Organization

A theory of capitalistic co-optation of radical alternatives: The case of Islamic banking industry

Journal:	*Organization*
Manuscript ID	ORG-18-0257.R2
Manuscript Type:	Article
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Abstract

In this paper we use the critical theory literature to describe the processes of co-optation by which capitalism engages with its radical alternatives in order to subvert their emancipatory potential. We chose to study the evolution of Islamic banking industry, which represents bold efforts to build a radical alternative embedded in Islamic moral precepts. However, we observed that the performative intent of capitalist discourse, reflected in a strong preoccupation with effectiveness and efficiency, has come to dominate all economic claims in the Islamic banking industry. As reflected in this case, oppositional ideas that were intended to disturb the economic status-quo now reproduce it along with its privileges, despite the vaulted rhetoric about establishing a genuine alternative. The paper ends by mapping out some implications of re-introducing co-optation in the critical theory literature.

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"In our advanced industrial society, tolerance of oppositional ideas serves, paradoxically, to strengthen and perpetuate the status quo" (Marcuse, 1965)

Scholars have recently shown increased interest in the attempts to diagnose the ills affecting the global economy, especially against the backdrop of the financial crisis in 2008 (Dufour and Orhangazi, 2014; Kliman, 2011). Some argue that this tendency is due to the inherent nature of neoliberal global capitalism which is "concerned only with money making money" (Jackson and Carter, 1995: 883), diminishing the power of human-centered values and ethics. Indeed, some have documented that capitalism periodically undergoes a systemic crisis due to its inherent instabilities (Kotz, 2009; Rogers, 2014). The regularity of the financial crises and the asymmetries and inequalities generated by capitalism were further highlighted in 2011 with the Occupy Wall Street movement (Shrivastava and Ivanova, 2015). This movement used aesthetics to critique the inequality of the economic system and the personal greed that it spawns. Such protests are manifestations of the growing legitimacy crisis of capitalism and are instrumental in dramatizing both the need and the possibility of thinking about alternatives (Adler, 2014). Some scholars believe that the resolution of systemic crises requires a major restructuring, and mere bailouts and temporary arrangements will not work (Wolff, 2013). Even in post-capitalist work formations, such as the one enabled by the ride-sharing service Uber through the use of platform business model, new opportunities are created, but the degradation of work and precariousness of labor also increase as Uber exploits the insecurities of the 'gig' worker (Peticca-Harris et al., 2020). Indeed, this existing state of affairs has made economists and social scientists think hard about the non-capitalist socioeconomic formations with the aim of finding out if these alternatives can challenge and ultimately replace the dominant system.

One can identify numerous alternative ways of contesting capitalism such as intentional communities, co-operatives, microfinance organizations, alternative currencies etc. (see Meyer and Hudon, 2017; Parker et al., 2014) but it is not clear if these alternatives disrupt or strengthen the capitalist system.

As the quote of Marcuse shows, capitalism not only allows but even benefits from its critique. This capability of capitalism to restructure its alternatives, or co-opt them, without subsuming them into its core is the topic of this paper. We present a theory of co-optation to show the processes by which neoliberal capitalism absorbs seemingly anti-capitalist alternatives. This is followed by a detailed historical examination of Islamic banking (embedded in the ideology of Islam) as an empirical illustration of this theory and as a radical alternative of conventional banking (rooted in neo-liberal capitalism).

Since 'neoliberal capitalism' is a polysemic and politically charged term (Ganti, 2014), there is no fixed closure of its exact meaning. However, what we can offer is a broad sense of orientation which is sufficiently accurate to point out the contours of its territory and the main tenets of its philosophical system. Given the above, we define neoliberal capitalism as a socio-economic order which privileges unrestrained market competition, minimal state intervention, and a self-regulating economy based on market relations where individuals with an entrepreneurial orientation maximize their material interests (Kotz, 2018; Lambert and Herod, 2016; Coburn, 2011). This order is rooted in a moral project of human liberation and freedom (Bloom, 2017) and an ideology (Fotaki and Prasad, 2015) of organizing society by valorizing the individual while destroying collective structures (Bourdieu, 1998). This stands in stark contrast to Islam with its theistic epistemology and belief in *Allah* (God) where human liberation means submission to the will of God (Ul-Haq and Westwood, 2012). In the capitalist system, individuals are modeled as self-interested rational maximizers with a competitive, hedonistic, winners-take-all mentality (Dawes and Thaler, 1988; Ferraro et al., 2005) while Islam assumes that individuals are focused on co-operation, empathy, love, and community with an altruistic mentality (Zaman, 2019). By treating all humans as rational egoists focused on maximization of material gains, neoliberal capitalism completely ignores the spiritual concerns that are central to an understanding of the purpose of life in Islam (Ul-Haq and Khan, 2018). Similarly, in the capitalist system, the basic problem of individuals is economic, i.e., how to satisfy infinite wants with finite resources (Allen, 1976; Hussen, 1982) and the solution to this problem lies in accumulation of wealth through ever higher forms of efficiency. On the other hand, the problem of individuals in Islam is spiritual transformation, i.e., how to control their desires for material goods while cultivating their spirit, and the solution to this problem lies in the love of God and the struggle to create a just and good society (Zaman, 2019). In this sense any social, cultural or economic model emanating from Islam would have an agency of liberation providing spiritual autonomy set over against any repressive order of material necessity, thereby providing a radical alternative to neoliberal capitalism.

The above differences led us to study the Islamic banking industry as our empirical context since it claims to provide a radical alternative to the traditional banking system. It is important to note, however, that this alternative does not claim to be a holistic challenger to neoliberal capitalism but only presents itself as a partial implementation of Islamic ideology in the banking arena, an important sphere of economic activity. We used the methodology of 'narrative construction' (Wadhwani and Decker, 2018) to study the Islamic banking industry in order to mark out events and processes constituting turning points in its evolution. In this manner, we contribute to critical theory by first integrating existing literature into a coherent process theory of co-optation and then illustrating its empirical application in the Islamic banking context. In the next section of this paper, we briefly present findings of existing literature on alternatives followed by our theory of co-optation. Then, we present a detailed historical narrative of important changes in the Islamic banking industry. We then show how this alternative was co-opted by capitalism using its agents and discourses. In the end, we map out some implications of re-introducing co-optation in the critical discourse especially in opening up the possibilities for formulating a transformative enterprise.

Anti-capitalist resistance and alternatives

Despite the hegemony of capitalist discourses, we do find instances of anti-capitalist movements as well as alternative forms of organizations (Gibson-Graham, 2008). These include social mobilizations ranging from the Zapatistas in Mexico to the Yellow Vests movement, Dakota Access Pipeline protests, and sustainable development related movements among many others. Similarly, some examples of alternative economic practices and organizations include unpaid labor (household and volunteer work), online and virtual currencies, community based indigenous enterprises, worker co-operatives, and barter networks etc.

This implies that a variety of alternatives in different domains also exist alongside the market system of capitalism (Mitchell, 2002). However, we acknowledge that it is complex to neatly demarcate the boundaries of these alternatives as their critics can always point out some capitalist elements (Fisher, 2009). We resort to Martin Parker and his colleagues' conceptualization, who argue that what makes the alternatives unique or distinct from capitalism is their emphasis on alternative values including 'autonomy, solidarity and responsibility' (Parker et al., 2014: 32) which are geared towards social, human, and democratic goals (Bousalham and Vidaillet, 2018). We also need to be clear that, as we stated in the introduction section, most of these alternatives are only partial contenders to a system emanating from capitalist philosophy.

There are two 'ideal' types of such alternatives, *incremental* and *radical*, which can be conceptualized as two ends of a continuum. The objective of incremental alternatives is to first highlight a problematic aspect of the existing economic order and then to improve or correct it. These alternatives are built on the assumption that there are situations where the market mechanism becomes unfair and illegitimate resulting in material disparities and power inequalities. The purpose of these alternatives is to improve the fairness of the system instead of subverting it. The response of capitalism to such alternatives is mostly to accept their critique and incorporate mechanisms that address legitimacy deficits as long as 'the profit-based dynamic can continue to operate' (Chiapello, 2013: 63). Hence, these alternatives actually contribute to the robustness of capitalism (Boltanski and Chiapello, 2005) owing to their therapeutic function. Consider, for example, the Bottom of the Pyramid (BOP) projects which attempt to use the market mechanism to not only generate profit but also alleviate poverty in developing countries. This image of private corporations harnessing the creative and entrepreneurial capacities of local communities while dispensing philanthropy has gained considerable attention within the business world (Simanis and Duke, 2014). However, scholars have argued that BOP projects represent, at best, an incremental improvement in development outcomes amidst reproducing exploitation, dispossession, and marginalization of the indigenous communities (Arora and Romijn, 2012). The relation of BOP projects with private capital actually leads to a legitimation of consumerism and marketization (Chatterjee, 2014). This dense interconnection of incremental alternatives with capital have prompted some to question their 'alternative' status (Fisher, 2009) since they are different only in form and are driven by the same logic of capitalism. Yet this difference helps us in disentangling the alternative from the normative (Maurer, 2005) and in maintaining the historicity and contingency of economic practices. Maintaining this difference, then, is a strategic move to sustain the desire of building alternatives and to continuously experiment with possibilities for the emergence of another world not undergirded by market relations.

The radical alternatives, on the other hand, have anti-capitalism objectives with a competing value system. The challenge is no longer to improve the status quo but to eliminate and replace it with a better one. In that sense, these alternatives do not simply represent a tweak to the dominant model of economic organization but a potential to reconfigure it on alternative lines. Thus, the radical alternatives, as compared to the incremental ones, are more complex and are more likely to challenge the dominant system. Some examples include grassroots self-management alternatives such as worker co-operatives and alternative currencies. The metanarrative built by these initiatives is irreconcilable with capitalist logics and therefore cannot be simply integrated into the existing system by eliminating some of its problematic aspects or by inserting another regulatory constraint.

Nevertheless, the question remains as to why capitalism has not encountered more sustained and potent resistance from radical alternatives? In other words, the issue is not whether the alternatives exist inside or outside the market system or interact with it in some kind of transitional articulation, but why the radical alternatives are not able to replace its values with their own. We argue in this paper that these alternatives can be co-opted before they can be fully explored in all of their potentiality. Hence, a phenomenal power of neoliberal capitalism lies in its ability to co-opt these alternatives. Despite their vulnerability, however, we still would like to treat them as alternatives due to their original radical intent, the alternative values they promote, and their significance in the realm of the potential.

Theory of Co-optation

Herbert Marcuse, an influential member of the Frankfurt school of critical theory, used the term ‘repressive tolerance’ to express the idea that capitalism, as a hegemonic system, appears to relinquish some of its power and control which shows as if its challenger has gained some space. However, in reality, the alternative is only tolerated while being rendered impotent owing to its acceptance of the system’s “rules of the game” (Marcuse, 1965: 83). Hence, it is possible that the apparent radical enterprises are actually reinforcing the system that they purport to resist. This is achieved when the system submits the emancipatory potential of these alternatives to capitalistic rationality and logics. Marcuse expressed this capacity of the system to ensure that the alternatives have no meaningful impact as ‘co-optation’. Following this line of thought, we define co-optation as *the ability of the established economic order to respond to new radical challenges and challengers by altering their foundations*. Capitalism allows emancipatory ideas to be voiced since the processes of co-optation can not only effectively paralyze their transformative possibilities but also use them to their own advantage. In other words, the power to co-opt provides capitalism with a formidable apparatus of domination over revolutionary ideas while maintaining an illusion of tolerance for disruptive thinking. This produces a situation in which the alternatives are subverted and lose their emancipatory potential. However, Marcuse did not provide any detailed mechanism or process by which repressive tolerance leads to co-optation. In this section, we attempt to describe this process beginning with explicating the discursive nexus of knowledge and capital by using the idea of 'performative intent'.

Performative Intent

The discourse surrounding the capitalistic apparatus is governed by a performative intent which is defined as the "intent to develop and celebrate knowledge which contributes to the production of maximum output for minimum input" (Fournier and Grey, 2000: 17). This intent portrays the endless search for efficiency and effectiveness following the mechanical logic of optimization while also influencing the way we think. It generates a normative pre-commitment to efficiency (Maurer, 2005) as well as seemingly neutral categories of ‘risk’, ‘value’, ‘profit’ and ‘shareholder wealth maximization’ which are shown as inevitable, natural and beneficial for every kind of economic activity (Engelen, 2002). However, these categories are not outside the economic reality that they purport to describe but actually constitute it (Callon, 2007) and hence will only make sense when the world they suppose has been actualized (MacKenzie, 2007). In that 'actual' world, the categories are transferrable across different domains with their connotative baggage intact and are then worked out and applied to create spaces of inclusion and co-optation (Fairclough, 2004). The discourse, thus, establishes its authority by shaping the identities of individuals who internalize this performative intent as well as the associated categories (Meriläinen et al., 2004), for example through economics or business education, and are ready to reproduce it using instrumental rationality. The vocabulary of performance sets the rules of the game and legitimizes the actions of agents working in tandem with its agenda. It also provides a hegemonic and dominant template for social and economic organization which is then available for mimicry.

Role of professionals in the processes of co-optation

In order to assert their unique identity as emancipatory possibilities, the radical alternatives need to build up a non-performative intent (Fournier and Grey, 2000) geared towards, for example, the maximization of social justice or environmental sustainability or God's will instead of efficiency. This also implies a challenge to the 'naturalness' of existing legitimate and reified economic arrangements. There are costs of these challenges, however, as the existing institutional players including the regulatory agencies and international institutions such as the World Bank, IMF and WTO etc. exist to preserve, sustain, and reproduce capitalist relations (Peet, 2009). The coordinating mechanisms of capitalism are also protected by a wide range of social institutions which appear as modes of economic control (Aglietta, 1998). As an example, consider market entry regulations which place limits and persuade all players to conform to laws and norms of efficiency thereby acting as barriers to the development of non-performative alternatives.

Similarly, the economic space typically does not view unproven business archetypes as legitimate and, as a result, the initiators of these alternatives face significant resource constraints. They have to pay a heavy illegitimacy discount since they rank low when judged for economic appropriateness. In other words, the alternatives need to gain sociopolitical as well as economic legitimacy in an unfavorable ecosystem. For this purpose, some alternatives hire existing professionals (managers, engineers, scientists, lawyers, accountants etc.) in the hope that they will act to establish some degree of stability by providing technical and organizational structures of control (Delbridge and Ezzamel, 2005; Reed, 1996) such as policies, rules, bureaucracy, formal incentives, double-entry accounting systems, information and communication technologies, and standardized work processes. These technologies and structures are characterized by accountability and attention to procedure in order to enable a nascent alternative to perform its activities in a predictable manner despite environmental uncertainties. They also help in mechanizing and routinizing work through automation, calculation, and number crunching. The radical alternatives may also incorporate professionals to signal to those undecided that even established figures are championing the alternatives and so should they. However, the professionals change the alternatives in a manner that becomes more comprehensible to them based on their mainstream frames of reference.

Although the professionals might see their task as utilitarian in design, their quantification obsession creates an imaginary in which countable abstractions (of people and resources) become valuable for understanding and controlling the otherwise complex ‘economic’ reality. Consider, for example, the institutionalized practices of accounting systems which are considered essential for any ‘rational’ economic order and carry great symbolic significance (Miller and Rose, 1990). Highlighting activities and achievements in financial terms, as a form of rhetoric, legitimates performative practices (Cooper, 2015). International Accounting Standards (IAS), which have become globally ubiquitous, make it problematic for any country to attract investors or deal with international financial institutions without having them in place. These standards are set and overseen by organizations that are funded privately, which incline them to privilege interests and practices of business over societal obligations. The financialization of economy, through which financial markets are given the highest priority, is aided by accounting standard setters who ensure that issues, problems, and their solutions remain confined to serving the objective of global capital

(Cooper, 2015). In this manner, the technologies act as systems to restructure the radical alternative on performative lines and play an important role in its mission drift.

Additionally, most of these professionals have internalized the norms of behavior dictated by the ideology of managerialism that has infiltrated and colonized their minds (Dent and Whitehead, 2002). The lens of this ideology forces them to see the alternatives as inherently 'risky' due to non-conformity with their tacit knowledge, occupational socialization, and requirements of the economic space. The moral code inscribed in their identities motivates them to supply knowledge which not only can reduce this risk (Beck, 1992) but also justify their professional existence. Hence, these professionals engage in constructing and spreading an *argument of necessity*. This argument is based on a principle of self-preservation that calls for deviations from the values of the radical alternative for survival, effective competition, building trust of key resource providers, and for integration with the mainstream system. In summary, the professionals construct a need to inject some impurities in the alternative.

Impression Management and Dual Discourses

The alternatives cannot relinquish their original mission since they defined themselves in oppositional terms to capitalism and this opposition was mobilized in their initial discourse to assert a fundamental difference. This difference now acquires a distinctive, central, and enduring feature of their identity and associates itself normatively to its emergent archetype. Therefore, the progenitors of these alternatives improvise and morph them into hybrids by preserving the distinctive form but accepting the performative intent. In order to protect and maintain the public image of the alternatives, however, these actors may resort to a variety of impression management techniques (Bolino et al., 2016). For example, the ‘fair trade’ movement, as an alternative to neoliberal free trade, has faced skepticism regarding its claim of a socially just international trade relationship between Southern producers and Northern consumers (Jaffee, 2007). However, in order to save its legitimacy as the protector of small agro-producers and a champion of solidarity and exchange equity, it resorted to an institutionalized certification system (such as FLOCert) to manage this criticism and to gain mainstream visibility (Renard, 2005).

This impression management may simultaneously consist of multiple designs including the emergence of dual discourses; one discourse for its sympathizers which highlights its differences with capitalism through elaborate ceremonial displays of confidence while the other for economic consumption which highlights its integration and interoperability with the existing ecosystem. This allows the alternatives to send two separate signals to its different stakeholder groups. For example, it sends a signal of 'distinctiveness' to the stakeholders interested in its original mission while also sending a signal of 'equivalence' to the stakeholders interested in its performative character. The purpose of this duality is to obfuscate the compromises it has made.

Diffusion of Co-opted Alternative

The early co-opted alternatives gain status, technical expertise as well as power, and are increasingly seen as exemplars or models by later entrants (Haunschild, 1993). Narratives start circulating about the problems faced by these incumbents and the optimality of their solutions in order to trigger an imitative response resulting in more adoptions (Bartel and Garud, 2009). Although some might point out the hybrid and contested nature of these solutions thereby introducing uncertainty about their appropriateness, diffusion can still occur due to the sanctioning and framing efforts of powerful incumbents (Compagni et al., 2015; Litrico and David, 2017). As these change-promoting agents and new entrants start building an industry, a need arises for Standard Setting Organizations (SSOs). These organizations "expose firms to industry knowledge and allow for conversations and debates with the joint objective of shaping the industry's future" (Vasudeva et al., 2015: 4). The SSOs attempt to set agreed upon premises, auditing systems, protocols and standards of economic behavior by promoting industry 'best practices'. In this manner, the SSOs act as powerful vehicles for diffusing and legitimizing performative practices (Brunsson and Jacobsson, 2000). Hence, new organizations emerging in this milieu are impinged upon by the norms of existing arrangements and find it convenient to simply adopt the co-opted solution.

The performative intent, role of professionals, argument of necessity, impression management & dual discourses, and the diffusion of co-opted alternatives are the principal processes which inform our theory of co-optation. Nevertheless, there are conditions under which the success of a radical alternative might actually be legitimate. In other words, any alternative can be evaluated based on its original intent, objectives, and its emancipatory values and/or practices. The positive results of this evaluation would mean that the alternative can retain its radical credentials. For example, Susan Esper has argued that Argentinian worker recuperated enterprises (WREs) are "one of the few ongoing large-scale successful attempts at performing an alternative form of organization within a capitalist system" (Esper et al., 2017: 672). Hence, it is not necessary that every alternative will be co-opted. Let us now turn to the case of Islamic banking to examine the validity of this theory.

Research Context

As the radical alternatives to capitalism and the resistance that they face is socially organized, it is important to study the turf on which these struggles take place. One such important domain is the commercial banking industry which plays a vital role in providing mediation functions for accumulating capital and is thus considered a driving force and a hallmark of capitalism. The fundamental model of this industry works on charging interest on debt or usurious lending.

It is pertinent to note that 'usury' is a pre-modern term originally used to denote the requirement that a debtor has to pay more than the principal sum borrowed. As David Graeber has painstakingly documented, usury has been resented and forbidden for millennia by all major religions due to its affinity with greed and avarice (Graeber, 2011). The exploitation and oppression historically associated with usury made it an abomination[1] (Harper and Smirl, 2014; Murtola, 2012). However, usury now refers to the charging of illegal or excessive rates of interest. This modern origin of the term 'interest' as a euphemism for usury is meant to make it more rational, non-judgmental, amoral, and more compatible with a 'progressive social order' (Hirschman, 2013: 196; Mills and Presley, 1999: 102).

A significant development in the evolution of capitalism is the enhanced access to various forms of interest-based debt, the development of financial markets, and the resulting social insecurity, inequality and oppression (Dwyer, 2018). The rapid expansion and diffusion of financialization reduced the moral as well as legal regulation of interest (Davis, 2009) thereby spreading this predatory system even to those 'disadvantaged' social groups residing on the fringes of capitalism (Davis and Kim, 2015). It is no wonder then that sociological studies of debt have repeatedly documented how a banking system based on interest systematically transfers wealth from the poor to the rich, widens inequalities, negates social solidarity, and creates an idle class of wealth owners (see Desmond, 2016; Dwyer, 2018; Williams, 2004).

Distinguishing Characteristics of Islamic Banking

Despite its structural injustices, however, usury became institutionalized as part of normal commercial transactions due to the growing power of banks to not only lend but also create money by issuing debt (Niewdana, 2015). Nevertheless, this institutionalization was not fully accepted across various cultural contexts including Muslim-majority countries in which Islamic law (*Shariah*) provided guidelines for an alternative system. Although there are many distinguishing characteristics of this system (Rahman, 1964), the most significant is the Quranic injunction against interest (*riba*) and uncertainty (*gharar*). For instance, God says in the Quran: "*Those who swallow usury cannot rise up save as he ariseth whom the devil hath prostrated by (his) touch. That is because they say: Trade is just like usury; whereas Allah permitteth trading and forbiddeth usury. He unto whom an admonition from his Lord cometh and (he) refraineth (in obedience thereto) he shall keep (the profits of) that which is past, and his affair (henceforth) is with Allah. As for him who returneth (to usury) – such are rightful owners of the Fire. They will abide therein"* (2:275; quoted from Pickthall, 2006). Similarly, Prophet Muhammad (peace be upon him) has ordained: "[d]*o not sell a dinar for two dinars and one dirham for two dirhams*" (Sahih Muslim, chapter 19, book 10: 3849; quoted from the translation of Siddiqui, 1976). While there was some early doubt on whether *riba* covers interest per se or excessive interest, there is now a general agreement that it means all forms of interest (Khan and Bhatti, 2008; Rahman, 1964). Since there is a prohibition on pre-determined interest rate, banks cannot function on fixed returns and have to emphasize risk-sharing as well as soundness of a project instead of credit-worthiness of the entrepreneur (Iqbal & Molyneux, 2015).

Moreover, there are prohibitions against using uncertain economic contracts (*gharar*) where profitability is the result of undetermined causes or a sheer matter of chance (Warde, 2000). Some of the instances of *gharar* include sale of non-existent items such as the future harvest of a farm, sale of items with unspecified quality and/or unspecified price (el-Gamal, 2001). In addition to not being able to engage in interest-based financial intermediation, Islamic banks cannot invest in certain unlawful (*haram)* products (e.g., alcohol, pork, gambling etc.) and also in interest-bearing financial assets or financial derivatives.

The objective of these principles is to acknowledge the enslaving potential of interest-based debt and to promote an economic system focused on social justice, human welfare and equity (Mir and Khan, 2015) undergirded by a divine framework that provides moral meanings to these principles. In the words of the Vice-chairman of the International Association of Islamic Banks,

"…the Islamic financial system cannot be introduced by eliminating 'riba' (interest) but adopting the Islamic principles of social justice and introducing laws, practices, procedures and instruments which help in the maintenance of justice, equity, fairness, and human considerations" (Yaacob, 1986: 100-101).

These unique features, especially the moral dimension, are incommensurable with the secular economizing spirit of capitalism (Hefner, 1995; Mir and Khan, 2015), particularly reflected in the traditional banking system, and hence provide a radical disjuncture between Islamic and capitalistic worldviews. The former centers around a divinity and value the hereafter over this world, whereas the latter centers around a new god – the market, asking human beings to serve the capitalists or capitalistic system (Cox, 2016; Zaman, 2019). The (excessive) interest nourishes and reinforces the unjust capitalistic order. By prohibiting interest "Islam has endeavored to do away with a hideous form of tyranny and injustice prevalent in human society" (Siddiqi, 1983: x). In this sense, any economic system emanating from the Islamic worldview will be non-performative in its nature (Ali et al., 2013; Usmani, 1998) and hence present a radical alternative. Therefore, studying the evolution of the Islamic banking industry can provide a test of our theory of co-optation.

Research Methodology

We followed the historical methodology (Wadhwani and Decker, 2018) in order to make sense of how the progenitors of Islamic banking understood this alternative and made decisions that shaped its emergence. More specifically, we followed the practice of narrative construction in order to structure the "evidence in ways that assign causes and consequences to events and actions through their organization in time" (Wadhwani and Decker, 2018: 119). The objective of our analysis was 'explicative' which focuses on "applying and developing theory to reveal the operation of transformative social processes" (Maclean et al., 2016: 613). This is a suitable objective since it not only allows us to approach the archival sources with our generalizable theoretical structure of co-optation but also reveals how people attached with Islamic Banking framed its problematics in order to generate support for organizational and industry-level changes. This approach is similar to the study of Wadhwani (2018) who traced the development of savings banks as a response to address poverty in the 19th century.

The process of historical method (Wadhwani and Decker, 2018) involves: (1) *reporting* of social actions based on valid, credible and transparent data sources; (2) contextual *explanation* of causes and effects; (3) *understanding* or hermeneutic interpretation of actors' experiences; and (4) *evaluating* the theory (see Table 1 for details). We acknowledge the problem of researcher bias which can result from selective observations and through imposition of theory on empirical data. We avoided this bias through a rigorous methodology and by remaining more reflexive in our inquiry (Stutz and Sachs, 2018). In other words we followed an objective, rigorous and systematic methodology and also self-reflected, especially during data analysis phase, in order to recognize and 'bracket' (Tufford and Newman, 2012) our own influence on the research process in the form of assumptions, beliefs, interests, and experiences with Islamic banking.

Insert table 1 about here

Following this historical method as exemplified by Wadhwani (2018), we first selected the context – 21 major publicly listed Islamic banks established by or in Islamic countries (see Table 2), and period of study – from 1960's onwards when the first Islamic bank was set up. The selected banks were dealing with the full range of *Shari'a* complaint products, and were located or had operations in the major Islamic capitals. We consulted the banks' annual reports, products' brochures and details, and edicts or *fatawas* of Islamic scholars about *Shari'a* compliance of banks' products. The data was downloaded from the banks' websites, and EIKON (proprietary database). These data sources constitute our primary sources to report facts and actors' own accounts. However, for hermeneutic interpretations and triangulation, we relied on secondary sources: *Quran* (scripture revealed to Prophet Muhammad (peace be upon him)), *Hadith* (sayings and deeds of the Prophet), consultants' reports, newspaper stories, and Islamic scholars' books and edicts or *fatawas*. It was necessary to use an eclectic, yet carefully selected, collection of primary and secondary sources in order to produce a continuous holistic narrative (Rowlinson et al., 2014).

Insert table 2 about here

We looked for relevant consultants' reports and newspaper stories through FACTIVA using the keyword: "islamic bank*" during the observation period. The resulting reports and newspaper stories were used to appreciate the context of Islamic banks' practices, and the meanings ascribed to their practices by society and stakeholders. The Islamic scholars were identified from banks' annual reports, edicts about products' *shari'a* compliance, consultants' reports, and newspaper stories. As frequent references were made to the injunctions of *Quran* and *Hadith* and the works of some scholars, Al-Sadr (1982), Mawdudi (1947), and Usmani (2002), we consulted these sources for hermeneutic understanding of the banks' practices and products' justifications. The triangulation of sources also included books and peer reviewed articles (listed in the Reference section, and identified with *). These books and articles were searched using the keyword: "islamic bank*" through Google Scholar.

Based on a systematic interrogation of these sources we construct a historical narrative which provides a selective but adequate representation for highlighting important players, events and actions. By following this procedure, we attempt to show the historical emergence of Islamic banking industry while uncovering the processes of its co-optation.

Co-optation of the Islamic Banking Industry

Islamic banking has expanded rapidly across the globe since its birth in Egypt in the 1970s and now more than 300 Islamic banks are functioning in 50 countries worldwide (see Table 3 for a chronology). From insignificant beginnings the assets of Islamic banks have gone beyond $1.87 trillion in 2014 and are expected to reach $6.1 trillion by the end of this decade (Grewal, 2013). This phenomenal growth rate indicates that this industry is now an important part of the global financial system.

Insert table 3 about here

Islamic banking in its modern form draws on the enterprise of Islamic economics which has a long history. Even if it is accepted that the provenance of Islamic economics as a doctrine is traceable to the twentieth century (Kuran, 1997), the economic guidelines enumerated in the substantive body of Islamic law, derived as it is from the sources of *Shari'a*, provide not only a conceptual and philosophical framework but also a reified body of legitimate economic practices and transactions. The Islamic revivalist thought of 20th century, generated in a post-colonial context, critiqued the ascendance of modern rationalism and argued for submission to divine sovereignty within the guidelines of Islamic law (*Shari'a)* as the legal superstructure (Lapidus, 1997). Thought leaders, for instance al-Sadr (1982), Mawdudi (1947) and Umar Chapra (1992) etc., of this revivalist movement challenged the extent and desirability of both capitalism and socialism as secular systems bereft of ethical values. As explained by Umar Chapra:

"Three economic systems are dominant in the present-day world – capitalism, socialism and their joint offspring, the secularist welfare state…the countries following these systems have failed in varying degrees to realize the goals they aspire for … and they are in general facing a crisis situation…[which] is a fairly predictable consequence of the inherent structural defects in the systems themselves. Hence the existing systems … cannot provide a model which may be emulated by Muslim countries" (Chapra, 1992: 5-6).

Similarly, on the matter of usury, Mawdudi writes:

"It is strictly prohibited in Islamic law to lend one's accumulated savings on interest. If you lend your money to anyone … you can claim only the principal money and not a single penny more. In this way Islam breaks the very backbone of aggressive capitalism and blunts the edge of the greatest instrument by means of which the capitalist tries to concentrate in his hands the economic resources of the community by relying on his money power" (Mawdudi, 1947: 38).

These scholars were instrumental in bringing Islamic economics as a radical alternative to the fore where it had to face the mainstream positivist economics with its powerful empiricist tenets, mathematical models, and laboratory experiments (Nasr, 1988; 1994). This encounter made many realize that it might be difficult to find an economic space to experiment with these ideas at the national economy level and a better starting point might be the industry level (Farooq and Hunt-Ahmed, 2013). As work progressed in the field, Muslim thinkers turned their attention to a rediscovery or re-invention of classical business contracts offered as *Shari'a*-compliant alternatives to conventional banking products. Mufti Taqi Usmani, a well-known international authority on Islamic banking, states the industry's original intent of defying capitalism in the following words:

"The basic difference between capitalist and Islamic economy is that in secular capitalism, the profit motive or private ownership are given unbridled power to make economic decisions…. This attitude has allowed a number of practices which cause imbalances in the society….Islam has put certain divine restrictions on the economic activities…All these prohibitions combined together have a cumulative effect of maintaining balance, distributive justice, and equality of opportunities" (Usmani, 1998: 10-11).

One of the ardent advocates of Islamic banking, the former President of Pakistan, Zia ul-Haq, said in a symposium:

"Muslim world should develop its own economic system as an alternative to capitalism and socialism and to free mankind from economic inequalities" (*Reuters*, 26 October 1987).

The above quotes make it clear that, at least initially, Islamic banking represented efforts to produce a radical alternative since its original intent was transformative. Despite this original intent, however, the mechanics of contracts and the instrumentalities of techniques with increased standardization came to dominate thinking (see Table 4 for a summary) instead of their transcendental status in what is known today as the Islamic banking industry.

Insert table 4 about here

Basic Forms of Financing used in Islamic Banking

Most scholars (el-Gamal, 2007; Saeed, 1999) attribute the initial workable structure of Islamic banking to the economist, Mohammad Uzair (1955). The first Islamic institution, however, appeared in the form of a rural savings bank in the Mit Ghamr village in Egypt in 1963. It was initiated by al Najjar, an Egyptian inspired by the German co-operative banking model, with the main objective of financing raw materials (farm animals, seeds, pumps etc.) for poor farmers of the Nile Delta. This institution gained popularity and expanded its operations until it was nationalized in 1971 and renamed as Nasser Social Bank (al-Ashker, 1990). It still operated as a welfare organization to help those at the bottom of the pyramid and provided money for their consumption needs as part of its mission to provide credit to the poor (Mayer, 1985).

Nevertheless, it was only in the mid-1970s that serious attempts were made to scale up the industry. One notable contributor, Nejatullah Siddiqi, argued that the distinguishing features of Islamic banking should be risk sharing and an asset-based structure (Siddiqi, 1972) which creates a direct link between financing a transaction and the underlying asset in order to tie together the real and the financial sectors. Additionally, when money is invested by the Islamic bank, it is treated as "potential" capital (Askari et al., 2010: 13). Hence, any return on money must reflect the profitability of the business being financed which implies a sharing of profit and loss between the financier and the entrepreneur (Ayub, 2007: 186). In this sense, Islamic banks are co-investors with their clients. This led jurists to argue, in the initial phases of the industry, that the ideal mode of Islamic financing can be either *Musharaka* (joint venture) or *Mudaraba* (limited partnership) (Siddiqi, 1968; Kahf, 1982). *Musharaka* can be understood as a joint venture in which all the participants supply capital and also share in both gains and losses. On the other hand, *Mudaraba* is also based on an investment partnership but in this contract the managing partner (*mudarib*) provides only services while the investors (*rabbul-maal*) provide capital for the venture. These two parties share profits generated from this business but only the investor bears the risk of losing his investment. This initial partnership based banking model, envisioned by Uzair & Siddiqi, formed the reference point for other financial institutions (Mohd. Yaacob, 1986).

Nevertheless, when *Musharaka* and *Mudaraba* contracts were implemented in reality, Islamic banks started including covenants such as profit ceiling and minimum return. They reasoned that the presence of asymmetric information in the partnership model makes it inherently risky for the bank as financial statements might be falsified or creative accounting practices might be applied to manage profitability (Nienhaus, 1983). Consequently complex administrative and legal mechanisms were needed in order to monitor and enforce these contracts (Adam et al., 2015). This led some to argue that debt-based modes of financing are more secure for the Islamic banking industry instead of joint ventures (Humud, 1976). However, this argument violated the profit and loss sharing spirit of Islamic contracts, rendering them similar to the conventional long-term debt contracts. Both these contracts gradually came to be realized as risky products since the bank assumed all risks and had to rely on the entrepreneur to manage the venture.

The industry, then, adopted the cost-plus (debt-based) model called *Murabaha* which became the most commonly used product for short-term financing (Ariff, 1988; Dar, 2007; Man, 1988) accounting for over 50% of total transactions (Pollard and Samers, 2007). In 2017, for instance, Qatar Islamic Bank declared 65% of its assets to be *Murabaha*-based, earning 64% of net income. *Murabaha* as a mode of Islamic finance "…is predicated on the permissibility of charging a credit price that is higher than the spot price of a property" (el-Gamal, 2006: 64). This change prompted Nejatullah Siddiqi, an early Islamic economist, to comment:

"Many of these early Islamic financial institutions tried risk-sharing rather than shifting all risk to the fund users, but found the existing legal framework inhospitable to the practice. The rescue came in the idea of *Murabaha*" (Siddiqi, 2016).

Hence, the Islamic bank, instead of handing out money to the borrower, purchases goods on his behalf and re-sells it to him at a mutually agreed upon higher price. It has been argued that the distinction between the mark-up on price in a *Murabaha* transaction and interest is that the former takes the form of a sale/purchase agreement (Nienhaus, 1985). The borrower pays back on a deferred basis and the bank holds ownership of the purchased products prior to the end of the contract. However, this deferred payment employs the time value of money since the Islamic bank "does not incur any real financial risk of ownership" (Karim, 2010: 46). In other words, employing the permissibility of charging a higher credit price in the sale of an asset, the Islamic bank monetizes it and makes the customer sign an undertaking to buy the asset at a higher price thereby earning a profit not commensurate with the profits made on average on the sale of these assets. The flowcharts depicting the mechanics of these three contracts are shown in Figure 1 below.

Insert Figure 1 about here

This mode of financing, at least initially, faced skepticism as documented by el-Ashker in his study of Islamic banks in Egypt. In his own words:

"*Murabaha* is received with great caution … as it is feared that the method might open the back door for dealing on a fixed interest basis" (el-Ashker, 1987: 95).

Scholars also criticize the use of benchmarking *Murabaha*'s rate of return to LIBOR arguing that tying pricing to a usurious banking metric is contrary to the profit & loss sharing principle (Karim, 2010). This linkage also forces the return to be homogeneous among all banks regardless of their profitability scale (Chong and Liu, 2009). Some studies also found the fluctuation in 'profit shares' of Islamic banks to closely follow market interest rates (Kuran, 1995) which implies that in practice the returns from Islamic banks are fixed just like conventional banks instead of being dependent on profits/losses. Even Mufti Taqi Usmani, who played an instrumental role in legitimizing these Islamic modes of financing, admitted later:

"*Murabaha* is only a device to escape from interest and not an ideal instrument for carrying out the real economic objectives of Islam. Therefore this instrument should be used as a transitory step taken in the process of the Islamization of the economy" (Usmani, 1998: 72).

The Argument of Necessity

An important part of the process of co-optation was the argument of necessity, employed to sanction impurities in the Islamic banking industry. The argument of necessity stems from the nature and quantum of risks associated with *Musharaka* and *Mudaraba,* the ideal modes of financing. As mentioned above, factors such as asymmetric information, duplicitous practices of clients, and legal uncertainties were among the reasons that necessitated the widespread adoption of *Murabaha*, which, not being an ideal instrument, was tolerated 'as a transitory step' (Usmani, 1998: 72). Departing from the positions of early Islamic banking theorists, Usmani posits that there are two sets of rules, one that is ideal and applicable in normal situations (*Shari'a*-enabling) and another that affords concessions in the context of unusual circumstances (*Shari'a*-compliance) and "the Islamic banks are mostly relying on the second set of rules" (Usmani, 1998: 16). Thus, a state of interim tolerance (*Shari'a*-compliance) was required to start scaling up the industry in order to reach the next stage where the industry could reach the stage of purity (*Shari'a*-enabling). However, it was not clear, in this later theorization, as to how the industry will move from *Shari'a*-compliance to enabling (Siddiqui, 2007). What started as an argument of necessity, tolerating interim impurity, actually gave rise to an Islamic banking industry grounded in and sustained by an alternative discourse of *Shari'a*-compliance only. For example, when asked about his views on the mission drift of Islamic banking industry due to the focus on compliance, the CEO of CIMB Islamic, Malaysia, said:

"My view is fairly straightforward. When the consumer asks for a particular financial solution, be it a savings account, a financing facility to buy a house or car or whatever, we will be required to provide that service in a way that is consistent with *Shariah*. If it appears, when it comes out, to be mirroring a conventional financial solution, *to my mind it is completely a coincidence*… This debate is a waste of time. It doesn't serve society, and it provides a dis-service to Islamic finance because it distracts it from doing what is needed. *The customer is king, and the customer gets what the customer wants*, as long as it is consistent with *Shariah*" (*Euromoney*, 6 May 2015) [emphasis by authors].

Recognition of this permissible impurity also gave rise to many corrective mechanisms that were applied when a banking transaction was deemed unlawful. For example, if some interest was charged on a particular contract, it could be doled out as charity in order to sanitize the transaction (Maurer, 2005). *Fatwa* and *Shari'a* Supervisory Board of Al Salam Bank, in its annual report of 2017, recommends "to ward-off the *Shari'a* non-compliant income from the transactions executed during the year and have it spent on charity" (pg. 67). These cleansing mechanisms, however, are totally unfamiliar concepts in Islamic law (Saeed, 2011) as the mathematical equivalence between charity and impure interest income is akin to creating a formula between permissible (*halal*) and impermissible (*haram*). Despite this, the purification procedures had to be institutionalized in order to force the transactions to become moral. Other such methods include misuse of technical juristic terms, reliance on weak opinions, and acceptance of "… the practice of using [rules from] another school (*madhhab ghayr*) in a single transaction without completing *Sharı'a* conditions" (Ghias, 2013:109). Due to the wide spread acceptability of the argument of necessity, the problem set changed from the development of *Shari'a* based financial contracts to the application of *Shari'a* principles to complex financial transactions in the interest-based system. This also meant that, at least in practice, religious scholars started mixing and matching from any of the four main schools of jurisprudence in order to tailor Islamic banking services to fit particular needs. In essence, although a language of alternative values exists in Islamic banking, it is rendered ineffectual by the hegemony of the performative discourse.

Response of the Existing Banking Experts: Defenders of the Status Quo

The Islamic banking industry, in its development stage, faced the challenge of hiring qualified professionals with knowledge of Western banking and *Shari'a* as well as fluency in Arabic and English languages. They had to rely on traditional banking professionals[2] who were able to control and manipulate the nascent industry's landscape by focusing attention on comparisons with the capitalist-inspired financial architecture. (Ferlie et al., 2005). An engagement with this architecture was deemed necessary in order to become visible in this landscape. The professionals, most of whom were graduates of Western institutions, highlighted the need for transactional integration with the global financial system and were instrumental in developing practices mimicking that system. For example, the Chairman of Bahrain's First Islamic Investment Bank said in a conference:

"Islamic banking should not be seen as a niche, but as good as other products. Currently Islamic banks offer short-term tools with returns of 5% to 6%...Our aim is to create credit-rated medium-to-long term investment tools with returns compatible with existing conventional products, so that financial advisors the world over can advise their clients to invest with us on the basis of returns, rather than because they are Islamic" (*Asian Business*, 1 December 1997).

Similarly, on the issue of benchmarking with LIBOR, Head of Global Islamic Finance at Citigroup, remarked:

"…LIBOR will continue to be used for a long, long time. At the end of the day, the cost of money has to be similar for the product to be viable. The Islamic market probably represents less than 1% of all liquidity in the world. If you come up with your own benchmark different from LIBOR or US treasury, then you won't be able to integrate this product in the overall financial sector" (*AsiaMoney*, 15 July 2002).

Although the knowledge generated by Muslim jurists was new, the implementation of this new knowledge depended on its generalization and abstraction by means of pedagogic devices provided by the professionals. As head of Islamic investment banking at United Bank of Kuwait remarked:

"The religious aspects of Islamic banking should be looked after by the Shariah experts; the commercial implementation should be handled by the bankers" (*Reuters*, 6 November 1994).

The bankers applauded Islamic banking as long as it was 'profitable', thereby assuming that 'efficiency' somehow possess divine sanction which does not need any further justification. Another manifestation of this thinking is visible in selecting the most appropriate governance structure for Islamic banks. In the initial days of the industry many suggested adopting a mutually owned thrift institutional structure in which depositors are shareholders (el-Gamal, 2007). These ideas had a strong influence on the successful Malaysian experiment of Tabung Haji in the 1960s. However, the bankers favored the traditional and familiar Anglo-Saxon shareholder-controlled management and board structure which created a "fundamental conflict of interest between Islamic depositors and shareholders" (Nienhaus, 2007: 130). In this way, they not only reproduced the competitive logic of capitalism but also reconfigured the Islamic discourse insofar as it was compatible with this logic.

Since the objective of establishing the industry was to provide a radical alternative focused on religious injunctions, one might not associate a rigid implementation of procedural rationality and machine-like decision-making in this context. Nevertheless, the existing experts emphasized the high symbolic value of rationality which is signaled through numbers and calculations. This 'trust in numbers' (Porter, 1995) was supposed to help in the generation and strengthening of perceptions of objectivity and neutrality in the

Islamic banking system. Quantified measures were also required to ensure transparency, accountability, and performance evaluation (Robson, 1992). The common language of numbers simplified a messy reality that helped in organizing the decision processes towards costs, profits, financial ratios, return on capital etc. (see McCabe, 2016). The same financial measures allowed comparisons between Islamic and traditional banking that are otherwise, at least theoretically, different. These analogical comparisons (Ariff et al., 2011) forced the professionals to couch their performance in terms compatible with the existing categories of the banking industry. However, the same terms then started guiding their thinking and validating particular accounts without them realizing the traps of co-optation. Focused on playing the numbers game with traditional banks, the Islamic bankers never measured their impact on social justice or social welfare. The weight of economic facts mythicized the decisions of the industry under the imperative of economic performance with the result of serving the interests of a few shareholders. In summary, this performative use of metrics to measure short-term activities rather than fulfill religious or social obligations produced a governmentality that not only shifted authority from *ulama* to bankers but also helped align Islamic banking with traditional banking.

However, despite their embeddedness in the global financial architecture, the professionals needed to take care of the demands of their main customers, i.e., Muslims, who are concerned with the genuineness of Islamic banking. For instance, the Chairman of the International Association of Islamic Banks commented,

"We had been living with a schizophrenic type of arrangement. On the one hand, we knew we were doing something wrong in accepting interest and on the other we didn't admit it" (*The Globe & Mail*, 23 September 1980).

These Muslims represent a niche set of consumers who are averse to interest and can be conceptualized as a new category of financial subjects – the *homo Islamicus* (Pollard and Samers, 2007). In order to satisfy these stakeholders, an ideological duality emerged in Islamic banking discourse (e.g., annual reports of banks) between an abstract theological rhetoric and pragmatic economism. For example, after declaring 245.60% growth rate in profits after tax, the CEO of BankIslami stated that "[by] the grace of

Allah [God]..., BankIslami completed another year with growth in key areas despite all the challenges" (BankIslami, 2017:13), and shared details of how the bank achieved key financial performance indicators (KPIs) for generating shareholder returns using alternative banking products. It is never discussed, however, why the achievement of these KPIs is an indication of the pleasure of God and why the performance is measured only in financial terms. This dual discourse is significant as it shows how an Islamic banker oscillates between the language of neoliberal capitalism and Islamic theology or moves back and forth between *homo economicus* and *homo Islamicus*.

Role of Shari'a-Advisors

The initial Islamic commercial banks such as the Dubai Islamic Bank (established in 1975) or Kuwait Finance House (1977) did not have religious scholars to guide their operations (Kahf, 2004). However, in order to increase the industry's trust and legitimacy for common public, the banking regulators recommended constitution of a *Shari'a* Supervisory Board (SSB) as an additional body comprising Islamic scholars with specialized training in Islamic commercial jurisprudence. By the early 1990s, most of the Islamic banks were operating with a board of *Shari'a* experts (Nienhaus, 2007). The role of this SSB was to oversee the activities of Islamic banks so as to ensure literal and technical compliance with *Shari'a* tenets. It is important to note that formulation of a knowledge configuration for addressing the objectives of social justice and welfare are simply not given any consideration. Additionally, the board of directors of an Islamic bank appoints and determines the emolument of advisors serving on the SSB which creates a conflict of interest.

These advisors come from *Madrassahs* (traditional Islamic educational institutes) where learning is based on classical sources of Islam including the religious texts. They are trained in these texts as well as Islamic jurisprudence and, due to their religious stature, have gained respect locally as well as internationally as guardians of Islam (Zaman, 2002). Nevertheless, due to the traditional structure of religious seminaries, these scholars are generally not well-versed in the complexities of the Western financial system (Nienhaus, 2007). This problem was resolved by Islamic banks through decoupling not only governance but also the product and process innovation mechanisms from the grant of religious approval. They hired Western-trained finance professionals for the former and Islamic scholars for the latter. This led industry analysts to remark:

"There are two forces moving in an Islamic bank: the financially educated and the religiously educated. Management is having to blend these two forces" (*Financial Times*, 28 November 1995).

In this sense, maintenance of a strict structural organizational boundary becomes an important mechanism of co-optation. Nevertheless, both types of professionals played their part in the process of co-optation since the *Shari'a* advisors were instrumental in convincing the general public of the ability of Islamic banking to cater to their financial needs in a religiously responsible manner. Gradually the intellectual flexibility of these advisors resulted in their popularity and multiple memberships in different supervisory boards (Nienhaus, 2007).

Role of Standard Setting Organizations (SSOs)

Initially, Islamic banks used to set their own accounting standards in consultation with their *Shari'a* advisory boards and keeping in view their national norms and interests (Abdel Karim, 1990). It was argued, however, that this fragmentation will generate problems of consistency and high risk for an industry that crosses geographic, doctrinal, and cultural lines (Wahyudi et al., 2015). For example, Dr. Rodney Wilson, Professor of Economics, remarked:

"With Islamic banking the products are similar but there are no central standards. Different banks in different countries have different regulations. Malaysia, for example, is known to be more adventurous than the Gulf" (*Bank Marketing International*, 1 October 1997).

Even regulators from traditional banking pressed the need for uniform accounting standards to allow Islamic managers to allocate resources effectively and to cultivate an efficient market in this process (Maurer, 2002). Additionally, it was not possible to earn network benefits without agreement on a uniform mechanism of a financial transaction. An official of ANZ International Merchant Banking argued that: "The lack of central Sharia authority means you cannot have standardization across the market. Without standardization, you cannot have a market. Otherwise, if you want to trade a product, you can only trace it back to people who issued it" (*Financial Times*, 28 November 1995).

These reasons paved the way for some SSOs to evolve alongside the banking industry including the Islamic Financial Services Board (IFSB) and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Although compliance to their standards is voluntary in most cases, once some banks start following a set of standards, a 'tipping effect' (Lemley, 2002) is produced and the remaining members of the industry follow suit.

The IFSB started its operations in 2003 with the aim of helping the Islamic financial services industry by promoting uniformity of regulations. Interestingly, the creation of IFSB was facilitated by the International Monetary Fund (IMF) which is a platform for the institutionalization of a global financial architecture for capitalism (Venardos, 2010). Therefore, the notions of what constitute 'good governance' at IMF are heavily influenced by the neoliberal capitalistic discourse and are used to support the 'free market' and 'free flow of capital' ideology. Hence, the standards promoted by IMF are an effort to 'reform' alternatives so that they can be subjected to the hegemonic international capital (Taylor, 2004). It is no wonder then that IFSB was instrumental in developing standards for the implementation of conventional Basle II as well as capital adequacy requirements. For example, under Basle II, it is mandatory for Islamic banks to disclose risk factors to the financial markets which consequently requires accounting techniques and terminologies (Bianchi, 2007). The financial regulators in Bahrain and Malaysia, for instance, have largely adopted the capital adequacy guidelines of IFSB.

Another important body responsible for transnational standard-setting is AAOIFI (Warde, 2000) which has issued numerous best practices related to auditing, accounting, corporate governance, and code of ethics (Bassens et al., 2011). Interestingly, this autonomous standard setting body decided to leverage the existing standards instead of developing completely new Islamic standards. Therefore, many of its standards are in harmony with International Financial Reporting Standards with just some additional disclosure requirements (Levy and Rezgui, 2015). It was argued that annual reports and other financial disclosures need to provide comparable information for investors to evaluate the health of an organization. This requires Islamic banks to follow certain uniform accounting standards in line with international standards in order to create the impression of technical precision for regulators and investors. However, this uniformity and harmony came with a price since traditional accounting practices and the associated discourses are squarely embedded in the capitalist logics. As we have argued in the theory section, accounting acts as a disciplining technology and instills a 'calculative mentality' which is a key signature of capitalism (Toms, 2010; Bryer, 2000). One of the most important metrics identified by Bryer (2000) in this regard is the 'rate of return on capital', since it forms the basis of calculation of the profit ratio fundamental to the performance of all profit and loss sharing based products. All the Islamic banks not only calculate and advertise this measure in their annual reports but also peg it with the market interest rates. Moreover, all Islamic banks follow the double-entry bookkeeping system for financial disclosures, which has been traditionally recognized as the hallmark of performative rationality (Chiapello, 2007).

Accounting manifested its authority by making economic rationality center stage in Islamic banking. This is reflected in organizations becoming more interested in competition and self-interested utility maximization, which is incompatible with a simultaneous regard for solidarity, compassion, and social justice in order to achieve the pleasure of God as the ultimate telos of human endeavor. Instead of developing their own accounting procedures, Islamic bankers simply imported all the conventional accounting ideas and never questioned their value neutrality and relevance to Islam (Lewis, 2001).

The above discussion clearly highlights the point that engaging in Islamic banking is no longer about commitment to divine commandments or helping Muslims improve their economic position through Islamic means, but about performing at the most efficient level in comparison with traditional banks due to co-optation. This is also reflected in the literature produced by management practitioners on Islamic banking where it is shown 'empirically' to be better in efficiency than its capitalist counterpart (Beck et al., 2013), thereby reducing the complexity of human relationships with God to numerical calculations.

Discussion

In this article, we were interested in analyzing the processes by which capitalism engages with radical alternatives in order to thwart their revolutionary potential. For this analysis, we traced the development of Islamic banking industry which emerged from bold but determined efforts to build such an alternative by partially reconciling modern economics with Islamic moral tenets. However, we observed that due to its reliance on existing capitalist agents, tools, techniques and logics, the more the industry increased in size and economic significance, the more it resembled a conventional banking industry focused on economic efficiency instead of the original mission of social justice and redistribution. The entanglements with capital ultimately challenged Islamic banking's proffered boundaries and solidarities as a radical alternative, which now present a compromised situation of co-existence. The compromises made by the industry eventually drew a response from a section of Pakistani Muslim scholars in the form of a collective *fatwa* (edict). This collective *fatwa* against modern Islamic Banking, which appeared in 2008 (Ghias, 2013), was a result of contestation and debates among Muslim jurists and Islamic banking practitioners on the nature of a genuine Islamic financial product. The *fatwa* revealed a cleavage within the community of *Shari'a* scholars, with one side arguing that "Islamic banks are not following the theoretical foundations of Islamic finance" (Ghias 2013: 104), and are therefore not distinct in their current form from conventional banks. The *fatwa* also censures proponents of Islamic banking for their reliance on devious interpretative methods and techniques such as cutting and pasting of juristic terms and fusing legal opinions of different schools of law. Recourse to weak and unreliable interpretations in the presence of unambiguous and correct rules is also cited as a serious flaw in the mode of reasoning adopted by experts who furnished juristic support for modern co-opted Islamic banking. The *fatwa* lists several instances of mistakes and errors committed due to the violation of sound principles of jurisprudence. Focusing, for example, on *Murabaha*, it ventures into details of how *Murabaha* is used as a *hila* (stratagem) in Islamic banks and is not "an agreed upon Islamic financing instrument" (Ghias 2013, 109). It is argued that the manner in which *Murabaha* is executed not only falls short of the actual juristic procedure but even disqualifies it as a kind of sale. The practice of forced charity, which Islamic banks levy in lieu of penalty for late payment of rent, is also seen as a fallacious attempt to render interest permissible. What this fatwa exhibits, despite being more concerned with juristic and pedantic fault-finding, is an appreciation of the inadequacy of the enterprise in remaining true to its own radical ideals. To these religious scholars, stratagems have been transformed into standard financial instruments for the purpose of carrying out transactions, making these stratagems the hallmark of Islamic banks, thereby compelling these scholars to use the pejorative term 'stratagems banks' for them.

As the realm of the co-opted alternatives expands into society, it likely sparks a counter movement with the aim of protecting the sanctity of the original mission. These counter movements can take a specific cultural form depending on the peculiar nature of the radical alternative. Nevertheless, the movements can construct a moral frame through which the co-opted alternative can be problematized and stigmatized. Through this moral frame the counter movements can highlight the mission drift of the co-opted alternative and might call for a boycott of the products or services as a form of resistance tactic. Hence, the alternative exists in perpetual tension with its counter-logic. The edict against Islamic banking can also be recognized as a form of textual resistance against co-optation which serves to dismantle the illusion of the industry offering any kind of radical alternative to the existing system. Although it is hard for the Islamic banking industry to now modify its course owing to its huge scale and scope of activities spread all over the world, we still want to point out how it can remain compliant with the letter and spirit of Islamic guidelines. First, it would need to reject the instrumental means-end rationality of performance goals and shareholder wealth maximization and construct a non-performative intent. In other words, it needs to engage with the rich Islamic intellectual tradition to generate a radical imaginary focused on improving social justice and reducing inequality. This would of course require a denaturalization of the unquestioned "truths" which have produced a way of seeing the contemporary economic reality as the natural order of things. We also need to assert non-market values in order to evaluate any alternative in terms which are different from the one supplied by capital. Unless this is done, there will be a very high chance that their efforts will be co-opted. Hence, prior to developing a radical alternative, a change in representations is required. This line of enquiry can also be a good avenue for future research.

Moreover, in order for an alternative to become a transformative force, it needs to develop new discursive strategies adept at subverting the entrenched symbolic order of mathematical commodity relations. As Bourdieu described:

“The action of symbolic subversion, if it wants to be realistic, cannot draw the line at symbolic breaks -- even if, like some aesthetic provocations, they are effective in suspending self-evidences. To accomplish a durable change in representations, it must perform and impose a durable transformation of the internalized categories (schemes of thought)” (Bourdieu, 2001: 121).

The only viable way forward is to stop playing the game of the capitalist and focus our energies on reframing the discourse from efficiency and competition to other spheres of civil society. Consider, for example, worker co-operatives as an alternative organizational form and how competition with capitalist firms resulted in marginalization of its original values of self-help, democracy, solidarity and equality (Cheney et al., 2014). This mission drift led scholars to formulate a ‘degeneration’ thesis (Storey et al., 2014) to argue that most co-operatives transmogrify into a capitalist enterprise when employees are excluded from ownership, when pursuit of profitability supersedes the original values and/or when management hierarchy is introduced producing inequalities. The undermining of these original values can even take place when two alternatives start competing with each other on performative lines (Bousalham and Vidaillet, 2018).

Extending the earlier works (Ibarra-Colado, 2006; Yousfi, 2014), we explicate the mechanism used in the Islamic banking industry for ‘epistemic violence’ of the Global North which “involves silencing, subjugating, diluting and distorting Global South voices” (Khan and Naguib, 2019: 91), through the processes of co-optation. The distortion allows the system to tame any aura of sacredness, authenticity and tradition to serve material interests, egotistical calculations, and market rationality. This situation demands an urgent ethical response in terms of 'epistemic healing' (Khan and Naguib, 2019) whereby the marginalized knowledge systems such as Islam are brought back in discussion with their unique alternative meta-theoretical commitments. In addition to bringing these knowledge systems in discussion, an equally pressing demand is for thinking about approaches to developing agency and critical faculties for resistance to co-optation. To that end, we echo the position of Khan and Koshul (2011), who argue that "[a]gency can also arise from maneuvering with and within the self, the movement triggered by experiences gained through bodily acts" (p 317). Through rituals, individuals can develop higher forms of intellection which can help actors to critically reflect, make decisions, and act in line with Islamic ideals. Therefore, the change-agents in saving the radical alternative from co-optation could be academics, intellectuals and scholars (Esper et al., 2017) whose critique can play an active role in reframing existing representations and producing new identities (Cabantous et al., 2016), creating alternative organizational models, forms and archetypes (Leca et al., 2014), and finally linking these identities and models to contemporary social movements (Willmott, 2013). These scholars as 'progressive educators' (Esper et al., 2017) can embed the alternative in a moral sphere where it would be easy to specify the ethical principles for evaluating new economic models. The resultant dialogue and critical thinking would also generate an 'unhappy consciousness', to use a Hegelian term, which can expose and confront the prevailing power relations of domination. This is important for critical theory as its focus on emancipatory possibilities instead of a simple deconstruction of the world is, precisely, what distinguishes it from other social theories. Indeed, if the theory and practice of action and resistance loses its prominence in the critical discourse, it would be, quite ironically, imperiled by the same co-optation it seeks to expose. We thus invite future research to extend our work by explicating how a critical discourse or some agents can resist and shape capitalism instead of being co-opted by it.

An engagement with history and literature might be of use here since this will show us that the economy was not always the center of attention in earlier societies. It will also provide us a radical imaginary of a humane world which can help us in not only generating a non-performative intent but also reinvigorating the emancipatory commitments of critical theory. Hence, we do not wish to leave our readers with disappointment but with a principle of hope, to use Ernst Bloch's term, which permeates every man's consciousness and to say that another world is possible.

Notes

1. For example, in 444 BCE, the Hebrew prophet, Nehemiah, found himself surrounded by impoverished peasants unable to pay interest on their loans and forced to sell their children to creditors as a result. In the book of Nehemiah, the pain of these peasants and Nehemiah's response are captured vividly in the following words: "Yet now our flesh is as the flesh of our brethren, our children as their children: and, lo, we bring into bondage our sons and our daughters to be servants, and some of our daughters are brought into bondage already: neither is it in our power to redeem them; for other men have our lands and vineyards". And I was very angry when I heard their cry and these words. Then I consulted with myself, and I rebuked the nobles, and the rulers, and said unto them, "Ye exact usury, every one of his brother". And I set a great assembly against them' (Graeber, 2011: 81).
2. A seasoned investment-banker-turned-Islamic-finance-professional, Harris Irfan, wrote a book on the rise and fall of investment banking's excitement for Islamic finance (Irfan, 2014). He describes in his book the role that non-Muslims played in the initial days of the industry as follows: "Although their skill base is critical to the industry, non-Muslim conventional bankers dominate the industry, and they care little for the essence of Shariah…. The more the industry grows, the more it does so by an increasing compromise of its once core principles".

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Table 1: Historical method: Process and research design

Elements	Description	Practice	Description	Research design
Reportage	Reporting of social actions from evidence	Source criticism	The data sources are valid (authentic), credible (closer to events being studied), and transparent (actors, and actions are traceable)	Validity: Data which were recognized by stakeholders as genuine sources to appreciate Islamic banking practices, or which were used to provide theoretical justification for Islamic banking were identified and consulted Credibility: Works of contemporary actors who were directly or indirectly involved in Islamic banking were studied Transparency: The consulted data sources were accessible freely (Islamic Banks' websites, Bookstores, Google, Google Scholar) or through paid subscription services (EIKON, FACTIVA)
		Triangulation	Using multiple data sources to establish a pattern of facts or social actions	Banks' annual reports, products' details and brochures, consultants' reports, Islamic scholars' juridical edicts on banks' products, and newspapers' reports are consulted to appreciate the contemporary context. In addition, Quran, Hadith, and Islamic jurists'/theoretician's books, edicts or *fatawas*, and peer reviewed articles, were also studied for triangulation and appreciation of context.
Explanation	Contextualization and accounting for cause and effects	Periodization	Selection of period(s) of study	From 1960's to 2010's
		Narrative construction	Historical and selective representation of past to assign causes to events and actions in time	Narrative explication of contemporary Islamic banking practices of actors is adopted
Understanding	Recounting of actors' or subjects' experience	Hermeneutic interpretation	Contextually sensitive interpretation from author's/subject's point of view	Moved backed and forth between text or data sources and context until stable meaning was established
Evaluation	Criteria or bases against which claims are judged	Theory	To evaluate normative theoretical claims through historiography or historical narrative	Theory of cooptation is applied and developed

Note: Adapted from Wadhwani and Decker, 2018

Table 2: Major publicly listed Islamic Banks

#	Name of the Bank	Country	Established in
1	Abu Dhabi Islamic Bank	UAE	1997
2	Ajman Bank	UAE	2008
3	Al Baraka Bank Egypt	Egypt	1980
4	Al Rajhi Banking and Investment Corporation	Saudi Arabia	1957
5	Al Salam Bank-Bahrain	Bahrain	2006
6	Albaraka Turk Katilim Bankasi	Turkey	1984
7	Alinma Bank	Saudi Arabia	2006
8	Asya Katilim Bankasi	Turkey	1996
9	Bahrain Islamic Bank	Bahrain	1979
10	Bank AlBilad	Saudi Arabia	2004
11	BankIslami Pakistan Limited	Pakistan	2004
12	Boubyan Bank	Kuwait	2004
13	Dubai Islamic Bank	UAE	1975
14	Faisal Islamic Bank of Egypt	Egypt	1977
15	Jordan Islamic Bank	Jordan	1978
16	Khaleeji Commercial Bank	Bahrain	2004
17	Kuwait International Bank	Kuwait	1973
18	Masraf Al Rayan	Qatar	2006
19	Qatar International Islamic Bank	Qatar	1990
20	Qatar Islamic Bank	Qatar	1982
21	Sharjah Islamic Bank	UAE	1975

Note: Major *Shari'a* compliant Islamic Banks having revenues that range from $275K to $27.5M by December, 2016.

Source: Thomson Reuter's EIKON.

Table 3: Brief chronology of the evolution of Islamic Banking.

Year	Event
1963	Mit-Ghmar Savings Bank in Egypt was opened
1975	- Islamic Development Bank was founded in Saudi Arabia as an umbrella Islamic financing institution - Dubai Islamic Bank was incorporated as the first commercial bank
1977	- A movement was initiated in Pakistan to Islamize its banking system - Kuwait Finance House was established
1978	Al-Rajhi company was established for currency exchange & commerce in Saudi Arabia
1979	- Islamic Insurance Company of Sudan was established – the first takaful firm - Bahrain Islamic bank and Iran Islamic bank were formed - Islamic exchange and investment corporation was set up in Qatar
1983	- Malaysia opens its first Shari'ah compliant bank – Bank Islam Malaysia - International Islamic Bank was formed in Bangladesh and Tadamon Islamic Bank was established in Sudan
1984	- Al-Barakah Investment and Development Company was formed in Saudi Arabia - Iran switches to Islamic banking at a national level
1985	Faisal Finance House was formed in Turkey
1990	AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) was set up to establish industry standards
1991	Bank Muamalat, Indonesia's first Islamic bank, was established
1996	Citibank established an investment bank in Bahrain – Citi Islamic Investment Bank
1999	The Supreme Court of Pakistan ruled that *riba* in all its forms was unlawful and asked the government to cleanse interest from the economy
2002	- Islamic Financial Board (IFSB) was formed in Malaysia - Meezan Bank was launched in Pakistan led by the famous Hanafi scholar, Mufti Taqi Usmani
2003	Council of Indonesian Shari'ah scholars issued a fatwa on the prohibition of conventional banking
2004	The first Islamic bank outside Muslim countries was established – Islamic Bank of Britain
2008	Deobandi muftis issued a consensus-based counter-fatwa against Mufti Taqi Usmani's model of Islamic banking
2013	Establishment of Dubai Islamic Economy Development Center (DIEDC) as part of Dubai's efforts to become the capital of Islamic economy
2014	Malaysia's Islamic Financial Services Act was promulgated to provide a legal framework which reflects the specificities of the various types of finance products
2015	State Bank of Pakistan issued a revised but more comprehensive *Shari'a* Governance Framework in order to ensure *Shari'a* compliance

Table 4: The Co-optation of Islamic Banking Industry

S.NO.	Mechanisms of Co-optation	Description	Empirical illustration in the Islamic Banking Industry
1	Performative intent	Normative pre-commitment to efficiency as signified by the employment of categories of ‘risk’, ‘value’, ‘profit’ and ‘shareholder wealth maximization’ which are shown as inevitable, natural and beneficial for an economic activity.	Islamic banks started-off with *Musharaka* (joint venture; risk-sharing products) and *Mudaraba* (one partner provides capital; other partner provides services) contracts to share risk and avoid fixed interest. Both contracts then are considered risky. These two contracts now include covenants such as profit ceiling and minimum return. Moreover, the Islamic banking industry adopted the cost-plus (debt-based) model called *Murabaha* accounting for over 50% of total transactions. *Murabaha’s* rate of return was also benchmarked to LIBOR.
2	Role of professionals and argument of necessity	Alternatives hire mainstream professionals to gain legitimacy in an unfavorable ecosystem; however, these professionals change the alternatives to fit with their frames of reference.	The professionals in the Islamic banking industry highlighted the need for transactional integration with the global financial system and were instrumental in developing practices mimicking that system. They also couched performance in terms compatible with the existing categories of the banking industry. The performative use of metrics to measure short-term activities rather than fulfilling the religious obligations shifted the authority from Islamic jurists to bankers and also helped align Islamic banking with traditional banking.
3	Impression management and dual discourses	For sympathizers, one discourse is employed to highlight differences with capitalism, while another discourse highlights integration and interoperability with the existing ecosystem.	An ideological duality emerged in the Islamic banking discourse between an abstract theological rhetoric and pragmatic economism. The employed discourse oscillated between the language of neoliberal capitalism and Islamic theology. Furthermore, practices of religious jurists holding ceremonial posts and mainstream professionals who make major decisions were decoupled.
4	Diffusion of co-opted alternatives	Actors including standard setting organizations set agreed upon premises, auditing systems, protocols, and standards of economic behavior by promoting industry’s best practices.	Islamic Financial Services Board (IFSB) facilitated by IMF to promote uniformity of regulations; IFSB played an instrumental role in developing standards for the implementation of conventional Basle II as well as capital adequacy requirements in the Islamic banking industry. Auditing Organization for Islamic Financial Institutions (AAOIFI) issues guidelines related to auditing, accounting, corporate governance, and code of ethics. AAOIFI leverages existing standards, which are in harmony with the International Financial Reporting Standards.

Figure 1: Flowcharts of Islamic banking products