ISSN: 2958-2776
Vol.: 2 Issue: 1 & 2 January-June & July-December 2023
Journal of One Initiative Research and Development
an international multidisciplinary journal

Challenges and Solutions in Practicing Islamic Financial Management in Islamic Financial Institutions: A Secondary Research

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Abstract

This study explores the challenges and solutions in practising the Islamic financial management (IFM) in Islamic financial institutions (IFIs) in different countries based on a secondary research approach. Using keywords relating to the topic area, this study finds some challenges and solutions from previous studies. In this regard, the study searched the keywords in the Google scholar, which is the facilitator in getting respective research papers, books, reviews, chapters, and proceedings. The study finds that there are many challenges that include difficulty in measuring Shariah compliance risks, lack of employee dedication and poor monitoring, no mandatory auditing, confusion regarding Shariah supervisory committees (SSCs) and Shariah council, lack of awareness and local culture, lack of long-term financing and taxation, falsification and no central rules, lack of knowledge of Islamic finance, lack of technological integration and training, weak legal, regulatory and supervisory frameworks, absence of Islamic money or capital market, absence of supportive and link institutions, long-term financing. On the other hand, the study also provides some solutions to overcome the challenges that include similar rules and regulations, lack of monitoring, coordination, training, and government support. The implications, limitations, and future direction of the study are discussed.

Keywords: Islamic Financial Management (IFM), Islamic Financial Institution (IFI), Challenges and Solutions, Shariah Compliance, Technological Integration, Islamic Money Market.

JEL Classification: G02, G28, G29, G32, G38, M15, O32

Article Info:
Received: 25 May 2023
Accepted: 10 October 2023
Research Area: Finance
Author's Country: Bangladesh

1. Introduction

In the recent era, Islamic banking and finance have become a significant research area for both academicians and practitioners since it represents a new reality to the conventional banking practices (Errico & Sundararajan, 2002; Khan & Ahmed, 2001, World Bank, 2020). This is mainly because Islamic banking and finance aim at ensuring justice, honesty, and fairness for all parties in any financial transaction so that rights and dues are preserved accordingly (Abu-Tapanjeh, 2009). Another major ethical component of the system is that Islamic financial institutions (IFI) are less risky due to eliminate interest-based transactions (Iqbal, 1997). As a result of this uniqueness in Islamic banking and finance, it has progressed in many economies during the last few decades. Several researchers have examined the reasons behind such spectacular growth of the Islamic banking and finance industry in various countries. Such as Iqbal, Ahmad, and Khan (1998) found that the rapid increase in Islamic finance and banking in Muslim countries and around the world during the last twenty years is influenced by the introduction of broad economic and structural reforms in financial systems, the liberalization of capital movement, privatization, the global integration of financial markets, and the introduction of innovative and new Islamic financial products. Furthermore, Islamic banking instruments are also based on "trade financing instruments" developed on mark-up arrangements fuelled the growth (Errico & Sundararajan, 2002; Fiennes, 2007; Akkizidis & Khandelwal, 2007; Khan & Bhatti, 2008).

Despite these stimulating factors highlighted above, Elasrag (2011) has further pointed out several other factors behind such growth in the industry. Elasrag (2011) argued that the rapid flow of funds within the Muslim oil-producing states, such as Middle Eastern countries and the Gulf Arab States are responsible for such a growth. Moreover, the growth of sovereign wealth funds in Arab countries and their desire to invest these funds in the Shariah-compliant instruments in other countries have also contributed to the development of the interest in Islamic Banking around the world, especially in the countries where this unique banking is being introduced. Furthermore, the Islamic banking and finance industry's growth is growing due to the increasing political and social demand of Muslim countries for the establishment of Islamic financial system as an alternative to conventional banks. Additionally, the failure of the conventional banking system and multinational companies during the financial crisis has also raised concern regarding the credibility on the current conventional banking practices. It also motivates the key planners to adopt the Islamic banking and financial systems to overcome any kind of financial recession or crisis (Hesse, Jobst & Solé, 2008; Ginena, 2014; Lone & Bashir, 2017; Habib, 2018). These arguments are also further supported by the study conducted by Ariss (2010) and Arshad, Yusoff & Tahir, (2016), who argued that the rising awareness and keen interest of Muslims to invest their funds in Shariah-compliant financial instruments instead of investing in the conventional banking system have also contributed to the growth of the Islamic Banking and financial systems in the countries (Khan, 2010; Nurfalah, Rusydiana, Laila & Cahyono, 2018).

However, criticisms were also raised about Islamic banking and finance. For example, Fiennes (2007) pointed out that Islamic banks are like conventional banks; they also have similar characteristics, such as credit risk, market risk, and operational risk. Opponents of the Islamic banking and finance have argued that Islamic banking instruments are riskier because their products and services are relatively new compared to conventional banking services. This is also corroborated by the findings of Khan and Ahmed (2001) and Sundararajan and Errico (2002) that Islamic banks are facing a unique nature of risks due to a particular structure of their balance sheets as the operational principles are different compared to the conventional banking practices.

Additionally, Mohiuddin (2006) also identified ten significant constraints related to the Islamic banking and finance concept and its practices in the global arena. Among these constraints, the absence of Islamic administration at the state level, scarcity of research outcomes on Islamic management, lack of research-based publications, lack of integration of Islamic banking and finance curricula at the university level, lack of ideal Islamic banking and finance organizations, and almost no effort to combine the conventional and Islamic management (Mohiuddin, 2006).

On top of that, Islamic Financial Institutions (IFIs) face many challenges related to their operational activities. However, the challenges faced by the Islamic financial institutions (IFIs) in practicing Islamic financial management (IFM) are not combined into an integrated article that create difficulties for stakeholders to reach in developing plans and decisions to overcome them. In addition, there are also a few studies which have given some suggestions to overcome the challenges in practicing IFM in the IFIs. Thus, this study is based on the secondary research, i.e., literature review exploring articles through the Google Scholar search engine that provide both challenges and solutions in practicing IFM by the IFIs. Hence, the study aims to be the foundations for the future researches in relation to the Islamic financial management practices in the IFIs. Moreover, the study avenues for open discussion regarding the underpinning theories to examine the challenges and solutions in the future studies relating to the Islamic financial management (IFM) practicing in the Islamic financial institutions (IFIs).

2. **Objectives of the Study**

The aims of the study are as follows:

i. To provide both challenges and solutions in practicing IFM by the IFIs by reviewing literature and exploring articles through the Google Scholar search engines.

ii. To create the avenues for discussion about the underpinning theories to examine the challenges and solutions in the future studies relating to the Islamic financial management (IFM) practiced in the Islamic financial institutions (IFIs)

3. Methodology of the Study

This study has been developed based on the secondary research findings from the contemporary literatures. The researcher has used the Google Scholar search engine as the aggravated source from where the major challenges and solutions as the themes have been extracted. Google Scholar is useful for the secondary research as it allows the researchers to explore the research outputs from various databases, including Web of Science, Scopus, EbscoHost, ProQuest, Ulrich and so on. The researcher has selected some search engines to explore the related research papers, review papers, book chapters, and proceedings. The key search words include 'challenges faced by Islamic financial institutions', 'challenges for Islamic Financial Management (IFM) practices', and 'solutions of challenges in IFM practices'. Thus, the researchers were able to gain the results associated with the challenges faced by IFIs in practicing IFM, including potential solutions for practicing the IFM in the IFIs in different countries.

4. Analyses and Findings

4.1 Challenges Faced by IFIs in Practicing IFM

Every business organisation, regardless of their industry, face**s** some challenges, for example from the social, organisational and individual challenges (Daft, 2015; Almutairi and Quttainah, 2017; Zainbordin et al., 2016; Spieth, Schneider, Chaouch & Eichenberg, 2019) and Hasan, 2020). In this respect, IFIs are also business organisations doing businesses following and applying many different sorts of ethics, rules and regulations in comparing with the conventional banking organisations (Lai & Samers, 2017; Nurfalah et al., 2018; Almutairi and Quttainah, 2017). However, in the current literature and the industry practice, what sort of specific challenges are faced by Islamic Financial Institutes (IFIs) in practicing the Islamic Financial Management (IFM) to provide the best services are not well presented or articulated specially to present in relation to the society, organisations and individual processes but all the challenges for organisations are mainly derived from these sources (Daft, 2015; Spieth et al., 2019). Scholars, i.e., Iqbal et al. (1998); Shabbir and Rehman (2019), Hammoud (2017); Nurfalah et al. (2018) and Zainbordin et al. (2016) and Hasan (2020) have identified that the IFIs in different from countries specially in Bangladesh, face some challenges that could be different from those of other countries. However, there is a dearth of the literature relating to the challenges faced by the IFIs in practicing IFM in different countries as the challenges keep changing over the time (Lone & Bashir, 2017; Shaown & Sultana, 2017). However, in this section of the study, the researcher has highlighted existing social, organisational and individual challenges from the current literature and industry relating to the implementation and development of the Islamic Financial Management (IFM) in the IFIs.

4.1.1 Social Challenge

Confusion regarding Shariah Supervisory Committees (SSCs) and Shariah Council

In this respect, IFIs in Bangladesh normally conduct Shariah audits and inspections by the Shariah Supervisory Committees (SSCs), which is mainly known as the Shariah Council in many contexts (Alahmadi, Hassan, Karbhari & Nahar, 2017; Ahmed & Khatun, 2013; Ullah, 2013). There are some significant limitations of the SSC, for example, some banks formed the SSC with both outsiders and insiders, but appointment of insiders is completely against the rules and regulations of the AAOIFI standards. (Yussof, 2013; Ahmed & Khatun, 2013; Ullah, 2013; Alahmadi, et al., 2017) Moreover, the audit reports from the SSC have never been presented to the public or other outside organisations many times, and even there are no uniform rules and regulations regarding the SSC reports (Ullah, 2013; Ahmed & Khatun, 2013; Rahman, 2014). Hence, it creates significant confusion among the stakeholders regarding information about the audit reported by the SSC. Furthermore, many reports, i.e., audit reports by the SSC never disclose the doubtful income that could indicate the operational efficiency of the IFIs, but SSC reports ignore these as well (Yussof, 2013; Ahmed & Khatun, 2013; Ullah, 2013; Alahmadi et al., 2017). Thus, apparently, it can be argued that there are significant shortcomings in the auditing processes of IFIs that could hinder the successful IFM in the current banking industry (Kasim et al., 2013; Zakaria et al., 2016).

4.1.2 Organisational Challenges

a) Difficulty in measuring Shariah compliance risks
b) Lack of Employee Dedication and Poor Monitoring
c) No Mandatory Auditing
d) Lack of Long-Term Financing and Taxation
e) Falsification and no Central Rules
f) Lack of Knowledge of Islamic financial management
g) Lack of Technological Integration and Training
h) Weak Legal, Regulatory and Supervisory Frameworks
i) Absence of Islamic Money or capital Market

j) Absence of Supportive and Link Institutions
k) Long-term financing problem

a) Difficulty in Measuring Shariah Compliance Risks

In this respect, difficulty in the measurement of the Shariah Compliance risks is one of the challenges for the IFIs in practicing the IFM in different countries (Julia, Rahman, and Kassim, 2016; Cheong, 2021). This is also supported from the study conducted by Fiennes (2007), Bacha (2013), and Mansori, Chin & Safari (2015), who argue that, like the conventional banks, the IFIs cannot measure the risks due to the difficulty in the integration of the Shariah compliance. It is because the conventional banks measure the risks sometimes without any kind of religious liabilities, while the Islamic Financial Institutions have to ensure that the Islamic rules specially Shariah rules and regulations are aligned in the measurement of the risks (Akkizidis & Khandelwal, 2007; Ahmed, 2009; Derigs & Marzban, 2009). Furthermore, current banking rules in many countries, even sometimes in Muslim countries, keep changing too fast because of the changes in the economy of that specific country and the world economy, however, it is not possible in the case of Islamic Financial Institutes to bring changes quickly. Hence, the organisations face difficulty in measuring the Shariah compliance risks to understand and make a forecasting to the future situations that create significant challegne in practicing the IFM in IFIs (Akkizidis & Khandelwal, 2007; Derigs & Marzban, 2009; Mansori et al., 2015).

b) Lack of Employee Dedication and Poor Monitoring

Furthermore, challenges in monitoring Shariah compliance another challenge is being faced by the IFIs in the world (Grais and Pellegrini, 2006). There are sometimes some employees, who are not very much dedicated to monitor the challenges in complying the Shariah Compliance as it is a very much challenging job to bring a conclusion based on the religious i.e. Shariah viewpoints (Azmat, Skully & Brown, 2014; Arwani, 2018). The monitoring process helps the IFIs to ensure that procedures, policies and business processes being operated are aligned with the Shariah aspects (Arwani, 2018). However, due to the universal rules and regulations and sometimes government interference, it is difficult for the IFIs to monitor the Shariah Compliance in the organisations (Azmat et al., 2014; Arwani, 2018; Zakaria, Nurazalia, Ariffin, 2016).

c) **No Mandatory Auditing**

Furthermore, there are significant challenges in relation to the Auditing of the IFIs specially in the case of maintaining the Shariah rules and regulations for the development of the Islamic Financial Management (IFM) in IFIs. Normally, in the traditional banks, the audit can be done through the use of the current standards, but in the case of the IFIs, it is not similar as it involves the Shariah aspects and rules based on the Quran and Hadith. There are a number of limitations of the International Standards of Auditing (ISA) in addressing issues related to religious compliance, therefore, it is difficult to audit following ISA aspects in the current literature (Kasim, Ibrahim, and Sulaiman, 2009). In this respect, the Auditing Organization for Islamic Financial Institutions (AAOIFI) has taken the initiative, but these are not mandatory in Bangladesh (Ahmed & Khatun, 2013; Ullah, 2013). Therefore, none of the Islamic banks in Bangladesh are fully compliant with Shariah audit system of the AAOIFI because none of them has audit and governance committee at board level.

d) Lack of Long-Term Financing and Taxation

In Bangladeshi IFIs, there is also a challenge relating to the long-term financing that is articulated by the Shah Foundation Bangladesh (2016). Moreover, the taxation is also an issue because, through the use of the profit and loss sharing process of the IFIs, it is not possible to determine the tax for a client until the IFI has settled everything (Ariss & Sarieddine, 2007; Malik, Malik, & Mustafa, 2011). In this respect, it is also very important to note that the IFIs are not yet sure of their policies and practices and feel restrained in taking unforeseen risks (Iqbal et al., 1998; Helmy, 2012).

e) **Falsification and no Central Rules**

Furthermore, the falsification of the information shared by the Islamic Banks is another significant limitation or challenge of the IFIs in the current banking systems (Nasser, 2008; Khan, 2015; Joffrey, 2019). The banks have often been criticised as many of them do not follow the Shariah rules and regulations because there are no central rules and regulations (Khan, 2017; Jordan, 2013). Shariah authorities demonstrate excessive confidence in their subjects specially in the Islamic Financial Institutions (IFIs), i.e., in Banks or Insurances, however, when it comes to dealing with parities in the industry, the confidence of the clients is reduced (Nasser, 2008). In the context of Bangladesh, falsification from the employees of the Islamic Banks is also a major problem in developing the clients' confidence to the IFIs while it also makes it difficult for the existence of the organisations in the competitive banking and financial industry in Bangladesh specially in practicing Islamic Financial Management (IFM) (Abdullah, Shahimi, & Ismail, 2011).

f) Lack of Knowledge regarding IFM

Apart from the above challenges, the lack of knowledge among the employees creates challenges in practicing the IFM in the IFIs in different countries, including Bangladesh, which is another significant challenge (Rahman and Dean, 2013; Kettel, 2011). Furthermore, the employees in the IFIs also have problems in understanding the Shariah rules. Some employees are recruited in the IFIs from other religions as well, and much of these employees have lack of knowledge regarding Islamic finance and very poor knowledge regarding the Shariah laws (Riaz, Burton & Monk, 2017). Lack of knowledge is also issue in relating to the societies and cultural aspects where mass people have no much idea regarding the Islamic banking or finance that is also creating challenge to get the people as the clients (Riaz, et al., 2017; Rahman and Dean, 2013; Uddin & Mohiuddin, 2020). Islamic financial institutions are relatively new and therefore, the local culture is integrated with the traditional financial systems based on the insurance (Rahman and Dean, 2013; Uddin & Mohiuddin, 2020). Moreover, there are very few people, who are interested regarding the Islamic financial institutions due to the Islamic Financial Management (IFM) practices, which are falsely thought only for Muslim people not for others. There is also lack of knowledge regarding the Islamic Financial Management (IFM) practices among the existing employees in the IFIs (Rahman and Dean, 2013; Chaouch, 2017; Albaity and Rahman, 2019).

g) Lack of Technological Integration and Training

Furthermore, lack of the technological integration in many IFIs is another significant challenge for these organisations to develop the IFM because everything is now in the banking and finance industry is going online based on technologies (Rahman and Dean, 3013). Furthermore, there are lack of training processes to improve employees' skills for the technological integration and efficiency development in the IFIs (Ali & Ahmed, 2018; Hassan, Albasri, Rusli, & Ahmad,2018). This is also similar in the case of the Islamic Financial institutions specially in the Islamic banks of Bangladesh where Shortage of skilled manpower impedes Islamic banking (Financial Report, 2019). Therefore, experts suggest opening more training institutes so that the employees' skills can be developed for the greater performance (Rahman and Dean, 3013; Financial Report, 2019).

h) **Weak Legal, Regulatory and Supervisory Frameworks**

The legal, regulatory, and supervisory frameworks are also weak in different countries in practicing the IFM in the IFIs, which also creates significant challenges for the IFI (El-Gamal, 2006). The challenges derived from the current studies might not be applicable in the context of the IFIs in the Bangladesh in practicing the IFM.

Hence, it is required to examine current challenges in the context of Bangladesh and explore more challenges faced by the IFIs in practicing the Islamic Financial Management in Bangladesh. The next section of the study presents solutions to overcome the challenges faced by Islamic Financial Institutions (IFIs) in practicing Islamic Financial Management (IFM) in Bangladesh.

i) Absence of Islamic Money or capital Market

In Some countries, the absence of the Islamic money market is one of the significant challenges for the IFIs in practicing IFM. In this regard, the example of Bangladesh is a case in point. It is because Bangladesh has no formal Islamic money or capital market, therefore, the Islamic banks cannot invest their surplus fund, therefore, practicing the IFM would be challenging (Shah Foundation Bangladesh, 2016; Habib, 2018; Aracil, 2019). For example, Islamic banks or other Islamic Financial institutions cannot use temporary excess liquidity to earn any income rather than keep it idle (Shah Foundation Bangladesh, 2016; Habib, 2018; Aracil, 2019). Moreover, the Islamic banks cannot invest the permissible part of their Security Liquidity Reserve and liquid surplus in those securities, therefore, these banks deposit their whole reserve in cash with Bangladesh Bank. Furthermore, the liquid surplus also remains uninvested in the Bangladesh, which is also very harmful to the business of the Islamic financial organisations following the Islamic Financial Management (IFM) practices. However, in contrast, Bangladesh's conventional or commercial banks do not suffer from this sort of limitation. Hence, the profitability of the Islamic banks in Bangladesh is adversely affected, as a result, the shareholders and other stakeholders have lack of confidence in the organisations and that also creates challenge in practicing the IFM in the organisations (Shah Foundation Bangladesh, 2016; Nurfalah et al., 2018; Arwani, 2018; Habib, 2018; Aracil, 2019).

j) Absence of Supportive and Link Institutions

Shah Foundation Bangladesh (2016) argued that a system, however well-integrated it may be, cannot thrive exclusively on its built-in elements. It has to depend on a number of link institutions. However, it is also similar in the case of the Islamic banking. Hence, to identify suitable projects, these banks can profitably draw the services of insurance companies, economists, management consultants, lawyers, auditors, etc. However, they sometimes lack knowledge and need research and training forums to prompt entrepreneurship amongst their clients (Arshad et al., 2016). However, these services are not available in the country for the Islamic financial institutions because of the lack of expertise relating to the Islamic financial processes of the supportive and link institutions (Shah Foundation Bangladesh, 2016; Arshad et al., 2016).

k) Long-term financing problem

Islamic Banks as well as other Islamic financial institutions (IFIs) cannot benefit from hidden costs and inputs, which increase the level of prices by certain entrepreneurs without any justification (Shah Foundation Bangladesh, 2016; Islam, 2017; Islam, & Sultana, 2019; Arshad, et al., 2016; Javaria, & Masood, 2020). Furthermore, IFIs specially the Islamic Banks are even more directly affected by the failure of the projects they finance. This is because the built-in security to get back their funds, together with their profits, is in the success of the project (Islam & Sultana, 2019; Arshad et al., 2016; Javaria & Masood, 2020). However, in the case of Shariah aspects, it is not right to gain security from the partner against negligence or dishonesty both of these are impossible to prove.

4.1.3 Individual Challenge

Lack of Awareness and Interest in Local Culture

Moreover, there are some significant challenges of the IFIs in clarification of the profit and loss sharing aspects because it is not always clear and not even well presented to the clients specially to the people who deposit money in the IFIs or invest (Hesse, Jobst & Solé, 2008; Abdul-Rahman & Nor, 2017). General people living in rural and urban areas are not aware of the IFM practices that can contribute to the better profit (Hesse et al., 2008; Ahmed et al., 2014). As a result, the clients become not interested to continue in many cases with the IFIs in the banks because conventional banks never make them confused as there is no such kind of profit and loss sharing aspects (Hesse, et al., 2008). Furthermore, there are many employees, who are not much aware of the IFM practices that reduces their interest to perform their jobs following the IFM practices (Hesse et al., 2008; Ahmed, Islam, Zuqibeh & Abdullah, 2014). As a result, it is difficult for many IFIs specially for the growing or potential ones to develop the IFM (Ahmed et al., 2014; Iqbal & Mirakhor, 2013). Moreover, there are some differences in the faith or practice of the Islam among the people in Bangladesh that also create challenges in practicing IFM in IFIs in Bangladesh (Ahmad, 2010; Askari, Iqbal & Mirakhor, 2011; Desai, 2016; Visser, 2019; Rasel, Anusara, Chanthamith, Sultana & Sultana, 2018). Furthermore, there is also problem with the prejudice regarding the Islamic banks around the world that creates challenges for the IFIs in the process of IFM practices (Cavendish, 2019; Wong, 2014).

4.2 Solutions for IFIs in Practicing IFM

Islamic Financial Institutions are the unique financial service providers such as Islamic Banks, Insurance compared with the conventional financial organisations such as conventional banks and insurance companies. Therefore, the previous and even contemporary academicians and industry planners have given more concentration to explore and examine the solutions to the conventional financial institutions rather the IFIs in practicing the IFM. They have articulated some solutions in practicing the IFM in the IFIs that have been outlined in this section.

4.2.1 Solutions to organizational challenges

a) Similar Rules and Regulations

Conventional financial institutions have been more successful than the Islamic ones, with bigger capital and access opportunities into various markets; therefore, there are some similar rules and regulations for conventional banks in many cases. This allows the conventional banks to develop their overall business performance and become successful and profitable for survival (Hassan & Lewis, 2009; Nurdin, 2019). Therefore, similar rules and regulations for the IFIs can be effective solutions specially in practicing the Shariah Compliance for the IFIs in practicing the Islamic Financial Management (Mansori et al., 2015; Bacha, 2013). This would allow the organisations, i.e., IFIs to measure the risks very efficiently and in a uniform basis. As a result, the organisations would be preferred service providers to the clients or the customers in different countries (Rahman and Dean, 2013; Haseeb, 2018). This could also help potential clients make decisions about investing in the IFIs in their current industry (Archer & Karim, 2009; Radzi & Lonik, 2016).

b) Monitoring

A robust monitoring process in the Shariah compliance process could also be effective in practicing and maintaining IFM in the IFIs according to the Shariah rules and regulations (Nurfalah et al., 2018). In this respect, regular monitoring process in the Islamic Financial Management would be effective to develop and gain the trust and confidence of the clients and the customers, and even the investors (Grira et al., 2019). The monitoring process would also be effective to develop the IFM in the IFIs because the authority or committee that would monitor the activities of the IFIs in relation to the IFM would be able to provide the suggestions. According to Nomran & Haron (2020), any business lacking monitoring processes can fall into the competitive market specially when there are many competitors. At the moment, conventional financial institutions have occupied most of the markets in different countries including Muslim countries. Hence, whenever the IFIs are working to develop their operations while maintaining the Shariah rules and regulations, i.e., compliance, it is necessary to have right and regular monitoring. It will contribute to keep the Islamic compliance very much interrelated with the main Islamic values and norms, accountability, trust, and morality in practising IFM in the IFIs. Therefore, in practicing Islamic Financial Management in the IFIs, the monitoring is an excellent solution for a regular process.

c) Coordination and Training

Better coordination and training have also been identified as the solutions to the development of the IFM practices in the IFIs (Nomran & Haron, 2020). It is because most of the employees working in IFIs are not very familiar with the Shariah compliance, new and unique aspects of the IFIs that make the overall situation complicated specially when some rules and regulations are changed (Habib, 2018). In this respect, regular training and development programs can also be effective for the development of the IFM in the IFIs in different countries including Bangladesh. In addition, the training and development programs can also be effective to align the changes in the international and local rules and regulations in practicing the IFM in the IFIs. For example, many employees in Bangladesh and even in other countries where IFIs are operating do not have much knowledge regarding the Shariah audit system of the AAOIFI. In this respect, if they are given the opportunity to take part in the training and development programs, the employees would be able to develop their competency. Hence, it can play a significant role in the development of the employees' efficiency, interest, and motivation to align the IFMs into the IFIs' operational process.

d) Government Supports

Government support in practicing an integrated Shariah Board for every company to ensure the IFIs can develop IFMs in an effective process in the IFIs would be great. In this respect, the government can also provide support with legal aspects so that the IFM can be developed in the IFIs for the greater Islamic financial activities according to the Islamic rules (Islam and Sultana, 2019; Mastrosimone, 2013). According to Islam and Sultana (2019), establishing an independent regulatory authority to supervise and monitor the activities, i.e., Islamic Financial Management practices should be prioritized in the government agenda. However, there could be more solutions according to the particular countries if there were research highlighting the solutions to overcome the challenges in practicing IFM in the IFIs (Mastrosimone, 2013). In this respect, this study would be one of the effective ones with the challenges and solutions in practicing the IFM in the IFIs in the context of Bangladesh, a fastest developing country with more than 90% of the Muslim population.

5. Underpinning Theories

Harper et al. (2004) argue that theory informs practice because theory offers insight into interpreting and understanding behaviour in relation to particular context; therefore, theories guide the way of thinking and viewing different problems being studied (Stam, 2010; Priede, 2014). Hence, theories in this study have been discussed to give direction for the future to explain and understand the issues that create challenges for Islamic financial institutions (IFIs) in different countries. In this respect, the theories would be used as a guide for the study in the setting of the main research questions (Priede, 2014). However, in recent years, researchers in the area of Islamic Financial Institutions (IFIs) have drawn theoretical perspectives from agency theory and stakeholder theory in relation to IFM (Safieddine, 2009; Hasan, 2010; Dar and Presley, 2000; Hussain and Gunasekaran, 2002). Hence, it would be useful to briefly outline the theories that frequently underpin the previous studies on the Islamic Financial Institutions (IFIs) importance, and why a certain number of them have been chosen in this study.

5.1 Institutional Theory

According to Habib (2018), institutions posit various bases to comply with different logics and mechanisms, diverse empirical indicators, and alternative rationales for developing legitimacy claims. In this respect, the institutional theory can be divided into three types that are often adopted in the literature. These include new institutional economics (NIE), the old institutional economics (OIE), and the new institutional sociology (NIS). According to Klein (2000), the new institutional economics (NIE) is called an interdisciplinary enterprise that combines different areas such as sociology, economics, anthropology, and law to understand commercial, social, and political life. These fields are normally taken from the various social science disciplines, but economics could be the primary field. The goal of NIE is to interpret what institutions are and how they arise, what purpose they serve, how they change, and how they should be formed, if at all (Klein, 2000). Furthermore, NIE also views financial and accounting practices as one of the most significant aspects that could legitimise organisations by constructing efficiency and rationality (Carruthers, 1995).

In this respect, a concept has been evolved around the influence of institutional arrangements in constructing rationality not just in the absence of the effective instrumentalists in the IFIs but also as the framework for supporting, defining and coordinating the full range of the means-ends chains. Furthermore, effectiveness, efficiency, and different types of performance measurements do not exist in the vacuum, but those also require the creation of the criteria, distinctions, common definitions, and understandings. In this respect, the institutions' broader normative, cultural-cognitive, and regulatory aspects shape the nature of the competitions and markets as well as the meanings of the operations, effective outcomes, and performance (Scott, 2005). The institutional frameworks give logical and rational arguments and approaches to underpin the approaches of exploring challenges faced by IFIs in practicing IFM. Within these broader frameworks, different types of institutional provisions may contribute to the creation of the structures that would be more effective in ensuring accountability, legitimacy, and creation of social fitness rather than directly improving the quantity and quality of the products and services. While not directly integrated into the main technologies, such necessities can nevertheless make significant offerings to organisations by adopting them, increasing acceptability, recognisability, and reputation. Institutions, i.e., Islamic Financial Institutions (IFIs) are varied in their effects as well as in the levels at which they operate (Scott, 2005). However, the issues that always remain unsettled in the institutional factors include: i) whether substantial decoupling undermines organisational legitimacy, ii) who are the key audiences for organisational appearance? and iii) the relation between technical and institutional factors (Carruthers 1995).

Furthermore, Scott and Meyer (1983) and Scott (2005) have introduced the intermediate arguments that noted above that rationale or technical performance pressures, which are not necessarily opposed, however, orthogonal to the institutional forces, for example, each a source of explaining rationalised structural arrangements. In this respect, Banks mainly confront strong pressures of effects that are mainly responsible for creating complicated structural arrangements. However, under NIE, the Islamic Financial Institutions in practicing Islamic Financial Management face technical, rationale pressure from the institutional forces. In this respect, the institutional forces can be included as they are regulatory, cultural-cognitive, and normative aspects. Institutional pressure leads an organisation, for example, an Islamic Bank or Insurance, to adopt similar structure, processes, and strategies; therefore, it becomes very tough to ignore those central tenets of the institutional theory (Meyer and Rowan 1977; DiMaggio and Powell 1983; Scott 1995; Aracil, 2019). External forces for example, political, social, organisational, cultural, and other forces, work to make any institutions more alike that is what institutional literature argues to keep eye on so that these can be overcome through various organisational approaches (Meyer and Rowan 1977; DiMaggio and Powell 1983; Scott 1995; Aracil, 2019).

Government, Labour unions, industrial associations, and many other social actors define the actions that are deemed as acceptable and exert pressures on the organisations for the conformity. Different studies, i.e., Aracil (2019), Osman et al. (2015), Abdul-Baki and Uthman (2017), and Zafar & Sulaiman (2019) have evidenced the use of the institutional theory in the banking and financial institutions, i.e., Islamic Financial Institutions (IFIs) where challenges in practicing Islamic Financial Management (IFM) have not been highlighted yet that create a room for the exploration of those challenges in developing current literature in the lens of institutional theory. It is because traditionally the financial institutions such as Islamic Financial Institutions (IFIs) are subject to the technical and institutional pressures. It is because they are also more opaque and highly regulated in comparison to their non-financial counterparts. Furthermore, the institutional theory can also be employed to interpret how the institutional perspectives influence practices in financial organisations and create the opportunity to explore the challenges in practicing IFM in the IFIs (Hussain and Gunasekaran, 2002; Yamak and Süer, 2005).

5.2 Agency Theory

This study aims to contribute to the agency theory literature by providing theoretical propositions highlighting challenges to this theory, whereby mechanisms are used to mitigate challenges faced by Islamic banking and financial organisations in practicing IFM. The agency theory interprets the contractual relationship between agent and principal. The theory is also concerned with resolving the problems arising from the agency relationship. In this respect, the agency relationship is a contract under which one or more persons, i.e., principal(s) engage another person (the agent) to perform some service on their behalf that includes delegating some decisions making the authority to the agent (Jensen and Meckling, 1976). According to Solomon (2007), the agency problem can stem from the separation of the control and ownership between stakeholders and management of the company, i.e., institutions. Moreover, agency theory examines the managers and employees as the agents whose interests may diverge from those of their principals (Habib, 2018).

The agency theory may assume that the goals of the principals and agent are conflicting, and the agent does not necessarily make decisions in the principal's best interest (Maurer, 2005; Solomon, 2007). In this respect, the main objective of Shareholders is to maximise their wealth, and company managers that may pursue their own personal objectives that could be the aim to gain the highest bonuses possible (Solomon, 2007). In this respect, the agency problem may also result from the fact that the managers, or employees, or even any international stakeholder do not bear the risks or the "wealth effects of their decisions (Fama and Jensen, 1983). Moreover, the principal cannot properly or accurately predict the agent's actions and exert control over them (Lewis and Algaoud 2009). However, among the agency problems that may occur are non-pecuniary benefits or perquisites and also information asymmetry (Archer et al. 1998; Khalil et al. 2002). This information asymmetry mainly leads to moral hazards and the adverse selection problems as it assumes that complete and full information that is not uniformly available to all the interested parties (Lewis and Algaoud 2009; Khalil et al. 2002; Solomon 2007). In this respect, the process of gaining information to develop the investment decisions, the data acquired is not the same for everyone, and the transactions could have less accurate information while some could have internal information (Khalil et al. 2002; Maurer 2005).

However, there are unique characteristics in the Islamic Financial Institutions (IFIs) in terms of governance of banks, profits, loss, accountability, responsibility, and so on, which are very much important for practicing the Islamic Financial Management. In this respect, greater opaqueness and greater government regulations exist that could have complicated implications for the IFM in the IFIs (Levnie, 2004). Moreover, moral agency problems mainly exist between the agent and principal in publicly-listed companies and also in additional agency relationships, including regulations that are introduced in banks, insurance, and other financial organisations that operate under highly regulated and structural markets that lead to more complicated agency problems (Ciancanelli and Gonzalez, 2000).

In addition to the general relationship that includes ownership and separation and control of the shareholder and normal agency problems that are faced by the banks, the additional agency relationship in the IFIs is the requirement to comply with the Shariah and separation of cash flow rights from the control rights the investment in the IFIs including Islamic Banks, Insurance and other Islamic non-bank financial institutions (INBFIs). In this respect, the managers of the organisations even including many IFIs have a tendacny to divert their attention from their duty to increase the wealth of shareholders, the conflict of interest between the bank management and clients that may result to divert manager's attention from the managing funds according to Shariah compliance (Habib, 2018). Hence, if the agency relationship is strong and maintained properly, the organisations would be able to overcome the personal interest and personal tendency aside for the sake of the shareholders and other stakeholders' benefit that is what the basis of the IFIs in practicing the IFM.

6. Implications of the study

The study contributes to the literature relating to the Islamic finance and the Islamic Financial organisations. The study combines the challenges and solutions in practicing IFMs in the IFIs in different countries. Hence, the policymakers and the practitioners would be able to get the idea regarding the challenges in practicing IFMs in the IFIs that would allow them to be aware of these challenges. Moreover, this study is also home to the solutions for practicing IFMs in the IFIs that would also benefit the researchers, managers, practitioners, and policymakers relating to the Islamic finance. Moreover, the study would also be effective for the academic research as well as there are some themes based on the challenges and solutions that have been developed. These themes can be examined through the quantitative studies to find their existence in the different countries where the Islamic financial practices are popular and used by the financial institutions. As a result, the study would be useful in both academia and practice. Moreover, the study also contributes to the theoretical points of view, aligning the agency theory and stakeholder theories as the underpinning bases for exploring the challenges and solutions in practicing IFMs in the IFIs in different countries.

7. Concluding Remarks

Overall, the study has explored the challenges and solutions to practice the IFMs in the IFIs in different countries. The study finds that there are many challenges that include difficulty in measuring Shariah compliance risks, lack of employee dedication and poor monitoring, no mandatory auditing, confusion regarding Shariah supervisory committees (SSCs) and Shariah council, lack of awareness and interest and local culture, lack of long-term financing and taxation, falsification and no central rules, lack of knowledge, lack of technological integration and training, weak legal, regulatory and supervisory frameworks, absence of Islamic money or capital market, absence of supportive and link institutions, long-term financing. On the other hand, the study also provides some solutions to overcome the challenges that include similar rules and regulations, lack of monitoring, coordination, training, and government support. Moreover, the study also has articulated some theories that can be underpinned to examine the impact of the identified challenges and solutions in practicing the IFMs in the IFIs in different countries.

8. Limitations of the Study and Future Directions

Every research paper has some limitations; therefore, this research paper has also some limitations. Firstly, the research paper has been prepared based on the secondary research. Hence, the paper does not provide any empirical evidence. However, the future researchers are recommended and directed to use the identified challenges and solutions in their studies to examine whether these exist or not. As a result, the current understanding regarding the challenges and solutions in practicing IFM in the IFIs would be clear. This would also strengthen the exiting literature relating to the Islamic finance. Moreover, the future researchers are also recommended to examine the identified challenges and solutions through the quantitative research in the country specific areas, for example, Bangladesh, India, and Pakistan can be good geographical contexts. Furthermore, comparative quantitative research can also be conducted to better understand the challenges and solutions in practicing IFM in the IFIs.

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