

Islamic finance and business: an overview with directions for further research

Introduction

Traditionally confined to Islamic economies, Islamic Finance has now become a global phenomenon. Its basic principles including Islamic law (Sharia), profit and loss sharing, and the prohibition of any form of interest (riba) or fixed returns, uncertainty (gharar) and gambling (maysir), have contributed not only to an impressive growth of this industry, but also to an increase in related academic research. Overall, since its formal establishment in 1970, the global Islamic Financial services industry has reached a total value of US\$2.20 trillion in 2018, with an impressive growth of rate over the last ten years. In parallel, after the subprime financial crisis, academic research on Islamic Finance has grown significantly, especially focusing on Islamic banking sector and on the resilience of the industry compared to conventional finance topics.

This special issue of *International Journal of Emerging Markets* aims at filling the gap in the literature by presenting theoretical and empirical papers not only on Islamic banking, but also on less investigated topics such as Islamic bonds (sukuk) and insurance (takaful) and geographical areas like Africa. In addition to current Islamic finance landscape papers, the issue also includes papers on Islamic business and marketing. As a result, the papers are grouped under three broad Islamic fields: financial instruments' behavior; banking and insurance; and business and marketing.

Islamic financial instruments' behavior

During the last several years the literature investigating the behavior of Islamic Financial instruments, in terms of risk, returns, contribution to the portfolio diversification and comparison vs traditional financial products has been quickly growing up (Girard and Hassan, 2008; Derigs and Marzban, 2009; Aloui *et al.*, 2015; Narayan and Phan, 2017; Saiti and Noordin, 2017; Cevik and Bugan, 2018; Hassan *et al.*, 2018; Trinugroho *et al.*, 2018; Wasiuzzaman and Al-Musehel, 2018, among the others). The studies in the different fields analyze Islamic stock indexes (Hoque *et al.*, 2016), Islamic mutual funds (Hoepner *et al.*, 2011), Shariah compliant stocks (Iram *et al.*, 2017) and sukuk (Paltrinieri *et al.*, 2019)[1]. In this issue, we have two papers focusing on Islamic stock indexes and one on Islamic bonds.

Anwer, Azmi and Mohamad investigate the impact of monetary policy actions on Islamic stock indexes. Through a quantile regression approach and using a multi-country sample, the authors show that domestic and US monetary policy has an asymmetric impact on stock returns depending on various locations of the return distribution. At the lower return levels, an expansionary monetary policy tends to have a negative effect, while in other cases there is no impact of policy rate change on index returns. This is one of the first paper investigating the impact of monetary policies in Shariah compliant indexes, offering significant policy and financial implications for Central Banks and asset managers.

Mongi investigates the impact of crude oil and other energy future products on Dow Jones Islamic equity indices during both subprime and European financial crises. Using an autoregressive distributed lag bound testing and a vector error correction models, the author provides evidence of a long run relationship for Dow Jones Islamic emerging markets index (DJIMI) compared to other global and sub-regional indices. The speed of adjustment to

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the long-run equilibrium is moderate for the DJIM and the effect of structural breaks produced from nonlinear volatility model with Long memory is not pronounced for the DJIMI-crude oil relationship. While short-run causality is bidirectional in general and does not exist between crude and refined oil future markets, long-run Granger causality does not run from refined oil futures prices to crude oil and Islamic equities. This paper significantly contributes to the Islamic finance literature, as being one of the first one assessing the relationship between oil and other energy futures on Islamic stock indexes. In addition, it offers financial implications for investors and portfolio managers and provided evidence other than stressing the fact also Islamic stock markets are integrated in the international finance framework.

Bhuiyan, Rahman, Saiti and Ghani examine co-movements dynamics between global sukuk and bond markets. Through a wavelet approach covering the period 2010–2015, the authors do not find any unidirectional causality from developed market bond indices to Malaysia and Dow Jones sukuk indices. Regarding emerging markets, the Malaysian sukuk market has a bidirectional causality with Indonesia, Malaysia, India and South Korea bond indices, but not Chinese bond indices. Moreover, in terms of the Dow Jones sukuk index, there is no unidirectional causality found between the listed emerging markets and the sukuk index, except Indonesia's market. This paper is an important contribution to the Islamic bond literature as it provides a thorough analysis of the conventional bonds-sukuk dynamic correlations, using a wavelet approach. The results are important for asset managers and institutional investors to obtain portfolio benefits by adding sukuk to an already well-diversified portfolio. In particular, the paper also provides new evidence that financial turmoil has less impact on the sukuk market than on the conventional bond market.

Islamic banking and insurance

Islamic banking has been the most investigated topic in Islamic finance. There are a lot of studies investigating the stability, efficiency, performance and risks of Islamic banks compared to the conventional ones (Abedifar *et al.*, 2013; Beck *et al.*, 2013; Alandejani *et al.*, 2017; El-Halaby *et al.*, 2018; Hassan and Aliyu, 2018; Ozdincer and Yuce, 2018, among all)[2]. Instead, Islamic insurance has not yet been extensively investigated (Kader *et al.*, 2010). In this issue, we have two papers dealing with Islamic banks (one theoretical and the other one focusing on Africa), and one with takaful.

Aracil compares the sustainability practices of Islamic and conventional banks and evaluates whether their corporate social responsibility (CSR) strategies converge or diverge over time. Drawing on institutional theory, the author employs a multiple case study carried out in Turkey by assessing two of the largest Islamic and conventional banks. The author shows that both types of banks integrate institutional factors in their CSR articulation. Islamic banks exhibit an implicit commitment to CSR strategies, mostly based on informal institutions, whereas conventional banks use explicit CSR strategies to fill the voids in formal institutions. Moreover, Islamic banks' actions are purely philanthropic, suggesting a moral dimension associated with social banking, while conventional banks rely on explicit CSR initiatives aligned with their core businesses such as enhancing financial inclusion. This paper offers new insights on the CSR literature in developing countries, focusing on Turkey where Islamic banks have been rarely investigated. The analysis stimulates Islamic banks to better develop sustainable strategies in order to compete with conventional counterparts and banks' managers to better understand what should be done for improving benefits to customers and the community.

Oladapo, Arshad, Muda and Hamoudah examine the perception of different stakeholder groups on governance dimensions, such as transparency, accountability and ethics, focusing on an emerging African Shariah compliant financial system like Nigeria. Through a survey

questionnaire, the authors show that ethics is highly perceived as the key dimension in governance for the Islamic banking sector. This paper contributes to the Islamic finance literature in several ways. First, it sheds some light on Islamic banking in Nigeria, by exploring the perception of different stakeholder groups in relation to governance dimensions. Nigeria has a financial system where Shariah compliant institutions are not well investigated in the literature and is different compared to MENA region and South East Asia countries like Malaysia and Indonesia. Furthermore, the paper contributes to the Islamic corporate governance field in banking, showing that transparency, accountability and ethics can be valuable tools in examining governance system. As far as policy implications, the findings reveal the importance of maintaining a balance among all the governance dimensions, and of adhering to the Islamic principles in order to enhance the growth of the Islamic banking in Nigeria.

Ali, Raza, Pua and Amin investigates consumer adoption toward takaful products in Pakistan. Through the application of Diffusion of Innovation (DOI) theory, the author shows that relative advantage, complexity, compatibility, observability, consumer awareness and religiosity are the significant determinants of customer adoption toward takaful. Moreover, in Pakistan, Islamic insurance seems to provide better economic benefits, competent staff, secure and reliable financial solutions, than conventional one. This paper contributes to the Islamic finance literature, assessing the takaful industry in Pakistan, one of the least investigated sub-sectors and countries in Islamic financial system. Moreover, this paper contributes also on the theoretical point of view, since it's one of the first ones to extend the Roger's DOI theory exploring the takaful context. The results provide some management implication for takaful companies that should create some awareness programs and use electronic and social media to generate information for the adopters. Managers should also focus on the quality of the communication and information provided to the adopters, highlighting the contributions of takaful sector in country's socio-economic development and providing the ease of use in order to fulfill customer's insurance need.

Islamic business and marketing

Islamic business and marketing are two fields of research not so developed in the literature (Saeed *et al.*, 2001; Richardson, 2014; Asnawin *et al.*, 2018; Richardson and Rammal, 2018; Gözübüyük *et al.*, 2018). In this issue, we have 3 papers assessing the determinants of word of mouth, the attitude of customers toward Islamic banking and the perception of Muslim consumers.

Mahadin and Akroush paper identifies the determinants of word of mouth toward Islamic Banking in Jordan. Through a self-administered survey delivered to a sample of Islamic banks' customers, the authors show that service quality and perceived value have a positive and significant effect on word of mouth toward Islamic banking. This is the first study assessing this topic in Jordan, offering several practical implications to CEOs and marketing managers of Islamic banks in structuring their marketing strategy. They should focus on the improvement of service quality, of the customers' perception of the value they received, on key marketing messages that enhance religious motives in customers' minds and heart.

Kaakeh, Kabir Hassan and Van Hemmen Almazor examine the variables affecting the attitude of customers toward Islamic banking. Through a survey carried out in UAE, the authors investigate the effects of specific factors like image, awareness, Shariah compliance and individualism. They show that attitude and awareness affect intention directly, while image, awareness, Shariah compliance and individualism affect attitude directly and intention indirectly mediated by attitude. This study well contributes to the behavioral Islamic finance literature, by focusing on the factors affecting intention mediated by attitude, and widening the perspectives on the understanding of Islamic banks' customers attitude. It has several

implications for the sector as well. In fact, Islamic banks should work on their Shariah compliance reputation and on the education aspect as a selling point, trying to improve the awareness in order to increase the understanding of the customers that their products are fully Shariah compliant.

Al-Kwafi, Farha and Ahmed investigate how Muslim consumers perceive products from a religious point of view. Using a simplified theory of planned behavior and a functional magnetic resonance imaging (fMRI) technology, the authors try to understand the brain responses of Muslim consumers to Halal and non-Halal products. The analysis provides evidence that the level of brain activation in the ventromedial prefrontal cortex increased significantly when Halal images were presented to Islamic consumers, likely due to the high emotional sensitivity to using religious products. This study well contributes to the Islamic marketing literature, being the first to use fMRI in order to check the Muslim response to Halal and non-Halal products, confirming that market segments respond differently to market products based on their internal beliefs. Therefore, marketing managers targeting Muslim consumers should consider religious principles in order to get higher acceptance in this market segment.

Conclusion and recommendations for further research

Islamic finance and business research have been quickly growing even in more advanced economies. With this special issue, we have aimed globally spreading this relatively new research area and encouraging further investigations on the topic. Based on this issue, future researchers may focus on the following research questions for further enhancing our understanding of Islamic finance and business:

- RQ1. The impact of the monetary policy and the worldwide low interest rates on Islamic Financial instruments and Institutions behavior.
- RQ2. The impact of oil and other commodities on Shariah compliant instruments' prices and returns.
- RQ3. The connection between Socially Responsible and Islamic investments.
- RQ4. Since there are very few studies investigating Islamic corporate finance, what explains the behavior, the structure, and the governance of Shariah compliant firms?
- RQ5. The efficiency and stability of Islamic insurance vs the conventional ones.
- RQ6. How can Islamic finance be interconnected with international business?
- RQ7. Whether Islamic microfinance institutions (MFIs) are any different from the conventional MFIs[3].
- RQ8. Finally, we need further literature reviews on above topics and others in general to extend the research on Islamic Finance.

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Notes

1. The following studies offer a recent survey of the literature on Islamic finance in general: Ibrahim (2015), Masih *et al.* (2018), Hassan *et al.* (2018), Alzahrani (2019) and Narayan and Phan (2019).

2. Aliyu *et al.* (2017), papers guest edited by Masih (2017) and Hassan and Aliyu (2018) offer an extensive review of literature on Islamic banking.
3. Mobin *et al.* (2017) offer an initial study on MFIs in Islamic economies.

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