

An Overview of Islamic Managerial Finance: Comparative Study with the Conventional Version

Serajul Islam
Associate Professor, Department of Business Administration,International Islamic University Chittagong,Chawkbazar, Chittagong-4203, Bangladesh
Email: serlambd@yahoo.com

Abstract
Financial management from Islamic perspective or Islamic Financial Management (IFM) is a very stimulating topic since it represents a new reality. The philosophy and principles of such a system have been outlined in the holy Quran and the Sunnah of Prophet Muhammad (peace be upon him) more than 1400 years ago. Islamic Financial Management now, is immerging as a new financial system all over the world. Ideas of IFM developed in early 1960s and its practices started in late 1970s. Since the system is effective one from operational an ethical viewpoints, it has been successful in undertaking its components like Islamic financial instruments, institutions and markets. Islamic Financial Management is an all-comprehensive and universal system. In the holy Quran, Allah (SWT) has given the main theme of Islamic Financial Management as “Allah hath permitted trade and forbidden interest” (2:275) that will be ensured through establishment of three instruments/aspects like: Islamic Financial Market, Islamic Financial Institutions and Islamic Financial Instruments. To serve the pursue of the Islamic financial management in Muslim countries a number of Islamic financial institutions and banks have been established with the broad objective of bringing into being a society based on justice, free from exploitation, equity and brotherhood among the people. The attempt is made to develop an overview of Islamic Financial Management through the comparative study between conventional and Islamic financial management.
Keywords: Musharaka, mudaraba, Haqqullah, Haqqul-ebad, Muzara’ah, Musaqah.

1. Introduction

The conventional practice of financial system and the western cultural influence drove the people far away from the tenets of Islamic Shariah. In spite of this, it is hopeful that there are some organizations where Islamic Financial Management is found in practice, although they are not performing their work at satisfactory level. The main reason is the lack of knowledgeable (shariah based) and committed personnel in the organizations that are following IFM. Most of the public higher educational institutions do not offer any course relating to Islamic Financial Management. A few of the private universities are offering one or two courses in their academic curricular. Therefore graduates passing out from the higher educational institutions do not get opportunity to learn about Islamic Finance and its management. Moreover academic learning materials on the issue are not available as the conventional one. Hence the paper is an attempt to present an overview of managerial finance from both the conventional and Islamic perspectives. It is very essential to know and apply the Holy Quran and Sunnahi in all spheres of life because Islam is the complete code of life, and Finance is no exception. The financial aspect is only a dimension of the complete human life in the Islam, though: it does give substantial importance to any business organization for achieving the organization goal. The goal of a business organization is to maximize profit in the conventional context. But in the Islamic perspective, goal of a business organization is not only maximizing profit but also maximizing social welfare in the permitted way by the Shariahii. Acquisition of wealth by halaliii means is considered an act of ibadah. Allah (SWT) says in the Holy Quran (31:20), “Have you not seen that Allah has made subservient for you whatever is in the heavens and in the earth and had bestowed upon you in full His graces open and hidden? And among people, there are some who contest about Allah without knowledge and with no wisdom and without a luminous Book.” (31:20). Allah Says in 62:10, “And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah, and remember Allah often that you may succeed.”(62:10)
Allah Says in 17:20’, “Of the bounties of the Lord we bestow freely on all-These as well as those: the bounties of the Lord are not closed (to any one).” (17:20)

From the above verses of Qur'an we can understand that the goal of an Islamic business organization is achieving efficiently and effectively the normal and halal profit objective. Almighty Allah send the message through His prophet (pbuh) that if he (man) renders two types of his (man's) responsibilities, i.e. Haqqullah and Haqqul-ebadiv, he will be put in the heaven-where he will live for ever and fulfil his all good wishes and desires. But none can perform these duties unless he reaches a minimum desired standard of living (Ather, S.M., 2007). Therefore we can define Islamic Financial Management in the following way: Islamic Financial Management is a distinct social process consisting of forecasting and Islamic planning, major investment and financing decisions, coordination and control, dealing with Islamic financial markets, and risk management designed to raise capital from proper sources allowed by Islamic Shariah in order to minimize cost of capital and to invest the capital optimally through the Islamic modes of investment in the feasible projects to maximize stakeholders' benefits. Stakeholders are individuals or entities that have an interest in the well-being of a firm, including stockholders, creditors, employees, customers and suppliers. It is a social process because it works for maximizing welfare for the society. IFM is run by the members of society. Proper sources of capital in Islamic shariah are a) Equity and b) Interest free debt. Optimum utilization of the capital means hundred percent capitals should be invested in total assets. Capital cannot be idle or it cannot be misused otherwise shareholders' benefit cannot be maximum. Total assets include both current and fixed assets. Actually current assets are not the investment. It is kept as working capital to meet the short term obligations. IFM tries to minimize the amount of current assets for the company. Fixed assets are the investments and provide return for the company.

2. Objectives of the Study

The main objective of the study is comparative analysis of an overview of managerial finance between conventional and Islamic Perspective. The main objective will be attained through attaining the following objectives.

i) To make comparative study about the goals of managerial finance between Conventional and Islamic Approach.
ii) To analyze the distinguishing features of Islamic financing modes than the conventional one.
iii) To discuss the practices of financing during the Prophet (saw) Era and mention the principles of Islamic Financing.
iv) To make comparative study between Conventional Financial Market and Islamic Financial Market.
v) To present the requirements for successful Islamic managerial finance.

3. Methodology of the Study

To make the effort a success data have been collected from only secondary sources. The data have been collected from different books, national and international publications. Verses of the holy Quran and Hadith on economic aspects and financial system have been presented in the relevant sections. Different related research articles have been reviewed for having a deep insight into the concept.

4. Literature Review

There are some organizations practicing Islamic Finance in Bangladesh. Among them maximum organizations are Islamic Banks and other financial institutions. Islamic Financing principle is considered to be based on the variable rate of return (i.e., profit sharing). Therefore mudarabah is a principle of pure finance whereas musharakah, like trading is investment in real transactions (Kahf. Monzer & Khan.Tariqullah,1992). As for the banking services there is not much difference between an Islamic bank and a traditional one. The only difference comes when there is a rise of a lending-borrowing relation as in the case of the payment of the bill of exchange drawn under a L/C without having a sufficient balance to cover the overdraft. In such a case no place for charging interest (Hamoud, 1990). An effective Islamic inter-bank market will, however require tradable instruments. This is one area where further thinking is needed (Wilson.Rodney, 1990). The Islamic banks and financial institutions have been facing some problems in continuing their business operations and other matters related to their relations with other banks and financial institutions. The problems are related to managerial functions includes Islamic planning and organizing, Islamic management way of direction, motivation under Islamic management and Islamic control system (Ather.,2007), financial, regulatory and legal aspects. Mohiuddin (2004) identified ten important constraints to develop Islamic Management concept in his book, "Islamic Management" as i) absence of Islamic administration in state level, ii) scarcity of research outcomes on Islamic management, iii) general people, even management experts

are not well acquainted about this concept, iv) lack of research based publications, v) inclination of islamic management related concepts in course curriculum of university level are not mentionable, vi) there is no model organization of practicing Islamic Management, vii) no initiative to combination between Islamic Management and traditional management, viii) lacking in presentation the universal nature of Islamic Management, ix) "Islam is a complete code of life- this truth is not clear in our society and organizations, x) Islamic Management concept is not institutionalized.
As seen from the above related past studies, it can be indicated that the organizations practicing Islamic financial management faces various challenges due to lack of knowledgeable (shariah based) and devoted personnel. For enriching the knowledge of employees of the organizations, available literature on Islamic financial management is very essential. This paper is an attempt to meet the essentiality through presenting an overview of Islamic Financial Management. Obidullah (2006) focused the various chapters of Corporate Finance in the Islamic perspective as the firm and the financial manager, the time value of money, risk and return, market efficiency, investment decisions, sources of finance, cost of capital and mergers and equations in his writing under the topic "Teaching Corporate Finance from an Islamic perspective". Fairness and socio-economic justice is the superior salient values of the Islamic managerial finance than the conventional one. The Islamic
System of finance based on profit-and-loss sharing (PLS) is more efficient and equitable in distribution of wealth and income. The Islamic Financial Management increases the likelihood of business success, injects more discipline into the financial market by reducing excessive lending and avoiding interest based financing (Hassan.M.Kabir & Kayed Rasem N., 2009). Ahmed (2009) identifies three factors in institutional level, organizational level and in instruments level that could trigger a financial crisis in the Islamic financial sector. At the institutional level, the Islamic regulatory system is at its embryonic stage, fragile and still evolving; hence it is no better than that of the dominant financial system. At the organisational level, excessive profit taking and risk taking is difficult to prevent unless the Board of Directors (BOD) and top management impose prudent risk-management practices. At the instruments level, there is rapid growth of complex Shariah compliant financial innovations such as tradable Sukuk (Mudaraba Bond) and Islamic return swaps where the underlying permissible assets can be swapped. Ahmed (2009) highlights the urgent need to create appropriate rules, supporting institutions and incentive structures at all levels.

5. Goals of Managerial Finance

Ultimate goal of IFM is to maximize current share price by maintaining highest satisfaction of Allah (SWT).That is maximization of both benefits of here and hereafter is the ultimate goal of IFM. It maximizes not only the benefits of its owners but also its stakeholders.
Benefits of this world: Wealth maximization through the maximizing current share price to a reasonable extent is the benefits here or in the world.
In the conventional financial management stockholder wealth maximization is the primary goal for management decisions considering the risk and timing associated with expected earnings per share in order to maximize the price of the firm's common stock. Here wealth has been equivalent to share price (E.F. Brigham and J. F. Houston, 2008). Therefore the financial manager makes decisions that increase the wealth of the company's shareholders. That increased wealth can then be put to whatever purposes the shareholders want. They can give their money to charity or spend it in glitzy night clubs: they can save it or spend it now. Whatever their personal tastes or objectives, they can all do more when their shares are worth more. This attitude has allowed a number of practices as interest, gambling, hoarding, dealing in unlawful goods or services, short sales and speculative transactions which cause imbalances in the society and tend to concentrate wealth in the hands of a few (Usmani. M. M. Taqi, 1998). But in the Islamic Financial Management wealth consists of two elements of life; physical and spiritual. It is supported by the following verses of Allah (SWT),
"To Him belongs all that is in the heaven on the heart: for verily God- He is free of all wants, worthy of all prices." (22:64). "Thy Lord is self sufficient, full of mercy..."(6:133)
Physical wealth depicts the possession of materials which is known as 'Maal' ('amwaal' in its plural form), which basically means 'property, assets or whatever mankind posses'. Spiritual wealth means knowledge and virtue that reside in their souls. These two types of wealth are closely interrelated. So wealth in the IFM is an outcome of interactions between mankind and their surroundings include all things in the heaven and in/on the earth that can facilitate mankind to gain a convenient life in this world. Owners of the wealth cannot use it anywhere according their wish as like as the conventional owners. As Allah (SWT) says, "...God has subjected to your (use) all things in

the heavens and (all things) on earth..."(31:20). The physical wealth is very attractive to the nature of Mankind, thus every man inclines to have wealth as Allah(SWT) Says, "Fair in the eyes of men is the love of things they covet: women and sons; heaped-up hoards of gold and silver; horses branded (for blood and excellence); and (wealth of) cattle and well-tilled land. Such are the possessions of this world's life; but in nearness of God is the best of the goals (to return to)" (3:14). Muslims should use both elements of wealth in rendering the service to Allah. They should successfully manage their wealth in accordance with the injunctions of Allah (SWT) in order to get happiness in this world and hereafter (Iqbal, 2009).

Benefits in the hereafter: Earning satisfaction of Allah (SWT) through the maximizing welfare of mankind by maintaining shariah guidelines is the benefit in the hereafter.

6. Raising Capital or Financing

Raising capital or financing is an important function of Financial Management. Capital structure is the combination of various components of capital in the capital. In the conventional financial management, there are two main sources of capital one is equity and another is interest based debt. But Allah (SWT) condemns interest in the Holy Quran and the interest based system is the explicit prohibition in the Islamic Financial System. Monzer Kahf and Tariqullah Khan (1992) remarked in one of their survey report about the nature of financing in IFM as follows:

i) Shari'ah entitles only those who bear the responsibility of the ownership of an asset to reap the profits or increase in value accrued to the asset (i.e., a return on financing can only be claimed on the basis of ownership).

ii) All exchange relationships which postpone either the payment of price (postponing of the repayment of loans) or the delivery of goods and services fulfil the fundamental function of financing (i.e., facilitating the command of such resources which was otherwise not possible),and

iii) Lending is an act of benevolence which does not entitle the creditor to any return because he is not an owner of the lent resource whose payment is guaranteed by the debtor.

7. Practices of Financing During the Prophet's (PBUH) Era

In pre-Islamic Arabia members of tribes of Quraish and Thaqif and the Jewish Communities practiced riba rigorously in their transactions. Homoud (1982) quoted from the early writers' arguments that many Jews were working as money lenders in Madinah and that they used to lend at a rate of 12% per annum. It can be easily guessed that the rate of interest charged by the Jews was very high as compared the present rate. In terms of practices during the pre-Islamic era, most dominant mode of financing was riba based borrowing and that mudarabah may perhaps have ranked second (Kahf,Monzer.Khan and Tariqullah, ibid, p.11). Our Prophet (pbuh) had the mudarabah enterprise with Khadijah which started more than fifteen years before the beginning of the revelation. Then there was the common practice of mudarabah financing in the Makkah society. In addition muzara'ah and muusaqah systems were used in agriculture sector in Madinah.v Another mode of financing, that is, practices of sale on credit also existed in the Prophet's (pbuh) time. Abdullah Ibn Abi Rabi'ah said (Al Bukhari, V 3,pp. 15 and 231, Arabic Version): 'A'ishah reported that:

The Prophet(saw) bought some food on credit from a Jew and he the Prophet (saw) gave him (the Jew) his mail (armor iron cloth) as a security (in another version she said: thirt sa' of barley instead of saying some food). (Al Bukhari, V-3,pp. 15 and 231, Arabic Version). Al Bukhari reports from Al Bara' Bin' Azib: (when) the Prophet (saw) came (to Madina) we used to do salam sell forward against cash payment until the season. Al Bukhari, Vol. 4, p 269.

In the above mentioned saying, it is clear that credit is used to finance consumption and is also used to finance production whereby the producer is paid to cash for future delivery that is called salam. The prophet (saw) allowed doing bai' al salam practices which is a form of financing that provides the producer with funds that can be used for operating working capital. The prophet (saw) forbidden and eliminated the riba-based financing from the muslim society during his era.

8. Principles of Islamic Finance

Islamic finance essentially abides by five core rules, three being banning principles and two being positive obligations:

i. **Ban on interest (riba):** Prohibition of riba is one of the most important principles of Islamic Financial Management. Allah (SWT) says in AL Quran, "Those who devour interest shall not stand on the Day of judgement, but like the standing of one whom the evil spirit has by touching made mad. This is because they said 'The trade too is like interest,' and Allah made trade lawful and made interest unlawful. So he, who received admonition from his Lord and refrained, then whatever he took before is lawful to him, and his affair is with Allah. And now whoever shall commit such. Fault, they are men of hell, they will live therein for longer period."(2:275).

No financial transaction should be based on the payment or receipt of interest. Profit from indebtedness or the trading of debts is seen to be unethical. Instead, the investor and investee should share in the risks and profits generated from a venture, an asset or a project.

- **ii.** **Ban on uncertainty (gharar):** Uncertainty in the terms of a financial contract is considered unlawful, but not risk per se. Consequently, speculation (maysir) is forbidden. Therefore, financial derivatives are usually not permissible under Sharia-compliant finance despite the possible application for risk mitigation or risk transfer.
- **iii.** **Forbids unlawful (haram) assets**: No financial transaction should be directed towards economic sectors considered unlawful as per the Sharia, such as alcohols, tobacco, or gambling industries, as well as all enterprises for which financial leverage (indebtedness) would be deemed excessive (including conventional banks).
- **iv.** **Profit-and-loss sharing (PLS) obligation**: Parties to a financial contract should share in the risks and rewards derived from such financing or investment transaction.
- **v.** **Asset-backing obligation**: Any financial transaction should be based on a tangible, identifiable underlying asset.

All these principles are stipulated clearly in the Quran and Sunnah.

9. Financial Markets

Financial market is a market from where any organization or entity can raise capital. It is a market in which any entity can also invest their capital. According to James C. Van and John M. Wachowich Jr., "Financial markets mean all institutions and procedures for bringing buyers and sellers of financial instruments together." Types of capital market are as follows:

Primary and Secondary Markets: Primary market is a market from where company raises capital directly from investors by offering first time securities. Secondary market is market where issued securities are traded. In the secondary market ownerships are just transferred, i.e. the function of secondary markets is to provide liquidity to the instruments. These markets require the help of merchant Banks whose role is to bring buyer and seller together, to help determine a fair price for the securities and to execute the transaction. Sharia allows merchant banking activities as helping to raise capital through venture capital and private placement or an IPO (Obaidullah, 2006). With respect to trading in the stock market, this should be clear that no investment is to be made in the shares of those companies whose production, distribution and consumption has been prohibited by Islam. In many stock markets all over the world cover for a series of speculative activities that closely resemble to gambling (Ahmed. Ausuf, 1997). Ausuf Ahmed also identified in his paper the components of an Islamic Financial Market as follows:

a. Islamic financial instruments
b. Islamic reforms in the existing stock markets by changing the rules and laws governing the market
c. Islamic Institutions in the financial markets.

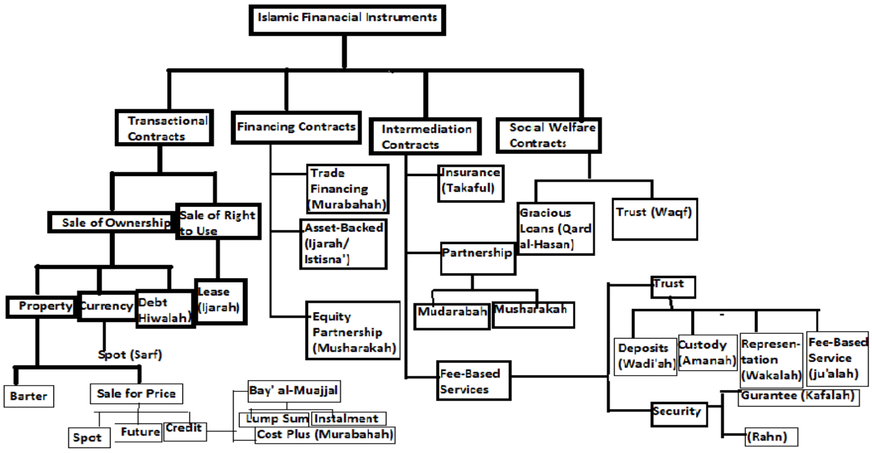
Money and Capital Markets: Money market is the market from where short-term debts with maturities of one year or less is raised. Capital markets provide long term capital consists of all long term debt instruments and equity obligations.

IFM allows only shariah based instruments that are to be transacted through the money and capital markets.

10. Islamic Financial Instruments:

The following figure shows a chart of various Islamic financial instruments:

Figure: 1-Islamic Financial Instruments



Source: ISRA (2011)

Equity –Based Financing:

Islamic financial institutions offer the following equity based products:

Mudaraba or Trustee Partnership: - Mudarabah arises where a provider of capital called the rabb al-mal (or a group of such capital providers) enters into a contract with a manager (called the mudarib) to engage in any specific trade activity with the objective of sharing the potential profit. At the core of any mudarabah contract there are four basic conditions between the mudarib and the capital provider(s) as follows:

- Profit, when realized, has to be shared between the two parties in accordance with a profit-sharing ratio pre-stipulated at the time of the contract. Loss, in case it arises, would have to be born entirely by rabb al-mal as the mudarib only loses his or her effort.
- The rabb al-mal cannot interfere in the day-to-day management of the mudarabah, apart from his or her right to restrict possible fields of economic activity for the mudarabah. This provision, however, has to be made clear within the mudarib contract.
- The mudarib has a 'hand of trust' (yad amana) in the management of mudarabah capital, which means he would work to his best effort and, therefore, cannot guarantee capital or profit to rabb al-mal.
- Loss of capital can be guaranteed by the mudarib only when such loss proves to be the result of mismanagement or delinquency of the mudarib; or where such loss results from a breach of the contract, like violating restricted fields of economic activity.

Musharaka or Joint venture: If all the parties contribute to capital, the contract becomes one of musharakah which gives the parties the right to engage in the management of the company but embodies similar features as those of mudarabah, notably the uncertainty of profit. The fact that part of the capital is contributed by the client leads to special provisions in the musharakah contract which can be summed up in the following:

- Partners of musharakah all have the right to engage in the day-to-day management of the musharakah capital, except where one party deliberately gives up (wavers) this right to other parties. Many Islamic banks prefer to wave rights of musharakah management to clients on the grounds that clients are more qualified to run their own businesses.
- Profit, when realized, has to be shared by partners in proportion to their capital contributions (i.e. on pro-rata basis) unless otherwise agreed on reasonable ground. In the context of Islamic banking, it is possible for the client to get a proportionately bigger share of profit if the bank has already waved its right in management to the client. Loss, however, has to be strictly shared on pro-rata basis.
- No one party can be held liable to guarantee capital or profit to other parties. Only where mismanagement and delinquency are proved or where a breach of the musharakah contract is committed, the party so charged may be held liable to guarantee capital contributions of other parties.
- Profit (or loss) cannot be prioritized within the musharakah contract. No party (or group of parties) can be preferred to others in terms of profit distribution or loss allocation, and no pre-fixed return can be promised

to any. The fact that all parties have to be treated on an equal footing (paris passu) underscores profit & loss sharing (PLS) as the core concept of musharakah.

Declining Musharaka: A declining musharaka is a recent innovation where the bank's share in the equity is diminished each year through partial return of capital. The bank receives periodic profits based on its reduced equity share that remains invested during the period. The share of the client in the capital steadily increases over time, ultimately resulting in complete ownership of the venture. Declining musharaka is observed to be potentially quite promising in the field of microfinance or financing of small and medium enterprises (Obaidullah, 2006).

Debt-Based Financing:[vi]

The following debt-based financing products are offered by the Islamic Financial Institutions:

- Bai mu'ajjal-murabaha or Deferred payment facility with cost-plus sale
- Ijara or Leasing facility
- Salam or Deferred Delivery Sale Facility
- Istisna or Manufacture-Sale Facility
- Istijar or Recurring Sale Facility
- Qard or Benevolent Loan Facility
- Bai-al-Einah or Short term loans based on repurchase

11. Mode wise investment performance of Islami Bank Bangladesh Limited (IBBL):

The Islami Bank Bangladesh limited is the pioneer and leading Islami bank in Bangladesh.

The mode wise investment performances of IBBL are shown below:

Table: 1 Mode wise investment performance:

(Figures are in millions)

	Year					
Modes	2007	2008	2009	2010	2011	2012
Bai-Murabaha	23522.92	31138.88	41731.48	51822.28	59465.08	73833
HPSM	14131.48	18065.10	23344.46	30046.89	39399.18	50201
Bai-Muajjal	4965.76	5512.13	5735.29	5917.18	6921.37	6546
Purchase and Nego.	1865.26	1801.33	2416.64	3179.81	4846.62	11040
Quard-E-Hasana	1298.19	1765.65	1694.32	1966.13	1974.20	1955
Bai-Salam	407.08	610.27	807.14	641.44	905.61	1153
Mudaraba	52.00	103.00	102.00	50.00	50.00	50
Musharaka	37.02	12.13	27.13	20.42	12.95	143
Total	46279.71	59008.49	75858.46	94644.15	113575.01	144921

Table2: Percentage of the mode wise investments:

Modes	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)	Mean (%)
Bai-Murabaha	50.83	52.77	55.01	55.34	52.35	50.95	52.875
HPSM	30.53	30.62	30.78	32.09	34.69	34.64	32.225
Bai-Muajjal	10.73	9.34	7.56	6.32	6.09	4.52	7.4267
Purchase & Nego.	4.03	3.05	3.19	3.40	4.27	7.62	4.26
Quard-E-Hasana	2.81	2.99	2.23	2.10	1.74	1.35	2.2033
Bai-Salam	.88	1.04	1.06	0.68	0.80	0.79	0.875
Mudaraba	.11	.17	.13	0.05	0.04	0.03	0.0883
Musharaka	.08	.02	.04	0.02	0.01	.10	0.045

From the above tables, it is found that IBBL practices bia-murabaha, HPSM, purchase and negation, bai-salam and musharaka modes in the investment activities. From the 2007 to 2012, we see that bank practices average 52.875%

investment by bai-murabaha, 32.225% by HPSM, 7.43% by Muajjal. The practice of musharaka mode is the minimum.

12. Differences between Islamic and Conventional Managerial Finance:

The following table shows the differences between Islamic and conventional managerial finance.

Table 3: Differences between Islamic and Conventional Managerial Finance

Islamic Managerial Finance	Conventional Managerial Finance
Definition-Islamic Financial Management is a distinct social process consisting of forecasting and Islamic planning, major investment and financing decisions, coordination and control, dealing with Islamic financial markets, and risk management designed to raise capital from proper sources allowed by Islamic Shariah in order to minimize cost of capital and to invest the capital optimally through the Islamic modes of investment in the feasible projects to maximize stakeholders' benefits.	**Definition**-Financial Management is a distinct social process consisting of forecasting and planning, major investment and financing decisions, coordination and control, dealing with financial markets, and risk management designed to raise capital from proper sources in order to minimize cost of capital and to invest the capital optimally through the profitable investments to maximize stakeholders' benefits.
Ultimate goal of Islamic Financial Management (IFM) is to maximize current share price by maintaining highest satisfaction of Allah (SWT).That is maximization of both benefits of here and hereafter is the ultimate goal of IFM. It maximizes not only the benefits of its owners but also its stakeholders. **Benefits of this world**: Wealth maximization through the maximizing current share price *to a **reasonable extent*** is the benefits here or in the world. **Benefits in the hereafter**: Earning satisfaction of Allah (SWT) through the maximizing welfare of mankind by maintaining shariah guidelines is the benefit in the hereafter.	**Ultimate goal of Conventional Financial Management** is to maximize current share price. **Benefits of this world**: Wealth maximization through the maximizing current share price is the benefits here or in the world. **Benefits in the hereafter**: Conventional Financial management does not bother the benefits of hereafter.
IFM does not allow a number of practices as interest, gambling, hoarding, dealing in unlawful goods or services, short sales and speculative transactions which cause imbalances in the society and tend to concentrate wealth in the hands of a few.	**It allows** a number of practices as interest, gambling, hoarding, dealing in unlawful goods or services, short sales and speculative transactions which cause imbalances in the society and tend to concentrate wealth in the hands of a few.
In the Islamic Financial Management **wealth** consists of two elements of life; physical and spiritual.	In the Conventional Financial Management **wealth** is only the physical element of life.
But Allah (SWT) condemns interest in the Holy Quran and the **interest based system is the explicit prohibition** in the Islamic Financial System.	In the conventional financial management, there are two main **sources of capital** one is equity and another is interest based debt.
With respect to **trading in the stock market**, this should be clear that no investment is to be made in the shares of those companies whose production, distribution and consumption has been prohibited by Islam.	With respect to **trading in the stock market**, investment is to be made in the shares of any type companies whether their production, distribution and consumption has been prohibited by Islam or not.
IFM allows only shariah based instruments that are to be transacted through the **money and capital markets**.	**Money market** is the market from where short-term debts with maturities of one year or less is raised. **Capital markets** provide long term capital consists of all long term debt instruments and equity obligations.
Under the Islamic Savings Deposit, the principal amount is fully guaranteed (except mudarabah). There is no presence of interest. The banks cannot offer any incentives in the forms of gifts/promotional items/attractive benefits and etc., to attract new depositors particularly when it is structured	**Under the Conventional Savings Deposit,** both the principal and interest are pre-determined and guaranteed. The banks can offer incentives or promotional activities to attract new depositors. The deposit is a form of debt given to the bank by the

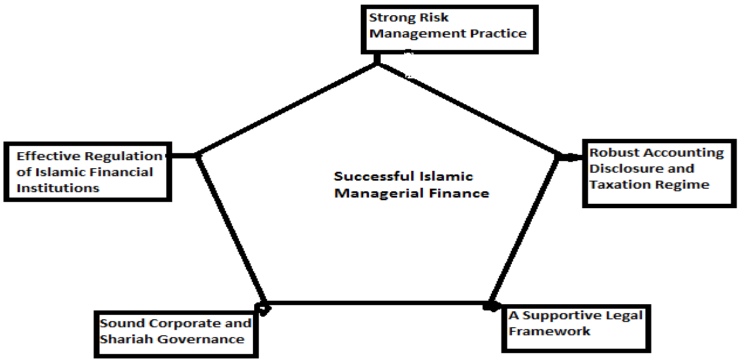
based on qard or wadi'ah. The deposit is accepted on the condition that the money will be put to work together with the management expertise and skills of the bank.	customer.
Wakalah Islamic Letter of Credit: The Islamic banks act as the agent of the customer. The Islamic banks charge the customer fees and commission for its services under the principle of al-ujr (fee) based on the wakalah principles and there is no transit interest. Here compensation is claimed for late payment.	**Conventional Letter of Credit**: The conventional banks act as the agent of the customer. The banks charge transit interest which includes upon negotiation-foreign-based interest and standard remittance days interest. Here penalty is charged for late payment.
Credit Risk: murabaha instruments face credit risks. Lack of complete agreement on the liability of murabaha contract increases its credit risk of the ownership of the asset being financed. Salam contract suffers credit risks from failure to supply on time and to the failure to supply the agreed quality or quantity.	**Credit Risk** arises because promised cash flows on the financial claims held by financial institutions may or may not be paid in full. As a result borrower default, both the principal loaned and the expected interest receipts are at risk.
The **Liquidity risk** faced by the Islamic banks seems to be low at present because of the excess liquidity syndrome that these banks face as a result of the non-availability of adequate Shariah-compatible investment opportunities.	**Liquidity risk** arises whenever an FIs liability holders demand immediate cash for their financial claims.
Interest rate risk: Since Islamic banks do not deal in interest based instruments, it has sometimes been argued that these institutions do not face the risk.	Conventional Financial institutions faces **interest rate risk**; by holding shorter-term assets relative to liabilities, it faces uncertainty about the interest rate at which it can reinvest funds borrowed for a longer period.

12. Requirements for Successful Islamic Managerial Finance:

For successful Islamic Managerial Finance, the following are some essential requirements: (ISRA, 2011)

- Strong Risk Management Practice- The financial managers need to be understood the potential risk exposure (essential risks, prohibited risks and permissible risks) and managed accordingly to ensure that Islamic Financial Institutions continue to provide financial services to its clients in a safe and sound manner.
- Effective Regulation of Islamic Financial Institutions- Effective regulation of Islamic financial institutions is essential to safe guard not only for the customers' benefits but also for the institutions' benefits. In the conventional finance, there is regulation to regulate financial markets to ensure soundness of the financial system and to control the market imperfections and failures. Therefore regulation is necessary in both the conventional and Islamic financial system to enhance stakeholders' welfare. The nature of regulation for IFIs is similar to that of conventional institutions except for certain peculiar characteristics such as distinct risk exposures and the nature of Shariah contracts.
- Sound Corporate and Shariah Governance- Both the two governances are necessary to safeguard the stakeholders' benefits in IFS whereas there is only corporate governance practice available in the conventional financial system. For becoming competent and maintaining sustainable growth, sound corporate governance practices to protect the stakeholder from threats arising from the market imperfections and failures is very much essential. Shariah Governance is essential to ensure that all transactions are in compliance with Shariah principles.
- A Supportive Legal Framework- A supportive legal framework is one of the requirements for the successful Islamic Financial System so that it can protect the public interest. Establishing an effective legal framework for the Islamic Financial System is one of its main obstacles since the existing legal definitions of banking and financial services often do not recognize Islamic financial transactions.
- Robust Accounting Disclosure and Taxation Regime- For smooth, efficient and effective operations of Islamic managerial finance, accounting and taxation regulation play important role. Hence proper accounting and taxation law for the IFS are needed to ensure that Islamic financial transactions are not disadvantaged compared to those of the conventional counterpart.

Figure: 2-Requirements for Successful Islamic Managerial Finance



13.Conclusion:

Islamic Financial management is important in all types of halal businesses, including banks and other financial institutions, as well as industrial and retail firms. It is also important in Islamic governmental operations, from schools to hospitals to highway departments. Islamic Financial managers also have the responsibility for deciding the interest free credit terms, how much inventory the firm should carry, how much cash to keep on hand, whether to acquire other firms and how much of the firm's earnings to retain in to the business verses pay out as dividends. Islamic Financial management is important even for an individual for making many personal decisions, ranging from investing to making personal budget. The article is to give an idea of what Islamic Financial Management is all about making a comparison with the conventional financial management. The functions of managerial finance-Islamic perspective is based on the certain principles as ban on interest, ban on uncertainty, forbids unlawful assets, profit and loss sharing obligation and asset backing obligation. These principles differs Islamic Managerial Finance from the Conventional Managerial Finance. There is the important difference in goals of financial management between Islamic and conventional version. Wealth maximization of stockholders is the goal of conventional financial management. Islamic financial management (IFM) focuses maximizing stakeholders' benefits rather than only stockholders' benefits. The goal of IFM is to maximize stakeholders' benefits both in here and here after through maximizing current share price by successfully managing their wealth (physical and spiritual) in accordance with the injunctions of Allah (SWT). This paper also presents the differences in financial markets, raising capital and in modes of investment between Islamic Financial management and Conventional Financial Management.

References

Ahmed. Ausuf., (1997), Towards an Islamic Financial Market: A study of Islamic Banking and Finance in Malaysia, Islamic Research and Training Institute, Islamic Development Bank, p-20.

Ahmed. H. (2009)., Financial crisis, risks and lessons for Islamic finance, Paper presented at the Harvard-LSE Workshop on Risk Management (Islamic Economics and Islamic Ethico-Legal perspectives on Current Financial Crisis), London School of Economics, February 26, 2009.

Ather, S.M. (2007), Islamic Management and Business, Noksha publications, Chittagong, p-44.

Ather,S.M., (2007), ibid, p.10.

E.F. Brigham and J. F. Houston (2008), Fundamentals of Financial Management, South-Western Publication, Tenth Edition, p-15.

Hamoud, Sami H. (1995), Concept and Operation of Islamic Banks, Islamic Research And Traning Institute & Islamic Development Bank, Jeddah, p-40.

Hassan. M. Kabir & Kayed. Rasem N., (2009), "The Global Financial Crisis, Risk Management and Social Justice in Islam", ISRA International Journal of Islamic Finance, Vol. 1, Issue 1, p-33.

Horne. James. C. Van, and Jr. Wachowicz. John M., (1996), "Fundamentals of financial Management", Prentice-Hall,Inc., 11th Ed., p-23

ISRA (International Shariah Research Academy for Islamic Finance), (2011) “Islamic Financial System –Principles & Operations”, ISRA Publication, p-24.
Iqbal. Dr. Jaquir (2009), “Islamic Finance Management”, Global Vision Publishing House, Delhi-32, p-50.
Kahf, Monzer and Khan, Tariqullah (1992), Principles of Islamic Financing, Islamic Research and Training Institute and Islamic Development Bank, Jeddah, First edition, pp.19-25.
Kahf,Monzer. Khan, Tariqullah. (1992), A survey on Principles of Islamic Financing, Research Paper no. 16, Islamic Research and Training Institute and Islamic Development Bank Publishers, First Edition, p-10.
Kahf,Monzer. Khan, Tariqullah, ibid, p-11.
Mohiuddin, M. Golam (2004), Islamic Management, The University Grants Commission of Bangladesh Publishers, pp.322-323.
Obaidullah. Dr. Mohammed., (2006), Teaching Corporate Finance from an Islamic Perspective, Islamic Economics Research Centre, King Abdulaziz University, Jeddah, KSA, p-50.
Obaidullah. Dr. Mohammed., (2006), ibid, p-43
Usmani,M.M.Taqi,(1998) “An Introduction to Islamic Finance”, Darul Uloom Karachi, pp.10-11.
Wilson, Rodney (1995), Development of Financial Instruments in an Islamic Framework, Islamic Research And Training Institute & Islamic Development Bank, Jeddah, p.175.

Glossary

---

[i] ‘Sunnah’ literally means path. The Sunnah, in Islam is the path which has been laid down by the character, manners, ritual habits, deeds, example and legislative actions of our beloved Prophet (saw).

ii Shari’ah is the code of conduct or religious law of Islam. All Muslims believe Shariah is derived from two primary sources of Islamic law: the precepts set forth in the Qur’an, and the example set by the Prophet Muhammed (saw) in the Sunnah. Fiqh Jurisprudence interprets and extends the application of shariah to questions not directly addressed in the primary sources (Qur’an and Sunnah) by including secondary sources. These secondary sources usually include the consensus of the religious scholars embodied in ijma, and analogy from the Qur’an and Sunnah through Qiyas.

iii ‘Halal’ means thing which is approved in Islam i.e., which is supported by the Holy Quran, Hadith, ‘Izma’ or ‘quias’.

iv ‘Haqqullah’ means duty of man to Allah and ‘Haqqul-ebad’ means his duty to the creations. Creations include man and other lively beings.

v Muzara’ah: It means applying to open fields used for crops. Land in Muzara’ah is fixed asset put at the disposal of the working partner. The arrangement ensures the use of assets without actually paying for them which is tantamount to financing.

Musaqah: It means applying to orchards of trees for making them grown up through nursing by the working partner. In the Musaqah both land and trees together are fixed assets put at the disposal of the working partner. It also ensures the use of assets without actually paying for them which is tantamount to financing.

Both the arrangements require sharing the gross output and allow for limited flexibility in the contractual distribution of operating expenses.

vi Bai mu’ajjal-murabaha: Bai mu’ajjal-murabaha as a financing product, is a very popular, and perhaps the most popular Islamic financing product. Bai bithaman ajil (BBA) or simply bai mu’ajjal is a sale where payment of price is deferred to a future date. Often it includes features of a murabaha, which implies a sale on a cost-plus basis.

Ijara: Ijara in simple terms, implies leasing or hiring of a physical asset. It is a popular debt-based product in which the Islamic bank assumes the role of an ajir or mujir (lessor) and allows its client to use a particular asset that it owns. The client or mustajir (lessee) is in need of the asset. Through ijara, it receives the benefits associated with ownership of the asset against payment of pre-determined rentals (ujrat). Ijara is for a known time period.

Salam: A salam is deferred delivery contract. It is essentially a forward agreement where delivery occurs at a future date in exchange for spot payment of price. Unlike earlier mechanisms of murabaha and ijara, salam or salaf was originally designed as a financing mechanism for small farmers and traders.

Istisna: An istisna is a contract of manufacture. A seller under an istisna agreement undertakes to develop or manufacture a commodity with clear specifications for an agreed price and deliver after an agreed period of time. The unique feature of istisna is that nothing is exchanged on spot or at the time of contracting.

Istijrar : Under istijrar, the company purchases different quantities of a given commodity from a single seller over a period of time. In other words, the seller delivers the total quantity of commodity purchased in installments. There is some divergence of views regarding timing of fixation and payment of price.

Qard : It is benevolent loan that is repaid on maturity without an increment or interest. When no maturity is stipulated, the loan is repaid when asked by the lender, again without any increment.

Bai-al-einah: A murabaha can change into bai-al-einah if the identity of the vendor is not different from its client; when the bank purchases a commodity from its client on a spot basis and sells it back to the client at a cost-plus price and on a deferred basis.