Developments in Islamic Finance Literature:
Evidence from Specialized Journals

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ABSTRACT. This study documents the literary developments and classifies the literature in the area of Islamic Financial Services Industry (IFSI). Our findings are based on articles published in selected Islamic finance specialized journals for six years (2012-2017). Classification is based on multiple factors including subject/specialization areas, country of origin and publications, research methodology, and yearly progress in investigations. Findings suggest that the majority of publications are in the area of general Islamic finance and follow qualitative research methodology. Malaysia and Pakistan were found to be the most significant contributors to the literature. Although the results of empirical studies are mixed, however, the majority favor resilience of IFSI to the global financial crisis (GFC). The potential role of IFSI in poverty alleviation and corporate social responsibility (CSR) has also been highlighted. Demand for IFSI with quality services exists. The literature highlights the lack of Islamic financial literacy and skepticism about Sharīʿah compliance in practice. Need for regulatory framework and application of Islamic accounting is documented. Future research needs to focus on an objective assessment of IFSI in the light of Islamic finance objectives. Also, further investigations are needed to highlight the social role of IFSI – with a focus on CSR, zakāh, waqf and microfinance. Additionally, certain specialized areas including accounting, management, and corporate governance need more attention in future researches.

KEYWORDS: Participative financing, Sharīʿah compliance, Islamic finance, Profit sharing, Angel investors, Silent partnership.

JEL CLASSIFICATION: G10, G20, G21, G22

KAUJIE CLASSIFICATION: V1, V12

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1. Introduction

The development of the Islamic Financial Services Industry (IFSI) is a reaction to questionable practices in the prevailing capitalistic financial system, primarily from the Sharīʿah perspective. However, over the period, promotors of the Islamic financial system have developed specific objectives/aspirations for IFSI. The objectives of the Islamic financial system include (inter alia), promotion of social values, equitable distribution of wealth, financial stability, and Sharīʿah compliance in operations.

Equitable distribution of wealth is expected to be achieved through risk-reward sharing and access to finance for all, including less privileged segments. Financial stability lies in controlling the expansion of credit by linking the real and financial sectors (Chapra, 2014, p. 174). Finally, the achievement of Sharīʿah compliance objective depends upon the Sharīʿah governance mechanism adopted by an organization. Adherence to Sharīʿah is the primary justification to have a different financial system.

The IFSI has shown consistent growth and expansion since the beginning of the 21st century, despite widespread negative sentiments about Islam and Muslims in the post 9/11 era (Omar, Abdul Rahman, & Tarmizi, 2013, p.10). The primary customer base is 1.8 billion Muslims (Lipka, 2017, para 3); however, the participation of non-Muslims is equally encouraged. Growth in IFSI is concentrated, primarily, in the geographic location of the Organization of Islamic Cooperation (OIC) region, plus the UK. Based on asset volume, the Arabian Gulf region is the leader in the provision of Islamic financial services, followed by the Far East and South Asia.

Islamophobia has hindered the growth of IFSI in some significant financial centers. According to the rankings by the Global Islamic Finance Report (GIFR), none of the countries beyond the OIC region, except the UK, rank in the top 20, globally (GIFR, 2019, p. 50). Perocco (2018, p. 26) documents that Islamophobia has become a widely spread form of racism during the last two decades in Europe; produced by social actors – including anti-Muslim organizations/movements and the mass-media – through an articulate and interdependent set of key themes and policies/practices, to interiorize and marginalize Muslim immigrants. Omar et al. (2013, p. 10) document an increase in negative perception in the four years following 9/11 (2002-2005), while there was an increase in positive perception onwards, based on an analysis of published materials.

Multiple factors have contributed to positivity in perception about IFSI including distance from undesired behavior (terror-financing, money laundering, etc.); qualified Sharīʿah scholars and management; business relations with Muslims and non-Muslims alike; built-in strengths (equitable distribution of wealth and financial stability); and development as an academic discipline (research and development). Built-in strengths of the Islamic financial system attracted the favorable attention of professionals and leaders, including clergy (e.g., Vatican-support for Islamic banking), especially, in the post-financial crisis era (Tiberge, 2009, para 1).

One way to address Islamophobia is through academic dialogues and developments in the literature, whereby the real picture of the industry based on the objectives of the Islamic financial system may be revealed to the masses. Addressing the negative perception about Muslims and Islam is vital for the success of Islamic financial system, globally. IFSI has completed four decades of its short life-span with multiple achievements, including, among others, the following:

- The assets of Islamic finance were estimated to have reached US$ 2.5 trillion in 2018 (Dinar.Standard & DIEDC, 2019, p. 2).
- It has been adopted by multiple countries. The GIFR floats an Islamic Finance Country Index (IFCI) ranking for 48 countries.
- The industry has expanded into multiple sectors, including, banking, insurance, capital markets, microfinancing, asset management companies, etc.
- Multiple international bodies and organizations are working for the standardization of IFSI products and processes. For example, the OIC Islamic Fiqh Academy (IFA), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB), and International Islamic Financial Market (IIFM).
• Research in different sectors of IFSI is growing apace. Multiple conferences are held globally on an annual basis, in addition to research publications in international refereed journals. Keeping in view the nascent stage of the industry and aspirations to offer a different financial system (from capitalism) aimed at achieving specific objectives (of financial stability and equitable distribution of wealth), there is a need to take an account of published literature, from time to time, and document directions for the future.

This research addresses the academic aspect of the Islamic financial system, i.e., development as an academic discipline. Certain studies have addressed the issue by highlighting different aspects. For example, Arshad (2016) has, inter alia, made an effort to assess the quality of Islamic finance/economics journals. Likewise, Lone (2016) documents the trends in indexed publications in the area of IFSI with a focus on two indexing/citation agencies (SCOPUS and Web of Science).

Another group of studies presents a literature review covering multiple research areas. For example, Masih, Kamil, and Bacha (2018) review developments in literature in the field of Islamic capital markets. Narayan and Phan (2019) present a review of IFSI literature published in highly ranked journals (ABDC categories A and above), while Hassan and Aliyu (2018) classify developments in IFSI literature published in high impact journals.

This study is intended to document and classify recent literary developments in the area of Islamic financial system, published in specialized journals of the discipline. This study is different from earlier studies on account of the following reasons. First, this study covers a recent period (2012-2017). Second, the sample size is relatively more extensive (830 published articles). Third, the selection of published work is limited to top tier specialized Islamic finance/economics journals. Fourth, the study classifies the literature objectively. Given the nascent stage of the industry, it is fruitful to document the achievements at one place to analyze the progress and set the direction for the future. In this study, the objective classification of literature and a summary review of findings has been completed to extract essential messages for the future courses of action in the area of IFSI-research.

The study proceeds in the following order. The methodology is described in the next section, followed by an objective classification of the literature. A selected review of findings is then presented, while the conclusion is offered in the last section.

2. Methodology

The objective of this research is to document and classify literary developments in the area of Islamic finance, published in discipline-specific journals. The study period covers the recent six years (2012-2017). Arshad (2016) counts 25 journals publishing research in the discipline of Islamic economics/finance. However, articles on IFSI appear at multiple avenues, at random. We have selected articles from reputed Islamic finance/economics journals (12 journals). Our criteria to select a journal includes focused research area; the age of the journal and regularity in publication; indexation and peer review process. We have included all journals – regularly publishing in the area of Islamic finance/economics – indexed/ranked in any of the following reputed indexation/ranking agencies:

• ISI – Master journal list.
• ESCI – Emerging Source Citation Index (Clarivate Analytics).
• Scopus.
• ABDC – Australian Business Dean Council.
• CABS – Chartered Association of Business Schools (Academic Journal Guide).

The study reviews all volumes of these journals during the review period to obtain the relevant articles. The final count is 830 articles. Two of the selected journals are not indexed in any of these indexation agencies (Journal of Islamic Banking & Finance – 1984; and Journal of Islamic Finance – 2012). These two were selected based on journal age, other indexations, and quality contents. An important journal, Review of Islamic Economics, could not be included due to no online availability. Necessary information of selected journals is provided in table 1. The analysis is done by classification of the literature, based on pre-set criterions – subject-wise, yearly publications, country of publications, country-wise research contributions, methodology, software applications, and topic-wise annual progress (see figure 1). Results are presented through graphs and tables. Review of findings and future research agenda are then presented.
Table (1) Selected Journals

<table>
<thead>
<tr>
<th>No.</th>
<th>Journal Name</th>
<th>Inception Date</th>
<th>Selected Indexation/Ranking</th>
<th>Selected No. of Publications</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>JKAU: Islamic Economics</td>
<td>1983</td>
<td>SCOPUS</td>
<td>33</td>
</tr>
<tr>
<td>2.</td>
<td>Journal of Islamic Banking and Finance</td>
<td>1984</td>
<td>Islamicus, DOAJ, DRJI, Research Bible</td>
<td>174</td>
</tr>
<tr>
<td>3.</td>
<td>Islamic Economic Studies</td>
<td>1993</td>
<td>*ABDC</td>
<td>38</td>
</tr>
<tr>
<td>6.</td>
<td>Journal of Islamic Economics, Banking and Finance</td>
<td>2005</td>
<td>SCOPUS, ABDC, **CABS</td>
<td>198</td>
</tr>
<tr>
<td>7.</td>
<td>International Journal of Islamic and Middle Eastern Finance and Management</td>
<td>2008</td>
<td>SCOPUS, ABDC, CABS, ESCI</td>
<td>48</td>
</tr>
<tr>
<td>8.</td>
<td>ISRA International Journal of Islamic Finance</td>
<td>2009</td>
<td>SCOPUS, ESCI</td>
<td>113</td>
</tr>
<tr>
<td>10.</td>
<td>Journal of Islamic Marketing</td>
<td>2010</td>
<td>SCOPUS, ABDC, ESCI</td>
<td>12</td>
</tr>
<tr>
<td>11.</td>
<td>Journal of Islamic Business and Management</td>
<td>2011</td>
<td>CABS, HEC – PK</td>
<td>64</td>
</tr>
<tr>
<td>12.</td>
<td>Journal of Islamic Finance</td>
<td>2012</td>
<td>MyCite, ISC, Index Islamicus</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: Constructed by authors.

*ABDC – Australian Business Dean Council; **CABS – Chartered Association of Business School, Academic Journal Guide; ***ESCI – Emerging Source Citation Index (Clarivate Analytics)

Figure (1) Study Design

Source: Created by authors.
3. Objective Classification

Literature classification based on preset objectives is presented in figure 2.

Subject-wise Classification: The highest number of articles (31%) were written in the general area of Islamic finance, followed by Islamic banking (21%), marketing (8%) Islamic economics (6%), takāful/insurance (5%), sukāk (4%), microfinance, financial crisis, financial markets, waqf and Islamic contracts (3% each), corporate governance, corporate social responsibility (CSR), Islamic accounting, zakāh and Islamic management (2% each).

Yearly Progress: On average, 138 articles per year have been published in the selected journals. Accordingly, an increasing trend is found in publications. The highest number of publications (160) appears in 2016, while the least (92) in 2012. Although, the number of publications in the year 2017 (149) is slightly lesser than 2016, yet, the overall impression about publications is that it is showing an increasing trend.

Country-wise Publications: This sub-section reports the number of articles published in research outlets from a specific country. Pakistan (238), Malaysia (203), and Bangladesh (198) are at the top of the list, followed by the UK (82), Saudi Arabia (71), and Turkey (38).

Country-wise Contributions: Information for country-wise contribution is extracted from affiliations reported by the authors. Malaysia is at the top with contributions of 45%, followed by Pakistan (15%), Indonesia (6%), Saudi Arabia and Nigeria (4% each), USA and UK (3% each), India, Bangladesh, Turkey, Tunisia and Qatar (2% each), UAE, Iran, Bahrain and Australia (1% each), with less than 10 contributions from other countries.

Statistical Applications: A large number of papers (130) have applied the primary data collection tool (survey questionnaire). In the case of analysis, multiple statistical/econometric techniques have been used in a varied number. Regression analysis is at the top, followed by descriptive statistics, correlation, ratio analysis, data envelopment analysis (DEA), structural equation modelling (SEM), factor analysis, unit root testing, causality testing, cointegration, GMM, probability tests, panel data applications, GARCH, quantitative numerical analysis, T-testing, and ECM, etc.

There are other techniques applied in less than ten publications.

Software Applications: Much of the research is of theoretical nature. Hence, lesser application of data analysis software is expected. Mainly, softwares are needed for investigations based upon larger datasets. Unlike conventional finance, due to the nascent stage of IFSI, data is not available for multiple years and business sectors. According to evidence, SPSS, AMOS, ANOVA, NVIVO, EVIEWS, VBA Macros, STATA, Matlab, etc., have been used for data analysis.

Sector-wise Publication Trends: Sector-wise progress in publications is presented in table 2. CSR, management, waqf, takāful/insurance, and economics and banking have shown growth. Accounting, corporate governance, and zakāh publications are close to average. Microfinance research is static at close to average (five articles, approximately). Financial crisis research has decreased over the period. Financial markets’ research is also static close to average. Miscellaneous Islamic finance and Marketing publications have shown variations. These facts warrant future investigations in the areas of specializations.

IFSI research has been conducted at par with conventional finance research, as far applications of modern econometric techniques are concerned. Although, empirical studies (with larger economic data sets) are lesser in number due to data generation on account of the nascent stage of the industry. Increasing expansion in industry size generates more economic data, and a higher number of empirical studies is expected in the future. It is encouraging that research in the area of IFSI is being published from GCC, South and Far East Asian regions – traditionally known as champions and centers of IFSI; in addition to the western hub (i.e. the UK).

Certain areas – CSR, accounting, management, zakāh, corporate governance, Islamic contracts, and waqf – are less focused as compared to others. CSR, zakāh, and waqf represent the social aspect – an essential segment of the Islamic financial system. Apparently, the pattern suggests that there is more focus on commercial interest than social uplift. Future researches need to focus on these and other specialized areas, including microfinance, financial markets, sukāk, and takāful to explore further ways for strengthening the discipline.
The subject-wise classification is based upon the understanding of the authors about the nature of the underlying study, irrespective of publication outlet. Malaysia and Pakistan are rightly categorized as academic powerhouses in the area of Islamic financial system. However, as noted earlier, there are many other journals from different countries, engaged in publications in the area of IFSI; but not included in the sample under review, based on the selection criterion. Hence, we cannot say with a higher degree of confidence that research contributions from other Muslim communities are lesser than community size. Furthermore, by no means, the articles published in selected outlets are representative figures of research conducted in the area of Islamic finance, globally.

**Figure (2) Literature Classification**

Subject-wise Classification of Literature (2012-2017) publications (<20) are in the area of CSR, accounting, management and zakāh.

Yearly Progress in Publications (2012-2017); least numbers are documented for 2012; an upward trend appears.

Research contributions country-wise (2012-2017), show global contribution, lead by Malaysia, and Pakistan.

Econometric techniques and Surveys – including regression, correlation, data envelopment analysis, SEM, etc.

Software applications (2012-2017) – SPSS, AMOS, ANOVA, Nvivo, etc.

Source: Constructed by authors.
**4. Selected Review of Findings**

Review of findings of selected issues has been completed. However, even summary presentation of results and referencing of 830 articles requires much extended journal space. Hence, we present a much-selected review of publications by focusing on specialized branches of knowledge (microfinance, accounting, CSR, insurance, capital markets, management, corporate governance, zakāh, marketing, and GFC). We exclude papers addressing general aspects of Islamic banking and finance because of coverage in other review studies, to an extent. Following significant findings are documented.

1. Islamic financial system leads to the distribution of wealth and welfare of humanity, potentially:

Authors have tried to prove the point of superiority of IFSI in the area of equitable distribution of wealth and poverty reduction. Ibrahim (2013, p. 99), and Khaleequzzaman and Shirazi (2012, p. 24) argue the advantage of Islamic microfinance model in meeting microfinance challenges. Usman and Tasmin (2016, p. 59) document that Islamic micro-finance is a growing market niche with noteworthy potentials. The use of a comprehensive approach towards human empowerment leads to human development in Muslim societies, potentially. Funds required for financial inclusion (of low income and rural areas) may be generated either commercially; or social funds including zakāh, sadaqāt, waqf, CSR, and other charitable donations may be used (Muhammad, 2016, p. 143; Nabi, Islam, Bakar, & Nabi, 2017, p. 47). Kachkar (2017, p. 83) proposes cash waqf refugee microfinance fund (CWRMF) for employing skills and talents and uplifting refugees’ economic conditions. Kahf and Al-Yafai (2015, p. 210) proclaim that an efficient zakāh system could help in reducing the governments’ budgetary deficit due to the provision of social assistance.

Hoda and Gupta (2015, p. 174) survey the Indian market and conclude that the faith-based microfinance model may be considered to promote the goals of financial inclusion and poverty alleviation. Bhuiyan, Siwar, Ismail, and Omar (2017, p. 64) document that access to credit has reduced poverty in Bangladesh, while Gumel, Saad, and Kassim (2014, p. 47) conclude that there is significant improvement in household income, children education, and assets acquisition as a result of Islamic microfinance intervention, in Nigeria.

Some of the studies have focused on the socioeconomic impact of zakāh. Suprayitno, Abdul Kader, and Harun (2013, p. 59) find that zakāh distribution has a positive effect on aggregate consumption. However, they call for other forms of monetary aid that can generate a continuous flow of income for the long term. Abdelmawla (2014, p. 78) finds a significant positive role of zakāh and education in reducing poverty in Sudan. Saad and Abdullah (2014, p. 92) identify the need for a reallocation of the distribution

### Table (2) Sector-wise Yearly Trends

<table>
<thead>
<tr>
<th>Sector</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Average</th>
<th>Total</th>
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<td>2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>2.17</td>
<td>13</td>
</tr>
<tr>
<td>Accounting</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2.67</td>
<td>16</td>
</tr>
<tr>
<td>Management</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>6</td>
<td>2.83</td>
<td>17</td>
</tr>
<tr>
<td>Zakāh</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3.00</td>
<td>18</td>
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<tr>
<td>Corporate governance</td>
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<td>1</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>3.33</td>
<td>20</td>
</tr>
<tr>
<td>Islamic contracts</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>8</td>
<td>3</td>
<td>3.67</td>
<td>22</td>
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<tr>
<td>Waqf</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>4</td>
<td>4</td>
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<tr>
<td>Microfinance</td>
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<td>6</td>
<td>5</td>
<td>6</td>
<td>4</td>
<td>6</td>
<td>5.76</td>
<td>34</td>
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<tr>
<td>Financial crisis</td>
<td>5</td>
<td>8</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>4.67</td>
<td>38</td>
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<tr>
<td>Financial markets</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>4.67</td>
<td>38</td>
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<tr>
<td>Şukūk</td>
<td>9</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>8</td>
<td>6</td>
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<td>Insurance</td>
<td>7</td>
<td>7</td>
<td>4</td>
<td>6</td>
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<td>Islamic Economics</td>
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<tr>
<td>Misc. Islamic Finance</td>
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<td>50</td>
<td>56</td>
<td>54</td>
<td>21</td>
<td>42.50</td>
<td>255</td>
</tr>
</tbody>
</table>

*Source: Constructed by authors.*
of zakāh fund to the programs that help in poverty alleviation. Mahmud, Hassan, Alam, Sohag, and Rafiq (2014, p. 344) document that the amount of zakāh provided to the needy recipients failed to create any significant influence on their economic status (in Bangladesh). Kefeli, Johari, Ahmad, Daud, and Zaidi (2017, p. 137) document that zakāh medical assistance has contributed to the quality of life of recipients (in Malaysia).

2. There exists a demand for Islamic financial services:

Multiple studies have focused on determining the demand for the Islamic financial services industry. Studies are grouped based on demand factors.

First is the religious reason. Sabi (2015, p. 24) surveys and analyses the need in Central Asia (Tajikistan and Kyrgyzstan) and concludes that despite the lack of full knowledge, an overwhelming number of respondents show interest in the supply of Islamic microfinance. In another study, Abduh (2017, p. 172) identifies awareness and subjective norms as essential factors in influencing Russians to patronize Islamic financial services. Singh and Das (2013, p.112) conclude from the Indian market that the development of Islamic index may be considered for those people who are averse to investing in the stock market due to religious constraints.

Mokhtar, Abdul Aziz, and Hilal (2017, p.181) suggest that there is a potential for takāful to penetrate the corporate sector further, as the majority of respondents indicated a willingness to spend on takāful. Ali, Raza, and Puah (2017, p. 340) study motivating factors in the selection of Islamic credit cards in Pakistan, and find a significant impact of subjective norms on intentions.

Zaman, Mehmoood, Aftab, Siddique, and Ameen (2017, p. 244) identify four factors – literacy, customer services, service quality, and legitimacy of Islamic banking – that influence the rate of adoption of Islamic banking services. Gait and Worthington (2015, p. 451) identify from the Libyan retail consumer market, two factors – religion and community service – as the most important in determining the potential use of Islamic methods of finance. Three factors – subjective norm, attitude, and awareness regarding Islamic banking products and services – are significant in the adoption of Islamic financial services in Mauritania, as documented by Mahmoud and Abduh (2014, p. 37). Altwijry and Abduh (2013, p. 24) from Saudi Arabia identify a large number of factors including service quality, technology, and Sharīʿah compliance, as significant. Abduh, Kassim, and Dahari (2013, p. 18) find religion a significant factor in switching behavior (between conventional and Islamic) of customers in Malaysia. In another study, Abduh (2014, p. 53) documents Sharīʿah compliance (interest-free), and the stability feature of Islamic banking as significant factors for Malaysian customers.

Second is the social aspect. Mahmood, Fatima, Khan, and Qamar (2015, p.99) conducted survey in Pakistan and concluded that Islamic microfinance has excellent potential to act as a poverty alleviation tool, while Abbas, Abdul Razak, and Saad (2014, p.46) document the preference for Islamic microfinance based on a survey in Pakistan.

Profit and loss sharing is another factor. Some studies have focused on the need for the Islamic capital market. Kafou and Chakir (2017, p. 80) research the Moroccan market and conclude that there is a need for an Islamic stock market and not only Islamic stock market indices. Likewise, Saraç and Ülev (2017, p. 69) document, after studying the Turkish market, that the Islamic financial system is attainable through Sharīʿah-compliant stock markets since they are based on profit and loss. Rashid, Hassan, and Yein (2014, p. 219) state from Malaysian settings “The results continue an important battery of debates on the requirement of Sharīʿah compliant capital market for Muslims”.

Finally, service quality is an important demand factor. One of the critical factors for any business is the provision of excellent services, and the Islamic financial system is no exception. Literature has focused on this aspect of IFSI and identified multiple factors. For example, Amirzadeh and Shoorvarzy (2013, p. 75), from Iran, identify two important quality factors – short and suitable queue, and confident and reliable staff. Abduh and Othman (2014, p. 103), from UAE, identify effective and efficient services. Htay, Shaugee, and Amin (2014, p. 100), from Maldives, document five factors – corporate social responsibility, e-banking facility, social influence, perceived cost, and service quality. Baharum, Maamor, and Othman (2015, p. 96), from Malaysia, identify...
customer service. Abdul Kader, Zakaria, Razali, and Abdullah (2014, p. 150), also from Malaysia, identify customer service satisfaction, attractive pricing, and bank ambience other than the religious factor, in the presence of multiple Islamic banks. Selamat and Abdul-Kadir (2012, p. 98), from Malaysia, document fast and efficient service, and banks’ reputation as the primary bank selection criteria and not the religious motivation.

3. A negative perception exists among customers about Sharīʿah Compliance in practices of IFSI:

An essential aspect of the Islamic financial system is the perception of the customers about Sharīʿah compliance in operations. Negative perception on this front will jeopardize the future of the industry.

Echchabi and Abd Aziz (2012, p. 101) report from the Malaysian market that customers perceive that Islamic banks (as they practice today) are not Sharīʿah compliant; however, respondents showed optimism about the achievement of the goal in future. Khokhar and Sillah (2014, p. 79) document general satisfaction of customers about operations of Islamic banking in Saudi Arabia, however, they call for increased level of Sharīʿah compliance, because customers perceive the existing practice marginally Sharīʿah compliant. Akbar, Shah, and Kalmadi (2012, p. 366) conclude that Islamic banking in the UK is not fully aligned with the paradigm version of Islamic finance. Besides, respondents expect active welfare role from Islamic banks in society. Zaman et al. (2017, p. 244) document that the majority of the participants showed concerns about the legitimacy of Islamic banking services, and quality of services and products, in Pakistan. Coomen-Maturi (2013, p. 102) reports that half the respondents were not sure whether takāful insurance is in accordance with Islam. Majeed and Zainab (2017, p. 478) document that Islamic banks are following Sharīʿah, except the provision of profit/loss sharing contracts and qard hasan in Pakistan. Jabaly, al Ameri, and Ghoul (2013, p. 169) document that “Islamic banking is a concept which is lost ‘in transmission’, furthermore, there is a lot to be done by Islamic banks’ communications and marketing departments in order to correct this situation”. Catovic (2014, p. 197) recommends that the Islamic banking industry in the USA needs to differentiate itself from the conventional banking industry to generate a large and loyal clientele.

4. There is a lack of IFSI literacy among masses:

The Islamic financial system is different from conventional finance. However, this is unknown to the masses in its present form, hence, requires awareness generation among stakeholders. Multiple studies have documented a lack of understanding of the system and products offered. For example, in case of takāful, see Billah and Basodan (2017, p. 30), and Spriggs (2016, p. 26). The role of takāful agents in awareness and promotion of takāful products to attain a sizeable expansion in the industry is suggested by Salleh, Abdullah, and Razali (2013, p. 20), as well as Kamil and Nor (2014, p. 12). Lukman and Elatrash (2017, p. 205) argue that the government should consider exempting takāful products from goods and services tax. Bidabad (2015) put forward the idea and detailed mechanism of an inclusive social takāful system.

Multiple studies have reported a lack of Islamic finance literacy from various parts of the world. For example, Ahmad, Rashid, and Shahed (2014, p. 109) from Bangladesh; Syed, Kartio, and Sheikh (2012, p. 59), and Intiaz and Shahid (2013, p. 50) from Pakistan; Islam and Rahman (2017, p. 98), and Munuswamy, Soundararajan, and Ramasamy (2013, p. 146) from India; Abdul and Omarov (2013, p. 23) from Kazakhstan; all Gait and Worthington (2015, p. 439) from Libya; all document this. One way to address the issue is the inclusion of Islamic banking and finance modules in the curriculum of business studies, as suggested by Chowdhury and Arifuzzaman (2013, p. 84), after documenting inadequate awareness level among business students in Bangladesh.

5. Application of Islamic accounting standards is recommended:

The AAOIFI develops Islamic accounting standards. Application of such standards is voluntary in multiple jurisdictions, unlike conventional accounting standards. A group of studies argue for the implementation of Islamic accounting standards for stated reasons.

Tessema, Garas, and Tee (2017, p. 182) document that application of IFSB-4 leads to more transparency and reduction in information asymmetry, while Sarea (2013, p. 161) highlights the need for implementation of AAOIFI accounting standards. Salehi and Pouir (2014, p. 179) postulate that the application of Islamic accounting will not decrease the importance of
gain and loss. Hanif (2016, p. 61) concludes that the application of conventional lease accounting by IFIs misleads the users of financial reports as well as distorts financial rights and liabilities of customers. Hidayat (2016, p. 121) documents that despite the benefits of conventional accounting, the complete application would lead to Shari’ah violations. Finally, the study of Rosman, Abdul Khir, Saat, and Abdul Rahman (2015, p. 136) concludes that profit and loss sharing investment deposits need to be reflected in financial statements, appropriately.

Some studies highlight the issues arising from the application of AAOIFI accounting standards. For example, Atmeh and Maali (2017, p. 66) find mixed results in the area of substance over form – leading to hindrance in a faithful representation of financial statements; and Alhabshi, Ab Rashid, Agil, and Ahmed (2017, p. 190) find consistency with Shari’ah requirements for tangible assets, however, they find variation in case of intangible assets. Specific studies on the application of AAOIFI accounting standards conclude diversity in reporting (Abdullah, 2012, p. 155), lack of understanding (Ali, 2012, p. 39), and dependence on western international agencies in choice of accounting policies (Altarawneh & Lucas, 2012, p. 116).

6. There is a need for the development of a regulatory framework for IFSI:

Regulations of modern business institutions is vital for the achievement of objectives, and the IFSI has no exception. Multiple authors have raised the issues and need for the regulatory framework for the Islamic financial system, in various parts of the world.

A regulatory gap exists between law and Shari’ah about IFSI in general and takāfu in particular as mentioned by Elat rash and Soualhi (2016, p. 201). Abdullah and Ab Rahman (2017, p. 92) highlight the need for Shari’ah governance legal framework in Bangladesh because the Shari’ah governance system is generally based on voluntary initiatives by Islamic banks. Yusuf, Shirazi, and Abdullah (2016, p. 134) highlight the regulatory issues and propose some regulations for the operation of both Islamic saving groups and financial cooperatives. Tijani (2015, p. 175) proposes IFSA 2013 (Islamic Financial Services Act – Malaysia) as a model for formulating an Islamic microfinance regulatory framework. Need for corporate governance legal framework has been discussed by Kunhibava (2015, p. 78) from Malaysia.

7. Spirituality leads to improvement in leadership and Performance:

Management science focuses on the interaction between managers and subordinates. Islamic teachings address multiple aspects of these interactions. Islam provides a complete guidance/outline for managing the attitudinal and behavioral facets of organizational life in the most effective manner (Javed, 2017, p. 296). Also, leaders and entrepreneurs with qualities according to Islamic principles, are expected to combat any managerial challenge and complexity in administering their responsibilities (Fozia, Rehman, & Farooq, 2016, p. 42). Fontaine (2017, p. 105) states that seeking employment in an organization whose corporate culture does not clash with Islamic values is an ethical responsibility of Muslim employees.

Certain empirical studies have been published covering different aspects of organizational management. Positive effects of ethical leadership and Islamic work ethics on organizational commitment and job satisfaction are documented by Batool, Gul, and Shahzad (2013, p. 35). Khan, Gul, and Salam (2015, p. 107) find a difference in attitude based on gender and report that females scored higher on attitude towards IWE (Islamic Work Ethics) and males scored higher on attitude towards business ethics. Usman, Shahzad, Roberts, and Zafar (2015, p. 69) document the moderation effect of Islamic work ethics in the relationship between job insecurity and organizational citizenship behavior, while Athar, Shahzad, Ahmad, and Ijaz (2016, p. 129) provide evidence on the relationship between IWE, job satisfaction, and organizational commitment. A negative relationship exists between spirituality and personality disorder, resulting in the growth of a stable self, which can be achieved through the concept of tawḥīd (monotheism) (Bashir & Akbar, 2016, p. 174).

8. Social Responsibility is expected in operations of IFSI:

The corporate social responsibility (CSR) concept is very much complementary for the Islamic financial system. Some studies have highlighted the importance of CSR for the Islamic financial system.

Rizk (2014, p. 194) postulates “Centrality of the environment in the Shari’ah and the Islamic injunction to command right and forbid wrong are suggestive of an affirmative sustainability agenda for IFIs”.
Elias (2017, p. 46) highlights the need for incorporation of positive approach targeting social responsibility. Issalih, Anmar, Darus, Yussoff, and Zain (2015, p. 116) develop a framework of social disclosure, and Ahmad, Shahzad, Zafar, and Khan (2016, p. 135) divide CSR attributions into intrinsic and extrinsic. Bennet and Iqbal (2013, p. 223) extend the concept to application and propose a sukāk framework based on SRIs (socially responsible investments) as well as Sharīʿah principles.

Some studies have presented empirical evidence from different countries. Migdad (2017, p. 144) concludes that in Palestine, CSR-practice is highly valued by the Islamic banks, while Jusoh and Ibrahim (2017, p. 166) document a lack of disclosure in financial reports in Malaysia. Tarique, Ahmed, Hossain, and Momen (2017, p. 47) document that Islamic Bank Bangladesh Limited (IBBL) has remained engaged in multiple CSR activities, with a greater focus on necessities. Khan and Usman (2016, p. 186) document that Islamic banks do value CSR either in their vision statement, mission statement, or in both with a focus on communal objectives; however, employees are neglected. Hidayat and Alhur (2016, p. 185) document a lack (low level) of awareness among depositors about CSR activities of Islamic banks in Saudi Arabia.

9. Islamic Financial system offers resilience to the Global Financial Crisis, potentially:

The Global Financial Crisis (GFC) is an important event of the 21st century under the capitalistic financial system. Islamic finance researchers have responded to this critical event. Findings of the studies relating to the GFC are grouped as theoretical and empirical.

Theoretical studies have argued for the superiority of the Islamic financial system as a deterrent to the financial crisis based on built-in strengths. For example, equity-driven economic order and stricter control on financial engineering leading to speculative bubbles (Tag el-Din, 2012, p. 173); profit and loss sharing and socio-economic function leading to a reduction in financial instability (Dogarawa, 2012, p. 33); priority for ethical concerns over profitability leading to a guaranteed survival of the industry (Ishola, 2012, p. 103); trust and transparency are vital in the development of a smooth-running financial system (Iqbal & Rostom, 2015, p. 33).

Ali (2013, pp. 21-22) concludes that the Islamic financial system has been able to withstand the GFC because its inherent attribute of Sharīʿah compliance deter it from investing in gambling (maysir) and trading of debts (bayʿ al-dayn). Abdul-Razak and Amin (2013, p. 127) address the case of the mortgage crisis directly and argue for the application of Islamic house financing (mushārakah mutanāqīsah) on account of its strengths, including variable rentals, joint ownership, risk sharing, etc. Fa-Yusuf (2016, p. 180) argues for the promotion of the Islamic financial system by regulators for financial stability on account of its distance from buying and selling interest-based debts, which led to the GFC. Ethical failure of financial players and a lack of sound enforcement mechanism for ethical governance is one of the reasons for the GFC (Iqbal, 2014, p. 64; Ali & Nisar, 2016, pp. 34-35), which might be addressed by incorporating religious teachings to achieve the goal of an inclusive, stable, and efficient financial system. Another reason for the GFC is excessive lending which leads to rising and falling asset prices, consequently, leading to recession (Chapra, 2017, p. 10).

A group of empirical studies have been conducted around the GFC period. First, we present a review of studies in the banking sector. Certain studies found no difference in performance for conventional and Islamic banking sectors (see for example, Abdulle & Kassim, 2012, p. 17, for Malaysia). Another group of studies depicts resilience of Islamic banking to the GFC. For example, see Alfarisi (2015, p. 37) for the ASEAN region; Akhtar (2013, p. 330) for Saudi Arabia; Mimiaoui and Ghouj (2013, p. 127) for the UAE; Zeb (2015, p. 55) and Najum and Manarvi (2013, p. 29) for Pakistan; Yorulmaz (2017, p. 28) and Zehri and al-Herch (2013, p. 85) for international evidence. Also, evidence exists on the significant effect of the GFC on the performance of Islamic banks (see, for example, Hidayat, Abdul Rashid, & Htay, 2014, p. 86, for the GCC region).

Another group of studies have been conducted on Islamic stock markets. Certain studies find no or partial resilience of Sharīʿah compliant investments. For example, Rahman and Kassim (2017, p. 180) for Malaysia; Siddiqui and Sheikh (2016, p. 169) for India; Rizvi and Arshad (2014, p. 178), for Islamic indices of Dow Jones; and Arshad and Rizvi (2013, p. 9), for Islamic indices in Asia/Pacific and emerging markets. However, Siswantoro (2012) finds the
impact of conventional bonds on ṣuhālīk price movement in Indonesia, during 2008-2009. Empirical results are although mixed, however, they favor resilience of IFSI to the GFC. Islamic finance may work as deterrence to the financial crisis, potentially.

5. Summary and Conclusion

This study is conducted to classify literature in the area of Islamic finance/economics, published in reputed journals of Islamic finance/economics, for six years (2012-2017). Findings reveal that most of the articles cover general aspects in Islamic banking and finance, with a lesser focus on specialization areas. Most of the research is theoretical – which makes sense, given the nascent stage of the industry. However, certain empirical studies do exist. Empirical economic data is becoming available over time, and one may expect more empirical research in the area of IFSI. Survey questionnaires have been used in a large number (above 100) of investigations – making studies more inclusive. Modern econometric tools and research software being applied in research of conventional finance have been used in the research of IFSI, during the period under review, which is appreciable. Research publications and research contributions in the area of IFSI are global. However, Pakistan and Malaysia are in the lead. Overall, research contributions in a particular area have remained static (very close to average); however, increasing trends in publications are documented in management, insurance, and economics. Variation is recorded in publications in the area of marketing.

Review of results indicates a demand for IFSI with improved service quality and expectations from the Islamic financial system to play an increasing role in poverty alleviation and social responsibility. Besides, findings suggest a lack of Islamic financial literacy as well as skepticism in the area of Sharīʿah compliance, among the masses. Furthermore, the regulatory framework and application of AAOIFI accounting standards are required for the smooth running of the industry. Empirical results are although mixed, however, favor the resilience of IFSI to the GFC. Finally, the positive role of spirituality in leadership and performance is documented.

Microfinance is an essential tool in poverty alleviation and uplifting socio-economic standard of masses. Access to finance is an essential objective of the Islamic financial system. Given the large-scale low income and unemployed and/or under-employed population in underdeveloped and developing countries, the potential of Islamic microfinancing is very high. Multiple commercial and charitable models and experiences are being held elsewhere, and future studies need to document and share findings of these programs as success stories or otherwise for general understanding and learning. Besides, future research needs to focus on the development of microfinancing models enabling enhanced financial inclusion at low cost.

Zakāh and waqf are essential institutions of social security and poverty alleviation under the Islamic financial system. An efficient zakāh collection and distribution system contributes immensely towards the achievement of the objectives of the Islamic financial system. Future researches may focus on the development of programs for uplifting the masses from poverty through effective utilization of zakāh and waqf funds. Documentation of experiences and lessons learned in multiple jurisdictions of the Islamic society will contribute to adopting best practices and increasing our understanding.

CSR has a particular emphasis under the Islamic financial system. Followers of Islamic teachings aspire for controlled, socially responsible economic behavior in the light of Sharīʿah. According to the AAOIFI, (2015, p. 972), “Corporate Social Responsibility (CSR) for Islamic Financial Institutions (IFIs) refers to all activities carried out by an IFI to fulfill its religious, economic, legal, ethical and discretionary responsibilities as financial intermediaries for individuals and institutions”. Multiple areas including responsible dealings, employees’ welfare, zakāh, qard ḥasan, environment protection, customer service, SME financing, etc., are covered under CSR standard. Future researches need to look into advancements in achieving these ideals.

Studies on customer perception and Islamic financial literacy have been conducted on a larger scale in various parts of the world. Although the primary motivation to adopt Islamic financial services is religious affiliation, however, other important factors, including service quality, technology adoption, etc., cannot be undermined. Financial stability through linkage of the real and financial sectors is an essential and valued feature of the Islamic financial system.
However, awareness, Sharīʿah-compliance, and financial literacy are essential areas, which need the focus of IFSI. Sound corporate governance mechanism is essential for addressing the perception of masses in addition to awareness campaigns. In the case of the Islamic financial system, the importance of Sharīʿah governance is at the forefront as far as the achievement of the objective of Sharīʿah compliance is concerned. Future researches may focus on strengthening the Sharīʿah supervisory capacity of Islamic financial institutions including Sharīʿah board composition and qualification, Sharīʿah advisory, Sharīʿah audit/external audit, accounting and other disclosures, internal control system, and skill development/qualification of staff at Islamic financial institutions.

A true reflection of the results of operations and financial position through annual reports is very vital for the success of the Islamic financial system. Profit and loss sharing is a recommended tool to achieve equitable distribution of wealth, and progress on this front requires truthfulness of accounting reports. Multiple studies are needed in the area of accounting, keeping in view Islamic finance objectives, to highlight the issues in the existing financial reporting framework. In addition, studies are needed about the application status of AAOIFI accounting standards, and the issues emerging from it, in various jurisdictions. An important challenge for IFSI is regulatory framework. Future studies may be planned to study the practice of IFSI under prevailing regulations and document the related issues to strengthen the case for exclusive regulatory framework for IFSI.

Multiple avenues for research are opened under an Islamic perspective in management, including Islamic work ethics, the impact of spirituality on job outcomes, loyalty to the organization, and organizational citizenship behavior. Besides, leadership traits in the light of Islamic teachings need to be documented, as well as tested. Furthermore, certain studies addressing stress and religiosity/spirituality would be fascinating and may increase our general understanding of human psychology.

Also, future research needs to focus on an objective assessment of IFSI in the light of Islamic finance objectives and Sharīʿah principles. It is suggested, to have more focus on socio-economic justice and specialization areas in future studies including microfinance, CSR, capital markets, asset pricing, portfolio management, Islamic accounting, ṣukūk markets, Sharīʿah governance, Islamic mortgages, Marketing and human resource management, etc. It is also recommended to have studies based on empirical financial data because more and more financial data is becoming available with the passage of every year, using modern econometric techniques and computer software.

This study is limited to published research in 12 selected journals for six years (2012-2017). Articles in the area of IFSI appear at random at multiple avenues. Future inquiries on literary developments may include articles published elsewhere at reputed outlets.
References


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Developments in Islamic Finance Literature: Evidence from Specialized Journals

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المستخلص. توقَّف هذه الدراسة التطورات الأدبية وتصنفها في مجال صناعة الخدمات المالية الإسلامية. تستند نتائج الدراسة إلى مقالات منشورة في دوريات مختارة متخصصة في التمويل الإسلامي على مدى 6 سنوات (2002-2012). يعتمد التصنيف على عوامل متعددة بما في ذلك مجالات التخصص، وبلد المنشأ، ونوعية البحث، والتقدير السنوي في دراسات التمويل الإسلامي. وتظهر النتائج أن معظم الدراسات المنشرة هي في الحقل العام للتمويل الإسلامي، وهي تتبع منهجية البحوث النوعية. وقد أتت ماليزيا ولبنان في مقدمة الدول التي ساهمت في أديات التمويل الإسلامي. وعلى الرغم من أن نتائج الدراسات الجغرافية مختلطة، إلا أن غالبيتها ترى أن الخدمات المالية الإسلامية أكثر مرونة في مواجهة الأزمات المالية العالمية. كما تم أيضاً إبراز الدور المحتمل لمؤسسات الخدمات المالية الإسلامية في تحقيق وطأة الفقر المسؤولية الاجتماعية للشريعة. وقد بنت الدراسة أن هناك طلب على جودة الخدمات المتقدمة من مؤسسات الخدمات المالية الإسلامية. كما سلطت الأدبيات الضوء على الافتقار إلى المعرفة المالية الإسلامية في تشغيل المنشآت التجارية، والشريعة الإسلامية في الممارسة العملية. أوضح البحث المستقبلي إلى التركيز على توثيق النظريات والتطبيقية لمعايير المحاسبة الإسلامية ونوعية البحث المستقبلي إلى التركيز على تقييم موضوعي لمؤسسات الخدمات المالية الإسلامية في ضوء أهداف التمويل الإسلامي. كما أن هناك حاجة أيضًا إلى مزيد من الأبحاث لتسليط الضوء على دور الاجتماعي لمؤسسات الخدمات المالية الإسلامية مع التركيز على المسؤولية الاجتماعية للشركات، ودور الركزة والأوقاف والتمويل الأصغر. بالإضافة إلى ذلك، هناك حاجة لمزيد من الأبحاث المستقبلية في بعض المجالات المتخصصة بما في ذلك المحاسبة والإدارة وحكامة الشركات.

الكلمات الدالة: التمويل الإسلامي، الصيرفة الإسلامية، مراجعة الأدبيات.

تصنيف JEL: G10, G20, G21, G22

تصنيف KAUJIE: V1, V12