Paper presented in INCEIF Islamic Banking and Finance Educational Colloquium, Bank Negara Malaysia. Kuala Lumpur, 3rd-5th April 2006

THE IDEAL OF ISLAMIC BANKING: CHASING A MIRAGE?

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ABSTRACT

Islamic banking has always been proclaimed as institution which is different from conventional banking in many respects. The first and most significant difference is the abolition of riba in all its financial transactions. Another distinctive feature of Islamic banks is in respect of discharging their religious and social responsibility which is portrayed in their commercial dealings and other activities. This prohibition together with the noble vision to promote social-welfare of the society forces banking to new methods of operation based primarily on Profit-Loss Sharing (PLS) arrangements. Yet, evidence on current practice by Islamic banks worldwide suggests that the majority of financing operations are not based on equity. Rather, Islamic banks have consistently favoured the use of debt-based modes of financing. This poses suspicions amongst unconvinced Muslims and other critical outsiders who observe that Islamic banks in reality are no different from conventional banks since the net result of Islamic banking operations is the same as that of conventional banking. This paper aims to survey the viewpoints of various stakeholder groups of Islamic banks with regards to the Islamic banking practices in Malaysia. By adopting stakeholder approach, this study will be of potential relevance to Islamic banks, particularly in their policies and dealings with the aim to secure benefits for the widest possible constituency.

Keywords: Islamic banking, stakeholder, profit-loss-sharing, perception.

1. INTRODUCTION

Ideally, the revolutionary departure of interest-free Islamic banking from the conventional system is exemplified by a vision to move from a debt-based financial intermediary to an equity based and risk-sharing arrangement (principally *mudārabah* and *mushārakah* contracts). In other words, an ideal Islamic banking model is reflected through its balance sheet structure that is dominated by profit-loss-sharing (PLS) on both assets and liabilities sides. In such arrangements, it is believed that the depositors who

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share the risk with the bank on the liabilities side will naturally absorb any adverse outcomes on the assets side of the bank's balance sheet. The value of the depositors' funds represents the real assets value of the banks. Thus, Islamic banking theoretically is deemed to be a good alternative to the conventional system due to its robustness and the potential stability that the system may provide (Khan and Mirakhor 1987; Siddiqui 2001).

However, there are reasons to believe that the ideal structure of Islamic banks based on Profit-Loss Sharing (PLS) principles may indeed prove to be a mirage. This is because only a minuscule portion – generally well under 5 percent of the assets of Islamic banks consist of loans based on genuine profit and loss sharing (Kuran 2004). By far the most common financing method is debt-based instruments like *Murābahah*, which some may argue it as a cumbersome form of interest or simply a backdoor to *riba*. On the other hand, the Islamic jurists tend to think less theoretically and deductively than the economists. One of the known opponents to the idea of overemphasizing the superiority of PLS is Ismail (2002), who argues that such argument is unfounded to any Qur'anic text and even is incompatible with the methodology of *Shari`ah*. He further stresses the equal importance of debt-based contracts in Islamic banking which have a clear indication of permissibility, based on various verses of Al-Qur'an.

Apart from implementing PLS, Islamic banks are equally expected to play a leading role in promoting social-welfare. In particular, many Muslim economists posit that Islamic banking is much more than offering *Shari`ah*-compliant products. It is a system which aims at making a positive contribution to the fulfilment of the socio-economic objectives of the community at large (Sadr 1982; Siddiqi 1983; Ahmad 1984; Siddiqi 1985; Chapra 1987; Ahmad 1994; Haron 1996; Ahmad 2000; Chapra 2000a, 2000b; Siddiqui 2001; Haron and Hisham 2003).

This paper attempts to analyse these views by way of a survey conducted on a sample of 1500 respondents representing seven different stakeholder groups of Islamic banks in Malaysia, namely customers, depositors, managers, employees, regulators, Shari`ah advisors and local communities. This will help to better understand the actual attitudes and perceptions of diverse stakeholders towards the ideal structure of Islamic banking.

Indeed, a study that investigates various stakeholders' opinion of Islamic banking from a dual-banking system like Malaysia will add a new dimension to the existing literature.

The remainder of the paper proceeds as follow: The following section reviews literature that discussed the ideal structure of Islamic banking. The dominance of debt-based contract in Islamic banking is further analysed in section three. Research methodology and analysis tools adopted in this study is elaborated in section four and five respectively. While the findings and analysis are offered on section six. The conclusion is presented in the final section.

2. THE IDEAL STRUCTURE OF ISLAMIC BANKING

There are generally two dissenting views delineating the structure and objectives of Islamic banking. One vision is the framework offered by many mainstream Islamic economists, which is conveniently described as Chapra's model. The other is that of Ismail (2002) and shared by many Islamic jurists who tend to think less theoretically and deductively than the economists. These different settings will be discussed in turn.

CHAPRA'S MODEL

The first view referred to as Chapra's model, favour PLS and places greater social welfare responsibilities and religious commitments upon Islamic banks in order to achieve the Islamic economic objectives, including social justice, equitable distribution of income and wealth and promoting economic development of Islamic banks (Lewis and Algaud 2001). Many Islamic economics writers subscribe to this view, including Sadr (1982); Siddiqi (1983, 1985); Ziauddin Ahmad (1984); Ahmad (2000); Siddiqui (2001); Haron, 1995, 2000; Ahmad, 2000; Rosly and Bakar (2003); Haron and Hisham (2003); Naqvi (2003) and others. These writers even go further to argue that PLS is the only principle representing a true spirit of Islamic banking system which departs significantly from the interest-based system. Although they do not fully negate the use of other Shari`ah permissible debt-based contracts alongside the equity-based contracts, they do assert that the socio-economic objectives including social justice, economic growth, efficiency and stability which the Islamic economics seeks to achieve can only be attained by fully resorting to equity-based contracts.

These writers almost consistently affirm that Islamic banking model predominantly based on equity of PLS to be congruent with the spirit of Shari`ah and overall Islamic worldview. Islamic banks should not be solely profit oriented rather it must aim at promoting Islamic norms and values as well as protecting the needs of Islamic society as a whole without undermining its commercial viability.

Wahbah Al-Zuhayli, a renowned Shari`ah scholar also endorses the socio-economic framework of Islamic financial institution in his famous book *Al-Fiqh Al-Islami wa-Adillatuh*, "*The primary goal of Islamic financial institutions is not profit-making, but the endorsement of social goals of socio-economic development and the alleviation of poverty*" (p.350). Therefore, for Islamic banks, while making profit from the business is acceptable, the accumulation of profit without utilisation for the betterment of the community is forbidden. With this regards, Islamic banks are likely to be sensitive to the needs of the society, promote more social welfare programmes and activities, and make more contributions towards the needy and the poor.

In promoting balanced economic and social development goals, Al-Zuhayli further asserts that, Islamic banks must consistently adhere to the prescribed guidelines by the *Shari`ah*. These include transparency in the documentation and operation, having sense of accountability to diverse stakeholder groups and respect the *Shari`ah* rulings passed by the *Shari`ah* advisors even though the rulings are in conflict with their profit-making interest.

ISMAIL'S MODEL

On the other hand, an alternative setting for Islamic banking is proposed by Ismail's framework. According to this view, Islamic bank should act as a normal commercial entity aims at maximising profits as long as it is done in a manner consistent with Islamic law (Lewis and Algaud 2001; Satkunasegaran 2003). The view also stresses the equal importance of other debt-based contracts which have a clear indicative of permissibility, based on Shari`ah rulings in the *Quran*[1] and *Ahadith*.[2] These contracts encompass *murābahah* (cost-plus sale), *bai' bithaman ājil* (deferred payment sale), *bai' al-salam* (purchase with deferred delivery), *bai' al- istisna'* (commissioned manufacturing), and *ijārah* (leasing). Hence, the overemphasis placed on PLS modes of financing are believed to be inappropriate and unfounded to any Quranic text and even incompatible with the methodology of Shari`ah (Ismail 2002).

Furthermore, the framework identifies that the bank's main responsibility is towards the shareholders and depositors and not to be burdened with other responsibilities. Social welfare responsibilities should be fulfilled by other bodies such as the government. Without doubt, Islamic banks need to pay zakah as part of their 'social contribution' while complying with the Shari`ah requirement. However, the use of shareholders' funds or depositors' money for other social activities, which are not required by the law may jeopardise the viability of Islamic banking[3].

This view is somehow similar to the Western neoclassical worldview, particularly Friedman's concept of corporate responsibility who contends that society is served by individuals pursuing their self-interest (Adam Smith's invisible hand). In this framework, profit maximisation is the only legitimate and overriding objective of a commercial institution, provided that it operates within the prescribed rules of the game (Friedman 1967, 1996).

Indeed, Friedman's argument reflects the prevailing worldview of neoclassical economics which has long been entrenched in the notion of self-interested economic man. The crux

[1] The longest verse of the Quran (2:282) explains the procedure and requirement of a debt-based transaction, "*When you deal with each other in transactions involving future obligations in a fixed period of time, reduce them into writing…and get two witnesses, out of your own two men.*"'

[2] One example is in the case of salam sale. Ibn Abbas narrated that when the Prophet arrived in Madinah, he found that the people had been practicing forward sales (salam sale) in fruits for one, two and three years, and he said: "*Anyone who wishes to make forward sale he should do so in a specified measure and a specified weight and for a specified period*."

[3] Dr. Abdul Halim Ismail's position on this matter was confirmed through an interview which was conducted on 19th July 2004 at 11.30 a.m. Dato' Dr. Abdul Halim Ismail, formerly with Bank Islam Malaysia Berhad, is also known as 'the Father of Islamic Banking of Malaysia'. Presently he serves with BIMB Securities Sdn. Bhd. as the Executive Director. He was also recently appointed as a member of the National Shariah Council of Bank Negara Malaysia.

of this argument is the efficacy of Adam Smith's invisible hand in harmonising self-interested behaviour to secure an end that is not a part of anyone's intention. The argument also depends on the ability of the rest of society to create the conditions necessary for the invisible hand to operate and to deal with the problems of externalities, inequalities, and instability, without the aid of business corporations (Boatright 1993). For example, Adam Smith's invisible hand argument says that by giving the public a product it wants at a reasonable price, a business unconsciously transfers the profit motive into consumer welfare. If a company makes a profit, employees will benefit through higher wages, and the company will grow, enabling it to employ more people and contribute to the community in the form of taxes (Lantos 2001). Hence, business and economic activities, in the classical view, are justified partly on the ground that they secure the well-being of society as a whole.

Obviously, there is no significant difference between the two models, only in degree and emphasis. Both essentially argue that Islamic banks ought to be socially responsible – one explicitly and the other implicitly. While Chapra's model puts greater emphasis on direct social commitment of Islamic banks, Ismail's view on the other hand, asserts that social objectives can be attained indirectly by the banks being continuously profitable, viable and sustainable.

With these two dissenting models of Islamic banking, Lewis and Algoud (2001) argue that a probable consequence of the difference is that modes of operation will likely vary between banks in the alternative systems. Obviously, those who subscribe to Ismail's view will certainly concern more about making profits to ensure institutions remain viable and sustainable in the long-run. The question remains whether such endeavour is commendable from Shari`ah and stakeholder perspectives especially looking at the current trend of Islamic banks which is perceived as institutions operating with no obvious difference from their counterparts. On the other hand, the proponents of Chapra's model conjecture a financial system based on PLS instruments that will ensure the realisation of socio-economic objectives envisaged by Islamic economics. An examination of the actual workings of Islamic banking in practice should therefore be studied with these distinctions in mind.

3. IDEAL VS. REALITY

Despite the strong tendency in the literature, especially amongst the proponents of Chapra's model to emphasise theoretical superiority of Islamic banking based on PLS over conventional banking, the practices of Islamic banks are found to diverge in important ways from the intellectual doctrines underpinning their role in the economy. Almost all Islamic banks across the globe today resort to the second line fixed return techniques or debt-based instruments.

Observers point out that the use of PLS instruments, namely *mudārabah* and *mushārakah* financing have declined to almost negligible proportion (Lewis and Algaud 2001; Kuran 2004; Yousef 2004; Iqbal and Molyneux 2005). In many Islamic banks' asset portfolios, short-term financing, notably *murābahah* and other debt-based contracts account for the great bulk of their investments. Yousef (2004) refers to the strong and consistent tendency of Islamic banks to utilise debt-like instruments in the provision of external finance as '*murābahah syndrome*'.

Many writers, such as Siddiqi (1983), Obaidullah (1999), Chapra and Khan (2000), Khan and Ahmed (2001) and Dar and Presley (2000) outline some of the salient reasons for the lack of using PLS. It is realised that large scale resorting to PLS instruments could pose much more serious risk and hazards to the Islamic banks. Islamic banks are believed to be exposed to greater risks since the variation of the rate of ultimate return to the banks of their investments is greater. The inherent vulnerability of PLS contracts to agency problems (moral hazard and adverse selection problems) further accentuates the risk exposure of Islamic banks, since the bank is unable to monitor the actual efforts performed by the borrowers.

Other inherent problems of implementing PLS raised in the literature include, the ill-defined property rights encountered by many Muslim countries; severe competition with conventional banks that are far more established and mostly offering competitive products; restrictive role of shareholders (investors) in management; the non-existence of secondary markets for PLS and the unfair treatment in taxation which lead to inefficiency in funds mobilisation; and over regulation of Islamic banks in some countries.

Siddiqui (2001) further attributes the lack of using PLS to the widespread tendency of adopting un-ethical accounting practices to conceal true profits, high rate of illiteracy and many related problems prevailing in developing countries.

Therefore, Islamic banks under the present circumstances, cannot afford to increase their risk exposure to any large extent. This induces Islamic banks to resolve to debt-based contracts which have some desirable features such as simplicity, convenience and safety (Iqbal and Molyneux 2005). Although the use of debt-based instruments creates difficulties of their own, especially when the repayments are on a deferred basis and other unresolved Shari`ah issues pertaining to late-payment penalty, asset possession, rebates, benchmarking, etc., it is widely thought that such instruments are relatively less risky than the equity-based contracts.

On the other hand, the tendency of Islamic banks world-wide to structure their balance sheet predominantly based on debt-based assets received much criticisms. Siddiqi (1983), Ahmad (1994) Siddiqui (2001), Rosly and Bakar (2003), Warde (2000; 2004) and others argue that a financial system built dominantly around the debt-based modes of financing can hardly claim superiority over an interest-based system on grounds of equity, efficiency, stability and growth.

Even they stress that these modes of financing cannot be expected to remove the injustices of the interest-based system since they actually mimic the standard debt contract in the conventional banking system. Rosly and Bakar (2003) further define ethics of banking as conduct of a business, which favours a system of distribution that embraces risk-sharing and value-addition by participating agents. In this manner, according to them, the taking and receipt of interest in Islam is considered immoral as it secures a future stream for the lender who negates the perils of uncertainty. Hence the modes of financing like *murābahah* and *ijārah* which resemble the interest-based financing are also regarded immoral since they operate in a similar fashion.

Islamic banks are also criticised for not giving priority to long-term development projects over short-term projects aimed at quick profits. This attitude is similar to that of the conventional banks that prefer short-term investments since banks work on the basis of small reserves and hence, must be able to liquidate their assets fairly quickly, if the need arises. The short-term structure of the Islamic banks' assets is even more pronounced with the predominance of debt-based contracts or fixed return modes like *murābahah* and leasing on the asset side of Islamic banks' balance sheet. The structure of deposits on the liabilities side which is not sufficiently long term further accentuates the reluctance of Islamic banks to get involved in long-term projects. Moreover, the predominant use of debt-based contracts in the lending practices entices Islamic banks to adhere mainly to financial criteria such as collateral, creditworthiness, like the conventional banks; and hence they pay little attention to non-financial considerations (Kuran 2004). Thus, from a substantive standpoint, Islamic banks do not operate very differently from their conventional counterparts.

Hence, according to these critiques, debt-based instruments, even though they are approved by Shari`ah scholars, are expected to be kept at a minimum, while at the same time there is a need to gradually increase the number of equity-based contracts in the current Islamic banking practices, if the overall social welfare objectives as envisioned in Islamic economics are to be realised. This will also reduce scepticisms amongst the public especially the unconvinced Muslims, as well as other critical outsiders, who observe that Islamic banks in reality are no different from conventional banks since the net result of Islamic banking operations is the same as that of conventional banking

4. RESEARCH METHODOLOGY

This exploratory research aims to gauge the general overview of respondents' perceptions and understanding of Islamic banking. Accordingly, eight statements on Islamic banking operation (refer to Table 3 below) were distributed to seven stakeholder groups of two fully-fledged Islamic banks in Malaysia (namely Bank Islam Malaysia Berhad and Bank Muamalat Malaysia Berhad). The stakeholder groups were financing customers, depositors, branch managers, employees, Shari`ah advisors, regulators (Bank Negara officers) and local communities (those who have no banking relationship with any Islamic banks). The choice of these diverse groups was based on the grounds that they represent the primary groups of stakeholders of Islamic banks in Malaysia. It follows closely the widely quoted definition of stakeholders, defined as "any group or individual who can affect or is affected by the achievement of the firm's objectives" (Freeman 1984).

DATA COLLECTION

The process of data collection continued for three months, from May to July 2004. The data were collected by ordinary mail as well as self-administered questionnaires distributed by hand to individuals at various Islamic banks' branches in four selected states representing four main regions of Malaysia; namely Kelantan (Eastern), Johor (Western), Penang (Northern) and Kuala Lumpur (Central). These efforts were deliberately taken in order to seek wider representation of bank stakeholders. Table 1 shows the number of distributed questionnaires; the number of usable returned and completed questionnaires (the response rate), the overall response rate and the strategy used in distributing the questionnaire for each group.

Table 1:
Target Groups, Response Rate and Methodology Used

Target Groups	Distributed Questionnaire	Usable returned and completed Questionnaire	Response Rate (%)	Methodology Adopted in Distributing Questionnaire
Customers	400	367	92	By Hand (fieldwork)
Depositors	400	383	96	By Hand (fieldwork)
Local Communities	400	280	70	By Hand (fieldwork)
Employees	400	335	84	Mail Questionnaire
Branch Managers	134	100	75	Mail Questionnaire
Regulators	36	25	69	Mail Questionnaire
Shari`ah Advisors	10	10	100	Mail Questionnaire
Total:	1780	1500	84.27	

In general, from the total of 1780 questionnaires distributed, 1541 were returned, out of which 1500 were usable (completed), yielding a response rate of 84%. This response was considered large enough and sufficient for statistical reliability and generality (Tabachnick and Fidell 1996; Stevens 2002). This high response rate undoubtedly improved the validity and reliability of the survey since the greater the response rate is, the more accurate it estimates parameters in the population sampled (Pallant 2002). Hence, no further attempt was made to increase the sample size.

GENERAL CHARACTERISTICS OF THE SAMPLE

Table 2 summarises some basic statistics on gender, age, marital status, educational level and monthly income of the respondents. The respondents are predominantly male which constitute 64% of the respondents. There is quite a good mix of age group ranging from below 20 years of age to over 50, although a bulk of the respondents belongs to middle ages (20-40). Consequently, the opinions expressed in the survey could very well reflect the attitudes and perceptions of the middle-aged and younger respondents (that is if we consider those above 40 to be the older respondents). This again indicates that the sample somewhat reflects the composition of young and vibrant generations.

The results reported in Table 2 also indicate that the majority of respondents are well educated, with more than 23% holding college diploma, matriculation or A-level certificates and about 41.8% holding a bachelor degree or above. This information reflects the relative importance of paper qualifications especially for young generations, not only to secure good positions in the present competitive world but more important, it manifests their aptitude and maturity in producing reliable information. As depicted in Table 2, majority (48.1%) of the respondents are in the RM1000-RM3000 monthly income group. 18.1% of the surveyed respondents earn between RM3001-RM5000 per month. Combined together, the respondents in those two income groups represent approximately 66% of the total sample. This result indicates that most of the respondents can be classified as middle-class income earners since majority of them have monthly incomes within the range of RM1000 to RM5000[4]. This finding captures closely the pattern of income distribution of Malaysian households which mainly (65.2%) consist of those with earnings between RM1000 to RM5000 or middle-class households.

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[4] According to the definition given in the Eight Malaysian Plan (2001-2005), lower-income households were defined as those earnings less than RM1500 per month. The middle-income households, defined as those earnings between RM1500 and RM5000. While higher-income households, defined as those earnings between RM5000 and above.

Table 2:
Distribution of Respondents

		Frequency	Percent (%)
Gender	Male	951	64.0
	Female	534	36.0
Age Group	Below 20	65	4.4
	20 – 30	592	40.0
	31 – 40	478	32.3
	41 – 50	274	18.5
	Above 50	70	4.7
Marital Status	Single	455	30.9
	Married	1018	69.1
Educational Level	Primary/Secondary School	485	33.0
	College Diploma/Matriculation/A-Level	351	23.9
	Bachelor	406	27.7
	Professional Qualification	80	5.4
	Postgraduate (Master or Ph.D)	128	8.7
	Others	18	1.2
Monthly Income	Less than RM1,000	288	20.8
	RM1,000 – RM3,000	667	48.1
	RM3,001 – RM5,000	250	18.0
	RM5,001 – RM10,000	150	10.8
	RM10,001 – RM20,000	23	1.7
	More than RM20,000	8	0.6

5. MEAN AND STANDARD DEVIATION

This study adopts a simple descriptive statistical approach i.e. means and standard deviation. Using this approach, the study hopes to seek consensus among respondents by way of extracting their views and understanding on the objectives and ideal structure of Islamic banks. The similar methodology was used effectively in previous study to analyse the perception of respondents to various issues on Islamic banking operation (See for example Rosly and Seman, 2003). A high mean with low standard deviation on the given statement would imply a consensus reached by the respondents. As generally acknowledged, a mean is the most important measure of central tendency (Kachigan 1986). A mean only pinpoints the centre of the data. Thus, using the mean alone can be meaningful only if the dispersion is small. However, if the measure of dispersion is large, it indicates that the data is not clustered closely. Therefore, the mean is not reliable; that is, it is not representative of the data.

The degree of disagreement among the respondents, as measured by the standard deviation is a significant aspect of the study. Hence, one cannot casually conclude that all stakeholders of Islamic bank have common perception and understanding on the philosophy and objectives of Islamic banking by merely looking at the mean without paying considerable attention to the dispersion around the mean. It would be "like walking across a lake with an average depth of 4 feet, but some portions are as deep as 400 feet" (Rosly and Seman 2003). Therefore, if a high mean gives a large standard deviation as well, it is pertinent to further explore why that is the case.

6. RESULTS AND ANALYSIS

To get a general overview of stakeholders' understanding and perception towards Islamic banking, eight different measures of Islamic banking characteristics are identified and incorporated into the questionnaire. As such, each item measures different facets of the Islamic banking characteristics. The eight issues are measured on a five-point Likert scale (from 1 = strongly disagree to 5 = strongly agree). Table 3 describes stakeholders' perception on Islamic banking operation.

Table 3:
Stakeholders Perceptions of Islamic Banking Operation

Statements	Disagree (%)	Do not know (%)	Agree (%)	Mean	Std. Dev.
1. *Islamic banking is introduced because Muslims are prohibited from associating themselves with the element of interest as practised by conventional banking.*	4.7	6.1	89.3	4.36	.819
2. *The Profit-Loss-Sharing principle is the only principle representing a true spirit of Islamic banking system.*	10.1	12.5	77.4	3.99	0.961
3. *Entrepreneurs by associating themselves with Islamic banks will become more ethical in conducting their business.*	8.1	8.9	83	4.01	0.851
4. *Islamic banking products and services available in Malaysia are similar to the products and services of conventional banks, except that the banks use different names to highlight those products.*	53.7	12.4	34	2.71	1.25
5. *Islamic banking is not about competing on price, but rather in stressing the unique quality of products and services they provide.*	6.2	8.2	85.9	4.09	0.815
6. *Islamic banking must adopt a profit maximisation principle in order to survive in the competitive business environment.*	12.7	3.2	84	3.99	0.953

7.	*Social Welfare issues should be left to the government and other non-profit organisations, not Islamic banks.*	74	6.8	19.3	2.34	1.038
8.	*The goal of Islamic banks is not limited to maximisation of shareholders' wealth, but also includes enhancement of the standard of living and welfare of the community.*	4.4	3.6	92.1	4.21	.759

Note: 1 = strongly disagree; 5 = strongly agree

Table 3 shows that the vast majority of the respondents (89%) agreed with **Statement 1** that: "*Islamic banking is introduced because Muslims are prohibited from associating themselves with the element of interest as practised by conventional banking*". With high means and low standard deviation of 4.36 and 0.819 respectively, it indicates a strong consensus amongst the respondents. This high response may be explained by the fact that an increasing number of people in Malaysia have become more aware of distinctive characteristics underlying the practice of Islamic banking, which are based on *Shari`ah* precept of *rība* prohibition. Indeed, the establishment of Islamic banking institutions as an alternative to conventional banking provides an opportunity for Muslims to involve in economic and business dealings in accordance with the true spirit of their faith.

Statement 2 further examines perceptions of respondents towards the issue of profit-loss-sharing principle which has been a topic of continuous debate amongst intelligentsias and practitioners of Islamic banking. The statement states: "*The Profit-Loss-Sharing principle is the only principle representing a true spirit of Islamic banking system*". The mean for Statement 2 is 3.99. It implies that, in general, the respondents agree with the view that profit-loss-sharing is the only principle representing a true spirit of Islamic banking system. This is confirmed by the majority of respondents (77%) who agree with the statement. Considering a relatively low standard deviation (0.961) associated with this statement, it is believed that a conclusion based solely on the mean score is adequate to measure the degree of agreement among the respondents. This particular finding substantiates assertions made by Rosly and Bakar (2003) and other earlier Islamic economists (e.g. Siddiqi 1981, 1983, 1985; Chapra 1985, 2000b; Ahmad 2000; Siddiqui 2001 and others) who strongly argue that, unless Islamic banking institutions resolve to PLS financing instruments, the socio-economic justice as envisaged by the Islamic banking system would never materialise. Only a minority (10.1%) disagree with **Statement 2** following the line of argument forwarded by Ismail (2002), who staunchly defend the use of other Islamically-approved financial instruments such as deferred contracts of exchange or fixed-rate instruments like *murābahah*, *bay' istisnā, ijārah* etc.

Table 3 also shows that 83% of the respondents agreed with **Statement 3** stating that *"Entrepreneurs by associating themselves with Islamic banks will become more ethical in conducting their business"*. With a mean of 4.01 and relatively low standard deviation of 0.815, a consensus is reached among the respondents on the statement. Respondents seem to share similar impressions with Haron (1996), Ahmad (2000), Haron and Hisham (2003), and Rosly and Bakar (2003). These writers proclaim that entrepreneurs would become more ethical in conducting their business if they associate themselves with Islamic banks, since the funds are believed to be used properly and their sense of selfishness would be reduced considerably. This result also indicates stakeholders' high expectations towards Islamic banks especially with regards to its distinctive features vis-à-vis conventional banking, which has an in-built dimension that promotes good, ethical conduct and values as deeply inscribed in *Shari`ah*.

Additionally, **Statement 4** examines perception of respondents towards current practice of Islamic banking in Malaysia. The statement states: *"Islamic banking products and services available in Malaysia are similar to the products and services of conventional banks, except that the banks use different names to highlight their products"*. Referring to Table 3, there are mixed responses obtained from the respondents. The mean score for **Statement 4** is 2.71 and the standard deviation is 1.25. Approximately 54% of the respondents disagree, while 34% agree with the statements. Another 12% are indifferent. This is however, not a surprising result, since there has been much scepticism in the public opinion especially amongst the unconvinced Muslims about the authenticity of Islamic banking practices (Henry and Wilson 2004). Even amongst the Muslim intelligentsias e.g. Ziauddin Ahmad 1984; Chapra, 1987, 2000b; Ahmad 2000; Siddiqui 2001 and others, observe that the extensive use of fixed-return financing techniques i.e. *Murābahah, Bai' Bithamanil ājil* (BBA), *Ijārah* etc. in replacement to the PLS instruments (*Mudārabah* and *Mushārakah*) resembles conventional interest-based financing techniques. This will subsequently ignite cynicism amongst the general public as they view the net result of Islamic banks' transactions as similar to that of conventional banks. In this regard, Siddiqui (2001) asserts the difficulty in arguing for the case of Islamic banking especially before common people who might feel that it is nothing but a matter of twisting documents or changing product names. Hence, it is important for Muslims and non-Muslims alike to be assured and continuously enlightened that Islamic banks actually operate purely based on Islamic principles, so that it is not only genuinely Islamic and legitimate from the *Shari`ah* point of view but also enhances their confidence towards Islamic banks.

Table 3 also depicts that 86% of stakeholders of Islamic banks agree with **Statement 5** that: "*Islamic banking is not about competing on price, but rather in stressing the unique quality of products and services they provide*". Again, this implies strong and positive perceptions of respondents towards distinctive role of Islamic banking institution in promoting ideals and ethical framework of Islam beyond regular commercial practice, which is typically concerned with dollars and cents. This result supports the assertion made by Wilson (2003) who strongly believes that Islamic banks, being providers of ethical financial services, need to engage in a rigorous marketing strategy to educate the public about their distinctive characteristics, as compared to their conventional counterparts. This preposition is consistent with the earlier assertions made by Haron (1996); Ahmad (2000); Haron and Hisham (2003); Rosly and Bakar (2003) who argue that the objective of Islamic banking is much more than elimination of *rība*, rather it needs to fulfil the socio-economic and ethical responsibility to serve the ummah.

Next, **Statement 6** examines the perceptions of respondents on the importance of the profit maximisation principle to Islamic banks. From the table, there is a general consensus that Islamic banks must adopt profit maximisation principles in order to survive in the present competitive business environment. This conclusion is based on results in Table 3, depicting the mean of 3.9925 with a relatively low standard deviation of 0.95062. Viewing the percentage frequencies associated with the statement, it is revealed that the vast majority (84%) of the respondents agree that Islamic banks should adopt a profit maximisation principle in order to survive in the competitive business environment. This outcome of the analysis is consistent with Ahmad and Haron (2002), who conducted a similar study on corporate customers of Islamic banks in Malaysia.

On the other hand, **Statement 7** examines the perception of the respondents on the issue of social welfare. From Table 3, the respondents seem to hold quite different views regarding this matter. The mean for **Statement 7** is 2.3406, while the standard deviation is 1.03976. It implies in general that, the respondents disagree with the view that: "*Social Welfare issues should be left to the government and other non-profit organisations, not Islamic banks"*. As is evident from Table 3, majority of respondents (74%) disagree with the statement, while only 19% agree with the statement. Considering the relatively low standard deviation associated with this statement, it is believed that a conclusion based solely on the mean score is adequate to measure the degree of agreement among the respondents. The particular findings apparently reject Ismail's assertion viewing Islamic banks as a normal commercial entity whose main responsibility is to shareholders and depositors alone, while social welfare objectives are to be fulfilled by other bodies such as the government (Lewis and Algaud 2001).

To investigate whether there is a consistency in responses, **Statement 8** was posed to gauge the true perception of respondents on the Islamic banking philosophy and objectives. **Statement 8** states that: "*The goal of Islamic banks is not limited to maximisation of shareholders' wealth, but also includes enhancement of the standard of living and welfare of the community*". Table 3 indicates that most of the respondents (92%) agree with the statement while only a small minority (4%) disagree and the remaining 3.6% of respondents seem to be indifferent. With high means and low standard deviation of 4.2107 and 0.75892 respectively, it implies a strong consensus has been reached by the respondents on the statement. Again, this result supports our earlier finding showing that respondents have high expectation with respect to social-welfare commitment of Islamic banks. This expectation certainly goes beyond the traditional capitalistic view perceiving corporations as having sole purpose of maximising profits and protecting shareholders' interest while neglecting the interest of society at large. Hence it signifies the importance of Islamic banks as *Shari`ah*-based institutions to concern more about their social-welfare commitment and not merely follow the trend of their counterparts that only concern about maximising profits.

7. CONCLUSION

This paper discusses the findings of a survey conducted on multiple stakeholders of Islamic banks with the aim to gauge their opinion and understanding about the overall performance and operation of Islamic banking in Malaysia. The result reveals that majority of stakeholders of Islamic banks highly regard Islamic banking institutions as entities with distinctive characteristics distinguishing them from their conventional counterparts. Apart from the prevailing perception of Islamic banks as interest-free institutions, Islamic banks are equally perceived as organisations characterised by ethical norms and social commitments without undermining the commercial aspects of doing business.

Apparently, the aforementioned results clearly show that, while the general consensus believe that Islamic banks should adopt a profit maximisation principle mainly to remain competitive and sustainable in the present business world, a vast majority feel that social welfare issues should also be taken into account by the Islamic banks. These findings corroborate Chapra's model of Islamic bank who views Islamic banks as having dual purposes i.e. realising social and economic objectives. This is also in line with propositions made many Muslim economists like Sadr (1982); Siddiqi (1983, 1985); Ziauddin Ahmad (1984); Ahmad (2000); Siddiqui (2001); Haron, 1995, 2000; Ahmad, 2000; Rosly and Bakar (2003); Haron and Hisham (2003); Naqvi (2003) and others who see Islamic banks as organisations that must not be solely profit-oriented, but also aim to promote Islamic norms and values as well as to protect the needs of Islamic society as a whole.

Apart from balancing between profit and social commitment, the respondents also expect Islamic banks to strictly observe *Shari`ah* guidelines in their operation which include to gradually resort to a profit and loss sharing mechanism which are perceived to be nearer to the ideals of Islamic banking. Islamic banks are expected to reflect their Islamicity in their actual practices in terms of providing high quality and satisfactory services, protecting the interest of their stakeholders, and most importantly, continuously improving their products and services to make them more in line with the precepts of *Shari`ah* so that any doubt of their legitimacy can be alleviated.

All in all, it is not impossible to achieve an ideal model of Islamic banking which is a balance between profit-orientation and a manifestation of social-welfare commitment. This necessitates an active involvement and cooperation of those behind the veil of Islamic banking including the practitioners, policy-makers, and regulators to ensure Islamic banks stay in focus towards becoming a perfect model of Islamic institutions. Without doubt, the government also plays a major role in formulating and promoting necessary strategies and appropriate policies to ensure the realisation of an ideal Islamic banking.

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