparison (where cost includes negative externalities) rather than discounted cashflow techniques or contribution margin should be adopted in making a final choice among alternatives to achieve *falah*.

Research limitations/implications – The paper has not considered other objectives that may be pursued by an organisation beside profit maximization whether short-term or long-term.

Practical implications – The paper expands the frontiers of knowledge in Islamic accounting by exposing the inadequacy of the conventional management accounting decision making methods.

Originality/value – This paper explores the Islamic perspective of the conventional management accounting which is rare among scholars of accounting.

Keywords *Falah*, Cost-benefit, Islamic accountability theory, Decision making, Third party impact, Management accounting

Paper type Viewpoint

1. Introduction

The inadequacy of the conventional accounting system in meeting the needs of an Islamic society has been unveiled (Abdel Karim, 2001; Mirza and Baydoun, 1999; Haniffa, 2002; Haniffa *et al.*, 2005). The objective of the organisations that thrive on such accounting system is embedded in a capitalistic end. Its assumptions and premises are in no way admissible in an Islamic setting. Thus, organizations that are tagged "Islamic"

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will need to re-examine, re-define or modify their existing accounting system or develop a new philosophical system of accounting that preserves the needs of an Islamic society.

In the capitalist era of our current phase of life, organizations exist solely to maximize profit (Friedman, 1970) or shareholders' wealth (Jensen, 2001). This further extends to the claims of social responsibility by capitalist organisations. According to Friedman (1970), organisations' social responsibility is to make profits. Hence where social responsibilities are proclaimed by capitalist organisations, the intent is to build a favourable public image that puts the company in a favourable position to maximize profits in the future. Wealth maximisation is a broader concept with a long-term focus. It does not portend the maximisation of the value of stockholders' share prices alone but also extends to maximizing the stakes of other financial claimants (for example, debts and warrants) (Jensen, 2001).

Another theory of corporate objective is the stakeholder theory that holds that corporate entities should equally consider the interest of other stakeholders in making decisions and formulating strategies alongside shareholders' interests. These stakeholders include employees, society, environment and in extreme cases blackmailers and terrorists (Jensen, 2001).

It is worth emphasizing that accounting is a subsystem in an organizational system and all subsystems are expected to work in concord toward achieving the overall corporate objective (wealth maximization). Needless to say, accounting in the modern world is operated to marshal information that are expected to achieve the wealth maximization objective. Hence, the development of the decision usefulness theory which has been described by Maurer (2002, p. 657) as "the provision of decision usefulness facts for large investors". Kam (1990) argues that although the decision usefulness theory claims to provide needed information for the decision making endeavour of all stakeholders, most literature on decision usefulness relate mainly to the needs of creditors and shareholders. Useful information is mainly associated with ability to predict the timing and amount of dividend or the cash receipt upon the disposal of shares and the ability to estimate the debt meeting ability of a company (Hameed and Yaya, 2005).

A reasonable assumption from the foregoing is that any accounting postulate, principles and techniques developed comply with the decision usefulness theory. In other words, since the objective of corporate entities in an Islamic society is parallel to what obtains in the capitalist world, this theory suffers a gross inadequacy in meeting the Islamic socio-economic objective – *falah*.

Management accounting is a branch of accounting that involves the provision of cost information to the management for the purpose of planning, control and decision making (Drury, 2004; Lucey, 2003). This branch of accounting equally aims at achieving the overall profit maximization objective of capitalist organizations. This paper therefore seeks to determine the appropriateness of decision making techniques employed by conventional management accounting in an Islamic enterprise.

The remaining parts of the paper are developed in the following sections. Section 2 elucidates the need for a known theory and its essence by establishing the Islamic enterprises' objective which forms the basis of for the development of Islamic accountability theory. Section 3 explains the implications of Islamic accountability theory for the conventional management accounting decision making techniques. It suggests an alternative approach to decision making that aligns with the demands of Islam. Section 5 concludes the paper and recommends the ways forward.

2. Theoretical and conceptual issues

Understanding theory and its essence

A theory is the criterion against which the development and evaluation of new and existing practices are made and measured. Thus, the need for a well defined "Islamic" accounting theory cannot be overemphasized.

Theory as defined by Kerlinger (1964, p. 1):

> [...] is a set of interrelated constructs, concepts, definitions and propositions that present a systematic view of phenomena by specifying relations among variables with the purpose of explaining and predicting the phenomena.

Delimiting this definition to accounting, Hendriksen (1977, p. 1) defines accounting theory:

> [...] as a set of broad principles that (1) provide a general frame of reference by which accounting practice can be evaluated (2) guide the development of new practices and procedures.

"Accounting theory, therefore, should be the result of both a process of theory construction and a process of theory verification" (Belkaoui, 2004, p. 107). It can be juxtaposed from these definitions that the need for a theory in any field is to justify the compatibility of existing practices in such field with the objective of the field and provide a basis for measuring the acceptability or otherwise of any product of a research endeavour aimed at providing new methods and procedures for carrying out activities in the field. Islamic accounting therefore needs a theory that will enable us explain and judge its current practices and equally benchmark the development of new practices. Every approach to the construction of accounting theory starts with an objective. The objectives become drivers of principles and postulates and eventually accounting techniques (Belkaoui, 2004).

According to Inanga (1998), research is a theory-based systematic investigation of, or enquiry into, a specific phenomenon for the purpose of uncovering new facts or critical exposition of existing knowledge. In other words, the existence of a known theory is central to any research activity which ends up in discovering new facts or verifying existing knowledge. Thus, research is theory based and research develops theory.

In order to further establish the importance of theory in research, Tricker (1978) cited in Inanga and Schneider (2005) explains two basic accounting research models that are theory based. The feed-forward model starts from a known theory to the development of an hypothesis and facts are collected to test the hypothesis. If the hypothesis true, a new theory emerges. If the hypothesis is false, it is reformulated. The second approach (the feed-back approach) observes the real world and proposes a model based on a known theory. Data are collected and processed such that the model is now refined. The model forms a theory when found consistent with the real world and a known theory.

To this end, it can be concluded that the acceptability of any development in Islamic accounting will be dependent on the alignment or otherwise of such discovery with a known theory in Islamic accounting. Likewise such theory must be a reflection of what Islamic accounting proposes to achieve.

The stakeholder theory and the wealth maximization (stockholder) theory

Profit is the end according to the philosophy of capitalism. All business activities are carried out in order to increase the wealth of business owners (Jensen, 2001). All strategies, sacrifices and eventual investment of fund are made with the view to earning, whether at present or in the future, an increased income or wealth for the stockholders. The employment of good hands and the payment of a good sum to employees, the eleemosynary ventures of the organization and the publication of ethical standards are all instrumental to maximizing the wealth of stock owners (Friedman, 1970):

> The proponents of stockholder theory argue that because organizations are owned by their principals, the agents (directors) have a moral and legal duty to only take account of principals' claims when setting objectives and making decisions (Campbell, 2008, p. 64).

> Briefly put, value maximization says that managers should make all decisions so as to increase the total long-run market value of the firm. Total value is the sum of the values of all financial claims on the firm – including equity, debt, preferred stock, and warrants (Jensen, 2001, p. 299).

Therefore, only decisions that increase shareholders' wealth are good decisions.

In contrast:

> [...] stakeholder theorist argue that because a business organization is a citizen of society, enjoying its protection, support and benefits, it has a duty to recognize a plurality of claims in the same way that an individual might act as responsible citizen (Campbell, 2008, p. 64).

It simply means recognizing claims of all stakeholders when reaching decisions and deciding on strategies. Stakeholders are groups or individuals that may be affected by or affect the organisation's achievement of its objectives (Freeman, 1984). "Stakeholders include all individuals or groups who can substantially affect the welfare of the firm: not only the financial claimants but also employees, customers, communities, terrorists, blackmailers and thieves" (Jensen, 2001, p. 299). An important aspect of stakeholder theory is to recognize the existence of stakeholders and their claims. Donaldson and Preston (1995) described two motivations behind taking account of stakeholders' claims by organizations. The instrumental view of stakeholders recognizes that organizations take cognizance of stakeholders' interests when they are consistent with the organisation's set objectives. Hence an organization may admit to invest in corporate social responsibility activity if such will possibly present a good image of the business. The normative view of stakeholder theory submits that organizations should cater for the concerns of the stakeholders not because it is instrumental to the achievement of other set objectives but because it is a moral obligation.

These two schools of thought (stakeholder theory and value maximization theory) have constantly engaged in oscillating debates over the appropriateness or otherwise of each other's proposition. The stakeholder theory argues that not only the shareholders are key players in the achieving the company's objectives but also other groups and individuals are as important as the shareholders. Hence, their interest must be catered for in decision making and strategy formulation (Freeman, 1984; Campbell, 2008; Freeman and McVea, 2001; Jensen, 2001; Donaldson and Preston, 1995). The wealth maximization theory on the other hand views the position of the stakeholder theory as a good proposition but far from reality. "To the extent that stakeholder theory argues that firms should pay attention to all their constituencies, the theory is unassailable" (Jensen, 2001, p. 304). The point of difference however is that stakeholder does not answer some fundamental questions posed by the value maximization proponents. These questions are:

> [. . .] what are we trying to accomplish? Or, put even more simply: when all is said and done, how do we measure better versus worse? Even more simply, how do we keep score? (Jensen, 2001, p. 298).

According to Jensen (2001, p. 300), "purposeful behavior requires the existence of a single-valued objective function". To measure better against worse, there must be a single criterion (increase in shareholders' wealth). In the words of Jensen (2001, p. 301):

> It is logically impossible to maximize in more than one dimension at the same time unless the dimensions are monotone transformations of one another. Thus, telling a manager to maximize current profits, market share, future growth in profits, and anything else one pleases will leave the manager with no objective. The result will be confusion and lack of purpose that will fundamentally handicap the firm in its competition for survival. A firm can resolve this ambiguity by specifying an overall objective function.

Jensen (2001) argues further that stakeholder theory would be inherently consistent with the value maximization theory if it merely argues that firms should pay attention to all constituencies that can affect the firm:

> But there is more to the stakeholder story than this. Any theory of action must tell the actors, in this case, managers and boards of directors, how to choose among multiple competing and inconsistent constituent interests. Customers want low prices, high quality, expensive service, etc. Employees want high wages, high quality working conditions, and fringe benefits including vacations, medical benefits, pensions and the rest. Suppliers of capital want low risk and high returns. Communities want high charitable contributions, social expenditures by firms to benefit the community at large, stable employment, increased investment, and so on. And so it goes with every conceivable constituency. Obviously any decision criterion – and the objective function is at the core of any decision criterion and inconsistent demands (Jensen, 2001, pp. 304-305).

Nonetheless, the value maximization proponents however admit that "a firm cannot maximize value if it ignores the interest of its stakeholders" (Jensen, 2001, p. 298). This standpoint obviously now generates a convergence between the two perceived opposing views. Cited in Freeman and McVea (2001, p. 3), the Stanford Research Institute (SRI):

> [. . .] argued that managers needed to understand the concerns of shareholders, employees, customers, suppliers, lenders and society, in order to develop objectives that stakeholders would support. This support was necessary for long term success. Therefore, management should actively explore its relationships with all stakeholders in order to develop business strategies.

This convergence according to Jensen (2001) is the enlightened stakeholder theory. The theory holds that while the objective function of the firm is to maximize the total long-term firm market value, there may be other set objectives that are in alignment with this long-term pursuit in the short run. Hence, a business may set customers satisfaction as a short-term objective observing that this may translate to customer loyalty and higher return in the long-term.

The Islamic accountability theory

> According to the philosophy of the Qur'an all human activity should be directed towards the achievement of *Falah* – a comprehensive term denoting all sided welfare of this life as well as that of the Hereafter (Siddiqqui, 2000, p. 8).

Allah (Subhanau Wata'ala) says:

> But seek with that which Allah has bestowed on you, the home of the Hereafter and forget not your portion of lawful enjoyment in this world; and be generous as Allah has been generous to you, and seek not mischief in the land. Verily, Allah likes not the mischief-makers (Q28:78).

Business ventures or trade are one of the endowments and blessings of Allah and anyone who ventures into them is expected to use them to achieve the ultimate end of existence (*falah*). It is in the course of seeking *falah* that Islamic organizations should be devoid of any actions that are known to be haram (prohibited) in Islam, hence the need for interest-free transactions and gharar (uncertainty)-free ventures.

Although the term welfare in economics shares some boundaries with the concept of *falah*, Siddiqqui (2000, p. 9) explains *falah* as below:

> *Falah* must not be confused with the term "welfare" current in modern economics. Whereas "welfare" refers mainly to material wellbeing, or at best to all sided wellbeing of this world only, *falah* refers to the good of both the worlds. The period of life after death being a reality, it is but natural that its welfare should be sought for. This concern according to the Islamic viewpoint is not inconsistent with an equal care of this life.

> The change from the norm of "welfare" to *Falah* implies that achievement of material wellbeing should be in a manner consistent with the achievement of welfare in the more important and internal phase of life – the Hereafter. This implication urges a balancing of interests and exercises a moderating influence both upon individualism and upon the errant quest for material good.

Indeed the pursuit of *falah* goes beyond the restrictions placed by business enterprises, it pervades our personal lives. It guides the mode of operating our businesses, the way of apportioning the gains therefrom and anything that brings us closer to Allah. Again the essence of making investments is basically to make gains:

> [...] but the moment the question of "end" comes in – and it comes in at almost every moment – the position undergoes a change. Improper ends make these activities directed towards them undesirable and often prohibited. Proper ends make them desirable and often obligatory (Siddiqqui, 2000, p. 20).

Making profit maximization the sole aim of an enterprise's existence does lead to undesirable activities as evident in our current phase of life[1]. However, material wellbeing is not dismissible as an important constituent of *falah* (Q28:78). Thus, earning profit is an important sub-objective within the confines of *falah*. The relationship between *falah* and profit is simple. *Falah* defines what we need to do and how we go about doing them to earn profits. It should be understood though, our aim of investing is to earn profit, our pursuance of *falah* dictates the extent to which such objective may be pursued. In other words the need to achieve *falah* explains why we have prioritized Ijarah (Islamic lease) over conventional lease agreement, mudarabah over granting of loans, salam over futures and options but the need to make profit is the essence of undertaking these transactions.

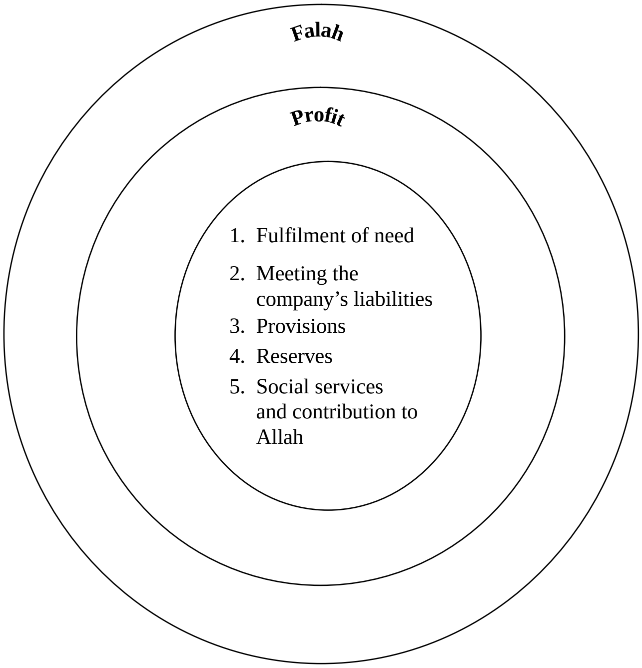
We emphasize here that earning profit is not necessarily a precursor to achieving *falah*. In fact the two concepts may be mutually exclusive or unrelated. *Falah* and profit may be mutually exclusive, for example, if a monopoly earns an abnormal profit which harms the public (say by reducing their purchasing power). In which case, he gains profit but not *falah*. However, if an individual pursues profit alone without harming others, he is equally pursuing *falah*[2]. They may be unrelated for example, where a non-profit organization gives donations and embarks on community projects that impact positively on people's lives without expecting any returns. Our concern however is to establish that the objective of a profit seeking firm may not be opposed to the pursuance of *falah* if profit is not the ultimate end rather instrumental to achieving the Islamic socio-economic objective (*falah*).

According to Siddiqqui (2000), the proper ends for man's economic activities in Islam can be enumerated as follows:

- fulfilment of one's desire in moderation;
- meeting family liabilities;
- provision for future contingencies;
- provision for posterity; and
- social service and contribution to Allah.

It follows that profit in Islam is not an end in the absolute; it is a means to an end. "All these ends, it must be noted, are not only recognized but also recommended and a minimum in each case has been made obligatory" (Siddiqqui, 2000, p. 20). In a nutshell, *falah*-directed profit which is subsequently channeled toward achieving the above ends is the essence of an organisation's existence.

A conceptual model from the foregoing, as below, should give us a better comprehension of this standpoint (Figure 1).



Source: Adapted from Siddiqqui (2000)

Figure 1.
Five-end application of falah-driven profit

The five-end application of profit or revenue depicted in the model above has been developed from Siddiqqui's (2000) proper ends for Islamic economic activities. The fulfillment of need deals with the portion of profits that flows to the business owners and all other lawful benefits attached to business ownership. Meeting company's liabilities addresses issues arising from contractual relationships between shareholders and third parties, including employees and management. Provisions handle future contingencies while reserves aid organic growth and future development of the company. Zakat and Saddaqah issues are subsumed under social services and contribution to Allah.

This assertion is also consistent with the three dimensions addressed by the Sahri'ah:

> The theocentric nature of Sharia'h Islami'iah addresses three interrelated dimensions: (i) fulfilling obligations to Allah (huququ-Allah) and always seeking His pleasure by fulfilling the role as His vicegerent on earth; (ii) fulfilling obligations to society (huququl-ibad); and (iii) fulfilling own needs (huququ-Nnafs). By adhering to Shari'ah Islami'iah, mankind is able to realize benefits for the ummah (muslim community) via removal of hardship (raf al – haraj), prevention of the forbidden (daf al – darar) and striving for the truth (haqiqiyah) before pursing self interest. Islam gives preference to the needs of the ummah over those of the individuals. Whenever a conflict of interest arises, the need of the ummah (maslahah) must be met first (Haniffa *et al.*, 2005, p. 5).

In Islam, community interest ranks above self interest and in line with this idea of the prevalence of community interest over self interest are the assertions of Kamla *et al.* (2006), Lewis (2001), Haniffa *et al.* (2005) and Siddiqqui (2000).

Several authors have identified a number of key objectives Islamic accounting is expected to achieve (Triyiwonu, 2004; Adnan and Gaffikin, 1997; AAOIFI, 1996; Mirza and Baydoun, 1999) and such objectives are held as the underlying determinants of the accounting procedures and methods that should be adopted in an Islamic setting. Our survey of these suggestions however, reveals that though not a single objective is relatively inappropriate, they are individually inadequate to solely constitute the basis for Islamic accounting. Each identified objective reinforces the other to form a unique structure capable of enhancing the ability of Islamic accounting to contribute its expected quota to the achievement of the overall objective of businesses (*falah*).

The Islamic accountability theory as suggested by Hameed and Yaya (2005) seems to establish this unique structure. It consolidates the decision usefulness, stewardship and accountability into a whole (i.e. Islamic accountability). The justification for this theory stems from the notion that the whole universe and all its embodiments belong to Allah (Subhanau Wata'ala) (Q2:282; Q42:4) and man has been appointed by Allah to look after these (Q33:82) while the ultimate authority or dominion still rests with Allah. This agency relationship puts man to account for the trust entrusted in him and whether such use were in accordance with the dictates embedded in the trust deed (Shari'ah) is the whole essence of Islam.

Our perception of the second level of accountability – secondary accountability (Hameed and Yaya, 2005), encompasses accountability to all stakeholders as conceived by the Shari'ah and no individual stakeholder may be more important than the other especially being reasonably considered during decision making and strategy formulation and adoption (i.e. not negatively affected by an organisation's decisions)[3]. This dual level accountability creates a constant consciousness in an Islamic accountant that first, he is accountable to Allah (Subhanau Wata'ala) for all his actions (see Q3:25; Q6:3; Q10:4) and his meeting with Allah is certain. Hence he observes all he has been directed to do by Allah (Subhanau Wata'ala) and abstains from all Allah (Subhanau Wata'ala) has prohibited. With this first level of awareness, the Islamic accountant follows the ordainments of Allah (Subhanau Wata'ala) regarding his relationship with stakeholders. Thus, he is transparent and unbiased in his judgement, he seeks for and provides reliable, accurate and objective information. He is meticulous and considerate in providing information to the management, being aware that he holds a vital position in trust (Amanah) and his decisions affect so many stakes (Zaid, 2000). The Islamic accountant should have the Islamic identity (Zaid, 2000) for him to be aware of all these facts and conduct his affairs in line with the Shari'ah.

Many scholars have delved on the Islamic aspect of many issues germane to external reporting and accounting theory, comparing conventional practices and principles with Islamic realities thereby making recommendations that align these conventional thoughts and assumptions with Islamic requirements where there are divergences. Issues discussed include: social reporting and accounting in Islam (Haniffa, 2002; Maali *et al.*, 2006), Islam and accounting for the environment (Kamla *et al.*, 2006) corporate governance and accountability in Islam (Afifuddin and Siti-Nabiha, 2010; Abu-Tapanjeh, 2009; Lewis, 2005), Islamic perspective of accounting principles (Abudlgader, 1994), Islamic corporate reports (Baydoun and Willett, 2000), Islam and social accounting (Gambling and Abdel Karim, 1986), critical perspective of Islamic accounting practices (Kamla, 2009), harmonization of accounting practices and Islam (Hamid *et al.*, 1993). All these authors have contributed significantly in creating a milestone on which Islamic accounting may be further developed. However, our area of research is to evaluate the influence of Islamic accountability theory on the conventional management accounting practices, particularly in the area of decision making.

The chase of profit, stakeholder claims and the pursuance of falah

It is reiterated here that wealth maximization theory holds that decisions made and strategies adopted should be marshaled toward increasing return to stockholders. Stakeholder theory on the other hand debates that all groups or individuals that can affect or be affected by the achievement of an organisation's set goals should have their interest catered for. Hence decision making and strategy formulation should involve an amalgam of these interests. The enlightened stakeholder theory which has united the two opposing views recognises wealth maximization as a long-term objective while other objectives that are instrumental to this long-term focus may be pursued in the short-run.

The Islamic accountability theory, in pursuance of *falah*, is rather a refinement of these theories to fill in the "gaps". Islam admits the pursuit of profit as an objective of a business organization but not as the ultimate objective[4]. Allah makes a distinction between the chase of this life alone without the desire for the Hereafter and the chase of both lives in Q2:200-201.

Allah says:

> [. . .] But of mankind there are some who say: "Our Lord! Give us (Your bounties) in this world!" and for such there will be no portion in the Hereafter (Q2:200). And of them there are some who say: "Our Lord! Give us in this world that which is good and in the Hereafter that which is good, and save us from the torment of the Fire" (Q2:201).

The first verse explains the one who desires this life alone and this is the example of the one who only seeks to make profits without pursuing *falah* and his decisions harm others. The second verse presents the case of the one who desires *falah* (the life of this world and beyond) and how this (*falah*) is achieved is explained below.

Allah (Subhanau Wata'ala) says:

> But seek with that which Allah has bestowed on you, the home of the Hereafter and forget not your portion of lawful enjoyment in this world; and be generous as Allah has been generous to you, and seek not mischief in the land. Verily, Allah likes not the mischief-makers (Q28:78).

Furthermore, Allah says:

> O you who believe! Spend of the good things which you have (legally) earned, and of that which We have produced from the earth for you, and do not aim at that which is bad to spend from it [. . .].

These two verses consolidate the fact that seeking profit in business engagements is not prohibited in Islam. However, the first verse indicates that the profit gained there from should be used in pursuit of "good" life in this world and an eternal life in the Hereafter. Equally, the second verse expands that such money must be legally earned, meaning the processes involved in sourcing for the money should not entail Allah's prohibitions and Allah forbids that we harm others in pursuit of our own gains[5]. It is in this manner that the pursuit of *falah* shares some boundaries with stakeholder theory. Our pursuit of wealth maximization should not affect stakeholders negatively[6]. This paper equally adopts, to an extent (i.e. excluding terrorists as debated by Jensen (2001)) the same definition of stakeholders as defined by Friedman (1970) but in this case, organizations may not pursue multiple objectives as proposed by "stakeholder" proponents because multiple objectives is no objective (Jensen, 2001).

3. Methodology

The paper adopts a critical analysis in evaluating the current decision making techniques in management accounting. It explores relevant literature in expounding the theoretical basis of the conventional management accounting practices. It then explains and presents the theoretical foundation that should guide Islamic accounting practices by exploring an Islamic enterprise's objective, deriving from the objective the Islamic accountability theory. It then proposes that with the Islamic accountability theory serving as a guide for Islamic accounting practices, the conventional management accounting falls short of the Islamic requirements both in theory and in practice. Hence, suggests a decision making approach that aligns with the Islamic accountability theory and aligns with the Islamic socio-economic objective – *falah*.

4. Decision making in management accounting

Decision making in management accounting is either in the long-term or short-term and the aim of any decision making exercise is to minimize cost when profits are maximized. Long-term decision making in management accounting involves selecting between alternative courses of action that will continually bring economic benefits to an entity over a long period of time. This decision making is termed capital budgeting. Selecting a course of action in this regard involves the use of discounted cashflow and non-discounted cashflow techniques. Discounted cashflow techniques include calculating net present value, internal rate of return, profitability index and discounted payback period.

Non-discounted cash flow techniques include payback period and accounting rate of return. These conventional investment evaluation methods (discounted and non-discounted cash flow methods) are none but techniques that equally consider as paramount, the wealth maximization objective. However, to achieve the Islamic socio-economic objective – *falah*, these techniques will have to be refined. A major refinement of this technique will not only involve a careful data collection or information gathering procedure (regarding the choice of capital, cash flow projection and other qualitative factors) but also an extension to more information that enhance prioritization of options. Like the cost-benefit comparison that is commonly used in the public sector, analysing project viability will involve a consideration of negative and positive externalities as an important end in decision making. Externalities are indirect benefits or costs accruing or borne by third parties (ICAN, 2009). The crux here is that an Islamic enterprise, whose financial and non-financial details should conform to the Islamic accountability principle, in pursuance of *falah*, should not make decisions or adopt strategies with the sole purpose of maximizing returns to shareholders. Decision making should follow a careful analysis that strikes a balance between important stakes. A selection between two mutually exclusive projects goes beyond selecting the investment with higher net present value. Where a project reports a lower net present value but a lower cost-benefit (to third parties) ratio, a proper decision will be to select this project. An hypothetical example may be made of a situation where higher net present value derivable from a mutually exclusive project will be met by underpaying and overworking the required labour or such increase in shareholders' wealth is only achievable by not adequately providing for or completely ignoring the cleanup cost for the removal of hazardous emissions or waste or not making sufficient incremental investment in technologies aimed at reducing the emission of toxic waste to the environment[7] (see Kamla *et al.*, 2006 on Islam's perspective on maintaining the natural balance). Islam forbids causing harm to the environment and disrupting the natural order set by Allah (see Q2:205 and Q7:56).

The Islamic accountability principle requires us to analyse further, as accountants, our traditional investment evaluation techniques by taking into consideration how our decisions affect third parties (externalities). In essence, investments with positive net present values should in furtherance be ranked in terms of their cost-benefit measurement to achieve the Islamic socio-economic objective of *falah*. *Falah* in the technical sense implies doing what Allah (Subhanau Wata'ala) has commanded us to do and not doing all he has prohibited. It is part of the prohibitions of Allah (Subhanau Wata'ala) that none should be hurt in the process of pursuing our own lawful personal gains[8] (see *Hadeeth* numbers 24 and 35 of An-Nawawi in Badi (2002)). Hence where decision processes are solely based on the extent of profits achieved and the negative effect of our decisions are of less consideration, we trample on Allah's prohibition. Therefore, this may constitute a hindrance to *falah*.

In making short-term decisions, ordinarily a decision with a positive contribution to common fixed costs is a good decision. Thus, where an organization is confronted with deciding whether or not to discontinue the production of a product, for example, a positive contribution by that product to entity-wide fixed cost implies the retention of the product. Other short-term decisions like the make or buy also follow the same principle. The decision to make or buy a product will be based on which of the two alternatives gives a lower cost or higher benefit. Where an organization already utilizes its full capacity, decision to produce a special order will be based on the net benefit after considering opportunity cost (contribution lost from utilizing a part of the full capacity for the special order).

Again, evident from the above is the fact that our decisions and strategies are basically on how the least cost or the highest benefit will be achieved. This is what we desire and we principally exploit all opportunities to actualize this. Contrariwise, Islam ranks, at first, Allah's interest in any decision making exercise and putting one's desire before Allah's is tantamount to worshipping self desires (Q45:23; Q25:43). The next step is to consider the needs of the society (huququl-ibad) then one's needs follow (huququ-Nnafs) (Haniffa *et al.*, 2005). In other words, every decision needs to go through three major steps of scrutiny. Namely:

Huququ-Allah

|

Huququl-Ibad

|

Huququ-Nnafs[9]

The above indicates a rank order and should be followed strictly in all ramifications to achieve *falah*.

Our reflection of opportunity costs submits to a refinement of this concept. The gains (opportunity cost) sacrificed should not just be measured from our own ends. In a special order situation in management accounting, we should look at how the shortage in supply of our product affects the ummah; does it force them to buy haram products? Does it force them to buy a more expensive product (reducing their purchasing power)? All these questions are worth considering if truly we seek success in this world and success in the Hereafter (*falah*).

In summary, against the background of equating good long-term decision with the decision that gives the highest net present value and good short-term decision with the decision that gives us the highest contribution margin, this paper proposes a cost-benefit comparison as a better decision making technique rather than the two initially mentioned.

5. Conclusion and recommendations

The importance of trust, transparency and justice (in line with the Islamic demands) cannot be overemphasized in all human endeavours (Triyiwonu, 2004; Abudlgader, 1994). The Islamic accountability principle is a path to fulfilling these requirements and achieving *falah*. Decisions to be made to achieve *falah* will have to consider Allah first, then the impact of the outcomes of the decisions on the third party before our own self interest.

Human beings are naturally selfish and try to amass wealth regardless of the cost (Q2:200, Q89:16-20, Q9:34-35) and the capitalist agenda simply follows suit. Islam on the other hand addresses issues from a different perspective. We have been told to seek for our lawful provisions in this world, but then such gains should be channeled towards the defined ends by Allah (Q28:78). It is the desire to achieve these prescribed ends that the conventional management accounting practices have been observed as falling short of the needed tools to achieve *falah*. It is not just the management accounting practices that suffer these ill, the whole system of conventional accounting theory and practice are deficient (Gambling and Abdel Karim, 1986; Abudlgader, 1994; Ather, 2010; Askary and Jackling, 2004; Baydoun and Willett, 2000; Mirza and Baydoun, 1999; Amer, 2007; Lewis, 2001; Sulaiman and Willett, 2001; Hameed, 2000).

Decision making in the current practice of accounting is devoid of third party (non-stockholders) consideration. Obviously this has unveiled the call for corporations being responsible to other than mainly stockholders (corporate social responsibility). This idea is not a bad one but our findings are quite different from what the exponents of corporate social responsibility agitate for. Ours is a model that recognizes "third party impact" from the decision point. Decision ranking is more influenced by the "third party impact" than even the ultimate end (profit) pursued by the capitalists. To satisfy this requirement, the cost benefit comparison has been suggested. Negative externalities are considered as part of the cost while benefits are just measured in terms of what the organisation stands to gain. We have obviated from this proposal, the consideration of positive externalities since the organisation may seek to make profits only, which is not contrary to the teachings of Islam. Islam is primarily concerned about how such profits have been acquired and the application of the profits to the desired ends (Q28:78).

In a nutshell, to achieve the ultimate end (*falah*), decision making in an Islamic setting will, while considering profits and other benefits that accrue solely to the firm, be based on least cost-benefit ratio. It may be well thought of that some costs (negative externalities) may not be quantifiable; such decisions will be directed to the Shariah board for proper ranking.

The implication of this is that an organization may find a particular investment worthwhile in terms of the positive net present value it presents. However, this would be a precursor to the ultimate screening criterion that this paper proposes. Hence if such project is one of mutually exclusive projects and its net present value is the highest, the current management accounting decision criterion suggests it should be the best choice. Contrariwise, this paper proposes a further cost-benefit comparison of these profitable mutually-exclusive projects for the final selection between the alternatives. Costs will include all relevant cash outflows and negative externalities (cost to non-stockholders; including the environment and the society at large) and benefits are measured in terms of cash inflows to the entity. Negative externalities are understood by taking our decision process through the rank ordered process of huququ-Allah; huququl-ibad (including the environment) and finally huququ-Nnafs. Finally, project with the highest net present value may turn out to have the highest cost benefit ratio, hence it should be dropped. This paper suggests that of the competing profitable choices, the alternative with the least cost benefit ratio should be selected even if it presents the least net present value.

Notes

1. Sikka and Hampton (2005) discussed (citing relevant cases) how the chase of high profit, minimal tax and social obligation have driven the increase in capital mobility, the sourcing for tax havens by companies and the structuring and sale of aggressively developed tax evasion schemes by professional accountants all of which have culminated in impoverishing the populace. Otusanya (2011) equally discussed (citing relevant cases involving multinational companies in Nigeria) how the creation of tax havens and offshore financial centres aggravated by the desire to maximize profits, have reduced government revenue, thus a reduction in government ability to make available needed infrastructures, public utilities and public services.

2. Cited in Siddiqqui (2000) reported by Ka'b (RTA), a man happened to pass by the Prophet. The Prophet's companions liked his vigour and exclaimed: "O Prophet, had this activity been in the cause of Allah (it would have been better)!" The Prophet said: "If he is striving for his small children, he is in the cause of Allah. If he is striving for his old parents, he is in the cause of Allah. If he is striving for maintaining himself, he is in the cause of Allah. If he is striving for his wife, he is in the cause of Allah. But if he is striving to amass wealth and take pride into it and boast of it, he is in the cause of shaitan".
3. Cited in Siddiqqui (2000), Umar (RTA) said, "the low and the respectable, all are equal in the religion of Allah".
4. Allah says: "Whoso desires the harvest of the world, We give him thereof, and he has no position in the Hereafter" (Q42:20), also see Q53:29, Q2:200 and Q57:20. Reported from Abu Hurairah, the Prophet said: "Perish the slave of Dinar; the slave of Dirham; the slave of (fine) cloth [. . .]" (Siddiqqui, 2000).
5. The Prophet (Sallallahu Alayhi Wasallam) said: "charity is obligatory upon every Muslim". Asked if he has nothing to give in charity? Replied the Prophet "He should work with his hands, then enjoy the fruits of his labour and give (something out of) it in charity". Asked if it is not possible for him to work or if he does not work? Replied the Prophet. "He should help a needy person in distress". Asked again if even this he does not do? Replied the Prophet, "He should advise others to do good". Asked what if he failed to do this also. The Prophet said, "He should refrain from doing harm to others for even this is charity for him" (Muslim, *Hadeeth* no., 2202).
6. We should however note that a complete elimination of injury to a third party as a result of our decisions may not be achievable. See Siddiqqui (2000, pp. 53-60) for a complete explanation of the principle of "no injury".
7. A good example of this action can be seen from the operation of international oil companies (IOCs) in Nigeria. A study conducted by Environmental Resource Management (1997) cited in Edoho (2008) have noted that oil spills in Nigeria are due to corrosion (33 percent); equipment failure (38 percent); blow-out (20 percent); accident from third party (1 percent); operator or maintenance error (2 percent) and natural (2 percent). Over 90 percent of these causes can be prevented (Edoho, 2008). These TNCs are definitely capable of preventing harm to the environment but the deficiency inherent in the capitalist designed management accounting system will not identify, on the same scale, the importance of preventing harm to the environment and its inhabitants alongside earning profits.
8. Most prohibitions in Islam are based on the principle of not harming others for our own selfish desires. Allah (Subhanau Wata'ala) made this known while prohibiting backbiting in Al-Hujurat (Q49:12). The *Hadeeth* below equally clarifies this stance in the case of Zinaa.
9. Our justification for these order are in the *Quran* and *Hadeeth* of the Prophet of Allah (Subhanau Wata'ala). The first level is not debatable, it is the absolute truth. Allah tells us in the Quran "[. . .] And spend of what we have made you inheritors in it" (Al-Hadid: 8), this indicates ownership, as bequeathal is made by the owner to the inheritors. This is further proved in Al-Hadid: 10, where Allah says "And what will make you not spend in the path of Allah and to Allah belongs what is in the heavens and the earth?" In furtherance our existence is not for play rather to worship Allah (Subhanau Wata'ala) and use whatever he has blessed us with in seeking eternal bliss in the Hereafter (Q33:110). The second level may be quite infamous in evidence; we therefore provide some ahaadith indicating its preference in the order over individual needs. The first *Hadeeth*: Abu Umaamah (RTA) reported that a young man came to the Prophet (SAW) and said, "O Allah's Messenger, give me permission for Zinaa". The people turned to the young man and strongly rebuked him. But the Prophet (SAW) said, "Bring him close" after sitting near the Prophet (SAW), the Prophet (SAW) said

"would you like it (Zina) for your mother?" He said "No by Allah – may Allah make me a ransom for you!" The Prophet said "Nor do other people like it for their mothers". He asked "Would you like it for your daughter?" He answered "No, by Allah – may Allah make me a ransom for you!" The Prophet said "Nor do other people like it for their daughters". He asked "would you like it for your sister?" He answered "No, by Allah – may Allah make me a ransom for you!" The Prophet asked "would you like it for your paternal aunt?" He replied "No by Allah – may Allah make me a ransom for you!" The Prophet said "Nor do other people like it for their paternal aunts". The Prophet asked "would you like it for your maternal aunt?" the young man replied "No, by Allah – may Allah make me a ransom for you!" the Prophet said "Nor do other people like it for their maternal aunts" (recorded by Ahmad as cited in Al-Jibaly, 2005, p. 96).

The second *Hadeeth*: Usaamah bin Zaid narrated that the messenger of Allah mentioned the plague and said: "it is a means of punishment with which some nations were punished and some of it has remained on earth and it appears now and then. So, whoever hears that there is an outbreak of plague in some land, he should not go to that land; and if the plague breaks out in the land where one is already in, he should not run away from that land, escaping from plague" (Al-Mundhiri, 2000, p. 781).

These two *Hadeeth* clearly indicate that the desire to obviate from oneself any form of hardship should not imply imposing a hardship on a third party. Clearly in the first *Hadeeth*, the Prophet continuously asked the young man questions that would make him think about the effect of his action on the third party, hence putting as paramount the interest of the third party over his. Also, in the second *Hadeeth*, we have been commanded not to leave a plagued area, even though our own life may be at risk, so that others may not be a victim of the plague in case we turn out to be carriers of the disease.

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