“Addressing financial bankruptcy from the Islamic perspective”

AUTHORS	Haider Mohammed Ali Bani Ata
ARTICLE INFO	Haider Mohammed Ali Bani Ata (2019). Addressing financial bankruptcy from the Islamic perspective. *Banks and Bank Systems*, *14*(3), 9-19. doi:10.21511/bbs.14(3).2019.02
DOI	http://dx.doi.org/10.21511/bbs.14(3).2019.02
RELEASED ON	Tuesday, 16 July 2019
RECEIVED ON	Wednesday, 30 January 2019
ACCEPTED ON	Wednesday, 10 July 2019
LICENSE	This work is licensed under a Creative Commons Attribution 4.0 International License
JOURNAL	"Banks and Bank Systems"
ISSN PRINT	1816-7403
ISSN ONLINE	1991-7074
PUBLISHER	LLC “Consulting Publishing Company “Business Perspectives”
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”

NUMBER OF REFERENCES **21**

NUMBER OF FIGURES **0**

NUMBER OF TABLES **12**

© The author(s) 2024. This publication is an open access article.

BUSINESS PERSPECTIVES

LLC "CPC "Business Perspectives"
Hryhorii Skovoroda lane, 10,
Sumy, 40022, Ukraine

www.businessperspectives.org

Haider Mohammed Ali Bani Ata (Hashemite Kingdom of Jordan)

ADDRESSING FINANCIAL BANKRUPTCY FROM THE ISLAMIC PERSPECTIVE

Abstract

The national as well as global economy is significantly affected as a result of financial bankruptcy. Therefore, identifying the rates of bankruptcy would be helpful to inspect the reasons for its failure. The present study aims to investigate different ways for the successful treatment of financial bankruptcy based on Islamic teachings, appropriate methods and techniques in handling bankruptcy.

The study gathered views of CFOs operating in Al-Hassan Industrial Estate and the views of Islamic banks' staff working in investment sections through a questionnaire. Analytical statistical procedures were applied to test the hypotheses.

The results emphasized the importance of administration, Zakat funds, creditors, and suppliers in addressing financial bankruptcy. The management of Zakat in addressing the financial bankruptcy occupied the highest importance, i.e. 88%. However, lowest relative importance (46%) was achieved by commitment of funds debtors to collect Zakat and distribution in the treatment of financial bankruptcy.

The time and opportunity granted by the creditors to individuals and enterprises during bankruptcy hold much importance. The study has recommended establishment of a system derived from Sharia to overcome the financial difficulties.

Keywords bankruptcy, Islam, bankruptcy processing factors, financial bankruptcy, Islamic perspective, Zakat

JEL Classification G21, G33

Received on: 30th of January, 2019
Accepted on: 10th of July, 2019

© Haider Mohammed Ali Bani Ata, 2019

Haider Mohammed Ali Bani Ata, Doctor, Associate Professor, Faculty of Economics and Business, Department of Accounting, University of Jadara, the Hashemite Kingdom of Jordan.

This is an Open Access article, distributed under the terms of the Creative Commons Attribution 4.0 International license, which permits unrestricted re-use, distribution, and reproduction in any medium, provided the original work is properly cited.

INTRODUCTION

The banking sector accounts for substantial economic growth and development of the country, and inefficient banking performance may lead to threat or deterioration of the country's financial system (Hryckiewicz, 2014). There is a need for a sustainable and efficient banking model, when the domination of banking industry is prominent within a country. It is because of any collapse that may result in economic crisis within the country (Jan & Marimuthu, 2015). Bankruptcy affects the activities of individuals and other economic groups as it has negative influence on social, health, educational, cultural, and other activities within a community (Nair et al., 2014). The real bankrupt is the one, who trade on the known capital; and later, it is revealed that organization did not show in the bank. Bankrupt fraudulent is referred to as a swindler and crook, who uses cruel tricks and intrigues in the capital or debts in the name of one or another person (Jan & Marimuthu, 2015). In contrast, there is a negative impact of bankruptcy on the economic and social development of an organization.

Judicial bankruptcy exposes the institution because of discontinuation of debt payment when it is due. The law has stated to respect the obligations and pay the debts in terms of maturity; however, they suf-

fer from loss accumulation on annual basis that also affects the capital (Jan & Marimuthu, 2015). This situation is rare and associated with the accumulation of losses with no ability to repay obligations that the organization achieved over the years. It is important to analyze the financial distress and take appropriate remedial measures to minimize the adverse impact of bankruptcy on financial health of the country. The efficient use of a bankruptcy evaluation model is amongst the significant roles played by the banking industry. The evaluation of bankruptcy has become an important aspect for banking industry as it holds a pivotal position in country's economy (Nair et al., 2014).

The literature on Islamic banking for handling bankruptcy is scarce. Increase in the number of individuals and enterprises for achieving consecutive financial losses leads to an erosion of their capital due to exposure to the risk of financial bankruptcy. Financial bankruptcy affects the national and global economy and there is a lack of appropriate and adequate contemporary solutions to treat financial bankruptcy. Therefore, this study aims to investigate appropriate ways and means to address the financial bankruptcy from an Islamic perspective. The results would help in understanding the share of Islamic banking sector in stabilizing overall rate of bankruptcy. The identification of bankruptcy rates may be helpful to inspect the reasons for its failure. Moreover, the study has also investigated the effective strategies adopted to stay viable on the basis of Islamic teachings. Therefore, the study has aimed to find ways to address the financial bankruptcy derived from Islamic teachings, and the role of Islamic accounting in providing useful financial information about the financial bankruptcy.

1. LITERATURE REVIEW

The Islamic banks following shariah compliance or non-compliance activities should improve their management skills, secure deposits or debts in order to maintain their financial stability, during the financial crisis as well. Moreover, the Islamic banks should follow Ijtihad in order to address future bankruptcies in Islamic finance. Altman model is considered to be the most widely used and significant for evaluating the rate of bankruptcy in Islamic as well as other conventional banks all over the world. It is important for Islamic banks to take measures that would prevent extreme losses to the banks during the financial crisis.

Jan et al. (2019) proposed a study identifying the rates of bankruptcy in the Islamic and conventional banks of Malaysia using the Altman's bankruptcy forecasting models. The results indicated that the rate of bankruptcy in the Malaysia's Islamic banks was more in contrast to conventional banks. Furthermore, the regression analysis also reveals that among other ratios, insolvency has a positive relationship with the bankruptcy in Islamic banks. Moreover, the present study also states that the local Islamic banks are more effective and efficient regarding bankruptcy in contrast to foreign Islamic banks of Malaysia. Rahman and Zada (2016) explained the causes and effects of bankruptcy particularly in Islamic banks and also proposed the Islamic perspectives regarding bankruptcy and finance. The Islamic banks have lost a high percentage of equity, especially in Kuwait, Soul al-Manakh, Turkey and Denmark. The Ihlas Finance House collapsed in 2001 because of financial crisis in the Islamic banks of Turkey. Considering the Shariah compliance, the financial status and the rate of bankruptcy can be managed.

Moreover, Jan and Marimuthu (2015) discussed the methods to acquire the sustainability in the Islamic banking. The study utilized an appropriate method for evaluating the Islamic banking industry. Generally, it has been found that the bankrupt banks are weak compared to the non-bankrupt banks. The study results show that profitability is an explanatory element in reducing financial bankruptcy. Ghassan and Krichene (2017) surveyed the Islamic and conventional banks to determine the financial stability. The results indicate that the financial stability in the small Islamic banks is better as compared to small conventional banks, whereas the stability of large Islamic banks is less in contrast to large conventional banks in terms of finance. These results predicted that because of large employments in Islamic banks and less debts they face financial crisis.

http://dx.doi.org/10.21511/bbs.14(3).2019.02

Bensaid et al. (2013) investigated the concepts regarding indebtedness in Islam. In order to prevent the spread of bankruptcies, it is important for the Islamic banks to allocate Zakat shares and loans appropriately. According to Islamic shariah, debt cancellation is strongly forbidden, also profit interests are forbidden in the Islamic shariah. The Islamic bank in South Africa collapsed because of the poor management. Improper accounting system and large unsecured lending cause damage to the balance sheets. The Islamic banks because of their inability to lend deposits to the depositors cause the collapse of the Islamic bank limited. As stated by Chong and Liu (2009), the Islamic banking is termed as profit and loss sharing business according to basic fundamentals; however, the study was unable to find discrimination mark between the criterion presented by conventional banks and Islamic banks. With the highest bankruptcy rate in the Islamic banks of Malaysia, which is around 89%, it is difficult for the Islamic banks to maintain their financial sustainability (Jan & Marimuthu, 2015).

The banking industry is the center of attention in the economic development of the country, the low market share induces ability of the Islamic banks to maintain their sustainability. The Islamic banks of North African countries are found to be technically weak because of the underdeveloped management and financial status. Beck et al. (2013), however, determined after the financial crisis of 2007 and 2008 that the Islamic banks are more effective and possess high quality ratios in contrast to conventional banks.

On the other hand, Hidayat et al. (2012) measured the impacts of 2007 and 2008 financial crisis on the Islamic bank industry of Bahrain. The results revealed that the factors including loan to equity ratios, loan to expense ratios and loan to assets ratio are the major variables in the financial stability of Islamic banks of Bahrain. Furthermore, analyzing a sample of 34 Islamic banks and 34 conventional banks from 16 different countries, Bourkhis et al. (2013) also determined the impacts of 2007 and 2008 financial crisis on the stability of Islamic banks as well as conventional banks. Utilizing the model based on the major variables such as liquidity, profitability, capital equity and assets, the study found the difference between the financial health of Islamic banks and that of conventional banks during the period of crisis is minimal.

2. METHODOLOGY

The data required for this study has been collected through the literature survey related to the subject of the study. On the contrary, the views of each of the CFO operating in Al-Hassan Industrial Estate companies and views of the Islamic bank employees working in the investment departments were collected through questionnaire with categorical scale Penta (very large, large, medium, small, very small). The CFOs, operating in Al-Hassan Industrial Estate companies and Islamic banks staff working in the investment departments were recruited in the study. A total of 42 questionnaires were distributed among them. Four questionnaires were inadequate; therefore, the study sample comprised 38 respondents. Seventeen respondents worked as financial managers at one of the companies operating in Al-Hassan Industrial City; whereas, 21 respondents were employees of an Islamic bank.

Statistical description, relative averages and standard deviations were calculated to clarify the sample characteristics. The dependent variable was financial bankruptcy from an Islamic perspective; whereas, the independent variables included administration, Zakat funds, handouts, creditors, and suppliers. Simple regression test, chi-square test, and Mann-Whitney-U test, and ANOVA were used to test the hypothesis proposed in this study. Following are the hypotheses, which have been used in the study:

H1: There is no relationship between the independent variables (administration, Zakat funds, handouts, creditors and suppliers) and processing of financial bankruptcy from an Islamic perspective.

H2: Management, the size of the Zakat funds, creditors and suppliers do not affect the processing of financial bankruptcy from an Islamic perspective.

H3: There is no statistically significant average CFOs after the treatment of financial bankruptcy from an Islamic perspective.

3. RESULTS

The study sample was tested to investigate the association between the independent variables (administration, Zakat funds, handouts, creditors and suppliers) and processing of financial bankruptcy from an Islamic perspective. All test values greater than 0.05 showed acceptance of the alternative hypothesis that the study sample has a normal distribution at the level of significance. One-Sample Kolmogorov-Smirnov Test results have been shown in Table 1. Based on the results of One-Sample Kologorov-Smirnov test, the values of the variable administration, the size of Zakat funds, creditors, suppliers, and other handouts were 0.450, 0.428, 0.929, 0.964, and 0.900, respectively. In accordance with the basic decision making within this testing, the value of > 0.05 is considered significant.

Table 1. One-Sample Kolmogorov-Smirnov test

Variables	Kolmogorov-Smirnov test value
Administration	0.450
The size of the Zakat funds	0.428
Other handouts	0.900
Creditors	0.929
Suppliers	0.964

The data, collected through questionnaire, was verified by testing its validity and reliability. Similarly, veracity of the data was tested using the Cronbach's coefficient (Table 2). The Cronbach's coefficient value (alpha) for all variables was calculated to be > 0.60, which confirmed the validity and reliability of measurement tools and its acceptance.

The study has provided useful financial information about the financial bankruptcy at the level of individuals and enterprises. The treatment methods are derived from Islamic thoughts, which positively influence the sustainable economic and social development in the community. Table 3 depicts the characteristics of the study sample according to their academic qualifications and the characteristics of the study sample based on respondents' experiences. A total of 76.3% of the respondents were bachelors' degree holders. The respondents having experience of 5-9 years occupied the highest rate of importance (39.5%), as compared to other respondents.

Table 3. Relative importance of scientific qualification and experience

Measure	Number	Relative importance (%)
Qualification		
Ph.D.	2	5.3
M.A.	7	18.4
BA	29	76.3
Total	38	100
Experience		
Less than 5 years	8	21.1
5-9 years	15	39.5
10-14 years	7	18.4
15+	8	21.1
Total	38	100

The management of Zakat in addressing the financial bankruptcy has occupied the highest importance (88%). Whereas, the commitment of funds debtors to collect Zakat and distribution in the treatment of financial bankruptcy received lowest relative importance (46%) (Table 4). The category of debtors is a substitute for the contemporary insurance, and occupied the highest importance (94%). The effect of resources allocated to the category of debtors' Zakat for treating financial bankruptcy received lowest relative importance (68%) (Table 4). The charitable funds alleviate the financial conditions of individuals and establishments causing financial bankruptcy (88%). While, the charity funds encouraging fraudulent bankruptcy of the people received lowest relative importance (66%) (Table 4).

The time and opportunity granted by the creditors to individuals and enterprises during bankruptcy gained much importance. The size of expenses related to legal proceedings for bankruptcy and liquidation in the treatment of financial

Table 2. The validity and reliability of measurement tools

Variable	Administration	Zakat funds	Other handouts	Creditors	Suppliers	Overall
Cronbach's coefficient value (alpha)	0.774	0.832	0.762	0.781	0.825	0.912

http://dx.doi.org/10.21511/bbs.14(3).2019.02

bankruptcy received the lowest relative importance (82%) (Table 4). The classification of debtors in the records provided financial facilities to them. Whereas, the effect of suppliers' rules regarding financial transactions in Islam to address the financial bankruptcy outstands with the highest importance (90%). The suppliers experience financial crisis, when individuals and enterprises failed to maintain the quality of the raw material they require (70%) (Table 4).

The quality of accounting information affects the dealing with financial bankruptcy (95.6%). While, the effect of provisions for Garmin (debtors) in treating financial bankruptcy received lowest relative importance (60%) (Table 5).

Table 4. Arithmetic average contrast and the relative importance of the independent variables (administration, the size of Zakat, the size of other handouts, creditors, and suppliers)

Paragraph	Arithmetic mean	Variance	Relative importance (%)
Administration			
The body responsible for the Zakat management affects the treatment of financial bankruptcy	4.40	0.27	88
Scientific and practical qualifications of workers affect the collection and distribution of Zakat in addressing the financial bankruptcy	3.60	0.27	72
Administrative methods, accounting methods and technological systems are available to the administration in addressing the financial impact of bankruptcy	3.40	0.27	68
Adequate training, scientific research and the development of skills of workers in dealing with the financial impact of bankruptcy	3.50	0.28	70
Help of a formal management specialist for the management of debtor's funds category in addressing the financial bankruptcy	3.40	0.27	68
Accounting and management information contribute to the classification of debtors by assortment and needs	3.80	0.62	76
Tathermkhatr funding approved by the Islamic thought to address the financial bankruptcy	3.60	0.49	72
The presence of a special section gives advice and guidance to individuals and enterprises in the processing of financial bankruptcy	3.70	0.23	74
The commitment of funds debtor's administration (debtors) to distributing Zakat in addressing the financial bankruptcy	2.30	0.23	46
Leaders affect the treatment of accumulated losses, non-performing operational policy and credit policy in dealing with financial bankruptcy and debt	3.60	0.27	72
The size of Zakat			
Adequate resources allocated to the category of debtor's Zakat affect (debtors) the treatment of financial bankruptcy	3.40	0.27	68
Fiscal spending affects the accumulated losses and non-performing debt in dealing with bankruptcy	3.60	0.27	72
The money spent on the category of debtors transfer bankrupt state of poverty to a rich state	3.60	0.27	72
The category of debtor's Zakat will be substituted for the contemporary insurance	4.70	0.23	94
Zakat funds help to settle the debt without resorting to bankruptcy proceedings	3.60	0.27	72
Zakat funds help settle disputes between creditors and debtors and enhance the national economy	3.70	0.23	74
Zakat funds spent on free debtors foster fraudulent bankruptcy among people	4.00	0.00	80
The size of other handouts			
The size of other handouts affects the processing of financial bankruptcy from an Islamic perspective	4.00	0.00	80
Other charity funds affect the mitigation of the financial conditions of individuals and establishments causing financial turmoil of bankruptcy	4.40	0.93	88
Other charity funds reduce the risks of the ongoing obligations of individuals and enterprises during financial bankruptcy	3.80	0.40	76
The effect of processing financial bankruptcy from an Islamic perspective varies on the basis of other charity funds for survival of individuals and enterprises	4.00	0.44	80
Assisting other charity funds making voluntary concessions from creditors to debtors	3.50	0.50	70
Charity funds are encouraged to treat fraudulent bankruptcy among people	3.30	0.46	66

Table 4 (cont.). Arithmetic average contrast and the relative importance of the independent variables (administration, the size of Zakat, the size of other handouts, creditors, and suppliers)

Paragraph	Arithmetic mean	Variance	Relative importance (%)
Creditors			
The desire of creditors to settle financial dues without resorting to the judicial declaration of bankruptcy in addressing the financial bankruptcy proceedings	4.30	0.23	86
Voluntary concessions offered by creditors such as extending the maturity of the debt, or debt reduction value of a certain percentage in addressing the financial bankruptcy	4.30	0.23	86
Creditors tendencies and their belief that individuals and enterprises will be good customers in the future in case the current financial success outpaced their troubles in dealing with the financial impact of bankruptcy	4.50	0.28	90
Affect accounting adjustment (losses resulting in failure to collect all debts through the liquidation process) in the treatment of bankruptcy	4.40	0.27	88
Affect the time and opportunity granted by the creditors to individuals and enterprises in the processing of financial bankruptcy	4.70	0.23	94
Affecting expenses related to legal proceedings for bankruptcy and liquidation in tackling financial bankruptcy's size	4.10	0.77	82
Affect voluntary contributions provided by creditors for Garmin, which (debtors) is in the treatment of financial bankruptcy	4.7	0.23	94
Suppliers			
Suppliers provide payment facilities in critical times to avoid financial crises experienced by enterprises and individuals	3.63	0.27	72.6
Classification of debtors in the records affects the supply of financial facilities to them	4.50	0.57	90
Suppliers provide the necessary raw materials required for timely processing of financial bankruptcy	4.00	0.00	80
It provide suppliers with voluntary concessions (such as changing the payment) for continuity of individuals and enterprises	4.00	0.57	80
Follow the suppliers' rules of financial transactions in Islam and literature to address the financial impact of bankruptcy	4.50	0.57	90
The suppliers experience financial crisis when individuals and enterprises fail to maintain the quality of the raw materials they require	3.50	0.29	70
Suppliers provide additional funding to individuals and enterprises to exit from financial embarrassment	3. 63	0.23	72.6
Accounting information provided by the accounting system for suppliers to address the financial bankruptcy affects quality	4.25	0.50	85

Table 5. Average contrast and the relative importance of the dependent variable "financial bankruptcy from an Islamic perspective"

Paragraph	Arithmetic mean	Variance	Relative importance (%)
Financial transactions and ethical rules in Islam affect the processing of financial bankruptcy	4.00	0.00	80.0
Terms of contracts for financial transactions in Islam affect the processing of financial bankruptcy	3.56	0.28	71.2
Terms alms and provisions affect Islam in dealing with financial bankruptcy	4.33	1.00	86.6
Legal provisions affecting Garmin (debtors) in the treatment of financial bankruptcy	3.00	0.00	60.0
Legal actions and legitimate contractors affect the processing of financial bankruptcy	4.56	0.28	91.2
Jurisprudence and a measurable impact on Islam in the treatment of financial bankruptcy	3.56	0.78	71.2
Affecting the quality of accounting information in dealing with financial bankruptcy	4.78	0.19	95.6
The quality of creditors and their sizes affect the processing of financial bankruptcy	3.67	0.50	73.4
Financial and administrative failures degree reached by individuals and enterprises in addressing the financial impact of bankruptcy	3.67	0.25	73.4

http://dx.doi.org/10.21511/bbs.14(3).2019.02

Table 6. The relationship between independent variables and processing of financial bankruptcy from an Islamic perspective

R	R-squared	Adjusted R-square	Std. error of the estimate	Sig.	@	F	F-tabulated
.812	.659	.606	.39706	.000(a)	0.05	12.376	2.2

Table 7. The relationship between administration, Zakat funds, other handouts, creditors and suppliers and addressing financial bankruptcy from an Islamic perspective

Sub-hypotheses	T-tabulated	T	@	Sig.	R-squared	R
First	1.645	5.043	0.05	.000(a)	0.414	0.643
Second	1.645	6.187	0.05	.000(a)	0.515	0.718
Third	1.645	4.680	0.05	.000(a)	0.378	0.615
Fourth	1.645	5.070	0.05	.000(a)	0.417	0.645
Fifth	1.645	5.910	0.05	.000(a)	0.492	0.702

The value of F was calculated to be 12.376 > 2.2 i.e. 0.05 > sig 0.000. Therefore, the alternative hypothesis stating there is a relationship between independent variables (administration, Zakat funds, handouts, creditors and suppliers) and the dependent variable of processing financial bankruptcy from an Islamic perspective is accepted (Table 6).

The value of T calculated for all sub-hypothese is higher than the tabulated value (0.05 > sig = 0.000). Therefore, the alternative hypothesis, which stated the relationship between independent variables (administration, Zakat funds, handouts, creditors, and suppliers) and the dependent variable of processing financial bankruptcy from an Islamic perspective is accepted (Table 7).

The value of F was 12.412, which is higher than tabulated value, i.e. 2.2. The significance level of 0.05 has been used in the analysis of variance to test the second hypothesis and its subset. The significance was calculated to be 0.000. Therefore, null hypothesis has been rejected and alternative hypothesis was accepted. It provided differing impact of the independent variables (administration, Zakat funds, other handouts, creditors and suppliers) on the dependent variable for processing financial bankruptcy from an Islamic perspective (Tables 8 and 9).

The chi-square was applied to test the existence of a relationship between the independent variables. All values were greater than 0.05, which indicated acceptance of the zero hypothesis depicting

Table 8. Analysis of variance (ANOVA) for independent variables and the dependent variable

Model	Sum of squares	df	Mean square	F	Sig.	F-tabulated
Regression	9.765	5	1.953	12.412	.000(a)	–
Residual	5.035	32	.157	–	–	2.2
Total	14.801	37	–	–	–	–

Table 9. Analysis of variance (ANOVA) for independent variables addressing the financial bankruptcy from an Islamic perspective

Sub-hypotheses	The calculated value of F	The level of significance 0.05	Sig	F-tabulated
First	25.436	0.05	.000(a)	2.2
Second	38.284	0.05	.000(a)	2.2
Third	21.899	0.05	.000(a)	2.2
Fourth	25.706	0.05	.000(a)	2.2
Fifth	34.928	0.05	.000(a)	2.2

Table 10. Results of the chi-square test

Variable	Administration	The size of the Zakat funds	Other handouts	Creditors	Suppliers
The result	0.502	0.285	0.333	0.751	0.910

Table 11. Mann-Whitney U test

Financial managers category mean rank	Bank employee category mean rank	Man-Whitney U test results Exact Sig. [2 * (1-tailed Sig)]	Testing the hypothesis
13.56	24.31	0.002	Accepted
15.03	23.12	0.024	Accepted
17.06	21.48	0.232	Rejected
15.82	22.48	0.068	Rejected
12.82	24.90	0.001	Accepted
13.59	24.29	0.003	Accepted

no linear correlation between the independent variables (Table 10). Mann-Whitney U test results showed statistically significant differences for all the factors related to management including Zakat funds, suppliers, creditors, and other handouts (Table 11).

The results analysis has represented the factors that influence the administration when dealing with financial bankruptcy, including:

- Zakat management;
- scientific and practical qualifications of workers collecting and distributing Zakat;
- administrative methods, accounting methods, technological systems and applications needed by the administration;
- adequate training, scientific research, and the development of skills of workers;
- existence of a formal management specialist to manage debtor's funds category;
- the accounting and management information to classify debtors through assortments and needs;
- the risk of funding approved by the Islamic perspective;
- the treatment of accumulated losses, non-performing operational policy, credit policy and debt.

4. DISCUSSION

The financial health and stability are of great concern for any organization. However, the financial risk like bankruptcy can jeopardize the conditions of individuals and financial structures. There are numerous indicators that precede the phenomenon of financial bankruptcy and scientific methods. However, it is difficult to meet financial obligations, depending on the debt and failure to pay these obligations on time. Similar to the present study, a study conducted by Crhova et al. (2016) revealed that the state of bankruptcy is declared when it is impossible to meet the obligations towards the creditors. This results in filtration of all of the property and bank accounts to pay as much as possible of these commitments (Crhova et al., 2016). It imposes burden on society resulting in negative effects on the national economy.

No organization can survive without being insured and will become bankrupt when faced with any untoward incidents and contingencies. The financial markets are concentrated to a small group of banks among majority of the European countries, which control the flow of liquidity for financing large and small businesses (Paterson, 2015). There has been an explosion in the secured credit market to sell and buy the debt of companies facing financial crisis in Europe and the United States. Prediction of non-continuity of the project is important to recognize important ratios of profitability, liquidity, and other financial indicators. In the similar context, Delen et al. (2013) stated that the financial ratios are al-

http://dx.doi.org/10.21511/bbs.14(3).2019.02

so helpful in measuring profitability and evaluating liquidity invested in any project. The issue of new legal legislation has the ability to threaten operational capacity of the project. Therefore, there is a need for the external auditors' analysis regarding the financial ratios of the project. Continuity of any project by an organization is negatively affected as the result of financial difficulties (Delen et al., 2013).

Islamic banking is referred to as a profit and loss sharing business in principle (Chong & Liu, 2009). The astounding bankruptcy rate is the greatest challenge for Islamic banking industry (Jan & Marimuthu, 2015). There are different performance indicators used to measure financial performance of the local and foreign Islamic banks. A study revealed that Islamic banks are more profitable as compared to other banking systems (Muda et al., 2013), although there is a significant impact of worldwide financial crisis on the profitability of local Islamic banks. Moreover, reasonable distinction was noticed between the foreign and local Islamic banks (Muda et al., 2013). The credit policy of the Islamic banks is different from the conventional banks, affecting the default risk and the corporate and financial performance of the banks. However, both the Islamic and the commercial banks have a credit policy that necessitates the banks to provide more short-term loans as compared to long-term loans (Zeitun & Tian, 2014). This restrictive banking credit policy can have negative implications for the overall capital structure of the borrowing companies by compelling these organizations to compromise on their capital structure. Additionally, it can also make them more susceptible and exposed to chances of bankruptcy and insolvency due to the high interest rates.

The Islamic banks are going into distress due to the recent emergence and increased exposure to the construction industry (Rahmani & Zadaii, 2016). According to Nathie (2010), the reduced confidence, rumors and uncertainty may result in the failure of a bank and precipitate a run on the banks by the depositors. Some of the organizations have announced unexpected restructuring due to rapid change in business environment, which may lead to stagnant stock prices and reduced business performance. Therefore, Chen and Guo (2011) stated that it is important for the enterprise managers to utilize current financial data for short-time forecasting. However, the investors and managers are more concerned with accurate and immediate forecast of financial crisis that limits the amount of financial data. The immediate and accurate forecast of financial crisis is important for the investors to examine the financial risks in selection of target investments (Chen & Guo, 2011).

According to Mohammed (2017), Altman's Z-score has been proved as an effective tool for measuring the financial health of any business firm. This model has the ability to predict all the possibilities of bankruptcy and monitor financial status of the company by utilizing multiple discriminate analyses (MDA). It eventually helps managers to take appropriate financial decisions and stakeholders to choose better investment options. The significant difficulties in Islamic banking are profoundly connected with the un-legality of Islamic principles in few of the offered Islamic banking products. However, the Islamic banking industry is not fully embraced by the Muslims because of discrepancy of Shariah board guidelines.

The outcome revealed that large insurance companies choose to issue more debt as it lessens direct bankruptcy costs. Additionally, these big companies were provided with more debt, since they were more diversified in nature and less risky. Since smaller companies face the risk of bankruptcy, they choose to acquire lower debt. On the basis of Islamic perspectives, the financial crisis is managed efficiently even if there is a lack of practical examples in emerging industries. This facility is required by majority of the Islamic financial institutions (Chattha & Halim, 2014). The bank regulation controls the financial risks by decreasing the spillovers, resulting from an enterprise. The capital requirements are responsible for addressing the crisis associated with credit and maturity transformation (Cecchetti, 2015). Islamic banking dominates in credit risk management and maintenance of solvency; whereas, the conventional banks lead in aspects of liquidity and profitability (Hanif et al., 2012).

CONCLUSION

The study has confirmed the importance of administration, Zakat funds, other handouts, creditors and suppliers in addressing the financial bankruptcy from an Islamic perspective. The role of Zakat funds is substituted for the contemporary insurance as it does not need repayment of principal or premiums. It works to get the economy moving in the community and increases productivity. The study showed that the Zakat funds and other charities work as an engine for Islamic economy, which increases the demand for goods and expands markets that employ large numbers of the workforce. The desire of creditors is confirmed in settlement of financial dues without resorting public judicial bankruptcy related to legal proceedings. Moreover, the classification of debtors contributes to the provision of financial facilities to the beneficiaries, which enhances the keenness of the suppliers during financial crisis. There was no statistical significant difference for all the factors relating to management, Zakat funds and suppliers, while there are significant differences factors related to creditors and other handouts. The study explained that the accounting information based on legal provisions provides a solid platform to address the financial bankruptcy from an Islamic perspective.

The study has recommended that a system of financial bankruptcy derived from Sharia contemporary and applications is helpful to overcome the financial difficulties faced by the company. The provisions of Islamic law preserve the rights of creditors and other stakeholders, monitor the needs of investors and analyze financial crisis to deal with bankruptcy. The liquidation of assets helps to sustain economic activity. Insurance policies need to be regulated by holding seminars, meetings and studies by scholars and economists. Future studies need to derive respective rulings regarding corporate bankruptcy for addressing the future bankruptcies referring to Islamic finance.

REFERENCES

1. Bensaid, B., Grine, F., Nor, M. R. M., & Yusoff, M. Y. Z. M. (2013). Enduring financial debt: an Islamic perspective. *Middle-East Journal of Scientific Research, 13*(2), 162-170. Retrieved from https://www.researchgate.net/profile/Benaouda_Bensaid/publication/292029858_Enduring_financial_debt_An_islamic_perspective/links/59faee38a6fdcc9a16270638/Enduring-financial-debt-An-islamic-perspective.pdf
2. Cecchetti, S. G. (2015). The road to financial stability: Capital regulation, liquidity regulation, and resolution. *International Journal of Central Banking, 11*(3), 127-39.
3. Chattha, J. A. & Halim, W. N. W. A. (2014). *Strengthening the Financial Safety Net: The Role of Shari'ah-compliant Lender of Last-Resort (SLOLR) Facilities as an Emergency Financing Mechanism* (IFSB Working Paper Series No. WP 01/04/2014) (April 2014).
4. Chen, L. H., & Guo, T. Y. (2011). Forecasting financial crises for an enterprise by using the Grey Markov forecasting model. *Quality & Quantity, 45*(4), 911-22. https://doi.org/10.1007/s11135-010-9403-z
5. Chong, B. S., & Liu, M. H. (2009). Islamic banking: interest-free or interest-based. *Pacific-Basin Finance Journal, 17,* 125-144. https://doi.org/10.1016/j.pacfin.2007.12.003
6. Crhova, Z., Fiserova, Z., & Pasekova, M. (2016). Corporate insolvency proceedings: A case of Visegrad Four. *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis, 64*(1), 235-243. https://doi.org/10.11118/actaun201664010235
7. Delen, D., Kuzey, C., & Uyar, A. (2013). Measuring firm performance using financial ratios: A decision tree approach. *Expert Systems with Applications, 40*(10), 3970-3983. https://doi.org/10.1016/j.eswa.2013.01.012
8. Ghassan, H. B., & Krichene, N. (2017). *Financial Stability of Conventional and Islamic Banks: A Survey* (MPRA Paper No. 82372). University Library of Munich, Germany. Retrieved from https://ideas.repec.org/p/pra/mprapa/82372.html
9. Hanif, M., Tariq, M., Tahir, A., & Wajeeh-ul-Momeneen (2012). Comparative performance study of conventional and Islamic banking in Pakistan. *International Research Journal of Finance and Economics, 83,* 61-72. Retrieved from https://pdfs.semanticscholar.org/a3df/b49dcbf03af65c5402549871ed-30d3bfd754.pdf
10. Hryckiewicz, A. (2014). What do we know about the impact of government interventions in the banking sector? An assessment of various bailout programs on bank behavior. *Journal of Banking and Finance, 46,* 246-265. https://doi.org/10.1016/j.jbankfin.2014.05.009

http://dx.doi.org/10.21511/bbs.14(3).2019.02

11. Jan, A., & Marimuthu, M. (2015). Altman model and bankruptcy profile of Islamic banking industry: A comparative analysis on financial performance. *International Journal of Business and Management, 10*(7), 110-119. https://doi.org/10.5539/ijbm.v10n7p110

12. Jan, A., & Marimuthu, M. (2015). Bankruptcy and Sustainability: A Conceptual Review on Islamic Banking Industry. *Global Business and Management Research: An International Journal, 7*(1), 109-138. Retrieved from https://pdfs.semanticscholar.org/b4be/455e9c730664c484cd5b12700a76c20ee012.pdf

13. Jan, A., Marimuthu, M., Shad, M. K., Zahid, M., & Jan, A. A. (2019). Bankruptcy profile of the Islamic and conventional banks in Malaysia: a post-crisis period analysis. *Economic Change and Restructuring, 52*(1), 67-87. https://doi.org/10.1007/s10644-017-9220-7

14. Mohammed, S. (2017). Bankruptcy Prediction by Using the Altman Z-score Model in Oman: A Case Study of Raysut Cement Company SAOG and its subsidiaries. *Australasian Accounting, Business and Finance Journal, 10*(4), 75-85. https://doi.org/10.14453/aabfj.v10i4.6

15. Muda, M., Shaharuddin, A., & Embaya, A. (2013). Comparative analysis of profitability determinants of domestic and foreign Islamic banks in Malaysia. *International Journal of Economics and Financial Issues, 3*(3), 559.

16. Nair, G. K., Purohit, H., & Choudhary, N. (2014). Influence of risk management on performance: An empirical study of international Islamic bank. *International Journal of Economics and Financial Issues, 4*(3), 549.

17. Nathie, M. (2010). Islamic Bank Failure: A Case Study. *International Shariah Research Academy for Islamic Finance (ISRA) International Journal of Islamic Finance, 2*(1), 7-34.

18. Paterson, S. (2015). Insolvency law, restructuring law and modern financial markets. *Policy Briefing, 8.* https://doi.org/10.2139/ssrn.2577742

19. Rahman, S. U., & Zada, N. (2016). The Bankruptcy of an Islamic Financial Institution: A Case Study of Islamic Bank Limited (IBL). *Tahdhīb al Afkār, 430*(4134), 1-13.

20. Rahmani, S. U., & Zadaii, N. (2016). *The Bankruptcy of an Islamic Financial Institution: A Case Study of Islamic Bank Limited (IBL).* Retrieved from http://tahdhibalafkar.com/Downloads/Issue%2005/PDF/ENGLISH/04%20The%20Bankruptcy%20of%20an%20Islamic%20Financial%20Institution%20A%20Case%20Study%20of%20Islamic%20Bank%20Limited%20(IBL).pdf

21. Zeitun, R., & Tian, G. (2014). Capital structure and corporate performance: evidence from Jordan. *Australasian Accounting, Business and Finance Journal, 1*(4), 40-61. http://dx.doi.org/10.2139/ssrn.2496174

APPENDIX

Table A1. Summary categories study position to reject or accept the hypothesis

Situation	Examining the hypothesis		Sub-hypothesis	General hypothesis
	Bank Employee category	Chief Financial Officer category		
Agreement to accept the alternative hypothesis	0.004	0.022	–	Null
Agreement to accept the alternative hypothesis	0.009	0.028	Null	Null
Agreement to accept the alternative hypothesis	0.002	0.002	First	Null
Agreement to accept the alternative hypothesis	0.003	0.007	Second	Null
Agreement to accept the alternative hypothesis	0.000	0.039	Second	Null
Agreement to accept the alternative hypothesis	0.003	0.015	Fifth	Null
Agreement to accept the alternative hypothesis	0.004	0.022	–	First
Agreement to accept the alternative hypothesis	0.009	0.028	Null	First
Agreement to accept the alternative hypothesis	0.002	0.002	First	First
Agreement to accept the alternative hypothesis	0.003	0.007	Second	First
Agreement to accept the alternative hypothesis	0.000	0.039	Second	First
Agreement to accept the alternative hypothesis	0.003	0.015	Fifth	First
Agreement to accept the null hypothesis	0.944	0. 998	–	Second
Agreement to accept the null hypothesis	0.944	0.674	–	Second