Editor's Note

Islamic finance is unique in that it is the only financial system which is based on the teachings and practices of a particular religion. It primarily relies on real economic transactions (such as trade) and investment profit-sharing; thus, Islamic finance represents a major departure from the speculative, interest-based practices of the conventional financial system. Moreover, given the recent and obvious detrimental economic impact of the conventional financial system on economies across the globe, the Islamic financial system is an increasingly attractive choice for both secular Muslims and non-Muslims alike. Thus, a Shariah-compliant financial system is not only a survivor of the most recent global financial crisis, but a seemingly lucrative, sustainable, and fair organizational structure.

The prohibition of interest and the rejection of financial speculation—a detachment from the real economy—are not only hallmarks of Islamic principles, but also significant overlapping philosophies with socially responsible investment (SRI). Islam preaches social justice, environmentalism, compassion, and sustainability. These values make Islamic finance a very relevant and globally interesting topic for all finance professionals as there is the potential for introducing a system which is simultaneously moral and stable. However, as it stands today, the Islamic financial system is not yet a product of these lofty ideals. In numerous cases, rules such as the prohibition of interest have not been completely eliminated but merely circumvented, as the creation of pseudo-Islamic financial products are just imitations of the conventional-based products. These pseudo-Islamic financial products strike at the heart of Islamic finance. In fact, there's a vast, growing standardization of Islamic financial instruments, as well as practices, which aim to avoid the misuse of the traditional Islamic contracts.

Most current Islamic financial institutions are Shariah-compliant in general form, but few have aimed to achieve the higher objectives of Shariah; that is, to include explicit ethical objectives and features in their Islamic financial products. Similarly, few financial institutions and Islamic fund managers have integrated social responsibility. Additionally, other Islamic finance challenges include: education and the formation of awareness, the creation of efficient liquidity management tools, the development

and advancement of suitable Islamic benchmarks for pricing goods/services, and the amalgamation of Shariah-compliant risk management products.

The first paper, in this issue, by Saad and Mubassera, aims to unearth the reasons as to why Muslims in Malaysia maintain accounts at conventional banks, via a survey analysis. Given that there are 27 banks, 16 consisting of Islamic institutions and 18 of conventional institutions, offering similar Islamic banking products and services in the country of Malaysia, it is valid to ask why Muslims in Malaysia are still patronizing the conventional banks when there are sufficient alternatives. Moreover, the authors examine the level of knowledge and understanding about riba among Malaysian Muslims. Results indicate that Muslims in Malaysia possess a good understanding of the concept of riba and that a lack of knowledge about riba is not a primary reason for dealing with conventional banks. In fact, results show that customer familiarity with a particular bank is the dominant motive for choosing one institution over another, among patrons of conventional banks.

The second paper, by Kafou and Chakir, explores the day of the week effect on Islamic stock market returns over the period 1999 to 2013. The study utilizes both raw and market-adjusted returns, to avoid bias, using General Method of Moments (GMM) and GARCH models. The results of the GARCH specification show strong evidence of the day of the week effect; however, the expected return was not enough large to outweigh potential transaction costs. The market-adjusted returns show a similar persistence of the effect, but a change in the qualitative aspect of the effect. Interestingly, during the Subprime crisis no day of the week effect was found and returns are shown to be random and unpredictable.

In the third paper, Selim analyzes an interest-based Capitalist system where conventional expansionary monetary policy has become largely ineffective in increasing output and employment in recent years. The author attempts to explain such ineffectiveness as well as provide alternative solutions to monetary policy, such as the Sukuk mode of Sharia-compliant financing. Moreover, the study compares the relative efficacy of the tools of monetary policy under fixed and flexible exchange rate regimes. Findings indicate that Sukuk-based monetary policy is relatively more effective in increasing output, employment, and maintaining low inflation rates without creating negative economic side effects.

The fourth paper, by Talalweh, Whiting, and Carmona, examines sustainable development conduct in Islamic society. This paper evaluates a series of variables (which includes both traditional economic variables and non-conventional variables

—i.e. education, professional experience, etc.) for firms headquartered across the Islamic world in terms of their fulfillment of the Triple Bottom Line (environmental, social, and economic aspects). Interestingly, variables not normally relevant for Western firms show a notable positive contribution to sustainability reporting. Such findings form an important step in evaluating and increasing sustainable reporting participation in Islamic countries.

In the fifth paper, Islam and Kassim compare the efficiency between Islamic and conventional banks in Bangladesh over the period 2009 to 2013. Findings indicate that Islamic banks have been technically efficient, but their scale efficiency is unsatisfactory, suggesting that scale inefficiency is the main source of inefficiency for Islamic banks. In contrast, conventional banks are found to be technically inefficient, but their scale efficiency is satisfactory.

The sixth paper, by Ahmed, aims to assist financial market participants and practitioners by addressing today's global financial challenges and proposing how Islamic banking is poised to be a solution to these aforementioned challenges. The author puts forth four suggestions in order to make Islamic banking a more acceptable and feasible solution to the current global financial issues.

In the seventh paper, Mushir analyzes the idea of an economic and financial system based on faith and centered on justice, equality, and benevolence. These principles come in stark contrast to those of the conventional capitalistic financial system centered on profit maximization. The paper looks heavily into the unethical business practices rampant across the globe and the subsequent impact on the global economy. It not only focuses on the negative effects of such practices on society, but also on how invoking the ethical values in one's own economic life can make an impact—it is here, Islamic principles of economics and finance can find relevance. The bottom line is that culture need not be sacrificed in order to maximize profit (the sole mission of a business entity).

The eighth paper, by Chaudhury, explores fund management of Islamic banks. The study investigates the position of fund management with respect to financial, operational productivity, and employee productivity performance for two Islamic banks: Bangladesh Ltd. (IBBL) and Shahjalal Islami Bank Ltd. (SJIBL). Findings suggest that for both Islamic banks, financial performance possesses the highest fluctuations, while employee productivity performance possesses the smallest. Overall, financial reforms should be introduced by the Ministry of Finance and Bangladesh Banks so that fund management practices with respect to financial,

operational productivity, and employee productivity performance improves the level of satisfaction across the board.

In the ninth paper, Nooh and Aziz examine the increasing worldwide recognition of Islamic banking. While Islamic banking was initially created to cater to the Shariah compliance banking needs of Muslims, today is has become a widespread financial system which represents a major exodus from the speculative and interest-based practices of the conventional financial system. This paper uniquely evaluates Islamic banking websites in Malaysia by comparing the strengths and weaknesses of the websites' various design and content structures.

In the tenth, and last paper, Abduh and Alobaad analyze customer loyalty given its vital importance in protecting market share from rival firms (due to declining market growth and increased competition). In particular, they focus on the interrelationships between service quality, emotional satisfaction, and loyalty of Islamic banking patrons using online survey data from 600 Kuwait Islamic banking customers. Interestingly, results indicate that emotional satisfaction is the only statistically significant variable affecting customer loyalty in the particular banking industry.

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Reference:

M. Kabir Hassan and Michael Mahlknecht (Editors), Islamic Capital Markets: Products and Strategies, John Wiley and Compnay, March, 2011: 452 pages