Accountability and legitimacy dynamics in an Islamic boarding school

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Abstract

Purpose - This study aims to investigate the dynamics of legitimacy and accountability relationships in an Indonesian boarding school. It examines how the key actors improve and employ accountability mechanisms in the school and how these practices contribute to the organisation's legitimacy.

Design/methodology/approach - This paper employs a qualitative case study approach in an Indonesian boarding school in Indonesia and draws on Black's (2008) notion of legitimacy and accountability relationships. The qualitative data were collected through face-to-face interviews, observations and documentary analysis.

Findings - Accountability mechanisms at PPWS (an Islamic boarding school) were developed to alter the habit of conducting organisational affairs based merely on trust between the organisation members without any particular accountability mechanism, a common practice in Indonesian boarding schools. The mechanisms were believed to improve the public trust, bring convenience to the management of the school on the legitimacy (*halal*) of their doings, which in turn maintain their legitimacy as a provider of Islamic education services.

Originality - This study highlights the importance of accountability mechanisms in faith-based institutions context to maintain their legitimacy. It provides evidence of the mutual nature of accountability and legitimacy, which is often seen as contrasting concepts by previous studies, by drawing on Black's (2008) legitimacy and accountability relationships.

Keywords - Indonesia, Accountability, Legitimacy, Islam

Paper type - Research paper

1. Introduction

This paper is concerned with the changes in accountability practices in an Islamic boarding school and how the key actors employed accountability mechanisms to earn organisational legitimacy. Accounting and accountability are fundamental to the development of religious institutions (Cordery, 2015; Jayasinghe and Soobaroyen, 2009) since it is the mechanism through which faith-based organisations ensure their long-term sustainability, by gaining the trust of their stakeholders (Yasmin *et al.*, 2014). Quattrone (2004) argues that further accountability studies in religious organisations are needed since their accountability

practices are not driven by any rational mechanisms, as are commonly found in the Western context. Their accountability is based mainly on trust and informal relationships among the organisation's members (Jayasinghe and Soobaroyen, 2009; Yasmin *et al.*, 2014). However, these practices have been criticised for not providing accountability for the stakeholders, which has led to financial scandals and a crisis of legitimacy (Malmelin and Malmelin, 2015; Yasmin *et al.*, 2014). On the other hand, a rational accountability mechanism is an essential means for gaining organisational legitimacy (Black, 2008), including in religious organisations (Irvine, 2002).

Nevertheless, studies which examine the changes in accountability practices in Islamic organisations and how the key actors use accountability mechanisms to gain legitimacy are limited. Previous studies have attempted to investigate the accountability practices in religious organisations, such as in Islamic and Christian institutions. They mainly focused on the technical and functional perspectives of accounting; a dual concept of accountability, i.e. accountability to Allah (God) and to people and how the organisations employed the disclosure practices as a communication device to explain their activities (e.g. Haniffa and Hudaib, 2007; Yasmin *et al.*, 2014; Aribi *et al.*, 2019; Osman and Agyemang, 2020). However, the broader issues such as how the adoption and use of rational accountability mechanisms interact with the particular nature of religious organisations, which may cause changes in their accountability practices and how those rational mechanisms contribute to legitimacy, remain underexplored, especially in Islamic institutions. This study fills this gap by investigating changes in the accountability practices and legitimacy dynamics of an Islamic boarding school (hereafter IBS) in Indonesia. This study proposes the following questions: Do Islamic organisations employ a Western-style accountability mechanism? If so, how and why? Could the accountability practices in a faith-based organisation be better understood by employing Black's (2008) model?

Accountability and legitimacy are often seen as contrasting concepts (Costa *et al.*, 2019; Deegan, 2007). The accountability theory reflects disclosing information for genuine accountability (or responsibility purposes), namely to disclose information to people who have the right to know about the impact of the organisation's actions (Parker, 2014). Accountability should be seen as a neutral phenomenon, aimed at producing information to enable stakeholders to judge particular organisational affairs (Costa *et al.*, 2019). It seems unlikely for faith-based institutions to disclose biased information for the sake of showing them in a favourable light, which is known as legitimacy-seeking activities. Unlike profit-seeking organisations, the "ultimate" accountability is to God, hence, there is no point in disclosing favourable information (Joannides, 2012).

However, the financial scandals that occurred in many faith-based organisations, due to trust-based mechanisms (Yasmin *et al.*, 2014), might cause a legitimacy crisis (Black, 2008; Malmelin and Malmelin, 2015). Changing and establishing rational accountability mechanisms and opening their accounts to the public are essential strategies for faith-based institutions, especially to regain legitimacy from their stakeholders. Legitimacy refers to the activities driven by the desire to improve an organisation's reputation, thereby portraying the organisation in a favourable light (Deegan, 2002, 2007; Neu *et al.*, 1998). There might be "interest" in regaining legitimacy when practising accountability in Islamic organisations. Although accountability should be a neutral phenomenon, McKernan (2012) views accountability as a means to condition agents to act responsibly, whereby "responsible" behaviour is always invested in power and interest and is not neutral, such as the accountability practices driven by interests to obtain legitimacy. Accountability is driven by

socially accepted norms, rather than moral and ethical concerns, which in turn constrain the agents' freedom to act responsibly (Joannides, 2012).

Legitimacy communities then attempt to validate and evaluate the conformity between the organisations' activities and their legitimacy claims to bring the organisations closer to achieving their legitimacy claims. In other words, legitimacy communities or constituents attempt to find "accountability" (Black, 2008, p.149). Thus, accountability is a critical element in the construction and evaluation of legitimacy claims by stakeholders. However, studies which provide a theoretical and empirical understanding of legitimacy and accountability dynamics are scarce in religious institutions.

Drawing on Black's (2008) notion of legitimacy and accountability relationship, this study attempts to narrow the gaps in the literature by exploring the legitimacy and accountability practices in an IBS in Indonesia, i.e. *Pondok Pesantren Wali Songo* (hereafter PPWS). Accounting and accountability practices in faith-based institutions have their own context, compared to corporations which mainly impose economic logic to provide accountability to shareholders (Jayasinghe and Soobaroyen, 2009; Quattrone, 2004, 2015). PPWS provides an excellent opportunity to study accountability practices in an Islamic organisation since Indonesia has the single largest population of Muslims in the world. The organisational practices of an IBS are conducted based on trust among the organisation's members, especially trust in the head of the school, without any rational accountability mechanisms (Jayasinghe and Soobaroyen, 2009). However, many financial scandals have been found due to this informal and trust-based accountability, which may impair the public trust and their legitimacy (Malmelin and Malmelin, 2015; Yasmin *et al.*, 2014). Now, many Indonesian IBSs have begun to establish stakeholder-oriented rational accountability mechanisms to provide accountability to people (*hablunminannas*) (Lewis, 2001).

This study proposes several contributions. First, it provides evidence of the changes in accountability practices in an IBS, so that accountability will enhance its organisational legitimacy by regaining the public's trust. The school had little lost in public trust due to financial scandals at the school. It depicts the importance of establishing proper accountability mechanisms in faith-based institutions to maintain the trust of the stakeholders (Borchgrevink, 2020; Yasmin *et al.*, 2014). Second, although previous studies show that Western-style accountability mechanisms have not been fully materialised in the accountability practices of religious organisations, this study depicts that a rational accountability mechanism goes hand-in-hand with Islamic values. Third, although legitimacy and accountability are often viewed as contrasting ideas, this paper illustrates the mutual nature and co-existence of legitimacy and accountability (Costa *et al.*, 2019; Deegan, 2002) by employing Black's (2008) idea of legitimacy and accountability relationship.

The paper is structured as follows. The next section discusses the literature from the perspective of Islamic accountability and legitimacy. It is followed by the explanation of Black's (2008) model, as the theoretical framework. The fourth and fifth sections describe the research method and findings of this research. The final section highlights the conclusion of this research and the contributions this research suggests.

2. Literature review
2.1 Accountability and legitimacy perspective
Accountability has multifaceted definitions (Romzek and Dubnick, 1987) and has a striking lack of operational clarity (Koppell, 2005). Accountability can be viewed as an obligation to give an account of oneself and one's activities (Joannides, 2012) and "giving and demanding

of reasons for conduct" (Roberts and Scapens, 1985). The subject of accountability is constituted as the one responsible for giving evidence of the legitimacy of his/her activities to the stakeholders (Joannides, 2012). Accountability depicts the relationships between people and reflects to whom accounts of oneself should be aimed at (Shearer, 2002). Giddens (1984) points out that "to be 'accountable' for one's activities is both to explicate the reasons for them and to supply the normative grounds whereby they may be 'justified'". Hence, accountability is often associated with responsibility (Bovens, 1998).

Bovens (1998) identifies accountability as an aspect of responsibility, i.e. passive responsibility as accountability and active responsibility as a virtue. Passive responsibility is associated with the question "why did you do it?" and concerns with the past. Active responsibility is concerned with the question "what is to be done?" and is more oriented to the future. The responsible agent not only has reasons for the action taken, but he/she must also be able to give an account of them (McKernan, 2012). Thus, accountability renders the opportunity and means for those impacted by the activities of an organisation to demand answers associated with such activities. In this situation, the disclosed information may be seen as a neutral phenomenon that is intended to produce information to enable the stakeholders to evaluate the organisational activities (Costa *et al.*, 2019).

Furthermore, accountability may provide a source of legitimacy for organisations (Irvine, 2002). However, accountability and legitimacy are often seen as "contrasting" or "diverging" concepts (Deegan, 2007). Suchman (1995) defines legitimacy as "a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions." In other words, legitimacy depends on the acceptance of the organisations by others and the reasons for that acceptance rely on the harmony between the organisations and their communities' beliefs and interests (Suchman, 1995). If the organisations' actions and values deviate from social norms, a legitimacy gap exists. The organisations may react by executing remedial actions to reduce or remove the gap (Deegan, 2002).

Whilst accountability may be viewed as a neutral phenomenon (Costa *et al.*, 2019), legitimacy tends to have a "bias", since it is motivated by the need to enhance the organisational image or the existence of a social contract between the organisation and society (Lindblom, 1994; Unerman *et al.*, 2006). Hence, accountability and legitimacy are often understood as "contrasting" concepts (Deegan, 2002, 2007). Nevertheless, prior studies view the mutual nature of the two notions. While accountability can be justified as a device for imposing the idea of responsibility, "responsible" in this context is never neutral but rather always invested in power; agents are "forced" to behave responsibly according to the accepted rules, rather than having the freedom to judge, decide and act (McKernan, 2012). In this scenario, accountability is not necessarily "neutral", but it can be affected by power and vested interests, and concerned more with demands for compliance (e.g. from legitimacy communities) (McKernan, 2012; Willmott, 1996)

Irvine (2002) argues that accounting is an important accountability mechanism which improve the legitimacy of religious organisations. Hence, this study expects the "mutual" relationship of accountability and legitimacy in faith-based institutions context. This perhaps also explains why very limited studies explain and operationalise the mutual nature of the two (e.g. Siddiqui and Uddin, 2016; Costa *et al.*, 2019). Thus, this study employs Black's (2008) notion of legitimacy and accountability relationship to explain the "mutual" nature between the two, in the context of religious organisations.

2.2 Accountability and legitimacy in an Islamic context

Accountability in Islam is related to the fundamental concept of *tawhid*, which states that there is no God except Allah, and Muhammad is the messenger of Allah, so that *tawhid* has become a pillar for all the actions Muslims take (Maali *et al.*, 2006). The word *hesab* in Arabic depicts the responsibility of individuals and organisations/businesses to provide an account of their actions to the Islamic community, which is entitled to know the impacts of the individuals'/organisations' activities on their life (Lewis, 2001, 2005). Hence, accountability to God (*hablunminallah*) and accountability to people (*hablunminannas*) have become the fundamental concepts of Islamic accountability (Maali *et al.*, 2006). The accountability practices in Islam do not necessarily apply at an individual level, but they do at the organisational level, so Islamic institutions need to account for their conduct to society (Lewis, 2001).

Previous studies on Islamic accountability tend to focus on Islamic-inspired corporations such as Islamic banks, examining their accounting and accountability practices (e.g. Aribi *et al.*, 2019; Kamaruddin and Auzair, 2020; Ramli *et al.*, 2014; Zainuldin *et al.*, 2018). Very few studies examine accountability practices in Islamic religious organisations (e.g. Abdul-Rahman and Goddard, 1998; Nahar and Yaacob, 2011; Yasmin *et al.*, 2014; Osman and Agyemang, 2020). Yasmin *et al.* (2014) found that the communicated accountability through accounting and disclosure practices was generally limited in the faith-based charity organisations, including the Islamic ones, as they placed more stress on providing basic descriptive information rather than judgement-based information to the accountees. Nahar and Yaacob (2011) found that while the root of accountability lay with the management, the accounting and reporting practices seemed to exist, although limited, in a Malaysian *Waqf* organisation. Similarly, employing the notion of downward accountability and Islamic ethos, Osman and Agyemang (2020) concluded that driven by the Islamic ethos, individual staff's values is essential in discharging downward accountability, but rather limited.

Furthermore, the lack of implementation of formal accountability mechanisms has led to financial scandals and also arguably reduced the legitimacy of faith-based institutions, including Islamic organisations (Abdullah *et al.*, 2013; Yasmin *et al.*, 2014). Thus, further empirical studies into the legitimacy of Islamic organisations are also necessary. However, such studies are also scarce.

Some studies have attempted to conceptually investigate the legitimacy of faith-based institutions. They focused on how the stability of the mission contributed to its legitimacy, the role of the brand and its reputation in avoiding legitimacy gaps, the ability to adapt changes in the environment to the legitimacy of the organisation and how to maintain the public's trust in the organisation, which in turn may all increase the organisational legitimacy (e.g. Shupe, 1997; Ryan, 1999; Balanoff, 2013; Bielefeld and Cleveland, 2013). With the exception of Rethel (2011) and Borchgevink (2020), not many studies empirically investigated the dynamics of organisational legitimacy in Islamic organisations. Therefore, important issues such as how the deployment of rational accountability practices interact with religious values, which may stimulate accountability changes in the practices, and how these practices contribute to organisational legitimacy are not adequately addressed.

3. Black's (2008) model

This research draws on Black's (2008) work on the construction of legitimacy and accountability relationships, which may further explain the employment of an accountability

mechanism, such as accounting, as a means to gain and maintain organisational legitimacy in Islamic organisations. Three elements are central to understanding the dynamics of legitimacy and accountability, i.e. the role of the institutional environment, the dialectical nature of accountability relationships, and the communicative structure through which accountability occurs and legitimacy is constructed.

We need to understand the institutional environment surrounding organisations seeking legitimacy, which can depict the form of legitimacy that the organisations expect to gain or maintain. Referring to various legitimacy literature, Black, (2008) articulates three forms of legitimacy claims. The first is pragmatic legitimacy, where individuals or social groups perceive that the organisation will pursue their interests directly or indirectly. Second, normative or moral legitimacy, where the individual or social group perceive the procedures and/or goals of the organisation to be morally appropriate. The third form of legitimacy can be cognitively based, when an organisation is accepted as necessary or inevitable. In the case of an IBS in Indonesia, the cognitive legitimacy is so deeply rooted as inevitable that it does not require further assessment within the country with the largest Islamic population; hence, the accountability framework may be absent (Siddiqui and Uddin, 2016).
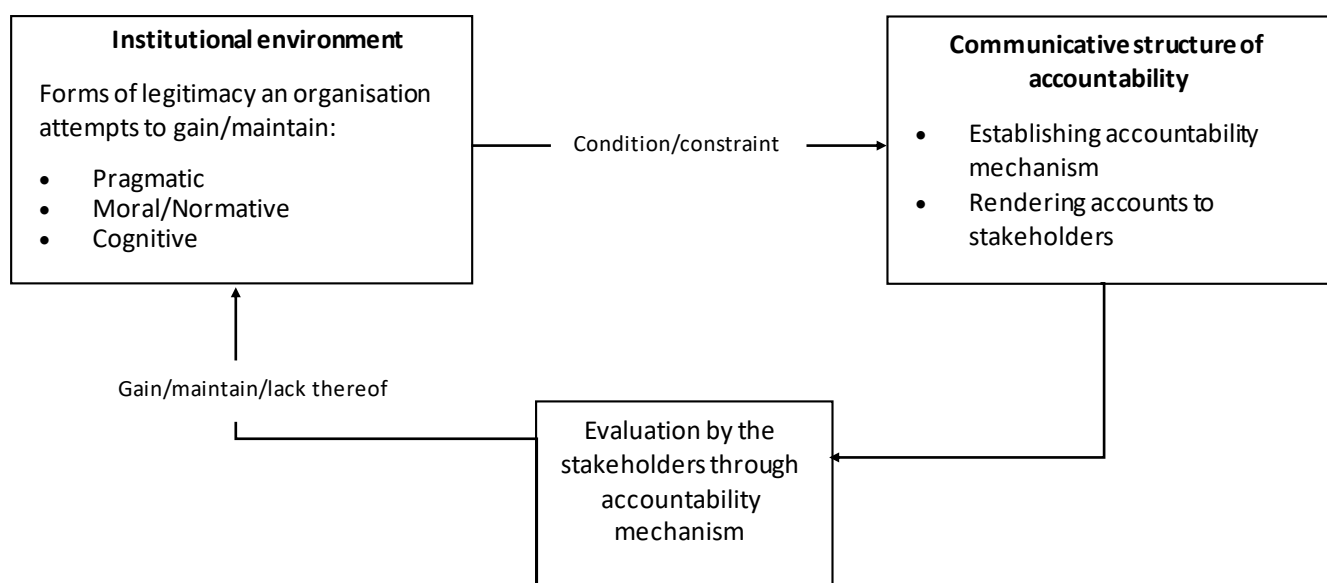

Figure 1. Black's (2008) model of legitimacy and accountability relationships

Nevertheless, pragmatic and normative legitimacy claims entail further evaluation by stakeholders since, in the real-world setting, multiple legitimacy claims exist. Black (2008) views accountability as one form of constructing and presenting a narrative of past events or actions, such as accounting and reporting practices. Black (2008) argues that organisations are thus not only passive recipients of legitimacy evaluations by their constituents, but can also play a role in actively constructing their legitimacy claims. Both organisations and their legitimacy audiences construct and evaluate the organisational legitimacy claims. Legitimacy communities attempt to validate and evaluate the conformity between organisations' activities and their legitimacy claims, to bring organisations closer to achieving their legitimacy claims. In other words, legitimacy communities attempt to find "accountability" (Black, 2008, p.149). Accountability relationships may thus simply be

strategic devices used by organisations to justify their activities and performance, in order to enhance their legitimacy (Black, 2008). This will be further investigated in the context of accountability practices in an Indonesian IBS.

4. Research methods

This research adopts a case study approach to explain how an accountability mechanism is employed and the legitimacy dynamics of an IBS in Indonesia. A case study is more useful in answering "how" and "why" questions and also essential to understand the in-depth processes that operate within a particular case (Bryman and Bell, 2011; Scapens, 1990). This is consistent with the research questions proposed by this study, attempting to explain how and why the rational accountability mechanism is practised in a religious organisation. The fieldwork lasted from November-December 2019.

We use a triangulation approach, namely document analysis, semi-structured interviews, and observation to support the convincingness of the findings (Baxter and Chua, 2008) and decrease researcher's bias in interpreting the data (Bryman and Bell, 2011; Silverman, 2010). It is essential to understand the institutional environment surrounding organisations seeking legitimacy (Black, 2008). Review of socio-political literature, newspapers, the historical literature, e.g. the development of IBSs in Indonesia, is important sources of data to identify institutional environments, which in turn condition the actions of the agent (Ashraf and Uddin, 2015, 2016). We were also granted access to some of PPWS's financial documents, such as budget documents, financial statements, accounting information system, student payment records, and budget meeting documents, which illustrated their accounting practices.

Interviews were another important source of data for understanding the structural conditions, as well as the agents' actions. The selection criterion for the interviews was based on the principle of theoretical sampling, i.e. selecting respondents who are important to the theoretical positions which this study is attempting to produce (Mason, 2002; Silverman, 2010). Since our objective is to understand the accountability practices of PPWS, we interviewed the key people who had the responsibility to discharge accountability, including the accountants and top management of PPWS. We interviewed 11 top officials, including the chairman, vice-chairman, the organisation's secretary, teachers, and the accountant. The average time for the interviews was between 40 to 60 minutes. All the interviews were tape-recorded, with the formal consent of our respondents. Issues discussed during the interviews included: the initial accounting and accountability practices; the actors involved and their role in accounting practices; the reason why they significantly changed their accountability practices; and their expectations on such changes (e.g. gaining legitimacy).

As a part of triangulation, we also conducted observations in December 2019 (one month). Mason (2002) argues that observation methods may help researchers to study social interactions, such as actions, interactions, behaviours and the way people interpret these. The objective of observation is to witness what is occurring in a setting. We observed weekly evaluation meetings, service delivery activities, and how they produced the weekly or monthly financial and non-financial reports. We focused on these activities since they reflected how the accountability mechanisms worked in PPWS. For example, during weekly evaluation meetings, they discussed and evaluated the monthly planned programs and its realisation. We also observed how the finance department produced financial reports by observing how the accountant recorded transactions, compared the monthly budget and its

realisation, and how the finance staff provided and verified transaction evidence to the accountants. We compared the observation results with other methods to see their consistency (Silverman, 2010). For example, based on observation, we found that the accountant only focused on recording revenues and expenditures (producing income statement only). This is consistent with our document analysis and interviews, which indicated the absence of a balance sheet on their financial reporting.

After the data collection, the next stage was the analysis of these interviews. We focused on how the actors perceived the accountability and how they deployed accountability mechanisms. A deductive and inductive approach (a bidirectional) was adopted, where the coding scheme arose from the empirical data and a sequential and iterative combination of concepts and terms used by previous studies (Eisenhardt, 1989). Data analysis was done in two stages, open and selective coding. Open coding is undertaken on a line-by-line basis and seeks to identify as many codes as possible until the core concept emerges (Corbin and Strauss, 2008). Selective coding starts when the core concept emerges as existing codes that are incorporated into higher-order categories (Efferin and Hopper, 2007). The categories are then related to the core since any unrelated categories will be excluded during selective coding, but this process was guided by a main coding scheme developed from the theoretical framework, e.g. the institutional environment, the construction of the legitimacy and accountability relationships, and the communicative structure of accountability. This was an iterative process with continuous shifts back and forth between the data, the theoretical scheme, and the codes (Efferin and Hopper, 2007; Eisenhardt, 1989).

5. Findings

5.1 Institutional environment

The legitimacy of an Islamic institution can be traced back to how Islam entered the country. Unlike the spread of Islam in other parts of the world, such as in Africa and Europe, which was undertaken by war or violence, the dissemination of Islam in Indonesia was done very peacefully through the wandering dervishes in the middle ages (Al-Attas, 1963; Johns, 1961). The dervishes tended to employ and combine the local culture and Islamic values to disseminate Islam in Indonesia, so resistance from the local people was hardly visible, and Islam beliefs were voluntarily accepted (Johns, 1961). The peaceful way of disseminating and practising Islam is called *rahmatan li al'alamin*. For example, the dissemination of Islam was done through puppet show (*wayangan*), which was very popular in the region. This concept may also make the strong acceptance of an Islamic school. IBSs (*Pesantren*) are the oldest educational institutions in Indonesia. An IBS upholds the culture, traditions and a way of life according to Islamic values. Van Bruinessen (1995) explained that an IBS was first established in 1710 in Ponorogo, East Java, namely IBS Tegalsari.

Indonesia did not have a well-established education system when the country proclaimed its independence in 1945. Although Indonesia has the largest Islamic population in the world and IBSs had previously contributed to the development of pre-independence Indonesian education, the education authority decided to adopt non-religious-oriented education as the national education system (Zuhdi, 2006). Consequently, the religious schools, including IBSs, maintained their independence from the government but are supervised by the Ministry of Religious Affairs.

Furthermore, the establishment of IBS began in a simple way: *Kyai* (Islamic clerics or the leaders of IBSs), who are also experts and highly respected figures in Islam, used

mosques or their own houses as places to teach. Then, the students of the IBS (*santri*) went to the mosque or the *Kyai*'s house to study. However, since the number of students at the IBSs have increased and now come from diverse regions, they need a place to stay, such as a dormitory, so that an IBS also provides a dormitory/living space for its students. Thus, *Kyai* is the leader of an IBS and provides strong legitimacy to an IBS, as commonly found in religious organisations (Malmelin and Malmelin, 2015; Shupe, 1997). This is the basic characteristics of an Indonesian IBS.

An IBS's sources of income vary. It is mainly derived from the *Kyai*'s own money, business lines, monthly fees from students and financial aid from the society in the form of *zakat*, *shodaqoh* and *waqf*. However, the Indonesian government has paid more attention to the role of IBS in enhancing the country's education system by enabling them to receive state funding through the enactment of Law 18/2019. The law also requires each IBS to have a sound Islamic educational provider and accountability practices. Hence, as the oldest Islamic education providers, the existence of IBS is inevitable and may be voluntarily accepted by society or cognitively legitimate (Suchman, 1995). The above structural conditions in Indonesia set the legitimacy and accountability context for IBS.

With respect to its accountability practices, IBSs had been characterised for its trust-based and informal accountability between organisational members since they believed that any activities are monitored directly by God (Jayasinghe and Soobaroyen, 2009; Joannides, 2012) or *hablunminallah* (Lewis, 2001). Organisational affairs, including financial activities, were mainly conducted or authorised by the *Kyai*. In other words, there was no rational (formal) accountability mechanism such as accounting reports for the organisations. Nevertheless, this approach has been proven to cause many financial scandal and lack of transparency over religious entities' affairs, which in turn degrades the public trust that threatens the legitimacy of the organisations (Malmelin and Malmelin, 2015; Yasmin *et al.*, 2014). They are now changing their accountability practices, which emphasise more on accountability to other people (*hablunminannas*) by employing Western-inspired accounting and accountability practices.

This study investigates how the reform occurred in PPWS. PPWS was established by *Kyai* Mohammad Toyyib and his sons in Ponorogo, West Java, in 1946. It was equal to the elementary school level. As time went by, the number of students increased so that the founders of PPWS decided to expand the school by erecting Islamic junior and senior high schools. Now, PPWS provides an Islamic education system from kindergarten level up to university level. Formally, PPWS was declared to be an IBS on 4th April 1961 and chose '*Wali Songo*' as its name, to honour the role of the *Wali Songo* (nine prominent Islamic figures) who disseminated Islam across Java. The founder of PPWS then granted (*waqf*) the school to the public on 6th July 1980, which meant that the founders' descendants have no right of inheritance over the IBS. PPWS is now managed by three *Kyai*s.

5.2 The importance of rendering accounts to stakeholders

According to Black (2008), we need to understand how an organisation perceives rendering account activities to understand the organisational accountability practices. In general, the key actors in PPWS believe in two main forms of accountability, i.e. accountability to God (*hablunminallah*) and accountability to people (*hablunminannas*) (Lewis, 2001). *Hablunminannas* is realised through *amanah* and *siddiq*. *Amanah* is trustable and *siddiq* can be viewed as integrity, which drives someone to account for what they have done. A person who embraces the value of *amanah* and *siddiq* are expected to uphold honesty, be

trustworthy and consistent so that it encourages him/her to be accountable not only to God, but also to other people. *Amanah* and *siddiq* are imposed on all PPWS members, including the students so that it is expected that the school's management process be undertaken with honesty integrity. It made the operation of most IBS, including PPWS, was based on trust and informal relationship between the members of the management with very limited (or lack thereof) rational accountability mechanisms, as commonly found in religious organisations (Jayasinghe and Soobaroyen, 2009).

Nevertheless, it negatively impacted their organisational accountability practices. PPWS experienced a little loss of public trust in 2006 due to financial fraud in one of its business lines. Although it was not directly related to the main financing of the school, it had the potential to lessen the public's trust. The decreased number of students at that time might have been one of the indications of the public's loss of trust. The management of PPWS decided to make fundamental changes to the way they managed the school and their funds. The management found the culprits who stole the school's money and immediately dismissed them. More importantly, PPWS's management established some Western-inspired accountability mechanisms, especially in its financial affairs, to maintain a sound bureaucratic process and improve the public's trust.

The managers now believe that a rational accountability mechanism is also an essential means to maintain the trust of the stakeholders. Trust is gained through justifying that their actions are derived from sound management practices, including their accountability. In other words, gaining and maintaining trust or the legitimacy of the organisation is important for PPWS to preserve its existence, as well as discharging its accountability to God. Being accountable to people also reflects accountability to God (Haniffa and Hudaib, 2010; Maali *et al.*, 2006).

> Our responsibility is to Allah (God). Who has the power of life and death? Formal (accountability) is to the chairman, but substantially, moral responsibility is to Allah. (IF7_17)

5.3 Establishing accountability mechanisms

PPWS has some mechanisms to provide accountability to its stakeholders (*hablunminannas*), especially in its financial activities. It is driven by the value of *amanah* and *siddiq*, whereby each IBS should establish a sound means of communication with their key stakeholders such as the students, the students' parents, teachers and donors.

5.3.1 Internal Mechanism. The internal mechanisms are the IBS Administration Information System (IAIS), an income statement for its profit-seeking subsidiaries, a statement of the budget's realisation and a customised report for the government grant. IAIS is an online form of PPWS's administration system which mainly provides information about student fees and payment methods for the educational services offered. It also provides reports on the students' progress for their parents. Students are also allowed to save money in the school's account and these savings can be traced by the parents through their IAIS account.

The other three reports are the main financial accountability mechanisms for PPWS. The income statement follows the general format for corporate reporting, which provides information about the revenues, operating expenses, gross profit, tax, net income and distributed income to PPWS. Thus, it provides the operating performance of the school's business lines as well as the money transferred to the school. However, it does not have a balance sheet so that the financial position of the business lines, such as assets and

liabilities, cannot easily be identified. The statement of the budget realisation is a financial report which depicts the budget realisation by the organisation, except for the business subsidiaries of the school. The format is relatively simple, showing revenues against total expenditures for the organisation. There are four main expenditures, namely routine (the repeated monthly expenditure on such things as transportation, food and office supplies); maintenance (expenses for minor maintenance of the school's facilities); investment and development expenditures (the amount of assets acquired by the school).

Revenue and expenditure are derived from the planning system which forms the annual budget. The planning process begins with a meeting before the start of the academic year to determine the programmes and activities which will be conducted during that year. It involves teachers, staff and the top management of the school. The proposed programmes should be intended to achieve the main vision and mission of the organisation as an educational institution, i.e. driven by the *Pancajiwa* (five main values). These consist of sincerity, modesty, independence, kinship and freedom. The result of the meeting will be used as the basis for setting the annual revenue and expenditure of the school. The budget process is somewhat modest and mainly based on experiences from previous years (incremental) without any sophisticated budgeting techniques. Interestingly, the school always attempts to avoid loans since it believes that borrowing money may place a burden on and pose a danger to, its financial position. Some non-financial aspects are also considered during the budgeting process, such as teachers' and students' needs, aspirations, visions, and missions. After the draft of the budget is approved by the chairman of the school, the programmes and activities can be started. Budget implementation depicts the execution of the programmes and activities, with some rooms for flexibility in the budget if there are unplanned or urgent/emergency activities which have to be undertaken, with the chairman's approval.

> If there is an activity other than those stated in the budget, I will send a memo to the treasurer. Sometimes, there are things that should be overcome immediately. (IF1_18)

The management of the school prepares the monthly financial reports that will be scrutinised by the treasurer and the chairman of PPWS. Timeliness has become the main obstacle to the school's financial reporting practices. The statement of the budget realisation should be prepared on the first or fifth day of the month and cash disbursements are executed on the tenth day of the month. Next month's cash disbursements cannot be undertaken if last month's statement of the budget realisation has not been submitted to the treasurer. On the other hand, the number of staff involved in the financial report's preparation is limited. Thus, it is common to see the cash disbursements delayed. Fortunately, this does not affect the execution of the planned activities or programmes.

Furthermore, although it is common practice that IBS's affairs are based on trust, the existence of an accountability mechanism in PPWS creates more confidence in the management of PPWS, as the accountability mechanism strengthens the organisation's transparency and control. For example, the school always internally announces its development projects and the funding needed to finish them. The progress of every project is also always announced internally. The monthly expenditure for the overall operation of the school is also announced; this is claimed to reduce the moral hazard that may arise in their daily affairs, especially those involving cash.

First, the existing financial report is understandable. Second, it really helps me (as the chairman) that I could not easily take out the school's money (for personal use) so that I can keep the legitimacy (*halal*) of my family's food (income). (IF1_3)

Hence, the management of the school acknowledges that trust should be enhanced through sound planning and financial management, so that the internal financial systems that were established will help keep the trust of their key stakeholders, especially the donors and parents. A good accountability system is an essential mechanism for them to justify and communicate their activities. For example, the management believes that good infrastructures should be possessed by an IBS in order to be viewed as a good school.

First, (we have to provide) infrastructure. It had been 58 years since the establishment of PPWS and (we) never think about infrastructure. Some IBSs are seen as slums. We do not want people to think that. Infrastructure has been proven to make things more convenient for the students. From our surveyed respondents, 99% of them stated that their main reason for sending their children to PPWS was because of its good infrastructure. (IF3_1)

Sound managerial and accountability practices could also be seen from the sources of funding. Most of the funding for PPWS (85%) is derived from its internal funds, such as the education service fee, the results of its business line-up and external endowment funds. It is common for an IBS in Indonesia to have profit-seeking subsidiaries. PPWS is very vigilant in accepting external financing and it tends to accept "clean funds" without any restrictions from the donor and which are free from any possibilities of fraud.

If there is an external endowment fund, it must be unconditional. We do not really search for (endowment funds). Instead, if there is someone who wishes to make a donation, we need to be prudent. Back then, there was an endowment fund but it was conditional. For example, they gave us 10,000 in cash, but we received only 8,000. However, they forced us to sign a letter saying that we received 10,000. We rejected such funding. (IF2_8)

5.3.2 External Mechanism. The external accountability mechanism of PPWS is still very limited. There are only the IAIS system, which mainly reports the students' progress, as explained in the previous section (this can be viewed as both an internal and external mechanism), specific reports for the private donors, and fund usage reports for the government's grant. PPWS always provides a specific report for its private donors, to improve the school's transparency. The management believes that it helps increase the school's legitimacy as an Islamic school by maintaining the trust of the stakeholders, especially the donors.

When there is someone offering a donation, we will direct them to the school's masterplan and budget. For example, if the donor wishes to give us 200 million, we will direct them towards our development plans which require similar amounts, such as building new toilets. We then show the concept's picture and its budget, so that they are not confused about what they are donating to. After the completion of the project, we make a report to the donors according to their requirements. (IF3_17)

Another accountability mechanism is to provide fund realisation reports if the school receives government endowment funds. According to Indonesian regulation, an IBS may be granted government endowment funds as long as it fulfils the government's requirements

such as the legality of the school and the obligation to provide reports of the endowment fund's use. This is the other external accountability mechanism for the school. Once the PPWS is granted an endowment fund from the government, the management would announce the estimation of the cost of construction and produce the fund realisation report according to the government's regulations.

5.3.3 Evaluation of the Legitimacy. Gaining trust by improving the accountability practices perhaps has depicted the legitimacy of PPWS as an education provider, like any other mainstream school. This can be viewed from the increasing number of students, which implies the acceptance of the school by the stakeholders.

> Before we open for the admission of students, we already have 50 applicants while we can only accept 200 students. Can you imagine, back then, just looking for 100 students was very difficult. This trust must be maintained. We do our best to establish *fatimah* (having a good brand name). (IF3_3)

Furthermore, although the accountability mechanism has significantly improved in PPWS, the performance measurement system is still absent. The achievement of the programmes is hardly appropriately measured, so that it is difficult to see their realisation. Achieving the set programmes is an essential component of an accountability mechanism since it depicts the commitment and responsibility of the organisation to realise the agreed targets or outcomes (Goddard, 2005). Nevertheless, the management of the school always disseminates the general fund's usage to the teachers and students periodically. The details of the fund's utilisation are for the management only. These accountability mechanisms are intended for the internal management of PPWS only.

Interestingly, it is claimed that their key stakeholders, especially the students' parents and fund contributors, never complaint about the lack of transparency in the school's budget or how the funds are used, providing that the results of the management's plans can be easily seen, such as the establishment of new buildings, continuous improvements to and maintenance of the facilities and improvements to the teachers' welfare. The increasing number of incoming students every year may seem to confirm this, as also mentioned in the previous section. Nevertheless, the existing accountability mechanism is still intended to justify their activities, to maintain the trust of their key stakeholders.

6. Discussion

This study focuses on the issues of accountability and legitimacy dynamics in an Islamic institution, drawing on Black's (2008) notion of legitimacy and accountability relationships. Black (2008) argues the importance of institutional analysis to understand the structural conditions surrounding a case study, which depicts the forms of legitimacy sought by PPWS. It was linked with the way Islam entered and had been practising in the country, whereby Islamic beliefs were in harmony with the local cultures and beliefs, unlike the dissemination of Islam in other parts of the world (Johns, 1961). The peaceful way of practising Islam is called *rahmatan li al'alamin*, which conditions the voluntary acceptance of Islam and no visible resistance by the local people (Al-Attas, 1963; Johns, 1961). In other words, the legitimacy of Islam in Indonesia may be conditioned by *rahmatan li al'alamin*. It depicts the legitimacy of Islam in the Indonesian context is cognitively-based (they are voluntarily accepted) and normatively-based (align with the local cultures and norms). This structural

environment has also conditioned voluntarily acceptance of IBSs in Indonesia, the largest Islamic community in the world, which contribute to the development of education and exist way before the independence of the country. The prominent figure of the *Kyai* as the leader of PPWS further enhances its legitimacy, as suggested by previous studies (Malmelin and Malmelin, 2015; Shupe, 1997). Thus, legitimacy in PPWS resonates with cognitive legitimacy, when an organisation's existence is accepted unconditionally and left unquestioned; and perhaps normative legitimacy, when organisation's activities are perceived to be socially and morally appropriate by the stakeholders (Suchman, 1995).

Concerning its accountability practices, the management of PPWS believes that the ultimate human accountability is to God (*hablunminallah*) and to other people (*hablunminannas*) (Maali *et al.*, 2006). Realising *hablunminannas* was done by imposing the *amanah* (trustable) and *siddiq* (integrity) value, whereby one is expected to uphold honesty and integrity in their doings as a means to account for their doings to God and other people. It initially makes the organisational affairs of an IBS are based mainly on trust, without any rational accountability mechanism, the logic that is different from that of a profit-seeking organisation (Joannides, 2012; Quattrone, 2004). Nevertheless, this practice has caused a lack of transparency and even leads to financial scandals and legitimacy crisis (Yasmin *et al.*, 2014). Thus, PPWS believes *amanah* and *siddiq* should also be imposed through adopting rational mechanism to achieve *hablunminannas.* Previous studies suggest the importance to establish a proper accountability mechanism to other people as the medium for accountability to God (Haniffa and Hudaib, 2010; Maali *et al.*, 2006).

At this point, the role of accountability is essential as a means to regain and maintain legitimacy (Black, 2008). In a real-world setting, multiple legitimacies exist and often reinforce each other (Black, 2008) so that it is essential for PPWS to also maintain and gain other forms of legitimacy (pragmatic and normative). Unlike cognitive legitimacy, these two legitimacy claims are often challenged by the stakeholders (Suchman, 1995). Black argues that legitimacy communities attempt to evaluate and validate the conformity of organisations' activities with their legitimacy claims. In other words, the stakeholders seek "accountability".

Hence, because of a new perspective of imposing *amanah* and *siddiq*, PPWS established its internal accountability mechanisms, such as its planning and budgeting system, financial reports and students' monitoring system. This also depicts the attempts to maintain normative and pragmatic legitimacy which are often challenged by the stakeholders. Some external mechanisms were also built, such as project realisation reports for donors and fund usage reports for government grants. They did so to justify their activities to their main stakeholders, i.e. the parents (of students there), the students themselves and private donors so that they maintain their trust in its organisational activities, which in turn enhances its brand name as a provider of Islamic education services. It is clearly an attempt to achieve a pragmatic legitimacy, whereby the direct legitimacy communities (e.g. parents and donors), believe the organisation will pursue their interests (Suchman, 1995). PPWS attempted to justify its activities to its direct stakeholders by disclosing its affairs in various reports and expecting them to believe that the school has done what a school should do. Although PPWS have limited external accountability mechanisms, yet they still attempt to comply with the regulations concerning government grants to gain endowment funds by providing specific realisation reports for these funds, as required by the regulations. They also prepared the budget for a particular project funded by donors and government funds. Black (2008) argues normative legitimacy is obtained

when the stakeholders perceive the goals and/or procedures of the organisation to be socially and morally appropriate. She explains that complying with regulations and other social norms is an attempt to maintain normative legitimacy.

Thus, although PPWS has initially obtained cognitive legitimacy, the strongest source of legitimacy, and normative legitimacy, this paper shows the importance of maintaining normative and pragmatic legitimacy, which various stakeholders frequently challenge. The increasing number of students and no visible resistance from their stakeholders may have depicted the evaluation undertaken by their stakeholders, which also confirm the school's legitimacy. Hence, although the accountability practices in PPWS depict that while accountability should be seen as a neutral phenomenon (Costa *et al.*, 2019), however, they are also driven by the desire of the organisation to gain and maintain its legitimacy. It implies that being accountable is also influenced by power and interest, such as gaining legitimacy (McKernan, 2012). Accountability is driven more by socially accepted norms rather than allowing one to have the freedom to judge and act (Joannides, 2012; McKernan, 2012). Nevertheless, this finding suggests the rational accountability mechanisms are in harmony with the religious values, contrary to the findings of previous studies, which mainly depict that rational accountability mechanisms have not been fully materialised or practised symbolically in religious organisations (e.g. Jayasinghe and Soobaroyen, 2009; Quattrone, 2004; Yasmin *et al.*, 2014).

7. Conclusion

This research has examined how an IBS changed its accountability practices and how the actors employed the accountability mechanism to enhance organisational legitimacy. The accountability mechanism of PPWS was initially informal and based on trust among the organisation's members without any formal (rational) mechanism, as is often found in religious organisations (Jayasinghe and Soobaroyen, 2009; Yasmin *et al.*, 2014). The people believed in direct accountability to God (*hablunminallah*) and accountability to other people (*hablunminannas*). *Hablunminannas* expects one to uphold honesty and integrity in one's doings to society (*amanah* and *siddiq*). Thus, the rational accountability mechanism was perceived as unimportant since the people involved were expected to exercise their honesty and integrity.

Due to financial fraud, which caused a legitimacy crisis, the school decided to improve their *amanah* and *siddiq* practices by adopting rational accountability mechanisms. Although the analysis revealed that the school had earned cognitive legitimacy, the strongest form of legitimacy, and normative legitimacy, they still needed to maintain other forms of legitimacy which are often challenged by the stakeholders, i.e. pragmatic and normative legitimacy, by improving the school's accountability mechanisms, such as its planning and budgeting system and accounting reports. These Western-style accountability mechanisms broadened the view of *hablunminannas,* in that formal accountability to the stakeholders was also essential for enhancing the school's legitimacy. In other words, the accountability practices were also driven by the desire for legitimacy. Drawing on Black's (2008) model of legitimacy and accountability relationship, the implementation of formal accountability mechanisms depicted the school's attempt to gain and maintain pragmatic and normative legitimacy. These legitimacy claims might be confirmed by the increase in the number of students, as well as hardly visible resistance from the stakeholders to the school's affairs.

This research makes several contributions. First, there is clear evidence that an accountability mechanism is a means to obtain organisational legitimacy in a faith-based organisation. Previous studies argue that, conceptually, accountability practices should be seen as a neutral phenomenon (Costa *et al.*, 2019; Deegan, 2007), however, accountability is also driven by power and interest, such as obtaining legitimacy (Irvine, 2002; McKernan, 2012). This study provides empirical evidence that the accountability mechanism in a religious organisation may also be enacted by the desire to regain the trust of the stakeholders, which in turn would improve the organisation's legitimacy.

Second, while previous studies found that rational (formal) accountability practices were not fully materialised as intended, or seen as symbolic practices due to their interactions with religious values (e.g. Jayasinghe and Soobaroyen, 2009; Yasmin *et al.*, 2014), this study depicts that formal accountability mechanisms are in harmony, although not fully materialised, with Islamic values. Accounting and accountability practices are perceived to be consistent with the Islamic notion of *hablunminannas*, i.e. the importance of providing accountability to other people as a medium for accountability to God (Maali *et al.*, 2006). Thus, using a rational accountability mechanism simultaneously enhances the Islamic notion of accountability and the organisation's legitimacy.

Third, theoretically, this paper provides explanations about the importance of accountability mechanisms as a means to maintain legitimacy. Although accountability and legitimacy may be viewed as contrasting concepts (Costa *et al.*, 2019; Deegan, 2007), this case study depicts the mutual nature of accountability and legitimacy. Driven by the existence of multiple legitimacies, the management of PPWS attempted to establish rational accountability mechanisms for their key stakeholders and stopped believing that running an organisation based only on trust between the members was adequate. Sound accountability relationships between the organisation and its stakeholders have brought mutual advantages, whereby it improves the transparency of the organisation as well as enhancing *hablunminannas* values. Although cognitive legitimacy has been earned by PPWS because it is an IBS in the country with the largest Muslim population; other forms of legitimacy, i.e. pragmatic and normative legitimacy require further work. PPWS's management attempted to develop rational accountability mechanisms. By doing so, they believed that pragmatic and normative legitimacy might be achieved. Thus, this paper shows the mutual nature of legitimacy and accountability relationship that previous studies have rarely examined.

Finally, this study calls for further research in some areas. First, further examination of the views of the key stakeholders about the accountability practices of Islamic organisations that need public accountability is required since it is also essential to understand their views, which in turn may also determine the form of accountability an Islamic organisation needs to develop and how the organisation implements Islamic values of accountability. Second, future studies should consider the mutual nature of accountability and legitimacy since they are often viewed as competing concepts. This study depicts that the accountability practices, coupled with the interest to improve the practices and regain the public's trust, are critical to enhance the organisation's legitimacy. Third, further investigations into rational accountability practices are still needed to better understand how the Western-inspired accountability practices embed within a religious organisation and how their employment interacts with religious values. This study provides evidence that the rational accountability mechanism is in line with Islamic values, contrary to the findings of some prior studies.

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