

## **Managing Assets-Liabilities to maximize stakeholders' wellbeing in Divine milieu with Pakistan evidences: A Qualitative approach**

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### **Abstract**

*In present scenario, the introduction of Islamic banking and finance (IB&F) was nothing but to adopt the strategy replicating the products and services offered by the conventional financial system (CFS). Implementation of such a tactic by Islamic financial system (IFS) leads to a supplemental even a complementary financial scheme. No well-being impression within entire the series of stakeholders' prevails in such a co-evolved environment. The current study is conducted to evaluate the assets and liabilities in wellbeing of stakeholders' context. The qualitative approach used to analyze the situation utilizing Thematic Analysis through Nvivo software forming the Word Clouds psychiatry in semi structured interviews. The findings of study suggest that financial system working in co-existence do not attain the welfare notion to the stakeholders, rather taking care of the shareholders, skimpy capital owners in the capital structure. The 'Depositors' owned 90% of organizational funds remain deprived the real benefits. The pollster tries to discover a way escaping the conventional duality to maximize the stakeholders' well-being, introducing Divine Banking Firm (DBF).*

*Keywords:* islamic financial system; conventional financial system; stakeholders' wellbeing; thematic analysis; divine banking firm

### **Introduction**

Assorted researches on the benefits and gains in Islamic and conventional surroundings exist with diversity of models do not truly observe the economic wellbeing and social welfare package. Capitalistic standpoint has been conflicting prospect about the organizational behavior based on profit maximization concept (Humber, 2002), originated on neo-classical self interest utility maximization (Dusuki, 2005). The conventional setting undeniably is proven economically competitive on some extent, but luckless to realize the social justice, ethical and divine mandate. The IFS is facing difficulties in their operation's due vague rationalizations in legal and regulatory frameworks within and outside the Muslim world. The Islamic financial scheme befalls to fulfill the divine requirements through subterfuges. It is functional under the dual banking

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system to compete its contender (Dusuki, 2007). The traditional financial intermediation theory is based on financing long-term loans with short-term liabilities to generate income and this intermediary function is called asset liability management (ALM), remained continued till 1970s (Arsalan, 1994). Economists and financial gurus have not yet devised the intermediation theory in an Islamic environment rather adapting conventional creed with theological touch and logical amendments, accordingly.

The performance of financial institution (FI) is not merely depends on the well operating of the system itself, but also on overall activeness of the economy (Faruk and Alam, 2014). ALM is associated with an endeavor to match assets and liabilities in terms of maturity and interest/return rate sensitivity to minimize cost and respective risks (Zawalinska, 1999), cited by Anjili, (2014). ALM tools and techniques do not meet the purpose; however, by way of optimizing the balance sheet items and candidly interpreting the profit and loss statements, leads to enhance stakeholders' wellbeing (Anjili, 2014). This research effort is based on the exploration of methods to determine conduct, the sources and uses of wealth within the financial systems to their assets-liabilities in such a manner that escort to the maximization of stakeholder's welfare. A major flaw of CFS is the rich get richer; the poor get poorer that unhappily magnifying the rich-poor gaps (Mirakhor & Smolo, 2014). The research scholar tried to adopt the way, meeting the socio-economic credo and divine obligations to achieve ultimate goal of creating the social and spiritual wellbeing through socio-politico economic development process.

#### *Research Question and Research Objectives*

In keeping with the research aim and objectives, this study has some particular research questions to be responded, accordingly. How can a financial institution optimally arrange and compile its balance sheet composition that maximizes its revenues together with achieving competitiveness to supplement the wellbeing of primary stakeholders like stockholders, employees and depositors, sequentially? How, it leads to achieve socio-economic and socio-political objectives of the economy? The main objective of ALM is to build up the strategies in respect of financial institutions (FIs) in mix fully prepared to face the emerging challenges and promising to enhance the stakeholders' wellbeing. ALM has become progressively more critical for banking industry either Conservative, Islamic, Divine or Hybrid, exposed to profit and stakeholders' welfare approach. The rest of the paper is arranged in such way that the second section is about literature review, third and fourth sections are meant for methodology adapted in making analysis and the

results with discussion, respectively and the last one related to findings and policy recommendations.

### Literature Review

Islamic finance is utterly different from that of conventional debt finance, attracting the universal market players with an austere belief on socio-economic development viewpoint to attain the aspirations of societal justice and objectives sustainable economic growth (El-Gamal, 2006). Its nucleus precept is the deliverance of *Shari`ah*, meeting the Divine obligations to institute social security, belongings and descendants' rights even shielding the physical and mental solidity (Chapra & Ahmed, 2002). The ALM in a Divine banking system (DBS) is desired to indulge in either of the contractual or non-contractual relationship that must be beneficial to general public.

#### *Assets and Liabilities Structure: Balance Sheet Composition in Divine environment*

While comparing the balance sheet structure, it is found that customary system is more efficient than Islamic (Zainol & Kassim, 2010). The cost efficiency and the productivity of Islamic Financial Institutions (IFIs) were meticulously explained by Rod, et al. (2015). Appraising the deposit returns in Islamic and conventional, it is observed that Islamic banking industry results are more reliable than traditional (Zainol & Kassim, 2010). The conventional accounting and disclosure systems hired by IFIs, leads to divergence in objectives, as conventional accounting and disclosure system holds money-oriented based on self interests and profit maximization milieu; whilst the Divine creed endured societal wellbeing, justice and fairness convictions (Ibrahim, 2000). The management accounting practices in both prevailing schemes were identified by Rasid et al., (2011); exhaustively. It seemed a mixed tendency of mainstream mimicry by IFS with a minute restriction of divinity, observing match and mismatch between both financial systems (Hanif, 2014). The concept of profit sharing is proven more stable and sustainable than interest-based debt-oriented crop (Zarqa, 2003). IBS offered to reinforce the appropriate financial rules and regulations to proffer effectual financial services, augmenting economic growth (Sarker 2000). It created real economic and financial activity owing to its firmness and strength due to purging out debt finance that boosted efficacy and generating more revenues than their counterpart (Iqbal, et al. 1998). The debt financing relevant to conventional system is the main reason to create economic unsteadiness (Abdul Wahab, et al. 2014).

In a Divine context, there lived a substantial scholastic research since half of the century (Ariff, 1989). The attributes and features of IBF advocated as an alternative, surrogated to the mainstream contemporary banking and finance. Some of the engineered Islamic finance products and services reported as: *Musharak'ah*, *Mudarab'ah*, *Murabah'ah*, *Musawam'ah*, *Diminishing Musharak'ah*, *Ijar'ah*, *Salam or Salaf*, *Istisn'a'*, *Bay' Bi Al-Thaman Al-A'ajil*, *Qard-al-hassan*, in Divine/Islamic nomenclatures, parallel to modern, as equity, trust, trade, lease, advance payment and deferred delivery financing, progressive payments, deferred payment financing, welfare loan, respectively (Samad, et al., 2005). Moreover, *Al-Ijara Thumma Al-bai* named as hire-purchase, *Al-Ijara Wa-Iqtina'a* recognized as 'leasing & promise to gift' and the *Sukuk* identified as Islamic Bond within Divine product line (Abdul Wahab, 2014). Hence, respective topics elaborate Islamic and Divine concept of banking and finance to enhance societal wellbeing.

#### *Achieving Social Wellbeing: Stakeholders' Perspective*

Diverse viewpoints about the stakeholders existed in literature. Some of the theorists present as Input-output Model, reporting its elements as Investors, employees, suppliers and customers, called the 'Black Box' of the business firm. Some other theories known as the 'Stakeholder's Model' with its components the customers, employees, government, investors, political groups, supply chain, trade associations etc. (Donaldson and Preston, 1995). Carroll (1991) has discriminated the Primary and Secondary stakeholders as: the 'Primary stakeholders', refer to those artistes, considering an articulated and contractual association with the company; and the 'Secondary stakeholders', interact the performers, positioned within the boundaries of an organization that might be affected by its acts beyond the contractual bond.

The societal well-being is assessed through individual's well-being, claimed to be an increasing function of welfare and works implying the distributional considerations (Aris and Azli, 2013). Samuelson (2004) opined that Economic welfare refers to the level of prosperity and living standards of an individual or a group of persons; it explicitly confers to the value achievement of material goods and services, reported by Aris and Azli, (2013). Pigou, (1920) has defined 'Economic Welfare' as that part of prosperity which can be brought into relation with the measure of money. The stakeholders' viewpoint on achieving Divine aims and goals were enlightened by Dusuki, (2005, 2007). The wellbeing can be promoted through three levels of Maslah'ah i.e. Daruriyy'ah (fulfillment of basic Need), Hajjiyy'ah (achievement of Comforts and Tahsiniyy'ah (reaching at Luxurious items). A group of scholars concluded that the existing IFIs

have not been operating in the context of social banking (Dusuki, 2007 and Hanifa & Hudaib, 2007).

### **Research Methodology**

The research is designed within the theoretical backdrop relating to the nature and theory of knowledge, called as epistemology and ontological structure, contained by the metaphysics, concerned with the nature and theory of existence. It entails to gather and utilize of data from primary sources in the course of open ended semi-structured interviews.

#### *Population, Sampling and Procedures*

Out of total 52 Financial Institutions, (SBP, Sep. 2016), working in Pakistan, the sample is consisted Twelve full-fledged IFIs, CFIs with stand alone IB branches and Microfinance banks. Different groups of stakeholders like CEOs, Top management, Practitioners, academicians, HR personals, accounting professionals, Shari'ah staff and clientele have been targeted. The semi-structured interviews information has utilized together with investigators' own computation to analyze the interview data-base. The psychiatry of qualitative information, utilizing the NVivo is a cerebral job for an investigator (Konopásek, 2008). Qualitative data analysis entails gathering open-ended questions asked through textual, observations, notes and subsequently developing a discovery from the facts supplied by the partakers (Creswell, 2003). The graphical representations of the query known as *Word Cloud* in word query results and findings, analysis will be arrived at an expected weird output.

### **Discussions and Results**

This section is concerned with the Analysis and Findings of research data on the basis of interviews conducted with respective respondents. It was not easy to adopt or depend upon a sole strategy to reach at some extraction end of the study with tranquil results and finding. For this very purpose, the study analysis passed on two types of the processes: i) Word Cloud Analysis and ii) Observational method, manually to attain respective goals and objectives of the exploration. The observational explanation equally employed within the qualitative data analysis.

#### *Appraisal and scholastic psychiatry of Interview Findings: Thematic Analysis through Word Cloud Method*

Various stakeholders and interview participants have different views on the ALM and balance sheet composition. However, the accounting professionals have the decisive opinion on the issue that in dual banking



Our findings also matching with the literature available in previously conducted studies by the investigators like Ayub, (2016).

Most of the participants are of the view that whole the financial industry is not promoting the social sector to enhance the societal wellbeing, just to maximize their own gains and benefits, to meet their professional requirements. The majority participants at CEOs, top management are denying this fact stressing to do for entire stake holding streak. But the fact is that each of the players in the market economy is at its own advantageous stripe. The DBF in Stakeholders' perspective, the assets-liabilities structure is essentially based on four basic rules: Meeting 'Divine Obligations', 'Regulatory Requirements', the 'Organizational Structure' and respective 'Operations and Procedures'. These can be explored, in detail, in some other research study to benefit the scholars for public benefit.

*Management of Assets Liabilities: A Successful Poverty Alleviation Approach to maximize Societal Well-being*

The concept of microfinance is an imperative intercession to shrivel the poverty, offering the basic financial and fundamental social services for underprivileged people. The social and financial services to the needy populace are utterly neglected by formal FIs and corporate sector. They are working purely on the maximal theory of profit and wealth to take advantage the stock-owners only, a privileged business class of the society, which purely leads to concentration of chattels in a few hands. Micro financial institutions pursue twofold societal objectives, at one hand, obtaining financial sustainability in organizational setting and serving the deprived and needy communities as to achieve socio-economic objectives, to the other. The Divine notion of ALM is an ideal, unique and comprehensive approach to mitigate poverty and class conflict by: (a) escalating income levels of neglected classes with pro-poor programs, (b) pulling off the just and equitable circulation of income and (c) making available the equal opportunities for all social parts of the society (Hassan and Dridi, 2010). These objectives can be accomplished in three ways: i) improving income generation through providing production credit and saving for asset accumulation, ii) decreasing insurance cost through holding more efficient asset and liability and iii) smoothing consumption by providing consumption credit (Zeller at al., 1997, 2002), cited by Yumna and Clarke (2011).

### Conclusion

On the basis of participants' views, within co-evolution, both prevailing financial systems, major issues and criticisms, relevant to managing and monitoring the balance sheet structure, relating to assets-liabilities, money, capital and risk tolerance, sharing and transferring are confronted. CFIs and IFIs do not show interest in microfinance to facilitate and target poor and deprived communities, rather extending finances to lofty corporations to maximize profit and shareholders' value. Both the systems adopting resemble ALM policies, strategies, methods and tools, thus no separate ALM process exists, humanly. Resultantly, yet same balance sheet structure with diverse name and mechanics and same accounting standards and disclosure procedures, is being used at assets and liabilities side. Identical benchmark, the interest rate prevails, fixed by Central Bank and KIBOR/LIBOR by money market authorities. The conventional rate of interest is being utilized as a standard yardstick for the past, present even future measurements of financial transaction, dealings and contracts. It is recommended to get devised new rules and regulations to implement the DBS process by respective authorities, disclosing a timeline to achieve respective goals. Hence, the Divine financial institution (DFI) products would be wide ranged, not confined to a particular fragment, with distinguishing features, taking care of spiritual and material interests and enhancing the wellbeing, en masse. The outcomes would equally be beneficial to the study-centric primary stakeholders, even to entire the series of stakeholders and community.

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