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ICAP TOP 100 COMPANIES OF PAKISTAN

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Key to Success

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Editor's Letter

Everything begins with an idea," states Earl Nightingale, an American author. Each new idea or intuition has to be a 'breakthrough' that 'changes everything.' If your sights are set on climbing to the top of your field, you will already be doing what you can to grow and hone the skills you'll need to become a business leader of tomorrow.

The issue you hold in your hands (or are reading online) covers the above statement well. As leaders of the accountancy profession, the Institute is committed to do its best to continuing adding value to businesses and economy while ensuring ethical practices and good corporate governance. ICAP has and will continue to play an active role in promoting accountability through high quality service by its members for public and private sectors.

This year, ICAP has undertaken a responsibility to publish a special report, the annual **ICAP Top 100 Companies of Pakistan** list, which spotlights the top performing public companies with the highest revenues and highest profits on the Pakistan Stock Exchange (PSX) website for a fiscal year.

This special report **ICAP Top 100 Companies of Pakistan** will be a benchmark of business success and represents the bulk and the breadth of the country's corporate sector. The objective of the initiative is to encourage the corporate sector, through setting a trend to promote the successful organisations in Pakistan and to make a positive impact on the global front as well. The list also includes profit, total assets and equity of 100 companies with ratios thereof to revenue, which provide stakeholders a quick analysis of the performance of companies.

The theme of this issue exemplifies soft skills in action. If a pen is more powerful than a sword, then a chartered accountant with superior communication abilities, or soft skills, commands a powerful arsenal when competing in the corporate world.

These skills are no longer just nice to have. Today, hiring managers are not only seeking just a CA degree and solid technical knowledge in a chartered accountant, rather, companies look for soft skills such as the ability to persuade and influence, and the talent to explain challenging concepts in easy-to-understand terms for a non-specialist audience.

Soft skills are sometimes referred to as emotional intelligence, a term coined by Daniel Goleman, an American author, psychologist, and science journalist. He developed five components for emotional intelligence: Self-awareness, Self-regulation, Motivation, Empathy, and Social skills. Employees who lack these skills may not be able to ascend the corporate ladder. Recent studies showed that chief financial officers (CFOs) identified poor interpersonal skills as the most common reason of their employees' failure to advance in the career ladder.

Chartered Accountants must be proficient in many technical areas, including accounting, financial reporting, financial analysis and internal audit. However, soft skills are crucial in communicating this knowledge to other departments in the organisation. As they are required to engage in high profile cross-functional teams, firms will have to adapt to the new realities by learning to hire, train and promote professionals who also possess and excel at the use of soft skills.

As chartered accountants, I hope, we all continue to benchmark our efforts in the interests of the national development and integrity and create better opportunities for accountancy professionals in this vibrant phase of globalisation.

Don't forget to check out our coverage of the **ICAP Top 100 Companies of Pakistan** and enjoy!

Yacoob Suttar, FCA



President's Page

Over the past two decades, the business world has witnessed a dramatic change due to technological advancements, international business dynamics, and globalisation. As a result, chartered accountants need to master the technical skills of their job as well as much needed 'soft skills' including the ability to communicate, coordinate and solve managerial and administrative problems. The requirement for such competencies and skills has instigated a change in accounting education, providing both soft and technical skills to accounting students in order to adequately prepare them for the rapidly changing business environment.

The reinstatement of soft leadership skills, such as self-awareness, self-regulation, motivation, empathy, and social skills, are steadily on the rise, and greater attention should be apportioned to strengthen these skills in future leaders. Most of the educational inputs deal with hard skills. However, successful practice in any chosen discipline requires soft skills.

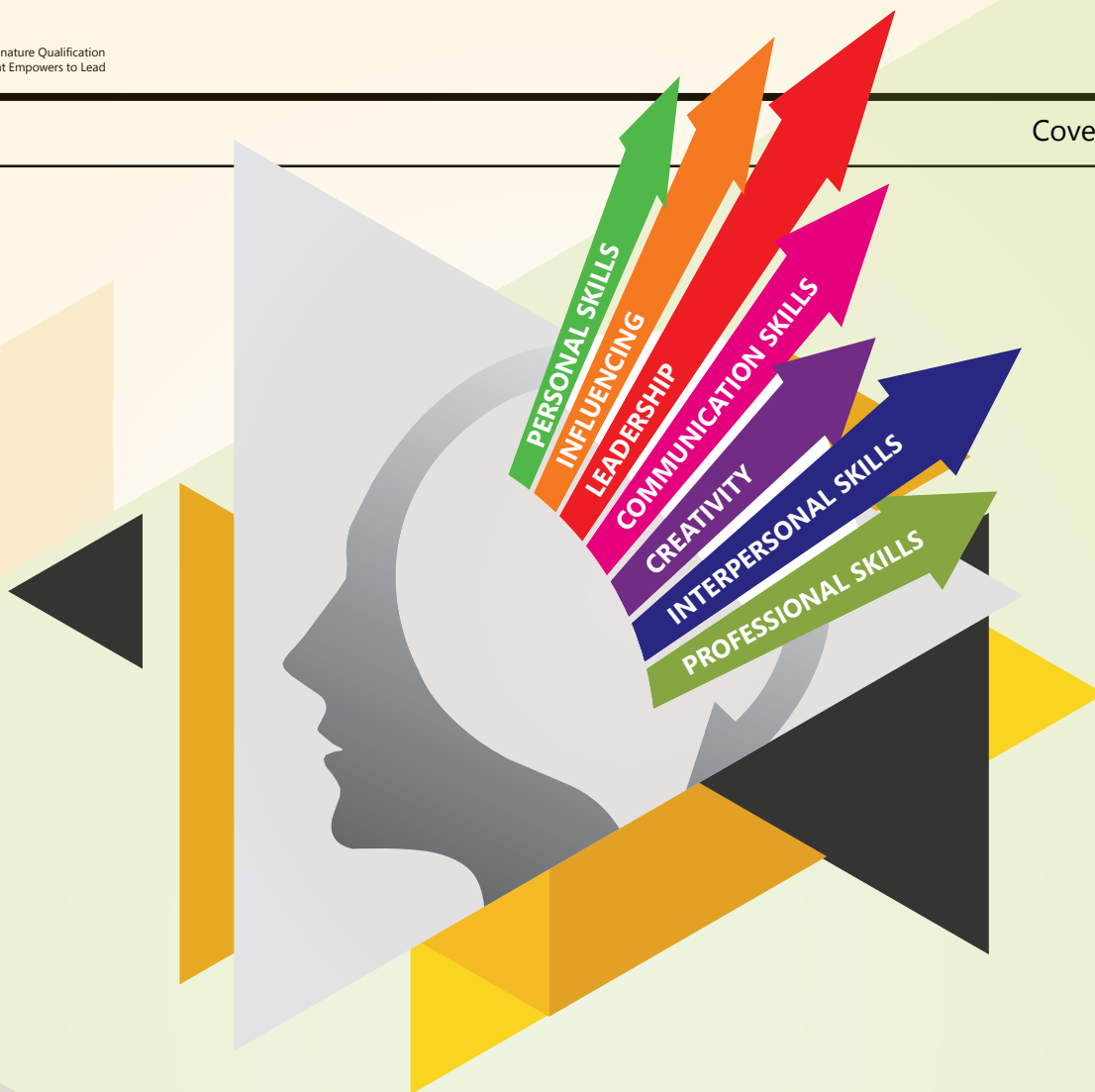
Professional accounting students, in addition to the technical skills required for an accounting career, also need to develop social or emotional intelligence. This can be accomplished by equipping themselves with professional skills like effective communication, analytical mind, decision making and teamwork. In order to achieve this, new concepts, strategies and methodologies need to be introduced into the teaching of accounting.

From the Institute's perspective, new initiatives were taken during the year. ICAP launched and implemented Registered Accounting School System (RASS) scheme with the objective of attracting quality students with well-rounded soft skills. The Institute has recently signed a Memorandum of Understanding (MoU) with the Beaconhouse Group - Concordia College to induct them as the first institution under the RASS scheme.

To strengthen its member expertise and to nourish the soft skills of the young CAs, the Institute launched Toastmasters Club, and now the clubs are successfully operating in Lahore, Islamabad, Faisalabad, Multan and Karachi where members learn the art of public speaking.

Last but not the least, to climb higher on the corporate ladder, chartered accountants need to acquire soft skills to develop a broader grasp of the organisation's business. Chartered accountants have sufficient number-crunching skills, but lack the ability to communicate the interpretation of numbers. They need to embed the new competencies and ways of thinking necessary to lead the organisations toward sustainability and growth.

Nadeem Yousuf Adil, FCA



Soft Skills that Help Shorten Career Path

by Chaudhri Khawar Ali

Soft skills are critically important for leadership and success in professional life and career development. Most of these skills are not taught, although some of these could be developed in educational institutions. People with good and relevant soft skills, perform their responsibilities better and gain attention of their seniors while continuously progressing in their careers. Such people become an asset for their organisations and difficult to replace. Hence, such people usually enjoy good

relations with their seniors, and returns against their services and higher job/career security. On the other hand, people with lesser or weak soft skills usually face difficulty in their careers and are not an asset for their organisations.

Soft skills are personality and character traits of a person and comprise interpersonal skills that characterise a person's behaviour and relationships with other people with whom he interacts.

These are difficult to be measured particularly when evaluating candidates for new hiring. At the workplace, soft skills are supposed to be additional, necessary and supplementary skills in addition to hard skills. Usually, these are referred to as professional know-how and occupational skills.

A list of soft skills is compiled below to help in understanding the skills for our self-assessment and evaluation and improvement with brief explanations. These soft skills are grouped (into seven categories) according to the nature of skills. These seven groups together with skills are as under:

Personal Skills

- **Self-Awareness:** Self-awareness is having a clear knowledge and understanding of one's own personality. Important areas include strengths, weaknesses, beliefs and thoughts, motivational and emotional understanding. Self-awareness enables us to better understand and predict behaviour and attitude of other people.
- **Self-Assessment:** Assessment and evaluation of one's own actions, attitudes and behaviours is known as self-assessment. It is particularly important to evaluate one's own performance at a project, business or job. This helps us to evaluate and improve ourselves using this personality trait.
- **Self Confidence:** It is the trust in one's own capabilities. Greater the trust in one's own capabilities, greater will be the self-confidence.
- **Self-Leadership:** Self-leadership is to have a developed sense of knowing yourself about followings:
 - Who you are?
 - What you can do?
 - Where you are and where you want to be?
 - Ability to influence your own actions, behaviours, emotions and communications.
- **Competitiveness:** It is the quality of being as good as or better than others of a comparable nature. It assures the better or same quality of working and control than others.
- **Adaptability:** It is the ability to adapt oneself to the changes.
- **Work-Life Balance:** It is the equilibrium that one should achieve between one's own priorities at job and private life. There is no yardstick in this regards. It depends upon one's own needs and priorities.
- **Emotional Intelligence:** It is also known as emotional quotient. It involves the ability to recognise, understand and manage one's own emotions.
- **Stress Management:** It is a predetermined strategy for coping with situations of psychological or emotional turmoil.
- **Taking Criticism:** One should turn criticism at work into source of empowerment, development and success.
- **Enthusiasm:** Enthusiasm is a strong feeling of active interest in something that one likes or enjoys.
- **Assertiveness:** It is the quality of being self-assured and confident.

Influencing

- **Motivation:** It is the process of stimulating people.
- **Negotiation:** Bargaining process between two or more parties seeking to discover a common ground and reach an agreement to settle a matter of mutual concern or resolve a conflict.
- **Inspiration:** It is the process of being mentally stimulated to do or feel something, especially to do something creative.
- **Facilitation:** It is an activity that makes tasks easy for others.
- **Collaboration:** It is cooperative arrangement in which two or more parties work jointly towards a common goal.

Leadership

- **Team Building:** It refers to the concept of organising groups of employees into manageable units for various purposes. The team members stay together and work together to attain/achieve a common objective.
- **Team Management:** It is the administration of members or a group (team) of people working together on a particular project or to perform a particular function within an organisation.
- **Dispute Resolution:** It is a process for resolving differences between two or more parties or groups.
- **Decision Making:** It is the process of making choices among possible alternatives.
- **Strategic Planning:** The strategic planning is a process of taking decisions to set goals and to outline a course of action to achieve those goals, to grow the business and to help the business be profitable.
- **Talent Management:** Talent management seeks to hire and deploy capable individuals who are expected to be valuable for the organisation.
- **Performance Evaluation:** It is a method by which the job performance of an employee is evaluated and documented.
- **Delegation of Power:** It is the transfer of authority by one person or group of persons to another person or group of persons.
- **Supervision:** It is the act or process of directing a person or group of persons.
- **Coaching:** It is a process of development and support by one person to another person or client to achieve a particular goal/target through training and development.
- **Mentoring:** It is professional relationship in which senior/mentor (expert/experienced person) helps the junior/mentee to help him to develop certain skills or professional know-how.
- **Crisis Management:** It is the process of handling emergency situations.

Communication Skills

- **Body Language:** It is non-verbal communication that uses body movements for communication. It includes gestures, facial expressions, eye movement and body posture, etc.
- **Verbal Communication:** It is the communication method in which one makes uses of spoken words and sounds to express.
- **Visual Communication:** It is the communication by using visual aid. It can be a video or an image/picture with text to describe something.
- **Presentation Skills:** These are skills needed to present/deliver (presentation) effectively to variety of audiences. It usually includes slide presentations. Important areas include structure and design of presentation, voice and body language of the presenter.
- **Writing Skills:** Writing allows us to express and record our ideas and feelings in written form, on some readable media like paper, computer file, etc. to express ourselves.
- **Listening:** Listening is an act of hearing carefully, understand and respond accordingly.
- **Public Speaking:** Public speaking is mainly concerned with speaking to an audience.
- **Quick-wittedness:** Quick-wittedness means mentally keen or quick.
- **Interviewing:** A meeting in which one person or a team question and evaluate another person to get information for certain purposes.



Creativity

- **Innovation:** Innovation means new idea(s), methodology(ies) or device(s)/equipment(s).
- **Problem Solving:** It is the process of finding solution of some problem.
- **Critical Thinking:** It is a critical analysis cum evaluation with the objective to form a judgement.
- **Troubleshooting:** Wikipedia defined troubleshooting as "A form of problem solving, often applied to repair failed products or processes on a machine or a system. It is a logical, systematic search for the source of a problem in order to solve it, and make the product or process operational again."

Interpersonal Skills

- **Interpersonal Relationships:** It is a strong or close association or acquaintance between two or more individuals.
- **Networking:** Networking means the act of making contact and exchanging information with other people, groups or institutions to develop mutually beneficial relationships.
- **Office Politics:** It is the use of power and social networking within an organisation to achieve changes that benefit the organisation or individuals within it.
- **Conflict Resolution:** It is the process of finding solution of disagreement between two or more persons/parties.

Professional Skills

- **Business Etiquette:** It is the set of manners that are needed in a profession.
- **Business Ethics:** Business ethics is the study of proper business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility and fiduciary responsibilities.
- **Research and Development:** Research and development means discovering new knowledge about products, processes, and

services, and then applying that knowledge to create new and improved products, processes, and services that fill market needs.

- **Organisation:** It is the action or set of actions for organising something.
- **Time Management:** It is the ability of using time effectively and efficiently, particularly at work.
- **Planning:** It is the process of making plans for a particular task.
- **Scheduling:** It is the systematic allocation of job among workers/employees over time to achieve some specified target/task.
- **Technology Awareness:** It comprises of the knowledge regarding the advancements in the field of technology and ability to use them in the organisation for development and sustainability.
- **Writing Reports and Proposals:** It is the ability of writing effective reports and proposals.
- **Diversity Awareness:** Diversity awareness is one's ability to embrace the uniqueness of all individuals along several dimensions such as race, religious beliefs, ethnicity, age, gender, physical abilities, political beliefs, and socio-economic status.
- **Training:** It is the process of teaching the skill(s) that are needed for a job or profession.
- **Process Improvement:** Process Improvement is the proactive task of identifying, analysing and improving upon existing business processes within an organisation for optimisation and to meet new quotas or standards of quality.
- **Customer Service:** It is the help, support, assistance and advice provided (supplier, usually the company) to the users of a product or service.

The above soft skills may be critically useful for describing personality traits in resume and job descriptions, etc. These skills can be developed/polished continuously by an individuals' willingness to gradually improve their personality traits. Training workshops like toastmaster club, specific CPD activities/training workshops and other activities are very important to improve some major/critical soft skills.

It's Not Soft Skills, It's Soft Game

by Muhammad Waqas

To date, the world's greatest inventions, which have uplifted human life, are the credit of hard-wired humans, people with some genuinely brilliant minds; you name it: Einstein, Edison, Tesla, etc. Yet, quite interestingly, the world admires and rewards people more who can speak and express coherently. All front desk positions (CEO/salesman, etc.) in an organisation are associated with these people and technical or hard-wired people are associated with support functions (accountants/technicians, etc.). To resolve the mystery around soft skills, let us analyse three very important aspects:

- Understanding soft skills and their importance for organisation/personal objectives
- Crux of poor soft skills
- How to fix your soft skills

Understanding soft skills and their importance for organisation/personal objectives

"Soft skills are a combination of interpersonal people skills, social skills, communication skills, character traits, attitudes, career attributes, social and emotional intelligence quotients among others that enable people to effectively navigate their environment, work and perform well, and achieve their goals with complementing hard skills." (Wikipedia)

If we closely analyse this definition it reflects a simple message 'express yourself', it is not limited to delivering a coherent perfect presentation/speech in English as many of us believe, rather, it involves expressing your thoughts, carrying yourself and not being intimidated by environment, including people, in our daily routine interactions. Because the moment you are not able to express yourself in any given situation, is the moment you are going to stutter, lose confidence and eventually fail to put your message across effectively.

For any organisation, to achieve its vision, it is imperative that its vision is conveyed and made to believe within and outside the organisation because you may have the ability to produce a great product but, if you cannot make people believe it, the product is good for nothing. So, you need people who can express the organisation and its offerings. It applies on you as a person as well; to achieve your dreams you need to be good at expressing yourself because just having talent (hard skills) is not getting you anywhere.

The question is, why most of us are not able to express our thoughts? Why do we get timid in front of people? Why we just cannot be the person, we have always wanted to be? What is the crux of our poor soft skills?

Crux of poor soft skills

Cause and effect theory: Everything that we see around us is a 'result' or an 'effect' of someone's thought and that thought is the governing cause of that particular effect, e.g. a building that

you see on the roadside is an effect of an architect's thought, the education that you pursue is an effect of the inspiration (cause) you had as a teenager, so much so that even your smallest choices say your facial beard is an effect of a thought that you got by looking at someone or even your own idea. The question is, your poor soft skills are also an effect, but what is the cause?

It is our self-image, the picture we have of ourselves in our mind. Deep down we have this fear of what people will think of us, or we have an inferiority complex from our early days because of any bad incident, or the way we have been told about how we look or speak, or any negative attribute we feel to have when we think of ourselves.

What happens next is that through these experiences, our mind creates a picture of ourselves, our beliefs are established, our thoughts are driven, and ultimately our body responds, i.e. to take action. The stronger the image, the deeper the belief is, and the actions become more spontaneous in your everyday life. So, for e.g. if you were afraid of getting corporal punishment at school or there was one instance when you had to speak in front of people and they laughed, you felt the emotions of embarrassment and your mind created a picture of you as 'somebody who can't speak' and tried to protect you from the situation and it ended up developing an action to protect you and that is to avoid speaking in public to save you from humiliation. Thereon, every time you have to face a situation involving people, you are physically there but mentally you are trying to run away. Your mind is convincing you to repeat that action and you get questions in mind like I am not good enough or I don't look good, etc. and this is where you panic and your voice stutters and your feet go cold. It's the soft game your mind is playing with you.

Your lack of soft skills or inability to express, as explained above, is nothing but an Effect and like for every Effect there is a Cause and the cause is the picture you hold of yourself in your mind. You have to change the picture in your mind to get your soft skills right. The question is how?

How to fix your soft skills

- **Self-Reflection:** You need to reflect upon how you feel, how you interact in a certain situation during the day. Writing and meditation help you to analyse better with the latter being a tool to slow down your thought process.
- **Visualisation:** You need to visualise how you want to actually speak or behave when you are with people. You need to develop thoughts on it, so that your mind can find out actions to react in that way.
- **Practice:** You need to practice a lot on your soft game (i.e. your thought process) with self-reflection and visualisation.

Working on your soft skills through presentation-training sessions help you to become better at delivering crammed speeches, similarly, you need to work on your mind as well because it is not the soft skills, it's the soft game, which is stopping you from success.

IMPORTANCE OF **SOFT SKILLS** IN CAREER DEVELOPMENT

As chartered accountants advance in their finance career, the type of person they are and the personal qualities they possess – their soft skills – will matter as much as their technical knowledge. As their finance qualification and technical expertise build the foundations on which they frame their future. But if they want to improve their chances of long-term career success, they must complement these with some softer skills.



The best finance professionals are well-rounded individuals, and well-rounded means the way to present oneself each day, to interact with colleagues, to handle a discussion, to deal with problems, and to manage one's time, all contribute to one's success as an accountant. Soft skills are an essential part of an accountant's armoury. So they need to balance their hard technical skills with communication, interpersonal and organisational skills, and they should be able to work as part of a team, reason and negotiate, and explain their decisions and reasoning using non-technical language.

All of these skills and more are important in business too. Chartered Accountants need to work with people from different disciplines on a daily basis and they must

be able to communicate equally well with all of them whether they are doing this in writing or face-to-face. This means choosing their language carefully, particularly when they are trying to communicate with non-finance people.

The role of finance is evolving and the traditional image of the chartered accountant buried in a spreadsheet is changing. In practice, business and even the non-profit sector, they



relating to people, and adapting to and coping with one's immediate surroundings, which measures one's emotional intelligence quotient (EQ).

Emotional intelligence is about being able to read other people's signals and react appropriately to them, and, as individuals, an accountant's success and the success of the profession depends on his/her ability to do this. Emotional intelligence and self-awareness can be invaluable ingredients in an accountant's finance career, whether they are working in business, practice or the non-profit sector, so understanding and developing their EQ is a worthwhile pursuit. The emotionally intelligent accountant is best placed to be successful in client and corporate relationships and the one most likely to achieve their personal and professional goals.

will increasingly be expected to demonstrate commercial awareness, seeing finance in the wider business context. The finance function now is very customer-facing, and needs to take a collaborative approach.

The finance team has to focus on its place in the business. Because of the economic crisis, this can mean being more empathetic with customers. Recent studies showed that chief financial officers (CFOs) rated communication and interpersonal skills more than technical competence in their finance teams. Chartered Accountants need to be able to explain the meaning behind the numbers and this requires a broad skill set.

Knowing the difference between an asset and an expense, and being able to learn and apply accounting standards, may have helped get chartered accountants through their exams, but don't expect to get ahead based just on their grasp of theory. Over and above academic excellence, organisations look for qualities like good character, professionalism, ethics, leadership and teamwork skills in potential candidates. They need people who are technically competent, but who have the courage, integrity and emotional intelligence to engage with clients.

The Value of Incorporating Emotional Intelligence

Courage and integrity are fairly self-explanatory; the concept of emotional intelligence can be more difficult to grasp, but understanding it is one of the keys to identifying and developing the soft skills that are valued by so many employers and potential employers. Emotional intelligence is the understanding of one's self and others,

The emotionally intelligent accountant is best placed to be successful in client and corporate relationships and the one most likely to achieve their personal and professional goals.

Identify your Soft Skills

Soft skills bring together a broad range of personal qualities, but they can be easy to understand if categorised into two that focus (1) on oneself and the way one can manage his/her own feelings and emotions, and (2) on the way one manages his/her interaction with other people:

1. **Focus inside:** Consider skills such as self-awareness, self-confidence and self-control, adaptability, determination, resilience, along with the ability to control emotions, manage stress, and so on.
2. **Focus outside:** Consider skills such as communication, teamwork, how well one relates to others, deal with difficult people, get buy-in for one ideas, respond to negative feedback, and so on.

Personality Analysis

Changing oneself takes time and it is not easy, and improving one's soft skills is no exception. The following suggestions should help:

- **Don't take on too much:** Focus on one soft skill at a time and once made progress, move on to the other.
- **Get to know yourself:** Understanding oneself is the most important factor, i.e. what makes you angry or insecure is the first step towards managing it.
- **Walk a mile in their shoes:** Appreciate other people's perspectives and priorities, it is one of the keys to motivation and negotiation.
- **Involve other people:** Get friends and colleagues to help in identifying and developing the soft skills one needs to improve.
- **Keep trying:** Get into the habit of practicing the soft skills at work, and elsewhere, until they become part of who you are.



CAN SOFT SKILLS BE TAUGHT?

We need to define terms, first. Wikipedia says,

“Soft skills is a term often associated with a person’s Emotional Intelligence Quotient (EQ), the cluster of personality traits, social graces, communication, language, personal habits, friendliness, managing people, leadership, etc. that characterise relationships with other people. Soft skills contrast to hard skills, which are generally easily quantifiable and measurable (e.g. software knowledge, basic plumbing skills).

A person’s soft skill EQ is an important part of their individual contribution to the success of an organisation. Particularly those organisations dealing with customers face-to-face are generally more successful, if they train their staff to use these skills. Screening or training for personal habits or traits such as dependability and conscientiousness can yield significant return on investment for an organisation. For this reason, soft skills are increasingly sought out by employers in addition to standard qualifications.”

Soft skills contrast to hard skills, which are generally easily quantifiable and measurable.

Communication isn’t a soft skill. Rather the process of one person conveying information of some sort to the other. The point is that a more emotionally intelligent person, all other things being equal, will communicate more effectively with other people than will a less emotionally intelligent person. As Frank Zappa said: “Just because somebody hears something you say, or reads something that you write, doesn’t mean you’ve reached them.”

In other words, communication skills are necessary, but not sufficient. You need emotional intelligence to “reach” the other person. And, indeed, emotional intelligence is required to receive communication effectively, too.

Language isn’t a soft skill either. It’s a tool with which one communicates.

So, What are Soft Skills?

These are skills that characterise the relationships among people or a person’s particular approach to life and work. They are also referred to as ‘interpersonal skills,’ ‘social skills,’ ‘transferable skills,’ or ‘people skills.’

The following are examples of soft skills:

- Anger management
- Creativity
- Problem-solving and time management
- Ability to work under pressure
- Leadership/teamwork
- Commitment
- Personal presentation

Research shows that people-oriented skills are ultimately important in determining the levels of success of any given business.

Why Train for Soft Skills?

Soft skills can be either personal characteristics or skills that have been fine-tuned over a period of time. Here are some of the areas that soft skills training will impact on employees:

Interaction, Conflict Resolution and Emotional Intelligence

Employees who are trained to be skilled communicators listen and understand instructions, get along with co-workers, and lay their point across with less aggressiveness. In addition, they can alter their style of communication to suit the situation at hand.

Motivation

Employees who are trained to be dependable, reliable, enthusiastic, enjoying hard work are committed and need very little motivation to do their best and get the job done.

Flexibility and Adaptability

We live in rapidly changing times, so if an employee is adaptable and flexible, they'll be able to change with the times. It is a great asset if one's employee is able to step outside of their comfort zone.

Time Management

Employees will be able to manage their time well, prioritise on the most important tasks, and later decide on which actions will produce the maximum output with the minimum effort.

Self-Awareness

Personal presentation training makes employee be self-aware and understandable to the effect of their appearance and behaviour could have on others and ultimately to the business.

Personal Accountability and Mentoring

With this, employees could lead by example, constantly looking to improve, motivate themselves, and know when to follow instructions and when to show initiative. In addition, they'll be able to stay positive at work even when things get a bit challenging, use their initiative to help others, own up to situations if something goes wrong, learn from mistakes, and be able to accept change owing to positive criticisms.

Self-Esteem

With soft skills, employees will be able to believe in themselves. This will, in turn, help employees work with people better, take on difficult new tasks, and generally achieve all the things they need to do to master soft skills.

Skills are the only things you can teach

Imagine one needs to learn how to use WordPress to create a website. One can go on a course. The trainer/teacher will teach how to do it. Using WordPress is a set of behaviours and, whether or not one gets to practise on the course and ought to be able to do it better afterwards. We can be taught skills, whether it is how to use WordPress or drive a car. If the training course includes some practice one can learn a lot more efficiently. We all know this. We can also "teach" people facts, though, whether there is any point in this, is debateable. It's very easy to forget a fact if one does not have the need for them or a context in which to place them.

We can't teach people how to have an awareness of someone else's emotional state. Even if they can identify the tiny, and not so tiny, behavioural cues, that is not awareness. It's information gathering. We also can't teach people to be empathic, for example, and they will need this characteristic if they are to have any awareness of others' emotional states.

In a nutshell, therefore, you can't line up some students in class and "teach" them a bunch of "soft skills." And, if we try, they won't have "learnt" it by the end of the process.

Soft skills can be either personal characteristics or skills that have been fine-tuned over a period of time.

You can't teach "soft skills" because they aren't skills, and the only things you can teach are skills.

So, what's to be done?

Just because you can't teach people this stuff, doesn't mean they can't learn it. They just need a (radically) different sort of intervention. What is needed is a facilitation process which is able to help people "get it." They have to get the insight.

Equipping employees with soft skills is one unique way and selling point that will give the business a competitive edge in the market. Research shows that people-oriented skills are ultimately important in determining the levels of success of any given business.

Job-related expertise is paramount in any profession regardless of the advancement in technology. Therefore, an employer needs to make sure that its employees have more than the basic requirements of their position and standard background knowledge regardless of the niche of the business and the size of staff.

Sources:

<http://www.emotionalintelligenceatwork.com/resources/cant-teach-soft-skills/>
<http://info.tyboyd.com/blog/is-soft-skills-training-really-necessary>

SOFT SKILLS FOR ACCOUNTING AND FINANCE

As the use of technology in accounting increases and compliance is outsourced, firms are looking to focus more on offering advisory services to their clients. The role of an accountant has changed from someone who traditionally had little business interaction with their clients to more of an advisory role. In order to be successful, one needs to be technically able but also possess the necessary soft skills to assist their clients with their needs.

Accountancy firms are putting more emphasis on soft skills than ever before. When speaking with partners and HR about their recruitment needs and the reasons for not finding a suitable candidate, a common response is that the candidates presented are technically able but lack the softer skills required.

Recent studies showed that most significant challenge in recruiting chartered accountants was finding applicants with the necessary soft skills beyond technical training. Skills have moved on and there's a greater requirement for social competency for chartered accountants, to differentiate themselves from other professionals. Despite the gravitas it offers, the Chartered Accountant (CA) qualification is often a stepping stone to more complex management roles.

It is almost given that qualified candidates at a senior level should be technically proficient. What will often be the difference between candidates is the level of their softer skills.

Part of the reason for this is the difficulty in identifying these skills as in most cases, they will differ depending on the role/business. It can be difficult to articulate what these non-technical skills are. Some skills are listed below:

- Communication skills – the capacity to listen to what's being said and convey what you're trying to get across.
- Simplify technical terms – the ability to express technical concepts in a user-friendly way, especially to a non-finance audience.
- Management skills – the ability or capacity to manage a team as a line manager, but also to manage relationships with individuals and teams outside the finance function.

- Influencing skills – the ability to negotiate with people and build relationships through positive and open communication.
- Problem solving – the ability to think laterally and find solutions which address a business issue.

With the changing accounting landscape, greater importance will be placed on these skills. While not necessarily being taught in the class room, staff will learn these skills on the job if given the chance. Giving staff responsibility in a 'safe-to-fail' environment will help teach them, allowing them to improve on areas that are perceived as weaknesses.

Recent studies showed that most significant challenge in recruiting chartered accountants was finding applicants with the necessary soft skills beyond technical training.

It can be tempting to cut non-technical training, especially for staff at a junior level who might not have a client facing role. It is therefore critical that firms understand the importance of developing their greatest resource – their people.

Chartered Accountants are working in a service industry and their clients expect them to be well-rounded business advisors, so these soft skills help them to communicate effectively with their clients and to build long lasting relationships.

Soft Skills and Introverts: Setting the Misconceptions Straight

It is not often we get to read the words "introvert" and "leader" in the same stretch. After all, the common perception is that extroverts make great public speakers and are excellent networkers. Introverted people are found across array of occupations, making generous contributions in nearly every field of human endeavour. And they also possess firm qualities that make them a valued addition to any workplace. Regardless of what many believe, introverts are not shy, weird nerds.

Introverts don't follow trends, but pursue their passions very intensely. That's a classic recipe for success.

It's difficult to make general overview about all introverted people. But some studies indicate there are some traits they frequently share in the workplace. Here are eight reasons to consider adding a few introverts to your team asap.

1. Only Deliver Information they consider to be of Value

Many people are not comfortable with silence, and choose to fill the space with any kind of thought that comes to the mind. Introverts see this as a waste of everyone's time, mainly their own. When they speak up, people should listen, because they only communicate information they deem important and useful.

2. Sincere

They see no need for fake social chitchats, since they perceive it as a waste of time. This can come across as rude to some, but it's mainly because introverts respect

— and expect — morality from everyone. So if you want the truth, no matter how unforgiving, seek an introvert.

3. They are Unique Individuals

Were Audrey Hepburn or Albert Einstein nerds? These terms seem absolutely berserk when tied to the names of such wildly successful and historical figures, but both were introverts. They don't follow trends, but pursue their passions very intensely. That's a classic recipe for success.

4. Office Politics

Because they put such a premium on honesty and sincerity, mind games like office politics are lost on introverts. Instead, introverts prefer to rely on a solid work product to get ahead. That's a plus when one values transparency and efficiency in the workplace.

5. Introverts are Dependable

There's a famous misconception that introverts hate everyone, but that's simply not the case. They slowly build their inner circle into a carefully selected connection with whom they deeply trust. To those few, they are extremely loyal. So if you have an introvert on your team and they're happy where they are, they will work as hard as they can to contribute to the company's success.

6. They are Independent

When you hire an introvert, no hand-holding is needed. They much prefer to learn their tasks and then get to work on their own, creating structure and routines. They prefer quiet time for concentration and to let their thoughts and intellect guide them. If you're looking for a self-starter to

join your team, look no further than an introvert.

7. Being Prudent

Unlike their extroverted counterparts who are more sensitive to a reward, which explains why extroverts are more pre-disposed to risk-taking, introverts take a cautious approach to chance. This is why we hear extroverts say things such as, "Let's just do it!" whereas introverts prefer to ask, "Are we sure this is the right thing to do?"

Because they put such a premium on honesty and sincerity, mind games like office politics are lost on introverts.

8. They Learn by Listening.

Rather than the flashy chit-chat that defines social gatherings, introverts listen intently to what others say and internalise it before they speak. They're not thinking about what to say while the other person is still talking, but rather listening so they can learn what to say. Along the same lines, introverts share a common love of learning; they are intrinsically motivated and therefore seek content regardless of achieving an external standard. How's that for a performance standard?

The myth that introverts are less effective leaders than their extroverted brethren is just that. Introverts and quiet employees work differently, leveraging your personality strengths to lead your business no matter what side of the spectrum you fall on.

Sources:
www.wisebread.com
www.entrepreneur.com

ICAP TOP 100 COMPANIES OF PAKISTAN



The concept of **ICAP Top 100 Companies of Pakistan**, a first of its kind and an exciting initiative, was first floated a year back, in a Publication Committee meeting, by the committee chairman Yacoob Suttar. After several meetings and discussions, a format was finally developed. And now ICAP presents with pride, a special report **ICAP Top 100 Companies of Pakistan** list, to give recognition to high performing companies of the country.

The list is based on the data of listed companies available at Pakistan Stock Exchange (PSX) website, reporting highest revenue for the year 2016 ranked with highest on the top (Annexure-I). Another list (Annexure-II) provides these companies with highest profit on the top and so on. Other information included are total assets, equity and ratios to the total revenue in order to provide users a quick look at the performance of these companies. In the end a sector-wise Index has been added (Annexure-III) for quick reference.

Being a national accounting body, ICAP understands that the business and economic environments are changing at a very fast pace not only within country but also internationally and embraces new and emerging realities through its various initiatives including introduction of Corporate Governance in collaboration with the regulators and business community.

To encourage and give recognition to excellence in corporate reporting, ICAP has been organising 'Best Corporate and Sustainability Report Awards' competition since 2000, jointly with the Institute of Cost and Management Accountants of Pakistan. The aim is to promote corporate accountability and transparency in the country.

And now another major initiative by ICAP, **ICAP Top 100 Companies of Pakistan**, which will be a benchmark of business success and represent the growth of the country's corporate sector.

ICAP Top 100 Companies - Revenue-wise Ranking

RANK 2016	SECTOR- WISE RANKING	NAME OF COMPANY (Revenue-wise Ranking)	REVENUE		PROFIT		TOTAL ASSETS		EQUITY		PROFIT % TO		
			Rs.in ML.	% change from 2015	Rs.in ML.	RANK	Rs.in ML.	RANK	Rs.in ML.	RANK	REVENUE	ASSETS	EQUITY
1	E - 1	Pakistan State Oil Company Limited	677,967	(25.75)	10,273	16	342,319	15	91,581	7	1.52	3.00	11.22
2	E - 2	Sui Northern Gas Pipelines Limited	250,647	17.94	124	96	251,714	19	3,697	94	0.05	0.05	3.35
3	E - 3	Shell Pakistan Limited	167,642	(32.56)	6,765	27	42,510	46	11,110	62	4.04	15.91	60.89
4	D - 1	Habib Bank Limited	163,294	(6.56)	31,820	3	2,393,783	1	159,262	3	19.49	1.33	19.98
5	E - 4	Oil & Gas Development Company Limited	162,867	(22.67)	59,971	2	589,566	10	478,633	1	36.82	10.17	12.53
6	D - 2	National Bank of Pakistan	144,369	(2.88)	22,752	5	1,975,706	2	120,015	4	15.76	1.15	18.96
7	D - 3	United Bank Limited	121,828	4.72	27,730	4	1,577,551	3	116,943	6	22.76	1.76	23.71
8	G - 1	Nestle Pakistan Limited	112,393	9.13	11,847	11	50,782	44	8,812	73	10.54	23.33	134.44
9	E - 5	Attock Petroleum Limited	109,234	(36.39)	3,829	41	30,525	56	14,317	50	3.50	12.54	26.74
10	A - 1	Indus Motor Company Limited	108,759	12.68	11,455	14	57,537	39	27,630	29	10.53	19.91	41.46
11	E - 6	Hascol Petroleum Limited	99,707	29.87	1,216	76	44,650	45	4,962	88	1.22	2.72	24.50
12	E - 7	National Refinery Limited	93,788	(36.82)	7,688	24	53,661	42	36,822	21	8.20	14.33	20.88
13	E - 8	The Hub Power Company Limited	86,415	(34.28)	11,576	13	134,006	25	27,579	30	13.40	8.64	41.97
14	D - 4	MCB Bank Limited	83,644	(14.34)	21,891	6	1,051,814	5	117,946	5	26.17	2.08	18.56
15	E - 9	Pakistan Petroleum Limited	80,151	(23.21)	17,242	7	272,462	17	192,649	2	21.51	6.33	8.95
16	E - 10	Byco Petroleum Pakistan Limited	79,434	(16.22)	1,367	70	55,894	40	1,834	98	1.72	2.45	74.55
17	A - 2	Pak Suzuki Motor Company Limited	76,516	(9.50)	2,773	50	37,852	48	26,217	31	3.62	7.32	10.58
18	D - 5	Allied Bank Limited	75,817	(7.40)	14,427	8	1,069,614	4	74,474	11	19.03	1.35	19.37
19	C - 1	Fauji Fertilizer Company Limited	72,877	(14.09)	11,782	12	90,709	31	27,724	28	16.17	12.99	42.50
20	G - 2	Pakistan Telecommunication Company Ltd.	71,420	(5.72)	6,835	26	180,109	23	83,013	9	9.57	3.79	8.23
21	C - 2	Engro Fertilizers Limited	69,519	(20.65)	9,025	20	102,428	28	41,283	18	12.98	8.81	21.86
22	E - 11	Attock Refinery Limited	66,565	(48.36)	816	84	75,619	35	22,378	34	1.23	1.08	3.65
23	D - 6	Bank Alfalah Limited	66,113	(5.96)	7,900	23	917,457	6	49,185	16	11.95	0.86	16.06
24	E - 12	Pakistan Refinery Limited	64,733	(29.00)	283	94	24,777	63	(1,330)	-	0.44	1.14	(21.30)
25	G - 3	Engro Corporation Limited	64,719	(64.88)	61,864	1	91,032	30	84,040	8	95.59	67.96	73.61
26	E - 13	Kot Addu Power Company Limited	64,178	(36.76)	9,071	19	92,210	29	30,955	24	14.13	9.84	29.30
27	A - 3	Atlas Honda Limited	55,022	20.21	3,002	45	20,369	73	11,002	63	5.46	14.74	27.28
28	D - 7	Bank AL Habib Limited	52,857	(3.55)	8,119	22	751,396	7	35,922	23	15.36	1.08	22.60
29	F - 1	Nishat Mills Limited	47,999	(6.21)	4,923	34	106,599	27	82,155	10	10.26	4.62	5.99
30	B - 1	Bestway Cement Limited	45,721	49.86	11,880	10	77,820	34	40,621	19	25.98	15.27	29.25
31	B - 2	Lucky Cement Limited	45,222	1.03	12,944	9	85,922	32	69,323	12	28.62	15.06	18.67
32	C - 3	Fauji Fertilizer Bin Qasim Limited	45,011	(13.74)	1,338	71	63,795	36	12,757	56	2.97	2.10	10.49
33	G - 4	Pakistan Tobacco Company Limited	44,867	4.57	10,361	15	25,397	61	12,977	55	23.09	40.80	79.85
34	G - 5	Engro Foods Limited	44,346	(13.08)	2,387	53	24,714	64	17,151	37	5.38	9.66	13.92
35	D - 8	Askari Bank Limited	42,619	(1.53)	5,221	33	619,139	9	25,357	32	12.25	0.84	20.59
36	D - 9	Habib Metropolitan Bank Limited	42,008	(8.74)	6,119	28	526,606	12	37,165	20	14.57	1.16	16.47
37	A - 4	Honda Atlas Cars (Pakistan) Limited	40,086	6.15	3,556	43	16,205	84	7,941	78	8.87	21.94	44.78
38	G - 6	JDW Sugar Mills Limited	37,287	14.16	2,034	58	34,146	50	8,321	77	5.45	5.96	24.44
39	D - 10	Meezan Bank Limited	37,227	(1.28)	5,562	31	657,767	8	28,149	27	14.94	0.85	19.76
40	C - 4	ICI Pakistan Limited	36,954	(1.50)	2,843	48	30,588	55	14,417	49	7.69	9.30	19.72
41	D - 11	Standard Chartered Bank (Pakistan) Limited	35,558	(11.18)	9,618	18	473,332	13	56,872	14	27.05	2.03	16.91
42	D - 12	The Bank of Punjab	34,969	11.84	4,858	36	545,214	11	24,248	33	13.89	0.89	20.04
43	C - 5	Lotte Chemical Pakistan Limited	34,785	2.72	324	92	17,538	80	10,275	68	0.93	1.85	3.15
44	F - 2	Ibrahim Fibres Limited	34,710	(6.88)	1,535	64	51,059	43	36,238	22	4.42	3.01	4.24
45	C - 6	Fatima Fertilizer Company Limited	33,765	13.56	9,782	17	110,597	26	47,374	17	28.97	8.84	20.65
46	D - 13	Faysal Bank Limited	32,969	(12.96)	4,302	38	444,465	14	29,142	26	13.05	0.97	14.76
47	F - 3	Gul Ahmed Textile Mills Limited	32,275	(3.24)	1,141	78	32,169	51	8,718	74	3.54	3.55	13.09
48	B - 3	D. G. Khan Cement Company Limited	29,704	13.79	8,790	21	83,418	33	65,783	13	29.59	10.54	13.36
49	G - 7	GlaxoSmithKline Pakistan Limited	27,564	15.71	2,762	51	21,165	69	13,543	53	10.02	13.05	20.40
50	C - 7	Colgate - Palmolive (Pakistan) Limited	25,818	6.20	2,819	49	13,707	90	10,670	65	10.92	20.56	26.42

Annexure-I

Special Report - ICAP Top 100 Companies of Pakistan

ICAP Top 100 Companies - Revenue-wise Ranking

RANK 2016	SECTOR- WISE RANKING	NAME OF COMPANY (Revenue-wise Ranking)	REVENUE		PROFIT		TOTAL ASSETS		EQUITY		PROFIT % TO		
			Rs.in Ml.	% change from 2015	Rs.in Ml.	RANK	Rs.in Ml.	RANK	Rs.in Ml.	RANK	REVENUE	ASSETS	EQUITY
51	F - 4	Nishat (Chunian) Limited	25,799	8.49	1,329	72	28,884	58	10,987	64	5.15	4.60	12.09
52	G - 8	Rafhan Maize Products Limited	25,061	1.80	3,879	40	16,425	83	13,034	54	15.48	23.62	29.77
53	E - 14	Pakistan Oilfields Limited	24,848	(19.54)	7,234	25	55,717	41	30,152	25	29.11	12.98	23.99
54	B - 4	Maple Leaf Cement Factory Limited	23,433	13.09	4,885	35	32,022	52	16,750	40	20.85	15.25	29.16
55	G - 9	Abbott Laboratories (Pakistan) Limited	23,388	10.48	4,022	39	17,645	79	14,593	48	17.20	22.79	27.56
56	F - 5	Masood Textile Mills Limited	23,183	(14.03)	729	88	22,730	67	6,824	80	3.15	3.21	10.69
57	F - 6	Sapphire Textile Mills Limited	23,111	(0.88)	1,448	66	31,801	53	14,904	46	6.27	4.55	9.72
58	C - 8	Engro Polymer & Chemicals Limited	22,854	2.65	655	89	24,461	65	5,968	84	2.87	2.68	10.97
59	E - 15	Mari Petroleum Company Limited	21,713	12.06	6,051	29	59,560	38	16,966	39	27.87	10.16	35.67
60	F - 7	Fazal Cloth Mills Limited	20,616	(18.90)	150	95	31,024	54	8,705	75	0.73	0.48	1.72
61	G - 10	Pak Elektron Limited	20,506	(12.20)	1,951	60	35,128	49	16,491	41	9.51	5.55	11.83
62	A - 5	International Steels Limited	20,499	14.28	1,179	77	20,984	71	6,168	82	5.75	5.62	19.11
63	D - 14	Soneri Bank Limited	20,261	(5.64)	1,879	62	278,521	16	15,945	42	9.27	0.67	11.78
64	B - 5	Fauji Cement Company Limited	20,044	7.52	5,367	32	29,358	57	18,428	36	26.78	18.28	29.13
65	D - 15	JS Bank Limited	19,942	7.12	2,077	57	264,700	18	15,427	43	10.41	0.78	13.46
66	F - 8	Feroze1888 Mills Limited	19,665	12.16	3,810	42	15,509	86	11,687	61	19.38	24.57	32.60
67	G - 11	Service Industries Limited	18,984	8.20	1,245	75	12,697	92	4,384	90	6.56	9.81	28.41
68	A - 6	Mughal Iron & Steel Industries Limited	18,983	55.08	893	83	11,780	93	4,235	92	4.71	7.58	21.09
69	G - 12	Tandlianwala Sugar Mills Limited	18,675	13.04	898	82	16,204	85	5,730	86	4.81	5.54	15.67
70	D - 16	NIB Bank Limited	18,277	(11.86)	1,420	68	243,945	20	18,483	35	7.77	0.58	7.68
71	F - 9	Indus Dyeing & Manufacturing Company Ltd.	18,104	(10.75)	92	97	16,782	81	9,418	69	0.51	0.55	0.98
72	A - 7	Hinopak Motors Limited	18,087	43.13	1,113	79	9,664	95	3,089	96	6.16	11.52	36.05
73	G - 13	Ismail Industries Limited	17,008	38.94	1,002	80	20,604	72	5,999	83	5.89	4.86	16.70
74	A - 8	Millat Tractors Limited	16,914	(26.26)	1,750	63	9,651	96	4,142	93	10.35	18.14	42.26
75	G - 14	Packages Limited	16,839	(10.00)	5,596	30	62,148	37	52,784	15	33.23	9.00	10.60
76	F - 10	Kohinoor Textile Mills Limited	16,088	1.42	2,132	56	19,156	76	9,160	71	13.25	11.13	23.28
77	E - 16	Pakgen Power Limited	16,044	145.96	517	91	25,119	62	15,034	45	3.22	2.06	3.44
78	E - 17	Lalpir Power Limited	15,366	(30.40)	995	81	23,818	66	12,619	57	6.47	4.18	7.88
79	G - 15	Thal Limited	15,266	(1.82)	2,179	55	13,686	91	12,228	59	14.27	15.92	17.82
80	G - 16	Bata Pakistan Limited	15,082	2.04	1,442	67	9,085	97	6,663	81	9.56	15.87	21.64
81	A - 9	International Industries Limited	14,821	(16.14)	786	85	13,977	89	5,202	87	5.30	5.62	15.11
82	D - 17	The Bank of Khyber	14,722	16.21	2,020	59	206,400	22	14,685	47	13.72	0.98	13.76
83	G - 17	Philip Morris (Pakistan) Limited	14,213	(1.41)	575	90	18,027	78	13,590	52	4.05	3.19	4.23
84	B - 6	Kohat Cement Company Limited	14,020	12.41	4,408	37	19,345	74	13,770	51	31.44	22.79	32.01
85	G - 18	Atlas Battery Limited	14,020	(12.17)	1,271	74	6,706	98	4,278	91	9.06	18.95	29.70
86	B - 7	Attock Cement Pakistan Limited	13,918	6.36	2,890	46	14,426	88	10,447	67	20.76	20.03	27.66
87	E - 18	Nishat Power Limited	13,896	(37.72)	2,851	47	21,075	70	12,251	58	20.52	13.53	23.27
88	E - 19	Nishat Chunian Power Limited	13,854	(38.63)	2,756	52	21,681	68	7,293	79	19.90	12.71	37.80
89	D - 18	Summit Bank Limited	13,754	(8.46)	(2,174)	-	215,022	21	10,560	66	(15.81)	(1.01)	(20.59)
90	F - 11	Mahmood Textile Mills Limited	13,664	(0.70)	(56)	-	10,696	94	4,466	89	(0.41)	(0.53)	(1.26)
91	G - 19	Century Paper & Board Mills Limited	13,389	1.54	322	93	14,981	87	5,851	85	2.41	2.15	5.51
92	G - 20	Adamjee Insurance Company Limited	13,302	(19.80)	3,493	44	38,580	47	17,001	38	26.26	9.05	20.55
93	G - 21	National Foods Limited	13,183	13.61	774	86	6,575	99	2,484	97	5.87	11.77	31.15
94	F - 12	Azgard Nine Limited	13,176	23.12	(814)	-	18,271	77	(4,526)	-	(6.18)	(4.46)	17.99
95	B - 8	Dewan Cement Limited	12,879	14.53	1,500	65	25,435	60	8,420	76	11.65	5.90	17.81
96	F - 13	Sapphire Fibres Limited	12,478	(6.51)	1,402	69	26,526	59	15,364	44	11.23	5.28	9.12
97	A - 10	Amreli Steels Limited	12,400	(13.97)	1,279	73	16,765	82	8,861	72	10.31	7.63	14.43
98	D - 19	Silkbank Limited	12,172	12.41	739	87	135,034	24	12,002	60	6.07	0.55	6.15
99	A - 11	Al-Ghazi Tractors Limited	12,099	25.56	1,927	61	4,644	100	3,359	95	15.93	41.49	57.36
100	E - 20	Saif Power Limited	11,946	(20.26)	2,312	54	19,234	75	9,216	70	19.36	12.02	25.09

ICAP Top 100 Companies - Profit-wise Ranking

RANK 2016	SECTOR-WISE RANKING	NAME OF COMPANY	PROFIT		REVENUE		TOTAL ASSETS		EQUITY		PROFIT % TO		
			Rs.in ML.	% change from 2015	Rs.in ML.	RANK	Rs.in ML.	RANK	Rs.in ML.	RANK	REVENUE	ASSETS	EQUITY
1	G - 3	Engro Corporation Limited	61,864	444.13	64,719	25	91,032	30	84,040	8	95.59	67.96	73.61
2	E - 4	Oil & Gas Development Company Limited	59,971	(31.26)	162,867	5	589,566	10	478,633	1	36.82	10.17	12.53
3	D - 1	Habib Bank Limited	31,820	(10.29)	163,294	4	2,393,783	1	159,262	3	19.49	1.33	19.98
4	D - 3	United Bank Limited	27,730	7.79	121,828	7	1,577,551	3	116,943	6	22.76	1.76	23.71
5	D - 2	National Bank of Pakistan	22,752	18.39	144,369	6	1,975,706	2	120,015	4	15.76	1.15	18.96
6	D - 4	MCB Bank Limited	21,891	(14.32)	83,644	14	1,051,814	5	117,946	5	26.17	2.08	18.56
7	E - 9	Pakistan Petroleum Limited	17,242	(49.66)	80,151	15	272,462	17	192,649	2	21.51	6.33	8.95
8	D - 5	Allied Bank Limited	14,427	(4.58)	75,817	18	1,069,614	4	74,474	11	19.03	1.35	19.37
9	B - 2	Lucky Cement Limited	12,944	4.12	45,222	31	85,922	32	69,323	12	28.62	15.06	18.67
10	B - 1	Bestway Cement Limited	11,880	37.06	45,721	30	77,820	34	40,621	19	25.98	15.27	29.25
11	G - 1	Nestle Pakistan Limited	11,847	35.23	112,393	8	50,782	44	8,812	73	10.54	23.33	134.44
12	C - 1	Fauji Fertilizer Company Limited	11,782	(29.73)	72,877	19	90,709	31	27,724	28	16.17	12.99	42.50
13	E - 8	The Hub Power Company Limited	11,576	17.48	86,415	13	134,006	25	27,579	30	13.40	8.64	41.97
14	A - 1	Indus Motor Company Limited	11,455	25.74	108,759	10	57,537	39	27,630	29	10.53	19.91	41.46
15	G - 4	Pakistan Tobacco Company Limited	10,361	47.04	44,867	33	25,397	61	12,977	55	23.09	40.80	79.85
16	E - 1	Pakistan State Oil Company Limited	10,273	48.11	677,967	1	342,319	15	91,581	7	1.52	3.00	11.22
17	C - 6	Fatima Fertilizer Company Limited	9,782	5.71	33,765	45	110,597	26	47,374	17	28.97	8.84	20.65
18	D - 11	Standard Chartered Bank (Pakistan) Limited	9,618	3.55	35,558	41	473,332	13	56,872	14	27.05	2.03	16.91
19	E - 13	Kot Addu Power Company Limited	9,071	(7.43)	64,178	26	92,210	29	30,955	24	14.13	9.84	29.30
20	C - 2	Engro Fertilizers Limited	9,025	(39.95)	69,519	21	102,428	28	41,283	18	12.98	8.81	21.86
21	B - 3	D. G. Khan Cement Company Limited	8,790	15.28	29,704	48	83,418	33	65,783	13	29.59	10.54	13.36
22	D - 7	Bank AL Habib Limited	8,119	9.65	52,857	28	751,396	7	35,922	23	15.36	1.08	22.60
23	D - 6	Bank Alfalah Limited	7,900	5.01	66,113	23	917,457	6	49,185	16	11.95	0.86	16.06
24	E - 7	National Refinery Limited	7,688	107.28	93,788	12	53,661	42	36,822	21	8.20	14.33	20.88
25	E - 14	Pakistan Oilfields Limited	7,234	(14.48)	24,848	53	55,717	41	30,152	25	29.11	12.98	23.99
26	G - 2	Pakistan Telecommunication Company Ltd.	6,835	(21.98)	71,420	20	180,109	23	83,013	9	9.57	3.79	8.23
27	E - 3	Shell Pakistan Limited	6,765	642.60	167,642	3	42,510	46	11,110	62	4.04	15.91	60.89
28	D - 9	Habib Metropolitan Bank Limited	6,119	(20.07)	42,008	36	526,606	12	37,165	20	14.57	1.16	16.47
29	E - 15	Mari Petroleum Company Limited	6,051	7.10	21,713	59	59,560	38	16,966	39	27.87	10.16	35.67
30	G - 14	Packages Limited	5,596	69.80	16,839	75	62,148	37	52,784	15	33.23	9.00	10.60
31	D - 10	Meezan Bank Limited	5,562	10.73	37,227	39	657,767	8	28,149	27	14.94	0.85	19.76
32	B - 5	Fauji Cement Company Limited	5,367	30.39	20,044	64	29,358	57	18,428	36	26.78	18.28	29.13
33	D - 8	Askari Bank Limited	5,221	3.51	42,619	35	619,139	9	25,357	32	12.25	0.84	20.59
34	F - 1	Nishat Mills Limited	4,923	25.85	47,999	29	106,599	27	82,155	10	10.26	4.62	5.99
35	B - 4	Maple Leaf Cement Factory Limited	4,885	41.41	23,433	54	32,022	52	16,750	40	20.85	15.25	29.16
36	D - 12	The Bank of Punjab	4,858	2.32	34,969	42	545,214	11	24,248	33	13.89	0.89	20.04
37	B - 6	Kohat Cement Company Limited	4,408	32.68	14,020	84	19,345	74	13,770	51	31.44	22.79	32.01
38	D - 13	Faysal Bank Limited	4,302	1.88	32,969	46	444,465	14	29,142	26	13.05	0.97	14.76
39	G - 9	Abbott Laboratories (Pakistan) Limited	4,022	12.13	23,388	55	17,645	79	14,593	48	17.20	22.79	27.56
40	G - 8	Rafhan Maize Products Limited	3,879	18.45	25,061	52	16,425	83	13,034	54	15.48	23.62	29.77
41	E - 5	Attock Petroleum Limited	3,829	16.50	109,234	9	30,525	56	14,317	50	3.50	12.54	26.74
42	F - 8	Feroze1888 Mills Limited	3,810	63.83	19,665	66	15,509	86	11,687	61	19.38	24.57	32.60
43	A - 4	Honda Atlas Cars (Pakistan) Limited	3,556	12.44	40,086	37	16,205	84	7,941	78	8.87	21.94	44.78
44	G - 20	Adamjee Insurance Company Limited	3,493	36.72	13,302	92	38,580	47	17,001	38	26.26	9.05	20.55
45	A - 3	Atlas Honda Limited	3,002	27.69	55,022	27	20,369	73	11,002	63	5.46	14.74	27.28
46	B - 7	Attock Cement Pakistan Limited	2,890	31.03	13,918	86	14,426	88	10,447	67	20.76	20.03	27.66
47	E - 18	Nishat Power Limited	2,851	(8.52)	13,896	87	21,075	70	12,251	58	20.52	13.53	23.27
48	C - 4	ICI Pakistan Limited	2,843	33.75	36,954	40	30,588	55	14,417	49	7.69	9.30	19.72
49	C - 7	Colgate - Palmolive (Pakistan) Limited	2,819	26.85	25,818	50	13,707	90	10,670	65	10.92	20.56	26.42
50	A - 2	Pak Suzuki Motor Company Limited	2,773	(52.55)	76,516	17	37,852	48	26,217	31	3.62	7.32	10.58

Annexure-II

Special Report - ICAP Top 100 Companies of Pakistan

ICAP Top 100 Companies - Profit-wise Ranking

RANK 2016	SECTOR- WISE RANKING	NAME OF COMPANY	PROFIT		REVENUE		TOTAL ASSETS		EQUITY		PROFIT % TO		
			Rs.in ML.	% change from 2015	Rs.in ML.	RANK	Rs.in ML.	RANK	Rs.in ML.	RANK	REVENUE	ASSETS	EQUITY
51	G - 7	GlaxoSmithKline Pakistan Limited	2,762	10.00	27,564	49	21,165	69	13,543	53	10.02	13.05	20.40
52	E - 19	Nishat Chunian Power Limited	2,756	(10.81)	13,854	88	21,681	68	7,293	79	19.90	12.71	37.80
53	G - 5	Engro Foods Limited	2,387	(24.53)	44,346	34	24,714	64	17,151	37	5.38	9.66	13.92
54	E - 20	Saif Power Limited	2,312	12.09	11,946	100	19,234	75	9,216	70	19.36	12.02	25.09
55	G - 15	Thal Limited	2,179	1.39	15,266	79	13,686	91	12,228	59	14.27	15.92	17.82
56	F - 10	Kohinoor Textile Mills Limited	2,132	2.17	16,088	76	19,156	76	9,160	71	13.25	11.13	23.28
57	D - 15	JS Bank Limited	2,077	2.52	19,942	65	264,700	18	15,427	43	10.41	0.78	13.46
58	G - 6	JDW Sugar Mills Limited	2,034	34.05	37,287	38	34,146	50	8,321	77	5.45	5.96	24.44
59	D - 17	The Bank of Khyber	2,020	12.93	14,722	82	206,400	22	14,685	47	13.72	0.98	13.76
60	G - 10	Pak Elektron Limited	1,951	16.68	20,506	61	35,128	49	16,491	41	9.51	5.55	11.83
61	A - 11	Al-Ghazi Tractors Limited	1,927	21.01	12,099	99	4,644	100	3,359	95	15.93	41.49	57.36
62	D - 14	Soneri Bank Limited	1,879	(15.09)	20,261	63	278,521	16	15,945	42	9.27	0.67	11.78
63	A - 8	Millat Tractors Limited	1,750	(26.53)	16,914	74	9,651	96	4,142	93	10.35	18.14	42.26
64	F - 2	Ibrahim Fibres Limited	1,535	91.24	34,710	44	51,059	43	36,238	22	4.42	3.01	4.24
65	B - 8	Dewan Cement Limited	1,500	111.36	12,879	95	25,435	60	8,420	76	11.65	5.90	17.81
66	F - 6	Sapphire Textile Mills Limited	1,448	40.04	23,111	57	31,801	53	14,904	46	6.27	4.55	9.72
67	G - 16	Bata Pakistan Limited	1,442	(0.24)	15,082	80	9,085	97	6,663	81	9.56	15.87	21.64
68	D - 16	NIB Bank Limited	1,420	(45.73)	18,277	70	243,945	20	18,483	35	7.77	0.58	7.68
69	F - 13	Sapphire Fibres Limited	1,402	40.76	12,478	96	26,526	59	15,364	44	11.23	5.28	9.12
70	E - 10	Byco Petroleum Pakistan Limited	1,367	1,791.50	79,434	16	55,894	40	1,834	98	1.72	2.45	74.55
71	C - 3	Fauji Fertilizer Bin Qasim Limited	1,338	(67.05)	45,011	32	63,795	36	12,757	56	2.97	2.10	10.49
72	F - 4	Nishat (Chunian) Limited	1,329	66.01	25,799	51	28,884	58	10,987	64	5.15	4.60	12.09
73	A - 10	Amreli Steels Limited	1,279	26.48	12,400	97	16,765	82	8,861	72	10.31	7.63	14.43
74	G - 18	Atlas Battery Limited	1,271	25.34	14,020	85	6,706	98	4,278	91	9.06	18.95	29.70
75	G - 11	Service Industries Limited	1,245	31.66	18,984	67	12,697	92	4,384	90	6.56	9.81	28.41
76	E - 6	Hascol Petroleum Limited	1,216	7.29	99,707	11	44,650	45	4,962	88	1.22	2.72	24.50
77	A - 5	International Steels Limited	1,179	484.28	20,499	62	20,984	71	6,168	82	5.75	5.62	19.11
78	F - 3	Gul Ahmed Textile Mills Limited	1,141	88.68	32,275	47	32,169	51	8,718	74	3.54	3.55	13.09
79	A - 7	Hinopak Motors Limited	1,113	3.74	18,087	72	9,664	95	3,089	96	6.16	11.52	36.05
80	G - 13	Ismail Industries Limited	1,002	56.65	17,008	73	20,604	72	5,999	83	5.89	4.86	16.70
81	E - 17	Lalpir Power Limited	995	17.02	15,366	78	23,818	66	12,619	57	6.47	4.18	7.88
82	G - 12	Tandlianwala Sugar Mills Limited	898	51.78	18,675	69	16,204	85	5,730	86	4.81	5.54	15.67
83	A - 6	Mughal Iron & Steel Industries Limited	893	23.85	18,983	68	11,780	93	4,235	92	4.71	7.58	21.09
84	E - 11	Attock Refinery Limited	816	(55.00)	66,565	22	75,619	35	22,378	34	1.23	1.08	3.65
85	A - 9	International Industries Limited	786	7.59	14,821	81	13,977	89	5,202	87	5.30	5.62	15.11
86	G - 21	National Foods Limited	774	(22.13)	13,183	93	6,575	99	2,484	97	5.87	11.77	31.15
87	D - 19	Silkbank Limited	739	143.15	12,172	98	135,034	24	12,002	60	6.07	0.55	6.15
88	F - 5	Masood Textile Mills Limited	729	(3.30)	23,183	56	22,730	67	6,824	80	3.15	3.21	10.69
89	C - 8	Engro Polymer & Chemicals Limited	655	200.91	22,854	58	24,461	65	5,968	84	2.87	2.68	10.97
90	G - 17	Philip Morris (Pakistan) Limited	575	143.74	14,213	83	18,027	78	13,590	52	4.05	3.19	4.23
91	E - 16	Pakgen Power Limited	517	(67.65)	16,044	77	25,119	62	15,034	45	3.22	2.06	3.44
92	C - 5	Lotte Chemical Pakistan Limited	324	143.31	34,785	43	17,538	80	10,275	68	0.93	1.85	3.15
93	G - 19	Century Paper & Board Mills Limited	322	256.96	13,389	91	14,981	87	5,851	85	2.41	2.15	5.51
94	E - 12	Pakistan Refinery Limited	283	123.98	64,733	24	24,777	63	(1,330)	-	0.44	1.14	(21.30)
95	F - 7	Fazal Cloth Mills Limited	150	(70.70)	20,616	60	31,024	54	8,705	75	0.73	0.48	1.72
96	E - 2	Sui Northern Gas Pipelines Limited	124	104.97	250,647	2	251,714	19	3,697	94	0.05	0.05	3.35
97	F - 9	Indus Dyeing & Manufacturing Company Ltd.	92	(66.76)	18,104	71	16,782	81	9,418	69	0.51	0.55	0.98
-	D - 18	Summit Bank Limited	(2,174)	(1,101)	13,754	89	215,022	21	10,560	66	(15.81)	(1.01)	(20.59)
-	F - 11	Mahmood Textile Mills Limited	(56)	(115.13)	13,664	90	10,696	94	4,466	89	(0.41)	(0.53)	(1.26)
-	F - 12	Azgard Nine Limited	(814)	72.25	13,176	94	18,271	77	(4,526)	-	(6.18)	(4.46)	17.99

ICAP Top **100** Companies - Sector-wise Ranking

REF.	SECTOR / COMPANY	RANKING			
		REVENUE	PROFIT	TOTAL ASSETS	EQUITY
A	AUTOMOBILE & ENGINEERING				
A - 1	Indus Motor Company Limited	10	14	39	29
A - 2	Pak Suzuki Motor Company Limited	17	50	48	31
A - 3	Atlas Honda Limited	27	45	73	63
A - 4	Honda Atlas Cars (Pakistan) Limited	37	43	84	78
A - 5	International Steels Limited	62	77	71	82
A - 6	Mughal Iron & Steel Industries Limited	68	83	93	92
A - 7	Hinopak Motors Limited	72	79	95	96
A - 8	Millat Tractors Limited	74	63	96	93
A - 9	International Industries Limited	81	85	89	87
A - 10	Amreli Steels Limited	97	73	82	72
A - 11	Al-Ghazi Tractors Limited	99	61	100	95
B	CEMENT				
B - 1	Bestway Cement Limited	30	10	34	19
B - 2	Lucky Cement Limited	31	9	32	12
B - 3	D. G. Khan Cement Company Limited	48	21	33	13
B - 4	Maple Leaf Cement Factory Limited	54	35	52	40
B - 5	Fauji Cement Company Limited	64	32	57	36
B - 6	Kohat Cement Company Limited	84	37	74	51
B - 7	Attock Cement Pakistan Limited	86	46	88	67
B - 8	Dewan Cement Limited	95	65	60	76
C	CHEMICAL & FERTILIZER				
C - 1	Fauji Fertilizer Company Limited	19	12	31	28
C - 2	Engro Fertilizers Limited	21	20	28	18
C - 3	Fauji Fertilizer Bin Qasim Limited	32	71	36	56
C - 4	ICI Pakistan Limited	40	48	55	49
C - 5	Lotte Chemical Pakistan Limited	43	92	80	68
C - 6	Fatima Fertilizer Company Limited	45	17	26	17
C - 7	Colgate - Palmolive (Pakistan) Limited	50	49	90	65
C - 8	Engro Polymer & Chemicals Limited	58	89	65	84
D	COMMERCIAL BANKS				
D - 1	Habib Bank Limited	4	3	1	3
D - 2	National Bank of Pakistan	6	5	2	4
D - 3	United Bank Limited	7	4	3	6
D - 4	MCB Bank Limited	14	6	5	5

ICAP Top **100** Companies - Sector-wise Ranking

REF.	SECTOR / COMPANY	RANKING			
		REVENUE	PROFIT	TOTAL ASSETS	EQUITY
D - 5	Allied Bank Limited	18	8	4	11
D - 6	Bank Alfalah Limited	23	23	6	16
D - 7	Bank AL Habib Limited	28	22	7	23
D - 8	Askari Bank Limited	35	33	9	32
D - 9	Habib Metropolitan Bank Limited	36	28	12	20
D - 10	Meezan Bank Limited	39	31	8	27
D - 11	Standard Chartered Bank (Pakistan) Ltd.	41	18	13	14
D - 12	The Bank of Punjab	42	36	11	33
D - 13	Faysal Bank Limited	46	38	14	26
D - 14	Soneri Bank Limited	63	62	16	42
D - 15	JS Bank Limited	65	57	18	43
D - 16	NIB Bank Limited	70	68	20	35
D - 17	The Bank of Khyber	82	59	22	47
D - 18	Summit Bank Limited	89	NA	21	66
D - 19	Silkbank Limited	98	87	24	60
E	FUEL & ENERGY				
E - 1	Pakistan State Oil Company Limited	1	16	15	7
E - 2	Sui Northern Gas Pipelines Limited	2	96	19	94
E - 3	Shell Pakistan Limited	3	27	46	62
E - 4	Oil & Gas Development Company Limited	5	2	10	1
E - 5	Attock Petroleum Limited	9	41	56	50
E - 6	Hascol Petroleum Limited	11	76	45	88
E - 7	National Refinery Limited	12	24	42	21
E - 8	The Hub Power Company Limited	13	13	25	30
E - 9	Pakistan Petroleum Limited	15	7	17	2
E - 10	Byco Petroleum Pakistan Limited	16	70	40	98
E - 11	Attock Refinery Limited	22	84	35	34
E - 12	Pakistan Refinery Limited	24	94	63	NA
E - 13	Kot Addu Power Company Limited	26	19	29	24
E - 14	Pakistan Oilfields Limited	53	25	41	25
E - 15	Mari Petroleum Company Limited	59	29	38	39
E - 16	Pakgen Power Limited	77	91	62	45
E - 17	Lalpir Power Limited	78	81	66	57
E - 18	Nishat Power Limited	87	47	70	58
E - 19	Nishat Chunian Power Limited	88	52	68	79
E - 20	Saif Power Limited	100	54	75	70

ICAP Top **100** Companies - Sector-wise Ranking

REF.	SECTOR / COMPANY	RANKING			
		REVENUE	PROFIT	TOTAL ASSETS	EQUITY
F	TEXTILE				
F - 1	Nishat Mills Limited	29	34	27	10
F - 2	Ibrahim Fibres Limited	44	64	43	22
F - 3	Gul Ahmed Textile Mills Limited	47	78	51	74
F - 4	Nishat (Chunian) Limited	51	72	58	64
F - 5	Masood Textile Mills Limited	56	88	67	80
F - 6	Sapphire Textile Mills Limited	57	66	53	46
F - 7	Fazal Cloth Mills Limited	60	95	54	75
F - 8	Feroze1888 Mills Limited	66	42	86	61
F - 9	Indus Dyeing & Manufacturing Company Limited	71	97	81	69
F - 10	Kohinoor Textile Mills Limited	76	56	76	71
F - 11	Mahmood Textile Mills Limited	90	NA	94	89
F - 12	Azgard Nine Limited	94	NA	77	NA
F - 13	Sapphire Fibres Limited	96	69	59	44
G	MISCELLANEOUS				
G - 1	Nestle Pakistan Limited	8	11	44	73
G - 2	Pakistan Telecommunication Company Ltd.	20	26	23	9
G - 3	Engro Corporation Limited	25	1	30	8
G - 4	Pakistan Tobacco Company Limited	33	15	61	55
G - 5	Engro Foods Limited	34	53	64	37
G - 6	JDW Sugar Mills Limited	38	58	50	77
G - 7	GlaxoSmithKline Pakistan Limited	49	51	69	53
G - 8	Rafhan Maize Products Limited	52	40	83	54
G - 9	Abbott Laboratories (Pakistan) Limited	55	39	79	48
G - 10	Pak Elektron Limited	61	60	49	41
G - 11	Service Industries Limited	67	75	92	90
G - 12	Tandlianwala Sugar Mills Limited	69	82	85	86
G - 13	Ismail Industries Limited	73	80	72	83
G - 14	Packages Limited	75	30	37	15
G - 15	Thal Limited	79	55	91	59
G - 16	Bata Pakistan Limited	80	67	97	81
G - 17	Philip Morris (Pakistan) Limited	83	90	78	52
G - 18	Atlas Battery Limited	85	74	98	91
G - 19	Century Paper & Board Mills Limited	91	93	87	85
G - 20	Adamjee Insurance Company Limited	92	44	47	38
G - 21	National Foods Limited	93	86	99	97

General Indicators for Economy

by Musaddiq Kamal



Industries play the backbone role in any country. It serves the general public as well as government. For public, it is a source of income and employment and for government, it is a source of revenue in the form of taxes, duties, fee and foreign exchange reserves.

Healthy industrial sectors are the symbol of a strong economy. We can understand it in a better way as, healthy industrial sectors \propto (directly proportion to) stable economy, weak industrial sectors \propto (directly proportion to) de-stable economy. Now the point arises, how the health of industries are measured or what are the factors affecting the economy.

Out of so many factors, only a few major indicators, their long term (three months or above) real changes and impact of these real changes on the economy are briefly discussed here. Day to day short term changes are temporary and represent only adjustments to the indicators.

- Currency exchange rate
- Primary markets and secondary markets
- Political, Economic, Social, Technological, Environmental and Legal (PESTEL) factors
- Real estate

Currency Exchange Rate: When goods and services are bought from another country, their value should be paid in that other country's currency. First buy foreign currency then buy foreign goods and services. So, local currency and foreign currency should be convertible at same exchange rate. That exchange rate is calculated in the following way:

Local currency issued by the State Central Bank = Foreign currency price in terms of local currency

Foreign Currency Reserves with the Local Banks

The above mentioned formula shows the value of 1 unit of foreign currency in terms of local currency.

Impact on Economy: Increase in foreign currency reserves makes the currency exchange rate lower, it means, local currency is getting stronger against foreign currency. More

foreign currency reserves means more investments, exports > imports which improve employment and income rate. One can buy foreign currency by paying less in a local currency and imports become cheaper. There will be more healthy competition in local markets because of more supply of cheaper imports which may help in the development of local industry as well. On the other hand, decrease in foreign currency reserves makes the currency exchange rate higher. It means, local currency is getting weaker against foreign currency. It is an indicator of shortage of foreign currency in the country which may result as a consequence of imports > exports or foreign investors taking back their investments or local investors moving their capital abroad in the form of foreign currency or more local currency has been issued by the central bank. Higher currency exchange rate brings inflation which is not healthy for the economy.

Determinants of Currency Exchange Rate

Inflation Rate: Inflation is rise in prices for goods and services. There are two

main reasons of increase in price for this. First, when demand > supply for goods and services. There are so many reasons for this situation. Second, when import prices go up as a result of unfavourable exchange rate then local suppliers may take unfair advantage of this situation and raise the prices of local brands of the same goods and services to a certain level. Higher inflation rate makes the buying power weaker. Foreign currency reserves start reducing in those countries where rate of inflation is higher and makes currency exchange rate higher. While the countries where inflation rate is lower or constant, it makes the buying power stronger, stabilises the foreign currency reserves and makes currency exchange rate stable.

Interest Rate: Interest rate is the tool used by the central bank of the country to control the inflation and growth (output, employment and investments) of the country. When the interest rate rises, it invites more foreign currency in the country, as the foreign investors earn higher returns on their investments, and controls inflation as the demand for goods and services falls because of the higher returns on investments. In times of higher interest rates, currency exchange rate goes lower in terms of local currency. On the other hand, when interest rate falls, it doesn't attract foreign investors and currency exchange rate goes up.

Income Level: Rise in general income level stimulates more imports, which results in higher currency exchange rate. While, fall in general income level discourage imports and makes currency exchange rate lower (favourable in terms of local currency).

Exports & Imports: Exports always bring foreign currency in the country and make currency exchange rate lower while imports flow out the foreign currency and make the currency exchange rate higher.

Primary Markets & Secondary Markets

Primary markets are those markets where securities and instruments are directly issued by the issuer to the investor for capital financing purpose. Securities may be long or short term either debt or equity. Primary markets are investments banks, mutual funds,

investments funds, initial public offerings, etc. **Secondary markets** are those markets where securities or instruments are traded between investors and dealers/brokers in the exchange markets or dealer markets. Secondary markets are commodity exchange market, stock exchange market, brokerage/dealer markets including banks and investments companies, etc.

Impacts on Economy: Higher turnover in primary markets is a positive indication for the economy as financing activities are increased for business growth. More business growth means more investments, employments and income which in turn, leads to increasing demand for goods and services. On the other hand, lower turnover in primary markets is the indication of decline in business growth and this can adversely affect income and employment rate, new investments, outputs and overall growth. Now, about higher turnover in secondary market is an indicator of real business growth in the market. If more stock shares or debt securities are traded in the exchange market, they may assure higher revenues and business growth of that particular company or industry and vice versa. So, higher turnover in exchange and primary markets is surely positive indicators for rising economy.

PESTELS: PESTELS consist of Political, Economical, Social, Technological, Environmental and Legal factors. These PESTELS are inter-linked with each other as well as with currency exchange rates, primary and secondary markets and with real estate. When all these factors, or any one of them, become favourable in real sense, it's an indication of rising economy. On the other hand, if these factors or any one of them goes adverse, it badly hits the economy, business, investments, employment and income rate, demand, consumption, competition and output level. Below are these factors briefly discussed with possible real impacts on the economy.

- **Political Factors:** In the democratic system, the main objectives of political groups are serving the general public for their well-being, directing government with criticisms by identifying public issues and preparing people for important public causes. Political groups achieve their objectives by political activities which include public rallies, public addresses and processions, strikes and boycotts, sitting outs, stay outs, campaigns for serving public with bread, butter, clothes and shelter, cleaning and washing and building the city, town and villages, other facilities in public interest, etc. If these activities are done in public interest, they improve business, investments, employments, income, demand, consumption, output and competition. On the other hand, if these political activities are misused, they have a negative impact on business, investments, employments, growth, consumption and also on human lives as well. Sometimes, misuse of these political activities lead to riots, killings, destructions, gang wars, etc., which are without any doubt injurious to the health of the economy.

- **Economic Factors:** In simple terms, economic factors can be defined as general growth, business, investments, employments, income, consumption, demand, output and competition. Economical factors are inter-linked with the remaining PESTELS, currency exchange rate, real estate and also with each other. A rise in these factors makes the economy healthier while a fall in those factors makes the economy weaker.

- **Social Factors:** Social factors include traditions, cultures, traditional events, religion, patterns, occasions, modern styles, sports events, fashion events, etc. Country-wide increase in social celebrations stabilise the economy. These social celebrations are revenue generating activities and improve income and employment rate. Today, new doors for business and investments are open which bring more foreign exchange reserves.

- **Technological Factors:** Technology always makes the usage of goods and services more efficient and effective for its users. Demand for goods and services increase if they can be consumed in an effective and efficient way which in turn raises sequence-wise production, employment, investments, business and overall growth. So, updated technology always contributes to the economy in the form of business, employment and income.

- **Environmental Factors:** Environment plays an important role in economic stability. Natural calamities, floods, earthquakes, unfavourable conditions for crops growth and droughts always adversely hit the economic activities, business, investments, employments, outputs, consumption and exports. If the environment is favourable for business, it adds to the health of economy.

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▪ **Legal Factors:** Legal factors include laws such as traffic laws, business laws, taxes laws, banking laws, corporate laws, labour laws, criminal laws, anti-corruption laws, security and safety laws, etc. Abidance of laws and corruption rate defines how organised the society is. In a more organised and civilised society, violations and corruption rates are always lower. The more organised and civilized people are, the healthier the economy. Increasing corruption rate in government institutions, tax evasions, loan defalcations adversely affect the government performance which in turn affects government projects, employment and income, general inflation level in the country by producing less than demand as the government doesn't have enough funds to serve its public either by producing goods and services or by paying subsidies to business. Violation of traffic, security and safety laws in the streets leads to accidents, riots and clashes which are injurious to business growth, investments, income and employment, etc.

▪ **Real Estate:** Rise in real estate value in any country may itself be an indicator of the healthy economy. The land that produces diamond and gold has more value than those which do not. The land with a number of business and employment opportunities will have higher values than those where these opportunities are lower.

Determinants of Real Estate Valuation

PESTELs: Favourable PESTELs as discussed above make the real estate value higher and vice versa.

Interest Rate: In times of higher interest rates, people generally invest in banks and other financial institutions which make the economic activities slow, borrowings become expensive and it makes difficult to finance the business through borrowings. As a result of this, real estate turnover slows and value fall. While in time of lower interest rates, people invest in business for better returns instead of banks and money markets so more business opportunities arise and therefore, real estate value rises.

The summary below shows the general impact of the above factors on the economy:

Indicators	Movements	Economy Health
Currency exchange rate	Higher rate (real)	Weaker
Currency exchange rate	Low rate (real)	Stronger
Stock & commodity exchange market	Higher turnover	Stronger
Stock & commodity exchange market	Lower turnover	Weaker
Anti-government aggressive political campaigns	Increase	De-stabilise
Riots, violations, firing and killings	Increase	De-stabilise
Business & investments	Increase (real)	Stabilise
Social celebrations, sports events	Increase	Stronger
Technological upgradation	Increase	Stronger
Violations of legal laws, taxes, corruption	Increase	De-stabilise
Floods, storms, earthquakes, etc.	Increase	De-stabilise
Real estate values	Increase (real)	Stabilise
Inflation	Increase (real)	De-stabilise

Conclusion

In simple words, we can conclude that the above mentioned factors may help the investors and entrepreneurs in making the right decision at the right time for investing in right business options with the right amount of resources. These factors will also help the entrepreneurs to prepare for their current and future business results. On the other hand, central bank should consider these factors in making its policies regarding interest rate, credit control and issuance of currency, etc., to overcome the day to day economic challenges. The government should affect these factors and make them more favourable for its public as well as for investors to do business, which in turn brings employment opportunities and make the economy healthier.



Islamic Economic System: A Paradigm Shift

by Muhammad Ali Shaikh

1. Introduction

The foundation of Islamic Economics as a discipline was laid more than 14 centuries ago. Based on divine guidance, Islam is a complete code of life and is not just limited to religious rituals or acts of worship inside the mosque but is applicable to every aspect of daily life: be it economic, social or political. As such, it offers an alternative framework and a new paradigm which advocates justice and equity and values human relations over material possessions and can be used to solve modern day problems.

2. Basic Principles

This world is a place and life is the available time to prepare for the life Hereafter. Material possessions like wealth, dress, food, shelter, etc. are the bounties of Allah SWT. These things are also termed as a tool of deception which may look like a contradiction but in reality, it is not. These material gifts are actually the stages to the ultimate objective of seeking the pleasure of Allah and eternal happiness. It is simply a means or bridge to reach the real destination and should be treated as such. Water cannot be allowed to enter the boat

although it is necessary for the boat to sail to the destination. This is a fundamental shift in the economic objective from the conventional economy. Consequently, the questions like what to produce, how to produce, distribution of wealth and growth are answered in a different way.

This begins with the fundamental principle that Sovereignty belongs to Allah SWT and man has to act within the boundaries set by Allah SWT through divine guidance. Likewise, the ownership of all resources belongs to Allah SWT and man is His

trustee which enunciates the principle of dual ownership. Man has been given freedom within specified limits and is accountable for the use of these resources thus introducing moral and spiritual element into business life in contrast to the materialistic approaches such as Laissez Faire, an economic system in which transactions between private parties are free from government intervention such as regulations, privileges, tariffs, and subsidies. Similarly, profit motive and wealth generation is subject to a set of basic values. At the same time, Islam has emphasised that every individual should work and earn his living rather than depending on charity or the state subsidy which should be provided to those who are unable to work thus making every citizen who can work, part of economic activity.

While man has been instructed to work for his living, he is reminded that whatever he gets is actually a blessing of Allah SWT therefore, he should avoid greed which has no limits and is responsible for many economic troubles. Unless the economic system differentiates between profit motive and greed, it will allow greed to go on unabated and cause disruption in the system. The Islamic principle of *adl* and *ihsan*¹ helps to avoid greed and ensures fair dealings.

Spending on others, which is an important area of Islamic economics, is encouraged more as compared to spending on oneself and carries big divine rewards. Spending on others is an investment for the life Hereafter. It is partly compulsory in the form of *Zakah*, an act of worship and a right of the poor which purifies the wealth of those who pay it.² Spending on others produces favourable effects on the economy such as: redistribution of economic wealth giving more purchasing power to a greater number of people for basic needs which will in turn promote more economic activity and increase production of basic goods.

Moderation in consumption is also encouraged which results in savings to be used for spending on others as well as investing into productive system and

will save the economic resources from wasteful and purposeless consumption and promote even distribution of wealth.

3. Perception of Economic Problem

Islamic perception of the economic problem is different from the secular economics which focuses on the fulfillment of unlimited wants and treats the resources as scares in comparison to wants. This creates the economic problem of limited supply of resources which needs to be focused. On the demand side, unbridled human want results in wasteful expenditure which consequently result in misallocation of resources. At macro level, misallocation may also be caused partly due to misjudgement and partly due to vested interests of the policymakers.³ At micro level, the spending style of consumers, which is partly influenced by reckless advertising, may result in extravagance and consequently shifting the allocation of resources from basic necessities to luxurious goods.

Islam, on the other hand, does not subscribe to the concept of unlimited or unbridled wants and discourages extravagance and conspicuous consumption. One example of this is the simple way prescribed for marriages although not practiced by many Muslims. Discouraging conspicuous consumption will also direct the resources for the production of goods which fulfill basic needs thus improving resource allocation. On the supply side, it encourages human effort to exploit all resources to the maximum potential to increase supply and condemns unwanted human actions such as hoarding which curtail supply.

This translates into a two-pronged strategy. By making economic activity obligatory and an act of worship, Islam encourages man to work hard; and by condemning arbitrary acts like hoarding, resolves the supply constraint. By not endorsing all wants and extravagance in consumption (*Israf and Tabzir*), the demand side is managed. Easing the supply side and managing the demand

side by controlling unbridled human wants would create sustainable economic surplus in real sense.

Even in case of state taxation, this principle is to be followed. Before an Islamic state resorts to taxation, it must demonstrate that it has used all methods to optimise the output and value of productive state assets and the state expenditure is just and devoid of all extravagance. If a resource gap still exists, then taxation can be proposed for specific projects. (IIUI, 2005)

4. Islamic Economics as a Discipline

Thus Islamic economics presents a paradigm shift from traditional economics which emphasises justice and equity and values human relations over material possessions. The sources of information for this paradigm – *Quran*, *Ahadith*, and *Fiqh* – can be used to solve modern-day problems. The successful re-emergence of Islamic financing is a demonstration of this fact.

However, the lack of economic independence and indebtedness of Muslim countries may hinder the implementation of Islamic economic system. This problem seems to be, but is not difficult to address. According to Islamic teachings, raising debt is one of the most disliked acts and becomes even more disliked when it is to finance extravagance and administrative expenditure of unnecessarily large size of governments. Besides the questionable need of raising foreign debts, if we look at the size of collective deposits of our people in foreign countries and the foreign loans obtained by our governments, it appears that the problem is self imposed and can be solved very easily. It only requires a will to do it.

5. Economic Development

Economic development is an essential outcome if we follow the framework of economic management as enunciated by Islam. As discussed earlier, Islam has discouraged extravagance and conspicuous consumption but has encouraged production and hard work.

Unbridled human want results in wasteful expenditure which consequently result in misallocation of resources.

This will result in savings. Savings, if not converted into fixed investment, will attract *zakah* @ 2.5 % and this is one of the ways to encourage investment in productive assets. Spending on others, which is an investment for the life Hereafter, will increase demand for basic necessities and encourage production and investment thus promoting development and growth. Access to bank finances is limited to Prize-linked Savings (PLS) method or financing the purchase of goods which necessarily create new assets thus promoting economic development even further.

Not bound by divine restrictions, the modern economic system allows governments, individuals and businesses to have access to bank credits, which can be used for purposes other than productive purposes provided the borrower has the necessary collateral to offer. Governments can use these credits to finance their budget deficits rather than doing wasteful expenditure and/or increasing efficiency in resource mobilisation to contain budget deficit. In some countries, fiscal responsibility and debt limitation law exists but can be easily flouted by governments. Similarly, individuals, due to marketing campaigns of consumer banks, are lured to spend their future incomes to increase current consumption. The demand, in the short run, oversteps supply and we have to face the brunt of inflation. In the long run, the consumption style being unsustainable, it results in defaults on the consumer loans which can trigger a vicious circle of financial defaults in the whole system; and if the consumer finance is a substantial part of the overall bank credit, the whole system can practically collapse. We have recently seen this type of default triggered by US banks in subprime house loans which took over the whole system and the country had to pay a heavy price to prevent a collapse. In Pakistan, the problem did not become as serious as it was in the US because of the limited exposure to consumer finance and nominal use of derivative products.

For business firms, their ability to offer collateral⁴ rather than their profitability

or rate of return becomes the criteria for granting loans. Islam promotes trade as an occupation and regards profit as a genuine return for risk taken and a basis for allocation of capital rather than the interest rates or the collateral which would lead to misallocation of economic resources and wasteful and unproductive investments.⁵ With cash flow deficiency, this type of financing is also largely responsible for non-repayable debt. Debt rollovers or borrowing to repay old debt in effect capitalises interest and indirectly compounds it, thus increasing the size of debt – sometimes exponentially — thus creating a debt trap. Often the reported size of Non-Performing Loans (NPLs) is much higher than their actual size.

As it was not enough, the interest based economic system allows sale of debt as a norm and the artificial money gets multiplied manifold thus reducing the share of actual money issued by the central banks making the world economic system vulnerable. According to Usmani (2007), the percentage of real money in the total money supply was 12% in 1977 which declined to 3.6% in 1997 in UK.

In a free market mechanism, producers opt for the supply of goods demanded by consumers who can afford to pay for it, irrespective of its overall impact on the economy. This is further compounded by the easily available consumer credits. Besides threatening social and cultural life of the people, this results in misallocation of resources as has happened recently in Pakistan where the consumer credits promoted sales of electrical appliances and cars. The electrical appliances increased demand for electricity by the household sector, which is emerging as a significant consumer of electricity (NTDC, 2013), diverting electricity from industries which curtail production. Costly options are now being pursued to increase supply which is increasing cost of generation and consequently electricity prices, besides the possibility of promoting theft. The increased demand for cars has produced similar devastating effects. In addition to putting more pressure on foreign exchange reserves to import oil,

Complete Knocked-down (CKD) kits and spare parts and even second hand cars to fulfill demand, it has created pressure on roads necessitating heavy investments in infrastructure. Bulk investment in infrastructure including power generation is financed through foreign loans increasing further the grip of debt trap and aggravating foreign exchange problem as all products (electricity, electrical appliances as well as cars) use imported inputs but are domestically sold except when electricity used by industry produces exportable goods. This is happening in a society where a significant portion of the population is facing the threat of living below the poverty line.

The development oriented society needs justice, good governance, merit and positive attitude of its people built over the years through education and culture. The traits required for development, such as ethics, integrity, responsibility, respect for law and the rights of others, love for work and punctuality, avoiding extravagance and putting the saving either into investment or in charity are the basic attributes of an Islamic society, and if adapted, will ensure economic development.

6. Distribution of Wealth

The debt ridden society tends to transfer resources from poor to rich. Though the degree may differ, this process is universal and common to both the developed as well as developing economies. The deposits generated from across the nation are channeled to the rich in the form of loans who have the capacity to offer collateral. While profits earned on the borrowed capital are retained by them, the interest paid on these funds is passed on to the consumers as part of the production cost. In bad times, when there are losses, the businesses pass on these losses to the banks in the shape of default on their loans to be ultimately borne by the depositors either directly by losing their deposits or through a bailout package offered by governments funded through tax contributions. James Robertson, as quoted by Usmani (2007),

By making economic activity obligatory and an act of workshop, Islam encourages man to work hard; and by condemning arbitrary acts like hoarding, resolves the supply constraint.

explains this as: "The pervasive role of interest in the economic system results in the systematic transfer of money from those who have less to those who have more. It is partly because those who have more money to lend, get more in interest than those who have less; it is partly because those who have less, often have to borrow more; and it is partly because the cost of interest repayments now forms a substantial element in the cost of all goods and services."

The same argument has also been carried forward by Kennedy (1995). According to her study conducted in Germany, in ten groups of households of 2.5 million each, eight groups were net payers of interest while the ninth group ended up marginally as receiver. Only the tenth group was a net receiver. This shows that majority of people are net payers who have to borrow more and minority is net receiver having capacity to lend more and more which indicates inequitable distribution of income and wealth.

Arguing that the distribution of wealth has not been adequately dealt with by the present economic system prevalent in the world, Usmani (2010) quoted G. William Domhoff that in the United States during 2007, the top 1% of households owned 34.6% of all privately held wealth, and the next 19% had 50.5%, which means that just 20% of the people owned a remarkable 85%, leaving only 15% of the wealth for the bottom 80% (wage and salaried workers).

Thus the capitalist system has not been able to ensure equitable distribution of wealth. There is nothing wrong with the right of private ownership or the market economy principles. The system lacks ability to prevent manipulations and promote fair and transparent dealings to eliminate inequities and enable the profit motive to address collective interest of the society rather than individual interest as discussed earlier in this paper. The basic issue is lack of differentiation between just and unjust. The interventions in the free market mechanism in the form of exploitative activities such as hoarding,

gambling, speculative transactions, cartels, etc. allow huge profits but divert economic resources towards unnecessary production. This calls for restructuring the present economic system.

Islamic economics has the capacity to provide an alternative to ensure free and fair operation of the market mechanism. On one hand, it provides divine injunctions to differentiate between just and unjust declaring them *halal* (permissible) and *haram* (prohibited). These injunctions, being divine, cannot be violated or changed due to human expediency. On the other hand, Islam has introduced the institution of *Zakah*, *sadaqat* and other financial obligation which promote distribution of wealth.

By virtue of the principle that all Sovereignty belongs to Allah SWT, the objective of the Islamic state would be to administer the state according to His commandments. As such, the constitution and laws will be subservient to His commandments. The scope of the functions, political and economic priorities and decision making will give priority to His will. Therefore, in areas such as *zakah*, inheritance, etc. where complete guidance is provided, the state has to act only as implementer. In other areas such as taxation, capital accumulation, organisation of governmental functions, etc. principles are provided and detailed policies rules and regulations can be framed by the state within the frame work provided by divine guidance which is free from mistakes. To eliminate the possibility of misjudgements, the Islamic state is also committed to the principle of *shura* (consultative process).

7. Conclusion

Based on divine guidance, Islam is a complete code of life and is not just limited to religious rituals or the acts of worship inside the mosque but applicable to every aspect of daily life: be it economic, social or political. All economic decisions are to be taken within the boundaries set by divine guidance. Social justice, dual ownership, honest

work and productivity, fair distribution of wealth, avoidance of greed and spending on others are a few of its characteristics. Islamic value system emphasises human relations over material possessions and can be used to solve modern-day problems. The system is by default development oriented.

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¹ Ihsan is voluntary but carries more divine rewards if chosen in the conduct of economic activities. When people are prepared to forego or waive part of their entitlements in favour of others unfair dealings will automatically stop.

² Nature of assets subject to *Zakah* discourages hoarding of wealth, provides incentive to invest capital in production. Maintenance of family is another form of compulsory spending on others.

³ But with the Islamic system of transparency and accountability of the public office holders and their final accountability on the Day of Judgement, this is controlled to a great extent except for misjudgement or human error.

⁴ Which is wrongly presumed as the ability to service debt.

⁵ Both are not related to profitability of firms. The demand and supply of money in the market and the monetary policies of the regulators are the main determinants of interest rates. The profitability of firms is determined by factors such as sales revenues demand/supply of their products, reputation, brand names, marketing efforts, etc.

Islamic Banking and Finance

by Muhammad Tayyab Dar

Abstract

This article is about Islamic banking and finance, modes in Islamic banking and Islamic banking in Pakistan and all over the world. The market share of Islamic banks has reached to 13%. Due to its feasibility, other Muslim and non-Muslim countries have also introduced Shariah compliant finance. In Pakistan, however, due to some reasons, the system was not able to give surprising results. On public level, there is a need of awareness and the government should take radical steps for the establishment of Islamic banking to get rid of interest based conventional banking.

Islamic Banking and Finance

Shariah compliant finance is a system of banking that follows the principles of Islamic laws or Shariah. As Shariah does not allow Interest or Riba, so Islamic banking is also referred to as interest free banking. An Islamic bank works totally under the Islamic rules and plays a key role in the establishment of Islamic economics. The beauty of Islamic banking is that it is not limited to Muslims only. The base of Islamic banking is the prohibition of interest for lending and accepting of money. There are three basic prohibitions in Shariah:

- Riba
- Gharar
- Maysir

Riba means excess, increase, or unjustified increment. Riba and interest are same and referred as effortless gain. The great scholar Hazrat Shah Waliullah (RA) said that Riba "is a loan with the condition that the borrower will return to the lender more than and better than the quantity borrowed."

Gharar is an insurance agreement according to which one party may acquire all profit and other party may not gain any profit.

Gharar and **maysir** are also referred to as inter-related terms as maysir is an insurance contract in which the policy holder invests a small amount and in turn, gets a large profit. Islamic banking works on two basic principles i.e. profit & loss sharing. So, in Islamic banking, there is no concept of fixed profit.

History & Origin of Islamic Banking

The foundation of Islamic banking was laid the day Prophet Muhammad (SAW) went on trade for his wife. However, Islamic

modernists and secular historians consider it an invented tradition. But certain revivalists believe that the basic principles are derived mainly from Sunnah and Quran so, Islamic banking is as old as Islam itself. Allah has said in the Quran: "Allah will deprive usury of all blessing, but will give increase for deeds of charity." (Al-Baqara: 276)

Timeline of Islamic Banking (1950-2007)

1950		1960		1970		1980		1990		2000		2010	
Founding of Perbadanan Wang Simpanan Bakal-Bakal Haji (PBSBH) in Malaysia		First attempts to form Islamic banks		Bank Misr opens Islamic branches		Founding of Dubai Islamic Bank, Kuwait Finance House, First Gulf Bank		Conventional banks open Islamic branches		Islamic accounting standards organisation forms		Regional vendors enter market	
		Founding of Mit Ghamr Savings Bank in Egypt		Islamisation of banking in Pakistan, Iran, Sudan						Number of banks offering Islamic products expands		Global core vendors enter market	

According to Islamic economists Masudul Alam Choudhury and Uzair Abdul Malik, the prohibition of interest was a major working principle in Islamic economy at the time of Caliph Umar (RA). Certain economic techniques had been introduced such as bills of exchange, **Mufawada** (partnership) and **Mudaraba** (limited partnership), **Al-mal** (types of capital), **Nama-al-mal** (capital accumulation), **Sakk system** (cheque). Since 9th century by the time of Harun al-Rashid, Muslim traders had started to use Sakk system. When Islamic capitalism was established between eighth and twelfth century, the currency was gold dinar and it served as a bond between regions that were economically independent at that time. During 13th century in Europe, certain above mentioned economic techniques had been adopted and introduced. Although, terms such as "sinful usury" and "legitimate interest" had been argued in 19th century by Syed Ahmed Khan, an Islamic modernist, but could not acquire appreciable acceptance. Later, in the 20th and 21st centuries, Islamic mode of banking was widely adopted and there was a gradual increase in interest-free institutions.

Establishment of Islamic Banking

Phase 1

- Research work and early literature have provided a basis about feasibility of Islamic banking and finance.
- Experiments performed on Islamic principles so that they can be implemented.

Phase 2

- Efforts by countries such as Pakistan, Iran and Sudan to convert their banking system into Islamic.
- Noticeable efforts made by countries in order to develop interest free Islamic institutions.

Phase 3

- Establishment of Islamic Development Bank (IDB), Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB) play supporting roles in the development of Islamic banking and finance.
- Strong support by governments and regulators in the development of Islamic banking.

Phase 4

- International Monetary Fund (IMF) accepted Islamic banking as a viable financial system so it became easy to implement the system.
- Growing interest of other countries like Singapore, Japan, Hong Kong, etc.

Figure: Establishment of Interest-free institutions in Islamic world and worldwide.

Modes of Islamic Banking

Following are permissible and main modes of Islamic banking and finance.

Mudarabah: A partnership in which two parties exist. One party is the provider of finance and the other party provides expertise. Returns or gains are shared between the parties on mutually agreed ratios whereas loss is born by provider of capital.

Murabaha: A sale contract in which both parties agree on a profit. Seller provides the amount of cost as well as profit. For example, the bank purchases goods for its client and charges him the cost plus profit.

Ijara: A contract in which one party has the right or advantage to use the property of other against consideration. For example, consideration would be rent or wages in case of hiring of asset and hiring of persons respectively. In Ijara, ownership is not transferred at the end of the term period of the contract.

Ijarah-Wal-Iqtina: A contract in which one party (lessor) provides assets (building, plant, etc.) for use and lessee have a right to acquire the ownership at the end of the term period. Lessor will charge rentals and recover his principal amount and profit. Acquisition of ownership at the end of the term depends upon lessee.

Istisna: A contract in which parties agree for cash pre-payment and future goods delivery or future goods delivery against future payment. This contract may be for goods of manufacturing concern or construction of plant, building or houses.

Bai Muajjal: This is sales on credit. Costs and profits are agreed by the bank and client mutually. Buyer may opt to pay a lump sum amount in future or in installments. Bank charges profit above its purchase price.

Musharakah: This is partnership style business in which every contributor of finance is eligible to participate in management but is not necessary. Each contributor has a right to profit on a pre-agreed ratio and losses on the ratio of capital contributed.

Bai Salam: A contract in which seller promises to deliver goods in future (time specified in contract by buyer) against advance payment at the time of signing of contract. To avoid contradictions, specifications (quality and quantity) should be mentioned clearly. Gold and currencies cannot be a subject of this contract. Everything that can be described in term of quantity, quality and workmanship is covered in Bai Salam.

Qard Hassan: Debtors will pay only the actual amount of loan. Any additional amount whether to pay or not depends upon debtors' discretion. In this type, there is no undertaking to pay extra amount. The basis of this loan is goodwill.

Tawarruq: A financing arrangement to raise cash/finance instead of borrowing the money. The buyer purchases on a deferred payment and sells it on immediate receipt of payment to raise finance.

Islamic Banking and Finance in Pakistan

Muslims of the subcontinent sacrificed a lot for a separate homeland where they could practice the golden rules of Islam. Quaid-e-Azam said on the inauguration of State Bank of Pakistan (SBP): "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." (July 1, 1948)

The Constitution of Pakistan says that: "The State shall eliminate riba as early as possible." (Article 38 (f)). However, till 1980, there was no practice of Islamic banking.

Comprehensive Exercise during 1980s

Many significant steps were taken in 1980 in order to eliminate interest from the economy. Pakistan tried much to remove Riba at the national level. Some notable measures are:

- In 1980 and 1981, commercial banks were formed. Also in 1979, interest was eliminated from the operations of financial institutions.
- Participation Term Certificate (PTC) was introduced in legal framework of Pakistan's financial and corporate system. Banking Company Ordinance (BCO) was also upgraded.
- From April 1985, individuals and institutions tried to incorporate interest free system and all commercial banks were declared interest free from July 1985.
- State bank of Pakistan categorised 12 modes of interest free finance which was further classified into three major categories.

There were four basic issues:

1. Overall, there was a sense of revolution instead of evolution.
2. It was not flexible and was not suitable for a dynamic market.
3. There had to be a suitable mechanism to ensure Islamic banking.
4. The main issue was that all stakeholders did not feel easy and they were not agreeing at the time to launch the system.

On April 1, 1985 it was cleared that all transactions must be according to the Islamic mode of banking and after July 1, 1985 no bank could accept interest based finance and all deposits would be on the basis of profit & loss sharing.

In November 1991, Federal Shariat Court (FSC) declared the procedure adopted by banks in Pakistan as un-Islamic. Some banks appealed to the Shariat Appellate Bench (SAB) of the Supreme Court of Pakistan, but SAB finally rejected appeals on June 30, 2001. After conclusion of the court, the present system went through radical changes, and a policy decision was taken. Some of its points were:

1. Conduction of subsidiaries for setting up Shariah compliant transaction by commercial banks.
2. Setting up particular branches with dealings completely according to Shariat laws.
3. A new commercial bank was introduced to conduct banking business of Islamic products.

Other SBP measures were:

- Meezan bank was established in December 2001 that works purely on the principles of Shariah.
- An amendment had been made in section 23 of BCO in September 2002 and Islamic Banking Department (IBD) introduced for the promotion of Islamic banking.
- SBP allowed new Islamic banks in Pakistan and existing banks were allowed to open up branches based on Shariat compliance.

	S. No.	Name of Bank	Branches
Full Fledged Islamic Banks	1.	Meezan Bank Ltd.	113
	2.	AlBaraka Islamic Bank BSC (EC)	20
	3.	Dubai Islamic Bank Pakistan Limited	20
	4.	BankIslami Pakistan Limited	37
	5.	Emirates Global Islamic Bank Limited	24
	6.	Dawood Islamic Bank Limited	14
		Sub Total	228
Standalone Islamic Banking Branches	7.	Bank Alfalah Ltd.	32
	8.	MCB Bank Ltd.	8
	9.	Bank of Khyber	17
	10.	Habib Metropolitan Bank	4
	11.	Habib Bank Ltd.	1
	12.	Standard Chartered Bank	8
	13.	Bank Al Habib	4
	14.	Soneri Bank Ltd.	4
	15.	Askari Bank Limited	14
	16.	National Bank of Pakistan	3
Sub Branches	A.	Dawood Islamic Bank Limited	1
	B.	Dubai Islamic Bank Pakistan Limited	2
	C.	Meezan Bank Ltd.	7
		Sub Total	10
		Grand Total	341

Shariah Board of State Bank of Pakistan

On October 24, 2003, a Shariah Board (SB) was established for the guidance of SBP consisting of minimum five members – a chartered accountant, two Shariah Scholars, a lawyer and a representative from the banking community to assist SBP on Shariah compliance. The performance of SB is very satisfactory and helpful in promoting Islamic banking.

Moreover, Islamic Banking Institution (IBI) also works under the guidance of a Shariah scholar. A Shariah advisor is a highly experienced person and cannot work as a Shariah advisor for more than one IBI in Pakistan.

Industry Progress and Market Share

Description	Dec. 3	Dec. 4	Dec. 5	Dec. 6	Dec. 7
Total Assets	13	44	71	119	206
% of Banking Industry	0.5%	1.5%	2.0%	2.8%	4.0%
Deposits	8	30	50	84	147
% of Banking Industry	0.4%	1.3%	1.8%	2.6%	3.8%
Financing & Investment	10	30	48	73	138
% of Banking Industry	0.5%	1.3%	1.7%	2.3%	3.5%
A. Full-fledged Islamic Banks (IBs)	1	2	2	4	6
B. Branches of IBs	10	23	37	93	186
C. Conventional Banks with IBBs	3	9	9	12	12
D. Branches of Conventional Banks	7	25	33	57	103
Total Islamic Banking Institutions (A+C)	4	11	11	16	18
Total No. of Branches (B+D)	17	48	70	150	289

Problems of Islamic Banking in Pakistan

There are some current issues in Pakistan related to Islamic banking:

- There is no standardisation in vocabulary, financial instruments and pricing formulas in Islamic banking and finance.
- It is difficult for a common man to understand the concept of Islamic banking. Shariah is being taught to finance professionals but there is a need to teach them the importance of Islamic banking.
- Real market links are low so there is a need to establish the link in real market. Transactions cost is also high.
- Orphans, widows and needy people rely on fixed deposits largely. This is a big challenge for Islamic banking.
- Recovery of debts are difficult.
- Elimination of inflation affect from loans.

Prospects

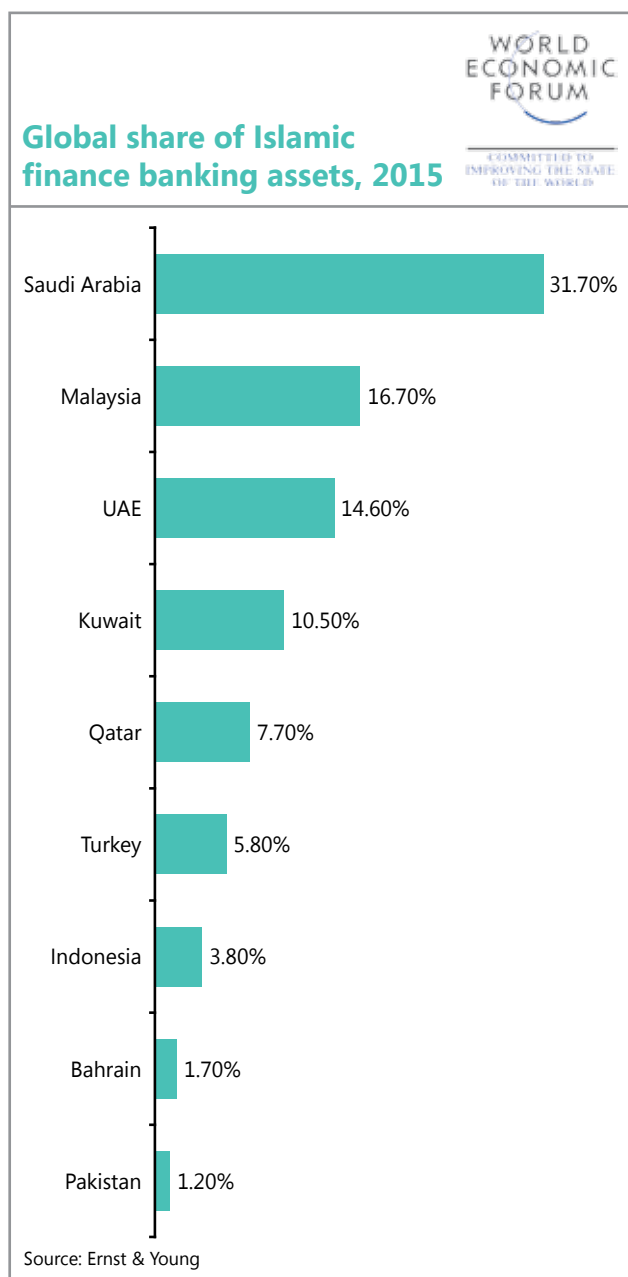
In Pakistan, Islamic banking is growing day by day and according to the Express Tribune, a daily newspaper the total share has reached up to 13% in December 2015. The demand of Islamic banking has reached to 95%. The Global Islamic Finance Report

(GIFR) 2015 predicted that Islamic financial assets would reach US \$5.3 trillion by the end of 2020.

Islamic Banking in All Over the World

Islamic banking has gained popularity in non-Muslim countries. Hang Seng Bank, the second largest bank in Hong Kong and a subsidiary of global banking giant HSBC, launched in 2015 the Hang Seng Islamic China Index Fund, Hong Kong's first Islamic fund. Tunisia and Morocco have also authorised their first Islamic banks this year. According to experts, Islamic banks are present in Australia, China, Japan and other parts of the world.

Islamic banking report according to world economic forum:



The main reasons why Islamic banking is increasing in non-Muslim countries are:

Success of conventional microfinance

In majority of the Muslim countries like Indonesia, conventional microfinance is a huge success indicating the scope for Islamic microfinance in those countries.

Religious reasons

In the Middle East and North African countries, people find conventional financial products incompatible with their religious beliefs.

Preference for Shariah compliance

In majority of Muslim countries especially in Gulf Cooperation Council (GCC) people prefer Shariah compliant finance.

Encouragement by banks

Islamic commercial banks have started services such as micro credit, insurance savings, and debit and credit cards.

Improved regulation

Islamic finance regulatory institutions all over the world are playing active role in promoting Islamic finance.

Conclusion

In a nutshell, we can say that there is a need to implement Islamic banking and finance in the country. It will not only provide religious satisfaction but also play an important role in equal distribution of resources between the rich and the poor, as the difference is increasing day by day. Government of Pakistan should take radical steps for complete implementation. Due to interest based banking, Pakistan's economy is not flourishing at the rate it should be.

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A Critical Review of Federal Budget 2017-18

by Syed Imtiaz Abbas Hussain

The finance minister presented the federal budget 2017-18 the last budget of his government's five year tenure. No doubt, improvements or stability in their performances were witnessed as compared to the five years performance of the previous regime.

Based on past practices of the last nine years of budget, the budget of 2017-18 was also presented on the same lines, like corrections of spelling, coding, giving tax favours to near and dear, the concept of minus/plus in figures and provisions in Tax Ordinances and Rules, etc. Fortunately or unfortunately, the issues which need to be considered in framing the budget were never strategically focused and as a result, we could not improve our economy in a way it should have been, and we could not even resolve our economic issues in the right directions. So we need to do zero budgeting instead of doing minus/plus in the existing budgeting, with a focus on our economic priorities and needs, especially in education, health, employment, industrialisation, energy, infrastructure sectors, law and order, security, science and technologies, production, investments, savings and governance, etc.

Termite eating and heading to bankruptcy figures have been witnessed in budgets since last nine years, which used to be deliberately ignored by the government. Such a situation may blast anytime if not addressed urgently. Federal budget 2017-18 proposed net federal revenue of Rs. 3.139 trillion as against proposed expenditure of Rs. 5.192 trillion and deficit of 65% of Rs. 2.053 trillion (last year 79% of Rs. 2.204 trillion) are proposed to be met again majorly by foreign and banks loans which are increasing every year and now total debts and liabilities of Pakistan are above Rs. 24 trillion. If a business shows continuous loss/deficit every year, then the public calls it, "bankrupt," so what to say to Pakistan in this state of affairs. The following factors are also adding fire in the adverse state of affairs of Pakistan:

- Federal and provincial governments are allocating trillions of rupees every year in development programs, including so called energy since nine years, but such development could not be seen tangibly in economic development of Pakistan, and even routine expenditures of billions of rupees for day to day maintenance are not being seen tangibly. For example, garbage removal and access to clean drinking water in Sindh could not be provided in the last two years. Where are these trillions of rupees going? Who is responsible for its transparency and accountability? Why



the government and intellectuals never raise these questions? I suggest that detailed development projects of last year and current year should be made public in budget with budgeted figures and actual figures and with remarks that these are audited figures.

- The government is religiously allocating billions of rupees every year with an increase in amount since last nine years for the Benazir Income Support Fund (BISF). The positive impact of trillions of rupees of BISF in last nine years should have been seen in the well-being of the poor of Pakistan but unfortunately, results are negative. The question is, where are these trillions of rupees distributed and to whom?
- The income tax laws are not focused on (a) national economic priorities; (b) serious tax revenue generation; and (c) not even focused on revenue-effective taxpayers. Instead, tax machinery is wasting time, energy and money on (1) huge number of petty tax payers specially salaried class whose income is just above Rs. 400000 and not material; (2) creating mess by making mandatory payment of salaries and wages even to illiterate workers through cross cheque exceeding small amount of Rs. 15000; (3) allowing expenditure per transaction for deduction from taxable income over small and irrational amount of Rs. 50000 paid by cross cheque, etc.; and (4) full time involvement of tax officers and taxpayers in withholding tax and tax refund culture, with no proper reconciliation, with immaterial impact on revenue generation. These just increase corruption.
- Just to please government employees, politicians and their activists, the government has heavily increased their funds, employees' salaries, created new jobs of district tax officers, assistant director audit, DG of broadening of tax base, DG of transfer pricing, DG of China Pakistan Economic Corridor (CPEC), etc. and made the income of politicians exempted from income tax.

▪ Every year, the government cries on low tax to GDP ratio just to fool the public by saying that tax to GDP ratio is the lowest in the world but never mention that these global governments actually utilise education, health and development budget fund in their economic development and that their economies are transparent. Has our government put check, transparency, accountability and good governance on development and routine maintenance expenditures of trillions of rupees? I can guarantee that the existing collected revenue will show surplus instead of deficit of trillions of rupees.

▪ Honesty, loyalty, transparency, accountability and good governance has become rare commodities in Pakistan since the last nine years as their absence benefits influential people.

Significant and major changes proposed in this budget for income tax, sales tax and excise duty are discussed below.

1. Income Tax

1.1 Income tax on losses is being charged under the Ordinance and Rules is in violation of the Constitution of Pakistan as the Constitution allowed 'tax on income' and not 'tax on losses,' while even the Ordinance has clearly mentioned under Section 4 that 'tax on taxable income' but practically, the government is charging income tax even on losses under Section 113 and Section 169 of the Ordinance. Minimum tax/turnover tax (1% on gross turnover/sale) under Section 113 of the Ordinance was introduced to overcome emergency of government at that time, which should be for a transitional period of say a year or two. But minimum tax has become a permanent tax, and even its base is broadening every year. This budget also proposes to increase the minimum tax from 1% to 1.25%.

1.2 Budget proposes to enhance withholding tax rates ranging from 1% to 5% for non-filers on payments relating to construction and allied services, sale of goods, rendering of services, execution of contracts, capital gain on sale of securities, dividends, non-residents, property rent, prize bonds and crossword puzzle winning, petroleum products and on commissions of petrol pump operators. It is a bad law because non-filer is a person whose name is not in the active taxpayers' list or is not holder of taxpayer's card. Income tax laws consider tax exempted salary employees, and taxpayers' wives and children as non-filer alongwith other culprits and penalise all of them, which is not fair.

1.3 The budget proposes to replace federal government by board to take decisions after approval of minister-in-charge of federal government in important, active and daily workable sections. As a result, the related work of taxpayers will get delayed and the level of corruption will increase manyfolds because the minister-in-charge will need briefing as he may have no tax knowledge and may also not be available every time.

1.4 The budget proposes to create new departments of director general of broadening of tax base under Section 230D and director general of transfer pricing under Section 230E in tax machinery of income tax. If the intentions behind these additional executives with their staff are honest and not just to accommodate their near and dear then it may have a positive impact on tax revenue. Otherwise, it will act like add petrol in the fire on corruption.

1.5 The dictionary meaning of 'transitional' includes 'the period of time during which something changes from one state or stage

to another,' and usually in business and laws, the word transitional refers to the 'temporary phase.' But Income Tax Ordinance has made transitional advance tax provisions as permanent by creating Chapter XII, which covers Sections from 231 to 236 and even its base is broadening every year. This budget again proposes new addition in this Chapter through Section 236X and also extended Section 236G and Section 236H.

1.6 Concept of Start-ups has been proposed under Section 2(62A) i.e. businesses offering technology driven products and services as certified by the Pakistan Software Export Board and having turnover of less than Rs. 100 million in each of the last five tax years are proposed to be exempted on their profit and gain from tax for three years and also proposed to exclude it from the provisions of Section 113. I suggest too many checks and controls on IT businesses should be discouraged as IT is the future globally and Pakistan is far behind in this industry.

1.7 The fourth new condition of administrative and management expenditure of Non-Profit Organisation (NPO) and trust, etc. should not exceed 15% of total receipts under Section 100C (1) (d) has been proposed in this budget to entitle 100% tax credit to NPO including minimum tax and final tax. Further, under Section 100C (1A), it is proposed to levy tax of 10% on surplus funds of NPOs. I think too much checks and controls will discourage genuine and honest NPOs at the cost of corrupt NPOs. So, relaxation should be given to genuine and honest NPOs based on their track records.

1.8 Clause 72B of Part IV of Second Schedule attached to the Ordinance provides exemption from collection of tax on imports of raw materials by industrial undertakings on fulfillment of specified conditions. One of the conditions is that the quantity of raw materials to be imported, being sought to be exempted from collection of advance tax, shall not exceed 110% of the quantity imported or consumed during the previous tax year. The budget proposes to enhance the limit from 110% to 125%.

2. Sales Tax and Excise Duty

2.1 No strategic budgeting was made for sales tax as there was no intention in its formation to achieve desired economic development targets. The budget proposes just transfer provisions from Sales Tax Rules to Sales Tax Act, for example, Tier Retailer, and in correcting spelling and coding mistakes, etc.

2.2 The budget proposes to replace federal government by the board and the board to take decisions after approval of minister-in-charge of federal government in important, active and daily workable sections of the Sales Tax Act 1990 and of Federal Excise Act 2005. As a result, related work of taxpayers will get delayed and become a mess and the level of corruption will increase manyfolds because the minister-in-charge will need briefing as he may have no tax knowledge and may also not be available every time.

2.3 Sales tax and federal excise authorities to include district tax officers and assistant director audit.

2.4 It was proposed not to withhold sales tax on supplies made from registered persons to other registered persons with the exception of advertisement services.

2.5 Sales tax proposed to increase from Rs. 9 per unit of electricity to Rs. 10/50 in steel sector, and corresponding increase in shipbreaking and other allied industries.

2.6 Sales tax proposed to be increased from 5% to 6% on retail sale of five export oriented sectors.

2.7 It is proposed to levy sales tax at 6% on commercial import of fabric which was previously exempted under SRO 1125.

2.8 Fertilizer was deleted from 17% sales tax under Third Schedule and proposed to be included with fixed rate per 50 kgs/bag in Eighth Schedule under new serial Numbers 35 to 42 attached to the Sales Tax Act 1990 with the intention to replace subsidy and to avoid complex calculations.

2.9 In Sixth Schedule Table 1 attached to the Sales Tax Act 1990, new exemptions were proposed to be included (a) goods related to gift or donation received from foreign government or organisation by federal government, provincial government or any public sector organization; (b) sunflower and canola hybrid seed for sowing; (c) combined harvester upto 5 years; and (d) single cylinder agriculture diesel engine.

2.10 In Eighth Schedule attached to Sales Tax Act 1990, new items have been added (a) along with fertilizer as explained above; (b) natural gas supply to fertilizer for urea manufacturing subjected to 10%; (c) phosphoric acid used by fertilizer for Diammonium Phosphate (DAP) production subjected to 5%; (d) machinery for poultry sector subjected to 7%; (e) multimedia projectors imported by educational institutions subjected to 10%; and (f) supply of locally produced coal subjected to Rs. 425 per metric ton.

2.11 In First Schedule of Federal Excise Duty, excised duty rates for (a) different cigarettes was proposed to be increased; (b) duty on cement was proposed to be increased from Rs. 1 to Rs. 25 per kg; (c) In Table 2, duty on telecommunication services was proposed to be reduced from 18.5% to 17%.

Conclusion

I suggest the following irrational provisions of income tax may properly be addressed by the government to get material results by focusing on few things instead of focusing on tiny and immaterial voluminous things, as businesses use ABC Plan for proper inventory control:

1. Under Section 20 (1) of the Ordinance, in computing the income of a person chargeable to tax under the head 'income from business' for a tax year, a deduction shall be allowed for any expenditure incurred by the person in the year 'wholly and exclusively for the purpose of business.' There is no rationale by adding 'wholly and exclusively for the purpose of business' as it is practically impossible to prove it and it is debatable and open doors for corruption.

2. Under Section 21 (m) of the Ordinance, any salary paid or payable exceeding Rs. 15000 per month other than by a cross cheque or direct transfer of funds to the employee's bank account will not be allowed to be deducted in computing the income of a person under the head 'income from business.' The question is: what is the basis of taking the figures of Rs. 15000? To make it rationale and justifiable, it is suggested to take this figure equal to 1/12th of tax exempt limit of salary say Rs. 33333 or Rs. 35000 instead of Rs. 15000, then it will support the system. Further, an unnecessary tension is created by including illiterate labour force who are in hundreds and thousands in manufacturing businesses in particular. So, to make the tax laws simple and straight, it is

requested to exclude manufacturing labours and clerical staff from this Section or alternatively enhance the exemption limit from Rs. 15000 to figure equal to 1/12th of tax exemption.

3. According to Section 12 (4) of the Ordinance 'no deduction shall be allowed for any expenditure incurred by an employee in deriving amounts chargeable to tax under the head salary.' It means income tax will be charged on gross salary which is in violation of the Constitution of Pakistan and also against the fundamental rights of a citizen of Pakistan. Tax should be charged on gross salary after deduction of at least necessary expenses of livelihood such as rent, food, cloth, utilities, domestic servants, education, health, insurance, etc. which may be taken as a percentage of gross salary without going into its details and complications, as was done for existing rent allowance, medical allowance, etc. It is how the government can do justice with white collar people and mitigate abnormal effect of high inflation and corruption. Alternatively, salary exempt limit of Rs. 400000 should be re-worked and revised to Rs. 1,000,000. It is how huge number of salaried taxpayers will be eliminated and unnecessary work load of tax authority will be reduced and they may be able to focus on material tax revenue targets.

4. Under Section 22(13) of the Ordinance, the cost of a depreciable asset being a passenger transport vehicle not plying for hire shall not exceed Rs. 2.5 million, which is also too low as compared to the latest prices. What is the rationale in capping limit? It is necessary to amend this Section religiously instead of eliminating it as its impact on the government tax revenue is negligible and such elimination will make tax working simple.

5. Income tax on income from property is too much complicated, irrational and illogical, so it needs to address the following to make the tax laws simple and rational:

5.1 Income from property is being subjected to income tax after deductions allowed only to companies under Section 15A of the Ordinance, so what is the rationale in not allowing genuine deductions to individuals and association of persons, which discourage investments and savings climate in the country?

5.2 Prescribed person under Section 155(3) for individual or association of persons means people who are paying gross rent of Rs. 15,00,000 in a year or more for deduction of tax at source. So, what is the rationale in making the tax deduction slab under Section 155 on gross rent 'from Rs. 200000' in a tax year. The government should revise the slab from Rs. 15,00,000 in a tax year instead of Rs. 2,00,000 in a tax year.

5.3 Individual and association of persons are to pay tax on income from property required under Section 15 as per slab at the rate 5% to 20% on gross rent exceeding from Rs. 200000 in a tax year to exceeding Rs. 20,00,000 in a tax year. What is the rationale in making exemption limit up to Rs. 200000 in a tax year, which is too meager covering a monthly rent of just Rs. 16667 in this era of high inflation? I suggest exemption limit should be at least Rs. 600000 in a tax year if without deductions to cover monthly rent of Rs. 50000.

The tax machinery needs to cross check and reconcile at least the last five years data of income tax collected and deducted, sales tax input and output and critically review financial statements of the taxpayers. This exercise will undoubtedly unearth thousands of hidden revenue-effective taxpayers and unearth billions and trillions of tax revenue.

Suggestions to Simplify & Rationalise Income Tax Laws in Pakistan

by Syed Imtiaz Abbas Hussain



Income tax in Islamic Republic of Pakistan is being executed by the Income Tax Ordinance 2001 (hereinafter referred to as 'Ordinance') and Income Tax Rules 2002 (hereinafter referred to as 'Rules'). A lot of improvements have been witnessed in these Ordinance and Rules since more than a decade but still, more needs to be done because income tax laws are not focused on economic priorities, tax revenue generation and revenue-effective taxpayers. Instead, tax machinery is wasting time, energy and money in huge number of petty tax payers specially the salaried and labour class with the exemption limit of Rs. 400,000 in a tax year – creating a mess by making mandatory payment of salaries and wages even to illiterate employees through cross cheques exceeding Rs. 15,000 allowing expenditure per transaction for deduction from income over small and irrational amount of Rs. 50,000 paid by cross cheque, etc.; and full time involvement of tax officers and taxpayers in withholding tax and tax refund culture, with no proper reconciliation, put immaterial impact on revenue generation and increase corruption.

Few suggestive changes for rationalisation and simplification required in the Income Tax Laws in Pakistan are as under:

Suggestive changes

1. Income tax on losses

1.1 Income tax on losses is being charged under the Ordinance and Rules is a violation of the Constitution of the Islamic Republic of Pakistan as the Constitution allowed 'tax on income' and not 'tax on losses,' while even the Ordinance has clearly mentioned under Section 4 that 'tax on taxable income' but practically charging income tax even on losses under Section 113 and Section 169 of the Ordinance.

1.2 Minimum tax/turnover tax (1% on gross turnover/sale) under Section 113 of the Ordinance was introduced to overcome emergency of government at that time, which should be for a transitional period of a year or two. But minimum tax has become a permanent tax and even its base is being broadening every year, and as a result tax is being charged on losses, which is again a violation of the Constitution of the Islamic Republic of Pakistan and is against the fundamental rights of a citizen.

1.3 Income tax collected or deducted as a final tax under Section 169 may also tantamount to charging income tax on losses. For

example, suppliers/contactors/customs authority/bankers have deducted or collected income tax from the taxpayer amounting Rs. 60 million and actual loss for said tax year of the taxpayer after adjustment for add/back was Rs. 15 million. So, under the Constitution of the Islamic Republic of Pakistan, such taxpayer should not be subjected to income tax but the government has charged income tax from taxpayer amounting Rs. 60 million under the final tax regime.

2. Income tax not on income but on deemed income

2.1 Income tax collected or deducted from taxpayers are being treated as deemed income and as a result accepted as final tax under Section 169 of the Ordinance irrespective of the fact that the taxpayer is in loss, subject to Section 169(2)(e)&(f) of the Ordinance, which is against the principles of accounting, Companies Ordinance 1984/2016, International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) and even against to some provisions of the Ordinance. (refer Section 169 of the Ordinance, IAS No. 12 and other related IASs/IFRSs and Companies Ordinance 1984/2016).

3. Transitional advance tax provisions

3.1 The dictionary meaning of 'transitional' includes 'the period of time during which something changes from one state or stage to another,' and usually in business and laws, the word transitional refers to a temporary phase. But the Ordinance has made transitional advance tax provisions as permanent by creating new Chapter XII, which covers Sections from 231A to 236J and even its base is being broadening every year.

4. Taxation of capital gain on immoveable properties

4.1 The Constitution of the Islamic Republic of Pakistan has excluded federal authority to collect tax capital gains on immoveable properties, which is thus a provincial subject. But the Ordinance is levying income tax on the gain arising on the disposal of immoveable properties under Section 37(1A), which is against the Constitution.

5. Income tax laws are not in accordance with IFRSs/IASs/Company laws

5.1 As per Rule 32(2) of the Rules, the books of accounts, documents and records required to be maintained by a company in accordance with IASs and under the Companies Ordinance 1984/2016. But the Ordinance is not in accordance with Rules and has rejected IFRSs/IASs/Companies Ordinance 1984/2016 in connection with the following accounting treatments; as a result, there is a conflict within Income Tax Laws and taxpayers faced problem in their tax planning:

a. Depreciation and carrying amount of fixed assets are being calculated in the Ordinance which is quite different from what is systematically and logically explained in IASs/IFRSs. It is suggested that depreciation and carrying amount of fixed assets as stated in audited financial statements should be allowed in the Ordinance and instead of giving special depreciation like initial depreciation; first year allowance, etc., a tax allowance/tax credit may be allowed, or alternatively to make working simple and straight, depreciation may be allowed on straight-line basis instead of reducing balance method which carry asset unnecessarily and immaterially for more than 22 years as for pre-commencement expenditure under Section 25 of the Ordinance. (Section 22, 23, 23A and 23B of the Ordinance, IAS 16 and other related IASs/IFRSs, Companies Ordinance 1984/2016)

b. Stock in trade/inventories is being computed in the Ordinance which is quite different from what is systematically and logically explained in IASs/IFRSs. It is suggested that inventories consumed and inventories carrying amount as stated in audited financial statements should be allowed in the Ordinance. (Section 35 of the Ordinance, IAS 2 and other related IASs/IFRSs, Companies Ordinance 1984/2016)

c. Long Term Contract is being treated in the Ordinance which is quite different from what is systematically and logically explained in IASs/IFRSs. It is suggested that the Contracts' work in progress and other related items as stated in audited financial statements may be allowed in the Ordinance. (Section 36 of the Ordinance, IAS 11 and other related IASs/IFRSs and Companies Ordinance 1984/2016)

d. The Ordinance has only allowed treatment of operating lease for lessors and lessees and has rejected more logical and systematic treatment of finance lease, which is allowed in IAS 17 and Companies Ordinance 1984/2016, while allowing few provisions of finance lease. It is, therefore, suggested to allow lease treatments, which is on finance lease basis, as stated in audited financial statements in the Ordinance. (Section 18(3), 22(12), 23(4) and 28(1)(b) of the Ordinance, IAS 17 and other related IASs/IFRSs and Companies Ordinance 1984/2016)

6. Imbalanced treatment for non-residents having permanent establishment

6.1 Non-resident taxpayers having permanent establishments in Pakistan will be subjected to income tax as applicable to resident taxpayers subject to some restrictions as per Section 105 of the Ordinance, but it is not justified to keep them away from the benefit of final tax under Section 169 for collections and deductions of income tax under section 152(2A) of the Ordinance while maintenance of permanent establishment in Pakistan has mitigated the risk of loss of tax revenue to the government. (Section 152, 105 and 169 of the Ordinance)

7. Certificate of collection or deduction of tax

7.1 The provisions of Section 164 and Rule 42 an 'online certificate' designed by and available at Federal Board of Revenue (FBR) website relating to the issuance of certificate of collection or deduction of income tax are conflicting each other due to the following reasons:

a. As per Section 164(1) of the Ordinance, every person collecting or deducting income tax shall at the time of collection or deduction furnish to the person from whom the tax has been collected or deducted, a certificate, while under Rule 42(1), a certificate is required to be issued within 15 days after the end of the financial year and on request under Rule 42(2) a certificate may be issued before the end of the financial year.

b. Many particulars are missing in 'online certificate' designed by and available at FBR website, which are required as per form as set out in Part VII of the Second Schedule to these Rules, which includes (i) on ____ (date of collection/deduction); or (ii) during the period; from/to (period of collection/deduction) and (iii) certification portion of the said form and its all particulars are missing.

c. Form as set out in Part VII of the Second Schedule to these Rules is in line with Section 164 and not in line with Rule 42.

8. Ordinance referring provision of repealed Ordinance

8.1 The Income Tax Ordinance 1979 has been repealed under Section 238 of the Ordinance and some specific provisions of the repealed Ordinance have been saved under Section 239 of the Ordinance for some specific purpose. But it does not mean that the Ordinance will mention provisions of repealed Ordinance in definitions of terms, etc. used in the Ordinance. For example, under Section 2(29A) income year means income year as defined in the repealed Ordinance. So, Ordinance needs to be re-visited to delete such references of repealed Ordinance and wherever possible to include active provisions of repealed Ordinance in Ordinance to make the Income Tax Laws simple and straight.

9. Income tax authorities not properly mentioned in laws

9.1 Income tax authorities as mentioned under Section 207 of the Ordinance have not been properly replaced in Sections of the Ordinance and in Rules of the Rules, and as a result taxpayers are being misguided. For example, still mentioning Regional Commissioner under Section 130(4)(a) and Central Board of Revenue under Section 74(11) and Section 111(5) of the Ordinance and many more such mistakes in Ordinance and Rules. So, the Board needs to re-visit the entire Ordinance and Rules to correct such confusing and misleading mistakes.

9.2 Mentioned about 'such other executive or ministerial officers or staff' under Section 208(1) of the Ordinance, but no where in the Ordinance or Rules their functions and authority have been explained.

10. Tax structure is not in line with the economic priorities

10.1 One will appreciate that the basic structure of our Income Tax Laws and Sales Tax Laws are not in line with the economic priorities of Pakistan as these have been totally distorted due to un-strategic exemptions- concessions, tax holidays, zero rating, additions and deletions – to favour the near and dear. Fortunately or unfortunately, the issues which need to be considered in framing these laws have never been strategically focused and as a result we could not improve our economy in a way it should have been and we could not even resolve our economic issues in the right direction. So we need to re-structure these laws in line with our economic priorities and our needs, especially in areas of education, health, employment, industrialisation, law and order, security, science and technology, production, investments and savings, governance, etc. This re-structuring should be just like Zero Budgeting that is from the scratch instead of add/back provisions in the Ordinance and Rules.

Irrational tax provisions

11. The taxpayers are not subjected to investigation under the Ordinance and Rules, but under Section 177(1) relating to audit, the word 'investigation' has been used, which is just creating confusion and tantamount to harassment and corruption.

12. The taxpayers are not subjected to inspection under the Ordinance and Rules and even the designation of the directorate general of Inspection and Internal Audit has been changed to directorate general of Internal Audit. Then what is rationale in including 'Inspector Inland Revenue' under Section 207 of the Ordinance relating to income tax authorities.

13. According to Section 20 of the Ordinance, in computing the income of a person chargeable to tax under the head 'income from business' for a tax year, a deduction shall be allowed on

any expenditure incurred by the person in the year 'wholly and exclusively for the purpose of business.' There is no rationale for adding 'wholly and exclusively for the purpose of business' as it is practically impossible to prove it and is debatable and open doors for corruption.

14. Under Section 21 (m) of the Ordinance, any salary paid or payable exceeding Rs. 15,000 per month other than by a cross cheque or direct transfer of funds to the employee's bank account will not be allowed to be deducted in computing the income of a person under the head 'income from business.' The question is what that is the basis of taking the figure of Rs. 15,000. To make it rationale and justifiable, it is suggested to take this figure equal to 1/12th of tax exempt limit of salary say Rs. 33,333 or Rs. 35,000 instead of Rs. 15,000, only then it will support the system. Further, an unnecessary tension is created by including illiterate labour force who are in hundreds and thousands in manufacturing businesses, so to make the tax laws simple and straight, it is requested to exclude manufacturing labours and clerical staff from this Section or alternatively enhance the exemption limit from Rs. 15,000 to figure equals to 1/12th of tax exemption.

15. Any income of a newspaper employee representing local travelling allowance is totally exempted from income tax under Clause 40 of Part I of Second Schedule attached to the Ordinance. To make it rationale, I suggest local travelling allowances of all types of media employees and sales and marketing employees must be exempted totally.

16. Clauses 51 to 53 of Part I of Second Schedule attached to the Ordinance have covered all high ups including federal ministers except prime minister and chief ministers, which is not rationale, and I suggest it should be included categorically.

17. According to Section 12 (4) of the Ordinance 'no deduction shall be allowed for any expenditure incurred by an employee in deriving amounts chargeable to tax under the head salary.' It means income tax will be charged on gross salary which is in violation of the Constitution of the Islamic Republic of Pakistan and against the fundamental rights of a citizen of Pakistan. Tax should be charged on gross salary after deduction of at least necessary expenses of livelihood such as rent, food, cloth, utilities, domestic servants, education, health, insurance, etc. which may be taken as a percentage of gross salary without going into its details and complications, as was done for existing rent allowance, medical allowance, etc. It is how the government can do justice with white collar people and mitigate abnormal effect of high inflation and corruption. High salary taxpayers also deserve these concessions as their right, because earning high salary is not a crime. Otherwise, they will serve in other country as non-resident Pakistani and the government will lose tax revenue. Likewise, salary exempt limit of Rs. 400,000 should be re-worked and revised based upon the above formulae, say an exempt upto Rs. 600,000 instead of Rs. 400,000 in a tax year. It is how huge number of salaried taxpayers will be eliminated and unnecessary work load of the tax authority will be reduced and they may be able to focus on material tax revenue targets, if the tax authority is not interested in corruption by harassing small taxpayers.

18. According to Section 13 of the Ordinance and Rule 5 of the Rules, the value of conveyance provided by the employer to the employee shall be included in income of employee equals to 5%

of the cost to the employer for acquiring the motor vehicle, when vehicle is partly for personal and partly for official use. This is not rational because if a vehicle was purchased by the employer in 2005 at the cost of Rs. 1 million and the employee will take its 5% Rs. 50,000 in tax year 2011 while its Written Down Value (WDV) in this tax year is Rs. 209,715 after 20% depreciation. It is suggested to make a depreciation slab for 10 years, on straight-line basis, to apply 5% to make this treatment logical, simple and straight or alternatively link it as percentage of salary.

19. What is the rationale in stating, for the purpose of Section 21(d) of the Ordinance, that expenditure incurred on entertainment of customers and clients 'at the person's business premises' under Rule 10(1)(c). Can't a taxpayer take customers and clients outside business premises to a hotel, etc.?

20. Under Section 22(13) of the Ordinance, the cost of a depreciable asset being a passenger transport vehicle not plying for hire shall not exceed Rs. 2.5 million, which is also too low as compared to the latest prices. The Ordinance changed this Section by enhancing the limits. What is the rationale in capping limit? Is it necessary to amend this Section religiously instead of eliminating it on the basis of the fact that a vehicle price shoot up many folds due to many factors and its impact on the government tax revenue is negligible and such elimination will make tax working simple.

21. Income tax on income from property is too complicated, irrational and illogical, and there is a need to address the following to make the tax laws simple and rational:

21.1 Income from property is being subjected to income tax after deductions allowed only to companies under Section 15A of the Ordinance; so what is the rational in not allowing genuine deductions to individuals and association of persons, which discourage investments and savings climate in the country?

21.2 Prescribed person under section 155(3) for individual or association or persons who are paying gross rent of Rs. 1,500,000 in a year or more for deduction of tax at source, so what is the rationale in making the tax deduction slab under Section 155 specified in Division V of Part III of the First Schedule attached to the Ordinance on gross rent from Rs. 200,000 in a tax year to exceeding Rs. 2,000,000 in a tax year. So there is a need to revise the slab from Rs. 1,500,000 in a tax year instead of Rs. 200,000 in a tax year.

21.3 Individual and association of persons is to pay tax on income from property required under Section 15 as per slab at the rate 5% to 20% specified in Division VIA of Part I of the First Schedule attached to the Ordinance on gross rent exceeding from Rs. 200,000 in a tax year to exceeding Rs. 2,000,000 in a tax year. What is the rational in making exemption limit upto Rs. 200,000 in a tax year, which is too meager covering monthly rent of just Rs. 16,667 in this era of high inflation? I suggest exemption limit should be atleast Rs. 600,000 in a tax year, if without deductions, to cover monthly rent of Rs. 50,000.

21.4 I suggest that income tax on income from property should be treated as a separate block for simplification purpose.

22. Section 153(1)(b) tax deducted at source relating to the rendering of or providing of service is treated as minimum tax under provisio Section 153(3)(b) except Sectors mentioned in



Clause 94 of Part IV of the Second Schedule attached to the Ordinance, and not allowed as final tax under Section 153(3) and Section 169 of the Ordinance except electronic and print media for advertising services under provisio Section 153 (3) (e). Globally, tax revenue generation from services are higher than goods and contracts, so such restrictions will discourage generation of revenue from services in Pakistan.

Apparent errors in income tax laws

23. Section 152(1AAA) of the Ordinance is, by mistake, referring Division IIIA of part III of the First schedule attached to the Ordinance instead of Division II(3) of Part III of First Schedule attached to the Ordinance as both Section 153A of the Ordinance and Division IIIA of part III of the First Schedule attached to the Ordinance have been omitted.

24. Section 44(2)(c) relating to exemption under international agreements is showing, by mistake, 'funds or grant' instead of 'funds of the grant.'

25. There are many mistakes in mentioning income tax authorities in different Sections of the Ordinance and in Rules of the Rules, which is referred above under point no. 9.1.

26. Thanks to FBR for correcting the Ordinance on the basis of my pointing out the following mistakes in my previous article:

26.1 Section 195(3) of the Ordinance still showing Section 187(3), which was omitted by the Finance Act 2010.

26.2 Section 152(2A) showing clauses (i), (ii) and (iii) while Division II of part III of First Schedule attached to the Ordinance is showing Clauses as a, b and c.

26.3 The accounts and documents required to be maintained under Section 174(3) is for six years while its relevant Rule 29(4) of the Rules is mentions five years.

Conclusion

One will have to appreciate that the Income Tax Ordinance 2001 and related Income Tax Rules 2002 have been framed in such a way that all heads of income are well covered so it's complete in all respect but the problem is that these laws are not being implemented and monitored due to many reasons.

I can say that if these laws implemented and monitored in letter and spirit, the tax-GDP ratio in Pakistan will jump many folds even with the existing exemptions, tax concessions, allowances and tax credit.

The tax machinery needs to cross check and reconcile atleast the last five year data of income tax collected and deducted, sales tax input and output and critically review financial statements of tax payers. This exercise will undoubtedly unearth thousands of hidden revenue-effective taxpayers and unearth billions and trillions of tax revenue.

Importance of Code of Conduct & Sanction Standards

by Usama Sohail



In today's VUCA (Volatile, Uncertain, Complex & Ambiguous) world, maintaining good reputation of a business is of utmost importance. Any reputational damage has far more significant and long lasting impacts. Violation or mistake of any individual can be a potential threat for the whole organisation and hence the importance of a mandated code of conduct in every organisation is crucial.

By way of definition, code of conduct is a set of rules outlining the social norms and rules and v of, or proper practices for, an individual, party or organisation. Related concepts include ethical, honour, moral codes and religious laws.

Each organisation should ensure that their code of conduct is comprehensive and well understood within and outside the organisation. Ethical standards require an organisation to operate in a responsible manner and this not only covers the way employees or managements operate, the code of conduct extends to external parties such as the vendors and customers of the organisation. Association or business with the vendors or customers involved in irresponsible business practices can have a negative impact on the organisational business reputation.

There are various techniques by which the implementation of the code of conduct is ensured. By way of inclusion in legal agreements, by periodic confirmation from employees and other stakeholders, periodic self-assessment exercises by the senior management and by provision of mandatory training and explanations regarding the code of conduct. As part of the implementation of the code across the organisation, management should ensure that the internal or external stakeholders also have the means to report any potential violation without facing any difficulties and this may comprise of anonymous channels of reporting.

Once the code of conduct is well understood and communicated across the organisation, there is a need to ensure that the violations of any principle is investigated in a standard and fair manner to avoid chaos within the entity. Hence, a standard sanction and operating standard has to be published that indicates the level of the violation and the related sanction. This becomes the standard to ensure fairness and promote ethical culture. Operating standard should also specify the composition of the sanction committee. For the effectiveness Sanction Committee should include the Board of Governance members.

Chartered accountants can play an important role in the investigation along with legal and compliance teams to ensure the successful implementation of the Code of Conduct.

A written and mandated code of conduct clarifies the organisation's expectations and hence provides a foundation for the ethical business. This promotes ethical culture, protects the organisation legally and can act as a deterrent for any reputational damage.

Future of Accounting Profession: Three Major Changes & Implications for Teaching & Research



The accounting profession will face significant changes in the next three decades, and professional organisations, their members, and educational institutions should respond. The three changes—evolving smart and digital technology, continued globalisation of reporting/disclosure standards, and new forms of regulation—are also major challenges for the profession. Association of Chartered Certified Accountants (ACCA) research, Drivers of Change and Future Skills, has explored these important changes, expected to be encountered by the year 2025. Three are highlighted here:

First, accountants will use increasingly sophisticated and smart technologies to enhance their traditional ways of working, and these technologies might even replace the traditional approach.

Smart software systems (including cloud computing) will support the trend toward outsourcing services (including more overseas outsourcing), and greater use of social media via smart technology will improve collaboration, disclosure, engagement with stakeholders and broader communities (see ACCA research, above). Social media (including Facebook, Twitter, and Google search) will reveal more data (including alternative reporting) than any corporate assurance report and stakeholders will use tools to interpret “big data” (see ACCA’s Big Data: It’s Power and Perils).

Future accountants will increasingly need education in digital technology, globalisation, and evolving regulations.

Second, continued globalisation will create more opportunities and challenges for members of the accounting profession. While globalisation encourages the free flow of money from one capital market to another, enhanced overseas outsourcing activities and the transfer of technical and professional skills will simultaneously continue to pose threats to resolving local problems (with different cultural, financial, and tax systems). Accounting firms in the US, EU, and Australia are outsourcing services to India and China for the purpose of cost minimisation, which will create a shift in employment within the accounting industry in the West. As globalisation has already been negatively impacted by Brexit and Trump's presidential victory, accounting professionals are likely to see themselves having a role in this transformation.

Third, increased regulation, and the associated disclosure rules, will have the greatest impact on the profession for years to come. For example, increased regulation is imminent because of massive tax avoidance, transfer pricing, and money laundering as exposed via the panama papers. Many professional (tax) accountants will be affected by intergovernmental tax action to limit base erosion and profit-shifting.

The regulatory concern for different social and environmental issues, along with the associated measurement and reporting complexities of these issues, has allowed accounting professionals to open their minds to the possibility that accounting has the capacity to change.

Additionally, because of greater public pressures and stakeholder expectations, social and environmental considerations are getting importance alongside economic concerns in contemporary organisations. We see a range of stakeholder groups* including

At present, accountants lack knowledge in transformation of new disclosure regulations, new forms of disclosures, and awareness of the interconnectedness of financial and non-financial reporting.

shareholders, workers, governments or regulators, non-governmental organisations, media, and the community have a growing interest in organisational social and environmental issues. Because of the widespread stakeholder concern and associated regulations toward social and environmental considerations, contemporary organisations are facing challenges to find sustainable solutions to deal with the complexity of integrating financial, social, and environmental performance. Quite tied to this, new forms of regulation (such as integrated reporting, which is required for South African-listed companies, and supply chain transparency disclosures, which are required for many California-based companies) are emerging and members of accounting organisations are already engaged in this transformation.

The regulatory concern for different social and environmental issues, along with the associated measurement and reporting complexities of these issues, has allowed accounting professionals to open their minds to the possibility that accounting has the capacity to change. The important implication is that all professional accountants will be expected to look beyond the numbers, which will, in turn, enhance collaborations among members of multiple professions, including accountants, doctors, lawyers, environmental scientist, sociologists, and so on.

The regulatory concern for different social and environmental issues, along with the associated measurement and reporting complexities of these issues, has allowed accounting professionals to open their minds to the possibility that accounting has the capacity to change.

Implications for Teaching

Future accountants will increasingly need education in digital technology (including cloud computing and use of big data), globalisation (outsourcing of accounting services), and evolving regulations (tax regulation, new forms of corporate reporting,

integrated reporting regulation, and so on). The ACCA report revealed that knowledge of digital technologies is the key competency area where professional accountants have skill gaps. At present, accountants lack knowledge in transformation of new disclosure regulations, new forms of disclosures, and awareness of the interconnectedness of financial and non-financial reporting. Professional accountants will need the skills to provide more all-inclusive corporate reporting, which tells less about the numbers and more about the narrative of the organisation.

Unfortunately, at the moment, few universities have developed curriculums for accounting students in line with their future needs. Universities will need to develop or incorporate new units, such as cloud computing, big data, digital technology, integrated reporting, carbon emission accounting, and so on for accounting students. Professional accounting organisations should consult with universities to collate experts/lecturers in the new areas and run new courses. At the same time, universities should either invest in existing faculty members for training and learning or recruit experts to coordinate and lecture new units.

Implications for Research

Big accounting firms are conducting surveys on cloud computing, big data, technological change, new forms of fraud and corruption, and corporate sustainability in order to address the ongoing and future opportunities and challenges facing the profession.

KPMG, for example, has produced survey reports on cloud computing, fraud/corruption/bribery and corporate sustainability.

A growing number of accounting academics are investigating more narrative corporate reporting. A growing number of accounting academics and their PhD students are looking at social and environmental sustainability issues and the associated global frameworks, such as global reporting initiative standards, the UN global compact, social accountability, and so on. Accounting researchers are organising some national and international conferences, such as Centre for Social & Environmental Accounting Research (CSEAR) and Asia-Pacific Interdisciplinary Research in Accounting (APIRA), to disseminate their findings to the wider community.

Professional accounting organisations, including Chartered Accountants Australia and New Zealand, CPA Australia, and the ACCA (UK) are providing seed funding to academic researchers to investigate issues in line with future economic, technological, social, and environmental changes.

Despite ongoing efforts by professional accounting organisations and academic researchers, there is a surprising gap in research that deals with the changes that will impact accountants and professional accounting organisations. Future research should drive industry collaborations and collaborations between inter-disciplinary academic researchers in order to reveal strategic responses to and pro-active strategies on changes in digital technology, the continued globalisation of standards, and new forms of regulation and associated stakeholder expectations.

Practice Management



To help improve the management and operational efficiency of practices, especially Small-and Medium-Sized Practices (SMPs), this area is intended to help those managing practices to address opportunities and challenges; improve their competitiveness, profitability, and sustainability; enhance their expertise, competence, and efficiency; create an environment conducive to the provision of high-quality services; and showcase global best practices and latest practice management techniques.

What Do We Mean by Practice Management?

Practice management covers a wide array of topics, both operational and strategic, to do with running a successful accounting practice. Topics include marketing, networking, pricing, human resource management, practice development, merging or purchasing a practice, succession planning, compensation strategies, recruiting and retention, billing and collection, administration, leadership, and more. Not surprisingly, the theories, techniques, approaches, and tools of practice management share much in common with those in managing a business. Practice management will likely get more sophisticated as the practice grows.

Why is Practice Management Important?

Effective management is essential to the success of any organisation, accountancy practices included. In large part, it is about recognising opportunities and taking advantage of them to the benefit of the organisation. Practices, from those starting out to those winding down, are faced with a myriad of issues and concerns—and these issues and concerns get more acute as the market for professional accountancy services becomes increasingly sophisticated, competitive and global. For a practice to succeed in today's competitive marketplace, it has to cope with and manage these issues. Practices are continually evolving, and their practice management needs constantly changing.

To see how their needs are changing and what is driving practice profitability, see the results of IFAC SMP Quick Poll from the link: (<https://www.ifac.org/publications-resources?publication-type=21&source=37&language=87&keyword=Search+Publications&x=7&y=6>) which each time asks respondents to identify the biggest challenge they are facing as a small practice.

Key Aspects of Practice Management

Key aspects of practice management include the following:

- **Strategy and planning:** Practices need to build a strong foundation to ensure their success. A strong foundation starts with a clear strategy and a plan to execute it.
- **Practice models:** Practices will need to consider the best structure and model to use as well as determine profit sharing and decision making within the firm.
- **Business development:** As practices grow, they will increasingly need to consider issues like developing a growth strategy, coping with increased regulation and competition, pricing, marketing and client relationship management, what services to offer and which clients to serve, and building a firm culture. Professional services range from the more traditional offerings of audit, assurance, accounting, and tax to emerging areas of advisory and reporting such as sustainability and integrated reporting. Successful firms can be highly specialised or general; they can focus on traditional accounting services or value-added advisory services. Advisory services is one of the fastest growing service areas as organisations, especially smaller ones, increasingly look to accounting firms for advice ranging from regulatory compliance to doing business overseas and adopting sustainable business practices.
- **Networking and networks:** In order to gain new clients and access expertise, many practices use different forms of networking, from traditional face to face to electronic social media, as well as joining networks, associations and alliances of practices as a means of obtaining client referrals, providing clients access to other experts and gaining access to resources and tools.
- **Marketing:** Attracting and retaining clients is a primary challenge facing practices, and securing new clients is one of the main drivers of future profits. This makes marketing and client relations one of the keys to success. Effective marketing and client relationship management demands communicating your value and services as well as knowing your clients, existing and potential—their challenges, aspirations, needs, and preferences. Practices need to understand how best to develop and maintain client relationships, including strategies to improve and cement client relationships.
- **Human resource management:** Staff and the firm's leadership are arguably the most important assets of any firm and, as such, crucial to the provision of high-quality services and the ultimate success of the firm. Key issues to address include how to attract, retain, motivate, and train staff.
- **Information technology:** It is critical for firms to adopt best practice in respect to emerging technologies, such as social media, smartphones, and cloud computing, as these technologies can help marketing and talent recruitment, reduce costs, and offer new client service opportunities. Cloud computing presents both opportunities—lower cost, wider geographical reach, and new services—and threats, such as the ability of SMEs to perform certain basic accounting functions themselves resulting in a reduction in the demand for such services from practices. Effective selection, implementation, and management of technologies, as well as training employees to use them, are fundamental to the success of any firm.
- **Risk management:** Risk management is important to practices especially those in more litigious jurisdictions where the

number and size of legal claims have increased over the years. There are frameworks and standards for identifying, evaluating, and acting on risks within a firm. Risk management includes ethical issues and safeguards that can be used to deal with ethical threats, the role of quality control systems, and additional risk mitigation, such as insurance.

- **Succession planning:** As professional accountants in practice age, their thoughts inevitably turn to the value of their assets within the firm and their exit strategies from the firm. Hence, it is important that the practice has a succession plan that allows for the orderly exit of practitioners and a strategy that can be implemented to become succession ready. Succession planning includes discussing valuation and pricing, and options for consolidations, mergers, and internal and external buyouts.

Governance



What Do We Mean by Governance?

The ultimate objective of governance is to create and optimise sustainable organisational success and stakeholder value, balancing the interests of the various stakeholders. It comprises arrangements put in place to ensure that organisations define and achieve intended outcomes.

Why is Governance Important?

Organisations strive to be competitive and sustainable over the long term; core elements of this are creating and optimising organisational success and stakeholder value, effective resource utilisation, and accountability. Governance should, therefore, be more than a compliance exercise designed with the sole purpose of satisfying regulatory requirements—it should involve both compliance and performance.

Governance encourages better organisational decision making and accountability for the efficient stewardship of resources. It is also characterised by robust scrutiny, which provides important pressure for improving organisational performance. Effective governance affects the entire organisational cycle:

strategic planning, resource utilisation, value creation, accountability, and assurance. Such a holistic approach ensures that governance is not 'bolt on' but 'built in'—integrated into all aspects of an organisation.

Successful organisations benchmark governance procedures and practices against their peers. They regularly evaluate results to ensure the continuing effectiveness of their governance practices, and adapt and improve them for future opportunities and threats as the organisations and their environments change.

Global Perspectives on Governance

The recent financial and economic crises exposed many corporate governance weaknesses—most clearly in the financial services industry—as causal factors, or at least aggravating factors.

A positive effect of these crises is that they create momentum for change. Indeed, after each new crisis there is much debate about governance actions needed for organisations to move on and avoid future social, environmental, and economic crises. This momentum for change can also be leveraged to transition from costly compliance-focused systems to more value-creating ways of governance, leading to more sustainable performance.

Currently, a large number of stakeholders—including governments, regulators, oversight bodies, standard setters, and professional bodies, as well as international agencies and organisations, such as the International Organisation of Securities Commissions (IOSCO), Organisation for Economic Co-operation and Development (OECD), United Nations Conference on Trade and Development (UNCTAD), and World Bank—are debating governance challenges and solutions. Together, these organisations will have a significant impact on determining the necessary and feasible changes for organisations and economies.

The accountancy profession—including professional accountants, professional accountancy organisations, and International Federation of Accountants (IFAC)—is also urging that organisations around the globe evaluate and improve their governance arrangements in order to achieve more sustainable social, environmental, and economic performance.

The Role of Accountants and the Accountancy Profession

Professional accountants in business are typically involved in planning, implementing, executing, evaluating, and improving governance in their organisations. Similarly, many organisations seek advice from their accounting firms on how to improve their governance. In addition, many professional accountants in business have a responsibility to provide objective and accurate information and analyses to support these activities, as well as overall responsibility in governance areas, such as external business reporting. These factors put professional accountants in an excellent position to ensure that governance is integrated throughout an organisation—into its very DNA.

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DISCOURSE

Is character relevant to leadership?



Qasim Abbas, FCA
Toronto, Canada

Yes, theoretically, character is most relevant to leadership – a true leadership, be it of a group or of

an organisation or even of a country or of a nation. The most practical example of leadership with noble character is of our Prophet (PBUH). He led the whole Muslim Ummah i. e. Muslim nation with his true leadership having excellent and noble character. Even Allah SWT gave him tribute for his character with these Quranic verses "And (O Messenger), verily, you are on an exalted (standard of) character." (The Holy Quran – 68:4), and "O mankind, indeed you have, in the Messenger of Allah, a beautiful pattern of conduct." (The Holy Quran – 33:21)

Even a prominent Christian author and historian Michael H. Hart in his famous book, *The 100 – A Ranking of The Most Influential Persons in History*, has given our Prophet (PBUH) as No. 1 among 100 most influential leaders in the history of human being based on his leadership with his excellent and noble character. Being a Christian, the author did not place as no. 1 Jesus Christ, Jewish preacher, religious leader; Alexander the Great, King of ancient Greek kingdom of Macedon; or any other prominent personality in human history. Human history has proved that our Prophet (PBUH), having the noblest and excellent character proved to be the greatest of great true leaders in every aspect of life in human history.

If we take only two examples from the 20th century's great leadership, we can surely conclude that character was most relevant

and essential to great leadership. One solid example is of Pakistan's Father of the Nation, Quaid-e-Azam, Mohammad Ali Jinnah, whose character was spotless. Due to his character, he is now regarded as Quaid-e-Azam, meaning the Great Leader. A second example is of the Indian leader Mohandas Karamchand Gandhi, whose spotless character made him Maha Atma, meaning the Great Soul.

Therefore, we can safely say that character is relevant to true and selfless leadership in every aspect of life.

However, in this 21st century, practical point of view, in every aspect of life, be it world politics, business, commerce, education, profession, society and even religion, character is of least relevance to leadership. This is due to the tendency of nepotism, hereditary tradition,

opportunity, etc. When this tendency takes place, the importance of character is left behind, and the leadership becomes hollow leadership, lacking the spirit of true leadership. The valid argument for this is proved very correctly from the Panama Papers scandal, where hundreds and hundreds of great leaders of the world in various fields were exposed for tax evasion, thus causing tremendous loss to the exchequers of their country. How can we say that these great leaders were having good character for leadership while involved in mass corruption?

In today's 21st century, in many cases, in the corporate/business and political world – and also in many other fields, be it social, educational, professional – the core of leadership is regarded as opportunity. In every aspect of life, we can find characterless individuals, who are considered as leaders, leading a particular group, institute, organisation or nation. When they are exposed and their scandals are known publicly and proven in court of law, the fingers are pointed towards them about their character.

To prove the above mentioned point, let us take a couple of earlier examples from characterless leadership in politics, corporate sector and religion. On the political front, the former prime minister of Pakistan Yousuf Raza Gilani, considered a leader, was convicted for corruption and was disqualified to hold a public post for two years. On the corporate front, it is an open secret that Pakistan's giant corporations Water and Power Development Authority (WAPDA), Pakistan International Airlines (PIA), Pakistan Steel Mills, etc., have incurred losses in billions of rupees due to characterless leadership. On religious front, the former minister of Hajj was also convicted for biggest fraud and was put into prison as well, after he was convicted by court of law.

We have also witnessed many characterless leaders of nations and also of giant corporations of the world, who were convicted of crimes committed by them while leading their nations and the corporations. Based on these facts, can we say that in these leaders, was character relevant to their leadership? Surely, it was hollow leadership and not true leadership.

Character, which is most essential for true leadership, can play vital role in fulfilling leaders' obligations towards taking the group, organisation, nation etc., which is led by them, on top and at

peak level of progress and development. Contrary to this, characterless leadership i.e. hollow leadership can ruin the group, organisation or nation, as it is apparent from the case study of giant organisations like WAPDA, PIA, Steel Mills, etc.

Based on the above facts, leadership can be of three categories:

- True leadership, based on excellent and noble character.
- Hollow leadership, acquired based on nepotism and hereditary tradition, not involving character.
- Mixed leadership, acquired based on opportunity.

The bottom line is that theoretically, character is most essential and relevant to true leadership in every aspect of life. However, practically, when opportunity, nepotism, hereditary tradition, etc. cause dent in this theory, then character is left behind by the opportunists and then the leadership becomes hollow, lacking the true spirit.



Muhammad Kamran Nasir, FCA
Toronto, Canada

Since the universe is a combination of 'virtuous' and 'evil' characteristics, human beings face 'good' and 'bad' in their life. Fortunately, despite variant human beliefs, lifestyles and virtues, the fundamental standards of morality and ethics are substantially same across the globe. This gets more relevant when it comes to one's role in fiduciary capacity that is intrinsic premise of the leadership concept. Therefore, whenever its qualitative aspects are evaluated, the preliminary ideas which come into consideration are the background, integrity, attitude, and honesty of the leadership. No one wants characterless and corrupt people to lead, and if there are such allegations on the leadership, it has to undergo a transparent accountability process to either uphold the allegations or to prove them baseless.

What the term 'character' exactly refers to? We can understand the significance of 'character' once we identify what it entails, how it is developed and what impact it carries for individual and collective lives. There had been extensive debates among ancient Greeks about why the personality traits and behavioural outlook of different people contrasts world apart; some strive for excellence, high integrity and a pristine

way of life, while others tend to remain indifferent, commit lapses and don't even mind doing criminal acts.

Researchers have been trying to find out the balancing point among the genetic attributes to one's character and personality traits, surrounding environmental effect, and one's own endeavours to evolve based on learning and practice. Some of recent behavioural studies have established a significant contribution of genetics in development of personality traits, specially the character. However, none of the study could outweigh the importance of other vital aspects e.g. the surrounding environment and the way people are raised, trained and educated.

Origination of the word 'character' can be traced back to the Greek word 'charattein' which means to inscribe or imprint. This indicates that mankind had an outright belief that character can be inscribed or engraved in one's behaviour, even if it does not travel through genes in some cases. This can further be understood and concluded from Holy Quran, Chapter 53, verse 39 that says: "There is nothing for human being except what he strives for."

In my view, leadership calls for three basic characteristics i.e. ability, attitude and character. All of these characteristics develop and keep strengthening throughout one's life based on decent upbringing, learning, practice and following the examples set by those idealised. Leadership itself is visualised as best example by the masses and for that reason, besides being smart, wise and effective, it should also be clean, flawless and immaculate. Without being spotless on the scale of morality, no leader on earth can urge the people to be compliant with laws and regulations, to pay their taxes, to meet their obligations, to co-exist in the society, and to exhibit integrity and positive attitudes leading them towards collective goals of human development, fiscal and technical progress, and achieving a peaceful and serene social life. Leadership brings the desired turnaround only by leading with its own example. That's why character and integrity are of fundamental importance to the effectiveness of leadership.

Unfortunately, Pakistan has so far went through different bad patches and most of times its difficulties persisted because of lack of above-board, selfless and honest leadership. To deal with this, we need to have in place remedial strategies

and contemplate a swift change on innumerable counts, the most important of which is to educate the masses. Our intellectuals need to urge the people to educate themselves and their children, our think tanks and pressure groups need to convince the governments to invest more in basic and higher education and make human development conducive policies, our charity organisations should make their contribution through awareness programs, and each one of us needs to realise how important it is to pay consideration to the character of leadership while exercising our democratic right of voting.



Uswa Sikandar, ACA
Lahore

Anyone who encourages others and stimulates trust, loyalty and respect in them, naturally attracts

followers and thus becomes a leader. Tags like CEO, president, chairman, etc. do not qualify as leaders unless they inspire people to follow their dreams, pursue their ideas and stir motivation and hope in them. Leadership is derived from character. The criteria of a leader is possession of qualities like vision, determination, integrity, self-discipline, charisma, pressure handling, entrepreneurship, assertion, reception, constraint, flexibility, etc. which are all the hallmark of a strong character. It is for precisely the same reason that people like Mahatma Gandhi, Indian independence leader; Nelson Mandela, South African anti-apartheid revolutionary, politician; Zulfikar Ali Bhutto, Pakistani politician and Abraham Lincoln, American politician, lawyer are stamped as leaders while Asif Ali Zardari, Pakistani politician and Donald J. Trump, American president are plain presidents.



Zuhair Akram Shaikh, ACA
Karachi

The well-known Greek philosopher, Aristotle, regards 'character' as the ultimate aim

of human life. Character, indeed, is a pre-requisite to shape a charismatic personality. Development of character is not an easy task, instead, it requires conscious efforts; it is not a destiny, but an ongoing perpetual process that must continue throughout an individual's life. In the words of American politician and diplomat, Eleanor Roosevelt, "Character building begins in our infancy, and continues until death."

The business world has ultimately realised the importance of the character in leadership and the same is being gradually incorporated into the corporate culture. According to the former chairman Johnson & Johnson, Ralph Larsen, character is essential for leadership, it helps a company in achieving competitive advantage. Thus, recruitment of people with exceptional character is the need of time.

In my opinion, a strong character is something that makes true leaders. Both character and leadership are closely linked together. To summarise, "Character matters; leadership descends from character." – Rush Limbaugh, American radio talk show host.



Masood Ahmed, ACA
Karachi

Character describes the values of leaders like honesty, integrity, wisdom, simplicity and sincerity. Most people

admire the values of their leaders and consider them as a role model. Character influences leadership and leadership influences job and career. The ultimate character we all must be concerned about is our own.



Muhammad Athar Jamal, ACA
Karachi

John Mellecker, American financial services company executive, once

said, "Leadership is the creation of an environment in which others are able to self-actualise in the process of completing the job."

I believe, yes, character is very much relevant and pertinent to leadership. Character affects leadership and leadership affects career. Having good character traits will impact people positively and make you a successful leader. Much of what is written, discussed and taught about leadership in business today revolves around how to lead other people and about how to lead within an organisation. In my view, character is evident in a leader's values or the beliefs that influence behaviours and leaders of good character significantly have integrity, courage, compassion and prudence.

Nevertheless, good character is a leadership quality that distinguishes great leaders from others. The whole world

acknowledges the fact that our Prophet Muhammad (PBUH) is the greatest leader of all times and even non-Muslims accept that our Prophet possessed an exemplary character. He is a great example of how to live and lead a pious and exemplary life on this earth. I would conclude with this Quranic verse (The Holy Quran – 33:21): "For you, the life of the Prophet is a good model of behaviour."



Mudassar Ghulam Nabi, ACA
Islamabad

Character, indeed is most relevant. A followable personality, inspiring speech and

great vision are some of the necessary ingredients of leadership recipe and these cannot be achieved without a strong character. We have a very good example of an all-time great leader, Prophet Muhammad (PBUH), who was a 'Man of Character' before being a leader, and the whole world witnessed his astounding leadership on the principle of 'lead by example.'



Aamina Khan, ACA
France

"Nearly all men can stand adversity, but if you want to test a man's character, give him power." – Abraham

Lincoln, American politician and lawyer.

A leader of any group has implicit and explicit power and therefore, his or her character is very relevant. What is a good character? It is having the courage to live life according to time-tested values and principles of integrity. After all, if you're not honest, you cannot be authentic in your relationships, be it in the workplace or the household. If you do not treat others with respect and courtesy, you will never be able to earn respect from other people. If you're not responsible and do not own your mistakes, your followers cannot look up to you. They will always remain in a state of uncertainty and be ready to receive blame for things they did not do. If you do not have the qualities of compassion, fairness and forgiveness then the group you lead will most likely not be happy with your manner of conflict resolution. If you are not courageous and optimistic, you will not take up bold initiatives and steer the wheel towards uncharted territory, neither will you be able to inspire the much-needed confidence in your followers when

the team sets out to take up a new venture. If you are not reliable and self-disciplined, people will not be able to tell whether you will follow through with your commitments and do everything it will take to reach a desired goal.

Given that the presence or absence of the above good character traits can either make or break a team, character is not only relevant but extremely important for leadership.



Khizar Hayat, ACA
Lahore

To start with a saying, "Adeptness to passage of rightness is dependent on hard work while handling of rightness also needs hard work. Both inputs are struggles with difference in result: success and failure in eternal life."

From the above inference, be that illuminatory theme of struggle for rightness mounted human character. A good instance from our history is when garbage was thrown on the path of Prophet Muhammad by an old woman but his reaction in return was compassion. In her absence, the Prophet visited her and asked about her illness. This incident shows the totality and completeness in character and an everlasting lesson.

With reference to human creation messengers were sent by Allah to lead and preach about odds and evens and follow the right course of actions.

Character evolves throughout the life cycle with interactions and it gets reshaped with education.

Like a single seed multiplies in hundreds, similarly, character builds a whole crop with multiple grains. The West believes that the world is magnified due to affection among humanity, while Islamic injunction complemented it with the principle of sacrifice for humanity.

Patience, humbleness, esteem posturing, righteous attitude, inner satisfaction and contentment all complement, character traits.



Adil Ali Abbasi, ACA
Karachi

Leaders with character achieve results that go beyond everyday organisational necessities and

outcomes. Often leaders with character have been identified as authentic leaders; we expect good leaders to be strong in character; that is, to have a moral imperative underwrite their actions. They are what they believe in: show consistency between their values, ethical reasoning and actions; develop positive psychological states such as confidence, optimism, hope, and resilience in themselves and their associates; and are widely known and respected for their integrity. Authentic leaders while moving the business forward keep the employee motivated, help them grow and inspire them to be great.



Rija Salim Mangroli, ACA
Karachi

A true leader encompasses major qualities which stems from his character, a weak character would make a weak leader. Amongst the many traits of a true leader, he has to be the one who is inspiring, confident, honest, passionate and hard working. The path of a leader is not always smooth and only a person with a strong character, along with a will to fight, will reach the top of the ladder. The competition for the leadership position is fierce and one has to be able to handle the power and pressure which comes with that position else with the passage of time, flaws will become apparent, leading to signs of weakness in the leadership.

Leaders can be divided into two broad categories: people who have a weak character, never qualify for leaders. The second type are those who have the best of character but when they reach the top level, the power of authority gets to their heads and they lose the essence of their true character which turns them into failed leaders. True character of any person is demonstrated when one faces pressure or a setback and still manages to rise above it. It can be rightly said that character can make or break a career. Successful leaders have extraordinary characters.



Haroon Asghar, ACA
Faisalabad

Character plays a very important role in leadership. In order to lead, the person should not only have the required expertise but also the inherent capabilities to make others follow

him. These inherent capabilities form the character of the person and therefore it is integral to the leadership.



Muhammad Ahmed Qureshi, ACA
Kingdom of Saudi Arabia

Character is truly relevant to leadership.

A person cannot be a leader without a good character. We have seen a widely used term 'the character ethic' in various management literatures. The character ethic teaches that there are some basic principles of effective living, and that people who want to become a leader can only experience true success and enduring happiness as they learn and integrate these principles into their basic character.

A leader must have an exemplary character that shows integrity, bravery, perspective, social intelligence and other positive character strengths, virtues and values like humility, fidelity, temperance, courage, justice, patience, industry, simplicity and modesty. All of these character ethics are critical for effective leadership.

Leaders with integrity walk the talk. They are consistent, honest, moral and trustworthy. Their deeds match their words. Leaders without integrity can't be trusted – by their colleagues, their bosses or the public – and inevitably that will lead to problems. Bravery is also vital for leaders; they don't shrink when they face a threat or difficulty. They need the courage to take the lead on unpopular actions. Top executives need a broad industry and business perspective to understand the environment in which the organisation is competing. Middle managers need perspective to engage effectively in change and strategy formulation. Social awareness is the awareness of the motives and feelings of yourself and others around you.

In the end, I would like to reiterate what Bill Gentry, the Greensboro, American senior researcher mentioned in his research 'Irony of Integrity' that the level of leadership (management level) is also very much important while deciding on necessary characteristic abilities. For example, integrity, interestingly, is not the key criteria for success by middle managers according to performance ratings. For them, the study indicates that social intelligence – understanding the people and situations around them – is key. On the other hand, integrity is crucial at the top.

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Waseem Hassan, ACA
Karachi

Starting with the affirmation that character is relevant to leadership; most would agree that it is. No

matter who the person is on the leading side and who are the followers and what are their motives as an organisation, party, team or group; all followers look upon the character and leadership style of their leader. The character of the leader is very much relevant for a successful leadership and a successful organisation. To support this statement, I would ask you to enlist leaders that you know or have read about and see if they had good or bad character and how successful or unsuccessful were they. The best I can think of is Prophet Muhammad (PBUH).



Shiraz Noordin, FCA
USA

According to Bill Hybels, American author and pastor, "People will not follow a leader with moral

incongruities for long. Every time you compromise character, you compromise leadership. The foundation of firm leadership is character." In tandem with this quote, I completely agree that character is definitely relevant to and significantly matters in regard to leadership. This is because that among the various reasons that people follow a leader, one of them is the way a leader conducts him/herself in times of trial and tribulation, and particularly how he or she relates to others. And these things, I believe, are a reflection of a person's character. Thus, I believe that a leader who does not have a strong, appealing character will not have a lot of followers because people won't find that leader unique or different from them.

A leader is someone who has some sort of a defining characteristic or trait that sets him/herself apart from followers, and I believe that character is definitely one of those things that can cause a person to be viewed as a leader and set him/her apart from others. Thus, I believe that a leader who does not have a strong character will not be appealing to people and subsequently will have less followers. Further, I believe that not only is character an important aspect in initially establishing someone as a leader, but also it is significantly important during the tenure of one's leadership. A leader is someone whom people closely look up to in a view to emulate and/or learn from, and if a leader, during the tenure of his/

her leadership, is unable to continually demonstrate good, strong character, then he or she is more prone to losing followers easily (as also expressed in the quote by Hybels).

Hence, I strongly believe that character is relevant to leadership because not only is character crucial to initially establishing one as a leader (by virtue of serving as a distinguishing factor from others/followers), but also it is critical during the tenure of one's leadership and directly correlates with how long people continue to follow a leader.



Syed Imtiaz Abbas Hussain, FCA
Karachi

Character is the foundation of a fine tuned person and such a person

undoubtedly contributes to the success and sustainability of a good leadership.

Character means the mental and moral qualities distinctive to an individual and a leader is a person who leads or commands a group, organisation, or country, who may be a head of the family, head of an organisation or a head of a country.

Character of a person may be good or bad. Likewise, a person who is a leader may be a strong or a weak leader. A strong person can be good or bad. A gang leader is an example of a strong person with a bad character, while an outstanding organisational, government or a group leader is one who carries both strong and good characteristics. An organisation, a group or a country needs leaders with both strong and good characteristics — people who will guide them to the future and show that they can be trusted.

Traits are the distinguishing qualities or characteristics of a person, while character is the total sum of these traits. There are hundreds of personality traits, difficult to be discussed here. However, there are several traits that are crucial for a leader which includes integrity, humility, courage, humanity, drive, accountability, justice, collaboration and judgement. The more of these you display as a leader, the more your followers, employees or people will believe and trust you.

Character is an amalgam of traits, values and virtues. Traits, such as open-mindedness or extroversion, may be either inherited or acquired; they predispose people to behave in certain ways. Values,

such as loyalty and honesty, are deep-seated beliefs that people hold about what is morally right or wrong or, alternatively, what makes the most sense to do, or not to do, in running a business. Virtues, such as courage or accountability, refer to patterns of situational appropriate behaviours that are generally considered to be emblematic of good leader.

Some elements of character, especially basic personality traits, are inherited — which usually refers to the family background and family values which includes integrity and honesty. You develop integrity and become a completely honest person by practicing telling the truth to yourself and others in every situation. While others traits are acquired through early childhood development, education, experiences in both work-related and socially-related organisational settings, as well as later-in-life experiences that mold character.

Character is revealed by how people behave in situations. For example, we don't know whether individuals have courage until they've faced a major challenge or danger and done the right thing. Similarly, we don't know if they have humility unless they've experienced failure, acknowledged it and learned from it. Whether or not they have integrity, can only be assessed by how they have responded to situations that tested that integrity under pressure. It is not what you say, wish, hope, or intend that reveals your character. It is only your actions, in the face of adversity and possible setbacks or losses. For example, dealing in situation where you are losing and other person is gaining, like dealing in business transaction, doing justice, settling family dispute, etc. The perfect example of such an ethical leader is Prophet Muhammad (SAW) and the Caliphs.

When it comes to selecting and assessing a leader, the most important criteria is to consider competencies, commitment and character of a leader. Leadership character is the most neglected criteria among these three and the most difficult to talk about. Character is foundational for effective decision-making and justice. It influences what information they seek out and consider, how they interpret it, report the information, and implement management directives, etc. The leader should consider these above cited traits of character in their governance roles.

In the end, I quote US treasury secretary Paul O'Neill that, "There is nothing better business leaders can do for this country right now than restore faith in the system that has made it great. To do that, we must make character a priority in developing and choosing our leaders."

Am I a Manager?

by Faran Ahmed



I was invited to a dinner at my uncle's apartment along with a few others. They all were having a random chat on different topics, and I wasn't really paying attention to anyone specifically until I heard the word 'manager.' I, being unaware of the context, heard my uncle giving an example to some person next to him, "If any person asks anyone about how to become a manager cannot become a manager, just like a person entering a showroom of luxurious cars and asking for the price cannot purchase the car." These lines hit me hard and I thought of every acquaintance I have ever come across with a managerial position.

In modern organisations, managers' roles are important as they have to efficiently convert decisions of the strategic management into actual results through utilising resources. "Leadership is the capacity to translate vision into reality." Efficient managers play a vital role in bridging the gap between operational activities and top management, and they should not be easily lost.

We all may have gone through working under different bosses and managers but at some point or another, there is always someone who stands out in that position and perhaps even motivate you to become like him/her. So, what was different about that manager? Let us identify some of the common traits that such managers might have, to stand out among the others:

Speak out

No one is going to listen if you don't talk; no one is going to show interest if you don't know how to talk. There are personalities whose distinctive quality is the way they talk. They can tell ordinary stories in such a tone and style that the audience surrenders to them. Managers with good and attractive persona have this ability to speak uniquely and interestingly to their audience and capture their attention.

Analyse yourself and you may find yourself lacking in your conversations and may not be getting the desired responses. The reason may be your voice pitch, tone, speaking through your nose, etc. Pick up your phone and start recording yourself and make use of the internet to overcome such deficiencies for your own good.

In touch

Everybody loves hearing their names being called. Try to put in a little effort by memorising your colleagues' names. This gives them a sense of importance and recognition at the workplace.

Ask them, "How is it going?" Even minimal interaction can boost affection unnoticeably. Ask them about some mishap they may have faced or about their children's education or maybe their vacation. Such little and friendly touches can make your image positive in a team member's mind.

Personality

Personality is not just being well-dressed and well-groomed, it is more complex and psychological. You perhaps think about different people in different situations like at parties, in parks, during a fight or during a card game. That's how these people build up their image subconsciously in other people's minds, which are often recalled in certain situations.

A good manager's image is often recalled in situations where critical dealings are in progress, negotiating with authorities, taking up responsibilities and providing solutions forthwith, cooling down heat, etc. Ask yourself, do you fit in any such criteria in any part of life, not just your professional life?

Team driver

Managers should be able to achieve $1 + 1 = 11$ from their employees by assigning the best jobs to the employees having the most suitable skills. A great team providing synergy depicts quality of resource allocation and management, determination, communication, goal settings of an able leader. For example, if a team member possessing good computer skills has been assigned negotiation with a party, won't get optimum results.

Congeniality isn't always needed, nor stiffness serve you better all the time. It's all a matter of time and demand of the environment. A good manager must be able to identify and analyse its group member behaviours, motivating and demotivating factors, demand for the prevalent environment, etc.

Equity

Equality doesn't mean equity. Performance appraisal is a tool to help here. Managers must take an active part in formulating, explaining the mechanics and its importance for all the employees. Equitable treatment is important for rewarding persons giving out their best together with keeping the low performers motivated.

Clear and open

Clarity builds trust and confidence, which also helps in honest, crucial and critical feedbacks. The more clear and open you are, the less people will come up with their problems as they know that how their points will be considered and solved on merit and in transparent manner.

Of course, clarity and completeness is also important in goal setting. Be specific, brief words without losing the meaning, as incomplete messages may cost higher than expected in terms of time and money.

Taking over

Analyse your surroundings. You may find a few people who are just party takeovers. Such people come and irrespective of the topic under discussion, can contribute or even change the topic entirely. Such people possess remarkable speaking powers. And this quality can be learned through practice.

One more quality that builds up confidence, loyalty and respect of the managers is the ability to take responsibility for the teams' performance and come to its defense when required. This ownership of the team motto promotes the culture that enlightens the team members to put their best effort in projects. Less politics takes place, which results in better productivity.

Figure of confidence

When you feel powerful after an achievement, it gets visible in your behaviour, actions and reactions. A captain of a winning team earning Rs.10,000 in prize won't have the same expressions as the captain of runner-up team getting Rs.7,000 in prize.

Non-verbal communication is a deep science in itself. Honest leaders behave differently than dishonest ones. A powerful country's leader walks in a different way than a leader of a weaker country. A few studies about non-verbal gestures like when to fully open hands and when to close, how to move your head so it doesn't show that you're lying or that you don't know the answer, when to smile and when to laugh, when to chant and when to whisper, can add up to making and breaking a personality.

Milestones

Milestones are specific and short range goals that help the team lead towards a certain objective. A manager's efficiency to set SMART (specific, measurable, attainable, realistic and time bounded) goals can make everyone's life easy and free from useless disputes, saving both time and cost of discussing perhaps the same points over and over again. Remember "What you can measure, you can manage." – Peter Drucker

Checklists

"What was the 3rd thing I just said...? Oops!" Such blunders are often highly demotivating in crucial situations, usually in front of young members who may take the assignment lightly as such casual attitude points to a lack of seriousness from the manager's side.

Many people feel reluctant to write down task, things to do to remember, totally negating the fact that their minds might get occupied with unexpected calls of duty. Making checklists makes it easier to remember what obviously needs to be done on time. "You are not a manager, if you work after office hours." – You definitely wouldn't like to be associated with this quote.

Conclusion

Good managers can take the average to a superior level. While practicing management skills, the difference between a leader and a boss should also be considered as "people don't quit jobs, they quit bosses." Managers don't have to have all of the best qualities that you can come up with. It is just a matter of time when such attributes can play its role for the good of your team and your organisation. A constant behavioural change and learning more about the subject with interest can significantly impact one's personality favourably. Good luck to all, and happy management.



Competent & Versatile

How Professional Accountants
in Business Drive Sustainable
Organisational Success

The Drivers of Sustainable Organisational Success

Collectively, the drivers will
determine the long-term
success of organisations and,
hence, lead to sustainable
economies.

Clarifying and promoting the roles, activities, and professional skills of professional accountants needs to be done (a) within the wider context of understanding the drivers of high-performing sustainable organisations, and (b) with an appreciation of the emerging trends and developments in the business environment (see “Developing the Drivers of Sustainable Organisational Success”).

Eight drivers of sustainable organisational success provide the basis for understanding how the global accountancy profession needs to support the development of professional accountants, so that they can help organisations achieve sustainable value creation. The drivers are summarised in the chart, Drivers of Sustainable Organisational Success and explained below:

- **A customer and stakeholder focus:** successful organisations first and foremost create value for customers, which subsequently leads to value creation for investors and funders. Concurrently, organisations can only sustainably create value by taking account of the needs and expectations of other stakeholders. A customer and stakeholder focus involves ensuring that the whole organisation, and not just

front-line service staff, puts an understanding of customers and key stakeholder groups first.

- **Effective leadership and strategy:** achieving sustainable organisational success depends on effective and ethical leadership, which in turn enables coherent and focused strategy and execution. Above all, effective leadership and business strategy focuses on sustainable value creation over the long term. In decision-making processes, this means that long-term consequences of decisions should be taken into account, including how they impact operations, customers, employees, and the reputation of the organisation. Successful organisations have leaders that have a deep understanding of (a) customer and stakeholder needs, (b) the organisation’s capabilities to generate the required products and services, as well as (c) the opportunities and threats that stem from its competitive environment.

- **Integrated governance, risk and control:** sustainable value creation depends on how well organisations can integrate their governance, risk management, and control systems in all their activities and processes. Successful organisations integrate effective governance structures and

processes with performance-focused risk management and control systems. They ensure that good governance is more than a compliance exercise by facilitating entrepreneurial and prudent management, which leads to enhanced investor and wider stakeholder confidence.

- **Innovative and adaptive capability:** successful organisations meet changing market demands, or, in some cases, shape them. They continually innovate their products and services, and adapt their structure, processes, and systems to changed circumstances. Building capacity to develop sustainable products and services, and supporting processes and systems, requires investment in an innovative capability and supporting organisational culture.

- **Financial management:** successful organisations have strong financial management underpinning their decisions and performance. They ensure that financial strategy and navigation support long-term economic viability rather than only focusing on short-term earnings performance. A deep understanding of historical, current, and potential performance forms the basis of developing strategy and setting credible stakeholder and market expectations. Confidence in articulating where an organisation is going financially helps improve access to capital and the confidence of stakeholders. Effective financial management also involves delivering financial leadership in tax and treasury, cost and profitability improvement, working capital management, mergers and acquisitions, and raising finance and capital.

- **People and talent management:** organisations that attract and retain talent tend to outperform competitors. Successful organisations typically treat people and talent management as a strategic function and key value driver to their sustainable success. People and talent management are also significant success factors in the development of the finance function so as to better serve the needs of the wider organisation and ensure professional accountants remain competent and versatile.

- **Operational excellence:** successful organisations are disciplined in ensuring that resource allocation decisions align with strategic direction, goals, and objectives. They ensure that performance measurement and reporting systems measure progress towards the achievement

of strategic and operational objectives. Their business intelligence provides insight into the key drivers of shareholder and stakeholder value, and allows for better accountability for results, and for alignment of rewards with sustainable performance.

- **Effective and transparent communication:** successful organisations typically have a systematic and carefully planned approach to engaging and dialoguing with various stakeholders. Investor relations and integrated business reporting are opportunities for management to provide investors and other stakeholders with the longer-term prospects for an organisation, as well as a rationale and explanation for its vision, strategies, and results. Such organisations tend to excel in their reporting in terms of readability, usefulness, and relevance.

These drivers represent generically those areas in which successful organisations have tried to excel to achieve and sustain high performance and success. They are core elements of every organisation striving to be competitive and sustainable over the long term. Sustainability issues and factors (covering economic, environmental, and social performance) are integrated into the model so they relate to all of the drivers.

Although the drivers are not hierarchical, the first driver reflects the overriding need for all organisations to be customer and stakeholder focused. The underlying premise is that an organisation's long-term success will first depend on satisfying its customer (and in the case of the public sector, a service user) and other key stakeholder needs, with which all other aspects of the organisation need to be aligned. Other drivers will be to a large extent interconnected. For example, developing an innovative capability for better sustainable performance requires the right people and, therefore, a need to attract and retain talent.

Collectively, the drivers will determine the long-term success of organisations and, hence, lead to sustainable economies. Therefore, they are used in part 4 as the basis of defining the expected key areas of competency for professional accountants.

Developing the Drivers of Sustainable Organisational Success

The drivers were identified by drawing on various sources, including the CIMA Business Success Wheel (The CIMA Difference: Our Relevance to Business, p. 43)⁵ and management and quality frameworks, such as the European Foundation for Quality Management. There are various books and reports covering the characteristics of successful organisations, although isolating and identifying factors in determining organisational performance is fraught with difficulty not the least because of the challenges of measuring sustained performance.⁶ These drivers simply reflect the areas or functions in which successful organisations seek high performance.

The drivers were also identified in light of three megatrends—globalisation, complexity, and technology—which are influential overarching forces of change. These megatrends bring opportunities and challenges to the

business environment and drive change in organisations' strategies and structures, and, therefore, the expectations placed on professional accountants:

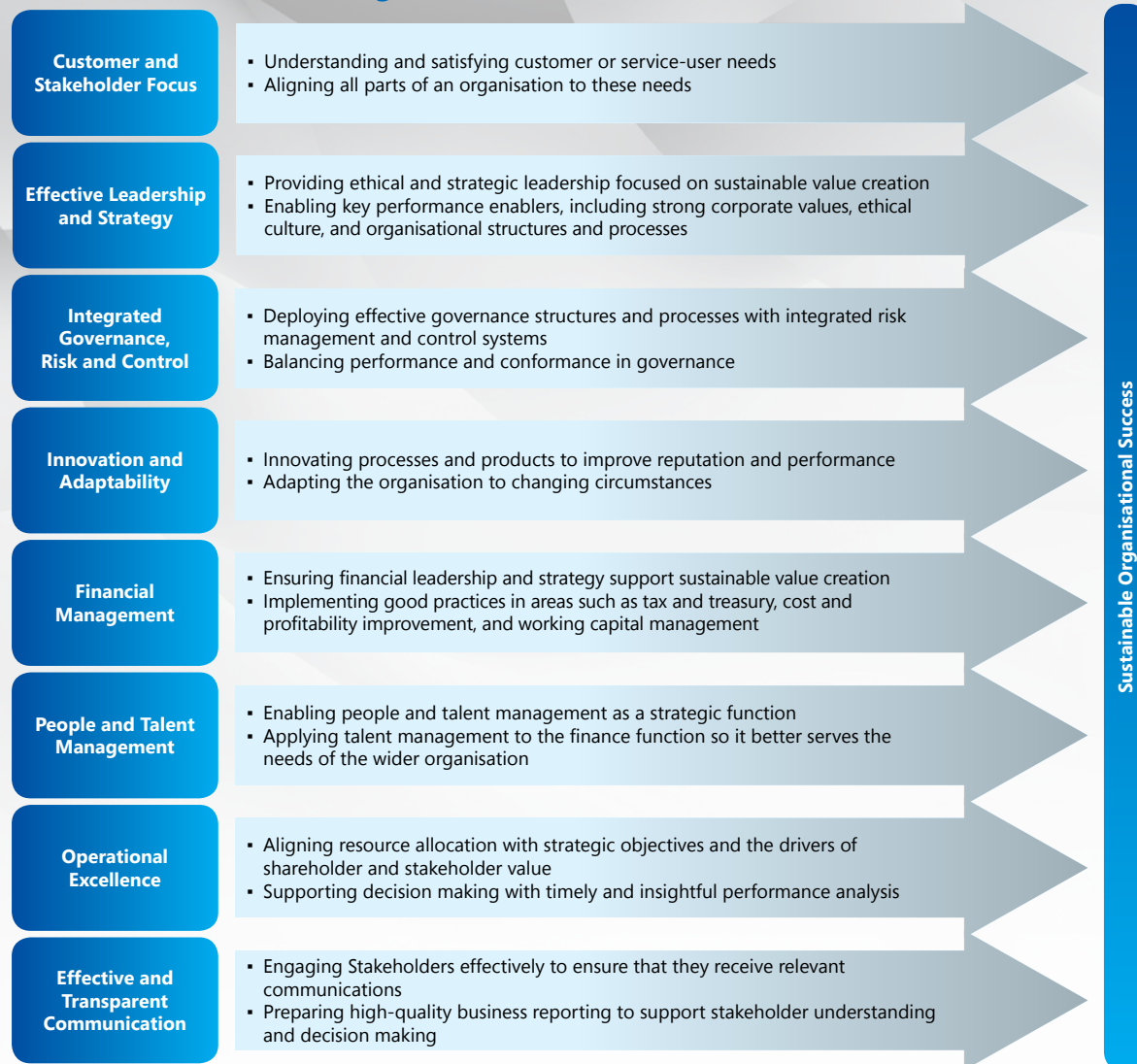
- **Globalisation:** two significant global issues are impacting organisations and markets and, therefore, the role of professional accountants. The first is the diffusion of economic power in the global economy across a wider range of regions and countries, underpinned by the deployment of information technology, greater economic openness, and the growing size and reach of multinational companies.⁷ The interconnectedness of increasingly global markets presents opportunities and challenges, such as the need for more effective governance, regulation, and oversight. Increased economic, environmental, and social pressures will force organisations across the globe to better meet demands for

more transparency, ethical commitments, and improved governance, risk management and internal control.

▪ **Complexity:** a growing world population is demanding new, better, faster, and less expensive products and services with ever more choices and options, at the same time expecting reduced social and environmental impacts. Increased economic activity creates a variety of strategic, governance, environmental, and social challenges, and adds to the complexity of the economic cycle. Organisations need to respond by becoming more efficient and adaptive, and ensuring that they have the information, knowledge, and capability to develop innovative solutions.

▪ **Technology:** technological evolution and development continues to present new dimensions for further growth with a constant stream of new products and services, delivered via new development, production, marketing, and distribution methods. In organisations, technology allows greater decentralisation where decision making is close to the customer. It also facilitates greater innovation by fostering collaborative relationships among a network of strategic partners and alliances. More powerful information and communication technology also enables access to greater business intelligence that drives management insights.

Drivers of Sustainable Organisational Success



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Unlike the professions, which involve a strong commitment to service, finance relies mainly on the search for gain, which can easily become greed.

Simply put, finance concerns other people's money and other people's money invites misconduct.

Finance Ethics & Financial Scandals

by Shiraz Noordin

Finance consists of an array of activities that involves the handling of financial assets usually those of other people. Not only does the welfare of everyone depend on the safeguarding and deployment of these assets, but also billions and billions of transactions take place each day with a high level of integrity. With this large volume of financial activities, there are ample opportunities for some people to gain at other's expense. Simply put, finance concerns other people's money and other people's money invites misconduct. Individuals in the financial services such as stockbrokers, bankers, financial advisers, mutual fund and pension managers and insurance agents/managers, have a responsibility to the employers, customers and clients they serve. Financial managers/chief financial officers in companies/corporations, government and other organisations have an obligation to manage well the financial assets of these organisations. It is, therefore, important that everyone else involved in finance in whatever role conduct themselves with the utmost attention to ethics.

However, a moment's reflection reveals that finance would be impossible without ethics. The very act of placing out assets in the hands of other people requires immense trust. Trust is essential in

We should aim not merely at the prevention of scandals but also achieving the highest possible level of exemplary ethical conduct. The goal should be not only to prevent the worst but also to achieve the best.

finance, but finance ethics is far more than trust. The ethics of an occupation or a profession is best understood not by examining the worst conduct of its members but by attending to the conduct that is commonly expected and generally found. In finance, as in other areas of life, three questions of ethics are critical:

- What are our ethical obligations or duties?
- What rights are at stake?
- And what is fair or just?

Beyond these more specific questions lies the ultimate ethical question: How should we live? In the case of finance, this question goes to the heart of the purpose of financial activity: What role should finance play in our individual lives and in the development of a good society?

Therefore, a comprehensive treatment of ethics in finances is necessary because of the diversity of financial activities and the range of ethical issues they raise.

Although the need for ethics in finance should be obvious, it is useful to understand both the misconduct that occurs all too frequently and its causes. Most people in finance are decent, dedicated individuals, but unlike the professions, which involve a strong commitment to service, finance relies mainly on the search for gain, which can easily become greed. Moreover, individuals operate within and through organisations, institutions, and system, including markets, which may be faulty. Consequently, scandals may occur that were part of no one person's intentions and for which no one bears responsibility. Many scandals result not from deliberate misconduct doing what one knows to be wrong but from rational factors following incentives in situations with complex interactions. Ethical misconduct is not always a matter of bad people doing bad things, but often of good people who stumble unwittingly into wrongdoing.

Here are some of the scandals of recent years, which have created an image of finance as an activity devoid of ethics, and it also explores some of the causes of these scandals:

Wall Street was shaken in the late 1980's by the insider trading and market manipulation of Dennis Levine, Martin Siegel, Ivan Boesky, Michael Milken, and others. In 1990, Milken pleaded guilty to six felonies and was sentenced to 10 years in prison. Previously, his firm, Drexel Burnham Lambert, collapsed after admitting to six felonies and agreeing to pay US \$650 million. James B. Stewart, the author of *Den of Thieves*, calls their activities "the greatest, criminal conspiracy the financial world has ever known." Insider trading continuous to be not only a frequent occurrence but also a source of controversy. However, the investigation of Raj Rajaratnam, head of the Galleon Group who was convicted of insider trading in 2011 and sentenced to 11 years in prison also ensnared many members of the circle of informants that he had build over many years, including a director of Goldman Sachs and Procter & Gamble (P&G). This conviction exposed to the extent to which insider trading had become organised in the hedge fund world through so called expert networks.

The investment bank Salomon Brothers was nearly destroyed in 1991 by charges that traders in the

Ethical misconduct is not always a matter of bad people doing bad things, but often of good people who stumble unwittingly into wrongdoing.

government securities division had attempted to execute a 'squeeze' by rigging several auctions of US Treasury notes. The total cost of this scandal including legal expenses and lost business, on top of a US \$290 million fine, has been estimated at US \$1 billion. At that time, the reputational value of the Salomon Brothers franchise was apparently deemed to be worth little.

After losing US \$1.6 billion on derivative transactions in 1994, Orange County in California sued its financial adviser Merrill Lynch for concealing the amount of risk that was involved in its investments. In 1998, Merrill Lynch settled the suit for more than US \$400 million. In 1996, P&G settled with Bankers Trust after the bank agreed to forgive US \$200 million that P&G owed on failed derivative transactions. P&G charged that Bankers Trust had misrepresented, the investments were bolstered by damaging audio tapes, including some in which bank employees were recorded using the acronym ROF for 'rip-off factor' to describe one method for fleecing customers. Although derivative securities continued to be a source of considerable abuse, efforts to regulate them have been largely unsuccessful. Both Merrill Lynch and Bankers Trust were eventually saved from collapse by absorption into larger banks (Bank of America and Deutsche Bank respectively).

Unauthorised trading by individuals has caused great losses at several banks and trading firms. Nick Lesson, a 28 year old trader in the Singapore office of Barings Bank, destroyed this venerable British firm in 1995 by losing more than US \$1 billion on futures contracts that bet the wrong way on the direction of the Japanese stock market. In 1996, the acknowledged king of copper trading was fired by Sumitomo Corporation for losing an estimated US \$2.6 billion, and Sumitomo also sued a number of banks for issuing derivative securities that enabled the trader to hide the losses. Between 2006 and 2008, Jerome Kerviel, a trader at the French Bank Societe Generale, managed to lose €4.9 billion in unauthorised activity. UBS, a financial services company, incurred losses of US \$2.3 billion in 2011 that had been hidden by a young trader named Kwaku Adoboli. In most of these cases, the rogue traders exploited flaws in reporting systems and benefited from lax management supervision, which may have also been weakened by a reluctance to interfere in these traders apparent money making ability. Returns that are 'too good to be true' often are, but who wants to point this out?

Returns that are 'too good to be true' often are, but who wants to point this out?

Wrongdoing also occurs in large organisations when responsibility is diffused among many individuals and no one person is really responsible.

The fall of Enron in 2001 and WorldCom in 2002 involved many ethical lapses. An important part of the Enron story involved off balance sheet partnership that generate phantom profits and concealed massive debts. These partnerships were formed by Enron's CFO Andrew Fastow. For Fastow, to be both CFO of the company and the general manager of the partnerships, and thus negotiate for both sides in deals, constituted an enormous conflict of interest. Shockingly, the Enron board of directors waived the prohibition on such conflicts in the company's code of ethics. Aside from the fact that many of the partnerships violated accounting rules and should have been consolidated on the company's books, Enron guaranteed some of the partnerships against losses with a commitment to infuse them with more stock in the event they lost value. Because the partnerships were capitalised with Enron stock to begin with, a decline in the price of the stock triggered massive new debt obligations. The end of Enron came quickly when investors realised the extent of the company's indebtedness and the faulty accounting that had happen.

By contrast, the accounting fraud at WorldCom was alarmingly simple: the company reported revenue accruals that were supposed to be set aside for payments and some large expenses were recorded as capital investment. Both kinds of entries are violations of Generally Accepted Accounting Principles (GAAP). WorldCom's end also came quickly when the head of internal auditing unraveled the fraud and courageously reported it to the board of director. Both CEO and CFO were convicted and sentenced to prison.

In the financial crisis in USA that began in 2007, the most obvious target of ethical criticism was the mortgage origination process in which unsuitable loans were made without adequate determination and documentation of credit worthiness. Lax mortgage origination practices contributed in part, to a bubble in housing prices, which precipitated the crisis and left many borrowers 'under water' owing more on their mortgage than the house was worth. When the bubble burst, the banks that held many of the mortgage backed securities and financed their holdings by short term borrowing found themselves unable to obtain funding and because of their high leverage and assets of questionable value, they faced the threat of insolvency. Since many of these banks were considered too big to fail, their collapse threatened the whole economy, which prompted a vigorous government response. A failure on the

part of rating agencies to accurately gauge the risk of the mortgage backed securities and government policies supporting home ownership were also blamed for the crisis.

Confidence in financial institutions was further imperiled by charges that major banks had intentionally manipulated the widely used London Interbank Offered Rate (LIBOR) by submitting false information to the rate setting organisation.

These scandals not only undermine the public's confidence in financial markets, financial institutions, and indeed the whole financial system but also for the impact of their activities on others.

Although scandals cannot be prevented entirely, it is important to understand why they occur and to undertake reasonable preventive measures. At the same time, we should aim not merely at the prevention of scandals but also achieving the highest possible level of exemplary ethical conduct. The goal should be not only to prevent the worst but also to achieve the best. Success in meeting this challenge depends on a complex interplay of the personal integrity of individuals, supportive organisations and institutions, and ethical leadership by people in the position of responsibility.

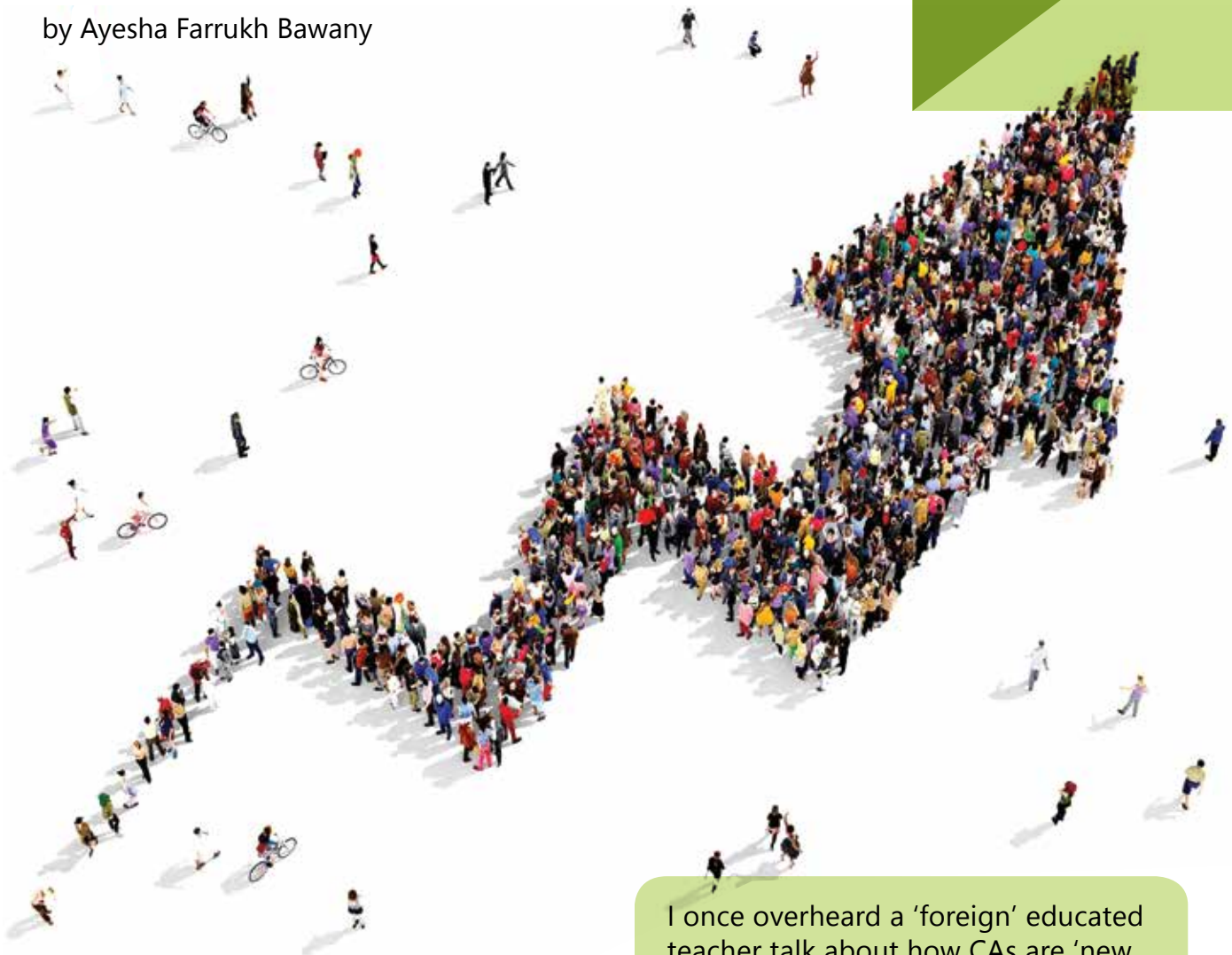
Although wrongdoing is sometimes attributable to a lone individual or rogue employee, some of the most common misdeeds are committed by organisations in which many people contribute to an outcome that no one intends or even foresees. Wrongdoing also occurs in large organisations when responsibility is diffused among many individuals and no one person is really responsible. In some cases, it is difficult to identify any one person or decision as the source of an act, and the wrongdoing can be attributed only to the organisation as a whole. Such organisational wrongdoing is often due to the fragmented nature of decision making in which a number of individuals make separate decisions about different matters, often on the basis of diverse, sometimes conflicting, information. Typically, these decisions are not made all at once but incrementally over a long period of time in a series of small steps, so that their full scope is not readily apparent.

Virtually all organisations seek to direct and motivate members by means of incentives, which may produce unintended outcomes. Poorly designed incentive plans may either move people in the wrong direction or too far in the right direction. Corrupt or overly powerful incentives are the root cause of many financial scandals. Another kind of incentive problem develops when individuals or organisations acquire interests that interfere with their ability to serve the interests of others when they have a duty to do so. When a broker, for example, is obligated to recommend only suitable investments for a client but is compensated more for some investments than others, a personal interest in more pay may lead the broker to fail in the duty to serve the client. The very existence of such an incentive to violate an obligation to serve the interest of another is a wrong that is known as a conflict of interest. Conflict of interest is a particularly prominent incentive problem in all areas of finance ethics.

Conflict of interest is a particularly prominent incentive problem in all areas of finance ethics.

Celebrate the Self-Made

by Ayesha Farrukh Bawany



I once overheard a 'foreign' educated teacher talk about how CAs are 'new money.' I fail to understand why 'old money' gives people a sense of pride. To me, 'old money' stinks of elitism and arrogance. New money evokes hard work and the dignity of labour.

What ICAP has started is a mini revolution. Single girls are making it big in Dubai, Johannesburg, Bahrain, Dublin, New York, San Jose and Houston.

Back when I was in high school (a very elite institution patronised by the ruling family members, the armed forces and all those who command the power and wealth to shape our nation), seven of my batchmates decided to pursue a career in chartered accountancy albeit with a bit of skepticism. I once overheard a 'foreign' educated teacher talk about how CAs are 'new money.' I was put off by the comment and in retrospect I think that I should have answered back. What's wrong with 'new money' anyway? I think it is amazing that The Institute of Chartered Accountants of Pakistan (ICAP) is the only institution which accepts people from all backgrounds regardless of social status, regardless of which school they attended, how confident they are and their English language fluency. Not only that, ICAP actually awards scholarships on both need and merit basis, making it the most affordable higher education available to Pakistanis today and the education which has the highest Return of Investment (RoI).

I fail to understand why 'old money' gives people a sense of pride. To me, 'old money' stinks of elitism and arrogance. New money evokes hard work and the dignity of labour. Instead of celebrating individuals who take charge of their destinies and make a name for themselves through sheer hard work and determination, the elite corridors of some of our supposedly most prestigious educational institutions honour the student who owes his success to his pedigree. Are we not better than mere products of selective breeding?

How many people worldwide strive to work for the Big 4? How many of these individuals work in Big 4 offices of London, New York and Dubai? High time ICAP steps forward and start taking credit for this amazing achievement. The products of A. F. Ferguson & Co. are commanding six figure salaries in Big 4 offices of North America alongside graduates of Harvard and Cornell.

I know countless people who have come from impoverished backgrounds struggling with the illness of parents and the daily grind of making ends meet for a large dependent family and have managed to turn their lives around. These people would not have been granted the privilege to walk the corridors of some of our elite business institutions because they do not have the right social background and supporting circumstances. ICAP stepped forward and took those people under its wings and equipped them with skills, exposure and knowledge to outlive the products of institutions they could not dream of attending.

Since when did you ever hear of middle class girls making a career overseas without a husband to fall back on for support. What ICAP has started is a mini revolution. Since when did we ever witness the social acceptability of girls from middle class families

graduating from good universities in Pakistan making a career overseas without a husband. Single ICAP girls are making it big in Dubai, Johannesburg, Bahrain, Dublin, New York, San Jose and Houston.

What we need is a cultural revolution of sorts where the flashy display of wealth is exposed for what it is and where we can stand tall and celebrate self-made individuals and alongside them the institution which has empowered them.

What is also perhaps needed is the recognition of the ICAP qualification at par with a university degree. While a two year external program in commerce from a local university in Karachi (which does not demand that students attend classes and tests them on rote learnt information in an examination hall where cheating is rampant) is recognised as equivalent to 60 academic credit hours by most globally recognised institutions, the rigorous ICAP qualification is only able to fetch a mere 100 academic credits. This effectively prevents a lot of ICAP charter holders from gaining access to prestigious international organisations.

ICAP students work at par with some of the best business and accounting/finance graduates all over the world. Where they struggle is at having their credentials recognised. If only ICAP's examination levels were packaged as a university degree with built-in work experience, by the time a student qualifies, he would have secured more than 250 credit hours. It would also open exit doors for a lot of CA intermediate students who could exit if they wanted and pursue an MBA or any other post grad qualification equipped with a sound bachelor's degree. What happens now when an ICAP student applies to post grad programs in good schools, he struggles to have his qualification accepted as even a bachelor's degree. ICAP's collaboration with the Punjab University

ICAP actually awards scholarships on both need and merit basis, making it the most affordable higher education available to Pakistanis today and the education which has the highest Return of Investment (RoI).

does not have the international recognition it deserves because at the end of the day it is only that – a collaboration. It is for this reason, when you talk of global university rankings, ICAP is outranked by far mediocre institutions.

While I appreciate that most professional accountancy bodies are not universities, what we need to accept simultaneously is that most only induct students after those students have a formal undergraduate degree. I am not proposing that ICAP follow the same route. What I am just saying is that perhaps the AFC and CAF examinations be packaged as a bachelor's degree. All that needs is a simple repackaging which will open a lot of doors for ICAP members and enable ICAP to truly capitalise its worth.

At Pace with the Big Guns

by M. Bilal Sarwar



Eyeing the figure with elegant personality, indifferent speech and confident argument, it was that exact moment when most of us in this profession, decided that chartered accountancy is the way to be. Unfortunately, Pakistan's education system, unlike its foreign counterparts does not foster its students to follow up on professional lives since early grades. So, without proper guidance and accountancy background, it is imperative that one can achieve the highest level required by this field at the first go. Among thousands that are inducted in the student batches, only hundreds succeed in completing the Certificate of Accounting and Finance (CAF) and from among those hundreds, dozens get inducted in the Big 4 and frankly speaking, the rest of those CAF students join any CA firm they get an opportunity to. Same as others, through hiccups and long struggle, I finally succeeded in being able to register myself with a chartered accountancy firm for my articles. Though disappointed at not being inducted in the Big 4, I was still motivated and wanted to come out as a distinct and sought after professional.

As all my friends were inducted in Big 4 firms, it was an unavoidable fact that the work quality and environment of the firms was to be compared at any gathering whether formal or informal. The discussions ranged from mere comparative of filing system to the latest applicable regulations and standards. After two and a half years of my daunting articles, I can say with

confidence that it's not about the firm, it's about individuals carrying the onus of providing quality work. These big guns are armed with integrated softwares, qualified seniors, global training policies and greater employment opportunities both through their own web portals and through the level of public relations built through their clientele. All this comes at a cost of being a little bit too dependent and limited to the softwares and senior individuals which in no way is undesirable but the trainees of smaller firms have an edge as they use innovative as well as cognitive thinking, struggling and finding its and bits from different sources to maintain the desired level of quality. As mentioned before, the pyramid of the chartered accountancy field steepens at each level and at the very top are only those who have acquired the required stratum of this demanding profession. Qualified member, a big gunner or a suburbanite, both stand equal.

As we, the trainees, are the face of The Institute of Chartered Accountant of Pakistan (ICAP) and our individual firms, we must constantly bear this fact and act accordingly. ICAP and its members and the firms practicing under it are a closely knit web with a limited community and high demands for good professionals. ICAP, while considering many other aspects regarding our profession, should also regulate the training firms giving equal opportunity to each trainee despite the firm he is in, as each and every individual represents ICAP portraying a picture of its high standards along with its towering values.



MY LIFE AS A TRAINEE

by Amir Aziz

Before we go any further into my narrative of mortification and discomfiture, let me tell you a bit about myself. I am a trainee auditor in a chartered accountant firm. Having had no previous work experience, the first feeling after being asked to join the firm after a fairly weird interview, was primarily that of awe, relief and the feeling you get when something hits your nose hard. I don't know if you've ever had to give an interview before the most senior individual of a company or firm, but let me tell you, it's a rattling experience. The glass doors rattled me, the secretary rattled me, the printers pushing out papers rattled me, and the air of urgency in the firm rattled me. The partner of the firm who was going to take my interview was a tall, cool devil. He looked at me as if I had come in by accident; I almost expected him to ask me to empty out the trash bin on my way out. The very sight of him rattled me. The whole reason of this entire useless narrative is to explain the fact that although I'm not exactly a shy person, it just takes a little time for me to be completely comfortable.

The partner of the firm who was going to take my interview was a tall, cool devil. He looked at me as if I had come in by accident; I almost expected him to ask me to empty out the trash bin on my way out.

The most trying feeling in the world, is in fact sitting in a chair and doing nothing. Absolutely nothing. I was so bored and frustrated that I found myself thinking what would I do if a masked attacker entered the office.

The interview was pretty a routine, the interviewer almost looked bored by it, and so you can understand my surprise when they asked me to join the firm. The atmosphere inside an office is at best stuffy and corporate. I know it's not a suitable adjective but that's the best one I could come up with. You can't describe it any other way. If I had to, I would say that corporate is a mixture of stiff collars, false smiles and a general air of unease. And you don't even want to know what it's like when the partner is in a mood. It's like the ship is sinking and its every man for himself. The seniors sit at their desks, stoically banging away at their keyboards or calculators and the juniors try to be as invisible as possible. And there is always one person jumping about like an excited grasshopper. Always. I hate that grasshopper.

I don't know if I'm ever going to put this on paper where someone reads it. Though, I would like to think that I will, but then again, maybe not. If, by some freak chance, someone is reading it, I don't know about you, but I have always been intimidated by authority – at school, at college and now at my office. I have never been at ease around a teacher or a principal. And I absolutely despise the judgemental sidelong glances of seniors. I have heard of strong men wilting under the watchful eye of an audit manager. I'm guessing Napoleon, the famous French military and political leader had never faced the icy gaze of a senior judging your most perceptive proposition as if it was drooled out by a retarded horse about to be put down. Compared to that, winter in Russia seems positively soul-warming.

The first couple of days after joining a new firm are the most wearisome. I always thought working under a deadline would be the hardest thing in the world. But that's pure rot. The most tiring feeling in the world, is in fact sitting in a chair and doing nothing. Absolutely nothing. How I wished for that phase to end. I was so bored and frustrated that I found myself thinking what would I do if a masked attacker entered the office. Or what would happen if I tripped my senior while he was walking down.

That's how useless I was. I imagine that's what your appendix feels like. I have since started regarding mine with a little more respect.

But like all hard times, it came to pass. I was sent on an audit to a client. The experiences there are story unto itself. Maybe someday I will get the time and energy to explain the characters I met there. Because they certainly were 'characters.'

The story I'm about to tell you now is a little part of it and happened to me quite recently.

Have you ever embarrassed yourself so bad that you found yourself thinking, 'death where is thy merciful release?' It was a good day as far as days go, but I couldn't shake that brooding feeling in the pit of my stomach that something wasn't right. I hate that feeling; it makes you lose your appetite. The first sign of it was a text message from my senior saying that there was going to be a review today and a certain Mr. A was going to be conducting it. Having joined the firm recently, I had not met this Mr. A. But I thought to myself that it wasn't a big deal, my workings were complete and I was confident I had covered all my bases. What I hadn't taken into account was my perpetual habit of putting my foot in my mouth. But I'm jumping right into it. I blame the fact that I'm still nervous from my recent encounter.

The room allotted to us at our client's was previously their purchase office and it hadn't circulated around that we had taken possession of the premises. The side effect – we were consistently called about a dozen times a day by suppliers selling their wares and demanding that we let them speak to a certain Mr. S, who I am determined to meet before this audit is done with. One gentleman even tried to sell me some coke (the drinking, not the snorting kind) even after I told him that I was the auditor. Another effect of our occupation of the purchase office was constant visit of suppliers. Now, you would expect that these distinguished members

It was a good day as far as days go, but I couldn't shake that brooding feeling in the pit of my stomach that something wasn't right. I hate that feeling; it makes you lose your appetite.

I have frequently wondered about the calm before the storm. I mean why does it exist? To give you a false sense of hope? To make people come out of their homes before the wholesale destruction? I find that very unsportsmanlike.

would be intelligent enough to leave once the situation became apparent to them. But it has since become evident to me that they had somehow forsaken a part of their acumen to gain persistence necessary for selling the goods of their principal. Most of them would retire after hearing that we were auditors and couldn't accept their proposals no matter how lurid they seemed, but not before giving the look of a boiled fish. I remember one gentleman in particular with surprising clarity because he simply couldn't believe that I was telling the truth. It almost seemed that he was under the impression that I would suddenly give a good natured chuckle and produce Mr. S from under my desk where he had been hiding all along just to play a practical joke on him and then we would laugh about it over tea and biscuits or rather, 'biiskuuts' as he so eloquently put it. If it seems like I'm complaining, I'm actually not. These visits broke the monotony of toil and I kind of welcomed the opportunity to talk to someone without having to explain why the figures hadn't been reconciled. But they also proved to be my undoing of sorts.

Now, that morning I got three calls from suppliers when I came to office and two gentlemen had already come to visit Mr. S and were thoroughly disappointed to see my stupid face behind the desk of the friendly neighborhood purchaser. My thoughts were along the lines that it was a busy day for Mr. S.

I put my files in order in about half an hour. So by 9:30 am I was ready for any questions related to my files. Now, my senior had texted me that he was going to arrive at around 10 am and I figured that Mr. A (the reviewer) would be coming along later than that. I put on something to listen to on the computer to pass the time and ordered some tea with the usual 'biiskuuts.'

I have frequently wondered about the calm before the storm. I mean why does it exist? To give you a false sense of hope? To make people come out of their homes before the wholesale destruction? I find that very unsportsmanlike. Why the false sense of

calm? That's cheating, I tell you. This has become quite a pet peeve of mine.

So, there I was feeling content and full of tea and biscuits, at peace with all of humanity. Now I don't know about you but two cups of tea and a plateful of biscuits tend to relax me and take a little bit of the edge of my keen mental prowess. (If you know, me then don't laugh at 'keen mental prowess'.)

It was in this state of ecstasy when the door to the room opened and a young dude came in, that should have been my first indication. Naturally, I had just done away with two suppliers and I thought to myself, "Well, well, it's a hat trick, methinks."

I gave him my most welcome and patronising smile; others have told me I look like a one-eyed mongoose plotting revenge while I do that but I have come to consider these claims to be beneath me.

I think I saw a flicker of surprise on his face. I verbalised my ideas as "I'm sure you've come to meet Mr. S, haven't you?" His face remained cold and impassive and the first beads of sweat began to appear on my forehead. I strengthened my resolve and continued to push on. "You know we have been sitting in this office for quite some time and I would expect suppliers to know by now that this room is reserved for auditors." Continued cold stare, sweat appears on my back. "Don't you people ask about it at the employee desk." Cold stare turns to icy glare and sweat starts pooling in my socks. The only reply was "I am Mr. A."

If after reading this you have formed a mental picture about me, let me tell you that I am not stupid. In fact, I am as smart as the next guy but, well, you see, the biscuits and the suppliers... all frustrated me and I guess, I'm resigned to my fate now.

That's how my day started and its one of those days, when you wish you could delete it like the history in your browser.

I'm sure its going to have its ups and downs, but that's another story.



One gentleman even tried to sell me some coke (the drinking, not the snorting kind) even after I told him that I was the auditor.

**'Return'
– using
your
success
to impact
the lives
of others
around
you.**

Season of Significance

by Ammar Murtaza

You may have met people who have already achieved a fair level of success and stability in their personal and professional endeavours but then they suddenly decide to quit and become a missionary or televangelist, proselytising the population. To some, this might look spiritual, but I would define it as being self-centered.

What would you think of a man who spends 20 years in finding and digging a water well in the middle of Sahara Al-Kubra desert, utilises this water for himself and when saturated, closes the well or fills it with sand?

Once you have passed the phases of learning and earning, you are truly at the highest point of return in your life. You don't have to leave your sweet spot to help others, rather the things you are best at can be instrumental in achieving true significance by giving back what you have received; 'return' – using your success to impact the lives of others around you.

"The purpose of life is not to be happy. It is to be useful, to be honourable, to be compassionate, to have it make some difference that you have lived and lived well." – Ralph Waldo Emerson, American poet, lecturer and essayist, *The Conduct of Life*, 1980.

The season of returning often happens later in life, and it is not accidental. If you've been intentional in your seasons of learning and earning, then with age comes resources. It's out of those resources that you're able to give back to the people in your sphere of influence.

Returning is all about giving back what you've received. It can be financial, it can be time, it can even be gratitude – the point is to not hold back when you see an opportunity to give back.

The season of increased return is all about investment – investment in people, passion and potential. It's being able to give from your abundance in ways that make a difference. The season of returning is the season of significance – using your success to impact the lives of others around you. It is critical not to hold back when you find a chance to give back.


People

One of the best ways is to invest in people through mentoring. There's no alternate for having a mentor who invests in your life.

Once a man was driving in heavy rainstorm. With nearly no visibility, he was uncertain if he should stop or keep going. Suddenly, he saw a set of tail-lights ahead of him and decided he would simply follow it. He was a bit relieved to know there was another person on the same journey. He followed those tail-lights for a few minutes, until they suddenly stopped in the middle of the road. The man remained seated anxiously in his car, wondering if the car ahead had encountered a problem or hit something. Then, instead of moving again, the tail-lights just disappeared. Frustrated, nervous and almost blinded by the rain, the man was in deep blood-curdling thoughts. Suddenly, someone knocked on the car window.

"What's the problem?" the man asked.

"I was going to ask you the same thing," the driver of the car ahead said.



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"Well, it would be a foolish idea to turn off the tail-lights in the middle of the road," the man snapped back.
"No," the driver replied, "but you are the fool who's parked in my personal driveway."

"Without reflection, we go blindly on our way, creating more unintended consequences, and failing to achieve anything useful." – Margaret J. Wheatley, American writer, management consultant, *Finding our way*, 2005.

People are appreciable asset in an organisation – and it's true in every facet of life too. Your family, friends, acquaintances, colleagues and even the strangers on the street deserve your time, discussion, guidance and wisdom. Mentors certainly matter, and having the right mentor matters even more. The right mentor expands your vision; they know the way. They help you see farther, and stretch your horizons; they show the way. They help uncover your blind spots, and discover the best path to success; they go the way.

By investing in another person, you can create a legacy that will positively impact the world and outlive you.

Passion

People are not the only place where you need to invest. Chances are, you may have something you are passionate about. But if you are still not sure what your passion is, ask yourself the following questions:

- What are the things that break your heart, make you cry and make you take actions?
- What are the things that bring you joy and give you energy for work?

- What are the things that inspire and motivate you to change the world?

Education, healthcare, local needs and charities are all brilliant opportunities for you to discover or express your passion. There are always good people doing good work on behalf of others, who can use someone with your experience to join the mission. And you never know when that mission may become yours too.

"Passion and satisfaction go hand in hand, and without them, any happiness is only temporary, because there's nothing to make it last." – Nicholas Sparks, American novelist, screen writer and producer, *Dear John*, 2006.

Potential

There are no limits to your potential; you can dream anything, imagine anything and accomplish anything. We are always surrounded by opportunities. All we have to do is look for them and take action. That does not mean you have to take on every challenge or do something for everyone, but you should do at least something for someone.

"Never worry about numbers. Help one person at a time, and always start with the one nearest you." – Mother Teresa, Albanian Indian Roman Catholic saint, *A gift for God*, 1996.

It's a beautiful example of what my friend Miqdad-Mawahid said so many years ago: "If you'll help people get what they want, they'll help you get what you want." True significance. Whether you invest in people, passion, or potential, there's nothing like returning to others what was invested in you.

The writer is senior financial controller at Karbala Cement Company, Iraq.

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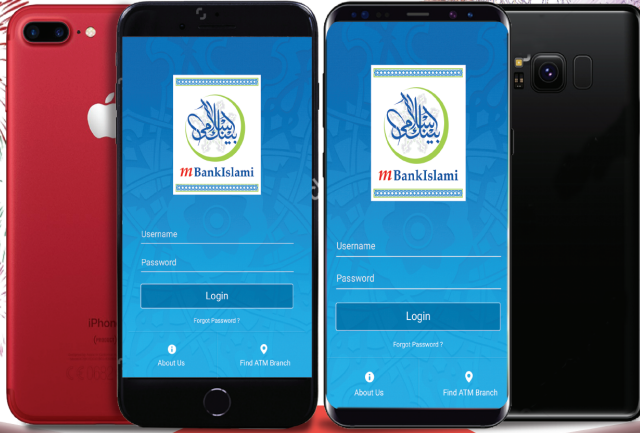
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