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Understanding the Objectives of Islamic Banking: A Survey of Stakeholders' Perspectives

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Abstract:
Purpose – The purpose of this paper is to survey the viewpoints of various stakeholder groups on the philosophy and objectives of Islamic banking particularly in a dual banking environment, like in the case of Malaysia.
Design/methodology/approach – The paper presents primary data collected by self-administered and postal questionnaires involving a sample of 1500 respondents representing seven stakeholder groups, namely customers, depositors, local communities, Islamic banking managers, employees, banking regulatory officers and Shariah advisors. An exploratory factor analysis is employed to examine the respondents' perceptions towards various objectives of Islamic banking.
Findings – This study reveals that respondents highly regard Islamic banking as an institution that should uphold social objectives and promote Islamic values towards their staffs, clients and the general public. Other factors perceived to be important include contributing to social welfare of the community, promoting sustainable development projects and alleviating poverty.
Practical Implications – The empirical evidence of this paper affects two aspects; first Islamic banks must not be solely profit-driven entity; rather they must aim at promoting Islamic norms and values to achieve the economic objectives as prescribed by Shariah (Islamic Law). Second, true success for Islamic banking participants depends on the extent they can integrate social goals with the mechanics of financial innovation. This research will be of interest to both incumbent and potential entrants into this niche market.
Originality/value – The paper reports findings from the first nationwide survey of diverse stakeholder groups in the area of Islamic banking and finance.
Keywords – Islamic banking, stakeholders, survey, questionnaires, Shariah, Malaysia.
Paper type – Research Paper

Introduction

Islamic banking is an area that has mushroomed to become an increasingly substantial segment within the global financial market. It has been recognised as a viable and competitive form of financial intermediation not only in Muslim countries but also outside the Muslim world and offering a wide range of financial products and services. The industry that started on a modest scale since its inception in the mid-1970s has shown a rapid expansion and evolution over the past three decades. It is in fact one of the fastest growing industries, having posted double-digit annual growth rates for almost 30 years (Iqbal and Molyneux, 2005). According to information released by Council for Islamic Banks and Financial Institutions (CIBAFI), there are over 284 financial institutions operating in 38 countries and managing US$250 billion. This does not include conventional banks offering Islamic financial products and services through window operations, which CIBAFI estimates to manage about US$200 billion. Furthermore, the above information does not cover non-banking Islamic financial services, takaful and re-takaful and capital market activities (CIBAFI, 2005).

The fundamental differences between Islamic banking and conventional banking, not only in the ways they practice their businesses, but above all the values which guide Islamic banking whole operation and outlook. These values prevailed within the ambit of Shariah (Islamic law) are expressed not only in the minutiae of its transactions, but in the breadth of its role in society. This demands the internalisation of principles on Islamic financial transactions, in its form, spirit and substance. By so doing, it epitomizes the objectives of Shariah in promoting both economic and social welfare. In other words, as a Shariah-based firm, Islamic banks need to fulfil social obligations that go beyond the conventional capitalist worldview aiming at only maximising profits.

However, there are reasons to believe that the demand for Islamic banks to account for social objectives may indeed prove to be a mirage. This is because a bulk of literature in Islamic banking only focusing on commercial and economic aspects of Islamic banking while social issues pertaining to its practices normally occupies back seat in the discussion. This is particularly true when some literature even go further to claim that Islamic banks are no different from other commercial banks except in complying with Shariah legal prescriptions with regards to product offering (Ismail, 2002; El-Gamal, 2006). This view posit that Islamic banks is a normal commercial entity which has a sole responsibility of carrying out business in a manner consistent with Islamic law while social welfare objectives are to be fulfilled by other bodies such as the government (Lewis and Algaud, 2001; Satkunasegaran, 2003).

Against this backdrop, the present study investigates Islamic banking philosophy and objectives from the stakeholders' perspectives. Specifically, the study sets out to provide answers to the following research questions:

- What are the objectives of Islamic banking which stakeholders consider important in a dual-banking environment like Malaysia?
- Do stakeholders of Islamic banks truly subscribe to the idea that Islamic banking must always meet a balance between profit maximization and social objectives as expounded by many Muslim economists?

Our analysis is based on a country-wide survey conducted among diverse stakeholder groups (customers, depositors, Islamic banks' managers, employees, Shariah advisors, regulatory officers and local communities) of two pioneer full-fledged Islamic banks in Malaysia, namely Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat Malaysia Berhad (BMMB). To our knowledge, the sample (1500 respondents), covering four regions in Malaysia, notably, Kelantan (east), Kuala Lumpur (central), Pulau Pinang (north) and Johore (south) is the largest sample ever employed in the research area of Islamic banking.

The study of stakeholders' perceptions towards Islamic banking in Malaysian context is far more crucial mainly due to the fact that Islamic banks have to compete with the long established interest-based conventional banks in a dual-banking system. In view of the coexistence of these two systems, it is pertinent to investigate the actual attitude and opinion of diverse stakeholders towards Islamic banks so that appropriate strategies could be crafted to maintain their competitive edge and offer products and services that really satisfy the needs of their clients.

The remainder of the paper proceeds as follow: The following section reviews literature that discussed the objectives of Islamic banking. Research methodology adopted in this study is delineated in section three. While the findings and analysis are offered in section four, the conclusion and implication is presented in the final section.

Literature review

Objectives of Islamic Banking

To understand Islamic banking in its entirety requires full comprehension of its objectives and philosophy. As a Shariah-oriented business entity, Islamic bank is vigorously expected to be guided by the philosophy of Islamic business. Haron (1996) gives two reasons for establishing the right philosophies for any Islamic bank. First, the philosophies will be used by the management or policy makers of the banks in the process of formulating corporate objectives and policies. Secondly, these philosophies serve as an indicator as to whether the particular Islamic bank is upholding true Islamic principles.

Essentially, the philosophy of Islamic banking can be fully understood in the context of the overall objectives of Islamic economic system. Many prominent Islamic economists, like Chapra (1985, 2000a, 2000b), Ahmad (2000), Siddiqui (2001) and Naqvi (2003) assert that Islamic banking is a subset of the overall Islamic economic system that strives for a just, fair and balanced society as envisioned and deeply inscribed in the objectives of Shariah (also popularly known as maqasid a-shariah). Accordingly, the many prohibitions (e.g. interest, gambling, excessive risks, etc.) are to provide a level playing field to protect the interests and benefits of all parties involved in market transactions and to promote social harmony (Chapra, 1985, 1992; Ahmad, 2000; Chapra, 2000, 2000a; Siddiqui, 2001; Naqvi, 2003). Furthermore as a system grounded on ethical and moral framework of the Islamic law of Shariah, Islamic banking is also characterised by ethical norms and social commitments (Ahmad, 2000; Mirakhor, 2000; Warde, 2000). Therefore, Islamic banking is much more than just refraining from charging interest and conforming to the legal technicalities and requirements on offering Islamic financial products. It is a system which aims at contributing to the fulfilment of the socio-economic objectives and the creation of a just society (Siddiqui, 2001; Haron and

Hisham, 2003; Hassan and Musa, 2003). In the process of conducting business, Islamic banks seek to bring about a lasting balance between earning and spending in order to achieve a betterment for the whole community (Haron, 1995; Al-Omar and Abdel-Haq, 1996).

Al-Omar and Abdel-Haq (1996) indicate the duty of Islamic banks towards the society in which they operate by providing a clear expression outlined in the public statement of the International Association of Islamic Banks (IAIB):

> "*The Islamic Banking system involves a social implication which is necessarily connected with the Islamic order itself, and represents a special characteristic that distinguishes Islamic banks from other banks based on other philosophies. In exercising all its banking or development activities, the Islamic bank takes into prime consideration the social implications that may be brought about any decision or action taken by the bank. Profitability – despite its importance and priority – is not therefore the sole criterion or the prime element in evaluating the performance of Islamic banks, since they have to match both between the material and the social objectives that would serve the interests of the community as a whole and help achieve their role in the sphere of social mutual guarantee. Social goals are understood to form an inseparable element of the Islamic banking system that cannot be dispensed with or neglected*." (p.27)

This statement represents the core of what the advocates of Islamic banking expect Islamic banks to do in terms of social obligations. Clearly, Islamic banks operating on the Shariah-based philosophy and principles must depart significantly from conventional banks that are deeply rooted to the capitalistic profit-maximisation philosophy. As for Islamic banks, the intense commitment of Islam to brotherhood and justice makes the well-being of all human beings the principal goal of Islam. This well-being includes both physical and spiritual satisfaction of the human personality encompassing the happiness in the present world and the hereafter. Therefore, maximisation of outputs cannot be a sufficient goal of a Muslim society, rather it has to be accompanied by efforts directed to ensure spiritual health at the inner core of human consciousness, and justice and fair play at all levels of human interaction (Al-Omar and Abdel-Haq, 1996). Thus, while ordinary business institutions are likely to place profit as their primary epitome and objectives, Islamic banks have to incorporate both profit and social obligation into their objectives(Ahmad, 2000). Only endeavours of this kind would be in conformity with the objectives of Shariah.

However it is ill-conceived for anyone to believe that Islamic banks are charitable or welfare organisations which only have concern for the unprivileged or to provide monetary assistance as requested (Rosly and Bakar, 2003). Similarly, it is inappropriate for the management of Islamic banks to emphasise on the profit maximisation policies alone, while neglecting other social obligations (Haron, 1995). Instead, Islam strives for a balance between profit and social objectives. It is considered unjust for Islamic banks if they are unable to provide sufficient returns to depositors and shareholders who have entrusted them with their money. At the same time, Islamic banks are not supposed to make excessive profits at the expense of their customers or undermining and neglecting their social responsibility and commitments to their various stakeholders (Chapra, 1985; Ahmad, 2000).

Table I summarises the fundamental differences between Islamic banks and their conventional counterparts.

Table I: Fundamental Distinctions between Islamic Banks and Conventional Banks

Islamic Banks	Conventional Banks
Functions and operations are guided by sources of Shariah (Islamic Divine Law) namely the Quran and the Sunnah (traditions of the Prophet Muhammad p.b.u.h.).	Functions and operations are guided by secular principles and not based on any religious doctrines and values.
Institutions that aim at balancing between profit-maximisation doctrine and social responsibility.	Institutions that emphasise on profits maximisation.
Financing instruments are based on either asset-backed trading contract or equity financing with risk sharing.	Financing instruments are based on interest-bearing mechanism.
Deposits are not interest-oriented but profit-loss sharing oriented whereby investors' principal repayment is not guaranteed but entitled to a predetermined share of actual	Deposits are interest oriented and the investor is assured of a predetermined rate of interest with a guaranteed principal repayment.

profit realised by the business.	
No penalty on defaulters. However some Muslim countries allow charging a small percentage of late payment penalty as a deterrent but the amount need to be channelled to charity and not treated as part of business income.	Normally charge compounded rate of interest in case of default.
Islamic banks are restricted to participate in economic activities which are unethical and prohibited by Shariah such as businesses involving alcohol, prostitution, pork, environmental pollution etc.	There are no such restrictions for conventional banks.
Islamic banks need to do charity by paying zakah (compulsory religious levy) out of their income.	There are no such requirements to do charity.

Model of Islamic Banking

There are generally two dissenting views delineating the Islamic banking objectives. One view, referred to as Chapra's model(Lewis and Algaud, 2001), sees an Islamic bank as having a socio-economic purpose. According to the proponents of this view 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, the Islamic bank must 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. This model 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. The Chapra's model, therefore, is believed to be congruent with the spirit of Shariah and overall Islamic worldview. Thus, Islamic banks must promote social welfare programmes and activities and make more contributions towards the needy and the poor without undermining its commercial viability. Wahbah Al-Zuhayli, a renowned Sharī'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). He further asserts, "*Islamic financial institutions attempt to link the economic and social development goals in a harmonised overall framework based on Islamic teachings. They avoid excessive speculative or untruthful transactions, which can have an adverse economic and social effect on the nation*" (Al-Zuhayli, 2003).

On the other hand, Ismail's framework views Islamic banks as a normal commercial entity which has the sole responsibility of carrying out business in a manner consistent with Islamic law (Lewis and Algaud, 2001; Satkunasegaran, 2003). The framework identifies that the bank's main responsibility is towards the shareholders and depositors, while social welfare objectives are to 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 Sharī'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[1]. This view is somehow similar to the Western neoclassical worldview, particularly Friedman's concept of firm's responsibility, which 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.

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. In their assertion, Lewis and Algoud state that, "*although the set of legitimate financing operations and practices is common to both settings and applies to all Islamic institutions, some activities may be preferred over others depending on the objectives*". Satkunasegaran (2003) contends that Ismail's model of Islamic banking is probably more suitable for application in multi-religious countries like Malaysia, while Chapra's model would probably be more practical in a country where there is a large majority of Muslims who may subscribe to the social engineering role of a bank (Satkunasegaran, 2003). An examination of the actual workings of Islamic banking in practice, particularly with respect to social responsibility commitment, should therefore be studied with these distinctions in mind.

Drawing from these two dissenting views, we investigate the following null hypothesis:

H_o: ***There are no significant differences in the various stakeholder groups' opinion in perceiving the importance of social-welfare and commercial objectives of Islamic banks in Malaysia.***

Research Methodology

Instrument Development

An initial battery of items was generated in order to gauge stakeholders' evaluations of each social and commercial objective. Following the recommendations by Huck and Cornier (1996), the pilot test was employed to assess the quality, face validity and content validity of the items. First, the items were submitted to five scholars with an expertise in the field of Islamic economics and banking. These scholars have to pinpoint any ambiguous item and had to rate each item in terms of representativeness and consistency. Based on the feedback from these scholars, several modifications were made to the wordings and some less relevant items were deleted or rephrased. Finally, the resulting items were submitted to 41 respondents who were university lecturers, businessmen, Shari`ah advisors and bank officers of the two banks understudy. At this stage, potential wording and formulation consistency issues became apparent and were resolved. Based on the comments thereby obtained, led to only some minor modifications in the wordings and presentation of the items.

The resulting instrument included four items for social objective and commercial objective respectively. Respondents had to rate on a 5-point Likert scale a list of items such as: I believe that the objectives of Islamic banks are (a) maximising profits objective, (b) contributing to social welfare objective, (c) alleviating poverty objective, (d) promoting sustainable development projects objective, (e) minimising costs of operations objective, (f) enhancing product and service quality objective, (g) offering viable and competitive financial products objective, and (h) promoting Islamic values and way of life towards staff, clients and general public. The questionnaire was originally prepared in English and then translated into Malay by using backward translation method with an assistant from a third party who was fluent in both languages to avoid translation bias and error. Only minor discrepancies were observed between the original instrument and its back translated version and hence easily resolved by the translator.

Data Collection

In this study, the researchers have identified the following stakeholders of Islamic banks namely, customers, depositors, managers, employees, Shariah advisors, regulators and local communities as our primary target respondent groups. The choice of these groups was also consistent with the popular definition of stakeholder which is defined as "*any group or individual who can affect or is affected by the achievement of the firm's objectives*" (Freeman, 1984). Hence, the selection of various respondents was made based on the following definition of stakeholder groups:

1. *Customers*: Those who had a banking relationship with the two Islamic banks, in particular financing customers. They may or may not have deposit accounts with the Islamic banks under study. Examples of such customers are those who experienced in using consumer financing products like house financing, personal financing, motor vehicle financing, education financing etc.; or corporate financing products like trade financing, letter of credits, Islamic bills, Islamic bonds etc.

2. *Depositors*: Those who have deposit accounts with any of the two Islamic banks under study. Their relationship with the bank is only confined to fiduciary engagement i.e. depositors of the banks and hence not using any financing services offered by the banks. Types of deposit account holders included in this study were current account holders, saving account holders and investment account holders.
3. *Local Communities*: Those who do not have any direct banking relationship with the Islamic banks under study i.e. they are customers or depositors of the conventional commercial banks.
4. *Employees*: All employees at various organisational positions and levels of the Islamic banks excluding branch managers.
5. *Managers*: All branch managers and state managers of the two Islamic banks under study.
6. *Regulators*: Central Bank's (Bank Negara Malaysia) officers who are responsible for overseeing matters concerning Islamic banking regulation and supervision. More specifically, officers from two main departments, namely Islamic Banking and Takaful Department and Supervision Department.
7. *Shariah Advisors*: The Shariah experts who are appointed to sit in the Shariah Advisory Council for the two Islamic banks under study.

The questionnaires were distributed to 33 different branches of Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat Malaysia Berhad (BMMB), two fully fledged Islamic banks in Malaysia. Respondents were randomly selected from among BIMB's and BMMB's customers, depositors and local communities[2] who visited the sampling locations during the chosen time intervals, in order to eliminate the sampling frame errors and to ensure the representation of the population under study in the sample units. Following the data collection procedures outlined by similar banking studies Kader (1993; 1995), Gerrard and Cunningham (1997), Metawa and Almossawi (1998), and Owusu-Frimpong (1999), the questionnaires were distributed during various working hours of the same day (morning and evenings), as well as various days of the week during the three month period to reduce any potential bias owing to high concentration of bank customers, depositors or local communities during certain hours of the day, or certain days of the week or month (Kader, 1993, 1995; Gerrard and Cunningham, 1997; Metawa and Almossawi, 1998; Owusu-Frimpong, 1999).

At each Islamic bank's branch, about 20 to 40 respondents were approached. The researcher counted every seventh bank customer, depositor and local community respectively, who had completed a transaction. They were approached politely, and the purpose of the study was explained and they were asked if they would be prepared to fill in the questionnaire. Once they had agreed to participate, the respondents were asked whether they had any deposit accounts with the Islamic banks or had experienced of using any financing products or facilities offered by the Islamic banks or both. The researcher then handed over the designated questionnaire to the participating respondents according to the predetermined category of respondent groups (customers, depositors or local communities), to be answered either in English or in Malay according to their preferences. The researcher then left the respondent alone to answer the questionnaire and did not interfere in any way, so as to avoid any potential bias such as the respondents feeling intimidated, threatened or being influenced by the researcher. Once completed, the respondent then returned the questionnaire to the researcher or to any of the bank staff.

As for the employees of Islamic banks, the questionnaires were allowed to be completed at home and returned to the researcher on the following day. This allowed employees to complete the questionnaire when it was convenient, without affecting their working hours or break periods. Furthermore, the possibility of response bias was further reduced by careful explanation from the researcher to the respondents (Islamic banks' employees) that their management was not to be involved or interfere in any way and anonymity and confidentiality was guaranteed.

The mail survey was also used in the study primarily on branch managers, regulators (Central Bank officers) and Shariah advisors. The survey questionnaires were mailed to the selected group of respondents with their names and positions printed on the front envelope and enclosed with a cover letter explaining about the objectives of the study and assuring them on confidentiality and anonymity. In addition, self-addressed and stamped return envelope was enclosed for the convenience of respondents. Table II shows the number of questionnaires that were distributed; the number of usable returned and completed questionnaire (the response rate), the overall response rate and the strategy used in distributing the questionnaire for each group.

Table II: Target Groups, Methodology Used and Response Rate

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	By Hand (fieldwork)
Branch Managers	134	100	75	Mail Questionnaire
Regulators	36	25	69	Mail Questionnaire
Shariah 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%. The number of response is considered large enough and sufficient for statistical reliability and generalisability (Tabachnick and Fidell, 1996; Stevens, 2002). This high response rate would undoubtedly improve the validity and reliability of the survey since the greater the response, the more accurately it would estimate parameters in the population sampled(Pallant, 2002). Hence, no further attempt was made to increase the samples.

Analysis

SPSS was used to carry out factor analysis on the responses to the Islamic banking objectives. Factor analysis is a technique which is used to “reduce a large number of variables to some smaller number by telling us which belong together and which seem to say the same thing" (Emory and Cooper, 1991). This technique deemed to be appropriate for this particular analysis because factors pertaining to 'social objectives' and 'commercial objectives' have many connotations. As noted by De Vaus (2002), such factors are not single measurable entities but are constructs of a number of other directly observable variables. By factor analysis, these observable variables can be clustered into factors, each reflecting an underlying property which is commonly shared by a certain group of variables (De Vaus, 2002). It also helps to validate that respondents are able to distinguish between the various variables despite the similarity of the items questioned. (Hair, Anderson et al., 1998) The responses within various factor groups were tested for internal consistency and reliability using Cronbach alpha tests.

To compare the views of diverse stakeholder groups, SPSS was again used to run Kruskall-Wallis test. Kruskall-Wallis is a non-parametric test also known as a distribution free test which requires a less strict assumption about underlying population and the type of data to be analysed. Unlike the parametric test (such as F-Test) which requires data to be measured on interval levels and that samples are drawn from normal distribution populations, non-parametric tests do not require the shape of the underlying distribution to be specified even though samples need to be selected at random. It is also more suitable for treating samples made up of observations from several different populations, and when measurement of the variables is in an ordinal scale. Although it is not as powerful as a parametric test, increasing the sample size can increase its power to that approaching its parametric equivalents (De Vaus, 2002).

Research Findings

Factor Analysis

All necessary procedures that are required prior to factor analysis were conducted. The Kaiser-Meyer-Olkin (KMO) measure for Islamic banking objectives items combined showed a value of 0.80 and hence is deemed appropriate for use in further factor analysis. The Bartlett's Test of Sphericity also reached statistical significance (0.000), supporting the factorability of the correlation matrix. Based on these results, factor analysis proceeds to conduct principal component analysis (PCA) and varimax rotation with Kaiser Normalisation.

To aid interpretation of these two factors, there are two methods available for rotation of factors, orthogonal and oblique rotation. The former ensures the factors produced will be unrelated to each other, while the latter produces factors which are correlated (Hair, Anderson et al., 1998). However, no specific rule has been developed to guide the researcher in selecting a particular orthogonal or oblique rotational technique. In this study, Varimax orthogonal rotation was used because the study wants to ensure that the factors produced will be independent or unrelated to each other. Variables which most highly load (correlate) with the first factor are clustered together and arranged in descending order according to the size of their correlations. Then, variables which load strongly with the second factor will form the second factor, and so on.

It is worth noting that orthogonal rotation has a disadvantage of forcing factors to be unrelated when they may be related in real life. In this regard, oblique rotation may be applied to check this(Hair, Anderson et al., 1998). The study noticed that the variables loading were exactly the same as found with this Varimax orthogonal rotation, hence similar interpretation could be used for the factor analysis.

The rotated solution (presented in Table III below) revealed the presence of two factors with a number of strong loadings. No instance of obvious cross-loading over factors could be observed; in addition, eigenvalue indicators fell within recommended guidelines (Hair, Anderson et al., 1998). The communality indices were acceptable: they ranged from 0.40 to 0.67.

Table III: Factor Analysis for perceived Islamic banking objectives

Variable	Factor 1 Social Welfare Objectives	Factor 2 Commercial Objectives	Communality of each variable
Alleviating poverty	**.815**		.672
Contributing to social welfare	**.769**		.600
Promoting sustainable development projects	**.666**		.526
Promoting Islamic values and way of life towards staffs, clients and general public	**.547**		.486
Offering viable and competitive products		**.714**	.627
Enhancing product and service quality		**.707**	.638
Maximising profits		**.637**	.438
Minimising costs of operations		**.624**	.399
Eigenvalue	3.090	1.297	
% of variance	28.695	26.138	
Cumulative %	28.695	54.832	

The results in Table III indicate that all 8 items of Islamic banking objectives exhibit large factor loading (above 0.3 significant levels). Variables with factor loadings smaller than ±0.3 are normally considered not significant and can be ignored from the factor. The two factor solution explained a total of 55% of the variance, with Factor 1 contributing 28.7% and Factor 2 contributing 26.1%. Table III also depicts the communality of each variable. Communalities measure correlations among the 8 variables to be factor analysed. The higher the correlations among the variables; implies the more they have in common or the higher would be their communalities. For example, a communality of 0.672 for the variable "alleviating poverty" indicates that the variable has 67.2% of its variation in common with the other variables in forming a factor. On the other hand, a variable having a very low communality (close to zero), is not likely to be associated with any other variables in defining a factor.

From the table, all variables that are listed under Factor 1 measure social welfare-related objectives namely "*poverty alleviation"*, "*contributing to social welfare of the community*", "*promoting sustainable development project*" and "*promoting Islamic values and way of life towards staff, clients and general public*". Therefore, the items grouped under Factor 1 can be appropriately described as "*social welfare objectives*". On the other hand, the clustering of variables "*offering viable and competitive financial product objective*", "*enhancing product and service quality objective*", "*profit maximisation objective*" and "*cost minimisation objective*" portrays an underlying factor which relates to the commercial aspect of Islamic banking operation and objective. The nature of the highly loaded variables on this second factor suggests that it can be named "*commercial objectives*". Since factor 1 (*social welfare objectives*) has the higher eigenvalue and variance (eigenvalue = 3.09, variance = 29%) it necessarily represents more important objectives perceived by the stakeholders of Islamic banks as compared to factor 2 (*commercial objectives*) with a lower eigenvalue and variance (eigenvalue = 1.3, variance = 26%).

This result reveals that the stakeholders highly regard Islamic banking as an institution that should promote Islamic values and a way of life towards their staff, clients and the general public and other social welfare objectives such as contributing to social welfare of the community, promoting sustainable development projects and alleviating poverty. This finding supports the assertion made by the proponents of Chapra's views like Sadr (1982); Siddiqi (1983, 1985); Ziauddin Ahmad (1984); Ahmad (2000); Siddiqui (2001); Haron, 1995, 2000; Ahmad, 2000; Rosly and Bakar (2003); Al-Zuhayli (2003); Haron and Hisham (2003); Naqvi (2003) and others who categorically assert that Islamic banking must 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.

The view basically places greater social welfare responsibilities and religious commitments upon Islamic banking institutions in order to achieve the outlined Islamic economic objectives including, serving as an interest-free banking, social justice, equitable distribution of income and wealth and promoting economic development.

Having mentioned this, one should not casually conclude that Islamic banks must only concentrate on attaining social welfare objectives; rather the result of the analysis indicates that the commercial factor such as enhancing product and service quality and providing viable and quality financial products were also perceived as important objectives to be pursed. This substantiates Wilson's (2000; 2003) claim that Islamic banks should not take for granted the expectation of their clients by assuming that they are prompted to deal with Islamic banks solely based on their religious consciousness, rather they should also promote quality services that can satisfy their clients.

Kruskall-Wallis Test: Comparing Stakeholder Groups' Perceptions.

Presumably not all stakeholder groups would homogeneously apply the same degree of importance to the objectives of Islamic banking. It is fair to assume that different stakeholder groups may differ in the ranking of objectives of Islamic banking. To investigate the perception of different stakeholder groups of Islamic banks towards the main objectives of Islamic banking operation, the non-parametric Kruskall-Wallis test was applied. The null hypothesis (H_0) was stated as follows;

> H_0: *There are no significant differences in the various stakeholders' opinion in perceiving the importance of social-welfare and commercial objectives of Islamic banks in Malaysia.*

The results are presented in Table IV.

Table IV: Kruskal-Wallis Test to Compare the Scores of 7 Stakeholder Groups

Variable	Subgroup	N	Mean Rank	Chi-Square	Asymp. Sig. (*p*)
Factor 1: Social welfare objectives	Local Communities	270	781.52	χ^2= 52.936	0.000
	Customers	348	767.32		
	Depositors	367	759.85		
	Regulators	25	721.84		
	Shariah Advisors	9	716.61		
	Employees	319	604.86		
	Managers	96	568.17		
Factor 2: Commercial Objectives	Shariah Advisors	9	1012.44	χ^2= 99.512	0.000
	Managers	98	940.09		
	Employees	329	838.62		
	Regulators	25	707.94		
	Customers	343	671.93		
	Local Communities	267	639.72		
	Depositors	352	616.63		

The Kruskall-Wallis test above reveals that mean degrees of importance for the seven stakeholder groups are not equal for both factors measuring the Islamic banking objectives. The chi-square values for factor 1 (χ^2 = 52.94) and factor 2 (χ^2 = 99.51) are higher than the tabulated chi-square value, χ^2 = 12.59 at 0.05 significance level; 6 degrees of freedom. Hence, the null hypotheses that all stakeholder groups assigned equal importance to social and commercial objectives of Islamic banking variables can be rejected. Furthermore the observed significant level for all seven items is lower than the 0.05 confidence level, implying that the variations between the seven stakeholder groups are likely to hold in the population.

To further investigate which group of the stakeholders assigned the highest or lowest importance to the list of Islamic banking objectives, the mean rank column is also provided. An inspection of the mean ranks for the stakeholder groups suggests that the Islamic banks' managers assigned higher ratings than other stakeholder groups to the commercial objectives such as maximising profits, minimising cost of operation, offering viable and quality products and services. This is not surprising since these groups are relatively more experienced and directly exposed to the actual scenario relating to stiff market competition in the dual-banking system like in the case of Malaysia. Perhaps it is not that these stakeholder groups do not care about social welfare objectives, but rather that they care and are concerned more about the bank’s ability to compete, especially for Islamic banks which are still struggling to position themselves among the more established conventional banking system.

This is evidenced from the latest figure of market shares of Islamic deposits and financing stood at 11.7% and 12.1% of the industry’s total respectively (Bank Negara, 2005). In this regard, the ability of the Islamic banking industry to capture a significant market share in a rapidly evolving and challenging financial environment particularly in a dual-banking system like Malaysia, is dependent on the strategic positioning of the Islamic banking players to maintain their competitive edge and offer services and products that satisfy the needs of their customers. Nevertheless, it is interesting to find out that these stakeholder groups still attach a certain degree of importance to the social-related objectives implying that Islamic banking must not contradict the original philosophy of Islamic banking establishment, i.e. combination of social and profit motives.

On the other hand, local communities and customers were more concerned with social dimensions of Islamic banking objectives. This is based on the highest scores these stakeholder groups assigned to the social related objectives such as contributing to social welfare of the community, poverty alleviation and promoting sustainable development objectives. This may be attributed to the present prevailing thinking in the Malaysian society that Islamic banking as an Islamic enterprise should first attend to social needs of the society rather than emphasising on profit maximisation or any other commercial objectives espoused within the capitalist enterprise.

Having mentioned the results, it is important to note that the differences in opinion among the stakeholder groups are mainly between those who assigned the listed objectives as either important or most important. Hence, all respondent groups generally agreed that Islamic banking must take into consideration both economic and commercial aspects of banking business while at the same time not neglecting the fundamental aspects of Shariah principles emphasising on promoting Islamic values and social objectives.

Conclusion and implication

This study investigates an important issue relating to what should be the objectives of Islamic banks operating in a dual-banking environment like Malaysia from stakeholders' perspectives. The most important fact revealed by this study is that stakeholders of Islamic banks view the industry much more favourably by the social and ethical goals that it serves, rather than the mechanics of its operation. One of the most important reflections of their attitude is that social-welfare factors are evidenced as more important objectives than commercial factors in their perceptions towards Islamic banking. This result implies that Islamic banks must ensure that all of their transactions are Shariah-compliant not only on their forms and legal technicalities but more importantly the socio-economic substance which is premised on the objectives outlined by Shariah.

There are a number of practical implications of the study for Malaysian Islamic banks and the potential entrants into this niche market. First, based on the survey findings, it is highly recommended that Islamic financial institutions must not only focusing on maximising profit, but they should also play a vital role in addressing socio-economic issues such as poverty reduction and improvements in important aspects of human welfare (like education, illiteracy, reducing child mortality, youth insecurity and restlessness etc.) by efficiently channelling financial resources towards productive opportunities, hence enhancing production, investment and trade activities.

Second, banks cannot depend only on financial performance to survive in this ever-changing scenario of global competition, but owes a social responsibility to the various stakeholders in which they exist. Based on the positive results on expectations and perceptions of diverse stakeholder groups towards the social-welfare dimensions of Islamic banking practice, as evidenced in this study, managers need to be convinced that social-welfare and profit maximisation objectives need not be conflicting goals. Instead, commitment towards various social-welfare initiatives and programmes could be used as a strategic marketing tool to enhance reputation and secure stakeholders allegiance, which is beneficial and profitable for the business in the long run.

The present research has focused on stakeholders' overall intention to actively support responsible businesses, but did not establish any link between intent and actual behaviour. In other words, the present research could not casually conclude that stakeholders reporting support of socially responsible Islamic banks might actually be translated into actual purchase, investment or patronage behaviour. Hence, future research efforts may want to expand the empirical study by providing actual figures on investments, sales or financing relating to social responsibility initiatives, expenses incurred on environmental practices, total number of donations given, community services, scholarships, and other relevant data in addition to the survey results of respondents' attitudes. This data would enable the researcher to employ more rigorous multivariate analysis techniques such as regressions in providing a more comprehensive picture of socially responsible practices and their impact on the bank's overall performance. This may produce some useful insights and provide guidance to Islamic banking business on how to best plan corporate behaviour for the best impact upon stakeholders.

Secondly, stakeholders were assumed to know about the social responsibility achievements and initiatives of Islamic banks when they might actually have had little awareness of such achievements and initiatives. Accordingly, future research could first determine to what extent stakeholders were aware of the social responsibility records of a particular bank understudy.

In a nutshell, Islamic banking system has the potential to become one of the promising sectors to realize the noble objectives of Shariah, as it resides within a financial trajectory underpinned by the forces of Shariah injunctions. These Shariah injunctions interweave Islamic financial transactions with genuine concern for just, fair and transparent society at the same time as prohibiting involvement in illegal activities which are detrimental to social and environmental well-being. Such a balanced business orientation and strategy with good service quality can be expected to propel Islamic banks to greater heights in becoming viable and sustainable alternative to their conventional counterparts.

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Note

[1] 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 appointed as a member of the National Shariah Council of Bank Negara Malaysia.

[2] Local communities are those who are neither deposit account holders nor financing customers of the Islamic banks i.e. they are conventional bank customers. However, many of them visited Islamic banks' branches either to cash cheques or for other reasons which disqualified them from being regarded as the Islamic bank customers.