

# **Multi-Dimensional Financial Analysis of Islamic and Conventional Banks of Pakistan: A Comparative Study of Meezan and NIB Bank**

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## **Abstract**

*This study describe, compares and explains the financial outlay of Meezan and NIB bank with respect to Corporate Social Responsibility, Marketing and Human Resources for a period of ten years viz. 2003-2012. The study found Meezan bank overgenerous in respect of its Corporate Social Responsibilities. NIB bank spent more towards the remuneration of its employees, whereas Meezan bank had an increasing tendency in the size of its workforce with no significant lay-offs during the whole decade. Yet, NIB bank maintained a higher average number of employees. With regards to marketing activities Meezan bank reported more branches and deposits in contrast to NIB. Likewise, Meezan bank allocated more budgets to its marketing activities as compared to NIB.*

**Keywords:** Islamic and Conventional Banks, Comparative Financial Analysis, Performance Evaluation, CSR, HR and Marketing Outlays in Financial Institutions.

## **Introduction**

‘Banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdraw able by cheque, draft, order or otherwise.’ (Banking Companies Ordinance, 1962, section 5b)

Banks perform variety of functions such as dealing in money and valuables, transacting the business of foreign exchange and market instruments, providing agency services, transacting the business of guarantee and indemnity, participating in real estate business and acting as a trustee and executor.

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*Commercial Banking in Pakistan*

Quaid-e-Azam Mohammad Ali Jinnah the founder of Pakistan, had a vision to establish an economic system in accordance with the Islamic principles of socio-economic justice.

'I shall watch with keenness the work of your Research Organization in evolving banking practices compatible with Islamic ideas of social and economic life. The economic system of the West has created almost insoluble problems for humanity and to many of us it appears that only a miracle can save it from disaster that is not facing the world. It has failed to do justice between man and man and to eradicate friction from the international field. On the contrary, it was largely responsible for the two world wars in the last half century. The Western world, in spite of its advantages, of mechanization and industrial efficiency is today in a worse mess than ever before in history. The adoption of Western economic theory and practice will not help us in achieving our goal of creating happy and contented people. We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice. We will thereby be fulfilling our mission as Muslims and giving to humanity the message of peace which alone can save it and secure the welfare, happiness and prosperity of mankind.' (Jinnah, 1948)

*Islamic Banking in Historical Perspective*

Islamic banking is believed to be an alternative to the interest based conventional banking. Financial system of Pakistan experienced numerous developments to arrive at the current state. According to the Objectives Resolution (1949) Sovereignty of the entire Universe belongs to Allah alone and authority should be delegated to the State through its people under the rules set by Allah. Principles of democracy, freedom, equality, tolerance and social justice, according to Islam should be followed. Muslims shall live their lives according the teaching of Quran and Sunnah. Similarly, steps shall be taken to enable the Muslims of Pakistan individually and collectively, to live their lives in accordance with the fundamental principles and basic concepts of Islam and to provide facilities whereby they may be enabled to understand the meaning of life according to the Holy Quran and Sunnah (Constitution of Pakistan, 1973). Numerous statutes (Companies Ordinance, 1984, Negotiable Instruments Act, 1882, State Bank Act and Recovery of Loans Laws etc.) were revised to adjust it for Sharia compliant businesses. A new interest free Instrument namely Participation Term Certificate for Corporate Financing was introduced and was later substituted with Term Finance Certificate. For meeting working capital needs of trade and industry, Musharaka was introduced on 1<sup>st</sup> July 1982. Profit and Loss sharing basis was hosted in Banks on April 01, 1985. In November 1991, Federal Shariat Court was established. A proclamation was made on December 23, 1991 that transactions involving interest in

financial institutions would terminate to have effect by June 10, 2001. After the 'Historic Judgment against Riba' by the Supreme Court of Pakistan, interest is considered against the teachings of Islam. A commission for transformation of financial system was established in State Bank of Pakistan. (Saeed, 2012)

Islamic Banking department of State Bank defines Islamic Banking as,

'Banking in consonance with the ethos and value system of Islam and governed, in addition to the conventional good governance and risk management rules, by the principles laid down by Islamic Shariah'. (State Bank of Pakistan, 2014)

Islam provides rules and regulations for economics and business just as it provides guidelines for other areas. If Islam provides a complete set of moral principles and is considered a comprehensive code of life that contain guidelines for everything, then logically there should be directives for social, economic, political, legal, environmental, technological, ethical and all other dimensions of life in it. Since, business and economics in general and finance and banking in particular are essential parts of the society we live in, therefore, the rational and logical presence of having an order and code for the society can't be ignored.

#### *Research Objectives*

The main objective underlying this study was to compare the two selected financial institutions based on various perspectives namely Corporate Social Responsibility, Human Resources and Marketing. The study will try to answer the question that whether Islamic or conventional bank spent the same amount of money on the aforementioned activities or their outlays were varied. .

#### *Literature Review*

There are diverse views with regards to the evaluation of voluntary disclosures made by corporations, as noted by Carroll (1979) business encompasses the economic, legal, ethical and discretionary expectations that society has of organization at a given point in time. Therefore, it is important to inform all stakeholders in a multi-dimensional manner so that expectations can be met but there are studies that do not find significant impact of disclosures such as Corporate Social Responsibility (CSR) on the financial performance of various industries Aile and Bausys (2013) and Singh (2014). Similarly, there is a growing demand among stakeholders for disclosing information related to Human Capital. HR accounting information of an organization is being considered as a very important factor for decision makers. Leyira, Clifford and John (2012). Banks also drift with regards to Marketing Budgets in order to

drive revenue growth. However, there are significant variations in marketing to revenue ratios of banks because how much an institution spends on marketing activities is a touchy subject. Bankers believe that if money is not spent on marketing it is hard to grow the institution and the share price. (American Banker, 2011)

Banks mainly deal in money but their presence and involvement in other parts of the society can't be ignored. There are other areas that may be influenced by the subjectivity of management and could act as a significant material aspect in evaluation of financial performance by the stakeholder. Therefore an analysis of spending disclosed by banks in the dimensions such as CSR, HR, and Marketing may help in evaluating the performance of banks in a multi-dimensional manner resulting in deriving a sound basis for assessment.

Aile and Bausys (2013) and Singh (2014) assessed spending of CSR disclosures by various industries. Similarly, Number of Branches, Expenses of Advertising and Deposits Generated are useful disclosures for the evaluation of banking sector Awan (2009) also incorporated most of these parameters in his comparative study. Leyira, Clifford and John (2012) consider HR disclosures very useful in taking decision with regards to financial performance of institutions

### *Methodology*

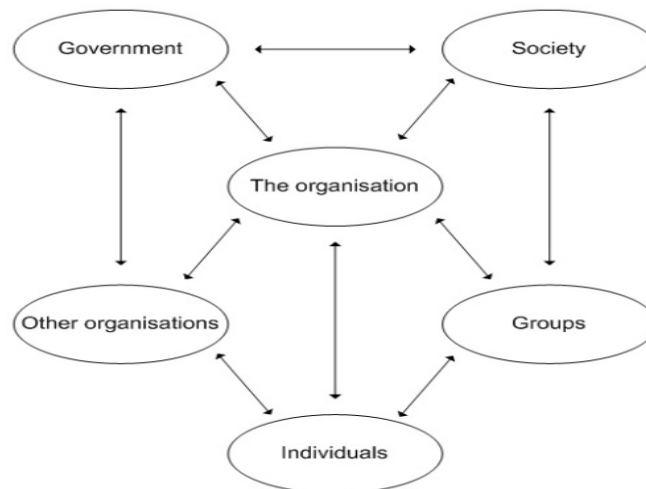
Johnson and Clark (2006) say that as business and management researchers we need to be conscious of the philosophical obligations we make through our choice of research strategy since this has significant impact not only on what we do but we understand what is it we are investigating. The study has compared, described and explained through a case study strategy by doing an analysis of the audited, consolidated financial statements of selected banks through parameters such as the CSR, HR and Marketing to reach a conclusion about the financial performance of the Islamic and Conventional bank chosen for the study. Purposive sampling has been done for a variety of reasons. The case study nature and characteristics of the study demanded purposive sampling as it aims to compare like institutions from diverse backgrounds that operates in a similar business and economic environment during a particular time. Purposive sampling favored the use of available resources. The researchers have faith in using purposive sampling for the study, as it represents the study in a satisfactory manner and tends to help in drawing precise and objective conclusions. Chronological data was collected for a period of 10 years i.e. 2003-2012. Descriptive statistical tools and techniques were applied on relevant and applicable financial extracts especially where the data was comparable on one-to-one basis.

## Analysis and Results

The performance of both types of banks on various grounds such as CSR, HR, and Marketing has been analyzed.

### *CSR Perspective*

Business incorporates the economic, legal, ethical and discretionary prospects that society has of organization at a given point in time Carroll (1979). Therefore, corporations can't overlook their communal responsibilities. It is imperative to analyze the CSR policies corporations have; to determine their social responsiveness as business entities operate in a holistic environment. Diagram given below based on the social contract of Jean-Jacques Rousseau (1762) best explains this phenomenon:



Source: In Social Contract Jean-Jacques Rousseau (as cited in Crowther & Aras, 2008)

The annual reports of NIB bank concludes that there was no disclosure made for CSR activities till the year 2008. However, in 2009, 54,000 rupees were paid to The Citizens Foundation, i.e. an NGO working in the education sector of the country. Similarly, in 2010 NIB joined hands with Omar Asghar Khan Development Foundation. The staff of the bank donated three days' salaries for the victims of the disastrous flood of 2010. The bank opened special accounts for the general public to deposit money for flood affected areas. It is mentioned in the report of the same year that some branches provided scholarships to the students but no amount has been allocated and disclosed in the financial statements for the same. The bank showed continued interest in meeting its CSR obligations in the year 2011 by organizing free medical camps with Serving Hands Organization in Badin, Tando Adam, Sanghar areas of

interior Sindh province. The staff participated and contributed with other volunteers that included doctors and paramedics. Likewise, in 2012 the bank took part in fund raising for a healthcare center for mothers and children in Budhapur District of Sindh. Surprisingly, there is no financial disclosure made by the bank about this expenditure in the financial statements apart from the year 2009 and it is also noteworthy that the bank has branches all over the country. These activities were conducted in one province only.

Meezan Bank, since its inception took CSR as one of its primary focuses. In 2003 the bank had 2.7 million rupees in the charity account that is allocated to be given to schools, hospitals and other welfare organizations. In 2004 the bank paid Rs. 2, 00,000 million and Rs. 3, 50,000 to Memon Hospital and Sindh Institute of Urology and Transplantation respectively. Similarly, in 2005 The Citizen Foundation and Alamgir Welfare Trust received Rs.500, 000 and Rs.649 Million respectively. During 2006 Rs. 60, 00,000 and Rs. 200,000 million was paid to The Citizen Foundation and Idara Al Khair Respectively. Meezan bank in 2007 gave Rashid Memorial Welfare Organization a sum of Rs. 12, 00,000 Alamgir Welfare Trust Rs. 11, 10,000, Sindh Institute of Urology and Transplantation Rs. 10, 00,000, Ms. Late Shagufta Ibrahim (Ex-Employee) Rs. 450,000, Al-Shifa Trust Rs. 250,000, Idara Al Khair Welfare Society Rs. 200,000. In 2008, total charity paid during the year was Rs. 2.13 million. In 2009, total charity paid was Rs. 14.605 million. In 2010 the bank registered a separate entity by the name of Ihsan Trust that works under the supervision of Shariah Advisor and Shariah Supervisory Board and monitors the disbursements of the bank's charity fund. During the year the bank disbursed a total of Rs. 137.6 million from the charity account that is highest as of 2010. The bank also continued the Qard-e-Hasana facility for higher studies and signed memorandum of association with the leading business institutions of the country to support students. The bank contributed by giving Rs. 2.00 for every Re.1 collected and subscribed by the employees of the bank in the Flood Victims Relief Account to purchase essentialities for flood victims. The bank provided cooked food to 2,100 people of Charsadda for 15 days, the bank helped in association with Ihsan Trust to provide dry food in the surrounding areas of Multan and also provided floor mats to around 500 people in the same region. The bank also helped 1000 flood victims in Muzzaffargarh. The bank in collaboration with Helping Hands established free medical camps in the capital city and also provided personal hygiene kits to the flood victims. In 2011 a total of Rs. 130,110,000 was disbursed in CSR activities. During 2012 the bank disbursed Rs. 32.924 million in terms of charities.

The importance of social responsibility remains intact irrespective of the spending and engagement by the banks. Corporations

operate within the Social, Political, Economic, Technological, Environmental, Ethical and Legal domains of humanity. It should make CSR one of the core realities of its business and give back some of the value to these domains.

#### *Marketing Perspective*

Below is a brief analysis of selected activities with respect to marketing,. These areas cover branch networks, deposits and advertisements expenses of both Meezan and NIB bank.

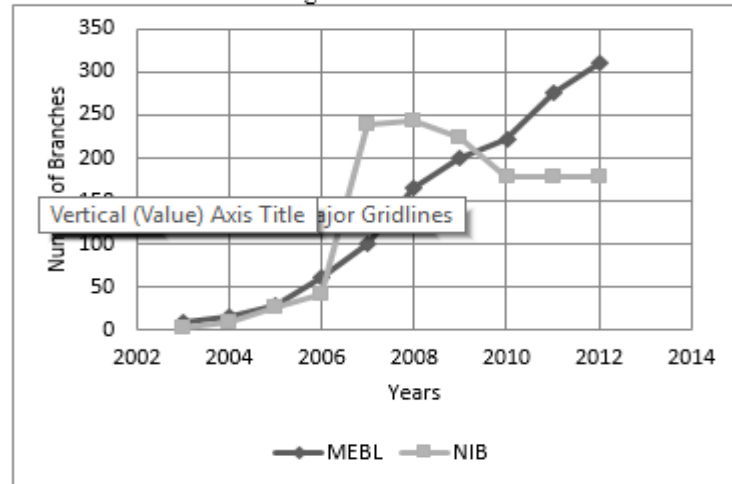
Table 1: Marketing

Parameter	Marketing					
Sub-Parameter	Branches (#)		Deposits (Rs.)		Marketing Expenses (Rs.)	
Year and Bank	MEBL	NIB	MEBL	NIB	MEBL	NIB
2003	10	2	7,748,367,000	3,682,302,000	13,069,000	737,000
2004	16	10	13,769,807,000	10,648,570,000	21,816,000	8,333,000
2005	28	27	22,769,262,000	22,554,274,000	30,294,000	49,276,000
2006	62	41	34,449,441,000	30,566,540,000	28,157,000	56,368,000
2007	100	240	54,582,353,000	116,523,928,000	44,196,000	13,180,000
2008	166	244	70,233,875,000	103,798,092,000	43,462,000	83,716,000
2009	201	223	100,333,051,000	92,838,878,000	46,146,000	73,677,000
2010	222	178	131,070,328,000	99,111,741,000	37,157,000	27,605,000
2011	275	179	170,022,486,000	85,472,247,000	98,535,000	70,885,000
2012	310	179	230,425,986,000	91,094,447,000	77,845,000	29,118,000
Source: Financial Statements Meezan & NIB Bank 2003-2012						

#### *Branch Network*

The data shows that both banks were growing closely till 2006 but after that year NIB soared to 240 branches in 2007, and increased 4 branches more in 2008. The next two years shows a downfall in the number of branches of NIB. During 2009 it closed 21 branches and during 2010 additional 45 branches were closed. During 2010 till 2012 NIB opened one new branch and showed a total of 179 branches in 2012. Meezan bank after 2006 grew steadily and consistently. It had 100 branches during 2007. During 2008, 66 new branches were opened. Similarly, 135 new branches were opened during 2009 making a total of 201 branches. During 2010 it had 222 branches that rose to 275 branches in 2011 and 310 branches in 2012. That is visible in the upward sloping line graph below.

Figure 1 Branch Network

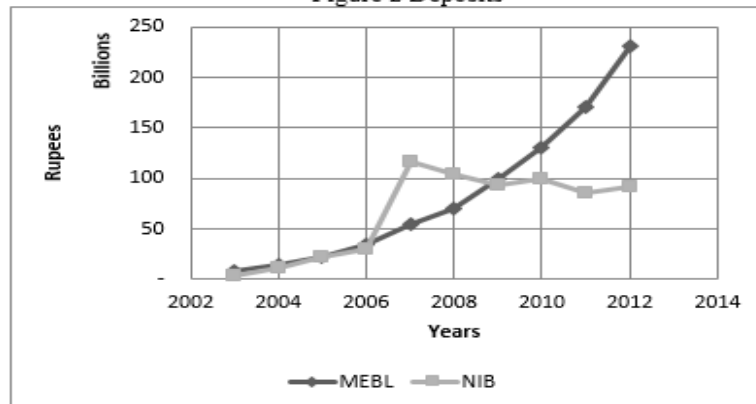


Source: Financial Statements Meezan &amp; NIB Bank 2003-2012

*Deposits*

Banks show close performance till 2006 which varies considerably. Starting from 2003 NIB and Meezan showed the deposits of 3,682,302,000 and 7,748,367,000 rupees respectively. The next three years show nearly equal amounts of deposits forcing the scatter plot to remain adjacent. From 2007 till 2012 there is visible disparity that can be seen in the diagram below, with the exception of 2009 when NIB had deposits of Rs. 92,838,878,000 and Meezan had 100,333,051,000 rupees in deposits. Year 2010-2012 shows lower deposits with respect to NIB as compared to Meezan. Figure 2 summarizes the same.

Figure 2 Deposits

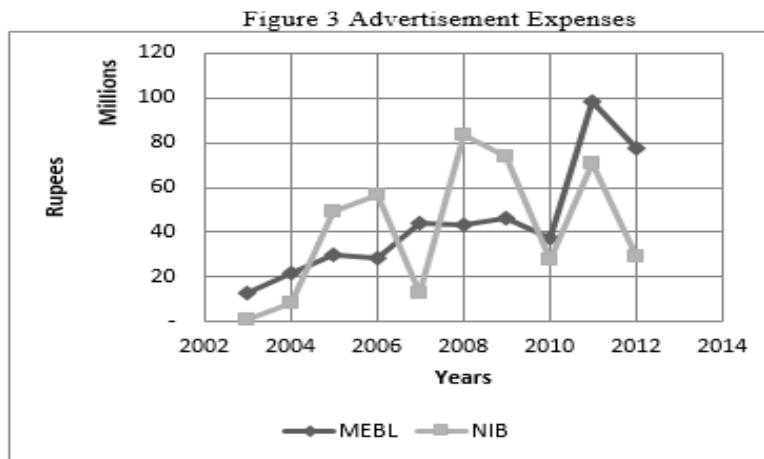


Source: Financial Statements Meezan &amp; NIB Bank 2003-2012



### Advertisement Expenses

Both banks show mixed patterns of spending on Advertisements and Publicity matters. The combined highest amount was 98,535,000 rupees that was spent on this activity by Meezan during 2011 the lowest was 737,000 rupees by NIB during 2003 during the ten year period. Both banks show an increase in advertisements during 2011 as compared to previous years. However both banks cut back advertisement expenses in 2012. The said pattern can be seen in figure 3.



Source: Financial Statements Meezan & NIB Bank 2003-2012

### HR Perspective

Meezan and NIB disclosed the following financial statistics with respect to HR in their books of accounts. The following table covers yearly salaries' expenditure and number of employees.

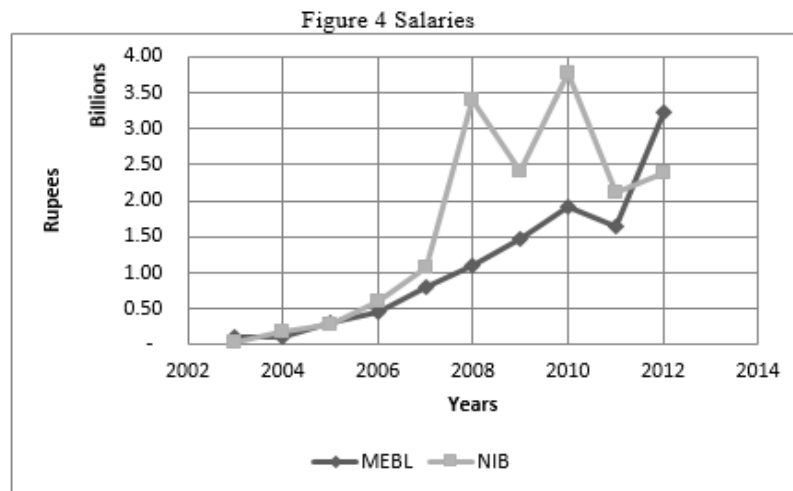
Table 2: Hr Perspective

Parameter	Human Resources			
Sub-Parameter	Salaries (Rs.)		Staff Strength (#)	
Year and Bank	MEBL	NIB	MEBL	NIB
2003	108,547,000.00	24,851,000.00	245.00	249.00
2004	106,338,000.00	177,327,000.00	522.00	403.00
2005	297,177,000.00	287,459,000.00	786.00	593.00
2006	445,189,000.00	605,675,000.00	1,389.00	1,632.00
2007	799,720,000.00	1,084,500,000.00	2,205.00	5,611.00
2008	1,105,027,000.00	3,411,521,000.00	3,170.00	6,929.00
2009	1,468,178,000.00	2,417,646,000.00	3,745.00	6,427.00
2010	1,907,629,000.00	3,766,972,000.00	4,364.00	3,642.00
2011	1,650,696,000.00	2,123,187,000.00	5,003.00	2,718.00
2012	3,223,685,000.00	2,381,554,000.00	5,953.00	2,834.00

Source: Financial Statements Meezan & NIB Bank 2003-2012

### Salaries

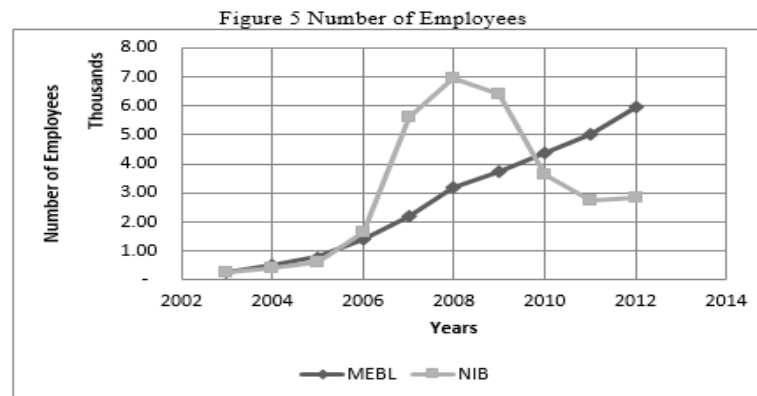
Both banks show close proximity till 2006 with slight upward movement by NIB in 2007. NIB took major skyward shifts during the year 2008 and 2010. However, the line graph displays downward patterns during 2009 and 2011 that rises again in 2012. Meezan bank showed consistent increase with only decrease during 2011. But the same took an upward jump and crossed 3.2 billion rupees the same can be observed in the upward sloping line graph below.



Source: Financial Statements Meezan & NIB Bank 2003-2012

### Staff Strength

Both banks show the following patterns in the total number of employees during the ten year period. There has been no loss of Employees in Meezan conversely NIB show reduction in number of employees statistics since 2008 and it continues till 2011 but again could be seen moving upward in 2012.



Source: Financial Statements Meezan & NIB Bank 2003-2012

## Discussion

Meezan Bank was found overgenerous with regards to its social responsibilities on both financial footings and otherwise. Apart from a few exceptions, NIB paid more in salaries but Meezan had relatively increasing tendency with regards to number of employees with no massive reduction in its workforce. However, the average number of staff members was greater in quantity in NIB, than that of Meezan. Meezan had more branches and deposits in contrast to NIB. Awan (2009) found that the branch network and volume of deposits of Islamic banks show a continued growth pattern in contrast conventional bank show slow upward movements in increasing branches and deposits. Likewise, Meezan bank spent more money on its marketing activities as compared to NIB bank.

Meezan bank had an average of 139 branches whereas NIB averaged at 132 branches. Likewise, the deposits of Meezan and NIB were Rs. 83,500,000,000 and Rs. 65,600,000,000 respectively. The average marketing expenses disclosed by Meezan bank were Rs. 44,100,000 and by NIB bank were Rs. 41,300,000.

Table 3: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Salaries_MEBL	10	Rs. 1,110,000,000	Rs. 985,000,000	Rs. 106,000,000	Rs. 3,220,000,000
Salaries_NIB	10	Rs. 1,630,000,000	Rs. 1,370,000,000	Rs. 24,900,000	Rs. 3,770,000,000
Employees_MEBL	10	Rs. 2738.20	Rs. 2009.72	Rs. 245.00	Rs. 5953.00
Employees_NIB	10	Rs. 3103.80	Rs. 2503.06	Rs. 249.00	Rs. 6929.00
Branches_MEBL	10	139.00 Branches	110.00 Branches	10.00 Branches	310.00 Branches
Branches_NIB	10	132.00 Branches	100.00 Branches	2.00 Branches	244.00 Branches
Deposits_MEBL	10	Rs. 83,500,000,000	Rs. 74,000,000,000	Rs. 7,750,000,000	Rs. 230,000,000,000
Deposits_NIB	10	Rs. 65,600,000,000	Rs. 43,300,000,000	Rs. 3,680,000,000	Rs. 117,000,000,000
Marketing Expenditure_MEBL	10	Rs. 44,100,000	Rs. 25,900,000	Rs. 13,100,000	Rs. 98,500,000
Marketing Expenditure_NIB	10	Rs. 41,300,000	Rs. 29,600,000	Rs. 737,000	Rs. 83,700,000
Source: Financial Statements of Meezan & NIB 2003-2012					

The mean salaries for the ten year period were over Rs. 1.1 billion in case of Meezan and over Rs. 1.6 billion in case of NIB. The minimum salary paid by Meezan was Rs. 106,000,000 and the maximum was Rs. 3,220,000,000 on the other hand NIB bank paid minimum amount of 24,900,000 rupees and maximum was Rs. 3,770,000,000. The staff strength shows that Meezan bank had an average staff of 2738 employees and NIB had an average of 3103 employees. Table 3 summarizes the same.

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