

Title:
Management
Control Systems in
Islamic and
traditional banks



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CHAPTER 1

1. INTRODUCTION

1.1 Background and Context:

The finance sector in Pakistan is experiencing a quick paced, dynamic, energetic, challenging and focused condition inside the most recent decade at National and International dimension. The presentation of Islamic Banking has fantastically changed the perspective of both Conventional and Islamic business analysts and the forecasts are there that the items being offered by this new financial framework are among the most progressively utilized in the up and coming years. In the present time, Islamic banks are functional in almost all areas of the world. These Islamic Banks considered being the most secure, doable and practical substitute of the alleged conventional financial framework.

The state bank of Pakistan defines Islamic Banking as banking in congruence with the Islamic values and ethos, a banking system that is fully compliant to and is governed by Shariah. Due to its promising future and potential for contributing to sustainable economic development, the government of Pakistan has a keen interest in grooming the Islaming banking system in the country. Headed by Director, Islamic Banking Department has been attempting to build up a dynamic, sound, and stable Shariah agreeable financial framework. In such manner, the division is capable to encourage and catalyze advancement of Islamic financial industry in the nation through (an) empowering legal, administrative and Shariah consistence structure, (b) advancement of Islamic account as a particular and focused framework to serve the financial administrations needs of the majority, (c) take focused on research activities to all the more likely investigate showcase elements and (d) to team up with local and international partners for improvement of aggressive and creative answers for the various financing needs of the real economy.

This research builds on the fact that most research investigations on Islamic banking just spotlight on the technical parts of item contributions. That is, regardless of whether they are Shariah agreeable or not. In any case, little has been looked into on the administration rehearses, specifically, the administration control systems in Islamic associations. Then again, control frameworks are for the most part examined from the point of view of top-administration, specifically how it allows them to screen whether given goals have been accomplished. Be that as it may, little is thought about sorts of control systems and how they

are utilized at the working dimension. This thesis explores control frameworks at branch-level tasks, firmly associated with the points of interest of specific operational practices. Also, at operational dimension the cooperation with clients are closer and direct, in this way, connote its significance. Keeping in view the religion dominant peculiarities of the Islamic banking context, the broader purpose of this research is to explore, “how do operation managers at Islamic banks devise their management strategies to ensure banking operations in a fair and just Islamic way?”

1.2 Management Control System; An overview:

A system which assembles information and measures the performance of various organizational resources such as financial, human, physical and the organizational itself as a whole in light of the organizational blueprint is known as Management Control System (MCS). Management control system might be formal or informal. It affects the conduct of organizational resources to execute organizational policies. According to Anthony and Govindarajan (2007) Management Control Systems are implements to help management in directing an organization in its deliberate goals and competitive advantage. For the managers in order to enact their desired policies, MCSs are the only implements which they use in executing their desired strategies in their respective organizations. Simons (1994) states that a manager uses MCS to keep up or make changes in the standards of organizational activities. These systems are ceremonial and information based techniques to sustain or amend organizational procedures. Management Control Systems in views of Anthony & Young (1999) is a black box. The word black box is used to portray an activity of which true nature is difficult to observe.

Management Control Systems is categorized in three forms by Anthony & Young (1999): full cost accounting, differential cost accounting, and responsibility control or management accounting. Their research thesis has empirical contingency based review of literature encompassing the evolution and formation of MCS. It classifies the literature topic wise: what is meant by MCS, its outcomes, and contextual factors which includes structure of the organization, size, policy, outside environment, information technology and culture of the nation. Their research work contains a detailed and comprehensive review of literature regarding the enlisted topics. Further, the authors have focused on contingency based theories from a functionalist perspective based on the assumption that MCSs "are used to help managers attain the desired organizational results or organizational objectives". The specific

structure of MCSs will be affected by the particular circumstances in which they survive (Anthony & Young, 1999, p.128).

1.3 Motivation of the Study:

The aftermath of finance sector is affirmative with the impact of economic process and technological advancement. As usual, the world become a global village, improvement in financial instruments, financial industries have emerged, and market boundaries has strengthened. Thus, the evolution is a challenge for the banking sector to control and minimize the risk. This is crucial to give more attention on management control systems in banking sectors. The world financial crisis is the result of poor and inadequate management which increased risk for financial sector. As a consequence, the country internal crises impact in world through globalization in this decade. The importance of management control system in banking sectors for macro stability highlighted by the global financial crisis (Hayali et al. 2012). The excessive risk taking and banking failures which results in bankruptcy due to mismanagement and lack of control. This lack of management control system is the weakness of banking sector which do not minimize and control risk on advanced standard economic market (Hayali, Dinç, Sarılı, Dizman & Gündoğdu, 2012).

On the other hand, the financial sector not only the western banking system, but also the Islamic banking management control system is crucial in this time period due to recent global financial situation (Ahmed, 2010). However, Islamic banking plays a vital role in globalization as an alternative for conventional banking system and growing continual in a short time period. There are many studies which emphasize the necessity and importance of management control system in the conventional banks but little has been researched on the management control system of Islamic banks, particularly in Pakistan, which positions the gap for current study.

1.4 Objectives of the Thesis:

Specifically, the key objectives of this thesis are

1. To explore and understand the prevailing management control system in the Islamic banks.
2. To investigate the mechanisms used in the prevailing management control system to ensure fairness and justice in the routine practices of Islamic banks.

CHAPTER 2

2. Review of Literature:

In the two decades, Finance sector has become the most crucial player with the impact of advancement in technology and global economic process. As a result, world become a global village, new financial markets have emerged, financial products have increased, and businesses expanded due to improvement in technology and globalization in the market. This is crucial for the financial sectors to manage and control the performance of financial product due to proper management control system. Poor and insufficient control system don't control risk which is the result of financial crisis in the market. The domestic crises impact on world which spread due to globalization. The importance of management control system in banking sectors for macro stability highlighted by the global financial crisis (Hayali et al. 2012). The excessive risk taking and banking failures which results in bankruptcy due to mismanagement and lack of control. This lack of management control system is the weakness of banking sector which don't minimize and control risk pose a threat against the success of the banking sector.

2.1 Islamic Financial Institutions; An overview:

Although in its infancy stage, the competitive strength and rapid growth of Islamic finance is the center of economists' scholars and practitioners in the last decade. It is now considered as a key instruments for international fund allocation and mobilization (Bukair and Abdul Rahman 2015). This is evident from the fact that the contribution of the finance industry was second best to the GDP of the Gulf Cooperation Council's (GCC) countries. Scholarly literature from non-Islamic countries also acknowledge the worth and stability of Islamic banks (Sturn et al., 2008).

A reasonable amount of scholarly literature has investigated the performance related outcomes of the Islamic Financial Institutions/Banks (ISF/Bs). These include both a single country and cross country researches. Some have used parametric measures and variables (Majid et al., 2003: Al-Gamal and Inanoglu, 2002: Gheeraert and Weill, 2014: Muhammad et al., 2008). While others have used non-parametric frontier methodologies (Bader et al. 2008: Yudistra, 2004: and Johnes et al., 2014). Dominant literature show positive efficiency related outcomes of the IFS/Bs but there exists no clear conclusion. Some evidence suggests a nonlinear evidence between macroeconomic efficiency and Islamic banks growth and development (Gheeraert and Weill, 2014). These research findings raise multiple scholarly

as well as practitioners' concern about the how to just-fully streamline the operations (management control system) in Islamic bank that may ensure productivity and efficiency while addressing the peculiarities of Islamic philosophy at the same time (Ibrahim et al., 2015) the section below provides a detailed emphasis on management control system in view of Islamic banks' fundamental principles and philosophy.

2.2 Summaries of Studies

Summary 1: On the efficiency of internal and external corporate control mechanisms

This paper aims to study internal corporate control system which is based organizationally. Externally controlled system which mostly depends upon market based variables can be deployed to assist management and amalgamate the diversified interest of shareholders and managers and to lessen the space between them. After studying the literature, on organizational theory and financial economics. This study furthers to enunciate the pros and cons of both the control systems i.e. internal control system and external control systems. This paper also presents certain defensive procedures which management can utilize to practice these systems in harmony. Additionally, a theoretical framework is developed which explains the interconnections among such corporate systems. The paper also recognizes further research opportunities in the subject of organizational theory and financial economics (Walsh & Seward, 1990).

Summary 2: Lack of Profit Loss Sharing in Islamic Banking: Management and Control Imbalances

This study aims to highlight the major problems regarding management control system in Islamic Financial Institutions and highlights the differing factors between the operations of Islamic Financial Institutions and Conventional Financial Institutions. This paper also gives directions on how to develop venture capital within Islamic boundaries without endangering or hindering its development. The issue of management control is of no use in a perfect society where members in any form remains honest to each other. In reality the world is not like a perfect society hence the problems pertains here are vital to the operations of Islamic Banks and even more crucial to its development. This study attributes the increased loss in Profit and Loss Sharing practice to the discrepancy among management control rights in Islamic Banks. In the presence of such discrepancies the agency issues are heightened and subsequently puts the PLS at risk (Dar & Presley, 2000).

Summary 3: Management Control Systems, Fairness, and Trust: Evidence from Malaysian Islamic Bank

This study aimed to inspect a wide framework of Management Control System which mingles transparency and reliance in Islamic financial institutions (Islamic Banks) operations. To be more specific, this paper sought after: reporting MCS structure utilized at gross root level at Islamic Bank, (ii) Investigates transparency norms in Islamic Banking activities with its customers, (iii) explore how transparency norms are formed in routinely procedures. It furthers to present empirical evidences in order to elaborate how belief and boundary system comes into practice in banking arena. This is a case study based research, thus it is subjected to the limitations of the approach being used. Furthermore this study is limited to Management Control Systems operating at Islamic Banks, so the results may not be generalized to other banks in practice.

Summary4: An analytical framework to examine changes in performance measurement systems within the banking sector.

This paper aims to analyze modifications in Performance Management Systems in conventional banks. To be even more accurate, this study investigates factors which can result in changes in performance management systems within banks and responses of banks to adaptive efforts. This study shows that performance of a bank is dependent upon various macro level factors such as IT, economic, political, religious and cultural/social factors and the subsequent outcomes which may appear in different manners (i.e. coercive, mimetic and normative) might result in formation of changes in performance management systems in banks. Due to the presence of these factors discussed earlier, banks may present changes to their performance management systems, the change efforts might also be dependent upon the direct influence from certain factors in macro-economic environs. These effects might be deployed by utilizing formal and informal directions. Formal direction in this regard includes coercive, mimetic and normative pressures while informal directions takes effects from macroeconomic level factors into account.

This study maintains that for managing changes in performance management systems in banks, there is no generalized procedure as changes in performance management systems can be brought by both institutional vicinities and macro level environs. The study also accepts that bank's reactions to change efforts can be passive reactions such as acquiescence or active reactions that are manipulations. It's crucial to analyze PMS change as a composite

process with unintentional results and the possibility to interrupt organizational life. Therefore the authorities who are responsible for presenting changes in PMS must bear in mind considerations regarding reactions of employees to changes in Performance Management Systems.

Summary 5: Importance of Internal Control System in Banking Sector: Evidence from Turkey

Internal control system in banking industry has gained increased focus in recent decade due to the ever-changing nature of globalization process; complication in banking operations and due to certain malpractices in the banking industry. Banks are the backbones of economies particularly in economies which are based mostly on banks. Pertaining healthier economic vicinity, regulators take a good care of internal control system and develop mechanism for the management of bank. Since the novel banking law and BRSA regulation in Turkey, banks are obliged to establish Internal Control System. This paper aims to highlight the essence of Internal Control System in banks and examines its effect on banking industry in Turkey. Furthermore the contemporary mechanism of Internal Control System is elaborated and is evaluated in detail with the help of annual reports of the various banks. This study has adopted an evaluating strategy and has compared fifteen Turkish banks and three major international banks. Data has been gathered from the 2012 year- end annual report of each of the selected fifteen banks and three other major banks in this regard. The finding of this paper maintains that Internal Control System operations have been adapted to the global standards in Turkish banking industry. This study also reveals that Turkish banking industry has wide range influences from Internal System of Control (Hayali, Dinç, Sarılı, Dizman & Gündoğdu, 2012)

Summary 6: Management accounting systems in Islamic and conventional financial institutions in Malaysia

This paper aims to find the differing factors among the management Accounting System of Islamic Banks and Conventional Banks operating in the economy of Malaysia. This is a survey based study of forty five Interest based and Interest free financial institutions which are listing on Malaysian Central Bank website. The targeted audiences were the Chief Financial Officers (CFOs) of the respected banks. Additionally this study has also conducted post survey semi-structured interviews from eight respondents in order to achieve in-depth understanding of the subject under study. Result of this study shows that Islamic Banks

utilizes Management Accounting System which is of a wider scope, well timed, collaborated, and more assembled than interest based banks. The interviews conducted after surveys gave in-depth and scrutinized visions for the subject matter under consideration. Consequently the interviews results demonstrated that Islamic Financial Institutions usually establish and operates a coherent accounting and enterprise mechanism, the MAS is in collaboration with other operations of the organization. This study was conducted in the context of Malaysian banking economy so the findings might not be universalized to other entities. This study furthers to state that it is important for Islamic Banks to maintain collaborative enterprise system. Along with complying with Shariah and regulatory standards, the collaborated enterprise system also promotes enhanced manner of making decisions.

Summary 7: The effectiveness of Internal Control Systems of banks: The case of Ghanaian banks

This study was carried out to assess the control environ along with the elements of internal control System in Ghanaian Banking sector utilizing COSO's rules and features of evaluating the efficiency of Internal Control System. A Likert scale comprising of five points was utilized to quantify the audience's information and insights of Internal Control System and the Bank's internal control system of efficiency. The audience's responses appeared to range from strongly disagree to strongly agree. On the Likert scale, 1 symbolized strongly disagree, while 5 symbolized strongly agree. SPSS was carried out into utilization for the data analysis and to present the data in the form of means and standard deviation of every question and every segment of the questionnaire. The study resulted to state that the control environ and observing activities of the internal control system in the Ghanaian banks existed with strong control. With the mean of 4.72 and 4.66, the two elements were rated highly by the audiences. The study suggest that Ghanaian Bank's boards must not be contended with the results but will need to ensure an enduring and distinct ICS to make sure that the system is truly existing and functioning effectively.

Summary 8: Determinants of Maqasid Al-Shariah-Based Performance Measurement Practices: The Case of Malaysian Islamic Banks

The motive of the paper by Mohamada, Alic & Sharif (2016) was to inspect practices of performance measures on which Maqāṣid al-Sharī'ah is based and explores factors of its application and its effect on Islamic financial institutions performance. Identifying the degree to which Islamic financial institutions establish Maqāṣid al-Sharī'ah based performance

measures (Maqāṣid PMs) will give important understanding in the promotion of Islamic financial institutions in its attainment of Islamic Financial system aims and objectives. For the data collection 146 questionnaires among sixteen Islamic financial institutions and their subsidiaries in Malaysia were distributed. Results of the study states that despite the modern era criticism, Maqāṣid al-Sharī‘ah are being attained and promoted by Islamic financial institutions in Malaysia. The study extends to identify that public interest and fairness are vitally practiced by the Islamic Banks in Malaysia. Eith the rapid development in information technology and regulatory defiance, the utilization of Maqāṣid al-Sharī‘ah based performance measures as Islamic banks’ performance driver becomes more strong.

Summary 9: Innovation in the Banking Sector - Ambidextrous Management Control Systems

The authors Al Madani & Andersson (2016), in their research paper aimed to establish collaborated conceptual frameworks which conceptualize the relation among Management Control System and ambidexterity. By utilizing the collaborative conceptual framework their study focused on inspecting the issues which might be existed due to the bank’s involvement in innovative doings and the part of MCS in attaining organizational ambidexterity. The conceptual framework in this study was based upon theory related to organizational ambidexterity, Management Control for Innovation. A qualitative research methodology, comprising of a descriptive multi-case study was adopted. Both the primary and secondary data have been utilized for fulfilling the purpose of the study. Data was gathered from interviews, annual reports, consulting firms' reports, and articles.

Result of the study declared that banks seriously need to fine-tune their management control system if they want to move forward with innovation and be ambidextrous in true sense. It was suggested that the structure of MCS is very important to attain contextual ambidextrous. The authors in this study noted mismatches between innovative doings and management control system of the bank, which are intended to major banking activities and have not been successful to time-tune and push both innovative doings and major banking operations.

Summary 10: Application of Management Control System in Nepalese Commercial Banks

The paper, by Rijal (2007) aimed to investigate the use of management control system in banks operating in Nepal. The Nepalese banking sector is highly competitive. The highness of competition among Nepalese banks resides at shaping or developing their services and

many of the banks are using differentiation strategy. In Nepal, most of the bank's focus is on customer retention. Commercial banks in Nepal encourage their employees to gain knowledge and expertise in order to enhance their understanding of modern banking practices and service innovation. Nepalese commercial banks maintain a friendly work environ along with the slight presence of informal communication system. This study uses both the primary and secondary data. Primary data was gathered by distributing structural questionnaires which were distributed among the managers of the various branches of the Nepalese banks while secondary data was gathered from Nepalese Stock Exchange Limited web site, Nepal Rasrtra Bank and other concerned banks websites. Responses of primary data were collected from twenty six branch managers and seventy six other supporting employees of thirteen Nepalese banks. While the secondary data collected through the above mentioned sources was examined using statistical tools.

Results of the study revealed that majority of commercial banks operating in Nepal do apply the notion of management control system by establishing individual and branch level targets and matching these targets with actual performance. Banks in Nepal have fixed depository targets and fixed target for the number of clients. It was stated by around eighty three percent of individuals that they receives targets for measuring their performance and the target is clearly enunciated to them periodically. Management of the banks in Nepal regularly monitors the assigned branch-level and individual-level targets. The managers of various branches of the Nepalese banks prefer their performance to be evaluated on the base of application such as NIM, ROE and ROI (Rijal, 2007).

2.3 Understanding the Management Control Systems in Banks: From MCS and CG Chiller

Keeping in view the diverse dimension of the management and control domain; sufficient literature has emphasized on the Management Control Systems. To summarize the work of few chronologically, Anthony (1965) declares that management control is process utilized by manager to achieve organizational objectives with efficiency. Ouchi (1979) devised a typology of three types of control mechanisms for effective effective evaluation and control mechanisms of the identified three critical environments i.e., bureaucracies, market and groups/clans. Simons (1994) suggested that MCS is comprised of both informal, and formal communication based procedures and routines that managers use to influence organizational

activities and outcome. The author (Ibid) came up with a comprehensive frame work for MCS, comprising of four levers. The four control levers include; a) Belief systems b) Boundary systems c) Diagnostics control systems and d) interactive control systems. In another study Langfield-Smith (1997) explored the role of MCS in the formulation and implementation of strategies and management of change.

Some scholars have considered the control framework as a bundle and experimentally contemplated how the key decisions of the overwhelming alliances and institutional condition influence the control framework structure separated from the specialized condition. Contingency theories propose that the control frameworks are subject to the hierarchical setting and recommended that a superior match between the two can result in the improved authoritative execution (Fisher, 1998). The investigations on linkages between possibility based research and MCS widely inspected the impact of the idea of nature, innovation, measure, structure, procedure and national culture in contemporary settings (Chenhall, 2003). Alvesson and Kärreman (2004) recognized and scrutinized the supposition that the technocratic and socio-ideological controls are totally unrelated by considering the control frameworks at worldwide administration consultancy firm. Another frequently cited framework was suggested by Brown (2005) who suggest MCS as a comprehensive package of five types of control mechanisms namely: a) Cultural controls b) Planning c) Cybernetic Controls d) Rewards and e) Compensation and administrative control. Henri (2006) identified to complementary components of MCS. These include Diagnostic and Interactive controls

The diagnostic controls allude to checking the execution factors and accordingly breaking down the fluctuations so as to accomplish the proposed authoritative results and for the most part considered to have a negative methodology. While interactive controls are considered to utilize the positive implementation through exchange and interactive learning among the supervisors. Langfield-Smith (1997) reasoned that the administration control frameworks impact the technique detailing, execution and change by utilizing relative contextual analysis approach and furthermore brought up the significance of chiefs 'recognition in affecting the key change process and the MCS plan. Bisbe and Otley (2004) considered the directing effect of interactive utilization of MCS on the connection between the item advancement and execution and discovered help for the relationship. Sandino (2007) considered the example of US retailers to recognize the motivation behind putting resources into the control frameworks and sorted equivalent to Basic MCS, Cost MCS, Revenue MCS and Risk MCS.

The section above provides a sufficient understanding the MCS is vital to the efficiency and effectiveness of organization. However, there exists a significant amount of diversity in its conceptualization and construction which is also because of the diversity in contextual and internal, external environmental factors. Islamic financial institutions especially, banks have their unique cultural and operational context which is also dynamic over national and geographic boundaries. Hence the MCS in Islamic banks although vital, may also require context specific research investigation. The section below provides a comprehensive review of literature on Islamic banking philosophy and challenges associated with the conventional control mechanisms.

2.4 Key Challenges to Conventional MCS in Islamic Banking System:

2.4.1. Principle of Islamic Banking & Finance:

Shariah law/principle is at the base of Islamic banking and finance which clearly forbids from the receipt and/or payment of interest (Pryor, 2007) (Termed as Riba in Arabic).

Sharia based lending encourage gratuitous lending called as Qarz Al-Hasana. Islam do recognize the time value of money by allowing for a price premium on the price of goods to be sold on credit (deferred payment basis) (Obaidullah, 2005). Islamic finance has developed dependent on the priority of exchanges directed explicitly in the medieval time and recorded under Fiqh al-Muamalat. These can for the most part be ordered as: 1) Debt-based financing: where the agent buys or has the fundamental resources developed or obtained and afterward this is sold to the customer at an increase. The deal would be on a conceded installment premise with one or a few portions. 2) Lease-based financing: the agent buys or has the fundamental resources developed or obtained and afterward rents it to the customer. Toward the finish of the rental time frame (or proportionate to the rentals) possession would be exchanged entirely or mostly to the customer. 3) Profit Sharing and Misfortune Bearing (PSLB) financing: the agent is the accomplice of the customer and the acknowledged benefit or misfortune would be shared by pre-concurred extents (Khan and Ahmed, 2001). The initial two Islamic finance techniques are all in all known as Non- Benefit Sharing and Loss Bearing "Non-PSLB" contracts.

Other than impediments on Riba, Shariá has diverse limitations which must be considered. For instance, according to Shariá all understandings should be free of "Gharar", which is scarcely deciphered as over the top weakness. In this manner as noted earlier, Islamic budgetary associations face a couple of constraints on utilization of financial backups and diverse sorts of understandings (tallying distinctive kinds of insurance methodologies).

Furthermore, Islamic cash related firms are not allowed to endeavour business refused under Islamic law (known as Haraam, for instance, placing assets into associations included with alcohol, wagering, non-Islamic financial organizations, sex excitement, tobacco or weapons. Regardless, a similar number of far reaching firms get a modest degree of pay from such prohibited activities (for instance, hotel systems and alcohol bargains), present day Shariá analysts will when all is said in done allow enthusiasm for associations with tolerable degrees of wages from denied practices under the territory of Haraam filtration. This anticipates that budgetary pros should give tantamount degree of their courses from such associations to philanthropies to channel their benefit from limited activities (Hopener et al 2011). Islamic cash related establishments all have Shariá supervisory sheets made out of authority organization similarly as Islamic analysts whose activity it is to ensure that the organization's activities are endeavoured in a Shariá predictable manner.

It has been proposed that as a result of the restriction of premium and the PSLB idea of Islamic banking and money gets this can make Islamic financing understandings increasingly mind boggling and expensive. By and large, paying off rent based or debtors based account, e.g, Murabaha, these banks arrange the tasks and/or merchandise to be purchased and afterward lease and/or sell (at premium) to customers. For execution/procurement of the ventures/products, Islamic banks choose the customer as operator on regular basis. Such a construction is to some extent confused when relative to standardized forms of mortgage contracts. Sundarajan and Errico (2002) point out to the vulnerability of different Non-PSLB strategies to specific risks, for example, Ijara & Salam. Islamic banks faced both value depreciation and credit risks in the past. This is because, of the inability to exchange proprietorship. Consequently, Islamic banks have to manage every risk till the end of the contract time.

Another Important issue is the management of default punishments. Scholars suggest that Sharia does not allow for these punishments (Khan and Ahmed, 2001) hence, the banks have to use discounts as an alternative. Here the elevations on the account game plan certainly refuges the advent to the banks just as a segment of the punishment (default). If the customers appropriately reimburse the advance, they will be awarded with discounts accordingly. The instalments of default premium usually determined in the traditional banking over the deferred time period, majority of the Islamic banks collect them over entire financing tenure. Furthermore, Islamic banks face the same challenges considering to utilize subsidiaries as

different types of insurance. For example, Islamic banks cannot utilize increase based resources just currency advertised bonds, securities and/or instruments.

In addition to debts and loan financing, conventional banks deploy speculations to a share of their assets. The moves include regular purchase of securities with relatively stable returns to cater to the risk associated with the debt portfolio. Hedging and speculations on the other hand are restricted in Sharia laws and hence risk management becomes increasingly difficult in Islamic banking. Alternatively, they can put resources into present moment Sukuk issued by the International Islamic Liquidity Management Corporation (IILM – see Archer and Karim, 2014).ix Although (like in transient Islamic currency showcases) the benefit class still remains moderately immature, impediments on Islamic bank speculation openings have been debilitated after some time due to Haraam cleaning just as the extension of option Islamic financing instruments.

2.4.2 Structural relationships:

The stanza starts with an agent borrower relationship which is dyadic in nature. The augmentation inside the section included other applied components, for example, the necessities of a recorder, witnesses and other insignificant items which incorporate Adl, learning of the exchange, assent and devotion. The ideas got from the section clarifies different rules and rules that are important to both institutional and welfare points of view of maintainability. For example, there is no special case to the two viewpoints in chronicle the exchanges. In any case, institutional school depended more on the budgetary record to evaluate the long haul survival and sustenance of foundations which rely upon banks' capacity to deal with their dangers and returns feasibility. In any case, loaning foundations are identifying with their clients in various ways depending on individual customer thought or gathering as displayed in Table 2. The traits of the bank-client relations clarified the sort of exchanges and its normal conceivable results. As indicated by Cull, Demirgüç-Kunt, and Morduch (2007), the exceptional yield is related with charging the mind-boggling expense of capital on individual borrowers while bunch customers found related ineffectively to the banks' monetary execution. Conversely, past investigations affirmed that outreach issue can be tended to through gathering loaning (Mersland and Strøm 2009; Kar 2011). On the parity side, both manageability execution and effort are observed to be accomplished through gathering loaning (De Crombrughe, Tenikue, and Sureda 2008). In this way, these discoveries are connected with the bank's destinations. Keeps money with profoundly benefit inspiration could concentrate on the individual customer and charge the greater expense of

capital than on gathering loaning. In the meantime, keep money with parity rationale is obligated to gain a sensible benefit and broaden exceed through gathering loaning. In any case, Conning (1999) predicts the likelihood of having higher additions with an all-inclusive effort by charging higher intrigue and moving the work force cost to the clients. In such manner, clients will undoubtedly pay an extra expense on the advance, however it may not think about the bank's liquidity because of checking cost. In any case, Islamic banks are neither allowed to charge enthusiasm of any sort nor to move the whole hazard to their clients; they are required to charge moderate authoritative expense and offer hazard where relevant (Çizakça 2014). In this manner, reasonable treatment is relied upon from them and to absolve powerless individuals from the hardship of destitution through business. However, it has been discovered that ladies customers have an immaterial association with budgetary manageability (Ayayi and Sene 2010). This won't block them from having considerable help from Islamic banks. In another investigation, Zaigham and Asghar (2011) announced that delay in opportune reimbursement of advances by the borrowers obligated the banks to end up unsustainable. In this manner, the social relationship of Islamic saves money with their customers must be through social guarantee and trust which is nearer to the welfarist point of view (see segment 3.2 for subtleties). In a similar vein, Zaman (2013) recognized the effect of social capital and trust through corporate system relations in the contemporary writing of reasonable improvement and money.

2.4.3 Functions:

The capacities can be separated into two components (for example administrative and administration). However, Aliyu (2014) included controllers' capacities and made it into three orders. The useful job of institutional maintainability is relied upon to be inside the characteristics of authority, trustworthiness, and trust (Zaman 2013). The administration characteristics are similarly diffused in the administration elements of arranging, coordinating, sorting out and control (Daft 2012). This bound in the administration hypothesis as well as reached out to the two (basic and interactional) points of view of the job Theory (Turner, 2006). In the meantime, the board capacities must be joined by Ash-shaja'ah (boldness and grit) and Al-Karam (liberality) which is gotten from Adl and Ihsan ('Ali al-Bazzar 2009). The administration, Shura, and Shariah warning board will be immovably remaining in setting up corporate administration with equity and honesty towards securing the privileges all things considered (Hasan 2009; 2012). Moreover, banks' administrators are relied upon to utilize their aptitudes in giving effective administrations that will yield the most astounding outcome on the banks' goals. In spite of the structure of corporate administration

incorporate administration proficiency, straightforward and persistent exchanges is normal from practical administration. With this, Ayayi and Sene (2010) insisted that administration productivity, great administration combined with benefit amplification would ensure budgetary supportability. So also, administration and partners' support in the executive gatherings is discovered persuasive in clarifying effort and budgetary manageability (Hartarska 2005). In another investigation on Islamic banks, aside from great administration, Nor and Asutay (2011) likewise upheld for clients' and representatives' rights assurances in the business. In any case, some perfect practices are not exuding themselves without requirement by the controllers. Consequently, controllers' capacities are fundamental in continuing the center poor through government and giver offices' intercessions (Kai 2009).

In like manner, the guideline work isn't just for the controllers to give prudential rules rather they need to guarantee consistence through authorization. In this view, Cull, Demirgüç-Kunt, and Morduch (2011) conceded that in spite of the cost associated with administrative consistence, it likewise grows the delegate elements of the banks. Then again, it was discovered that supervisors' experience improves institutional execution, and lower compensation decreased their execution in exceeding poor people (Hartarska 2005; Kai 2009). It is in light of a legitimate concern for the banks' target that administration's capacities organized in accomplishing either social, benefit or double objectives. A portion of the past writing featured the administrative capacities towards directional inspiration on the exchange off between money related manageability and exceeding the most unfortunate (Olivares-Polanco 2005; Cull, Demirgüç-Kunt, and Morduch 2007; Kai 2009; Abate, Borzaga, and Getnet 2014). Strangely, the tradeoff between money related maintainability and effort decreases as the bank is ending up increasingly proficient (Bos and Millone 2015). Hence, speculators can concentrate on benefit productive banks for anticipating a higher return, yet giver organizations and governments need to channel their intercession assets into socially persuaded banks for improving societal prosperity. In such manner, Islamic banks should receive the double goals to effectively adjust the societal prosperity upgrade without repressing budgetary execution.

2.4.4 Capacities:

Functional human improvement and limit are essentials for the long haul maintainability of the financial division (Akhter, Akhtar, and Jaffri 2009; Šlaus and Jacobs 2011; Khan 2013). Likewise, Islamic banks' staff is required to be furnished with the required abilities and information of the financial exchanges. Thusly, past investigations underlined on the banks'

staff, yet in addition on the Islamic financial controllers and specialists (Nienhaus 2013; Archer and Karim 2013; White and King 2013; Archer and Haron 2013; Mallin, Farag, and Ow-youthful 2014). Once more, it has been noted inside the worldview of Positive Organizational Behavior (POB) that, successful human aptitudes fortify and continue the staff capacity to supplement the organizational assignments (Sekerka, Comer, and Godwin 2014). In like manner, the supporter of Positive Psychology (PP) guaranteed that positive aptitudes and information upgrade quality life for individual and establishments (Seligman and Csikszentmihalyi 2000). Actually, past examinations (Khan 2013; Ahmed et al. 2015) stated that a large portion of the Islamic banks' staff were enrolled from conventional banks without earlier learning of Islamic exchanges which weaken their proficient execution. In the mean time, it was noticed that powerless execution in the financial business has inclinations for misery probability (Wheelock and Wilson 2000; Maghyereh and Awartani 2014; Jan and Marimuthu 2015; Wanke et al. 2016). In another examination, Podpiera and Weill (2008) inferred that such a circumstance prompts non-performing credits and disappointment of the bank. However, the limits of the Islamic banks can also be clarified dependent on their solidarity to continue financial emergency in term of capital ampleness (see; Beck, Demirgüç-Kunt, and Merrouche 2013; Aliyu 2014). It is empirically evident that capital ampleness impacts store and advances development of the banks which thusly stretched out to their survival in the framework (Abdul Karim et al. 2014). Then, Table 2 exhibited different discoveries on the impact of capital limit on the banks' execution through capital structure creations. For example, Bogan (2012) found a relationship between capital structure, size and resource with the execution of the banks, yet not with financial manageability. Interestingly, capital structure is discovered unimportant to the banks' execution (McIntosh and Wydick 2005; Kinde 2012). The discoveries upheld the prior insignificance hypothesis of capital structure to corporate money writing (Modigliani and Miller 1958). Specifically, on Islamic banks, their capital structure is sufficient for them to be practical and to perform productively (Ismail and Possumah 2012). This is obviously clear amid the ongoing financial emergency (Beck, Demirgüç-Kunt, and Merrouche 2013). Lower capital sufficiency of small and medium MFIs scaled them down and progressed toward becoming bankrupted amid the ongoing financial emergency (Ngo, Ly, and Mullineux 2014). The writing under audit did not reveal much on the creativity and infrastructural limits of the banks in connection to execution and supportability. In this way, empirical proof is expected to legitimize the connection between human cleverness, framework, and banking supportability. However, Akhter, Akhtar, and

Jaffri (2009) asked Islamic banks to reinforce their institutional limit upgrade for them to continue longer in the framework.

2.4.5 Islamic moral transaction mode:

The previous investigations (Asutay 2007; Kamla and Rammal 2013) realized that social equity disappointment of Islamic banking and money rose because of disparity from ideal Islamic moral economy for trade connections especially on the center poor. Islamic morality of trade relationship is inside the directed transactional method of Quran 16:90. It is the complete section that directs each relationship and connection (Ibn Khathir 2003). The stanza has solidified six characteristics which Islamic standards were based on them. The six traits are isolated into two fragments of three components. The initial three requests the pleasure in Adl, Ihsan, and liberality while the other three are on forbiddances of Al-fahsha', Al-munkar and Al-baghy. Specifically, to banking exchange, the main section of the refrain represented the comparative substance of Islamic moral exchange method. Likewise, the second piece of the stanza advises to avoid each underhandedness, for example, loan cost (2:275-6, and 287; 3:130; 4:161; 30:39) betting (Q5:90-91), prodigals (Q17:26), ended up fault and wiped out (Q17:29), theories and untruthfulness among others. At such, the Islamic morals of transactional morality mode are nearer to the ethical and morality focal point of Positive Behavioral Studies (PBS), Positive Organizational Ethics (POE), and Business Ethics (BE). PBS is a lot of three conceptual hypotheses of PP, POB and Positive Organization Scholarship (POS). POS is an idea that advocates for any positive airs and activities that would upgrade and continue positive yield in an association, for example, trust, positive abnormality, phenomenon among others (Cameron, Dutton, and Quinn 2003; Cameron and Caza 2004; Spreitzer and Sonenshein 2004; Sutcliffe and Vogus 2003). BE includes any business values and morals that continue and multiply business association, society and condition (Serkerka, et al. 2014). POE restricted to any positive and moral activities that would advance, support and reinforce the execution of the association. Essentially, POE is in the middle of PBS and BE, which consolidated the qualities of both for accomplishing real-world circumstance. More or less, all these hypotheses are proliferating noble position and flawlessness in organizational courses of action that cherish inside the social, monetary and distributive ideas of equity and Ihsan (see; Beekun and Badawi 2005; Zaman and Asutay 2009).

2.4.6 Banking business:

Literature identifies the management of and outcomes based assessment as principal elements to business accomplishments. Risk management is viewed as a vital instrument ensure

judicious, solvent and fair dealings to Islamic banks (Hassan and Dicle 2005). (Hassan and Dicle 2005). So also, chance administration, customer insurances, and expand financial advancement are considered as an integral part of reasonable Islamic financial business (Akhtar 2008). Commercial financial exercises are a greater amount of participatory under Islamic standards among agent and business visionary. In any case, plans of action rely upon the essential qualities and inspiration of the banks.

As needs be, Table 2 introduced different discoveries of commercial exercises about effort and maintainability of the financial foundations. All things considered, Olivares-Polanco (2005) found the age of the associations and rivalry predicts their advance sizes as opposed to plans of action (benefit and non-benefit) and guideline. This infers serious challenge has inclinations of moving need from effort to benefit intention. In this way, concentrating on the least fortunate customers decreases as rivalry extends while wealthy customers are ending up happier because of the low dimension of intrigue (Kai 2009). In the even where banks are socially inspired in exceeding poor people, charging the greater expense of capital won't think about their liquidity because of checking cost (Conning 1999). So also, Cull, Demirgüç-Kunt, and Morduch (2007) attested that an expansion in expenses does not really yield a higher return. On account of Islamic banks, comparative conduct has been reported in various plans of action. All things considered, exchanging need among benefit and non-benefit inspiration is inclined to comparable results on financial manageability and effort separately (Ahmed 2013). Aside from plans of action, the scale of the firm also impacts banking execution with respect to benefit, effectiveness, maintainability, and effort. In accordance with this, substantial scale MFIs are discovered proficient, beneficial, and reasonable (Ngo et al. 2014). In another investigation, it has been revealed that the development of MFIs is related with the business people's execution and rivalry in creating nations (McIntosh and Wydick 2005). Be that as it may, execution was found irrelevantly identified with rivalry (Kai 2009; Mersland and Strøm 2009). However, another investigation set up that productivity is related with higher quality portfolio and cost of capital which thus fortify financial sustenance of the bank (Ayayi and Sene 2010). Regardless, benefit spurred banks decrease exceed on ladies and centre poor to amplify benefit, and the turnaround is the situation on socially motive banks (Cull, Demirgüç-Kunt, and Morduch 2011). Essentially, reliance diminishes the independence of the banks and has an unfriendly impact over the long haul. In such manner, Bogan (2012) legitimized the long haul negative effect of concede and bailout on the operational manageability of the banks. In spite of that, Kinde (2012) affirmed that financial maintainability can be clarified dependent on reliance (allow and bailout) cost per indebted

person and effort. More or less, the reliance is supporting financial administrations to get to centre poor and adversely affects benefit arranged banks. Nonetheless, banks exercises are being affected by the macroeconomic exercises of every nation explicit. With this, Ahlin, Lin, and Maio (2011) attested that bring down banks' default is related with the sound financial quality of the nation. Thusly, the discoveries of Cihak et al. (2012) upheld this view as in, those districts with higher pay status are found having a higher score on the normal elements of the global financial improvement and the other way around to bring down pay nations. For example; Sub-Saharan Africa proportionately scored low on the normal of the measurements while higher pay nations scored high. In regard to nations with the sound financial framework, MFIs are discovered serving poor and contending with commercial banks. Likewise, in the nations with the powerless financial framework, MFIs satisfy the market disappointment theory need (Vanroose and D'Espallier 2013). Basically, as commercial banks neglect to get to poor customers in less financially stable countries, MFIs exploited and balanced on the dual goals (benefit and effort). In the job of Islamic money to maintainable improvement goals. Ahmed et al. (2015) declared that benefit and misfortune sharing course of action will improve comprehensiveness, intermediation, financial steadiness, and monetary development. In accordance with this, local and international assets can be activated for foundation and other substantial ventures.

In whole, Islamic financial organizations must be elevated by the Islamic core values that advocate for moral dealings between the concerned gatherings included and shall not have profane property. The idea of uncalled for dealing is nearer to perquisite utilization and demand for higher prizes which rose the organization cost hypothesis (Jensen and Meckling 1976). The contention between the capital proprietors (principals) and the chiefs (operators) of the enterprise results in an awful administration and wasteful usage of business assets (Myers 2001). Thus, visit clashes among operators and principals undermined firms' development and prompted the indebtedness of the business. In this manner, office cost has opposite suggestions on the financial and operational independence of the foundations (Nyamsogoro 2010; Bogan 2012; Alali and Romero 2013).

In any case, Jensen (1986) declared obligation financing as a control measure to office cost because of loan fee instalment on the obligation holder which repudiates Islamic financial standards. Accordingly, Islamic banks are relied upon to work inside the allowable limit of not to squanderer (Q17:26) and make full usage of accessible assets since they should pay zakat toward the finish of each financial period. line with Islamic standards combined with observing and control (Akhtar 2008). In another examination, De Crombrughe, Tenikue, and

Sureda (2008) presumed that effort can be accomplished without an expansion in the observing expense or credits estimate. However, Cull, Demirgüç-Kunt, and Morduch (2011) discovered manages an account with a benefit thought process conform to supervisions mandates.

Along these lines, external supervision and an internal control can in a roundabout way impact the banks' execution and productivity. Essentially, responsibility as straightforwardness exposure is viewed as an instrument used to survey the distinctive reactions between financial manageability and effort. In such manner, Quayes (2012) reasoned that manages an account with higher exposure have a correlative positive connection between financial supportability and effort, and exchange off was found to those with powerless revelation. In total, managed loaning foundations are discovered practical (Ngo, Ly, and Mullineux 2014).

In short, section 2.3 above clearly establishes the fact the conventional MCS practices may not be applicable in Islamic banks to ensure fair and just management practices that may lead to efficiency and effectiveness. On the other hand, without proper MCS managers may not be able to ensure achievement of the organizational goals and serve in the best possible interest of the stakeholders. Islamic banking in real life context diverges significantly from its core principle due to many reasons some of them discussed above. Depending upon the country of origin the practice is carried out in diverse ways that lie within the horizon of benchmark isl;amic economic principles and conventional banking practices. The range and extent of divergence vary according to cultural and country context. Therefore, the concern for effective management control system may vary accordingly and require context specific research invetsigations. A proper management control system in this regard would be the one that is just to its circumstances and prevailing Islamic banking practices and legislature specific to a country, Pakistan in this research context.

Therefore, key question that arise is, “how does the managers in Islamic banks devise their MCS that ensures efficiency, fairness and justice (by complying to Shariah principals)? Chapter 3 next page provide a comprehensive account of the Methodology adopted by this thesis to address the above mentioned broader research question and achieve its research objectives.

CHAPTER 3

3. Methodology

3.1 Defining and Isolating the Case:

Islamic banks have a healthy deposits' share and other financial contributions over the globe and also in Pakistan. Islamic banking stemmed officially in 1970 when Finance Ministers of the Islamic Countries held a gathering in Karachi, Pakistan. At first, the Islamic Development Bank was set up in 1975 and the principal current Islamic Bank i.e Dubai Islamic Bank was built up in 1979. Beginning from just a single organization in 1975, presently Islamic Banking is being polished in excess of 75 nations (counting Europe and the United States) with in excess of 300 Islamic Financial Institutions.

The State Bank of Pakistan (SBP) declares five full-fledged Islamic banks. These banks are summarized in table1 below. The Islamic banking deposits have a 14.7% share in the banking sector of Pakistan (Islamic Banking Bulletin, September 2018) and is expected to grow to 25% by 2020.

Table 1. Islamic Banks in Pakistan

<i>Name of Bank</i>	<i>Date of Incorporation</i>	<i>Comments</i>
<u>Meezan</u> Bank Limited:	Started operations in August, 1997.	<u>Meezan</u> bank has the <u>honor</u> of being the country's first full -fledged Islamic commercial banking license by the SBP.
Bank <u>Islami</u> Pakistan Limited	October 18, 2004	It is the second full-fledge Islamic Commercial Bank in Pakistan. The bank is the first to receive the Islamic banking license under the Islamic Banking policy of 2003 on March 31, 2005.
Al Baraka Bank (Pakistan) Limited		The bank is merger of Al Baraka Islamic Bank Bahrain and Emirates Global Islamic Bank Pakistan.
Dubai Islamic Bank Pakistan Limited (DIBPL)	Commenced operations in 2006	Dubai Islamic bank launched Pakistan's first Islamic Visa Debit Card and introduced financial products covering Home Financing, Auto Financing, and Depository products.
<u>Burj</u> Bank Limited	Got license in 2006 and starts its operation in 2007.	Previously called <u>Dawood</u> Islamic bank, <u>Burj</u> Bank has a rich Middle Eastern background with the technical support

Source: www.sbp.org.pk/ibd/bulletin/2018/Sep.pdf

Table 1 and the source mentioned above show diversity in the nature, source and size of the pure Islamic banks in Pakistan. However, these banks follow the fundamental philosophy of

Islamic Finance as discussed in section 2.3 of literature review. In addition, the SBP also has fully functional directorate of controlling, guiding and supervising Islamic banks that offer standardised legislature and policies governing products and operations of the Islamic banks. The key principles are summarized as under:

- Interest based lending is unlawful (haram)
- Sale of debt is forbidden.
- Venturing and financing in speculative activities is forbidden (haram).
- Banks should not involve in uncertain transactions.
- Islamic principles project productive and real economy and does not believe in “*Money does not beget money*”.

The SBP has developed and actively reinforces a progressive, stable, and significant Shariah compliant banking system. That enables in a regulatory, legal and Shariah compliance framework for each and every Islamic bank in the country. This is the reason that besides some contextual differences, all the Islamic banks in Pakistan offer almost following standardized services:

1) Murahaba (Cost Plus Financing), 2) Musharka (Partnership Financing), 3) Mudarba (Trust Financing), 4) Ijarah (Leasing), 5) Bai Muajjal (Deferred Payment Sales), 6) Quard Hassan (Welfare loan), 7) Istisna (Assistance in non-agricultural, preferably manufacturing), 8) Salam (Assistance in Agricultural production), 9) Hawala (As a reference for transaction), 10) Kafala (Sponsorship), 11) Diminishing Musharaka (A modified form of Musharka) & 12) Sukuk (interest free Islamic bonds).

Due to the above mentioned homogeneity of the fundamental principles and legislature enforced by SBP and in the products and services offered, this thesis followed a single case study approach to address its research objectives. Therefore, the case here is Islamic banking in Pakistan and the unit of analysis is Islamic Banking Management in the 5 full-fledged Islamic banks operational in Pakistan.

3.2 Research Design:

As discussed above, this thesis has used a case study approach. A case study is a systematic scientific investigation focused at a contemporary issue/phenomenon in a given real life context, especially when the phenomenon and context have no clear/blurring boundaries and scopes

(Yin, 2003). Following are some of the major reasons that led the author of this thesis to choose a case study approach:

3.2.1: Nature of Research Questions

A case study approach is useful when ‘how and why’ questions are asked. As the theoretical framework leads to such questions, therefore the first condition was met.

3.2.2: Extent of control over behavioral events

Unlike an experimental study, the researcher would have no control over the behavior of the stakeholders that would be studied. Their behaviour is controlled by the institutional environment.

3.2.3: Focus on Contemporary Issue

As discussed earlier in chapter 1 and 2 Islamic Banking is a contemporary issue and it is yet to be practiced effectively in the context of developing countries like Pakistan (Islamic Banking Bulletin, September 2018).

The rationales (Yin, 1994) for choosing a single case study are:

1. As a single case is vital to make a theoretical contribution (Allison, 1971), and this thesis aims to make a theoretical contribution by exploring MCS in Islamic banks, therefore a single case study is chosen for this thesis.
2. As a single case is a unique and rare case study, which is most useful in psychology studies, and this thesis aims to study and explore mental maps of the respondents in reference to norms, beliefs and religious conducts by managers in Islamic banking operations, therefore, the second rationale has been met.
3. A single case is a typical case concerning common and everyday circumstances, and this thesis would be using information from multiple respondents from the five Islamic banks, therefore the third rationale has been met.
4. A single case is justified when a revelatory case is not able to be executed scientifically by the previous researchers due to inaccessible resources. As the five banks have branches across Pakistan with standardised services and equitably trained staff, the fourth rationale for single case study is also met.

3.3 Sampling Design and Data Collection and Analysis Procedure:

This study, following an interpretivist paradigm, uses a qualitative approach with single case study method, covering pure Islamic Banks operational in Pakistan within its scope (Yin, 2003; Creswell, 2012). The author used a purposive sampling approach owing to the

complexity of research phenomenon and the context itself. The researcher being the key research instrument the author of this thesis carefully selected managers from multiple branches of the five Islamic Banks mentioned in table 1 above (Creswell et al., 2007). Using his personal contact and following a snow ball (a type of purposive sampling technique) the author of this thesis first contacted the sharia advisor and manager operations in the main branch of Dubai Islamic bank in Peshawar (the capital city of KPK). Based on the interview of the two and finding additional qualified references, the author later interviewed 13 managers/sharia advisors from 7 branches of the five Islamic banks. The interview data was collected from at least one branch of each of the five aforementioned (Table 1) Islamic banks.

Analysis was done inductively during and after data collection process in order to establish patterns or themes. Inductive analysis is conducted in parallel with data collection process to enable for identification of any new emerging issues, also to continuously plan for research process of the current study. Interview transcriptions was performed using non mathematical qualitative description and interpretation as under.

This research in this thesis began with a preliminary study, where the findings were utilized to facilitate the development of the main case study in two aspects ; a) Refine interview questions and b) optimize sample selection and size. This study has chosen the 5 full-fledged Islamic banking institution as it focuses on the internal management control system. The five banks selected are well established and as discussed above represent a unique context, feasible for the research approach followed (Flyvbjerg, 2006; Yin, 2003). The internal Management control system was practiced equivocally in almost all of the branches with minor diversity in the scope and intensity of the key components. The thesis conducted interviews in two phases, that is, in the first phase key focus was given to the key issue and challenges faced by the managers in Islamic Banking while implementing MCS. While in the second phase key focus was to understand the execution of the identified MCS that may or may not ensure fairness and justice. As discussed above the thesis followed a concurrent/simultaneous approach for data collection, analysis and interpretation coupled with documents and online web source analysis of the respective banks for triangulation and validity. As discussed earlier, the thesis used purposive sampling in the present research investigations. This because it is compelling when data gathering and analysis and interpretations are done related to information gathering. This enabled in modifying and refining respondents choice and refinement of interview

questions respectively. Determinations of interviewees finished when the present examination achieves an immersion point, where significant topics have been recognized and sufficiently emphasized. An immersion and/or saturation point is likewise come to as there is no new data that can be included into the rundown of topic or to subtleties for existing subjects. The section below provides a comprehensive summary of our interview instrument.

3.4 Interviews Instrument:

The table below provide a summary of the preliminary interview structure. However, with the progress of the interview, the number, nature and intensity of these questions remained dynamic over the enire course of research.

Name: -----		Code:
Designation: _____		
Experience: _____ yrs.		
City: _____		
S. No.	Questions	
1	Please describe your key duties and responsibilities in this bank	
2	What are the major constraints and challenges here at this institution	
3	How do you describe the current state of Islamic banking in Pakistan?	
4	Could you please elaborate on the guiding principles of Islamic banking at you institution?	
5	Please shed some light on the management control system at your bank.	
6	How does the MCS at your bank offer fairness and justice in your bank. Please elaborate	

3.5 Validity:

Document analysis is a systematic procedure for reviewing or evaluating documents— both printed and electronic (computer-based and Internet-transmitted) material. Like other analytical methods in qualitative research, document analysis requires that data be examined and interpreted in order to elicit meaning, gain understanding, and develop empirical knowledge(Corbin&Strauss,2008).

Document analysis is often used in combination with other qualitative research methods as a means of triangulation—the combination of methodologies in the study of the same phenomenon’ (Denzin, 1970, p. 291)

Triangulation means using more than one method to collect data on the same topic (Patton, 1999). This is a way of assuring the validity of research through the use of a variety of methods to collect data on the same topic, which involves different types of samples as well as methods of data collection. However, the purpose of triangulation is not necessarily to cross-validate data but rather to capture different dimensions of the same phenomenon.

The qualitative researcher is expected to draw upon multiple (at least two) sources of evidence; that is, to seek convergence and corroboration through the use of different data sources and methods. Apart from documents, such sources include interviews, participant or non-participant observation, and physical artifacts (Yin,1994). By triangulating data, the researcher attempts to provide ‘a confluence of evidence that breeds credibility’ (Eisner, 1991, p. 110).

CHAPTER 4

4. Findings and Discussion

As discussed in chapter 3, the author of this thesis performed data collection and analysis concurrently with keen observations on the contextual specifications. In the very early stage a keen focus was given to identify and articulate key concepts and themes associated with the management control system in specific Islamic banking context. The approach not only helped in valid research investigation, but also in effective sample selection and valid data collection as the author progressively modified and refined the interview instrument. The findings of the research and associated discussion has been categorized into two main categories or sections. Section 4.1 emphasizes on the findings related to major challenges and constraints to a fair management control system in Islamic banking. While section 4.2 elaborates on the functional aspect, that is, how the managers plan executed and evaluate a fair MCS.

4.1 Key Operational Constraints and Challenges to a fair MCS in Pakistani Context:

Islamic banking suggests extraordinary issues that should be perceived and routed to help make the direct of banking supervision progressively viable. To start with, it is most essential to perceive the effect of PLS methods of financing on Islamic banks. In particular, the way that when Islamic banks give assets through their PLS offices, there is no unmistakable default with respect to the specialist business visionary until PLS contracts lapse, notwithstanding demonstrated carelessness or fumble with respect to the operator business person. According to a respondent,

..... Believe it or not, a "default" of PLS contracts suggests that the speculation adventure fails to pass on what was typical,..... that is a lower or no advantage, or a mishap... .. For this circumstance, the lower advantage/setback is shared between or among get-togethers as demonstrated by the stipulated PLS extents.

This is true, for instance, on account of a Mudaraba contract, the bank is qualified for getting from the business visionary the chief of a credit toward the finish of the period stipulated in the agreement, if and just if, benefits have collected. On the off chance that, in actuality, the venture's books demonstrated a misfortune, the bank would not have the option to recuperate its credit. Besides, such a circumstance would not typically establish a default with respect to the business visionary, whose risk is constrained to his time and endeavors. Furthermore, banks have no legitimate way to control the operator business visionary who deals with the business. This individual

has total opportunity to run the venture as indicated by his best judgment. Banks are legally qualified just for offer with the business visionary the benefits (or misfortunes) originating from the endeavor as indicated by the authoritatively concurred PLS proportion.

The above circumstance underscores speculation chance as the most basic operational hazard influencing banks working as indicated by a worldview rendition of Islamic banking since it is inalienable in their center exercises: those brought out through the PLS methods of financing. In addition, the evaluation and the executives of venture chance turns out to be more troublesome in an Islamic situation than in customary banking as a result of the accompanying elements: (1) in Mudaraba contracts, the bank can't apply control on the administration of the speculation venture; (2) PLS modes can't methodically be made subject to insurance or different ensures; (3) organization of the PLS modes is increasingly unpredictable contrasted and ordinary financing.

One of the respondent underscore as,

..... Certainly, these modes derive a couple of complex activities that are not regularly performed by conventional banks. We tailor and actively plan and execute them as these activities consolidate the confirmation of advantage and incident sharing extents on endeavor reaches out in various pieces of the economy,..... and the advancing assessing of financed endeavors to ensure that Islamic a ton of advantages is truly decided; and (4) the modestly feeble authentic framework supporting bank crediting task.....

Data disclosure and/or divulgence is more significant in an Islamic situation than it is in a customary financial framework. This is the situation in light of the fact that the nonappearance of security for venture investors is at the center of Islamic banking. Indeed, the more contributors are left unprotected, the more open exposure of data about banks' approach goals and operational techniques is important to empower lenders and investors to screen banks' exhibition. Further, in an Islamic financial system, contributors have a greater number of motivations to screen banks' presentation than regular investors. This is because of the way that the capital estimation of and quantifiable profits stores are not fixed and ensured, yet, as noted already, contingent upon banks' exhibition in contributing investors' assets. As one of the Shariah advisor contended,

.....Investors have motivations to screen Islamic banks not exclusively to try to secure the capital estimation of their assets, yet in addition to look to guarantee that the rates of return paid to them mirror

a reasonable utilization of the PLS guideline on banks' net benefit.....
Along these lines, by decreasing data asymmetries, an unmistakable and brief exposure of key information and data is probably going to permit investors greater adaptability in picking a particular bank in which they can apportion their assets as indicated by their hazard inclinations.....

This is the situation in a philosophical rendition of Islamic banking (where the connection among banks and contributors is directed by an unlimited Mudaraba contract) since investors would almost certainly pick among various banks unveiling distinctive venture destinations and strategies.

Keeping in view the above mentioned challenges and constraints, almost all of the respondents declared following three ingredients as mandatory for an effective fair and just management control system in Islamic banking context of Pakistan. It should be noted that these three major themes were derived from the interviews transcription following the technique of pattern matching (Almutairi, Gardner et al., 2014):

- (A) There is a proper legislature based on Shariah Principles which is followed willfully.
- (B) Proactive and adequate dealing of all the investments and their associated risks for the best interest of all the stakeholders and finally,
- (C) All the internal and external stakeholders get adequate and symmetrical information disclosure so that the public may be able to make equitably informed investment decisions.

4.2 Fundamental Components and Themes underlying Islamic Banking MCS:

3 major streams of themes and associated codes were derived from the interview transcription coupled with the author's own progressive observation and document analysis (mostly online). These themes were later grouped around the four universal functions (planning, organizing, leading and controlling) into three major functions as they were expressed by the respondents. These functions included Shariah management control system planning, execution and feedback and control each one summarized comprehensively below.

4.2.1 Shariah MCS Planning:

Shariah management planning is important to ensure Shariah compliance in many aspects, especially on high-risk management areas. According to one of the advisors, planning is easier in conventional internal management..... Adopts management based on risk, they identify low, medium and high risk is considered to be crucial.....

With this regard, actions with high risk incorporate the way toward formulating and getting ready item manuals, just as arrangement of legitimate documentation and advertising exercises. Arrangement of Shariah the board plan requires legitimate risk appraisal process.

.....Shariah risk is defined by SBP and Sharia Supervisory board as: “Shariah risk is possible failures to comply with Shariah principles/requirements or in other words possible incidences of Shariah non-compliance”.Therefore, proper assessment of risk, and associated remedial actions is fundamental to our Shariah management approach.....

One of the operation manager stressed the vital role of Sharia management planning as, “.....Planning is important. We actively seek and settle for, what our specific focus? We consistently try and encourage for identification of the job’s critical aspects in view of the SBP advisory principles, guidance of our Shariah supervisory board coupled with our internal social sense to make the best out of it for our stake holders.....”

To decide on the central territory amid the managerial plan execution, the banks created two kinds of Shariah executives plan. The main arrangement which is the Annual Management Planning is set up in the last quarter of the monetary year end, while Management Assignment Planning is performed preceding the execution of individual administration tasks in the field. The procedure of yearly administration arranging starts with Shariah risk appraisal on the executives’ universe, customers or offices. After the identification of management universe, Shariah manager will identify Shariah necessities to decide on Shariah risks profile. These include all relevant rulings, such as rulings and decisions of Shariah Advisory Councils of the bank and the Securities and Exchange Commission of Pakistan; guidelines issued by the Sharia regulatory directorate of the SBP and the guidance issued by the respective bank religious advosorss. After that, Shariah management portfolio will be grouped together according to their common area of interest. Shariah management areas include structure of the product(s) offered and or in the pipe line, Aqad execution (touch-point), product documentation, product development, and dress code.

One of the respondent contended in this regard,

“.....We identify management universe, department and processes to check. We also identify Shariah requirements and rulings. Then I will group the key management tasks in the critical areas of interest (in line with our objectives)..... And then, I will equal those requirements with management universe, I line it up with the management centre”.

Assurance of the board territory prioritization would rely upon the surveyed hazard. The focal point of chief will be put more on high-hazard regions. Thus, the director's choice is defended and the determination of territory is done explicitly. After evaluation of Shariah hazard and improvement of Shariah chance profile, Shariah the board will next get ready Shariah the executives program for every administration universe.

“.....We will develop risk profile together with Shariah management program. We will write management program based on profiling”.

Shariah director will at that point decide the quantity of the executives task that should be led all through the following a year (in view of hazard variables and the board assets accessible) after the advancement of the board program. A short time later, the administration task is postponed to Management Committee and SC for endorsement and selection.

“.....We determine the number of assignments for next twelve months and then we table it to Management Committee and Shariah committee.....”.

Planning the management assignment and/or Management assignment planning is the second type of Shariah management plans. It starts with the reassessment of Shariah chance on every administration focus to be overseen Next, chiefs would decide a region of the board to be organized, notwithstanding the sort of assets and aptitude required to do the administration work out. Afterward, the board hands-on work period and extent of Shariah the executives are resolved. At long last, the administrator would acquire authorization from the Chief Internal Manager. The number of assignments got ready for a year needs to think about the assets accessible to the chief.

According to one of the operation Manager,

“.....the Bank conducts approximately six assignments in six months. “Normally, one assignment takes about a month”.

During the time spent setting up the administration plan, the Shariah chief would likewise acquire counsel from other interior gatherings, for example, Shariah hazard division and Shariah audit office. The group will likewise acquire data from the operational chief so as to set up their administration plan so appropriate inclusion is done on every important zone or branches. Likewise, there are additionally casual correspondences concerning the administration territory between supervisors with different capacities, for example, Shariah survey systems. As recently clarified, the board arranging process demonstrates that administration is performed all the more oftentimes to high-chance territory. Unmistakably a development towards larger amounts of hazard based overseeing is completely required if inner supervisors try to assume a significant job in hazard the executives (Sarens and De Beelde, 2006; Hawkamah, 2011).

“We use risk-base. What we do is we analyse risk first. Department with risk from the risky management universe is considered as having higher risk. We will perform management more frequent than less risky department”.

Planning of the executives plan and the board program is legitimized utilizing the hazard based methodology. The spotlight is set more on territories that have a higher hazard. It likewise thinks about components in inside control segments, for example, control condition, chance evaluation, control exercises, data, and correspondence, just as checking. Utilization of the hazard based methodology is additionally pertinent in operational administration. Nonetheless, in Shariah the executives work; there are contrasts as far as goals, necessities and the evaluated hazard. A reasonable goal of Shariah the board is required to give affirmation about whether all exercises are in consistence with Shariah. Consistence to Shariah is a definitive goal for IB. This goal is distinctive when contrasted with operational administration targets. Along these lines, all activities associated with the arranging procedure and planning of the executives’ program must be grown likewise to accomplish Shariah consistence. Notwithstanding that, there are still a few similitudes found regarding the devices and procedure utilized.

One of the respondent contended that there isn't much contrast between Shariah the executives’ exercises and other administration exercises, for example, consistence, activities, credit, and the executives. Every one of these exercises share a similar system. Along these lines, the Bank is pushing ahead in receiving universal

administration models with usage of Shariah the executives. Adjustment of universal benchmarks, which depend on ordinary practices, is viewed as worthy by the Bank.

4.2.2 Shariah Management Execution:

There are two sorts of Shariah the executives which are executed in the Bank. The first is executed on "independent" premise, while the second one is mutually executed with tasks, credits, head office, and backup the board. The executives' execution on an independent premise implies that one administration execution is directed for one entire office.

One of the advisor contended, "... ..Standalone implies staff that works in Shariah will accomplish for instance, Shariah hazard appraisal. We go to one office. We will survey the entire procedure. We distinguish hazard and after that we turn out with hazard profile and the board program".

In the Bank, the operational supervisor does not perform Shariah the executives. Correspondingly, operational administration does exclude any administration on Shariah guidelines. For backups, be that as it may, the two administrations are together executed. On the off chance that by any possibility rebelliousness is recognized amid the executives, both operational and Shariah chiefs will make a move on it. At the point when an operational chief finds any Shariah resistance while playing out their assignments, they will educate the Shariah supervisor to make further move. Comparable move is made when the Shariah director finds any issues on operational angles, where they will educate the operational administrator. Their goal is thus to guarantee consistence towards all decisions that have been set heretofore.

One of the respondent further emphasized on "subsequent management" as follows: "...We use workforce of branch managers to help us do the checking. But, we will guide, give checklist and training.....".

On the off chance that there is a need to perform the executives on progressively complex issues, Shariah administrator will proceed to play out the administration. The board inspecting is thus done haphazardly, contingent upon accessible administration assets.

"We choose randomly, the transactions. Regardless of a million transactions or hundreds transactions, one thousand, we take accordingly to our capacity."

In regards to the utilization of management methodology and tools, similar tools as those of the conventional banks are used by Shariah management in coordination with the operations manager.

This was posited by one of the respondent as follows,

“It is recommended to use industrial international practice. Actually, it is already available. So, we use that as a basis of our management tools and methodology. It is because it is accepted internationally”.

These administration devices and procedures incorporate examination of reports, interviews, perceptions, polls, walkthroughs and information mining. In the execution of Shariah the board rehearses, the bank applies in inside administration rehearses. All members understand the advantage of interior components as a viable administration approach as it covers all angles in guaranteeing compelling inward control of the bank. Utilization of these apparatuses in Shariah the board system additionally helps in accomplishing great hazard the executives of the Bank. Shariah chance administration is a piece of ERM for the bank. Shariah the executives work in the third line of guard adds to the viability of the bank's ERM when they perform the board execution. The board work needs to value the accessibility of new technique, which will almost certainly improve its jobs and duties.

4.2.3 Shariah Management Feed Back and Control:

The findings of the management while executing their Shariah management control systems are examined with particular supervisor for further elucidation and defense. This is significant for the director with the goal that they can get ready for any replan activities. Besides, so as to manage any condition of inconvenience or conflicts with an administrators and front kline managers

One of the respondent explained as,

“.....When I give recommendations, they will accept, discuss and come out with solution.....”.

As far as detailing, there are independent reports arranged for operational administration and Shariah the board. Each report is set up as indicated by its very own destinations. The destinations of Shariah the board report incorporates among others; (I) to report Shariah resistance or potential Shariah rebelliousness occasions/exercises/exchanges, (ii) to feature causal factor that prompts Shariah

resistance, (iii) to evaluate the level of hazard and its effect to the bank in general, (iv) to prescribe remedial activities and enhancements, (v) to recommend courses of events for amendments, and (vi) to finish up the condition of inward control framework and hazard the executives procedure. Shariah the board report can be utilized as a source of perspective for SC to finish up on Shariah consistence of the bank. Shariah the board report would likewise profit Shariah chance administration, particularly in circumstances where chiefs need to set up their Risk and Control Self-Assessment (RCSA). “.....Shariah management report and Shariah review report. These two reports will be used when we want to prepare RCSA.....”

Shariah the board report can likewise increase the value of existing practices. One of the respondents clarified that the nature of the report is improving when contrasted with the report that has been arranged already. With these enhancements, reports should be deliberately arranged by supervisors to guarantee the quality and dependability of interior Shariah the board work. This is reliable with Khalid et al. (2017), who contended that there is certain connection between inside Shariah the executives work exhibitions (counting imparting results) and inner Shariah the board adequacy. Administrator should utilize his insight and comprehension in giving his report in light of the fact that the report will be utilized by SAC for further consultation and activity. Every related proof must be deliberately inspected with reference to every single pertinent standard and rules. The idea of in consistence must be concentrated to decide the effect of recognized hazard to the *maslahah* or open intrigue. This consequently expects directors to be skilled and qualified. Planning of Shariah the board report pursues the rules gave in SGF. SGF states that the procedure of Shariah the board incorporates conveying aftereffects of any appraisal or discoveries emerging from Shariah the executives to the Management Committee and SC. Shariah the board report is then postponed to the Management Committee. The report is later reached out to SC for pondering and further activity. Any pondering demonstrating remedial activities to chance administration endeavors is reached out to the Head of the particular administration community for further activity. This is in accordance with prerequisites of Shariah resistance revealing in the periodic documents issued by the Islamic Banking Department of the state bank of Pakistan. Shariah the board capacity will perform follow-up the executives on a month to month premise to guarantee that concerning issue is completely settled. Chiefs would

designate certain time period for the administration to make amendment and follow-up the board so as to guarantee Shariah consistence.

Keeping in view the above detailed discussion on findings, analysis of the online sources and documents available on the respective banks' websites and other third party sources and his own personal observation the author of this thesis (as one of the respondents contended) conclude that ***“Islamic Finance is the outcome of CSR derived from religion and applied to banking”***.

Chapter 5 ahead provides a comprehenssive summary of the conclusion drawn as mentioned above with contributions, implications and future research recommnedations of this thesis.

CHAPTER 5

5. Conclusion

The author has summarized his conclusive remarks in two major sections. Section 5.1 addresses the key nexus and major themes that underlay the management control system in the Islamic banking context of Pakistan. While section 5.2 discusses the key aspects of the individual managers' approach towards implementing a fair and just management control system in the Islamic banking context of Pakistan

5.1 The Islamic Finance Version:

As pointed out at the end of the previous chapter, the author has based its conclusive remarks on the argument of the one of the Shariah advisor (respondent), ***“Islamic Finance is the outcome of CSR derived from religion and applied to banking”***.

The author confers three main aspects of management that may lead to a fair and just management control system in an Islamic Bank. These are:

- a) Governance at the level of accountability to God: A framework which advocates insusceptibility from defilement and social bad form. Islamic arrangement of good administration depends on Adal meaning equity and its definitive objective is welfare of masses.

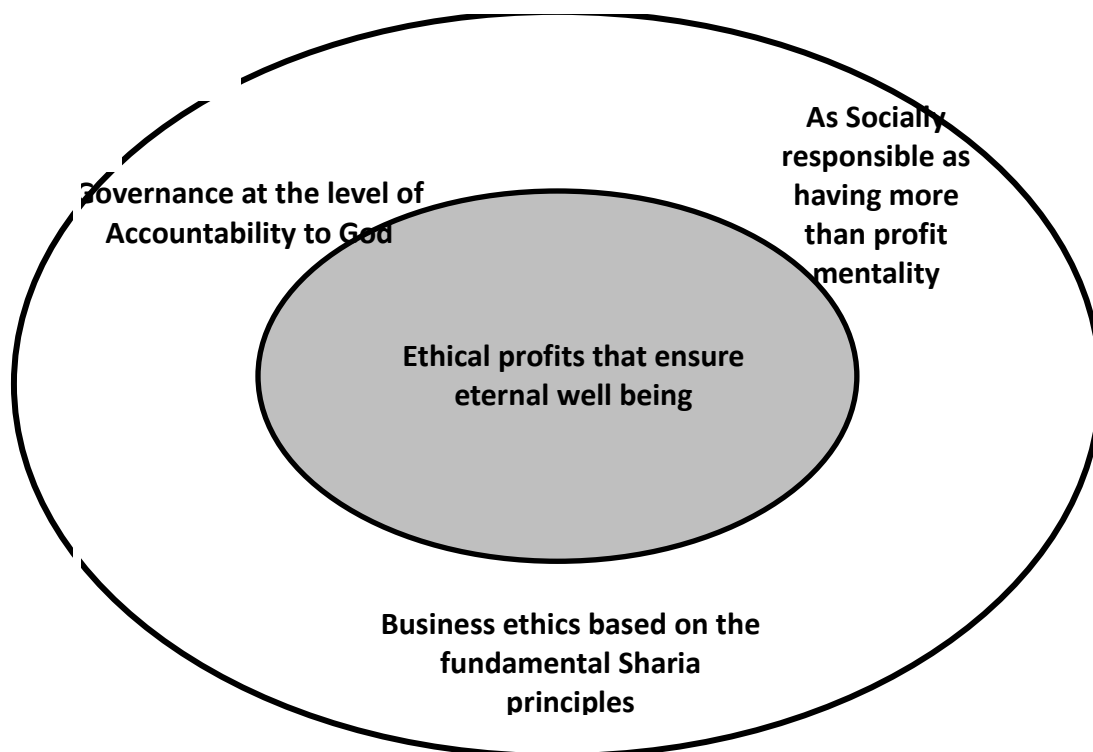


Figure 1

- b) Social responsibility in Islam is comprehended to imply that the individual individuals from society cooperate to satisfy the general needs of society just as the individual needs of its individuals and that they cooperate to shield society from mischief. Every individual from society knows that he has rights, yet in addition that he has obligations towards others, particularly the individuals who are unequipped for satisfying their own needs. These duties involve accommodating the necessities of these individuals just as shielding them from damage.
- c) Business ethics' alludes to the conduct that a business association should stick to in its communication with society, exchanges with clients and in its interior issues. Islamic ethical qualities are not a substitute for all inclusive qualities and temperances, yet rather expand on these by focusing on sympathy, resilience, mercy, kindness, and friendliness. These are matters of standard and confidence.

The concepts discussed above and as shown in figure 1 are quite impressive and must lead to a fair and operations system in any organization. But the author of this thesis at the same time acknowledge human behaviors are subject to psychologic and economic rationality (e.g., agency theory and/or rational choice theory). The author found (observed and delineated by the respondents) and concluded several strategic approaches to addresses the issue that lead to a comprehensive management control system in these Islamic banks.

5.2 Managers' Approach Towards management in Islamic banking:

Through my observation during the course of data collection and the interview transcription, I found three major aspects that contributed positively towards building and professionalizing the managers' as well implies approach towards the best interest of stakeholders. The three aspects constituted a comprehensive management control system in these Islamic banks. They offered an effective set of all the reasons (training, education, rewards and periodic orientation and motivation sessions by key opinion leaders) and motivations to the employees to act in the desirable (Islamic Finance philosophy) way. These include:

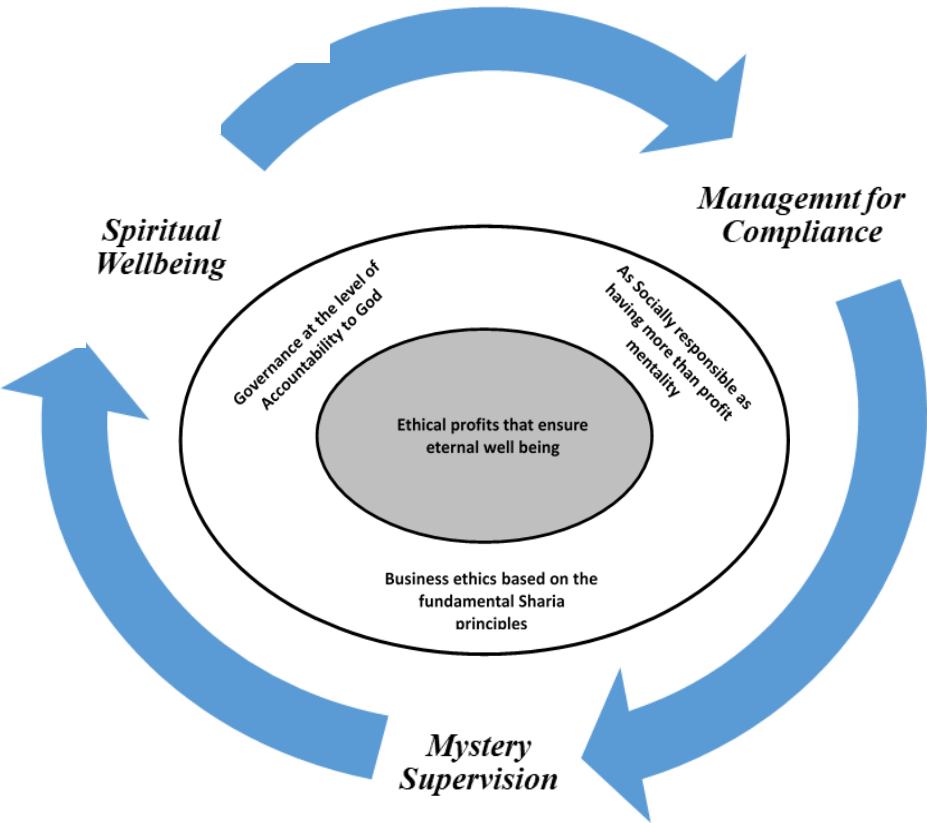
5.2.1 Management for Compliance:

As the name demonstrates this supervision is characterized with intensity and scope of adherence of the managers in Islamic banks to adhere and will fully follow the guiding principles and policies from the Sharia supervisory board, other institutional policies and the

guidelines issued by the department of Islamic Banking State Bank of Pakistan. The manager not only adhere to the above mentioned legislature as his/her professional duties but also reinforces them on the fellow workers and subordinates to act in the best interest of the key stake holders. Majority of the banks have an active system for control that ensures that the aforementioned goal is achieved or at least contributed to on daily basis. These activities range from routine daily disciplinary routines to weekly, monthly and annual performance evaluation measures in addition to other professional and social attitude and behaviour scales and cards.

5.2.2. Mystery supervision:

One other significant positive contributor towards effective management approach of individuals was that almost all of the banks employed this sort of supervision is significant. The representatives are controlled and directed by obscure people. This is particularly important where there are chances of weak governance and/or subjective governance measures. The approach may equitably create a disciplinary orientation at all levels and may contribute towards positive stake holders’ responses. Figure 2 represents a comprehensive pictorial representation of the management control system employed in the Islamic banking institutions of Pakistan.



5.2.3 Employees' Spiritual Wellbeing:

Each of the five Islamic banks offered projects that helped employees achieve as they continued looking for significance and reason. Organizations have found that if their representatives carry on with an increasingly important life they will be progressively dedicated to their employments, their organizations and their colleagues. The author of this thesis while following the online content analysis especially, found a myriad of programs that were designed and offered for their spiritual development. The offers included Hajj, Umrah, Religious Education, Social Recognition, opportunities to attend religious gatherings, parents and siblings' sponsorships and many more.

To conclude figure 2 provides a comprehensive view of the management control system and underlying conceptual principles that reigns in the Islamic Banks of Pakistan to ensure fairness and justice to all the key stakeholders.

5.3 Significance, Limitations and Future Research Directions:

The thesis offers several scholarly contributions to the current literature on management control system specially, in the Islamic Banking context of non-gulf developing Muslim country. First the thesis identifies religion as the key ingredient of management control system at all the institutional, organizational and individual levels. Second, consistent with theory of reasoned action and planned behaviour the thesis suggests that employee behaviours even in the specific religious context may require active motivation management. Finally, the thesis suggests a comprehensive frame work for designing and implementing and/or modifying an effective management control system/program in the Islamic Banking context.

The thesis at the same time is not free of limitations. The sample although justified to the research approach and method, may be broadened to intensify the scope of this research investigation. For example, future researchers may opt for multiple case study design where the front line employees and other stake holders (customers/investors) are also taken into consideration and their response integrated into an effective management control system. Second, future researcher may focus on integrate the management control system related variables with performance measures and try to find out the impact. Future researchers may also address the area with a mixed methods longitudinal design that may further elaborate our understanding w.r.t, the phenomenon and its quantified impacts.

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