Corporate Governance In Pakistan Islamic Financial Institution Maintaining Moral & Challenges.

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Abstract
Corporate Governance is considered necessary for the organization effectiveness. In this study the experience of establishing Corporate Governance framework and its practical presence is examined. Six individual who have knowledge about phenomena were selected for interview. By using Moustakas Transcendental Phenomenological method, several themes are used which provide information of phenomena. These themes are Corporate Governance framework: Tawheed, Shariah, Sharia supervisory board; morals: transparency, accountability, proper disclosure, and social welfare; challenges: lack of knowledge and growth stage. The framework of Corporate Governance model of International Financial Institutions based on Islamic rules and the level of transparency, proper disclosure was satisfactory and International Financial Institutions are in growth stage.

Key Words: Corporate Governance framework, Islamic finance, Morals and Challenges, Tawheed, Shariah

Introduction
Corporate Governance has become common from last two decades (Zingales, 1997). Islamic Scholars such as (Qureshi, 1946; Sadiqvi, 1948; Ahmed, 1952) gave the idea of Islamic banking in modern times. Corporate Governance in Islamic Financial Institutions (IFIs) is based on Tawheed (oneness of God), Sharia rules, and Sharia Supervisory board (SSB) (Hassan, 2009; Naqvi, 1981). Islamic finance is based on establishment of justice and avoiding exploitation of other (Phoon, 2004; Elmelki & Ben, 2009). Islamic Corporate Governance defined as the wellbeing of shareholders, stakeholders and customers etc. (Chapra and Ahmed, 2002). Different principles of good Governance is not just about attaining maximum profitability or fair dealing, but it is also an attempt to make sure that companies are managed and controlled according to morals which are acceptable to the whole community (Gooden, 2001).

All the Corporate Governance theories are based on agency theory or stakeholder theory. (Betch and Barsa, 2011) studied lot of Corporate Governance models such as block holder model, executive compensation models and multi-constituency models to provide solution to problem of shareholders. Lewis (1999) studied the other Corporate Governance as such Anglo-Saxon model, the Germanic model, the Japanese model and the Islamic model which came from these models.

The sequence of this paper is that after introduction there is a literature review in past studies, different corporate governance models, moral values challenges faced by the International financial institutions are discussed. Than data collection and methodology applied on collected data, no. of participants, questionnaire, and feedback of participants is explained. Findings, results and discussion portion is conclude the paper and in last references which are we take help to right the paper are given.

Literature Review
In the Corporate Governance literature there are mainly two models which are used as Corporate Governance framework that are anglo-saxon model and stake holder model. The Anglo-Saxon model of Corporate Governance which is also known as market-based systems shareholder system or principle & agent model is considered as the most important model. In Anglo-Saxon Corporate Governance model sole consideration is given to shareholders and they are considered value orientation (Miller, 2004; Hassan, 2009). On the other hand Stakeholders’ value model emphases on a relationship-based model that highlights for maximizing the interests of stakeholders (Adams, 2003: 2004).
Both of these models tend to focus to solve agency problem but component of ethics which is essential element of Corporate Governance model is ignored. Only after significant Corporate failures and financial scandals which are result of ethical consideration, the ethics and morals were included into Corporate Governance framework (Drennan, 2004; Cladwell & Karri, 2005; Arjoon, 2005; Sullivan & Shkolnikov, 2007). Moreover it is observed that ethics have positive influence on the performance of firms (Spiller, 2002). Basically, the ethics in western theory are built on the basis of utilitarianism, contingency and universalism (Beekun, 1996). The ethical principles that extracted from these models are based on ethics which is constructed for social wellbeing (Hassan, 2009). In addition to this, he stated that all ethical principles including accountability, transparency, fairness and responsibilities; applicable to Corporate Governance is socially constructed.

Islamic Corporate Governance Model.

Islamic model of Corporate Governance advocates a wide spread approach by highlighting basic ethics which are mentioned in Quran and al Sunnah. In comparison of western model viewpoint, the Islamic ethical principles are driven from religious construct. Islamic Corporate Governance is like conventional Corporate Governance model besides Shariah rules and Shariah supervisory board (Asyraf, 2006; Abdul Wahab, 1995). Basic principle of Islamic banking is profit & loss sharing (Ahmed, 2006; Dakahillah & Miniaori) and prohibition of riba (Dar & Presly, 2000; Saeed, 1996; Haqqi, 1999; Salleh & Hassan; Daves, 2001; Ahmed, 2000; Mirakhor, 2000; Warde, 2000). It is reviewed that IFIs are considered ethical if they are working according to the teachings of Islam, Sharia with promoting justice & welfare (Hanif & Hudaib, 2007).

Besides of some similarities with Western Corporate Governance model Islam adds values to corporate framework where by it give more stress on faith, Shariah. The concept of Ethics is deeply rooted in Holy Quran & Hadith (Nasir, 2002). The distinctive feature of Islamic finance is: Godly, Humane, Moderate (Khalifa, 2003). It is reviewed that in practice many IFIs adopt Anglo-Saxon model of Corporate Governance or stake holder’s model. Choudary & Hoque (2004) gave the model of Corporate Governance based on Tawheed, oneness of God; by giving principles that are just, productive engagement of resources and economic activities should be based on Al- Quran, Al- Sunnah and Shariah compliance. (Iqbal and Mirakhor, 2004; Obaidullah, 2004; Chapra & Ahmed, 2002) used stakeholder model for protecting rights off all stakeholders by basic concepts of Shariah of property rights and contractual relationships among stakeholders. (Hassan, 2008: 2009) compare both model Anglo-Saxon and stakeholder model of Corporate Governance and entails Islamic Corporate Governance model which is based on shariah and shariah supervisory board. The Islamic model of Corporate Governance is a modified form of the European model because it considers wellbeing all the stakeholders rather shareholders (Freeman & McVea, 2001).

Morals in IFIs Corporate Governance Model

Islamic finance’s stands on the morals, there is a need to go away from the legalistic arguments and observe morals which are derived from Islamic teachings (Ahmed, 2006). There is only a formal faithfulness of Islamic laws in spite of promoting Islamic moral values (Balz, 2010; Gamal, 2006; Chapra, 2010; Siddiqi, 2007).

Islamic business is always conducted by norms ethics and framework of sharia (Ahmed, 2000, Mirakhole, 2000; Warde, 2000; Asyraf, 2006; Khalifa, 2003; Foster, 2009; Baroon, 2008). There should be presence of transparency, accountability and disclosure in Islamic Corporate Governance model (Dyck, 2000; Dalton, 2003; Hakim, 2002).Islamic business should relate all sphere of life (Lewis, 2005). It is reviewed in literature that Muslims are following western ideas in their modes of financing (Ahmed, 1984; Kuran, 1995; Nasir, 1984; Gamel, 2006) and more ethics are maintained by western culture (Muhammad, 2007). It is observed that there should be proper disclosure, responsibility, accountability to Allah, Zakat, fair treatment, book keeping, final account (Khalifa, 2003; Lewis, 2006) and without following ethics there would be disorder (Stewart, 1996) and there is required special knowledge required to make ethical decision.
It is reviewed that senior management is in favor of Sharia but culture are not supporting.

**Challenges face by IFIs**

IFIs are facing a lot of challenges; they are facing problems of excess liquidity because of long term sharia complaints (Hakim, 2002). There is also shortage of competent sharia expert in Islamic financing industry and there are varied accounting standards in different IFIs (Sultan, 2006). There is poor record of research and development in IFIs. On the other hand it is reviewed that IFIs use conventional banking technique in their product (Haroon & Ahmed, 2000; Kaleem & Isa, 2003). Good Corporate Governance strengthens the performance of IFIs (Archer, 2006; Claessens, 2006). There is a lot of theoretical Corporate Governance model in the literature; but not a single study reviewed the extent of practice of Islamic Corporate Governance model. This is first study which is going to fulfill the gap.

**Methodology**

By using phenomenological inquiry, this study is going to gather knowledge and understanding of phenomena of Corporate Governance models practice in Islamic financial institutions. Through conducting interviews, observation, and compiling documentation the goal was to gain knowledge about the Corporate Governance model practices in IFIs. By obtaining understanding the phenomena of Corporate Governance could lead to intervention technique which could benefit in settings the appropriate policies and guidelines to put the Corporate Governance model in practice.

**Rationale for Qualitative, Phenomenological Investigation**

Qualitative inquiry is suitable for studying a detail description of the particular phenomena (Patton, 2002); in addition various experience can be taken with direct quotation (Manen, 1990); and procedure require about the perceptions of the participants (Moustakas, 1994; Patton, 2002). Quantitative data cannot entail the detail information and knowledge about the Corporate Governance model in practice. Phenomenological means to obtain deeper understanding of particular phenomena (Mannen, 1990) phenomenological study emphasis on how people make sense of their experience (Patton, 2002). Phenomenological research should be obtained from individual who have experience of a particular phenomenon (Moustakas, 1994).

**Participants**

Data is collected from 6 participants. 4 participants were policy makers and 2 were bank managers on December 2013. Policy makers were the member of sharia advisory board of different banks; (Meezan Bank, Burj Bank, Dubai Islamic Bank and Askari Islamic Bank) between the ages of 35 to 65 years with the 50 years. In qualitative model of data collection small sample size can be used (Barker, Elliot & Pistrang, 2004) because of the uniqueness the study. For this research 6 participant were taken. The participants were chosen on their interest for research and with the awareness of having deep knowledge of the phenomena, diversity with respect to age (35 to 65 years with the mean age of 50 year), their gender (male), designation (6 policy maker and 2 branch manager, participant were selected based on having deep knowledge of the phenomena in study so that they were able discuss and share their experiences. All researcher candidate met the following criteria (a) each individual’s age 35 to 65 (b) each individual have knowledge about Islamic finance.

Each participant completed a self-administered, 10-item questionnaire, which was developed following an extensive literature review. The questionnaire, entitled ‘Corporate Governance models: morals and challenges’, consisted of three sections. The focus here will be on the section of the questionnaire consisting of ten predominantly open-ended questions about participant’s experiences of Corporate Governance model in Islamic financial institutions, and what morals they are abiding and challenges they are facing. Following the questionnaire used in the study.
1) Which specific framework of Corporate Governance you are using?
2) Is your model different from that of conventional financial institutions? Can you explain how?
3) How does your organization manage conflict between different stakeholders (customer, manager, director, shareholders, creditors, debtors?)
4) How does your institution adhere to AAOIFI standard of accounting and auditing procedures?
5) Do you think people generally perceive that Islamic institutions are not actually Islamic? Why is that so? Why or why not.
6) How does your organization strive to correct the negative perceptions associated with Islamic financing?
7) What are the activities your organization undertakes for the welfare of society at large?
8) How do you make check and balance of the product or service you are offering is shariah compliant?
9) Can you please give example and compare any two Islamic financial products with that of conventional financial institutions?
10) Is there anything else you would like to share, COMMENT, ADVISE SUGGESTION.

Site

This study is conducted in Islamic financial institutions IFIs of Pakistan to check out the practices of Corporate Governance. The data is taken out from Islamic banks with the sample size of four banks (Meezan Bank, Burj Bank, Dubai Islamic Bank and Askari Islamic Bank)

Procedure

The questionnaire was distributed to participants through contact persons and by mail. Then 4 interviews were taken in their offices and 2 interviews were taken through telephone. Interviews were recorded through audio tape and later transcribed. Semi structure and detail interview were conducted with the same six participant and 4 interviews taken in participant’s office and 2 were conducted on voice calls. The interviews were audio tapes and lasted from 50 to 60 minutes. The audio tapes later transcribed and interviewer notes were taken. The general view guide approach was used because it was conversational as well as situational (Cresswell, 2007). Questionnaire was developed in advanced, but later on the flexibility was made to pursue the topic for deeper and in depth knowledge. The collection of direct quotes of written information and audio transcription was beneficial in the analyses and reporting the results (Giorgi, 2002).

Data Analyses and interpretation

Data analyses are conducted in several steps. After the data collection; it was analyzed through Moustaskas (1994) transcendental phenomenological approach.

Corporate Governance frame work based on Tawheed, sharia compliance and Sharia advisory board

The data shows that participants’ responses on the Corporate Governance model were almost the same. Their understanding was regarding the Corporate Governance model was in Islamic financial institutions are using Islamic Corporate Governance model; based on Tawheed (oneness of Allah), sharia compliance which is made by sharia supervisory board. Nearly all the participants reported that they are using Islamic Corporate Governance model which is deeply rooted with Quran and Islamic principles one participant in his interview said:

I………. I mean yes in our institution whenever I made policy I always kept in mind all the religious aspects which has been made by prophet Muhammad (P.B.U.H) on the base of Tawheed …..

The participants has enough confidence that all the transactions and every policy which is made by him is according to Islamic principles, sharia compliance and is deeply rooted with the principles of trade and business which is set by Holy Prophet (SAW) as according to another respondent:
As Islam teaches us not to exploit the rights of others ….. work for the betterment of society… our framework is based on the Sharia nothing is set by us it is all the things in our model of Corporate Governance is based on the religion prospects

Another respondent said:

Frankly speaking there is not much difference in Islamic and western Corporate Governance model but one difference is that it is based on Tawheed……. On Islam and that’s all……..

There is not any distinguish in the western models and Islamic models if we do very transaction with Islamic prospects and keep the wellbeing of all the society as Islam prohibits to exploits others; However the two participants which were bank managers there knowledge regarding Corporate Governance was not enough satisfactory they do whatever a so called blue prints they receive from the head office and sharia compliance advisor. One of them said:

Hmm…….. I follow all the policies in my bank which comes from the head office…….. all the things are approved there and we have to follow that … we don’t receive any structure of framework of Corporate Governance model and…….yes all transactions in our banks are made based on the teachings of Islam……..

His response reflects that at managerial level there is not anything done on the Corporate Governance model it’s all about policy makers that which framework they following.

Level of transparency, proper disclosure and social welfare

According to the participant, besides Corporate Governance framework model; morals such as (transparency, accountability and proper disclosure) in IFIs also concerns. Almost all the participant answered that there is proper disclosure, accountability and transparency is always there in IFIs. Proper disclosure means that there is complete record about each and every transaction in terms of books of accounts. Transparency means the clearness of all the things and concepts. Social welfare refers what an organization do for the betterment of society. As one participant answered:

Yes off course there is asset backed every transaction and there is proper disclosure of each transaction according to AAOIFA……………………. Yes our bank does work for social welfare and that it is providing interest free financing… I think this is the best thing we are giving to society and…..

The participant responded that through providing interest free financing and keeping all the transaction safe and guaranteed by backing asset of each transaction and there is clarity in each product of IFIs because Islamic bank deals in direct sale and purchase of assets and deals in commodities rather than cash. Another participant said:

We have Sharia board and every transaction is approved by the Shariah Board….. Right now in my opinion Islamic banking is working hard for profitability and welfare is chapter after earning……. Sharia auditors of our bank keeps complete check on each transaction of bank proper disclosure and no separate accounting standard is in place….. And there is no need to have any separate standard for disclosure………………

Participants further discussed that there is proper sharia board which keep eye on each transaction and there is proper documentation of each and every thing. In addition to this the presence of Shariah auditors makes sure that there is satisfactory transparency of each and everything another participant described:

Well……Accounting procedure is strictly followed strictly and they are the same principles as in the commercial banks… By interacting regarding queries of people or by conducting introductory seminar we serve the society and…. I think we are providing people a framework where they have opportunity they can differentiate between Halal and Haram…….
The other participant who had similar experience told that there is proper disclosure and satisfactory and up to some extent IFIs are working for social welfare.

**Lack of knowledge and in growth stage**

The data revealed that lack of knowledge is a big constrain in the proper working of IFIs. The people have no knowledge regarding IFIs and just consider it as the same as the commercial banking. The participants revealed that perception of people is just based on rumors. The participants realized that lack of information on the public site is problematic people do not know the exact Islamic way of doing business according to Sharia. According to one participant:

*Yes..... Our total transactions are different from conventional banking while it seems like same but procedure on backend is totally different, for example we take credit from customer in current account and conventional banks keep it as deposit, we deals in commodities and conventional banks deal in cash. So it seems same like hilal chicken and haram chicken, taste also same but one thing is halal and other is haram...... but people perceptions are against.... Because they are not well known about the working and policies of Islamic banks....*

The participants results shows that Islamic banking is in growth stage; the work in Pakistan has been started in 1980s and 1990s and it is better to have something rather than nothing and with the passage of time there is positive response of people and one day there would be the day when whole financial system would be based on Islamic finance.

*See..... Islamic banking is in growth stage here.... but it is better we have to put the start and have to be follow up to the extent to which it can be..... Being a Muslim country we should adopt the Islamic financing because as riba is more strictly restricted in Islam..... But there are some problems........not government support.....*

Like these two participants, further respondents were also agree that the major challenges which IFIs are facing are the lack of information of people, as well as not the support of government and it is in growth stage so the practices are not applied fully

**Discussion**

**Findings**

From the result of participants’ interview it is observed that Corporate Governance models are being used in the Islamic financial institutions IFIs. The specific models that are currently in used are not different but more or less same as the Corporate Governance model that is western in practice. The most important elements which differentiate the Islamic Corporate Governance model from other are Tawheed (oneness of God), Sharia compliance, and Sharia supervisory board (Hassan, 2009). There is not any specific framework for Corporate Governance model for IFI. In Pakistan most of the Islamic banks are using stakeholder’s model with an additional claiming that all the transactions are Sharia compliance and riba (interest) free. Islamic banking was evolved in Pakistan in 1980s and was not applicable after this it was in progress after 1995 (SBP survey report 2011). It is currently in the negotiation stage to adjustment stage. In 1990 to 2000 the Corporate Governance was in negotiation stage because there were a successful interest based financing system was in practice so it was difficult to introduce interest free financing which was based on Shariah. Meanwhile Corporate Governance in Islamic financial institutions is on adjustment stage and people are involving interest free economic system (Lewis, 2006). Islamic Corporate Governance model which is based on Islamic principles and guidelines approved by Sharia Advisory committee and important thing is to make the Islamic Corporate Governance model in practice. (Obaidullah, 2005).
The other thing which is the part of Corporate Governance model is morals. IFIs are maintaining morals in Islamic banking (Khan, 2007). According to the results there is transparency in the Corporate Governance model. Everything is disclosed to the customer and other stakeholders about each account and transaction. Nothing is kept secret in Islamic finance regarding anything. Proper disclosure of every transaction is maintained in Islamic banks. According to participants results every transaction is backed by asset and there is no guarantee given to the account holders regarding to fix rate of return (Duska & Clarke) and share of profit and loss at the time of making contracts. IFIs in Pakistan are also fulfilling the corporate social responsibilities by providing interest free financing and launching introductory seminar on Islamic financing for the awareness of public.

IFIs are facing challenges in Pakistan. IFIs are in growth stage and are facing commercial risk. According to participant respond there is lack of knowledge (Naqvi, 2007) on the part of public which is creating big hurdle in the applications of Corporate Governance model. Lack of government support is also a challenge for IFIs to run their business in practice.

Limitations

The limitation in the study is that there is small sample size because the interview is taken from the policy maker although the interview is also taken from bank manager but they did not have satisfactory knowledge regarding the Corporate Governance in IFIs in Pakistan.

Trustworthiness

Guba (1981) used trustworthiness to check the internal & external validity, reliability and objectivity which are parallel to credibility, transferability, dependability and conformability. In this study triangulation, peer debriefing and member checking are used to check the trustworthiness of the study.

**Peer debriefing.** Peer debriefing (Cresswell, 1998; Lincoln & Goba, 1985; Maxwell, 1996) refers that whether the researcher has been engaged in an ongoing discussion with the person who is not contractually involved in the research process. Has unspoken and implicit information been verbalized? And have findings been tested by others’ perceptions? In the study peer debriefing were used to enhance the trustworthiness and validity of study.

**Triangulation.** This is a process of strengthening the study design which is defined as “a term taken from land surveying where any point on the planet’s surface can be situated with two other known landmarks”. Triangulation is used for assessing credibility and conformability (Guba, 1981). There are four types of triangulation which has been discussed in literature (Patton, 1990; Denzin, 1978; Yin, 2003): 
(a) data triangulation, (b) investigator triangulation, (c) theory triangulation, and (d) methodological triangulation. Data triangulation defined a use of different data sources instead of a single source; it can increase the validity of results (Denzin, 2006). Investigator triangulation means applying more than one researcher, or involving a research team to reduce biasness. Theory triangulation means to use multiple viewpoints on data set to manage different explanations which can be tested... First of questionnaire were solved by participants and after that interview were taken. Interviews were recorded and later transcribed.

**Member Checking.** Member checking (Marshall & Rossman, 2011) were also used to ensure credibility; the individual description of data were developed of each participant, it was sent to participants to that whether the synthesis was a valid representation of the participants experience. All the participants were agreed to the synthesis that agreed to the responded. Based on the particular participants’ feedback, no additions were made.

Implications

The finding of this study will be of practical importance to educational researchers, students, bank manager as well the group of people who are interested in Corporate Governance in Islamic finance in Pakistan. First, this study contributes to the literature on Islamic Corporate Governance model and its real
world practice in IFIs. Second, what are the morals that should be maintained by the Islamic financial institutions and how IFIs maintain are keeping them in practice. Third, it helps to identify the challenges which are faced by the Islamic financial institutions. For future there are suggestions that in the study the sample size were small large sample size could be used to find the results; moreover only the data is taken from policy makers further study can be conducted by taking the responses of stakeholders and customers. It is suggested that this study might be extended at large scale; more respondents from different Islamic banks could be interviewed. In this way study would become more generalized. Moreover quantitative study could also be use which may provide more clear results. As this study involves only the policy makers and manager other stakeholders and executive’s perception in the Islamic Corporate Governance might have more worth and can be compared to the responses of each other. In addition this study is conducted in Pakistan and this can also be applied in other country.

Conclusion

The results of this study demonstrate that in spite of its similarities with western Corporate Governance models, Islam adds value by emphasizing on element of faith (Tawheed), Shariah and ethics. The design of Corporate Governance model in Islam has its own unique features and the distinctive characteristics in comparison with western concept of Islamic Corporate Governance model and Islamic values are an integral part of obligations laid upon the individual as well as on the community. The practices of the Islamic banks in Pakistan conform that the senior management as well as Shariah Supervisory Board are aware of importance Islamic Corporate Governance model in banking operations of respective banks but employees and lower level management have not knowledge of Islamic finance. Islamic banks should adopt the recommendations made by IFSB and AAOIFI for the Employees of IFIs respectively result of best practices in banking industry. Moreover Islamic Banking industry has shown marvelous growth and advances, which clearly demonstrate that Islamic banking is on growth. People who negated to recognize the phenomenon in earlier days are active participants; and they are mobilizing their efforts to establish Islamic finance. In the West; there is also a great potential of this industry; and a wide range of Western banks are now either establishing subsidiaries or opening Islamic Banking window operations along with commercial banking.

References


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**BIOGRAPHY**

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