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Trends on Employment and Productivity of OIC Member Countries: An Analysis

Selamah Abdullah Yusof [a] *and Zaiti Akma Zainuddin* [b]

[a] *Department of Economics, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia, Jalan Gombak, 53100 Kuala Lumpur. (selamah@iium.edu.my)*
[b] *Department of Economics, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia, Jalan Gombak, 53100 Kuala Lumpur. (zaiti@iium.edu.my)*

ABSTRACT

The objective of the paper is to examine the changes in employment, productivity and economic growth as a whole, and for respective sectors, of the Organization of Islamic Conference (OIC) member countries. The study determines if there were structural changes in employment for the period between 1993 and 2005. Further analysis groups OIC member countries according to region and examine the trends within these groups. Comparisons are made with the world economy and with non-OIC countries in the respective groups. The paper then analyzes the degree of employment elasticity required by selected countries in relation to their rates of economic growth, unemployment, labor force participation and poverty. The results show that OIC countries average annual GDP growth rate of 5.38% was much higher than the average world rate of 4.55%. However, only 36% of the economic growth in the OIC member countries could be attributed to gains in productivity, compared to the global rate of 53%. There were disparities in the economic performance of OIC countries relative to others within a particular region. Globally, the services sector was the fastest growing sector, but it is the industrial sector that recorded the highest employment growth of 2.03%. However, for OIC member countries as a group both output and employment growths were the highest in the services sector. Based on the findings of the study, several recommendations and suggestions are put forth for respective OIC countries.

JEL Classification: J01, O11, O53, O55, O57

Key words: Employment elasticity, Productivity trends, OIC countries

1. INTRODUCTION

Over the years, there have been a general upward trend in employment and output in countries all over the world. From 1991 to 2003, the average annual GDP growth rate was approximately 3.33%, and employment growth was about 1.12% (ILO, 2007). This minimal employment growth reflected that world productivity growth was quite moderate at 2.18%. However, there were significant differences across regions and countries. For instance, during the same period, Asia registered a rapid average annual GDP growth of 6.38 % while Africa had a moderate growth at 3.1%. These disparities are often attributed to many factors including the stage of development of a nation and its available human capital and resources. With high average annual GDP growth in Asia, however, employment growth accounted for only 1.91%. Meanwhile, in Africa, the employment growth was slightly higher than in Asia which was 2.29%. Although this was a good indication that the region was gradually providing jobs for the rapidly growing workforces, a greater emphasis must be given to productivity since the growth rate was only 0.81% during the period. Nevertheless, it should be noted that although countries are often clustered by their geographical location, the countries may follow different growth paths (Paap, et al., 2005).

Employment and output growths are often examined together with the level of productivity and its growth since these variables are usually focused upon in the effort to reduce poverty and improve the standard of living of a country. It is argued that there is a strong link between productivity and decent work, and creating decent employment opportunities is the best way to take people out of poverty (ILO, 2005). It has also been observed that there have been structural changes in employment where labor tends to shift from the agricultural sector to services and industrial sectors (Memedovic and Iapadre, 2009). However, for many of the OIC member countries, agriculture occupied a great portion of economic activity where the share of agriculture value-added in GDP can be as high as 60% while an average of 40% of the population makes their living from agriculture (SESRIC).[1]

An analysis of employment, productivity and growth in different countries, and in different sectors is beneficial in understanding why the rates differ across nations and how they impact the level of poverty. This study focuses on individual Organisation of the Islamic Cooperation (OIC) member countries and examines the changes in the overall employment, productivity and economic growth, and in the three sectors, which are agriculture, services and industry. It determines if there were structural changes in employment for the period 1993 - 2005. Further analysis groups

1 http://www.sesrtcic.org/stat_database.php.

OIC member countries according to region and examine the trends of these groups. Comparisons are made with the world economy and with non-OIC countries in the respective groups.

In addition, this paper analyzes the performance of several countries[2] in different regions in relation to its rates of economic growth, unemployment, labor force participation and poverty. It determines if trends in employment and productivity translate into reductions in poverty and inequality. Based on the findings of the study, several recommendations and suggestions are put forth for the respective OIC countries.

2. DATA AND METHOD

The study uses data on employment elasticity and GDP growth rates obtained from Key Indicators of the Labor Market, ILO (2007) to compute average employment and productivity growth[3] for three periods – 1991-1995, 1995-1999, and 1999-2003. The employment elasticity is defined as the average percentage point change in employment for a given employed population group associated with a 1 percentage point change in output over a selected period. OIC (2007) also provides data on sectoral employment elasticities and average annual value-added growth rates for agriculture, industry and services sectors. Labor productivity growth rates for the three sectors are then derived from these data. Data on labor force participation rates, poverty rates and Gini index are also acquired from OIC (2007). The statistical database of Statistical, Economic and Social Research and Training for Islamic Countries (SESRIC)[4] provides data of unemployment rates. However, data are available for only some of the countries in our study. Remittance and school enrolment data are obtained from UNESCO.[5]

3. RESULTS

3.1 OVERALL TRENDS IN GDP, EMPLOYMENT AND PRODUCTIVITY GROWTH

Table 1 reveals that for the period of 2001-05, OIC countries average annual GDP growth rate of 5.38 % was much higher than the average world rate of 4.55%, and was also the highest compared to growths in the earlier periods of 1993-97 and 1997-2001. Average employment elasticity and average employment growth for that period for those countries also surpassed the

2 The selection of the countries is based on the availability of data.

3 Computation of world average and OIC member countries average is based on countries for which data is available.

4 http://www.sesrtcic.org/stat_database.php.

5 http://stats.uis.unesco.org/unesco/TableViewer/tableView.aspx.

average world rates. However, the productivity growth rate was slightly lower, 2.48% relative to the world rate of 2.59% during the same period. The table also reveals that taken as a whole, only 36% of the economic growth in the OIC member countries could be attributed to gains in productivity, compared to the global rate of 53%. Among the OIC member countries, the fastest growing region in terms of GDP growth and productivity growth rates was the Commonwealth of Independent States (CIS), where the transition economies are located. Nonetheless, the region that registered the highest employment growth was the Middle East, which recorded an average rate of 4.03% for the period of 2001-05.

There were disparities in the economic performance of OIC countries relative to others within a particular region. For instance, OIC member countries in South-East Asia had lower levels of average GDP, employment and productivity growth rates compared with other nations in the same region. On the other hand, in Eastern Africa, Comoros, Mozambique and Uganda as a group achieved higher growth rates in GDP, employment and productivity relative to their neighboring countries.

With respect to individual countries, transition economies such as Azerbaijan and Turkmenistan performed remarkably well with 11.4% and 11.6%, respectively, in annual productivity growth for the years between 2001 and 2005. This in turn drove GDP to grow to over 14% for these two countries over that period. Chad also showed a marked improvement in economic growth relative to its performance in previous years, recording 14.2% growth over the period 2001-05. It also had one of the highest productivity growths (10.79%) over that period. This finding is encouraging in that it may indicate that the economy of Chad, being a low-income as well as a least developed country, has progressed over the years which is hoped to translate into an improvement in the standard of living of its people. An examination of the performance of each sector of the economy would provide a more accurate analysis and a clearer understanding of Chad's progress as well as for other economies. This will be dealt in the next section.

TABLE 1
GDP, Employment and Productivity Growths

Region/ Country	Average annual GDP growth			Employment elasticity			Employment growth			Productivity growth		
	1993-1997	1997-2001	2001-2005	1993-1997	1997-2001	2001-2005	1993-1997	1997-2001	2001-2005	1993-1997	1997-2001	2001-2005
Caribbean (All)	2.91	2.70	3.01	0.59	1.01	0.10	2.31	1.78	1.19	0.61	0.92	1.82
Suriname	2.80	1.30	5.40	0.80	0.73	0.25	2.24	0.95	1.35	0.56	0.35	4.05
Guyana	6.90	0.50	0.30	0.25	1.00	0.64	1.73	0.50	0.19	5.18	0.00	0.11
OIC countries	4.85	0.90	2.85	0.53	0.87	0.44	1.98	0.72	0.77	2.87	0.18	2.08
South-East Asia (All)	5.71	2.09	5.09	0.53	0.44	0.53	2.48	1.52	2.27	3.23	0.57	2.83
Brunei Darussalam	2.40	1.10	2.20	1.20	0.90	0.88	2.88	0.99	1.94	-0.48	0.11	0.26
Indonesia	7.10	-1.30	5.00	0.35	-0.11	0.26	2.48	0.14	1.30	4.61	-1.44	3.70
Malaysia	9.10	1.80	5.40	0.37	0.69	0.47	3.37	1.24	2.54	5.73	0.56	2.86
OIC countries	6.20	0.53	4.20	0.64	0.49	0.54	2.91	0.79	1.92	3.29	-0.26	2.28
South Asia (All)	5.67	5.00	5.44	0.40	0.58	0.60	2.26	2.89	3.09	3.42	2.11	2.36
Bangladesh	4.70	5.30	5.50	0.40	0.42	0.33	1.88	2.23	1.82	2.82	3.07	3.68
Maldives	8.30	6.20	4.70	0.58	0.73	0.87	4.81	4.53	4.09	3.49	1.67	0.61
Pakistan	3.60	3.10	5.60	0.61	0.95	0.66	2.20	2.94	3.70	1.40	0.16	1.90
OIC countries	5.53	4.87	5.27	0.53	0.70	0.62	2.96	3.23	3.20	2.57	1.63	2.07
Middle East (All)	4.57	3.37	5.07	1.01	1.17	0.80	4.31	3.49	3.83	0.26	-0.12	1.24

Bahrain	2.70	4.70	6.20	1.04	0.58	0.44	2.81	2.73	2.73	-0.11	1.97	3.47
Iran	3.20	3.40	6.10	0.82	1.24	0.82	2.62	4.22	5.00	0.58	-0.82	1.10
Jordan	4.10	4.00	6.40	1.86	0.53	0.97	7.63	2.12	6.21	-3.53	1.88	0.19
Kuwait	4.10	1.80	8.30	0.76	3.14	0.51	3.12	5.65	4.23	0.98	-3.85	4.07
Lebanon	5.70	2.10	3.60	0.67	0.89	0.61	3.82	1.87	2.20	1.88	0.23	1.40
Oman	4.60	3.70	3.00	1.00	0.36	0.44	4.60	1.33	1.32	0.00	2.37	1.68
Saudi Arabia	1.60	1.80	4.90	1.62	1.83	0.71	2.59	3.29	3.48	-0.99	-1.49	1.42
Syria	4.80	2.60	3.70	0.85	1.25	1.34	4.08	3.25	4.96	0.72	-0.65	-1.26
United Arab Emirates	7.00	5.20	8.10	1.02	1.41	0.71	7.14	7.33	5.75	-0.14	-2.13	2.35
Yemen	6.90	4.50	3.00	0.66	0.95	1.47	4.55	4.27	4.41	2.35	0.23	-1.41
OIC countries	4.47	3.38	5.33	1.03	1.22	0.80	4.30	3.61	4.03	0.17	-0.23	1.30
North Africa (All)	3.13	4.17	4.82	0.36	0.83	0.80	2.24	2.84	3.84	0.90	1.33	0.98
Algeria	2.00	3.30	5.50	1.48	0.96	1.37	2.96	3.17	7.54	-0.96	0.13	-2.04
Egypt	4.80	4.70	3.90	0.55	0.59	0.68	2.64	2.77	2.65	2.16	1.93	1.25
Libya	-0.60	2.10	5.10	-1.54	1.99	0.74	0.92	4.18	3.77	-1.52	-2.08	1.33
Morocco	3.20	3.60	3.70	0.59	0.49	0.78	1.89	1.76	2.89	1.31	1.84	0.81
Sudan	4.90	6.20	6.30	0.46	0.26	0.48	2.25	1.61	3.02	2.65	4.59	3.28
Tunisia	4.50	5.10	4.40	0.61	0.69	0.72	2.75	3.52	3.17	1.75	1.58	1.23
OIC countries	3.13	4.17	4.82	0.36	0.83	0.80	2.24	2.84	3.84	0.90	1.33	0.98

TABLE 1(continued)
GDP, Employment and Productivity Growths

Region/ Country	Average annual GDP growth			Employment elasticity			Employment growth			Productivity growth		
	1993-1997	1997-2001	2001-2005	1993-1997	1997-2001	2001-2005	1993-1997	1997-2001	2001-2005	1993-1997	1997-2001	2001-2005
Central Africa (All)	6.25	3.77	6.54	0.38	0.39	0.40	2.68	2.14	2.21	3.57	1.63	4.33
Cameroon	2.70	4.50	3.60	0.78	0.56	0.60	2.11	2.52	2.16	0.59	1.98	1.44
Chad	4.70	4.00	14.20	0.75	0.82	0.24	3.52	3.28	3.41	1.17	0.72	10.79
Gabon	5.30	0.00	1.50	0.48	-0.27	1.68	2.54	0.00	2.52	2.76	0.00	-1.02
OIC countries	4.23	2.83	6.43	0.67	0.37	0.84	2.72	1.93	2.70	1.51	0.90	3.74
Eastern Africa (All)	3.17	3.25	3.47	0.47	0.56	0.68	1.72	2.37	2.46	1.45	0.88	1.01
Comoros	0.30	2.00	2.60	0.59	1.57	1.22	0.18	3.14	3.17	0.12	-1.14	-0.57
Mozambique	7.10	8.70	7.80	0.55	0.25	0.24	3.91	2.17	1.87	3.19	6.52	5.93
Uganda	8.00	5.90	5.80	0.31	0.42	0.59	2.48	2.48	3.42	5.52	3.42	2.38
OIC countries	5.13	5.53	5.40	0.48	0.75	0.68	2.19	2.60	2.82	2.95	2.94	2.58
Western Africa (All)	3.98	3.27	4.28	0.67	0.49	0.59	2.68	2.00	2.48	1.30	1.27	1.80
Benin	5.20	5.00	3.80	0.65	0.61	0.91	3.38	3.05	3.46	1.82	1.95	0.34
Burkina Faso	4.40	3.70	4.90	0.63	0.81	0.74	2.77	3.00	3.63	1.63	0.70	1.27
Côte d'Ivoire	5.40	0.50	0.20	0.48	0.14	0.53	2.59	0.07	0.11	2.81	0.43	0.09
Gambia	2.00	5.30	3.40	1.62	0.64	0.70	3.24	3.39	2.38	-1.24	1.91	1.02
Guinea	5.10	3.80	2.80	0.63	0.56	0.70	3.21	2.13	1.96	1.89	1.67	0.84
Guinea-Bissau	6.40	-4.40	-0.30	0.40	-0.08	-0.08	2.56	0.35	0.02	3.84	-4.75	-0.32

Mali	4.10	7.10	4.90	0.75	0.26	0.39	3.07	1.85	1.91	1.02	5.25	2.99
Mauritania	2.00	3.50	4.40	0.65	0.93	0.72	1.30	3.26	3.17	0.70	0.24	1.23
Niger	3.10	3.80	3.10	1.29	0.90	1.07	4.00	3.42	3.32	-0.90	0.38	-0.22
Nigeria	2.40	2.80	6.20	1.11	0.92	0.39	2.66	2.58	2.42	-0.26	0.22	3.78
Senegal	4.10	4.60	4.70	0.59	0.54	0.47	2.42	2.48	2.21	1.68	2.12	2.49
Sierra Leone	-6.00	2.80	12.50	-0.08	0.34	0.33	0.48	0.95	4.13	-6.48	1.85	8.37
Togo	11.50	-0.20	3.10	0.32	0.11	0.99	3.68	-0.02	3.07	7.82	-0.18	0.03
OIC countries	3.82	2.95	4.13	0.70	0.51	0.60	2.72	2.04	2.44	1.10	0.91	1.69
Central and Eastern Europe (All)	5.66	3.47	4.50	0.06	-0.16	0.02	0.29	-0.37	0.16	5.36	3.84	4.34
Albania	4.00	9.20	5.00	-0.26	-0.17	0.43	-1.04	-1.56	2.15	5.04	10.76	2.85

TABLE 1(continued)
GDP, Employment and Productivity Growths

Region/ Country	Average annual GDP growth			Employment elasticity			Employment growth			Productivity growth		
	1993-1997	1997-2001	2001-2005	1993-1997	1997-2001	2001-2005	1993-1997	1997-2001	2001-2005	1993-1997	1997-2001	2001-2005
Commonwealth of Independent States, CIS (All)	-4.90	5.64	8.88	-0.03	0.17	0.14	-0.60	1.06	0.95	-4.30	4.58	7.92
Azerbaijan	-6.60	9.60	14.40	-0.11	0.24	0.21	0.73	2.30	3.02	-7.33	7.30	11.38
Kazakhstan	-4.90	6.00	9.60	0.21	0.16	0.23	-1.03	0.96	2.21	-3.87	5.04	7.39
Kyrgyzstan	-2.80	4.00	3.30	-0.03	0.51	0.72	0.08	2.04	2.38	-2.88	1.96	0.92
Tajikistan	-12.60	6.80	9.30	-0.01	0.28	0.11	0.13	1.90	1.02	-12.73	4.90	8.28
Turkmenistan	-10.70	15.50	14.10	-0.20	0.26	0.18	2.14	4.03	2.54	-12.84	11.47	11.56
Uzbekistan	0.20	4.10	5.80	0.30	0.75	0.54	0.06	3.07	3.13	0.14	1.02	2.67
OIC countries	-6.23	7.67	9.42	0.03	0.37	0.33	0.35	2.39	2.38	-6.58	5.28	7.03
European Industrialized Economies (All)	3.26	3.35	2.41	0.34	0.47	0.44	1.20	1.76	0.87	2.06	1.59	1.54
Turkey	3.90	-0.70	7.50	0.41	-0.01	0.39	1.60	0.01	2.92	2.30	-0.71	4.58
World	3.66	3.42	4.55	0.45	0.48	0.47	1.65	1.64	2.14	2.01	1.78	2.41
OIC countries	3.07	3.82	5.38	0.58	0.68	0.64	1.78	2.60	3.44	0.51	1.48	2.48

Employment has expanded rapidly for Algeria, with average annual growth of 7.5% for the period of 2001-05. However, the employment expansion was offset by a contraction in productivity which recorded a growth of -2.0% over that period. The country with the worst economic performance was probably Guinea-Bissau, which was the only OIC member country that experienced negative GDP growth for 2001-05. In addition, there was practically no growth in employment, and productivity declined during that time. It has been noted that the country has been besieged with political and internal problems and the prospect of economic progress is not encouraging. Drug cartels have been targeting Guinea-Bissau due to its vast miles of unpatrolled coastline. It has become a country where corruption, negligence, and diminished security together pave way for the drug trade (Sieff, 2008). The infighting between the government troops and military junta must be reduced and a stable government with the proper security in place must be formed so that it can focus on rebuilding the country and reviving the disrupted economy.

3.2 SECTORAL TRENDS IN VALUE-ADDED, EMPLOYMENT AND PRODUCTIVITY GROWTH

The historical sectoral employment elasticities, value-added, employment and productivity growths by economic sectors between 1993 and 2005 are given in Table 2. Globally, the services sector was the fastest growing sector, but it is not the sector with the most employment-intensive growth. Instead, the industrial sector recorded the highest employment growth of 2.03%. However, the results are somewhat different for OIC member countries as a group where both output and employment growths were the highest in the services sector. The gains in employment nevertheless were at the expense of productivity, which experienced negative growth during the period, for all sectors.

OIC countries in the Caribbean such as Guyana and Suriname underwent a significant increase in employment in the industrial sector despite a negative value-added growth in that sector. Due to this, productivity fell at an average annual rate of 67.6% between 1993 and 2005. A reverse situation was experienced by OIC member countries in the CIS. Employment growths in all sectors were low, but labor productivity in all three sectors was the highest compared to other regions.

The industrial sector had also expanded rapidly in Eastern Africa and recorded the highest output growth compared to other regions. The improvement in this sector was driven by the increase in labor, at the heavy expense of productivity gains. For Uganda, categorized as low income and least developing country, the trade-off of productivity for employment may be detrimental given the already high labor force participation rate of 83.8% and relatively low unemployment rate of 3.2% in 2003. Reduction in poverty is probably not by providing more job opportunities, but by increasing the productivity of workers in all sectors to raise their level of income and thus improve their standard of living. On the other hand, the increase in employment at the expense of productivity may be necessary for a country such as Mozambique which is plagued with high unemployment rate and widespread poverty. The availability of work may assist those who are jobless to earn some income and thus may help reduce poverty.

TABLE 2
Sectoral Value-Added, Employment and Productivity Growths

Country	Value Added growth(1993-2005)			Employment elasticity(1993-2005)			Employment growth(1993-2005)			Productivity growth(1993-2005)		
	Agric	Ind	Serv	Agric	Ind	Serv	Agric	Ind	Serv	Agric	Ind	Serv
Caribbean (All)	0.58	-1.34	0.88	-0.07	-2.20	0.90	0.41	25.36	0.87	0.17	-26.70	0.01
Guyana	-0.1	0.8	0.6	-0.21	1.05	0.6	0.02	0.84	0.36	-0.12	-0.04	0.24
Suriname	1.6	-9.6	1.3	2.02	-13.07	1.21	3.23	125.47	1.57	-1.63	-135.07	-0.27
OIC countries	0.75	-4.40	0.95	0.90	-6.01	0.91	1.63	63.16	0.97	-0.88	-67.56	-0.02
South-East Asia (All)	-0.09	0.90	0.73	0.21	1.39	0.72	-0.14	2.33	0.74	0.06	-1.43	-0.01
Indonesia	0.5	0.7	0.6	0.27	0.71	0.71	0.14	0.50	0.43	0.37	0.20	0.17
Malaysia	-0.1	0.4	1	-0.04	0.51	0.93	0.00	0.20	0.93	-0.10	0.20	0.07
OIC countries	0.20	0.55	0.80	0.12	0.61	0.82	0.07	0.35	0.68	0.13	0.20	0.12
South-Asia (All)	0.36	1.42	0.32	0.22	1.60	0.35	0.16	3.81	0.86	0.20	-2.39	-0.54
Bangladesh	-0.3	1	1.2	-0.21	1.29	1.13	0.06	1.29	1.36	-0.36	-0.29	-0.16
Pakistan	0.6	1	0.9	0.56	1.16	1.06	0.34	1.16	0.95	0.26	-0.16	-0.05
OIC countries	0.15	1.00	1.05	0.18	1.22	1.09	0.20	1.22	1.15	-0.05	-0.22	-0.10
Middle East (All)	0.09	1.31	0.99	0.05	1.47	1.17	1.08	2.68	1.35	-0.99	-1.37	-0.37
Iran	1.5	0.9	0.9	1.13	0.94	0.89	1.70	0.85	0.80	-0.20	0.05	0.10

Jordan	-0.2	0.7	1.2	-2.17	1.02	1.22	0.43	0.71	1.46	-0.63	-0.01	-0.26
Kuwait	0.6	0.7	1	1.45	1.72	1.7	0.87	1.204	1.7	-0.27	-0.50	-0.7
Lebanon	-0.2	1.3	0.5	-0.2	1.34	0.59	0.04	1.74	0.30	-0.24	-0.44	0.21
Oman	-0.2	4.1	0.3	-0.29	3.19	0.39	0.06	13.08	0.12	-0.26	-8.98	0.18
Saudi Arabia	-2.5	0.3	1.7	-1.95	0.34	2.15	4.88	0.10	3.66	-7.38	0.20	-1.96
Syria	0.8	1.6	0.8	1.16	2.53	0.92	0.93	4.05	0.74	-0.13	-2.45	0.06
United Arab Emirates	0.7	1.4	0.9	1.06	1.08	1.12	0.74	1.51	1.01	-0.04	-0.11	-0.11
Yemen	0.3	0.8	1.6	0.24	1.06	1.51	0.07	0.85	2.42	0.23	-0.05	-0.82
OIC countries	0.09	1.31	0.99	0.05	1.47	1.17	1.08	2.68	1.35	-0.99	-1.37	-0.37
North Africa (All)	0.30	0.88	0.94	0.43	0.91	0.90	0.31	0.90	0.95	-0.01	-0.02	-0.01
Algeria	0.9	1.2	1.6	1.38	1.21	1.46	1.24	1.45	2.34	-0.34	-0.25	-0.74
Egypt	0.5	0.4	0.8	0.33	0.38	0.85	0.17	0.15	0.68	0.34	0.25	0.12
Morocco	0.2	0.7	1	0.49	0.77	0.95	0.10	0.54	0.95	0.10	0.16	0.05
Sudan	0.1	0.8	0.7	0.09	0.98	0.58	0.01	0.78	0.41	0.09	0.02	0.29
Tunisia	-0.2	1.3	0.6	-0.13	1.22	0.67	0.03	1.59	0.40	-0.23	-0.29	0.20
OIC countries	0.30	0.88	0.94	0.43	0.91	0.90	0.31	0.90	0.95	-0.01	-0.02	-0.01
Central Africa (All)	-0.76	0.60	1.05	-0.08	1.03	1.30	3.85	0.62	1.67	-4.62	-0.02	-0.62
Cameroon	0.2	0.9	1.2	0.31	1.03	1.33	0.06	0.93	1.60	0.14	-0.03	-0.40
Chad	0.2	0.6	2.5	-0.09	1.41	1.77	-0.02	0.85	4.43	0.22	-0.25	-1.93
Gabon	1.1	0.9	0.8	0.99	1.08	1.15	1.09	0.97	0.92	0.01	-0.07	-0.12
OIC countries	0.50	0.80	1.50	0.40	1.17	1.42	0.38	0.91	2.31	0.12	-0.12	-0.81

TABLE 2 (continued)
Sectoral Value-Added, Employment and Productivity Growths

Country	Value Added growth(1993-2005)			Employment elasticity(1993-2005)			Employment growth(1993-2005)			Productivity growth(1993-2005)		
	Agric	Ind	Serv	Agric	Ind	Serv	Agric	Ind	Serv	Agric	Ind	Serv
Eastern Africa (All)	0.15	0.69	1.35	0.22	0.93	1.55	0.64	1.16	2.46	-0.49	-0.47	-1.12
Comoros	0.8	1.3	-0.7	1.6	1.51	1.36	1.28	1.96	-0.95	-0.48	-0.66	0.25
Mozambique	0.1	0.6	2.4	0.07	1.08	1.9	0.01	0.65	4.56	0.09	-0.05	-2.16
Uganda	-0.1	0.5	2.8	-0.04	0.83	3.32	0.00	0.42	9.30	-0.10	0.09	-6.50
OIC countries	0.27	0.80	1.50	0.54	1.14	2.19	0.43	1.01	4.30	-0.16	-0.21	-2.80
Western Africa (All)	0.26	1.04	1.28	0.24	1.17	1.40	0.33	1.29	2.10	-0.07	-0.25	-0.82
Benin	0.5	1.1	1.6	0.54	1.02	1.42	0.27	1.12	2.27	0.23	-0.02	-0.67
Burkina Faso	0.9	1.4	1.1	0.59	1.11	1.44	0.53	1.55	1.58	0.37	-0.15	-0.48
Côte d'Ivoire	1	0.4	1.2	0.71	0.7	0.92	0.71	0.28	1.10	0.29	0.12	0.10
Gambia	0.4	1.1	1.3	0.68	1.22	1.38	0.27	1.34	1.79	0.13	-0.24	-0.49
Guinea	0.3	0.8	1.7	0.33	0.96	1.36	0.10	0.77	2.31	0.20	0.03	-0.61
Guinea-Bissau	0.9	0.4	1.1	-0.6	1.31	2.13	-0.54	0.52	2.34	1.44	-0.12	-1.24
Mali	-1.2	1.5	3.3	-0.72	2	2.95	0.86	3	9.74	-2.06	-1.5	-6.44
Mauritania	-0.5	1.3	0.7	0.64	1.31	1.41	-0.32	1.70	0.99	-0.18	-0.403	-0.29
Niger	0.9	1.2	0.9	1.07	1.07	0.98	0.96	1.28	0.88	-0.06	-0.084	0.02
Nigeria	0.5	1.6	1.5	0.53	1.33	1.77	0.27	2.13	2.66	0.24	-0.528	-1.16
Senegal	0.2	0.8	1.3	0.21	0.99	1.27	0.04	0.79	1.65	0.16	0.008	-0.35
Togo	0.8	0.8	1	0.53	1.05	1.22	0.42	0.84	1.22	0.38	-0.04	-0.22

OIC countries	0.39	1.03	1.39	0.38	1.17	1.52	0.30	1.28	2.38	0.09	-0.24	-0.99
Central and Eastern Europe (All)	-0.99	0.02	0.49	-1.28	0.04	0.46	1.79	0.10	0.56	-2.78	-0.08	-0.07
Albania	-0.7	0	0.3	-0.32	0.17	0.36	0.22	0	0.11	-0.92	0	0.19
Commonwealth of Independent States, CIS (All)	-0.16	-0.06	0.24	-0.14	-0.18	0.29	0.17	0.17	0.28	-0.33	-0.22	-0.03
Azerbaijan	0.2	0.3	0.4	0.16	0.37	0.31	0.03	0.11	0.12	0.17	0.19	0.28
Kazakhstan	0.2	0.2	0.2	0.04	0.28	0.22	0.01	0.06	0.04	0.19	0.14	0.16
Kyrgyzstan	0.5	0.5	0.7	0.39	0.13	0.71	0.20	0.07	0.50	0.31	0.44	0.20
Uzbekistan	0.2	1.3	1	0.28	1	1.11	0.06	1.3	1.11	0.14	0	-0.11
OIC countries	0.28	0.57	0.57	0.22	0.45	0.59	0.07	0.38	0.44	0.20	0.19	0.13
European and Industrialized Economies (All)	-0.87	-0.08	0.67	-0.94	-0.01	0.73	1.15	0.29	0.53	-2.02	-0.37	0.14
Turkey	-1	0.6	1	-0.45	0.52	1.07	0.45	0.31	1.07	-1.45	0.29	-0.07
WORLD	-0.18	0.46	0.88	-0.21	0.56	0.99	1.05	2.03	1.31	-1.23	-1.57	-0.44
OIC Countries	0.26	0.85	1.19	0.31	0.98	1.34	0.28	0.97	2.07	-0.02	-0.12	-0.88

The findings in Table 2 also indicate that Mali registered a negative value-added growth for agriculture, the lowest among all OIC countries, but achieved the highest growth in the industrial sector. This is indicative of Mali undergoing a shift from agragian activities into industry where the output growth is driven mostly by the significant increase in employment in this sector. Despite this trend, attention must still be given to the agricultural sector since most of its labor force is in this sector. Improvements must be carried out to have better production processes and yield through improved production technology, larger injections of capital, and more training given to the parties involved.

In the earlier section, it was observed that Chad has shown a significant increase in growth. With respect to its sectoral performance, the services sector recorded the highest growth in value-added, and in employment over the period of 1993-2005. The agricultural sector experienced a small reduction in employment but a positive growth in productivity. This sector is one which has the highest concentration of Chad's labor force, although the sector contributes only 22.6% to GDP.[6] The move towards services and to a lesser extent industry is a positive step for the country to increase income and reduce poverty. It has been noted that land in Chad is not very suitable for agriculture and may be better suited for industrial or non-primary activities.

3.3 TRENDS IN EMPLOYMENT ELASTICITY

The employment elasticities for OIC member countries in Middle East, CIS, and Western Africa are given in Figures 1, 2 and 3, respectively. There is a wide variation in employment elasticity for countries in the Middle East. Syria and Yemen had significantly large elasticities of more than 1.3 as compared to other countries in the same region with employment elasticities of less than 1. For these two countries, a positive growth in GDP corresponded to a larger positive growth in employment, implying a productivity loss for the period between 2001 and 2005.

6 Wikiepedia http://en.wikipedia.org/wiki/Economy_of_Chad. Accessed on 1 December, 2008.

FIGURE 1
Middle East – Employment Elasticities and GDP Growth Rates, 2001-2005

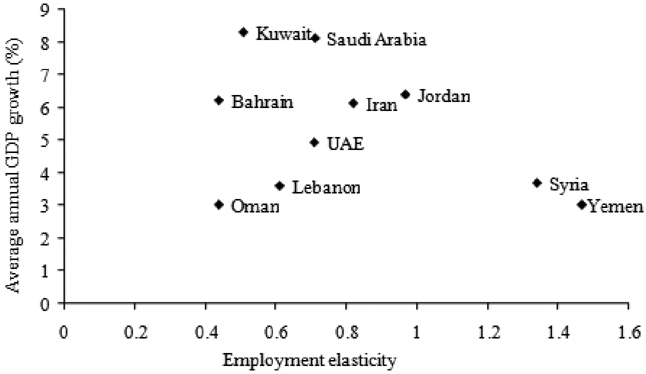


FIGURE 2
Commonwealth of Independent States (CIS) – Employment Elasticities and GDP Growth Rates, 2001-2005

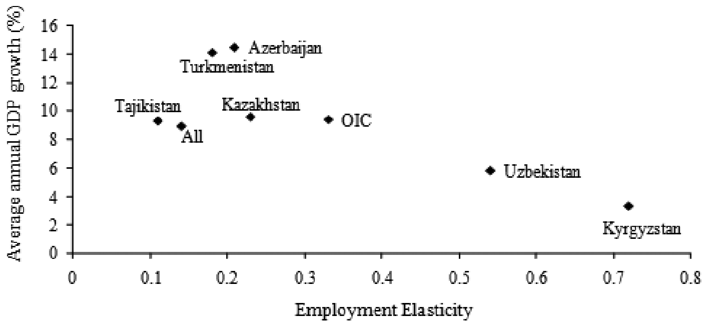
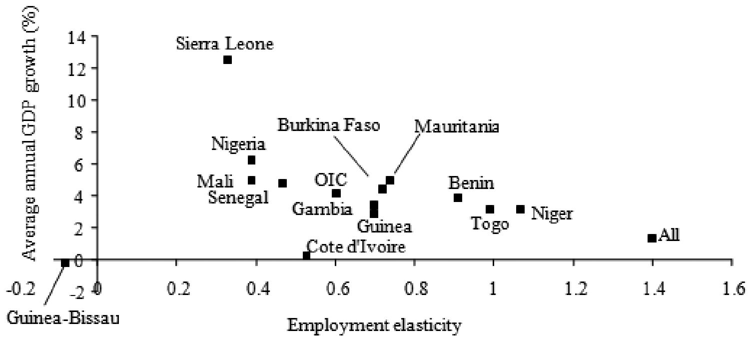


FIGURE 3
Western Africa – Employment Elasticities and GDP Growth Rates, 2001-2005

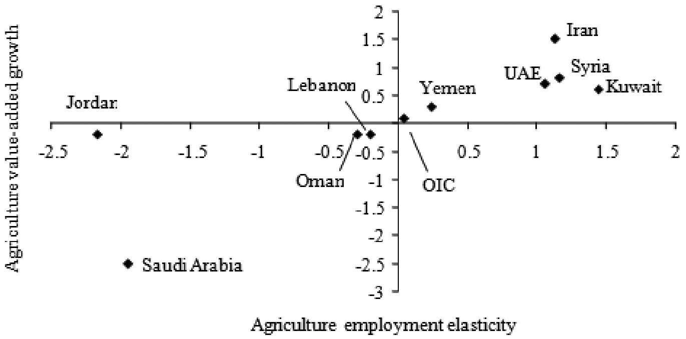


Employment elasticities in the CIS region were all below 1. However, the OIC member countries as a group had a higher elasticity of 0.33 relative to CIS region average of 0.14. With the exception of Uzbekistan and Kyrgyztan, all other OIC countries enjoyed robust growth in labor productivity over the period of 2001-05 as a result of a relatively high GDP growth and low employment elasticity. The GDP growth in Uzbekistan was somewhat shared equally between employment growth and labor productivity growth, but there were higher employment gains for Kyrgyztan with a modest GDP growth of 3.3%.

The average employment elasticity for all Western African countries was remarkably high at 1.4%. The OIC countries in this region had, on average, a significantly lower elasticity of 0.6, which implies that they experienced positive gains in productivity relative to non-member countries which faced losses in productivity as a group.

Figures 4-12 present trends in the employment elasticity and value-added growths in each of the three economic sectors which are agriculture, industry and services for the regions of Middle East, CIS and Western Africa.[7] The sector employment elasticity gives the average percentage change in employment over the period of 1993-2005 for a one percentage point change in value-added growth in the sector.

FIGURE 4
Middle East – Agriculture Employment Elasticities and Value-Added Growth Rates, 1993-2005



7 These three regions were chosen since there are relatively larger numbers of OIC countries in these regions compared to others.

FIGURE 5
Middle East – Industry Employment Elasticities and Value-Added Growth Rates, 1993-2005

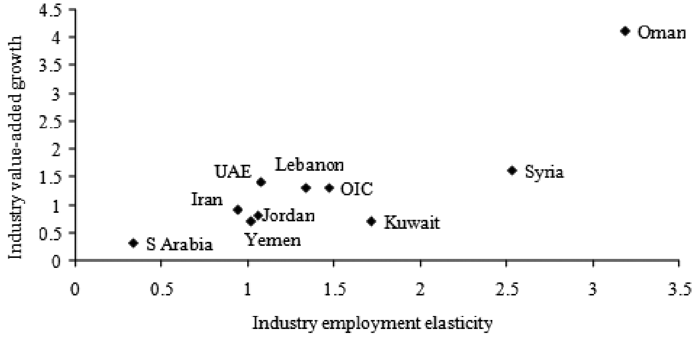
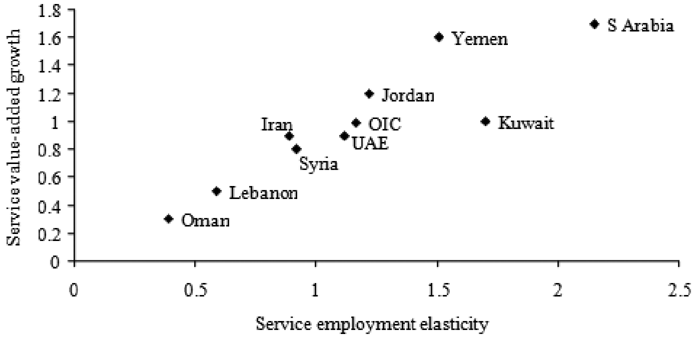


FIGURE 6
Middle East – Service Employment Elasticities and Value-Added Growth Rates, 1993-2005



There was a wide dispersion in employment elasticity in all sectors for OIC countries in the Middle East. In agriculture, as shown in Figure 4, countries such as Jordan, Saudi Arabia, Oman and Lebanon experienced negative growths in both value-added and employment. For other OIC economies, the agricultural sector exhibited gains in employment and output. In services and industry, all OIC countries are placed in the upper right quadrant in figures 5 and 6, which implies that there were increases in employment and value-added in these two sectors for these countries.

As such, it can be surmised that structural economic change is taking place for Middle Eastern countries, especially for Saudi Arabia, Oman and Jordan. Saudi Arabia recorded the highest value-added and employment growths in the services sector among all other OIC countries in that region.

For Oman, the negative growths in agricultural were more than offset by the significant increase in employment and value-added in the industrial sector.

The average employment and value-added growths for OIC countries in the CIS region in all three sectors were positive over the period of 1993-2005 (see Figures 7-9). However, the increase in output and employment were more substantial in the secondary and tertiary sectors. The positive growths experienced by OIC countries were in contrast to the overall region average performance which recorded declining value-added and employment for agriculture and industry, and only slight growths in the services sector. Among OIC countries in the region, Uzbekistan far surpassed others in terms of both output and employment in the industrial and services sectors.

FIGURE 7
Commonwealth of Independent States (CIS) – Agriculture Employment Elasticities andValue-Added Growth Rates, 1993-2005

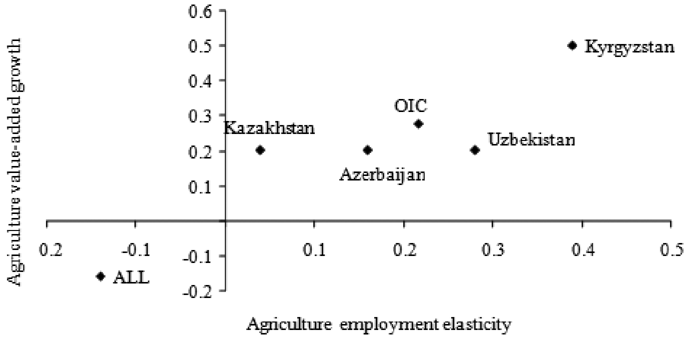


FIGURE 8
Commonwealth of Independent States (CIS) – Industry Employment Elasticitiesand Value-Added Growth Rates, 1993-2005

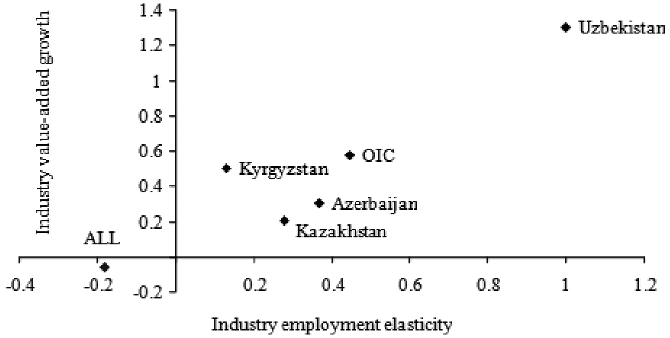
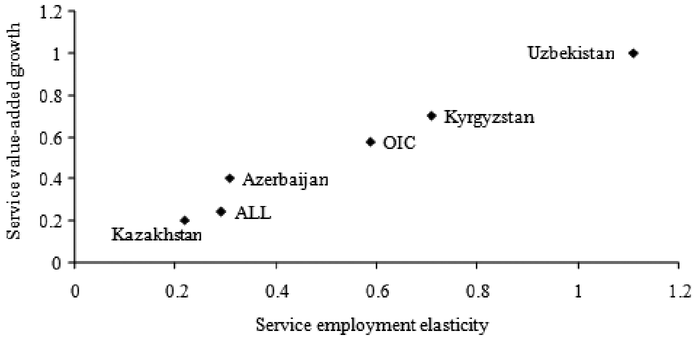


FIGURE 9
Commonwealth of Independent States (CIS) – Service Employment Elasticitiesand Value-Added Growth Rates, 1993-2005



Similar to some countries in the Middle East, Mali has undergone a structural shift from agriculture to industry- and services-based economy. Mali recorded reductions in output and a negative employment elasticity in the agragrian sector during the period but experienced remarkable growths in output and employment in the industrial and services sectors. It was also the best-performing economy in these two sectors in terms of value-added and employment elasticity compared to other OIC member countries in Western Africa.

FIGURE 10
Western Africa – Agriculture Employment Elasticities and Value-Added Growth Rates, 1993-2005

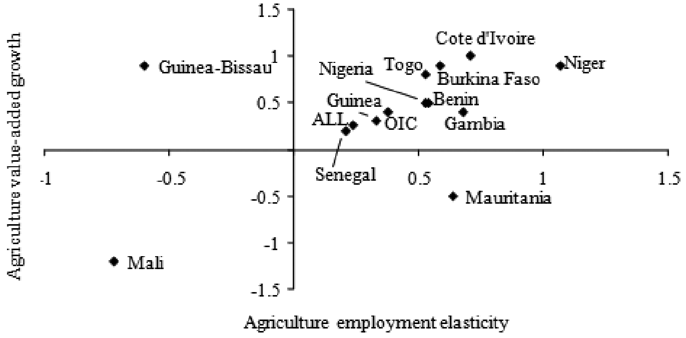


FIGURE 11
Western Africa – Industry Employment Elasticities and Value-Added Growth Rates, 1993-2005

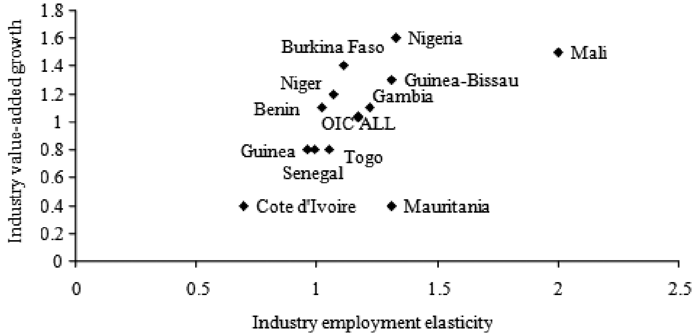
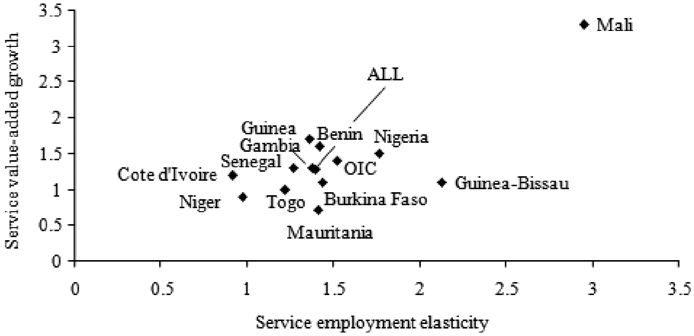


FIGURE 12
Western Africa – Service Employment Elasticities and Value-Added Growth Rates, 1993-2005



As in many parts of the world, the services sector in Western Africa grew more rapidly and creating employment opportunities relative to the industrial sector, and more so compared with the agricultural sector. Although the growth rates were somewhat modest, on average, the services value-added growth rate was 1.39%, compared to 0.39 and 1.03%, respectively for industry and agriculture. Average annual employment growth between 1993 and 2005 was 2.38% in the services sector, in comparison to 0.30% in agriculture and 1.28% in industry.

The next section provides a more in-depth analysis of several countries located in the various regions in the world. The discussion includes an examination of a country's performance in relation to its labor force participation, the level of poverty and income distribution.

3.4 COUNTRY ANALYSIS
3.4.1 INDONESIA (SOUTH-EAST ASIA)

Indonesia experienced a relatively high average annual GDP growth of 7.1% between 1993 and 1997. However, the country experienced negative growth during the period of 1997-2001 mainly due to the financial crisis. With economic reforms, Indonesia recorded a positive growth of 5.0 % in 2001-2005. Employment growth showed a positive trend, but its growth in 2001-2005 was minimal at 1.3%. On the other hand, productivity grew at a higher rate of 3.7% during this period.

The analysis of the three sectors shows that productivity, employment and output recorded positive growths. The employment growth was the highest in the industrial sector (0.50%), while the productivity growth was highest in the agricultural sector (0.37 %). The improvements in industry and agriculture are encouraging since 85 % of Indonesia labor force is either in the industry and services sectors.[8]

It is observed that there was an upward trend in the labor force participation rate. The rate has increased from 65.7 % in 1993 to 67.8% in 2005. With this increasing trend in the labor force participation rate, the unemployment rate had also increased in Indonesia which recorded an unemployment rate of 10.3% in 2006. Nevertheless, the average level of income has improved over the years except during the crisis period. The proportion of population below US$1 a day reduced from 17.4 % in 1993 to 7.8% in 2002, while those below US$2 a day fell from 64.2% (1993) to 52.9% (2002). Besides, the share of working poor at the US$1 a day in total employment had also shown a significant decrease from 22% to 10.3%.

Even though Indonesia registered an improvement in the productivity growth and showed a decreasing trend in the poverty level, more effort must be done to improve the people's standard of living. Considering the large population of Indonesia, the high percentage of the population below US$2 a day is of concern. Together with the disparity in income among the people (the Gini index was 34.3 in 2002), Indonesia must be able to formulate more effective strategies to improve the standard of living of its people and to have a more equitable distribution of income. In order for the country to build on its human capital, the education system must be improved so that more people can obtain the education that is required since the latest figure in 2006 showed that the gross secondary school enrolment ratio was less than two thirds.

8 http://www.search.com/reference/Economy_of_Indonesia.

3.4.2 PAKISTAN (SOUTH ASIA)

The average annual GDP growth of Pakistan had increased from 3.1% in the period 1993-1997 to 5.5% in 2001-2005. Both productivity and employment growths showed upward trends, with employment growing faster than productivity. However, the positive productivity growth was driven by agriculture which is the only sector that recorded an average gain in productivity between 1993 and 2005. The services and industrial sectors experienced productivity losses over the period. All three sectors recorded a positive growth in employment, with the industry recording the highest, but very modest growth at 1.16%.

The increase in employment is warranted given that the labor force participation rate had increased over the years to 58.2% for 2001-2005. However, attention must be given to ensure that there are substantial improvements in productivity so that there will be corresponding increases in the levels of income. Although the poverty rate was declining, it remained high with 59.5% of the population having income below US$2 a day. However, among these poor people, 80% were in fact in employment. Thus poverty is a reflection not of the absence of economic activity of the poor, but rather the unproductive nature of the activity.

The overall growth in employment corresponded with the relatively low unemployment rate of 6.2% in 2006. However, as mention earlier, this low rate masked the fact that many of those working were in jobs that provided little earnings and mostly in the informal sector. Data reveals that 65.8 % of all those employed belonged in the informal economy employment.[9] This sector is often characterized as one of low-pay, low or non-existent benefits, and with poor working conditions.[10] In addition, a significant number of Pakistanis (over 3.4 million in 2003)[11] worked outside the country which provided a total net inflow of remittances to Pakistan amounting to 4% of its GDP in 2006.

In the long term, Pakistan has to focus on human development for its economy to progress further. Special emphasis must be given to education since its secondary school enrolment is very low – 30% in 2006. Adult literacy rate is also low at 54.9% in 2007. Strategies and policies must be formulated to ensure that the economy prospers and the standard of living of its people will be improved.

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9 ILO (2007).

10 The informal economy includes private unincorporated enterprises which produce at least some of their goods and services for sale or barter, have less than five paid employees, are not registered, and are engaged in non-agricultural activities (ILO, 2007).

11 http://www.un.org/esa/population/publications/migstock.

3.4.3 JORDAN (MIDDLE EAST)

Jordan averaged a growth rate of 6.4% for the period 2001-2005, which exceeded the rate in the previous period 1997-2001 of 4.0%. The increase in growth was mostly reflected in the rise in employment, while productivity growth was a minimal 0.19% over the latest period. The average productivity growth rate in each of the three sectors was negative. Although there had been an increase in employment, the unemployment rate remained high at 12.4% in 2004. Moreover, although the labor force participation rate is relatively low at 52.2%, it has been increasing over the years. Thus more work must be created to reduce the unemployment rate as well as to cater to the increase in labor force participation rate.

The national poverty rate in 2003 was recorded at 14.2%. Thus, the slight improvement in overall productivity is of concern since one of the most effective ways to have higher levels of income is through increases in productivity. The large number of Jordanians migrating to other countries looking for employment might also be connected to the relative high level of poverty in the country. In fact, the net inflow of remittances in 2006 was valued at US$2.5 billion, which was 17.5 % of the GDP in that year.

Given this situation, Jordan must give equal attention to both employment and productivity. More jobs must be provided to its people, and productivity in all sectors must be enhanced, so that Jordan can move from being a lower-middle-income country to becoming an upper-middle-income one. It is noted that income inequality has increased in Jordan, where the Gini coefficient increased from 36.4 in 1997 to 38.9 in 2003. Financial and technical assistance must be given to the poor, and strategies for a better redistribution of wealth must be constructed and carried so that the disparity in income can be reduced.

3.4.4 CAMEROON (CENTRAL AFRICA)

The average growth rate for Cameroon over the years has been moderate. For the most recent period of 2001-2005, the GDP grew at 3.6% per annum, on average. The growth was mainly attributed to the increase in employment, while the contribution of productivity to GDP growth was much lower. Although agriculture, industry and services sectors all recorded an increase in value-added growth between 1993 and 2005, productivity gains were only observed in the agricultural sector. The increase in employment was the highest in the services sector.

Agriculture is an important sector in Cameroon where 70% of its labor force is in this sector (in 2001) and it contributed 43.7% to GDP in 2004.

Positive productivity growths in agriculture, together with employment expansion were greatly beneficial to the economy. This can be seen through a reduction in the national poverty rate from 53.5% in 1996 to 40.2% in 2001. The share of working poor below US$2 per day reduced from 86.7% to 73.8%, respectively. Although the rate was still high, the gains in employment and productivity can be said to assist in reducing the level of poverty.

The labor force participation rate in Cameroon has been decreasing to 66.7 % for 2001-2005. It is quite puzzling as to the reason for the decline. Unemployment rate was not high, registering at 7.5% in 2001. Migration, based on remittances data, does not indicate that there was an exodus of workers to other countries. However, it is observed that there was positive net inflow of remittances starting from 2003, of which previously it was negative. This can be taken as a positive indication of optimism in the economy and an increase in income for the country.

For Cameroon to develop further, it must be able to grow more rapidly by creating more opportunities for employment and increasing productivity in all sectors. This can be done by providing the skills and training to workers, and allocating more funds to education, and research and development. This is necessary since although the gross primary enrolment ratio is over 100%, the gross secondary enrolment is less than 25 % in 2006. Adult literacy rate was also relatively low at 67.9 % in 2001.

3.4.5 NIGERIA (WEST AFRICA)

Nigeria is classified as a low income country. It has a high poverty rate where 92.3% of the population is below US$2 a day (in 2003). In this group, 95% are in fact employed. The slow economic growth – the average GDP growth was 1.5% for 2001-2005 – does not contribute much in reducing the incidence of poverty. Employment elasticity is larger than one, which means that the growth in employment surpassed that of output. This implies that over that period, average productivity had declined. This situation does not provide an optimistic outlook on the development of the nation. The performance of the three sectors was also unimpressive, with the very modest increases in value-added totally driven by increases in employment, with the exception of the agricultural sector. However, though this sector recorded an increase in productivity over the period 1993-2005, the growth was minimal at 0.24%.

There has been a slow decline in the labor force participation rate. Between 1997 and 2001, the rate was 66.34%, which was lower than the earlier period, while in the later period 2001-2005, it reduces further to 65.42%. Perhaps this is due to the fact that employment does not entail an increase in income large enough to break away from poverty. This may also explain the large number of migrants, over 1.04 million in 2003, from Nigeria living and working abroad. It is also reflected in the inflow of remittances which have steadily increased over the years, where in 2006, the net inflow of remittances comprised of 2.9% of Nigeria's GDP.

The main thrust of the economy must be in improving efficiency and productivity. For the economy to develop, political stability must be ensured and there has to be improvement in the macroeconomic management of the country. A more substantial financial funding must be given to build on and strengthen the human capital. Education plays a key role in this endeavor especially in increasing secondary school enrolment since the gross enrolment ratio was less than 33% in 2005. Training and skills must be given to the people so that the nation can prosper in the future.

3.4.6 EGYPT (NORTH AFRICA)

Egypt's average annual GDP growth showed a decreasing trend, from 4.8% during the period of 1993-1997, to 4.7% during 1997-2001, and to 3.9% in 2001-2005. Nevertheless, employment and productivity growths were positive. However, productivity growth also exhibited a downward trend with an average of 2.2% growth during the period of 1993-1997 to 1.3% in 2001-2005. There was a small increase in employment growth over the study period.

The results for the sectors indicate that there were positive employment and productivity growths in all the three sectors. Services sector registered the highest average productivity growth (0.68%) while agriculture sector gained the highest average productivity growth (0.34%).

The labor force participation rate has shown a very small increase from 45.9% in 1997-2001 to 46.2% in 2001-2005. The low labor force participation rate was highly related to the number of migrations abroad. In 2003, there were a total of 2.2 million Egyptians migrating to other countries. Even with less than 50% of the people being in the labor force, this country has a relatively high unemployment rate. Over the years, the unemployment rate has been fluctuating, with the rate registering at 10.3% in 2006. Perhaps the low participation rate in the labor market can be attributed to the high levels of unemployment in the country.

A positive finding is that the incidence of poverty has decreased over the years. In 1995, the population below US$1 a day was 3.8%, while in 2000 it has reduced to 3.2%. In addition, the share of working poor at US$1 a day in total employment has also decreased from 6.3% in 1995 to 5.2% in 2000. The reduction in the poverty level may be associated to the increase in overall productivity over this period.

For Egypt to progress it needs to expand employment and raise productivity. These efforts may attract more people to enter the labor force and contribute to the economy. Jobs offered must be attractive to encourage more Egyptians to work in the country and retain the human resources available especially the skilled workers. In the long run this will be beneficial to the economy and increase the income of the people, especially those earning below poverty line to enjoy a better living. As Gini index has increased from 32.6% in 1995 to 34.4% in 2000, a more effective policy of income redistribution must be carried out.

3.4.7 UGANDA (EASTERN AFRICA)

The average annual GDP growth for Uganda, although relatively high, was on a decreasing trend from 8% in the period 1993-1997 to 5.8% in 2001-2005. Employment growth improved to 3.42% while productivity growth declined to 2.38% in the period 2001-05. The sectoral analysis indicates that services sector registered the highest employment growth with 9.30%, while the agriculture sector recorded no improvement in employment in that period.

Although services appeared to attract a large number of workers, a greater proportion of Uganda labor force is still concentrated in agriculture.[12] Majority of the workers lived in poverty. In 2002, the population below US$2 a day was 95.7% and the share of working poor at below US$2 a day in total employment was approximately 95%, which was indicative of those being employed in very low-paying jobs.

It is only benefiting for the country to focus on the agricultural sector, with strategies to increase the levels of productivity. Uganda is endowed with significant natural resources, including ample fertile land, regular rainfall and mineral deposits. Productivity in the agricultural sector was on a decline during the period of 1993 to 2005. In addition, serious efforts must be taken to ensure a better redistribution of the nation's wealth since the disparity in income has increased over the years, with a Gini index of 43.1 in 1999 to 45.8 in 2002. A better strategic planning and a more stable government are needed to ensure the effectiveness of these efforts and for the country to move forward since Uganda is often associated with political instability and erratic economic management.[13]

12 In 1999, it is estimated that 82% of the labor force were employed in the agricultural sector. http://www.search.com/reference/Economy_of_Uganda.

13 http://www.search.com/reference/Economy_of_Uganda.

3.4.8 KYRGYZSTAN (COMMONWEALTH OF INDEPENDENT STATES)

Kyrgyzstan showed improvement in the average annual GDP growth, from a negative GDP growth of -2.80% in 1993-1997 to 3.30% in 2001-2005. Over the two periods, employment growth increases while productivity growth declined to 0.92% in 2001-2005. Across the three sectors, employment and productivity growths were positive. The highest employment growth was in the services sector with 0.50 %. Meanwhile, the industrial sector registered the highest relative productivity growth of 0.44%.

The labor force participation rate has decreased from 65.8% in 1993-1997 to 64.5% in 2001-2005. The decreased in the labor force participation rate may be attributed to migration of its citizen to other countries as shown by a large net inflow of remittances worth US$594 million in 2006. In relation to this, the unemployment rate has also declined from 12.5% in 2002 to 8.5% in 2004.

Meanwhile, the positive productivity growth experienced by the country may be linked to the reduction in the poverty level and an improvement in the standard of living. Population below US$2 a day declined from 34.7% in 2000 to 23.5% in 2003. The share of working poor at US$2 a day in total employment reduced from 49.7% in 2000 to 33.4% in 2003.

Overall, Kyrgyztan has experienced economic progress over the years. The improvements in employment and productivity have benefited the country, which are reflected in the decline in poverty rate as well as reduction in income inequality. A better planning with more consistent efforts will help to reduce further the unemployment and poverty rates.

4. DISCUSSION AND CONCLUSION

This paper analyzes the performance of OIC member countries with respect to their GDP, employment and productivity growths. It was found that in general, increases in employment surpassed those of non-OIC member countries during the period of study. However, productivity growths were lagging behind. Expansion in employment is important especially for countries that faced high unemployment rates with excessive levels of poverty. Providing the poor with jobs would assist in generating income and alleviating the incidence of poverty.

Nevertheless, in many of the OIC developing countries, and elsewhere, the positive job growth incorporates the increase in employment in the informal economy. The informal sector represents an important part of the economy and plays a major role in employment creation, production and income generation. However, most of the workers in these sector have very minimal or no legal or social protection, and earn, on average, less than workers in the formal economy. Policy-makers must ensure that the working conditions in the informal economy must be upgraded, training and skills of the workers must be developed, and labor legislation be drawn up. Self-employment and business start-ups should be facilitated through interest-free credit programs such as micro-financing. In addition, technical assistance should be provided to informal entrepreneurs.

Increases in employment opportunities alone will not be able for any country to sustained long-term growth. In addition, to be able to compete with the rest of the world, it is crucial that OIC member countries promote higher productivity. One of the key elements is improving workers productivity by providing education to the younger generations and providing skills and training to those in the labor force. As shown in van Leeuwen and Foldvari (2008), consistent with the Lucas model (Lucas, 1988), accumulation of human capital affects economic growth for developing countries. Haldar and Mallik (2010) also found that human capital investment has significant long-run effect on per capital GDP. Countries must also invest in research and development to increase the quality of products and to have a more efficient use of materials. Productivity can also be enhanced by having better organization and greater utilization of capacity. Barriers to the development of programs to improve productivity such as high costs and ineffective government structures must be removed.

OIC as an organization can play a major role in coordinating and encouraging high-income member countries to invest their capital in low-income member countries. Investment and physical capital positively contribute to GDP growth (Hakro, 2009). Although providing aid for social services is important, funds should also be directly used to improve infrastructure and create business and employment. Additionally, the sharing of technology and technical know-how between member countries would greatly benefit individual countries as well as OIC as a group.

Nonetheless, any strategies that are formulated must not only focus on sectors that are undergoing dynamic positive changes. Less dynamic sector but where labor tends to concentrate, such as agriculture that usually still remains the biggest employment provider in many developing economies, should not be neglected in the effort to reduce poverty and income disparity.

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A Systematic Review of Research on Private Finance Initiative (PFI) and Public Private Partnership (PPP)

Suhaiza Ismail

Department of Accounting, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia, P.O.Box 10, 50728, Kuala Lumpur. (Email: suhaiza@iium.edu.my)

ABSTRACT

The study aims to systematically review the key characteristics and issues of PFI/ppp research in top public sector journals and to offer suggestions concerning the future direction of research on PFI/ppp. A qualitative meta-analysis method is used to analyse 108 PFI/ppp published papers from 26 selected public sector journals from 1992 to 2010. There is evidence of a growing trend in the amount of PFI/ppp literature since its inception in the UK in 1992. Past literature also mostly focuses on different PFI/ppp issues such as concepts and the application of PFI/ppp, risk management and performance of PFI/ppp, although other issues have been investigated from time to time. This study is important as it offers insights on the key characteristics of PFI/ppp literature in the selected public-sector journals.

JEL Classification**:** Z18- Public Policy

Key words**:** Content analysis, Meta-analysis, PFI, PPP, Public sector

1. INTRODUCTION

Various forms of public private partnerships (PPP) that involve the participation of the private sector in the provision of public services have existed for very many years but recently their use has increased significantly. Much of this increase in use can be attributed to the development of a specific form of PPP which was officially launched in the UK in 1992 and initially known as the private finance initiative (PFI). The PFI refers to a long-term contract between the private sector and the government whereby the private sector plays a key role in designing, building, financing, and operating the facilities for the provision of public services. In return, the government makes regular payments to the private sector provider over the contract period for the capital and operating costs incurred. When the Labour government took power in 1997, the idea of PFI was inherited using a new label, that is, Public Private Partnership (ppp). As a result, in the UK, PFI has also often referred to as PPP. Basically, there are two meanings of PPP; one is the broad form of private sector participation in public services delivery and second is the type that is really PFI by another name. To distinguish between the broad form of public private partnership from the narrower, in the remaining part of this paper, the former is referred to as 'PPP' and the latter as 'ppp', and the focus of this paper is mainly on PFI (i.e. ppp).

A key assumption underpinning the use of PFI/ppp is that this substantial involvement by the private sector will lead to gains in efficiency and an improvement in the services provided. PFI/ppp represents a fundamental change in the focus of the public sector, away from being a direct provider of services and towards becoming a purchaser of services and a regulator. However, what makes PFI/ppp different from other initiatives is that, unlike privatisation, the public sector retains a substantial role in a PFI project (i.e., as the main purchaser of services and as a regulator of the project). Also, unlike contracting out, the private sector provides the capital assets as well as the services (Kerr, 1998). For these reasons, PFI/ppp has received great support from major political parties and massive attention from various parties.

The key advantages of PFI/ppp over traditional public sector procurement are claimed to be that PFI/ppp involves a substantial degree of risk transfer to the private sector associated with constructing, operating, and maintaining the assets; provides an improved form of public procurement; and offers a higher quality of public services with greater innovation in the design, which consequently could render better value for money from the use of public resources. However, PFI/ppp has been criticized as often being more expensive than publicly financed projects due to higher borrowing costs incurred by the private sector, excessive profit made by the private sector to the detriment of the public and adverse effects on the pay and conditions of the employees. Thus, for a PFI/ppp scheme to deliver better value for money, the benefits achieved from the scheme must outweigh the higher borrowing costs (Terry, 1996; Heald and Geaughan, 1997; Jones and Pendlebury, 2000: 114; Broadbent et al., 2001; Audit Commission, 2003; Froud, 2003 and Ratcliffe, 2004).

The PFI/ppp has become a widely used mechanism in delivering public services in the UK. According to the statistics provided by the HM Treasury Public Private Partnership unit, as of February 2010, there have been 667 PFI/ppp signed projects with an estimated capital value of over £56 billion (HM Treasury, 2011). Subsequently, there has been a growing amount of published academic research on various issues and relevant topics regarding PFI/ppp. As PFI/ppp is an important agenda of the public sector, researchers in the area may be interested in obtaining information on the trend and scope of the relevant PFI/ppp literature. Although a great deal of research has been done on the topic to date, there have been very few studies that have systematically analysed and reviewed the published output of this research. Work by Al-Sharif and Kaka (2004), Pantouvakis and Vandoros (2007), and Ke et al. (2009) are examples of reviews that have focused mainly on the engineering and construction literature, however, to the researcher's knowledge, there is currently no comprehensive review of the PFI/ppp research that has been published in the public-sector or public-administration journals. As a systematic review of the published output on a specific topic is likely to assist in the current understanding and future direction of research into that topic (Tsai and Wen, 2005), the purpose of this study is to provide such a review.

In essence, this paper aims to analyse what has been researched in the area of PFI/ppp and published in the key refereed public sector journals. In particular, there are two main objectives of this paper. First, it aims to identify the important characteristics of research on PFI/ppp (i.e. the number of papers published, the journals that contributed most to PFI research, and the origins of the papers) that were published between 1992 and 2010. Second, it attempts to recognise the trend of PFI/ppp published research during the period and to offer suggestions for future direction of the PFI research agenda.

The unique contribution of this paper is that it offers insights into the development of PFI/ppp research via a systematic review of public sector literature. More importantly, it proposes the potential future direction of research in the PFI/ppp arena. In other words, this paper benefits not only the existing researchers in this relevant area of research but would also be useful to new researchers who are considering embarking on research in the area of PFI/ppp and later might opt for public sector journals as their publication avenue.

The remainder of the paper is structured as follows: The next section reviews studies that have embarked on a systematic review of PFI/ppp literature. This is followed by a methodology section, which discusses the method and procedures used in embarking on this research. The next section discusses the findings of the analysis undertaken in this study. Finally, the conclusion is provided with the limitations and suggestions for future research in this area.

2. LITERATURE REVIEW

Prior literature that has adopted a qualitative meta-analysis approach to the topic of PFI/ppp can be categorized into two types. Firstly, studies that have critically examined the findings of past studies to clarify a specific concept or area of PFI/ppp, such as the definition of PFI, the approaches of PFI, and common critical success factors and evaluation criteria (see, for example, studies by Weihe, 2008; and Kwak et al., 2009). The second category comprises studies that have comprehensively examined prior literature for technical and methodological matters to identify the trend of research on PFI/ppp. The present study adopts the second approach of meta-analysis, hence, the remainder of this review section will only consider past studies that have used this similar approach.

Al Sharif and Kaka (2004) provide a systematic review of PFI/PPP papers published in four journals that are ranked in the top ten in the area of construction. Al Sharif and Kaka's study covers articles published between 1998 and 2003, and one aim of their study was to identify key PFI/PPP topics that have been discussed in the literature to date. In addition, their paper also systematically analyses the quantity and the origin of the research as well as the key researchers and research centres in the area of PFI/PPP.

Three years later, Pantouvakis and Vandoros (2007) undertook a similar study with some extension from the earlier study in terms of the analysis period and the scope of analysis. Although this later study covers a longer time frame (from 1996 to 2006), like Al Sharif and Kaka's (2004), it only considers four construction sector journals, three of which were covered by the earlier study. In terms of extension in the scope of analysis, Pantouvakis and Vandoros (2007) also examined the number of citations of each paper in other papers included in the analysis. A total of seventy-eight papers were analysed, representing an increase of more than 100% over the number of papers analysed by Al Sharif and Kaka (2004).

More recently, Ke et al. (2009) published a study that covered the same four journals as Al Sharif and Kaka (2004) but extended the study period from six years to eleven years (1998 through 2008). The analysis is very similar to the previous two studies. One of the key findings reported by Ke et al. (2009) is that the number of PFI/PPP papers published in those journals increased over the years.

Inspired by the previous studies, the present researcher also intends to embark on the meta-analysis approach to systematically review prior studies on PFI/ppp but in the context of public sector journals rather than construction sector journals. Even though PFI/ppp has received considerable attention in the public sector literature over the past two decades, to the best of the researcher's knowledge there is limited evidence of any systematic analysis of PFI/ppp studies that have been published in public sector journals. Realising the importance of PFI/ppp in the public sector agenda, the present study will bridge the gap in the extant public sector literature as it attempts to offer insight into the focus and trend of PFI/ppp literature in top public sector journals. The following section outlines the methodology adopted in this study.

3. METHODOLOGY

3.1 QUALITATIVE META-ANALYTIC PROCEDURE

Meta-analysis refers to the analysis of analyses. It connotes a rigorous alternative to the casual, narrative discussion of research studies, which typify our attempts to make sense of the rapidly expanding research literature (Glass, 1976: 3). There are two types of meta-analysis – quantitative and qualitative meta-analysis. While a quantitative meta-analysis involves a statistical operation used to combine results from independent studies (Ankem, 2005), a qualitative meta-analysis refers to a systematic review of literature without having any mathematical synthesis. This paper adopts a qualitative meta-analysis technique to analyse the PFI/ppp publications to identify the characteristics as well as the trend of issues discussed in the extant literature on PFI/ppp published in the top public sector journals. In particular, this study covers 26 public sector journals and reviews 108 published articles on PFI/ppp in these selected journals over the 19 year period from its inception in the United Kingdom in 1992 through 2010.

3.2 SELECTION OF JOURNALS

According to Singleton and Straits (1999) in meta-analysis "ideally, we would like to include or sample all studies bearing upon the research question. In actual practice, however, the data obtained will be a biased sample of the targeted research". In other words, the limitation of meta-analysis is the tendency of the omission of unpublished research or poorly indexed publications (Singleton and Straits, 1999). However, Saxton (1997) is of the view that good indexed publications, which should have gone through a refereeing process, are of better quality and the results are more reliable. Thus, in selecting the journals to be covered in this study, the researcher used the two well-known citation index databases, the Social Science Citation Index and the Scopus, as the primary sources of identifying the top refereed public-sector journals. Specifically, all journals listed in either or both of the databases that are categorized as public administration or public sector are included in the sample for the analysis of this study. Also, only English-medium journals are covered in this study. In total, 42 public sector journals were identified, however, of these only 26 had published papers on the topic of PFI/PPP and it is these 26 journals that are included in the study.

3.3 IDENTIFICATION OF RELEVANT PAPERS

As the present study critically reviews papers on PFI/ppp published in the top-ranked public sector journals, all paper titles in each issue of all identified journals starting from 1992 until 2010were browsed using either library databases, such as ABI-Inform, EbscoHost, or the website of the individual journal. Papers that contained terms such as 'private finance initiative', 'public private partnerships', ' 'PFI', or 'PPP' in the titles were downloaded and printed for consideration for inclusion in the analysis. Next, the researcher, with the help of two trained research assistants, scanned through the abstracts and the keywords to exclude irrelevant papers. As mentioned earlier, due to the broad concept of PFI/PPP, the researcher mainly includes studies on PFI/ppp that carry a common definition, that is, a long term contract between government and private sector, whereby the private sector is responsible for designing, building, financing and operating facilities based on output specifications determined by the public sector. In effect, the public sector does not own the assets but has the obligation to make regular payments to the private sector providers for the use of facilities throughout the contract period. After the contract has expired, based on the terms of the original contract, ownership of the asset either remains with the private sector providers or is returned to the public sector. Hence, when scanning through each of the 156 papers that matched the search terms, 44 articles with the term PFI/ppp in the title or the abstract were omitted, as they did not refer to the intended definition for this study. In addition, four articles that were published and categorised as 'forwards', 'editorial', 'book review', or 'articles in press' were also excluded from the analysis. Once the paper was identified as relevant, the reference list of the paper was also browsed through to look for cited PFI/ppp papers published in the selected public-sector journals that might have been unintentionally omitted in the first screening process. In total, 108 papers are relevant or qualify for further review to achieve the objectives of this study.

4. FINDINGS AND DISCUSSION

4.1 CHARACTERISTICS OF PFI/ppp PUBLICATIONS

In achieving the first objective of this paper that is to identify the characteristics of PFI/ppp published publications, this section analyses the trend of PFI/ppp research in terms of the number of publications each year and the top journals that published most PFI/ppp papers over the analysis period. The results are presented in the following sub-sections.

4.1.1 NUMBER OF PFI/PPP PAPERS PUBLISHED

A total of 12,411 papers were published by the 26 top-ranked public sector journals from 1992 to 2010, of which slightly less than one per cent (108 papers) were on PFI/ppp topics.

FIGURE 1
Number of PFI/PPP Articles Published Each Year from 1992 to 2010

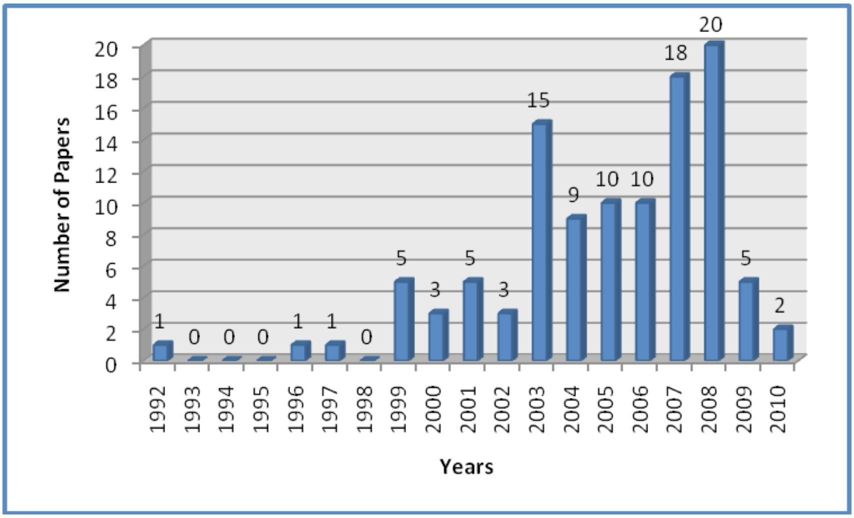

Figure 1 depicts the number of PFI/ppp papers published each year from 1992 until 2010. It can be seen that initially, the PFI/ppp papers published in the top public sector journals were very few or did not exist at all for some years. However, since 1999, there has been an increasing trend in the quantity of PFI published papers, peaking with a total of 20 published in 2008, which represents18.5% of the total of 108 published over the 19 year period. Moreover, the period between 2003 and 2008 demonstrated a high number of PFI/ppp publications each year ranging from nine to 20 publications per year. However, the number of publications significantly declined after 2008.

One possible reason for the steady growth in the number of papers published after 2000 is that this reflects the increasing use made of PFI/ppp projects, particularly by the UK government, from the late 1990s onwards. As PFI/ppp schemes became much more widely practiced the evaluation of the costs and benefits and the examination of the issues and controversies surrounding these schemes became an important part of the public sector agenda. This, in turn, led to an increase in research interest and eventually to an increase in published output. However, the drop in the papers published pertaining to PFI/ppp after 2008 may be due to the maturity of the PFI/ppp policy, which led to the saturation of research in the area.

4.1.2 PUBLIC SECTOR JOURNALS WITH PUBLICATION ON PFI/ppp

Table 1 depicts the public sector journals that have published more than five papers on PFI/ppp over the analysis period. In terms of quantity, *Public Money and Management* (PMM) ranks at the top, with 25 PFI/ppp papers published over the 19 year period, followed by *International Journal of Public Sector Management* (IJPSM), which has published nine PFI/ppp papers over the period. *Public Works Management and Policy, and Financial Accountability and Management* have published eight PFI/ppp papers each.

TABLE 1
Top Public Sector Journals with More than Five PFI/ppp Papers Published from 1992 to 2010

No	Journal Title	Total number of papers published	Number of PFI/PPP paper	Percentage of PFI/PPP papers to total papers (%)
1	Public Money and Management	686	25	3.64
2	International Journal of Public Sector Management	678	9	1.33
3	Public Works Management and Policy	326	8	2.45
4	Financial Accountability and Management	382	8	2.09
5	Public Management Review	214	7	3.27
6	Public Policy & Administration	476	7	1.47
7	International Review of Administrative Sciences	664	7	1.05
8	International Journal of Public Policy	155	6	3.87
9	Public Administration	698	6	0.86

4.2 TREND AND CONTENTS OF PFI/ppp RESEARCH

The results presented in this section include an analysis of the research methods used, PFI/ppp sectors involved in the studies, the trend in terms of PFI/ppp research topics engaged by researchers over the analysis period and the review of previous PFI/ppp studies and findings based on the identified topic.

4.2.1 RESEARCH METHODS USED FOR PFI/ppp RESEARCH

In undertaking research on PFI/ppp topics, there are a number of different research methods adopted by the researchers. A number of studies have also used a multi-method approach. In undertaking this analysis on the research methods used, two or more methods will be counted separately, even if they come from the same paper. Based on Table 2, the most popular research methods are literature review and document analysis, whereby both research methods focus on secondary data in investigating an issue. The most frequently used sources of primary data are interviews, case studies and questionnaires. It is clear from Table 2 that secondary data sources dominate the research methodology adopted in these papers.

TABLE 2
Research Methods Used in PFI/ppp Research for the Period from 1992 to 2010

Research Method	Number of Papers
Document analysis	52
Literature review	40
Interviews	22
Case study	19
Questionnaire or survey	9
Participant observation	7
Annual report analysis	3
Website analysis	2
Total	154*

* The total is more than the number of papers analysed because there are papers that adopted more than one research method.

4.2.2 PFI/PPP SECTORS INVOLVED

Table 3 depicts the various sectors of PFI/ppp that the papers have addressed. Generally, almost half of the papers (55 papers) examined PFI/ppp issues without referring to a specific project or sector. Of the papers that focused on a specific sector, there is evidence that health, education, and road and transport are the three most popular PFI/ppp sectors to which researchers gave attention. The probable reason for this finding is that these are the sectors into which the pioneer PFI projects fall. Moreover, these are the sectors in which there has been evidence that PFI is a suitable mechanism to carry out the projects (IPPR, 2002; Ismail, 2011). Moreover, as many PFI projects are from these sectors, various controversial issues might have arisen that might have affected different parties, thus leading to greater attention from researchers in these sectors.

TABLE 3
PFI/ppp Sectors Covered

PFI/PPP Sector	Number of Papers	Percentage
Health	19	16.4
Education	13	11.2
Road and Transport	11	9.5
Local/state/federal government projects	5	4.3
Defence	3	2.6
Financial Services	2	1.7
Prison	2	1.7
Telecommunication	2	1.7
Utilities: Water and Electricity	2	1.7
Museum	1	0.9
Retirement Pension	1	0.9
General (paper did not refer to any specific sector)	55	47.4
Total	116*	100

* The total is more than the number of papers analysed because there are papers that addressed more than one sector.

4.2.3 REVIEW OF PFI/ppp ISSUES COVERED

There were various PFI/ppp issues studied by researchers whose papers were published in the top public-sector journals. In this paper, the researcher classified the PFI/ppp issues into six broad categories that are Accounting issues, concepts of application of PFI/ppp, performance evaluation, project management, risk management and integration research, as shown in Table 4.

The reason for various topics having been covered by the 108 papers is that most, if not all, of the public-sector journals, particularly the 26 journals under consideration, have a broad coverage of research areas for publication. Therefore, the journals attracted researchers from diverse specialization areas to contribute to the publications. Moreover, the journals also attracted many target audiences besides academics, including practitioners, policymakers, public administrators, and civil servants. The issue of each paper was determined by the present researcher based on the title, keywords or abstract of the paper and if there was any doubt on the actual issue addressed, the contents of the paper were examined. For papers that cover more than one issue, the classification of the issue is based on the issue that has been emphasized most in the paper. Hence, each paper falls only under one specific category.

Table 4 shows the distribution of PFI/ppp publications for each year and total number of publication based on the issues addressed. The most popular

PFI/ppp research topic is concepts and application issues, which contributes 36 papers (33.33 per cent) out of the total publications. This is followed by research categorized as performance evaluation and risk management with 26 and 14 publications respectively. The least number of publications in the public sector journals is on the accounting issues topic. However, the low number of publications on accounting issues may be because studies in that area have been well published in journals of other areas, specifically, accounting and business journals. The following sub-section reviews the published research under each of the categories identified.

TABLE 4
Distribution of Papers Based on Issues of PFI/ppp from 1992 to 2010

Research Topics	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Accounting for PFI/ppp						1		1		1	1		1	1					1	7
Concepts and application	1				1			1	2			4	3	4	2	6	7	4	1	36
Performance evaluation								1	1	3		3	1	2	2	7	6			26
Project management										1		2		1	1	2	5			12
Risk management											1	4	2	2	1	3	1			14
Integration research								2			1	2	2		4		1	1		13
Total	1	0	0	0	1	1	0	5	3	5	3	15	9	10	10	18	20	5	2	108

4.2.3.1 CONCEPTS AND APPLICATIONS OF PFI/ppp

Table 6 illustrates that research on the concept and application of PFI/ppp is the earliest topic that was published in public sector journals. This is expected as when PFI/ppp was officially announced in 1992, researchers in the area were interested to examine and to know more about the true concepts of PFI/ppp. The earliest publication, by Boyfield (1992), studied the political motives for greater involvement of the private sector and suggested solutions to overcome barriers that discouraged private sector participation in public sector projects in the past. Terry (1996) published a study that examined the origins of PFI in the UK and its significance to the government. Later, Broadbent and Laughlin (2005) studied the role of PFI/ppp as an agent of the government's modernization in the UK.

As PFI/ppp has increasingly received attention from many countries, from time to time there were publications on the country based concepts and application of PFI/ppp including both PFI/ppp in the developed countries such as Ireland (Reeves, 2003), Germany (Bode, 2003; Connolly et al., 2008), Switzerland (Lienhard, 2006), the United States (Gallay, 2006; and Kee and Forrer, 2008) and Poland (Jorna et al., 2010) as well as in the developing countries like Thailand (Pongsiri, 2003) and Pakistan (Farah and Rizvi, 2007). Furthermore, there were studies that attempted to compare PFI/PPP practice and implementation between countries such as the UK and Spain (Norton and Blanco, 2009); the UK and United States (Demirag et al., 2009) and the USA and the UK/Europe (Startin et al., 2009). Due to the worldwide adoption of PFI/ppp and the existence of various definitions, roles and forms of PPP, Wettenhall (2007) thoroughly examined a project that involved both the public and private sectors in order to verify whether its structure and operation reflect the true PPP arrangement. In addition, Coulson (2005), Zarco-Jasso (2005) and Wettenhall (2008) investigated the different concepts and types of PPP.

Pertaining to the application of PFI/ppp there were various studies that assessed the use of PFI/ppp in various projects from different sectors such as local government (Ewoh, 2007), museums (Wilson and Boyle, 2004), road and transport (Glaister et al., 2000; Koppenjan, 2005; Battaglio and Khankarli, 2008; Startin et al., 2009; Visser, 2009), health service (Mayston, 1999; Broadbent et al., 2003; English, 2005; and McMurray, 2007), education (Reeves and Ryan, 2007; Reeves, 2008) and other infrastructure development (Boase, 2000; Bovaird, 2004; Henderson and McGloin, 2004; Jones and Noble, 2008; and Murphy, 2008).

4.2.3.2 PERFORMANCE EVALUATION

Based on Table 4, the publication on the PFI/ppp performance evaluation topic first cropped up in public sector journals in 1999. Since then, each year until 2008 there were several studies published and 2007 had the highest number with seven publications on performance evaluation of PFI/PPP. Generally, the 26 studies under this performance evaluation category can be further classified into two broad aspects: 1. Studies that evaluated the performance measurement mechanisms used in assessing PFI/ppp projects, and 2.Studies that assessed the performance of PFI/ppp projects.

Several published studies critically evaluated the various performance measurement mechanisms used in evaluating PFI/ppp projects (see: Colman, 2000; Froud and Shaoul, 2001; English, 2007; Pollock et al., 2007; Coulson, 2008; Garvin and Bosso, 2008; Morallos and Amekudzi, 2008; Marty et al., 2005). Froud and Shaoul (2001) carried out a study on the appraisal procedures used for evaluating VFM and the affordability of a PFI/ppp option. The study found trivial problems with the appraisal mechanism used at that time. Likewise, Colman (2000) and Coulson (2008) closely examined the UK treasury guidelines for assessing the VFM of PFI proposals and projects. Coulson (2008) commented on the quantitative elements of the PSC including risk transfer, transaction costs, imputed lifecycle and discounted cash flows and he concluded that in reality PFImay not always give better VFM. Adding on to the similar area of works, Morallos and Amekudzi (2008) rigorously evaluated the VFM assessment adopted by various countries including the UK, Australia and Canada and based on the information gathered from the evaluation, the authors offered guidelines for future use of the VFM mechanism. Furthermore, in improving the performance evaluation of PFI/ppp projects, Garvin and Bosso (2008) proposed a framework to assess the effectiveness of PFI/ppp projects taking into account various factors including the interests of society, the state, industry and the market. Moreover, PFI/ppp performance audit mechanism and procedures, particularly in Australia, were examined by English (2007).

In relation to assessing the performance of specific PFI/ppp projects, various aspects have been evaluated including affordability and cost savings (Ball, et al., 2000; Shaoul, 2002; Shaoul, 2003; Ismail and Pendlebury, 2006; and Demirag and Khadaroo, 2008;) and effectiveness, efficiency and quality (McCabe, et al., 2001; Hodges and Grubnic, 2005; Koppenjan, 2005;Teicher, et al., 2006; Hodge and Greve, 2007; Kakabadse, et al., 2007; and Vining and Boardman, 2008a and 2008b) and value for money (Colman, 2000; McCabe, et al., 2001; Asenova, et al., 2003; Ismail and Pendlebury, 2006; Moralloas and Amekudzi, 2008; and Shaoul, et al., 2008). Pertaining to affordability and cost saving, most if not all studies reported evidence that was not in favour of PFI/ppp. In particular, the published studies that examined the affordability of PFI/ppp projects concurred that an affordability gap exists whereby the actual unitary charge payable under a PFI/ppp contract was higher than expected (see: Gafney and Pollock, 1999; Shaoul, 2003; Hellowell and Pollock, 2007; and Shaoul, et al., 2008). Similarly, higher costs were claimed to have been incurred under PFI/PPP contracts than the traditional procurement method (see: Ball et al., 2000).

Concerning the VFM of PFI/ppp projects, there is no one study which found conclusive evidence that PFI/ppp has offered better VFM. For instance, Ball et al. (2007) analysed VFM based on evidence reported in the government official reports and concluded that there is no evidence of VFM from PFI/ppp projects. Similarly, perception studies by Ismail and Pendlebury (2006) and Demirag and Khadaroo (2008) on the VFM of operating PFI/ppp schools in the UK claimed to have found inconclusive evidence pertaining to VFM achievement. Hurst and Reeves (2004) even failed to produce any evidence on VFM due to insufficient information as the public sector comparator (PSC), which is the benchmark to assess the VFM of PFI/ppp projects, was kept confidential by the government. Furthermore, McCabe et al. (2001), who evaluated the VFM of Glasgow PFI schools and found evidence for VFM, raised concern regarding the VFM justification put forward for PFI/ppp projects due to the subjective elements (i.e. risk transfer and discount rate) used in assessing VFM.

4.2.3.3 RISK MANAGEMENT

From 2002 until 2008 a total of 14 studies on risk in PFI/ppp projects were published in the selected public sector journals that cover various dimensions of risk management in PFI/ppp. Having closely looked at each of the 14 studies, it is interesting to observe a trend of research on risk management in PFI/ppp where in the early years (i.e. 2002 and 2003) studies had focused on identifying the types of risks involved in PFI/ppp projects (Ham and Koppenjan, 2002; Asenova and Beck, 2003a) and how to evaluate and manage risks (Asenova and Beck, 2003a; Ball et al., 2003; Hood, 2003; Asenova and Beck, 2003b). Subsequently, (i.e. 2004 until 2007) when a number of PFI/ppp projects were already in the operational stage, research on risk tended to move its direction into assessing the reality of risks being transferred to private sector companies (Hodge, 2004a; Hodge, 2004b; Lonsdale, 2005) and the effect of risk transfer on VFM (Nisar, 2007a and 2007b; Asenova et al., 2007). More recently, there was a study on risk auditing (Pollock and Price, 2008). Specifically, the research alerted the government authority concerning the need to increase effort in auditing the risk transfer in operational PFI/ppp projects, as it is the key justification for achieving VFM in PFI/ppp projects (Pollock and Price, 2008).

4.2.3.4 PROJECT MANAGEMENT

As shown in Table 4, research on PFI/ppp project management was first published in public sector journals in 2001 and, similar to many other PFI/ppp topics, the highest number of publications was in 2008. Under the issue of PFI/ppp project management, Ball et al. (2003), whose study used the technique of participant observation, had identified key factors that lead to effective project management, which include motivation, staffing, asset ownership, innovation and financial matters. Likewise, Vinning and Boardman (2008) highlighted eight important rules for governments to emphasize when managing PFI/ppp projects, which, among others, include establishment of PFI/ppp constitution, standardization of procedures and competitive bidding process. In relation to the issue of managing PFI/ppp projects, Ysa (2007) identified various governance structures of PFI/ppp projects depending on the type of contractual relationship between the private and public sectors. Furthermore, due to the problems with the existing governance structure of PFI/ppp projects, Johnston and Gudergan (2007) proposed an improved governance framework.

In the study by Klijn et al. (2008) the authors examined choices faced by managers in implementing strategies for managing PFI/ppp projects and concluded that commitment, communication and relationship are the factors that could have a positive outcome on PFI/ppp projects. Furthermore, Wakeford and Valentine (2001) investigated the roles of the private sector in managing PFI/ppp projects whilst Noble and Jones (2006), and Jones and Noble (2008) studied the roles and behaviour of 'boundary-spanning' managers whose duty involves bridging the organizational boundaries of PFI/ppp projects. Both studies also investigated the challenges faced by this group of managers in managing the implementation of PFI/ppp projects.

Trust and accountability are the crucial elements in managing PFI/ppp projects. There were at least four studies that examined the issue of trust in PFI/ppp project management and implementation. Grubnic and Hodges (2003), Brewer and Hayllar (2005), Barretta et al. (2008) and Edelenbos and Klijn (2008) all examined theoretically or/and empirically the role of trust in PFI/ppp projects with particular reference to projects in the UK, Hong Kong, Italy and the Netherlands, respectively. More importantly, Barretta et al. (2008) claimed that the success of a PFI/ppp project depends on the level of trust between the private firms that made up the special purpose vehicle. In relation to accountability, Acar et al. (2008) identified five potential functions of accountability in the various stages of PFI/PPP project management.

4.2.3.5 ACCOUNTING FOR PFI/ppp

Although publications on PFI/ppp accounting issues in public sector journals are small in terms of quantity, the issue started much earlier than many other PFI/ppp topics. Since Financial Reporting Standard 5 (FRS 5) –'Reporting the Substance of Transactions' was issued in April 1994 (Accounting Standard Board, 1994), the accounting treatment of PFI transactions has become the subject of much debate. The key accounting issue is whether PFI assets and the associated debt should either be 'on' or 'off' the balance sheet of the public sector (Heald and Geaughan, 1997; Hodges and Mellett, 1999 and 2004; and Kirk and Wall, 2001).Later, Kirk and Wall (2002) investigated the impact of the accounting treatment for PFI/ppp projects based on the amended standard (i.e. FRS 5) on the VFM of PFI/ppp projects.

Khadaroo (2005) also carried out a study on the accounting treatment of PFI/ppp projects but looked at the theoretical perspective, particularly the institutional theory. It considers the impact of institutional pressures on the PFI/ppp accounting standard setting in the UK. Most recently, McQuiad and Scherrer (2010) examined the implications of adopting the new international accounting standards on the benefits and costs of PFI/ppp projects and concluded that there will be a significant impact on the future use of PFI/ppp.

4.2.3.6 INTEGRATION RESEARCH

Published studies categorized as integration research covers topics that do not fall under any of the earlier discussed categories. There were studies that examined the critical success factors of PFI/ppp projects (Jamali, 2004a and 2004b; Trafford and Proctor, 2006; Jacobson and Choi, 2008), opportunities and challenges (Asenova et al., 2002; Klijn and Teisman, 2003; Jamali, 2004b; Bloomfield, 2006), impact and implications of PFI/PFI implementation (Fischbacker and Beaumont, 2003; Broadbent and Laughlin, 2004; Asenova and Hood, 2006), future prospects of PFI/ppp (Glaister,1999) and research agenda on PFI/PPP (Broadbent and Laughlin, 1999; Wall and Connolly, 2009).

5. FUTURE DIRECTION OF PFI/ppp RESEARCH AND CONCLUSION

This present study embarked on comprehensive content analysis of 108 PFI/ppp papers published in top public sector journals from 1992 to 2010. The study was motivated by the importance of PFI as a new public-sector policy in many countries in the world. Due to the massive amount of literature on PFI/ppp, this study analysed the key characteristics and trends of PFI/ppp papers published in selected public-sector journals.

The analysis found an increasing trend in the quantity of publications on PFI/ppp, with the United Kingdom being a leading contributor in terms of both the authors and the number of papers. The published papers used various research methods in undertaking the studies, particularly the use of secondary data. There was also a range of issues of PFI/ppp research published in the public-sector journals. Looking at the trend of published research on PFI/ppp, although the number of publications in the last two years of the analysis period has declined compared to the previous years, it is believed that research on PFI/ppp will continue to exist in the future.

In terms of research on PFI/ppp performance, due to the long term nature of PFI/ppp projects and the claims made by present researchers that inconclusive evidence on the VFM achieved was due to the early measurement of its success (see: Ismail and Pendlebury, 2006), it is strongly expected that in the near future when there are PFI/ppp projects that reach the end of the contract period, researchers in the area may well be interested in assessing the actual performance and true success of PFI/ppp project over the whole contractual period. Also, there is the potential for more research to compare the performance of PFI/ppp across countries as the policy and implementation of PFI/ppp differs between countries. As a result, modified PFI/ppp procedures and assessment mechanisms may be discovered.

Furthermore, although there seems to be a paucity of research on the performance, risk management and project management of PFI/ppp in the last two years, it is very likely that there will be a study on these topics in the near future as these are the contentious areas of PFI/ppp implementation that will receive further attention from researchers. On the topic of concepts and the application of PFI/ppp, as PFI/ppp has been world-widely accepted and different countries adopt diverse concepts and application of PFI/ppp, it is forecasted that studies on the topic will continuously emerge particularly from developing economies that have shown a positive commitment towards PFI/ppp policy. From the analysis, it is believed that literature on PFI/ppp can continue to grow in the near future. Overall, it is positive that future studies may focus on existing PFI/ppp topics as well as new dimensions of research on PFI/ppp.

The issues investigated by this study might be the same issues as addressed by other publications. It differs mostly in the context of studies in different countries that use research methods that have not been widely used in research on PFI/ppp, such as focus groups and ethnographic methods.

This study is not without limitations. Firstly, it mainly focuses on PFI/ppp literature published in selected public-sector journals, ignoring relevant PFI/ppp literature published in journals of other fields, such as accounting, construction, and engineering. As a result, evidence on the trend of PFI/ppp issues might not be conclusive and, similarly, suggestions made for future direction of PFI/ppp research might not be valid. Hence, future researchers might want to consider literature on PFI/ppp from all relevant fields of knowledge.

Secondly, the selection of the journals was based on the list from Social Science Citation Index and Scopus, and even though these are well-recognised citation index lists of top journals, they are not free from criticism, due to the subjective and not transparent measures used in determining journals to be listed (Leydesdorff, 2009). To carry out a more comprehensive meta-analytic procedure, a broader range of public-sector journals needs to be considered, instead of only top-ranked journals. In addition, future researchers may want to embark on meta-analytic procedures to consider a specific topic in PFI/ppp, such as on the performance of PFI/ppp projects. This valuable piece of work would be able to offer its audience the actual average performance of PFI/ppp projects. In short, despite its limitations, this study is important as it offers some insights on the key characteristics of PFI/ppp literature in selected public-sector journals that point to a positive future direction of research on PFI/ppp.

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Internet Search Engines as Gateway to Marketing Information

Suhaimi Mhd Sarif [a]
Yusof Ismail [b]

[a] *Faculty of Economics and Management Sciences, International Islamic University Malaysia, P.O. Box 10, 50728 Kuala Lumpur, Malaysia. (Email: suhaimims@iium.edu.my)*
[b] *Faculty of Economics and Management Sciences, International Islamic University Malaysia, P.O. Box 10, 50728 Kuala Lumpur, Malaysia. (Email: yusof_iiu@yahoo.com)*

ABSTRACT

Use of the Internet for instant check on almost anything has become current trend. User's choice of a particular Internet search engine (ISE) determines the number and perhaps quality of materials accessed. Due to this phenomenon, it is important for users to be familiar with quality and quantity of materials available at various ISE's. This paper attempts to make a comparison of the hits produced by selected ISE's using ratios over a short duration. The ratio is computed by dividing the number of hits for a search term with the total hits of all the search terms for each ISE. Technical Marketing terms identified for searches include marketing, marketing mix, product, service, pricing, place, promotion, Internet; international, global, regional, national, local, glocal, east, west; *Muslim, Islam, Sharīʿah, Fiqh, Halal*, Christian, and Christianity. The ISE's used in this study are Google, Ask, AlltheWeb, AOL, and Yahoo. Results show that Google produces the hits pattern that resembles the overall average hits for all the ISE's combined. This is followed by Ask, AlltheWeb, AOL, and Yahoo. The study suggests that any researcher who is trying to search for materials on marketing from the Internet Search Engines will face difficulties to pool sufficient literature on marketing from Islamic perspectives. It should be noted that the existence of the terms in the ISE's in no way suggests the adequacy and quality of the contents of the materials.

JEL Classifications: M15, M31

Key words: Internet search engines, Islam, Literature, Marketing information, Marketing mix

1. INTRODUCTION

Marketing has been discussed as very important business function in four P's, namely product, price, place and promotion. It also provides essential input in business and investment decisions. In today's competitive business environment, market intelligence contributes significantly to major business decisions. Major market players are willing to allocate huge investment on market research to secure their market shares and positions. Market information is the ingredient to provide inputs for business decisions. Thus, the instrument to search, gather, store, retrieve, and use of market information must be credible, reliable, and efficient. The Internet has been instrumental in providing researchers with instant information on diverse topics on Islam (Hammo, 2009; Nakagawa, 2009).

This paper investigates the capability of major Internet Search Engines (ISEs) to allow for information searching and to ascertain the extent to which the Internet provides such materials (Berger and Messerschmidt, 2009; Hayasaka, Hayashi and Onai, 2009). Rich databases of literature will help the discipline make a quick progress (Jian, Gan and Wang, 2010), whereas, dearth, will force the researchers to rely on other on-line databases of the literature, and the traditional, current and bound periodicals. In fact, a student in related field has utilized the same methodology to assess availability of materials related to Islamic studies (Ismail and Sarif, 2006).

1.1 RESEARCH OBJECTIVES

The study is carried out primarily to identify the relative frequency of marketing information materials via the Internet search engines. However, it is outside the scope of the paper to investigate the quality of the contents of the Web-based materials available.

The following combination of search terms were used in the study: *Marketing, Marketing mix, Product, Service, Pricing, Place, Promotion, Internet, International, Global, Regional, National, Local, Glocal, East, West, Muslim, Islam, Shariah, Fiqh, Halal, Christian, and Christianity.*

2. LITERATURE REVIEW

This section reviews the literature on the Internet Search Engines (ISEs). It presents the benefits and limitations associated with various search engines. It also lists popular search engines which are used as the working list for the current study.

2.1 INTERNET SEARCH ENGINES (ISEs)

Information is important as input for business decisions. Internet Search Engines are the web platform for business firms to obtain faster and reliable information. In fact, Internet Search Engines have been used widely in searching for information (Chau, Wong, Zhou, Qin, Chen, 2010; Xiang and Gretzel, 2010). Marketing information is about prices, products, places and promotions that require large information repositories. In today's competitive environment, speed and cost efficiency are two main factors contribute to firms' survival and competitiveness. According to Letsche and Berry (1997), information searching is more accessible through Internet-based search engines as information gateway.

Ganzha, Paprzycki and Stadnik (2010) contended that ISEs are good for quick information search due to their large repositories of information. The quality that is attributed to ISEs is capable to ensure cost savings and provides fast service delivery. Mettrop and Nieuwenhuysen (2001) evaluated thirteen Internet search engines, namely AltaVista, EuroFerret, Excite, HotBot, InfoSeek, Lycos, MSN, NorthernLight, Snap, WebCrawler, Ilse, Search.nl, and Vindex. The fluctuations or complications are compatible with the behavior and performance of the Internet search engines (Uyar, 2009; Thelwall, 2008). The fluctuations in the search results affect the efficiency of Internet search as a publication/communication medium (Pirkola, 2009; Prabowo and Thewal, 2009). According to Zengin (2009), ISEs also allow greater opportunities and rooms for information exchange and enhancement. Hockey (2005) argued that ISE also allow information gathering.

Dreilinger and Howe (1997) found that large data obtained from the ISE's may pose difficulties in the selection process. It is also time consuming to filter them, which eventually may not certainly be useful. However, Pinchak, Rafiei and Lin (2009) argued that ISEs assist information retrieval process faster.

Some firms may not be fully convinced that the ISEs can provide them rich information. According to Imielinski and Signorini (2009), ISEs are helpful mechanisms for business firms to supply rich information at cheaper cost of information acquisition. Guo and Zhang (2007) argued that ISEs help firms to collect, store and retrieve information. Wu, Franken and Witten (2009) argued that ISEs are easy to use and allow the users to explore with rich information.

Gordon and Pathak (1992) evaluated eight ISEs and found that information retrieved from one particular ISE can also be retrieved from a few ISEs. This indicates that the enormous results retrieved may be duplicative, and confusing.

Tomaiuolo and Packer (1996) found that similar results in one ISE also appeared in the other ISEs. The repetition can be used as checker against the accuracy of the information. Lake (1997) is concerned about quantity of data than the value (content) of the information retrieved. Leighton and Srivastana (1997) argue that such rich results give more confidence in terms of information accuracy, not so much of effectiveness of information retrieval.

Wang, Xie and Goh (1999) contend that search engines are widely used as tools to find useful information from the Internet. However, most search engines were developed on the basis of technical requirements and without much consideration for the customer's perspective. Ideally, ISE should be very helpful not only to the designers, but also to the users.

Sullivan (2004) identified fourteen Internet Search Engines (ISE's) which he classified as top choices (*Google, Yahoo*, and *Ask Jeeves*), strongly considered (*Alltheweb, AOL, HotBot*, and *Teoma*), and other choices (*Altavista, Gigablast, LookSmart, Lycos, MSN, Netscape*, and *Open Directory*) (see Table 1).

TABLE 1
Internet Search Engines

	ISE	Descriptions
1	**Google** http://www.google.com	Voted four times Most Outstanding Search Engine by Search Engine Watch readers, Google has a well-deserved reputation as the top choice for those searching the web. The crawler-based service provides both comprehensive coverage of the web along with great relevancy. It's highly recommended as a first stop in your hunt for whatever you are looking for. Google provides the option to find more than web pages, however. Using on the top of the search box on the Google home page, you can easily seek out images from across the web, discussions that are taking place on Usenet newsgroups, locate news information or perform product searching.
2	**Yahoo** http://www.yahoo.com	Launched in 1994, Yahoo is the web's oldest "directory," a place where human editors organize web sites into categories. However, in October 2002, Yahoo made a giant shift to crawler-based listings for its main results. These came from Google until February 2004. Now, Yahoo uses its own search technology. Learn more in this recent review from our *SearchDay* newsletter, which also provides some updated submission details.
3	**Ask** http://www.ask.com	Ask Jeeves initially gained fame in 1998 and 1999 as being the "natural language" search engine that let you search by asking questions and responded with what seemed to be the right answer to everything.

4	**AllTheWeb.com** http://www.alltheweb.com	Powered by Yahoo, you may find AllTheWeb a lighter, more customizable and pleasant "pure search" experience than you get at Yahoo itself. The focus is on web search, but news, picture, video, MP3 and FTP search are also offered.
5	**AOL Search** http://aolsearch.aol.com (internal) http://search.aol.com/ (external)	AOL Search provides users with editorial listings that come Google's crawler-based index. Indeed, the same search on Google and AOL Search will come up with very similar matches. So, why would you use AOL Search? Primarily because you are an AOL user. The "internal" version of AOL Search provides links to content only available within the AOL online service. In this way, you can search AOL and the entire web at the same time. The "external" version lacks these links. Why wouldn't you use AOL Search? If you like Google, many of Google's features such as "cached" pages are not offered by AOL Search.
6	**HotBot** http://www.hotbot.com	HotBot provides easy access to the web's three major crawler-based search engines: Yahoo, Google and Teoma. Unlike a meta search engine, it cannot blend the results from all of these crawlers together. Nevertheless, it's a fast, easy way to get different web search "opinions" in one place.
7	**Teoma** http://www.teoma.com	Teoma is a crawler-based search engine owned by Ask Jeeves. It has a smaller index of the web than its rival crawler-competitors Google and Yahoo. However, being large doesn't make much of a difference when it comes to popular queries, and Teoma's won praise for its relevancy since it appeared in 2000. Some people also like its "Refine" feature, which offers suggested topics to explore after you do a search.
8	**AltaVista** http://www.altavista.com	AltaVista opened in December 1995 and for several years was the "Google" of its day, in terms of providing relevant results and having a loyal group of users that loved the service.
9	**Gigablast** http://www.gigablast.com	Compared to Google, Yahoo or even Teoma, Gigablast has a tiny index of the web. However, the service is constantly gaining new and interesting features. Give it a whirl, if you want to try something experimental yet dependable.
10	**LookSmart** http://www.looksmart.com	LookSmart is primarily a human-compiled directory of web sites. It gathers its listings in two ways. Commercial sites pay to be listed in its commercial categories, making the service very much like an electronic "Yellow Pages."
11	**Lycos** http://www.lycos.com	Lycos is one of the oldest search engines on the web, launched in 1994. It ceased crawling the web for its own listings in April 1999 and instead provides access to human-powered results from LookSmart for popular queries and crawler-based results from Yahoo for others.
12	**MSN Search** http://search.msn.com	Formerly one of Search Engine Watch's top choices, MSN Search is definitely one to watch. The service was previously powered by LookSmart results and gained top marks for having its own team of editors that monitored the most popular searches being performed to hand-pick sites believed to be the most relevant. The system worked well.

13	**Netscape Search** http://search.netscape.com	Owned by AOL Time Warner, Netscape Search uses Google for its main listings, just as does AOL's other major search site, AOL Search. So why use Netscape Search rather than Google? Unlike with AOL Search, there's no compelling reason to consider it.
14	**Open Directory** http://dmoz.org/	The Open Directory uses volunteer editors to catalog the web. Formerly known as NewHoo, it was launched in June 1998. It was acquired by AOL Time Warner-owned Netscape in November 1998, and the company pledged that anyone would be able to use information from the directory through an open license arrangement.

Source: Sullivan, 2004.

3. METHODOLOGY

The study aims to ascertain the number of hits of the materials on Islamic management that emerged from the Internet search engines (ISE's). Major search terms used include *Marketing, Marketing mix, Product, Service, Pricing, Place, Promotion, Internet, International, Global, Regional, National, Local, Glocal, East, West, Muslim, Islam, Sharīʿah, Fiqh, Halal, Christian,* and *Christianity.*

The Internet Search Engines used in the study comprise those verified in Sullivan's (2004) study: top choices (*Google, Yahoo*, and *Ask*), strongly considered (*Alltheweb, AOL, HotBot*, and *Teoma*), and other choices (*Altavista, Gigablast, LookSmart, Lycos, MSN, Netscape*, and *Open Directory*).

The Internet was accessed on 25 March 2010 (Thursday), for 37 minutes, from 10.07 p.m. to 10.44 p.m., Gombak time. A tabular format is created to capture the data of interest for each search engine. The ratios for number of hits within each ISE are computed by dividing the hits by the total hits for the search engine.

The use of ratios to compute hits produced by the Internet search engines provides a means to assess impacts (Bharat and Broder, 1998). Moreover, it is more appropriate to make inference from the use of ratios (Lawrence and Giles, 1998), although such approach can be less reliable statistically (Chu and Rosenthal, 1996). However, given time constraints, it is still economical to use ratio approach (Lawrence and Giles, 1999).

There are five stages involved in the process of computing the ratios, namely (a) identifying search engines, (b) recording number of hits, (c) computing the ratios, (d) consolidating all the ratios, and (e) performing the analysis. The process should begin with (a) and end with (e) sequentially.

4. FINDINGS

The results of the study are presented according to the five steps enumerated above. The order of the presentation begins with Stage 1 to list the Internet Search Engines that were used to evaluate the specified search terms, which is related to marketing information. Then, in Stage 2, the researchers recorded the number of hits for the marketing search terms generated by the Internet Search Engines. In Stage 3, the number of hits is computed to produce ratios. The ratios indicate the weight for each search term. Next, in Stage 4, the researchers consolidated the computed ratios to perform comparison for each search term. Finally, in Stage 5, the researchers performed the analysis to identify the highest ratios generated by each search engine.

4.1 STAGE 1: IDENTIFYING THE SEARCH ENGINES

The study adopted the list of ISE's identified by Sullivan (2004). Table 2 shows the search engines used in the study to evaluate the presence of specified search terms.

TABLE 2
Internet Search Engines Surfed

Top Choices	Strongly Considered
1. Google, www.google.com	4. AllTheWeb.com, www.alltheweb.com
2. Yahoo, www.yahoo.com	5. AOL Search, search.aol.com or aolsearch.
3. Ask, www.ask.com	aol.com

Note: All search engines displayed hits.
Access Date: 25 March 2010 (Gombak Standard Time).

4.2 STAGE 2: RECORDING THE NUMBER OF HITS

The researchers recorded the number of hits shown for all the search terms (*Marketing, Marketing mix, Product, Service, Pricing, Place, promotion, Internet, International, Global, Regional, National, Local, Glocal, East, West, Muslim, Islam, Sharīʿah, Fiqh, Halal, Christian, and Christianity*). Table 3A (a) and Table 3A (b) clearly indicate the number of hits produced by five ISE's: Google, Yahoo, Ask, AllTheWeb, and AOL. The ISEs show the highest hits for the term "local", "place", "Internet" and "International."

TABLE 3A (a)
Number of Hits for Specified Search Terms

Search Terms	1. Google	2. Yahoo	3. Ask
Marketing	417,000,000	2,790,000,000	67,700,000
Marketing mix	27,400,000	96,400,000	18,100,000
Product	1,020,000,000	5,170,000,000	107,000,000
Service	1,630,000,000	12,300,000,00	220,100,000
Pricing	116,000,000	734,000,000	27,160,000
Place	1,120,000,000	6,360,000,000	155,270,000
Promotion	139,000,000	851,000,000	20,800,000
Internet	1,320,000,000	7,800,000,000	185,000,000
International	933,000,000	6,750,000,000	150,050,000
Global	480,000,000	3,050,000,000	70,780,000
Regional	278,000,000	1,600,000,000	41,210,000
National	799,000,000	4,920,000,000	147,920,000
Local	1,120,000,000	6,850,000,000	151,090,000
Glocal	525,000	2,530,000	93,300
East	483,000,000	2,830,000,000	89,290,000
West	649,000,000	3,380,000,000	83,760,000
Muslim	44,400,000	233,000,000	8,286,000
Islam	92,400,000	314,000,000	16,400,000
Sharī‘ah	1,460,000	5,930,000	476,000
Fiqh	1,990,000	5,480,000	619,000
Halal	8,900,000	39,400,000	2,330,000
Christian	280,000,000	1,320,000,000	34,470,000
Christianity	27,900,000	162,000,000	13,760,000
TOTAL	10,988,975,000	55,263,740,000	1,611,664,300

TABLE 3A (b)
Number of Hits for Specified Search Terms

Search Terms	4. AllTheWeb	5. AOL Search	Total
Marketing	1,990,000,000	99,300,000	5,364,000,000
Marketing mix	78,500,000	27,400,000	247,800,000
Product	4,270,000,000	168,000,000	10,735,000,000
Service	9,780,000,000	315,000,000	11,945,100,000
Pricing	727,000,000	26,600,000	1,604,160,000
Place	5,760,000,000	163,000,000	13,558,270,000
Promotion	635,000,000	32,000,000	1,677,800,000
Internet	3,890,000,000	265,000,000	13,460,000,000
International	5,420,000,000	166,000,000	13,253,050,000
Global	2,420,000,000	104,000,000	6,124,780,000
Regional	1,190,000,000	52,900,000	3,162,110,000
National	4,400,000,000	104,000,000	10,370,920,000
Local	6,060,000,000	169,000,000	14,350,090,000
Glocal	852,000	148,000	4,148,300
East	2,660,000,000	71,900,000	6,134,190,000
West	2,980,000,000	101,000,000	7,092,760,000
Muslim	204,000,000	10,900,000	500,586,000
Islam	172,000,000	24,900,000	619,700,000
Sharīʿah	5,370,000	722,000	13,958,000
Fiqh	3,550,000	949,000	12,588,000
Halal	17,800,000	3,280,000	71,710,000
Christian	952,000,000	45,800,000	2,632,270,000
Christianity	154,000,000	5,070,000	362,730,000
TOTAL	53,770,072,000	1,663,269,000	123,297,720,300

Source: The Internet was accessed on 25 March 2010, for 37 minutes, from 10.07 p.m. to 10.44 p.m., Malaysia time.

Table 3B clearly indicates that *Marketing* and *Halal* ranked eleventh and seventh, and are captured by approximately 0.2% of all of the ISE's combined.

TABLE 3B
Summary of Hits for Specified Search Terms

Search Terms	Total	Percent	Rank
Local	14,350,090,000	11.640	1
Place	13,558,270,000	10.990	2
Internet	13,460,000,000	10.917	3
International	13,253,050,000	10.750	4
Service	11,945,100,000	9.688	5
Product	10,735,000,000	8.706	6
National	10,370,920,000	8.411	7
West	7,092,760,000	5.756	8
East	6,134,190,000	4.975	9
Global	6,124,780,000	4.967	10
Marketing	5,364,000,000	4.350	11
Regional	3,162,110,000	2.565	12
Christian	2,632,270,000	2.135	13
Promotion	1,677,800,000	1.361	14
Pricing	1,604,160,000	1.301	15
Islam	619,700,000	0.503	16
Muslim	500,586,000	0.406	17
Christianity	362,730,000	0.295	18
Marketing mix	247,800,000	0.201	19
Halal	71,710,000	0.058	20
Sharīʿah	13,958,000	0.011	21
Fiqh	12,588,000	0.010	22
Glocal	4,148,300	0.003	23
TOTAL	123,297,720,300	99.999	

Source: The Internet was accessed on 25 March 2010, for 37 minutes, from 10.07 p.m. to 10.44 p.m., Malaysia time.

4.3 STAGE 3: COMPUTING THE RATIOS

The ratio for each search engine is computed by dividing the hits of the search term into total hits of the search engine. The higher the ratio the higher the relative coverage of the search terms in the search engine. Table 4 series – 4A and 4B produced comparative hits and ratios across ISE's and search terms.

Table 4A shows the ratios for specified search terms in three Internet search engines, namely Google, Yahoo, and Ask. All the terms used produced some ratios, ranging from negligible 0.00005 to 0.14833.

TABLE 4A
Ratios of Hits for Specified Search Terms

Search Terms	1. Google	Ratio	2. Yahoo	Ratio	3. Ask	Ratio
Marketing	417,000,000	0.03795	2,790,000,000	0.05049	67,700,000	0.04201
Marketing mix	27,400,000	0.00249	96,400,000	0.00174	18,100,000	0.01123
Product	1,020,000,000	0.09282	5,170,000,000	0.09355	107,000,000	0.06639
Service	1,630,000,000	0.14833	12,300,000,000	0.00022	220,100,000	0.13657
Pricing	116,000,000	0.01056	734,000,000	0.01328	27,160,000	0.01685
Place	1,120,000,000	0.10192	6,360,000,000	0.11508	155,270,000	0.09634
Promotion	139,000,000	0.01265	851,000,000	0.01540	20,800,000	0.01291
Internet	1,320,000,000	0.12012	7,800,000,000	0.14114	185,000,000	0.11479
International	933,000,000	0.08490	6,750,000,000	0.12214	150,050,000	0.09310
Global	480,000,000	0.04368	3,050,000,000	0.05519	70,780,000	0.04392
Regional	278,000,000	0.02530	1,600,000,000	0.02895	41,210,000	0.02557
National	799,000,000	0.07271	4,920,000,000	0.08903	147,920,000	0.09178
Local	1,120,000,000	0.10192	6,850,000,000	0.12395	151,090,000	0.09375
Glocal	525,000	0.00005	2,530,000	0.00005	93,300	0.00006
East	483,000,000	0.04395	2,830,000,000	0.05121	89,290,000	0.05540
West	649,000,000	0.05906	3,380,000,000	0.06116	83,760,000	0.05197
Muslim	44,400,000	0.00404	233,000,000	0.00422	8,286,000	0.00514
Islam	92,400,000	0.00841	314,000,000	0.00568	16,400,000	0.01018
Sharīʿah	1,460,000	0.00013	5,930,000	0.00011	476,000	0.00030
Fiqh	1,990,000	0.00018	5,480,000	0.00010	619,000	0.00038
Halal	8,900,000	0.00081	39,400,000	0.00071	2,330,000	0.00145
Christian	280,000,000	0.02548	1,320,000,000	0.02389	34,470,000	0.02139
Christianity	27,900,000	0.00254	162,000,000	0.00293	13,760,000	0.00854
TOTAL	10,988,975,000	1	55,263,740,000	1	1,611,664,300	1

Source: The Internet was accessed on 25 March 2010, for 37 minutes, from 10.07 p.m. to 10.44 p.m., Malaysia time.

Table 4B shows the ratios for specified search terms in two Internet search engines, namely Alltheweb and AOL Search. The terms generated ratios, between 0.00002 and 0.18189.

TABLE 4B
Ratios of Hits for Specified Search Terms

Search Terms	4. AllTheWeb	Ratio	5. AOL Search	Ratio
Marketing	1,990,000,000	0.03701	99,300,000	0.05970
Marketing mix	78,500,000	0.00146	27,400,000	0.01647
Product	4,270,000,000	0.07941	168,000,000	0.10101
Service	9,780,000,000	0.18189	315,000,000	0.18939
Pricing	727,000,000	0.01352	26,600,000	0.01599
Place	5,760,000,000	0.10712	163,000,000	0.09800
Promotion	635,000,000	0.01181	32,000,000	0.01924
Internet	3,890,000,000	0.07235	265,000,000	0.15932
International	5,420,000,000	0.10080	166,000,000	0.09980
Global	2,420,000,000	0.04501	104,000,000	0.06253
Regional	1,190,000,000	0.02213	52,900,000	0.03180
National	4,400,000,000	0.08183	104,000,000	0.06253
Local	6,060,000,000	0.11270	169,000,000	0.10161
Glocal	852,000	0.00002	148,000	0.00009
East	2,660,000,000	0.04947	71,900,000	0.04323
West	2,980,000,000	0.05542	101,000,000	0.06072
Muslim	204,000,000	0.00379	10,900,000	0.00655
Islam	172,000,000	0.00320	24,900,000	0.01497
Sharīʿah	5,370,000	0.00010	722,000	0.00043
Fiqh	3,550,000	0.00007	949,000	0.00057
Halal	17,800,000	0.00033	3,280,000	0.00197
Christian	952,000,000	0.01771	45,800,000	0.02754
Christianity	154,000,000	0.00286	5,070,000	0.00305
TOTAL	53,770,072,000		1,663,269,000	

Source: The Internet was accessed on 25 March 2010, for 37 minutes, from 10.07 p.m. to 10.44 p.m., Malaysia time.

4.4 STAGE 4: CONSOLIDATING ALL THE RATIOS

Next, all the ratios are aggregated into Table 5 to facilitate comparison. The ratios that exceed 1.00 imply that they are above the mean ratios for the search engine.

TABLE 5
Ratios of Hits for Specified Search Terms

Search Terms	Google	Yahoo	Ask	Alltheweb	AOL
Marketing	0.03795	0.05049	0.04201	0.03701	0.05970
Marketing mix	0.00249	0.00174	0.01123	0.00146	0.01647
Product	0.09282	0.09355	0.06639	0.07941	0.10101
Service	0.14833	0.00022	0.13657	0.18189	0.18939
Pricing	0.01056	0.01328	0.01685	0.01352	0.01599
Place	0.10192	0.11508	0.09634	0.10712	0.09800
Promotion	0.01265	0.01540	0.01291	0.01181	0.01924
Internet	0.12012	0.14114	0.11479	0.07235	0.15932
International	0.08490	0.12214	0.09310	0.10080	0.09980
Global	0.04368	0.05519	0.04392	0.04501	0.06253
Regional	0.02530	0.02895	0.02557	0.02213	0.03180
National	0.07271	0.08903	0.09178	0.08183	0.06253
Local	0.10192	0.12395	0.09375	0.11270	0.10161
Glocal	0.00005	0.00005	0.00006	0.00002	0.00009
East	0.04395	0.05121	0.05540	0.04947	0.04323
West	0.05906	0.06116	0.05197	0.05542	0.06072
Muslim	0.00404	0.00422	0.00514	0.00379	0.00655
Islam	0.00841	0.00568	0.01018	0.00320	0.01497
Sharīʿah	0.00013	0.00011	0.00030	0.00010	0.00043
Fiqh	0.00018	0.00010	0.00038	0.00007	0.00057
Halal	0.00081	0.00071	0.00145	0.00033	0.00197
Christian	0.02548	0.02389	0.02139	0.01771	0.02754
Christianity	0.00254	0.00293	0.00854	0.00286	0.00305

Source: The Internet was accessed on 25 March 2010, for 37 minutes, from 10.07 p.m. to 10.44 p.m., Malaysia time.

4.5 STAGE 5: PERFORMING THE ANALYSIS

The last stage of the analysis identified the highest ratios generated by each search engine. Table 6 shows that all the ISE's could capture all the terms used; however, they produced comparatively very low ratios for some search terms like "glocal" (0.00002, 0.00005, 0.00006, 0.00009), "*Sharīʿah*" (0.00010, 0.00011, 0.00013, 0.00030 , 0.00043), "Fiqh" (0.00007, 0.00010, 0.00018, 0.00038) and "Halal" (0.00033, 0.00071, 0.00081). The results in Table 6 suggest that materials for ISEs could not play as gateway for marketing information. Learners and researchers may not consider the Internet as a reliable source and gateway for marketing information.

TABLE 6
Comparative Ratios of Hits

Search Terms	Selected Internet Search Engines				
	Google	Yahoo	Ask	Alltheweb	AOL
Marketing	0.03795	0.05049	0.04201	0.03701	0.05970
Marketing mix	0.00249	0.00174	0.01123	0.00146	0.01647
Product	0.09282	0.09355	0.06639	0.07941	0.10101
Service	0.14833	0.00022	0.13657	0.18189	0.18939
Pricing	0.01056	0.01328	0.01685	0.01352	0.01599
Place	0.10192	0.11508	0.09634	0.10712	0.09800
Promotion	0.01265	0.01540	0.01291	0.01181	0.01924
Internet	0.12012	0.14114	0.11479	0.07235	0.15932
International	0.08490	0.12214	0.09310	0.10080	0.09980
Global	0.04368	0.05519	0.04392	0.04501	0.06253
Regional	0.02530	0.02895	0.02557	0.02213	0.03180
National	0.07271	0.08903	0.09178	0.08183	0.06253
Local	0.10192	0.12395	0.09375	0.11270	0.10161
Glocal	0.00005	0.00005	0.00006	0.00002	0.00009
East	0.04395	0.05121	0.05540	0.04947	0.04323
West	0.05906	0.06116	0.05197	0.05542	0.06072
Muslim	0.00404	0.00422	0.00514	0.00379	0.00655
Islam	0.00841	0.00568	0.01018	0.00320	0.01497
Sharīʿah	0.00013	0.00011	0.00030	0.00010	0.00043
Fiqh	0.00018	0.00010	0.00038	0.00007	0.00057

Halal	0.00081	0.00071	0.00145	0.00033	0.00197
Christian	0.02548	0.02389	0.02139	0.01771	0.02754
Christianity	0.00254	0.00293	0.00854	0.00286	0.00305

Source: The Internet was accessed on 25 March 2010, for 37 minutes, from 10.07 p.m. to 10.44 p.m., Malaysia time.

5. DISCUSSION

The five Internet Search Engines (ISE's) produced ratios of materials availability on the term "marketing" compared to "marketing mix." AOL and Yahoo produced the highest among all five; 0.05970 and 0.05049, respectively (see Table 6A). A more productive analysis will be evident if ranking the ratios for each of the 4P's by every search engine.

Four ISE's, except for Yahoo, produced the most hits for "service" (rank 1). In contrast, "product" which is generally used as synonym for "service" was ranked third by three ISE's. Three ISE's captured "place" (rank 2) with more hits, surpassing even the "product." All the ISE's appear to give least priorities for hits on "promotion" and "pricing." One ISE ranks "promotion" third, two as fourth, whereas the remaining two, as fifth. Three ISE's rank "pricing," the fourth, whereas another two, the fifth. On average, the five ISE's their hits in the following order: service (1st rank), place (2nd rank), product (3rd rank), promotion (4th rank), and lastly, pricing (5th rank). Google produces the hits pattern that resembles the overall average hits for all the ISE's combined. This is followed by Ask and AlltheWeb. Next ISE's that trailed the earlier three are AOL, and Yahoo.

TABLE 7
Ranking of Comparative Ratios of Hits

Terms	r	Google	r	Yahoo	r	Ask	r	Alltheweb	r	AOL	Or
Marketing		0.03795		0.05049		0.04201		0.03701		0.05970	
Marketing mix		0.00249		0.00174		0.01123		0.00146		0.01647	
Service	1	0.14833	5	0.00022	1	0.13657	1	0.18189	1	0.18939	1.8
Place	2	0.10192	1	0.11508	2	0.09634	2	0.10712	3	0.09800	2.0
Product	3	0.09282	2	0.09355	3	0.06639	3	0.07941	2	0.10101	2.6
Promotion	4	0.01265	3	0.01540	5	0.01291	5	0.01181	4	0.01924	4.2
Pricing	5	0.01056	4	0.01328	4	0.01685	4	0.01352	5	0.01599	4.4
Internet		0.12012		0.14114		0.11479		0.07235		0.15932	

Note: r= ranking, Or=on average ranking

6. CONCLUSION

The study may be considered a preliminary attempt to assess the availability of marketing information. The relative ratios were computed solely for each search engine, and could not be compared in a robust manner without ascertaining the common denominators for all the search engines combined. In order to obtain more valid ratios, both the numerators and denominators of all the search engines in the set need to be corrected by some statistical procedures.

The data used for the study is cross-sectional. A meaningful pattern would emerge if the data used is longitudinal, at least over a few quarters within a year. Based on the ISE results on the specified search terms, we can say that the amount of materials on marketing and Islam is really scarce. The ISE's used in this study are Google, Ask, AlltheWeb, AOL, and Yahoo. Results show that Google produces the hits pattern that resembles the overall average hits for all the ISE's combined. This is followed by Ask, AlltheWeb, AOL, and Yahoo.

The study has important implications for theory and practice. Theoretically, all Internet Search Engines are assumed to be capable of producing important literature materials regardless of any academic discipline. In practice, the Search Engines are not perfect substitution of artificial intelligence program that could assist the researchers to search for marketing terms from Islamic perspectives. This suggests that any researcher who is attempting to find materials on marketing with Islamic input from the Internet Search Engines will encounter difficulties. It should be noted that the existence of the terms in the ISE's in no way implies the adequacy and quality of the contents of the materials.

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A Case Study on the Implementation of *Qardhul Hasan* Concept as a Financing Product in Islamic Banks in Malaysia

Ahmad Zainal Abidin[a], Norhayati Mohd Alwi[b] and Noraini Mohd Ariffin[c]

[a] *Graduate School of Management, International Islamic University Malaysia, Jalan Gombak, 53100 Kuala Lumpur, Malaysia. (ahm6789@gmail.com)*
[b] *Department of Accounting, International Islamic University Malaysia, Jalan Gombak, 53100 Kuala Lumpur, Malaysia. (mhayati@iium.edu.my)*
[c] *Department of Accounting, International Islamic University Malaysia, Jalan Gombak, 53100 Kuala Lumpur, Malaysia. (norainima@iium.edu.my)*

ABSTRACT

Qardhul Hasan is a zero-return financing that Al-*Quran* urges Muslims to make available to those who need it. In addition, *Qardhul Hasan* is an example of a unique instrument offered by Islamic Financial Institutions ("IFIs") due to non involvement of interest. The objective of this paper is to study the implementation of *Qardhul Hasan* concept, as a financing product in an Islamic bank in Malaysia. This study adopted a single case study research. This is the best approach and appropriate to answer the research questions and to achieve the research objectives. In addition, this is a pilot case study which can be extended for multiple case studies later. This study reveals that CALF Berhad offers *Qardhul Hasan* financing only to its employees. In addition, the facility is limited for certain purposes like marriage, birth of a child, study and other relevant purposes. The study also offers guidelines on the implementation process of the *Qardhul Hasan* financing in IFIs. Hence it is also believed that this study can be used by the regulatory body like Bank Negara Malaysia or Malaysian Accounting Standard Board, as a basis for setting up the accounting and reporting guidelines, specifically on *Qardhul Hasan*.

JEL Classification: G20, G21

Key words: *Qardhul Hasan*, Case study, Malaysia, Financing

1. INTRODUCTION

Qardhul Hasan[1] is a zero-return loan that Al-*Quran* urges Muslims to make available to the needy. In other words, the borrower only needs to pay back the principal amount without any obligation for an additional amount. However, the borrower is encouraged and may pay an additional or extra amount at his/her absolute discretion as a token of appreciation, so long as it is not stated in the contract between the two parties. In addition, *Qardhul Hasan* is an example of a unique instrument offered by Islamic Financial Institutions ("IFIs") as compared to their counterparts, the conventional financial institutions. In addition, it is believed that *Qardhul Hasan* is an effective means of economic development and poverty alleviation. Moreover, as emphasized in the *Quran (64:17)*, *Qardhul Hasan* is one of the main elements, (beside *Sadaqah* (charity), *Zakat* and *Waqf*), concerning the redistribution of income and wealth and, therefore, is needed for the welfare of the society.

The prohibition of *Riba* is very significant and is always brought into any discussion of Islamic Finance contracts. As such, generally, *Qardhul Hasan* is urged in Islam not just because of its uniqueness and flexibility but also because of the prohibition and, therefore, no involvement of *Riba*. This shows the spirit of cooperation (*ta'awun*) and brotherhood (*ukhuwah*), which will improve the welfare of society as a whole. Therefore, in order for the Islamic banks to achieve certain socio-economics objectives, it is important for Islamic banks to provide *Qardhul Hasan* products. Moreover, this will enhance the corporate social responsibility ("CSR") of the Islamic banks. This concern over CSR is of relevance in the Islamic banking industry, which regards social responsibility as being more enduring since the practices are based on divine revelation.

Despite the role that *Qardhul Hasan* could have played in society, the financial product has been so far neglected by the Islamic banks in Malaysia, as compared to other products or services. Very few Islamic banks offer this product – as confirmed by the study made by Mohd. Ariffin and Adnan, (2009). Based on the study, only 23.1% (3 out of 13) of Islamic Banks in Malaysia offer *Qardhul Hasan* as a mode of financing. In addition, the total amount of *Qardhul Hasan* only captured less than 0.2% of the total net financing amount reported during the year, as shown in Table 1.

The *Shari'ah* Advisory Council of Bank Negara Malaysia is of the opinion that it is improper to implement *Qardhul Hasan* in commercial transactions with profit orientation since the *Qardhul Hasan* concept is essentially benevolent in nature. Hence, based on the Resolution of the *Shari'ah* Advisory Council of Bank Negara Malaysia, the Council in its 51st meeting, held on 28 July 2005/21 *Jamadil Akhir* 1426, resolved that the word "*Hasan*" should be removed after the word *Qardh* implying that *Qardh* is an obligation for borrowers to pay back their financing to lenders.

TABLE 1
Review of Annual Reports

No.	Full–fledged Islamic Banks	*Qardhul Hasan* (Y/N)	***Amounts Reported*** 2007 RM '000 *Qardhul Hasan* Amount	2007 RM '000 Total Net Financing
1	Affin Islamic Bank Berhad	N	-	-
2	Al Rajhi Banking & Invesment Corporation (Malaysia) Berhad	Y	2,841	1,866,779
3	AmIslamic Bank Berhad	N	-	-
4	Asian Finance Bank	N	-	-
5	Bank Muamalat Malaysia Berhad	Y	5,652	5,585,247
6	Bank Rakyat Malaysia Berhad	N	-	-
7	BIMB Holdings Berhad	N	-	-
8	CIMB Islamic Bank Berhad	N	-	-
9	EONCAP Islamic Bank Berhad	N	-	-
10	Hong Leong Islamic Bank Berhad	N	-	-
11	Kuwait Finance House (Malaysia) Berhad	Y	33	3,162,310
12	Maybank Islamic Berhad	N	-	-
13	RHB Islamic Bank Berhad	N	-	-

(Source: Mohd. Ariffin & Adnan, 2009)

1.1 DEFINITION OF QARDH

In defining the term "*Qardh*" and "*Qardhul Hasan*", there are several opinions from the scholars and from the various sources including books, and internet sources, etc. These differences in opinions will be provided and discussed in this section, and, at the end, only one source of definition will be used for the entire paper. The term *Qardh* and *Qardhul Hasan* will be used interchangeably in this paper to provide a better understanding and for achieving the objectives of the research concerning the implication of *Qardhul Hasan* rather than arguing about the different terms used by different organizations or different scholars.

The word *Qardh* in Arabic literally means "cutting off". When the moneylender lends to someone, he actually cuts off some of his money and gives it to the borrower. Meanwhile, the word *Hasan* in Arabic means splendid or beautiful. Thus, combining these two words together means a "beautiful loan". In other words, in general, *Qardh* means to give money to someone that may benefit from it and pay back the same (the principal amount only). In general, most of the authors define *Qardhul Hasan* as charitable loans with no interest, or a zero-interest bearing loan, with low expectations of return of capital (Iqbal and Abas, 2007; Askari et al., 2008; AAOIFI, 2008). On top of that, the meaning of *Qardhul Hasan* can be added in which it is purely a benevolent act, and it is extended to others without interest or any other compensation from the borrower and can be expected a reward only from God (Askari et al.,2008; Saleem and Abozaid, n.d.).

Qardh has also been explained as the transfer of an asset or money from the original owner to others on condition that the asset or money will be returned to the owner in the same condition/form/value as when it first received by the other party from the owner (Abdul Rahman, 2007). Furthermore, few authors added that borrowing or *Qardh* in Islam is based on the concept of mutual help (*tabarru'*) and contemplation for others' well being especially the people in need (Rosly, 2005; Abdul Rahman, 2007). Meanwhile, in term of the execution of the contract, *Qardh* contract is concluded through offer and acceptance by the use of the word *Qardh* and *Salaf* or any other word or act that conveys the same meaning as *Qardh* (AAOIFI, 2008).

Although many definitions are given, in relation to this paper, the term *Qardh* is defined and used in accordance with the definition in the Annual Report 2008 of Calf Berhad (for reason of confidentiality, the name of the original company is disguised as "CALF"). The company defines Qardhul Hasan as: "The *Qardh* is another gratuitous contract which is a benevolent loan. This could be referred to a financing given by a person (lender) to the borrower without any expectation of extra returns or also be referred to a non-interest bearing financing. The borrower is only obliged to pay the *Qardh* at its original amount to the lender within the agreed or stipulated period of time." (Annual Report CALF, 2009).

2. LITERATURE REVIEW

Literature on *Qardhul Hasan* is very limited as compared to other products (for instance; *Murabaha, Mudharabah, Bai' as-Salam, Ijarah* and so forth) offered by IFIs. So far few research which have been conducted on Qardhul Hasan focus on the perceptions of bankers on *Qardhul Hasan* (Mohd. Ariffin and Adnan, 2009), examining the association between non performing loan and Qardhul Hasan (Adnan and Firdaus, 2006) and understanding the practice of Qardhul Hasan in Iran (Sadr, 2008)

A recent study related to *Qardhul Hasan* by Mohd. Ariffin and Adnan, (2009) seeks to gauge the perceptions among bankers in Islamic Banks in

Malaysia on *Qardhul Hasan* practices. In addition, this study also aims to identify the problems faced by Islamic Banks with regard to *Qardhul Hasan* and to determine any differences in perceptions on *Qardhul Hasan* in Malaysian Islamic Banks. The study reviews thirteen full-fledged Islamic banks' annual reports for the years 2006 and 2007. It emerges clearly that only 23.1% or three out of thirteen (3 out of 13) Islamic banks offer *Qardhul Hasan* as a financing product. The empirical findings show that the majority of the Islamic bankers in the study are familiar with *Qardhul Hasan* and agreed that Islamic banks should offer *Qardhul Hasan* to enhance corporate social responsibility. In addition, *Qardhul Hasan* is offered to help the needy people, particularly needy students as the most important group and the staff of the Islamic banks as the second most important group. However, interestingly, Islamic bankers perceived the issue of low profitability as not the biggest drawback in offering *Qardhul Hasan*. This shows a lack of understanding concerning the definition of *Qardhul Hasan* itself. In essence, Qardhul Hasan is not supposed to earn profit but rather to help the needy. For profit making organisation, this noble objective seems contradict to their current objective i.e. to maximise the financial return to their shareholders. In addition, the study revealed no significant differences among the top management, middle management or lower level management on two perceptions; *Qardhul Hasan* enhances corporate social responsibility and *Qardhul Hasan* is less popular due to no return to Islamic banks. In addition, the majority of the respondents agreed that *Qardhul Hasan* should be applied to financing.

Another study was made by Adnan and Firdaus (2006), in Bank Negara Indonesia ("BNI") *Syariah*, Yogyakarta branch, specifically, on the evaluation of non-performing loans ("NPL").One of the findings of the study is that, the BNI *Syariah,* in general, and the Yogyakarta branch, in particular, has applied the *Qardhul Hasan* as a mode of financing.

It is reported that the bank allocated 175,077,500 rupiah (Indonesia), 247,317,000 rupiah (Indonesia) and 249,817,000 rupiah (Indonesia) from 2003 to 2005, respectively. This amount is approximately 15-16% of the total *Qardhul Hasan* funds allocated by the BNI *Syariah* nationally. Unfortunately, the yearly increase in the amount of funds loaned on the basis of *Qardhul Hasan* was also followed by the increase of its NPL. The research has reported that the NPL was also increasing from 21% to 25% and 26% in 2003 to 2004 and 2005, respectively. Among the important findings of that research is that the bank has not managed the product well, as no specific person or group of employees are assigned to plan and control the operation of the product. It is also interesting to note that the main factor related to the high rate of NPL is the character of the borrowers or customers. Hence, it is proven statistically that the two variables (character of the borrower and NPL) are significantly related.

An Iranian study by Sadr (2008) noted that the characteristics of *Qardhul Hasan* financing comply to *Shari'ah* principles that is anyone who borrows from another has to return the full amount of the financing. However, the *Qardhul Hasan* is very versatile in nature and can be used for financing for all sorts of consumption, production, services and debt activities, unlike the other products that may only suit certain types of contract. Because of its versatility, the *Qardhul Hasan* contract is complementary to other financial contracts. The study also found that in Iran, the applicants (customers) always prefer *Qardhul Hasan* financing to the other types of financing to finance their activities. Given such a state of demand on one side, and preferences of suppliers to offer *Qardhul Hasan* financing on the other side, there will be room for intermediaries to be formed in order to lower the contract cost between the two sides. In fact, *Qardhul Hasan* funds and organizations were established in Iran to cater for this purpose. The management of the *Qardhul Hasan* funds varies very much according to their purpose and location. In addition, each fund also has a board of trustees, which are mostly selected from local well known and trustworthy persons, among whom the board of directors will be chosen. Some of the employees are paid and some are volunteers. It is also interesting to note from the study on the sources of the revenues of *Qardhul Hasan* funds that almost 71% of the revenue is restored by charging for the services of the *Qardh*. This rate of charge differs among various fund units since their cost of operation is different. This is because, as mentioned, some have voluntary employees and others have paid workers. It is worth noting that despite the fact that much can be learnt from the Iranian experience, there are no Islamic Banks that offer *Qardhul Hasan* financing to the public in Iran. The difference between the Islamic Banks and the non-profit organizations that offer *Qardhul Hasan* financing is that it is the main activity of the organization. The latter specifically concentrates on *Qardhul Hasan* financing while the former is treating *Qardhul Hasan* as one of the products (and not the main activity). Therefore, the general requirements and the purposes of the *Qardh* might be different from the mentioned study.

Literature on *Qardhul Hasan* is limited. Even lesser number of literatures has been published on the implementation process of the Qardhul Hassan in a commercial setting such as in a banking industry. Therefore, the study attempts to add value to the literatures on *Qardhul Hasan*. It seeks to provide an understanding on the whole process of the implementation of *Qardhul Hasan* concept as a financing product in an Islamic bank in Malaysia. Based on the objectives of the study, the main research question has been formulated as: "How does an Islamic Bank implement *Qardhul*

Hasan as a mode of financing to the various stakeholder(s)?" There are a number of specific issues that the study attempts to highlight. Firstly, it specifically examines the the relationship between *Qardhul Hasan* financing and Non Performing Financing (NPF) in the company. Secondly, the study also tries to identify some motivational factors that could promote the offering of *Qardhul Hasan* in CALF. The study also seeks to identify the relevant *Shari'ah* issues that have been raised by banks during the implementation process of *Qardhul Hasan.* Fourthly, the study also discusses the reporting mechanism and accounting issues pertinent to *Qardhul Hasan.* Lastly, it also offers explanation on the procedures of disbursement and repayment of *Qardhul Hasan* in CALF.

3. CASE STUDY METHOD

The study has a main objective, which is to study the implementation of the *Qardhul Hasan* concept in relation to Islamic Finance, as a financing product in an Islamic bank in Malaysia.In order to achieve the objectives of this paper, a single case study research on CALF has been conducted. CALF has been chosen as the subject matter of the study, as it is among the three banks (Mohd. Ariffin and Adnan, 2009) that have implemented *Qardhul Hasan* as a mode of financing.

Case study method has been adopted to collect the data as it is believed to be the appropriate approach to answer the research questions (Yin, 1994; Scapens, 2004). This research is considered as an exploratory case study as it attempts to explore the details practices of *Qardhul Hasan*. As mentioned earlier, this research concentrates on one subject matter, which is an organization. As such, given the fact that this research is focusing on the specific case and attempting to explain the reason for observed practices, this approach, exploratory case study, has been selected. In this study, three methods of collecting data have been used. These methods include using documents, interviews and observations of meetings. Data was collected from August 2009 until January 2010. In the early stage, internal documents were reviewed to written procedures. In the latter stage, personnel from the Human Resource Department, Product Development Department, Risk Management Department, *Shari'ah* Division, Internal Audit Division and Financial Control Division have been interviewed. The interviews lasted between half an hour to one hour each. Table 2 shows the link between the research questions and methods that have been used for collecting data:

TABLE 2

The Link Between The Research Question and Methods of Collecting Data

Research Question	Data Sources and Methods	Justification	Ethical Issues
How Islamic Bank implement *Qardhul Hasan* as a mode of financing to the various stakeholder(s)?	Standard Operating Procedures ("SOP") on benevolent loan. (Artifacts)	The SOP explains in detail about the process from beginning till the end.	The SOP is strictly confidential and cannot be photocopied and printed. It can be viewed via intranet in the bank.
	Interviews with HR staff. (Interviews)	The interview is made in order to confirm that the current process is agreed with the process explained in SOP.	-
	Observation of Interview between Head of HR and the applicant (staff). (Observation of Action and Meeting)	This interview is held to ensure that the staff is really in need of the financing. This interview only held for the application of inopportune.	The interview is confidential in nature. Special request need to be made in order to get into the interview session.

Research Question	Data Sources and Methods	Justification	Ethical Issues
What motivates the Islamic Banks to promote / offer the *Qardhul Hasan*?	Interview with Head of Rewards & Benefits. (Interviews)	Head of Rewards & Benefit has been more than 5 years with the bank, thus, it is relevant to interview on the history of the product.	-
What are the *Shari'ah* issues arised prior to implement the *Qardhul Hasan* concept in any product?	Interview with the Chief Officer of *Shari'ah* Division	The information can best be obtained from the highest person in *Shari'ah* Division. The Chief Officer joined the bank since 2004.	-
Who are the recipients of *Qardhul Hasan*? Why restricted to that recipients only?	Interview with Head of Rewards & Benefits. (Interviews)	Head of Rewards & Benefit has been more than 5 years with the bank, thus, it is relevant to interview him about the product.	-
Why the recipients were given the loan (*Qardh*)?			
What are the accounting entries for *Qardhul Hasan*?	Interview with Head of Financial Reporting. (Interviews)	Head of Financial Reporting is the one who determine the accounting entries. He joined since 2004.	-
How the *Qardhul Hasan* being reported?	Annual Report of CALF. (Artifacts)	The most relevant evidence since it shows how the product being reported.	-
	Interview with Head of Financial Reporting. (Interviews)	Further justification can be obtained from the Head of Financial Reporting for any concern related to annual report.	-

4. FINDINGS

4.1 QARDHUL HASAN IN CALF

CALF is a foreign Islamic bank that was granted a licence under the Islamic Banking Act (Malaysia) 1983. The parent company (BULL) set up an office in Malaysia soon after the decision of Bank Negara Malaysia ("BNM") to open up the country's Islamic banking industry to qualify foreign players as recommended under BNM's Financial Sector Master Plan. As the regional headquarters of BULL in the Asia-Pacific region, CALF's main role is to provide innovative *Shari'ah*-based financial solutions to the customers. In addition, CALF acts as the intermediary and facilitator to promote two-way investments and trade between Malaysia, Asia-Pacific and the Middle East. CALF offers a complete range of *Shari'ah*-based financial products and services under Corporate and Investment, Commercial, and Retail and Consumer Banking, as well as Treasury and International Business Division. In addition, CALF also offers services related to real estate, and established CALF Asset Management Sdn Bhd to provide asset and fund management activities, encompassing private equity, alternative investments and unit trusts.

Having created several new landmarks in Islamic banking and finance in Malaysia, CALF has set up subsidiaries in Singapore and Australia as part of its plan to become a financial force in the Asia-Pacific region. CALF (Singapore) is involved in fund management activities and will undertake the management of regional funds promoted by BULL. Apart from being the regional distribution network for products and services sponsored by BULL in the Asia-Pacific region, it also acts as the centre of excellence for BULL's Islamic private banking and wealth management services.

CALF also has subsidiaries in Australia. The Australian office deploys the full scale Islamic financial services capability, which includes origination and execution of investment opportunities, treasury and investment products, as well as other marketing initiatives for the group. As such, the Australian office also plays an important role in fostering greater economic linkages between the Gulf Cooperative Council ("GCC") countries, the Asian region and Australia through foreign direct investments. Currently, the total number of clerical, executive and management staff in CALF is approximately six hundred people.

Qardhul Hasan financing was introduced since CALF started its operation in Malaysia in 2005. Since then, it has not faced any major problem in managing this benevolent loan. In fact, given the simplicity of *Qardh,* it is easier to manage, especially in terms of documentation and calculation. In terms of documentation, this *Qardh* only involves a contract between CALF and its staff, and no other extra documentation is needed, and with regard to calculation, *Qardhul Hasan* is known as being zero interest in nature. Therefore, in the event that the staff resigns or their employment is terminated, it is not difficult or complex to calculate the repayment amount or the outstanding amount of *Qardh*. As compared to any other financing or conventional loan, *Qardhul Hasan* is the simplest and easiest financing as there is no involvement of interest or profit amount.

The motivation for the bank to implement or introduce *Qardhul Hasan* is generally to help the needy. However, CALF only caters for the needs of its staff since this *Qardh* is only offered to the staff. This practice agrees with a study made by Rosly (2005), that the *Qardhul Hasan* facility is only accessible to the banks' employees. It is regarded as one of the benefits given to the staff. In addition, CALF does not extend the facility to the public, which may be due to the possibility of an increase in the amount of NPL as per the study made by Adnan and Firdaus (2006).

As mentioned by the Head of Rewards and Benefits in CALF, "Since the benevolent loan is limited only for certain circumstances (marriage, birth of child, study and inopportune), this *Qardh* is believed can help the staff who encounter the circumstances mentioned. It is also as a trend, since the parent company, BULL, is also offering this facility to the staff there". The Head further added that, at the moment, there is no planning by management to extend the benevolent loan to the other stakeholders. However, CALF believes that although it is not helping the whole society, at least, part of the society is benefitting.

4.2 FINANCIAL PERFORMANCES AND *QARDHUL HASAN* FINANCING

Since its business was incorporated in Malaysia in 2005, CALF has shown a significant increase in growth in its overall business, year by year. As such, CALF recorded a net profit after *Zakat* and tax of, approximately, RM2 million, RM9 million, RM37 million and RM56 million, for the financial years ended 2005, 2006, 2007 and 2008, respectively. This was attributable, basically, to the strong growth in its operating revenue. Compared to operating revenue, the costs rose at a slower rate. Similar to CALF's profit and total assets, the total net financing increased as well from approximately RM0.8 million in 2006 to RM6,157 million in 2008.

Comparing the percentage of non-performing financing with the percentage of *Qardhul Hasan* financing to total net financing, it shows that it has a direct relationship. Based on the figures, the percentage of *Qardhul Hasan* financing increased from 0.01% to 0.02%, in 2007 and 2008, respectively. At the same time, the non-performing financing increased from 0.0001% to 0.005%, in 2007 and 2008, respectively. The increase in non-performing financing is more than the increase in *Qardhul Hasan* financing. However, the increase in non-performing financing may be due to the non-performance of other types of financing (other than *Qardhul Hasan* financing). Hence, to conclude that the increase in *Qardhul Hasan* financing causes the increase in non-performing financing is not relevant and cannot be proven due to limited information.

4.3 THE *QARDHUL HASAN* PRACTICES

4.3.1 THE APPICATION AND THE DISBURSEMENT

In general, there are two parties involved in the application process of *Qardhul Hasan* – the employee of CALF ("Staff") and the Human Resources Department ("HR"). Basically, there are four qualifying reasons for applying for *Qardhul Hasan* financing – marriage, birth of child, study and inopportune. The application process of *Qardhul Hasan* begins with the staff submitting the application form and relevant documents to HR. Once the application form and the supporting documents are received, HR will record the application in the "Application Register Record" and immediately verify the completeness of the documents submitted. If the documents are not complete, HR will notify the staff and specify the outstanding documents. Then, the staff needs to resubmit the application together with the full set of supporting documents.

Once the documents are complete, HR will further process the application by checking the *Qardh* eligibility and calculate the repayment amount for the *Qardh*. In general, the eligibility to apply for the benevolent loan is that the staff must be permanent staff of CALF. After checking the *Qardh* eligibility and calculating the repayment, HR will check whether the repayment amount exceeds the debt service ratio or not. If the repayment amount exceeds the ratio, HR will notify and advise the staff to amend the *Qardh* amount. Then, the staff needs to resubmit the application to HR. If the repayment amount does not exceed the debt service ratio, verification will be obtained from the Head of Rewards and Benefits Administration and the application will be forwarded to the Head of HR for approval. If the application is not approved, HR will notify the staff and the process ends there without any disbursement of *Qardh*.

Upon approval, HR will issue an offer letter to the applicant (staff). The offer letter contains all the details including the terms and conditions of the *Qardh*. If the staff accepts and agrees with the offered *Qardh*, the staff needs to revert to HR for confirmation of acceptance. Later, HR will prepare a memo with approval from the Head of HR for disbursement of the *Qardh*. The signed memorandum will then be forwarded to the Finance Department ("Finance") for disbursement of the *Qardh*.

In general, the disbursement process of *Qardhul Hasan* in CALF involves three departments – HR, Finance and Branch Operations ("Branch"). After receiving the memo from HR, Finance will issue an instruction to the Branch to credit the said *Qardh* amount, to the staff's account. Upon receipt of the instruction from Finance, the Branch will credit the *Qardh* to the respective staff's account. As a matter of control, Finance will later check and ensure that the amount credited by the Branch agrees with the amount approved by the Head of HR earlier and instructed by Finance.

Later, Finance will advise HR on the crediting date. This crediting date will determine the effective date to deduct the respective staff's salary. If the crediting date is before the 15th of the month, then the deduction will start from that month's payroll cycle. However, if the crediting date is on or after the 15th of the month, the deduction will commence from the following month's payroll cycle.

4.3.2 THE SETTLEMENT PROCESS

As mentioned, the settlement of *Qardhul Hasan* is through the salary deduction of the respective staff commencing from the nearest or next payroll cycle. While the duration of paying back the *Qardh* is dependent on the duration chose by the staff. However, the management of the CALF gives the maximum period to pay the *Qardh*, according to the type of *Qardh* applied for. In general, it is only the application for birth of child which must be paid in two years time or twenty four months. While for other applications, the maximum period of repayment is within three years time. Although there is a maximum period to settle the *Qardh*, the staff can still appeal for an extension, providing that he/she has a valid reason. Every appeal for extension will be reviewed and subject to the approval of the HR Committee.

In the event that the staff resigns or is terminated from the employment in CALF, HR will calculate the outstanding balance of the *Qardh*. Then, HR will notify the staff of the outstanding amount of *Qardh*. In order to make the full settlement of the outstanding *Qardh*, the first option is to pay via a bank draft. If this option can settle the entire amount, HR will prepare a memo and forward it together with the bank draft to Finance. Then, Finance will issue an instruction to the Branch to credit the bank draft to the HR cost centre. Later, the Branch will notify Finance and HR once the bank draft is credited.

However, if the bank draft cannot settle the outstanding *Qardh* amount fully or the staff does not want to settle it via bank draft payment, the second option is to recover the amount due from the salary withheld by HR. If the salary withheld by HR can settle the *Qardh* fully, HR will later release the balance of the salary to the employee and notify the staff concerning its calculation. Furthermore, if the salary withheld by HR cannot settle the *Qardh* fully, the other option is to obtain another source of financing to settle the amount due.

4.4 THE ADMINISTRATIVE/SERVICE CHARGES ISSUE

The technical definition of *Qardhul Hasan* refers to an interest-free loan; this means that the borrower is required to repay the principal amount borrowed without any value. Islam has strongly recommended this practice and recognizes it as an *ibadah* (good deeds), as it serves to release the needy people from difficulty without oppressing the borrower. However, it is observed that the implementation of *Qardhul Hasan* seems to contravene its benevolent objective, and that it has been transformed into a dual-purpose financial instrument, which is meant as a welfare service as well as for profit-taking behind the label of administrative/service charges, so as to make it lawful in the eyes of the public. This kind of practice actually contradicts the principles of *Shari'ah* concerning *Qardhul Hasan* (AAOIFI, 2008).

Pursuant to that, AAOIFI (2008) has further stated in its Accounting, Auditing and Governance standard that all direct expenses in relation to services rendered in *Qardh* are permitted to be charged as administrative or service charges. In other words, any charge in excess of the actual cost is prohibited. Thus, it is unanimously agreed that the formula used to calculate the cost must be appropriate, exact and accurate. Moreover, indirect expenses cannot be included in charging the administrative or service charges to the customer. The example of indirect expenses has also been stated in the Standard No. 19 on *Qardh*. Among these are the salaries of the employees, the rental of space, assets and means of transport as well as other management and general expenses of the institution. However, in Iran, the source of income for *Qardhul Hasan* is mostly derived from charges on *Qardh* services. This rate differs among fund units since their cost of operation is different (Askari et al., 2008).

Although there is a difference between the current practice in Iran and the standard ruled by AAOIFI, the nature of the organization justifies the different practice. Standard No. 19 on *Qardh* is applicable to Islamic Financial Institutions, which includes Islamic Banks (AAOIFI, 2008) and the nature of the business is not exclusively on managing the *Qardhul Hasan* fund like the study made by Sadr (2008) and Askari et al. (2008). Hence, it is permissible that the organization in Iran charges on the *Qardh* services to its customers.

In relation to *Qardhul Hasan* practice by CALF, the bank does not charge any extra cost to the staff. The staff only need to payback the amount rendered to him/her. According to the Chief Officer of the *Shari'ah* Division, the administrative cost is among the concerns of the division before approving any contract related to *Qardhul Hasan*. The division will ensure that there is no extra charge or cost charged to the other party.CALF views the giving of *Qardhul Hasan* financing as a means of achieving social objectives.

4.5 REPORTING STRUCTURE ISSUE

In Malaysia, the preparation of the annual report for Islamic Banks is guided by the Guidelines on the Specimen Reports and Financial Statements for Licensed Islamic Banks ("GP8-i"). GP8-i was issued in August 2003. All Islamic banks in Malaysia must follow the guidelines for their annual report commencing year 2004. GP8-i sets out the minimum requirements for the presentation and disclosure of reports and financial statements of Islamic banks. The objective of the GP8-i is to provide the basis for presentation and disclosure of reports and financial statements of the Islamic banks. GP8-i is also aimed at ensuring consistency and comparability of the reports and financial statements amongst the Islamic banks in complying with the provisions of the Islamic Banking Act 1983, Companies Act 1965, *Shari'ah* requirements and other Bank Negara Malaysia guidelines. As a comprehensive guideline, GP8-i also incorporated the new requirements of MASB standards, specifically the MASB *i*-1: Presentation of Financial Statements of Islamic Financial Institutions.

Meanwhile, the accounting standard set out by AAOIFI is used as a voluntary guideline by any Islamic bank in Malaysia. Since it is voluntary, no enforcement is made on Islamic banks to strictly follow the AAOIFI standard and no penalty will be imposed for non-compliance. Under the AAOIFI standard (AAOIFI, 2008), the *Qardhul Hasan* fund are presented under a separate statement called as "Statement of Sources and Uses of Funds in *Qardh* Fund". The statement is separated from the other statements such as the Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Owner's Equity, Statement of Sources and Uses of Funds in *Zakat* and Charity Fund.

The basic elements in the Statement of Sources and Uses of Funds in *Qardh* Fund are the sources of fund in the *Qardh* fund, the uses of fund in the *Qardh* fund and fund balance in the *Qardh* fund. With regard to disclosure, the Islamic banks need to disclose; the period covered by the statement, the balances of *Qardh* outstanding and funds available at the beginning of the period (disclosed by type), the amounts and sources of fund contributed to the fund (disclosed by source), the amounts and uses of funds (disclosed by type) and the balances of *Qardh* outstanding and funds available in the fund (at the end of period).

In general, the structure of the annual report set out by AAOIFI requires the statement of financial position, the statement of income, the statement of changes in owners' equity, the statement of retained earnings, the statement of cash flows, the statement of changes in restricted investment, the statement of sources and uses of funds on the *Zakat* and the charity fund and statement of sources and uses of funds in the *Qardh* fund. Meanwhile, for the purpose of comparison, the basic elements of financial statement set out by Bank Negara Malaysia in the GP8-i requires the statement of financial position which is the balance sheet, the statement of income, the statement of changes in owners' equity and the statement of cash flows.

In relation to CALF practice, it follows GP8-i as a minimal guideline. Hence, there is no separate statement for the *Qardh* fund presented in its annual report like the annual report suggested by AAOIFI. In its annual report, CALF reported the *Qardhul Hasan* financing together with the other financing in the Current Asset section in the Balance Sheet. In the disclosure part, the amount is disclosed under the staff financing type and *Qardh* contract financing. However, no movement of *Qardh* financing is disclosed in the annual report. It only shows the *Qardh* amount for the current year and the previous year.

5. CONCLUSION AND RECOMMENDATIONS

According to Rosly (2005), the *Qardhul Hasan* facility is only accessible to the bank's staff and workers. This agrees with the practice of CALF, which only offers the *Qardhul Hasan* facility to its staff. In addition, the facility is only limited to certain purposes. There are only four reasons for the *Qardh* facility – marriage, birth of child, study and inopportune. Situations regarded as inopportune are the death of immediate family members and catastrophes due to natural disasters. Since the repayment mode is via salary deduction, there is very little possibility that the *Qardh* becomes NPL.

At the moment, CALF only offers the facility to its staff, and there is no plan to extend it to the community as a whole. Perhaps by catering for this small community (the staff), it can also be considered as a means of achieving the social objectives. This practice seems to be considered as not achieving the real objective of *Qardhul Hasan,* which is to fulfil the needs of society (*Maqasid al-Shari'ah*). However, the other two banks in

Malaysia that implement *Qardhul Hasan* as a financing mode also only offer the facility to their staff. In addition, the banks only offer it to the staff as an advance facility for festivals. There is no other situation that allows the staff to apply for *Qardhul Hasan* financing. Hence, this shows that CALF is the best example in implementing *Qardhul Hasan* as a mode of financing among the Islamic banks in Malaysia.

However, it is still recommended that CALF could extend the facility, if it is not to the community as a whole; perhaps CALF could offer it to its existing customers, specifically, loyal customers. Oliver (1997), as mentioned in Singh (2006), said that customer loyalty refers to "a deeply held customer to re-buy or re-patronize a preferred product or service consistently in the future despite situational influences and marketing efforts having the potential to cause switching behavior". It is believed that offering the facility to its loyal customers could mitigate the risk of customers not paying back the *Qardh*. In addition, it is believed that CALF would be able to meet the customer needs and achieve customer satisfaction. As mentioned by Hoyer and MacInnis (2001), as cited in Singh (2006), the satisfied customer will have a positive impact on the organization's profitability. They further added that satisfied customers form the foundation of any successful business.

This study has shown that a proper and valid contract of *Qardhul Hasan* is applied in CALF. There is no *Shari'ah* issue or concern with the whole process of *Qardhul Hasan* financing, from the application, disbursement until the repayment process. Concerning the benefits of this study, any Islamic bank which intends to implement or introduce *Qardhul Hasan* as a mode of financing, whether to its customer or employees, may use the process flow described as a guideline or basis. In addition, in implementing any product related to the *Qardhul Hasan* contract, the issue that concerns the *Shari'ah* Department is to ensure that the repayment amount is equivalent to the amount reimbursed to the recipient. Thus, no administration charges or any other extra charges should be imposed.

Furthermore, *Qardhul Hasan* is the most flexible financing contract compared to the other contracts. In addition, the accounting entries are the simplest. In general, it only involves two entries – during the reimbursement of *Qardh* to the staff and during the receipt of the repayment amount from the staff on a monthly basis. It is believed that the accounting entries used by CALF can also be used by the regulatory bodies, namely Bank Negara Malaysia, or the Malaysian Accounting Standards Board or for setting up an accounting guideline or principal on *Qardh*.

Presently, CALF fully complies with the local guidelines on reporting, in accordance with the Guidelines on the Specimen Reports and Financial Statements for Licensed Islamic Banks ("GP8-i"). However, in order for

CALF to provide better information to the stakeholders, it would be good, and recommended, that CALF should upgrade the report and follow the structure of the annual report as set out by AAOIFI, specifically on the "Statement of Sources and Uses of Funds in the *Qardh* Fund".

6. LIMITATIONS AND FURTHER RESEARCH DIRECTIONS

This is an exploratory case study on the implementation of the *Qardhul Hasan* concept as a mode of financing in an Islamic bank. It limits itself to *Qardhul Hasan* as a mode of financing, and does not address the other purposes. Moreover, this study adopts the single case study method. The findings cannot be statistically generalized to the whole population. This study is conducted for a certain period of time in order to finish it on schedule. Hence, only a limited number of people were interviewed for the study. In addition, only limited numbers of observations and reviews have been made. Having in-depth interviews with more respondents will perhaps provide a more comprehensive picture concerning the practice of *Qardhul Hasan* in the organizations.

As the study focuses on the implication of *Qardhul Hasan* as a mode of financing, more research need be conducted in the context of the implementation of *Qardhul Hasan*. This includes the implementation of the *Qardhul Hasan* concept as a deposit product, and the implementation of the *Qardhul Hasan* concept for Islamic credit cards or debit cards. In addition, the same type of case study or multiple case studies can be conducted in other banks that implement *Qardhul Hasan* as a financing product. More interestingly, the study can also take place in organizations (other than the Islamic banks) that provide *Qardhul Hasan* financing as a product or facility to its staff or society. Moreover, a quantitative research can be conducted to study the perceptions of the recipients of *Qardhul Hasan* towards *Qardhul Hasan* facility. As this study indicates that the recipients of the *Qardhul Hasan* financing are only the staff of the banks, it would be easier to collect data using questionnaire to further strengthen the case for *Qardhul Hasan*.

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Stock Price Forecasting in an Interest Free Economy

Ahmed Hassan Mabrouk

Department of Computer Science, International Islamic University Malaysia 53100 Jalan Gombak, Kuala Lumpur, Malaysia.
(e-mail: mabrouk@iium.edu.my)

ABSTRACT

Stock price forecasting models are equally important for investor decisions in the western market as well as in the Islamic market. Both dividend discount and earning-based valuation models use interest rate as a fundamental measure to reflect the present value of future dividends and earnings respectively. In general terms, stock prices are forecasted based on the correlation between stock return and interest rate. However, in an Islamic, interest-free economy, no such correlation is available. This paper suggests that an interest-free economy could realize the principle of market efficiency more efficiently and would render stock prices more related to economic realities. In other words, stock prices would capture the real growth component of the concerned stock, rather than the speculative and artificial ones. It is argued that such an economy provides more accurate indicators to investors as to where to direct their funds for potential growth at a rate higher than the market capitalization rate.

JEL Classification: A13

Key words: Stock prices, interest rate, Islamic economy, Valuation models

1. INTRODUCTION

Security pricing is a critically important process in any economy irrespective of the fundamentals running that economy. Security pricing is determined, to a good extent, by the widely used price valuation models. Investors use these models to form their investment portfolios with the objective of increasing return and decreasing risk. In an interest-based economy, investors usually mix income-guaranteed securities with risky ones to manage risk. However, the question of risk is tightly coupled with the financial position of the firm and, in particular, with the amount of outstanding debts carried by the concerned firm and its ability to pay back these debts. Moreover, in the same interest-based economy, the decision of whether to invest in income-guaranteed securities or in risky ones depends on the interest rate, which fluctuates in accordance with the rate of inflation.

In an interest-free economy, however, the picture is totally different. First, income-guaranteed securities are not acknowledged and would not be commercially available. Second, the whole financing process is different in principle and in operation. As a result, the question of risk has to be tackled from a different angle. This paper analyzes the relationship between interest-based loans and inflation volatility. It also describes the changes in the stock selection process in terms of investor satisfaction, as quantified by the utility function, and in terms of the investor attitude towards accepting risk.

2. DETERMINANTS OF STOCK PRICES

Prices of stocks, like all other investment securities, are controlled by the equilibrium of demand and supply. Beyond this general mechanism, stock prices can be attributed to the following three categories. The first is corporate-related factors such as the technology utilized in the organization, the management efficiency, the marketing strategy and the product innovativeness and attractiveness to customers. The second is sector-related factors such as the demand for the class of products, and the price of the raw material used in production. For example, demand for paint may decrease due to the introduction of paper wall, and demand for oil may decrease due to the introduction of electricity-powered cars. Also, an increase in leather price would drive up the prices of all leather product factories. The third is economy-related factors such as high inflation or recession as important stages of the business cycle, unemployment levels, effectiveness of monetary policy and banking systems, and availability of information to investors.

Since stocks should reflect the real value of a firm's assets, their prices should be predominately controlled by the factors of the above first and second categories. However, empirical data shows that stock prices do change for factors that have little relevance to the performance of their holding firms.

In Summers (1986), the author questioned the concept of market efficiency that states that asset prices are in some sense rationally related to economic reality. Summers argues that data, in conjunction with current statistical methods, provide no evidence against the view that financial market prices deviate widely and frequently from rational valuations. He concluded his paper by putting forward a word of caution in treating stock prices or their changes as rational reflections of fundamental values. Shiller (1981) used the S&P 500 and the modified Dow Jones Industrial Averages indexes over one century (1870 – 1970) to highlight the fact that stock price indexes are too volatile to be realistically attributed to any objective new information or to actual subsequent events. As a way of saving the notion of efficient market, Shiller suggested that stock-price volatility should be attributed to changes in expected real interest rates.

Schwert (1989) analyzed the relationship between stock and bond prices with a large set of economic factors. He noticed that stock volatility increased by a factor of two or three during the Great Depression (1929-1939). Despite extensive data analysis, Schwert did not draw decisive conclusions about the causes behind stock volatility. Fama and Schwert (1977) showed that among government bonds and bills, common stocks, and private residential real estate, only the latter was a complete hedge against expected and unexpected inflation. However, common stock return was negatively related to the expected and the unexpected inflation, contrary to the long-standing belief that they serve as hedges against inflation. Bodie (1976) developed a measure of hedging effectiveness against inflation as the proportional reduction in the variance of the real return on a nominal bond attainable by combining it with the equity portfolio. Fama and Gibbons (1982) presented a new evidence for the Mundell-Tobin model that the expected real return component of interest rates is negatively related to the expected inflation component. Modigliani & Cohn (1979) suggested that the stock market is substantially undervalued because of the inflation illusion.

As shown above, speculative factors play a major role in determining stock prices in an interest-based economy. These speculative factors can be significantly reduced in an interest-free economy. The discussion focuses on the impact of inflation volatility on stock prices and suggests that an interest-free economy reduces this volatility and renders stock prices more reflective of a firm's performance and of the condition of the concerned sector. First, the relationship between interest-based financing and inflation is established and analyzed. Second, the utility function is used as a tool for determining the demand on a stock. Using the results of the first section, expected changes of the outcomes of the utility function in an interest-free economy are presented. Third, data analysis is used to show that rising inflation increases the volatility of stock prices. Finally, concluding remarks are given.

3. INFLATION

Like any complex phenomenon, inflation depends on many factors.[1] Some of these factors include financing government debts through printing money, a taxation policy that does not respond to current the inflation rate, lack of technology or natural resources which leads to export of costly equipment, and unequal opportunity, naturally associated with corruption, which excludes many capable personnel from the productive cycle and focuses business and profitable industry in a tiny class of society. In addition to all the above factors, and admitting their indubitable contribution to inflation, there is a factor that usually receives less analysis despite its significant and constant contribution to inflation, that is interest-based loans.

To set the stage for understanding the role of interest-based loans, let us briefly analyze the underlying mechanism behind inflation through the first factor, which is financing government debts through printing money. Sometimes governments resort to their power of printing money to pay back their debts and cover their budget deficit. By increasing the quantity of money in circulation, the aggregate price level increases, leading to inflation. By printing money out of thin air to pay its debts back to the public sector, the government effectively shifts funds from the public to its own account; see Krugman and Wells (2006). In other words, inflation is caused by redistribution of funds or alternatively, shifting money from one sector to another. In this case, the public pays the inflation tax through the increase of the aggregate price level.

4. HOW DO INTEREST-BASED CONTRACTS CONTRIBUTE TO INFLATION?

This question can be answered by considering financing projects through intermediate- and long-term loans. According to these loan contracts, the borrower has to repay a certain amount of money by a certain date. The burden of this repayment depends greatly on the rate of inflation at the time of repayment. If the inflation rate turns out to be higher than the interest rate associated with the loan, then inflation favors borrowers while lenders are disadvantaged because they did not recover the real value of the money they lent. On the other hand, if the inflation rate turns out to be lower than the interest rate, then lenders are favored and borrowers are disadvantaged.

The negotiation of an acceptable interest rate depends on the expectations of the borrower and the lender when they enter into the loan contract. Obviously, the borrower would negotiate for an interest rate lower than the inflation rate he expected; and the lender would negotiate for an interest rate higher than the inflation rate he expected. Since expectations, by definition, imply uncertainty, every party would try to add a safety margin to protect himself from an unpleasant surprise. Knowing that estimation of inflation is a notoriously difficult problem even for a short term, let alone for many years, interest-based loans usually carry unpleasant surprises for one party, usually favoring lenders who have the stronger negotiation position, and thus resulting in shifting money to one class of society at the expense of another. As we recall, shifting funds is the very same mechanism that leads to inflation when the government tries to fix its budget deficit by resorting to its money printing press. Since interest-based loans are conducted constantly and frequently in financing projects, they raise inflation more often and consistently than the government does by printing money to get free service from the public sector.

The above scenario shows how unexpected inflation is advantageous to either lenders or borrowers. Inflation works in favor of lenders in many instances, and even if it is not in their favor, it harms them less. Nonetheless, it is not unusual that inflation seriously damages lenders. In fact, some U.S. mortgage companies were pushed into bankruptcy in the early 1970s under the impact of the higher-than-expected, double digit inflation rate. They failed because the real value of the payments they got was lower than the loans they made, but they had to pay a high interest rate on deposits based on the actual inflation rate in order to attract customers; see Krugman and Wells (2006).

5. LOANS AND THE EXPECTED INFLATION RATE

At this point, let us turn our attention to the impact of interest-based loans when the expected inflation turns out to be equal to the actual inflation. It may appear that inflation creates losers and winners in loan contracts only when the unexpected component of inflation is not zero. Actually, even though, in such a case, inflation does not surprise either party, it would still burden one party more than the other and contribute to rising inflation through the same money-shifting mechanism. The reason behind that lies in a simple fact: interest on loans is paid out of the profit generated from the financed project. Borrowers do not accept a certain interest rate based on the expected inflation rate alone. They also do so based on the expected return of their project. Actually, the expected return rate is more significant in that decision than the expected inflation rate since the former is the real source of money out of which the interest will be paid. Since the project's rate of return is as hard to expect as the inflation rate, or perhaps more, the interest rate will continue to be a biased and tilted balance that works in favor of one party at the expense of the other, and may drive borrowers out of business if the interest rate eats up their actual profit. The unexpected component of inflation does aggravate the impact of the shock on the losing party and makes it harder for this party to recover. But the mere interest-based loans lead to rising inflation even if the unexpected inflation component is equal to zero.

6. THE GREEDY CUTTER

In some instances, the borrowers, who are running productive projects, are forced to terminate their projects and liquidate their assets to be able to pay back their due loans plus the interest. In this way, the whole economy loses.

This is, in my view, one of the most important impacts of interest-driven inflation. Surprisingly, western literature listed less significant consequences of inflation, such as the shoe leather cost, but did not list this one. This may be due to the western perception that interest is unavoidable and has to be accepted as a price for getting loans. However, any impartial treatment of this issue should list this factor among other consequences of inflation. I will call this factor "the greedy cutter" to reflect the scenario of a greedy cake cutter who insists on a fixed-size piece of the cake regardless of how big or small the cake is and of the number of people who deserve a share of the cake with him.

7. THE FISHER EFFECT

The tendency to overlook the adverse impact of interest-based loans on the economy under the expected inflation rate and to connect the problem of misallocation of resources to the unexpected component of inflation probably started with the proposal of the Fisher effect. According to Fisher (1930), every expected percentage rise in the inflation rate has a corresponding and equal percentage rise in the nominal interest rate. In other words, lenders target a real interest value through their requested nominal interest rate. Thus, they would calculate their nominal interest rate as a summation of the expected inflation and their target real interest rate. The Fisher effect makes logical sense and is supported with strong empirical evidence as shown in Griffiths & Wall (2007). Yet it gives a subliminal message that lenders and borrowers would be making an informed decision regarding accepting the loan as long as the actual inflation does not deviate from the expected one. In Griffiths and Wall (2007), it is stated that uncertainty about future price levels, as represented by the unexpected inflation, is likely to lead to misallocation of resources by discouraging long-term loans. They attributed this effect to the reaction of savers and lenders to uncertainty by demanding a premium to cover the perceived extra risk. Once again, in my view connecting the problem of misallocation of funds to the unexpected inflation goes in line with Fisher's proposal that assumes that expected inflation poses no problem since it is taken into consideration upon accepting loan contracts. As highlighted above, the ability of borrowers to pay interest is influenced by the inflation rate *and* the actual return of the project. Even if the unexpected component of inflation is zero, the real return of the project is unknown beforehand and may jeopardize the financial position of the borrowers exactly as the unexpected inflation may do.

8. LOANS DURING DEFLATION PERIODS

Interest-based loans do not inhibit economic growth only during times of inflation. Interestingly, the negative correlation between these loans and economic growth is more obvious during periods of deflation. According to the Fisher effect, deflation lowers the nominal interest rate and increases demand for money. Deflation is more problematic to handle, by the central bank, than inflation. The central bank cannot intervene during times of deflation by lowering the interest rate once the zero-bound point, i.e. zero nominal interest rate, is reached. Since the central bank cannot impose a negative interest rate, the monetary policy cannot be used. Consequently, deflation takes money away from borrowers and surrenders it to lenders through interest-based loans. Krugman and Wells (2006) call the situation of halting the effectiveness of the monetary policy to stimulate economy during deflation the liquidity trap. This trap highlights a logical contradiction. Deflation carries, no doubt, some desirable effects. It increases the purchasing power of money and lowers the initial and operation costs of projects. However, using interest-based loans as an instrument to finance projects inhibits economic growth during that desirable time. In other words, the liquidity trap indicates the failure of using interest as a mechanism for rewarding money lending.

9. CHOOSING A STOCK USING THE UTILITY FUNCTION

Unless an investor has internal information about the current situation and future plans of a firm, the best he can do to make an informed decision is to use the past information as an indicator of the future. Basically, a potential investor would assume that if a firm has done well in the past, then it will continue to do well in the future. This is the typical approach described in western literature. Following such an approach, an investor would naturally choose a stock with an average high rate of return. However, a high rate of return may be accompanied with high variance, indicating high risk. Therefore, the best combination is to choose a stock with an average high rate of return and a low return variance. Bodie, Kane and Marcus (1992) mathematically expressed this expression in the following formula:

(1) $U = E(r) - 0.5\, A\, \sigma^2$

In (1), U is the utility function that represents the satisfaction of an investor with the past performance of the stock. U increases with a higher return rate and with a lower value of the variance σ. A is a parameter that reflects the level of risk-aversion of the investor; high A represents risk-averse investors, and low A represents risk-neutral investors. Two investors with different degrees of risk aversion would rate a stock differently. Based on the above formula an investor would have the same level of satisfaction with two stocks, one with high return and high risk and the other with lower return and lower risk. The stocks with the same utility value are represented by a curve called the indifference curve as in Bodie, Kane and Marcus (1992).

As discussed in the previous section, interest-based loans contribute significantly to inflation volatility. In an interest-free economy, these loans simply disappear and are replaced with a different mode of finance in which the financer shares gain and loss as a partner of the project. As a result, lower inflation volatility is expected in an interest-free economy. Accordingly, the utility function of the respective stock will increase due to the reduction in the value of σ. This implies that the utility function of a security with a certain return in an interest-free economy is higher than that of a security with the same return in western economy. Alternatively, in interest-free economy the indifference curve of a certain utility value would represent securities with lower returns than those of a corresponding indifference curve of the same value in western economy. In short, by lowering inflation volatility, one of the speculative factors that contribute to stock price volatility would be eliminated, and the factors related to the firm and sector performances would gain higher contribution to stock prices.

Interest-free economy shapes the behavior of investors toward being more risk neutral. Accordingly, their indifference curve would be flatter reflecting the fact that they accept more risk in return for an incremental return. The tendency of investors toward being more risk neutral is due to the fact that there are no income-guaranteed securities in interest-free economy. Instead there is a set of securities ranging from low-risk to high-risk. Traditionally, income-guaranteed securities, such as bonds and treasury bills, are used to mitigate risk and constitute diversified portfolios in western economies. In interest-free economy, however, a diversified portfolio would balance risk by adding low-risk securities, rather than seemingly no-risk ones. Removing risk-free securities may give a misleading signal that investors in an interest-free economy are exposed to a higher risk than those in western economies. However, this apparent risk exposure is neutralized by the lower variability in inflation. Furthermore, income-guaranteed securities may in reality be risky if inflation volatility is not controlled. Even though these securities guarantee the nominal rate of return, they do not guarantee the future purchase power of its cash flow. When the rate of inflation equals the nominal interest rate, the prices of goods increase as fast as money accumulates from the investment and there is no growth of its purchasing power.[2]

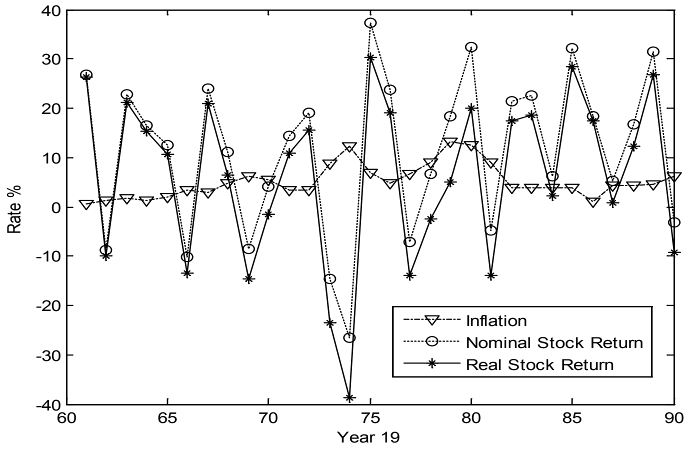
10. DATA ANALYSIS

The relationship between rising inflation and stock-price volatility can be demonstrated through stock returns[3] in the United States over the three decades of 1961 till 1990. While inflation rose to double-digits, considerably high values in the second decade (1971-1980), it had been relatively low in the first and the third ones. To show the impact of inflation, the three decades will be analyzed individually as shown in Table 1. Furthermore, real stock returns are calculated by subtracting the inflation rate from the nominal stock return to better reflect the monetary power of the returns.[4] Variability of real stock returns in each decade is determined using the variance.[5] Figure 1 shows the inflation rate, the nominal stock return and the real stock return. Data analysis shows two results. First, when inflation volatility, as quantified by the variance, increased in the second decade (1971-1980), stock-price volatility increased considerably relative to the first and the third decades. Second, volatility of real stock return was higher in the three decades than the volatility of the nominal stock return, which is in line with the theoretical analysis that inflation volatility adds to the risk associated with the real return.

TABLE 1
Stock Performance of S&P500 from 1961-1990

Year	Nominal Stock Return (NSR) %	Inflation Rate %	Real Stock Return (RSR) %	Parameters per decade
1961	26.89	0.67	26.22	Variance of inflation = 3.7529
1962	- 8.73	1.22	-9.95	
1963	22.8	1.65	21.15	Variance of NSR = 201.75
1964	16.48	1.19	15.29	
1965	12.45	1.92	10.53	Variance of RSR = 231.14
1966	- 10.06	3.35	-13.41	
1967	23.98	3.04	20.94	
1968	11.06	4.72	6.34	
1969	- 8.50	6.11	- 14.61	
1970	4.01	5.49	- 1.48	
1971	14.31	3.36	10.95	Variance of inflation = 13.5603
1972	18.98	3.41	15.57	
1973	- 14.66	8.80	- 23.46	Variance of NSR = 427.61
1974	- 26.47	12.20	- 38.67	
1975	37.20	7.01	30.19	Variance of RSR = 473.28
1976	23.84	4.81	19.03	
1977	- 7.18	6.77	- 13.95	
1978	6.56	9.03	- 2.47	
1979	18.44	13.31	5.13	
1980	32.42	12.40	20.02	
1981	- 4.91	8.94	- 13.85	Variance of inflation = 3.9357
1982	21.41	3.87	17.54	
1983	22.51	3.80	18.71	Variance of NSR = 175.11
1984	6.27	3.95	2.32	
1985	32.16	3.77	28.39	Variance of RSR = 210.86
1986	18.47	1.13	17.34	
1987	5.23	4.41	0.82	
1988	16.81	4.42	12.39	
1989	31.49	4.65	26.84	
1990	- 3.17	6.11	- 9.28	

FIGURE 1
Rates of returns of S&P500 composite index of common stocks in US from 1961-1990.



11. CONCLUSION

This paper discussed the contribution of interest-based loans to inflation volatility. It does not claim that these loans are the only significant contributor to inflation, as it does not deny the contribution of other economic factors besides inflation, to stock-price volatility. It has been shown that interest-based loans trigger the money-shifting mechanism that underlies inflation and thus constantly contribute to volatile inflation. Assuming other factors are equal, an interest-free economy should exercise better control over inflation and thereby lower its volatility. Taking the utility function as a guide in making an investment decision regarding a stock, investor satisfaction would increase due to lower inflation risk. Accordingly, a stock price would better reflect firm performance, rather than the speculative inflation parameter. Empirical data of stock returns and inflation over three decades in US have confirmed the positive correlation between rising inflation and real stock return volatility that should strengthen the case in favor of an interest-free economy.

ENDNOTES

1. Voluminous literature discusses causes and solutions of inflation. Among others, Colander (1979) and Coleman (2007).

2. See Bodie, Kane and Marcus (1992), 172.
3. This data was presented in Bodie, Kane, and Marcus (1992), 166-167, and originally extracted from the Center for Research of Security Prices, University of Chicago.
4. The same approach was used in Ibbotson, R. G., and Sinquefield, R. A. (1989): 74-75.
5. Rate of change represents volatility, too and has been used in Grant, Ireson and Leavenworth (1990): 362-363, to represent volatility. However, rate of change may give misleading sparks at some points of time, contrary to variance, which gives a collective measure of volatility over the whole period.

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Economic Consumption Model Revisited: *Infaq* Based on *Al-Shaybani's* Levels of *Al-Kasb*

Mustafa Omar Mohammed

Department of Economics, Kulliyyah of Economics and Management Sciences, International Islamic University Mālaysia, P.O.Box 10, 50728, Kuala Lumpur, Mālaysia (E-Mail: mustafa@iium.edu.my)

ABSTRACT

This study attempts to investigate the economic ideas of al-Imām Muĺammad Ibn al-×asan al-Shaybānī (1986), focusing on his levels of al-Kasb. The study uses al-Shaybānī's levels of al-Kasb to develop a theoretical Infāq model that integrates the material, spiritual, moral, social and legal dimensions. Thus the Infāq model is broader than the concept of consumption in modern economics. It also has some advantages over the Islamic consumption models developed by contemporary Muslim economists. The model identifies some major implications in terms of basic needs fulfillment, social Infāq and distributive justice. The primary features of this model are its simplicity and comprehensiveness. It is easy to understand yet it embodies the individual, social, material, spiritual, moral and legal dimensions into the individual's spending decision making and behavior. The model is more realistic in understanding human behavior. It is growth friendly and instills the spirit of cooperation and social responsibility at the individual and social levels. It is suggested that future research further fine tune with some rigourous analysis

JEL Classification: A13, A31, B11, D01, D10

Key words: Al-Kasb, Consumption, Infāq, Model building

1. INTRODUCTION

The economic ideas of past Muslim scholars continue to draw the attention of modern Muslim economists. The volume of literature on these ideas and their relevance to modern economics has since the early 1930s increased significantly. According to Islahi (2005), "perhaps the first article to introduce economic thought of Muslim scholars was written by ØÉliÍ (1933) in Arabic entitled 'Arab Economic Thought in the Fifteenth Century' in which he discussed economic ideas of Ibn Khaldūn, al-Maqrīzī, and al-Dulajī. Next, al-Hāshimī (1937) published his paper on "Economic Views of al-Bīrūnī" again in Arabic. The same year Rif^{c}at (1937) wrote on Ibn Khaldūn's Views on Economics' in Urdu. The first paper in English was written by ^{c}Abdul-Qādir (1941) entitled "The Social and Political Ideas of Ibn Khaldūn". And the first Ph.D. on the subject was awarded by Cairo University to Nash^{c}at (1944) on 'Economic Thought in the Prolegomena of Ibn Khaldūn' written in Arabic." Some other prominent works that have been produced in this area include Sadeq and Ghazali (1992), Islahi (1984; 1986; 1988; 2001; 2005), Kallek, Cengiz (1998; 1999), Mustafa (1998), Chapra (1999, 2000), Rosly and Barakat (2002), Barakat (2002), Soharto, Ugi (2005), etc. These works and a few others have covered the economic ideas of more than twenty past Muslim scholars that include, Ibn Taymiyyah, Ibn Khaldūn, al-Maqrīzī, al-Bīrūnī, al-Dulajī, Abū ^{c}Ubaydah, al-Dāwūdī, NiÐÉm al-Mulk, al-Ghazālī, Abū Yūsuf and al-AÎfahÉnÊ. In contrast, as acknowledged by Siddiqi (1982) the major works of al-Shaybānī containing economic ideas still remain unexplored. The few notable works that provided some abstracts on al-Shaybānī 's economic ideas include Siddiqi (1982), which is simply a survey of literature on the economic ideas of al-Shaybānī . Siddiqi cites another study by Udovitch (1970) that analyzes al-Shaybānī 's ideas on partnership and profit sharing. A study by Mustafa (1998) made some comparison between al-Shaybānī and al-RÉghib al-AÎfahÉnÊ on the subject of dignity of work. Mustafa highlighted al-Shaybānī 's categorization of earnings, which has some relevance to the present study. On the other hand, a chapter in Dunya's *I^{c}lām* (1984) is perhaps the only contribution that has tried to analyze the economic ideas of al-Shaybānī from the perspective of modern economics. Dunya discussed al-Shaybānī 's al-Kasb in five sections, namely: al-Kasb, consumption, social Infāq, concept of money, al-IítikÉr (hoarding or monopoly), debt-based economic system and public finance and its fiscal surbodination to al-Zakāt. Although Dunya's analysis is focused on presenting the relevance of and implications of al-Shaybānī 's ideas for modern economics, it has nevertheless provided a basis for the extension of the present study, which discusses al-Shaybānī 's levels of al-Kasb in detail with the view of developing Infāq Model. This has many advantages over the conventional micro-consumption model and the Islamic consumption models developed by contemporary Muslim economists.

2. A BRIEF OVERVIEW OF SOME MAJOR RELATED WORKS

Hitherto, the conventional micro-consumption models, particularly the Keyne's simple consumption model and the consumer's utlity model, have remained the dominant models and tool of analysis even among Muslim economists. However, critics have found many limitations to these conventional consumption models and thus their inappropriateness in explaining the behavior of a Muslim consumer. For example, the conventional consumption model is guided by the self interest individualistic motivation where the objective of the individual is simply to maximize the utility of the material goods. The individual is only constrained by his budget line. Thus the normative constraints are relative and assumed as given.

Being mindful of these limitations of the conventional models, a few Muslim scholars have tried to develop Islamic consumption models. For example, Agil, Syed Omar (1992) tried to develop the utility maximization problem of a Muslim consumer as $U = F(E_1, E_2)$ subject to the constraint of his income $Y = E_1 + E_2$, where E_1 is spending to achieve satisfaction in this world that includes present consumption and savings, and E_2 denotes spending for others with the view of earning reward in the hereafter. This spending includes what is immediately consummed by the receipient and what is invested for social purposes. Although Agil acknowledges the importance of social and spiritual dimensions in utility maximization problem of a Muslim consumer and that the Islamic theory of consumption cannot be based on consummable goods only like the secular consumer, yet his model was still based on the conventional utility maximization theory. Unlike Agil, Kahf, Monzer (1981) incorporated Zakāt (Z) and spending for the sake of Allāh (FS) in the consumer's utility. Hence his model,

(1) Maximize $U = U(FS, S)$ subject to $FS + S = Y$ and $DW = S > Z(W + S)$,
Where,
U = consumer's utility
W = consumer's wealth
S = savings, and
D = time derived

Kahf concludes that the goals of a Muslim consumer must include enjoyment of material consumption as well as the enrichment of one's life in the hereafter. Furthermore, the Muslim consumer must replace the term 'consumption' with 'final spending', which comprises spending on goods and services that generate immediate satisfaction in this life and spending for the sake of Allāh, which has been excluded in the term consumption in the conventional analysis. Again similar to Agil, Kahf acknowledges the role that the spiritual, material and social (Zakāt) dimensions play in the economic behavior of a Muslim consumer. He also acknowledges the limitations of using the conventional term 'consumption'. However, Kahf still adapted the conventional consumer's utility model to build his model. Zarqa, Anas (1992) presented a model of a partial relationship in a Muslim's utility function. The study investigated the relationship between the reward in the hereafter and one's consumption in this world. The reward in the hereafter is dependant on one's intention vis-a-vis consumption. Zarqa analyzed this relationship at three levels of consumption: necessities, conveniences and refinements. Besides being based on the conventional consumer's utility framework, the major draw back in Zarqa's model is that it raises a lot of complex questions that cannot be quantified. Zaman, Asad (1992) tried to mathematically develop foundations for an Islamic theory of consumer behavior. The author, however, admits that the model was, "..quite similar to the conventional in many ways..." (Zaman, 1992, p. 84).

Therefore, many of the works of Muslim scholars on micro-consumption rely on the conventional models for their analyses. Given the philosophy and limitations upon which these conventional models are based, it is difficult for these Muslim researchers to explicitly derive Islamic values from these models. At best, and in most cases, these scholars assume these values as given. Alternatively, the other approach is to make use of Islamic heritage and build economic models from works of early Muslim scholars. Unfortunately, many major works of these scholars including al-Shaybānī 's have not been fully explored. Even the works that have discussed the economic ideas of al-Shaybānī do not extend their studies to the level of developing any models based on those ideas. That gap still cannot be filled by the existing Islamic consumption models, which are mostly based on the conventional models. It is for these reasons that the present study, by proposing the Infāq model, attempts to fill in this gap by developing al-Shaybānī 's economic ideas into a model that is based on a Shari[c]ah foundation and its principles.

Hence, the salient objectives of this paper are firstly to present a brief background of al-Shaybānī and his work *'al-Iktisāb fī'l-Rizq al-MustaÏÉb'*followed by a resentation of al-Shaybānī 's economic ideas on major issues and his levels of al-Kasb in particular. The paper then develops an Infāq Model based on al-Shaybānī 's Levels of al-Kasb and discusses the implications of the Infāq model.

The paper is divided into eight sections including the introductory section. The second section reviews briefly selected major related works. The third section presents an overview background of al-Shaybānī and his work, its coverage and methodology. The fourth section presents al-Shaybānī 's economic ideas on major issues. Section five discusses al-Shaybānī 's levels of al-Kasb, followed by the sixth section that develops a theoretical Infāq model. The seventh section discusses the implications of the Infāq model. The final section concludes the study and makes suggestions for further research.

3. AL-SHAYBĀNĪ AND HIS WORK AL-IKTISĀB

This section will present an overview of al-Shaybānī and his work, *'al-Iktisāb fī'l-Rizq al- MustaÏÉb'* [Acquiting Wealth Through Lawful Means of Sustenance], which is often referred to simply as al-Iktisāb or al-Kasb, refelecting the theme of the book. The title embodies a TawÍidic and legal dimensions.

3.1. THE AUTHOR

The author's full name is Abū ᶜAbdullāh MuÍammad Ibn al-×asan Ibn Farqād al-Shaybānī . He was born in 132 Hijrah/750 A.D. in WasiÏ although he grew up in Kūfah, both in Iraq. His father was an immigrant from Shām (modern Syria). Al-Shaybānī started his education during early childhood. He learned al-Qur'ān and attended Arabic and ×adÊth study circles. He also studied Fiqh and UÎËl al-Fiqh. At the age of 14, he started visiting Abū ×anÊfah's study circle in Kūfah where he later became an active participant in every discussion, adopting Abū ×anÊfah's Method of Fiqh. Among his great Shuyūkh (teachers) were al-Imām Abū ×anÊfah, al-Imām Abū Yūsuf, al-Imām Mālik and al-Imām al-Awzāᶜī. Al-Shaybānī 's prominent students included Al-Imām al-Shāfiᶜī. Al-Shaybānī was famous for his love for knowledge. He used to divide his nights into three parts, reserving one-third of it for studies. It was reported that he used to dress and change his clothes on the reading table. He spent for the sake of knowledge all his inheritance, allocating 30, 000 Dirham for Arabic syntax and poetry, and the rest for ×adÊth and Fiqh. He wrote over 900 books including al-Iktisāb . Other titles include books on al-Salam (prepaid sale), trade, leasing, mortgage, Wadīᶜah (deposit), Hibah (gift), al-Øarf (money exchange), partnership, agency, Kafālah (surety), ×awālah (debt transfer), Waqf and al-Dayn (debt). Al-Shaybānī died in 189 Hijrah/804 A.D. at the age of 57, leaving behind rich treasures of knowledge and a rich legacy.

3.2. HIS WORK: AL-IKTISĀB

Al-Shaybānī defines al-Kasb as 'Íalāl means of acquiring māl (wealth)', which is close to the English word earning. There had never been an extensive treatment of the concept, role and implications of al-Kasb prior to al-Shaybānī 's treatment of this topic. Even then works produced on al-Kasb after al-Shaybānī , generally treated the subject as a sub topic under some other major theme and were limited to the extent of being a chapter or two included in books discussing various topics. For example, al-Ghazālī's IÍyā (n.d), Ibn Khaldūn's Muqaddimah (n.d) and al-AÎfahÉnÊ's al-Dharīcah (1985). Other scholars who discussed al-Kasb as cited by Abū Ghuddah (1997) include al-MuÍāsibī (d.243 H), al-Imām Abū Bakr al-Khallāl (d.311 H) and cAbdulRaÍmān Ibn cUmar (782 H). It is interesting to note some striking similarities between these works (which came much later than al-Shaybānī 's work) and the work of al-Shaybānī in relation to the classification of occupations into agriculture, animāl husbandry, hunting and fishing, manufacturing and manual labor. Nevertheless, al-Shaybānī 's work remains the only book that is entirely dedicated to the subject of al-Kasb . Rather, Dunya (1984) regards it as a detailed pioneering work and the first of its kind in the realm of economic ideas in Islam. Although al-Kasb was written by al-Shaybānī, it contains commentaries by al-Sarakhsī.

The major contents of the book include the following sections. It begins with the definition of al-Kasb and its dimensions. This is followed by discussion of al-Kasb and its relationship to al-Tawakkul (reliance on Allāh). In another section al-Shaybānī debates with those who regard earnings as *ÍarÉm* (unlawful) in Islam or at least as something that should be pursued under compulsion. There are topics on types and levels of al-Kasb (e.g. al-Kasb can be praiseworthy, blameworthy, compulsary, recommended, etc), issues on Infāq, isrāf (waste), moderation and social Infāq.

His methodology of discussion in the book is mixed. He establishes his views by proof from al-Qur'ān, then ×adÊth, followed by examples from the companions, then examples from good Muslims of the succeding generation after the companions and finally his own opinion. There are cases in the book where he adopts a style of debate or raised counter questions to address the issues under discussion. His approach to al-Kasb is multi-dimensional. It encorporates the material, moral, spititual and legal dimensions. In some instances, al-Shaybānī uses al-Kasb and Infāq inter-changably. That is, on one hand he talks about al-Kasb and on the other he relates the Infāq aspects of it. This can also be seen in his choices of the ÍadÊth. For example, when discussing the first level of al-Kasb, he uses the ÍadÊth with the words 'Anfiqhu', meaning 'spend it'. Hence the ÍadÊth commands, 'spend on yourself, on your family and on your parents'.

4. AL-SHAYBĀNĪ 'S ECONOMIC IDEAS ON MAJOR ISSUES

As mention in section 3.2 above, al-Shaybānī refers to al-Kasb as 'ÍalÉl means of acquiring māl (wealth)'. He says the term al-Kasb is used for positive means of acquiring māl as well as negative means of acquiring māl. Positive means of acquiring māl is praiseworthy and wins reward for the acquirer here and in the hereafter. Whereas negative earnings is blameworthy and bring sins upon the acquirer. He says al-Kasb is an obligation upon every Muslim just as ØalÉh (prayer) and fasting are. Any one who refrains from al-Kasb is considered sinful. He says, we acquire māl to satisfy our basic needs and those for our family members and the parents. Our kasb should also help the relatives and the members of the society in general. He attacked the thinking of certain ØËfÊ factions, during his time, who claimed that al-Kasb was unlawful because a Muslim needed to depend on Allāh and wait for his fate from heaven. He sarcastically questioned them for taking food from others saying if al-Kasb was unlawful then the food they received from such unlawful means was also unlawful. They were not supposed to accept it. He said almost all the prophets of Allāh earned for their livelihood and so did the companions of the Prophet s.a.w. Al-Shaybānī classifies al-Kasb into three levels: obligatory, recommended and permissible .He discusses the division of occupations, which he classified into agriculture, hiring or leasing, manufacturing and trading. He regards all these four as the primary sectors in the economy. The degree of people's preference for these occupations will depend on the dominant economic activities at a given time.

5. AL-SHAYBĀNĪ 'S LEVELS OF AL-KASB

In this section, we present al-Shaybānī 's level of al-Kasb, which provides the basis for developing the Infāq model in the subsequent section. Al-Shaybānī classifies al-Kasb into three levels: 1) FarÌ al-ᶜAyn, 2) Mandūb and 3) MubāÍ, which are discussed in detail in the following three sub-sections.

5.1. FARÖ AL-ᶜAYN (OBLIGATORY)

Al-Shaybānī describes this kind of al-Kasb as incumbent upon everybody because it entails the fulfillment of the basic needs necessary to facilitate ᶜibādah (act of worship). To pray, one needs food and clothing, which cannot be obtained except through al-Kasb. Since al-Kasb in this case has become means to fulfill ᶜibādah – which is wājib (compulsary), al-Kasb becomes compulsary too. Al-Shaybānī quotes fiqh maxim to justify his position:

(مالايتمّالواجبإلابهفهوواجب)
"Whatever is means to facilitate wājib is itself a wājib"[1].
In this first level of al-Kasb, al-Shaybānī includes the basic needs (for one's self, his family members and his parents), settling debt and savings. Hence,
1. If one is single, he must strive to fulfill his basic needs. Al-Shaybānī includes in basic needs: food, clothing, shelter and means of transport, in line with the following Prophetic ÍadÊth[2],

وقالصلى الله عليه وسلّملابنحُبَيشرضياللهعنهفيمايَعِظُهُ:
"لُقمةٌتسُدُّبهاجوعتك،وخِرقةٌتُواريبهاسوءتك،فإنكانلككِنٌيكُنُّكفحسَنٌ،وإنكانلكدابّةٌتركبُهافبَخٍبَخٍ".

"He upon whom are Allāh's blessings and Peace said to Ibn ×ubayshī (May Allāh be pleased with him) while teaching him, "Food to satisfy your hunger with and clothing to cover yourself with. If you have a shelter to dwell in then it is good, and if you have an animāl to ride so much the better"[3]

2. If the person is indebted, then acquiring māl for settling the debt in addition to the basic needs becomes obligatory too. Hence, those in debt are obliged to acquire māl in order to repay their debt, as required by a ÍadÊth al-Shaybānī cites,

وقالصلى الله عليه وسلّم: "الدَّيْنُمقْضِيٌّ"

"He upon whom are Allāh's blessings and Peace said, "Debt must be settled"[4]

3. Those who have spouses and children must acquire māl to provide the livelihood of their families as instituted by the following Qur'anic verses and Prophetic ÍadÊth:

(أَسْكِنُوهُنَّ مِنْ حَيْثُ سَكَنتُم مِن وُجْدِكُمْ) [الطلاق: 6]

"Let the women live (In 'iddah) in the same style as ye live, according to your means…."[5]

(وَعلى الْمَوْلُودِ لَهُ رِزْقُهُنَّ وَكِسْوَتُهُنَّ بِالْمَعْرُوفِ لا تُكَلَّفُ نَفْسٌ إِلاَّ وُسْعَهَا)[البقرة: 233]

"… And the man whose resources are restricted let him spend according to what Allāh has given him."[6]

(وَمَن قُدِرَ عَلَيْهِ رِزْقُهُ فَلْيُنفِقْ مِمَّا آتَاهُ اللَّهُ)[الطلاق: 7]

"… But he shall bear the cost of their food and clothing…"[7]

وقالصلى الله عليه وسلّم: "إِنَّلِنَفْسِكعَلَيْكحَقًّا،وَإِنَّلأَهْلِكعَلَيْكحَقًّا،فَأَعْطِكُلَّذِيحَقٍّحَقَّهُ".

"He upon whom Allāh's blessings and Peace are said, "You have rights for yourself and your family, give to each its due rights."[8]

4. It is obligatory for one having a family not only to provide for the immediate basic needs of his dependants, but also keep for them, if he has the ability, sufficient food in store for days ahead. Based on the ÍadÊth,

لمارُوِي "أنالنبيّصلى الله عليه وسلّمادَّخرَقُوتعِيالِهِلِسَنَةٍ".

It was reported that the Prophet (s.a.w) stored food stuffs for his family adequate for a year.[9] In another ÍadÊth,

قال صلى الله عليه وسلّم: "أَنْ تَدَعَ وَرَثَتَكَ أَغْنِيَاءَ خَيْرٌ مِنْ أَنْ تَدَعَهُمْ عَالَةً يَتَكَفَّفُونَ النَّاسَ فِي أَيْدِيهِمْ".
"He upon whom are Allāh's blessings and Peace said, "It is better to leave your heir rich than to leave them poor begging people"[10]

5. It is incumbent upon one to fend for his parents according to the following ÍadÊth,

قال صلى الله عليه وسلّم لِلرَّجلِ الذي أتاه وقال: أُرِيدُ الجِهَادَ مَعَكَ، فقال: أَلَكَ أَبَوَانِ؟ قال نعم، قال صلى الله عليه وسلّم: إِرْجِعْ فَفِيهِمَا فَجَاهِدْ.

"He upon whom are Allāh's blessings and Peace said to a man who came to him (s.a.w) and said, "I want to join Jihad with you. The Prophet (s.a.w). aksed him, "do you have both your parents alive? The man replied, "yes", then the prophet said: "Go to them, and in them do your Jihad"[11]

On another occasion,

لما رُوِيَ أنّ رَجُلاً قال لِرَسُولِ الله صلى الله عليه وسلّم: مَعِي دِينَار، فقال صلى الله عليه وسلّم: "أَنْفِقْهُ عَلَى نَفْسِكَ"، فقال: مَعِي آخَرُ، قال صلى الله عليه وسلّم: "أَنْفِقْهُ عَلَى عِيَالِكَ"، قال: مَعِي آخَرُ، قال صلى الله عليه وسلّم: "أَنْفِقْهُ عَلَى وَالِدَيْكَ".

It was reported that a man said to the Messenger of Allāh (s.a.w), "I have one extra dinar" The prophet said, "spend it on yourself", the man replied, "I still have another extra one". The prophet said, "Spend it on your family". He said, "I still have another extra one". The prophet then said, "Spend it on your parents"[12]

After fulfilling the level of FarÌ al-cAyn, the individual should still strive to acquire māl to achieve the following higher level of al-Kasb discussed in 5.2 below

5.2. MANDŪB (RECOMMENDED)

After fulfilling the basic needs for one's self, for his family members, settling his debts, saving for future consumption and providing for the parents' basic needs, then it is recommended that he earns to provide for the basic needs of his near relatives, has some provisions to honor his guests and assist friends in need. Al-Shaybānī cites the following ÍadÊth:

قال صلى الله عليه وسلّم: "لا خَيْرَ فِيمَنْ لا يُحِبُّ الْمَالَ لِيَصِلَ بِهِ رَحِمَهُ، وَيُكْرِمَ بِهِ ضَيْفَهُ، وَيَبَرَّ بِهِ صَدِيقَهُ".
He upon whom are Allāh's blessings and Peace said: "There is no virtue to one who does not love for his wealth to meet the demands of his relatives, to honor his guest, and to assist his friend"[13]

5.3. MUBĀ× (PERMISSIBLE)

Beyond the relatives, one has the choice of either accumulating permissible wealth or refraining from accumulating it, which is also permissible. Al-Shaybānī says that for those who wish to control their excessive desires or wants, it is sufficient for them to limit the goals of their earnings to the second level. He cites the Qurānic verse to support his view,

(وَأَمَّا مَنْ خَافَ مَقَامَ رَبِّهِ وَنَهَى النَّفْسَ عَنِ الْهَوَى فَإِنَّ الْجَنَّةَ هِيَ الْمَأْوَى)[النازعات: 40-41]

" And for one who holds fear of standing before his Lord and thus restrained his soul from desires, his abode will be paradise"[14]. Otherwise, he said, al-Kasb beyond the second level would give the earner the opportunity to widen his sphere of Infāq to include religious obligations such as Zakāt and ×āj, and recommended acts such as voluntary Îadaqāt and all other forms of virtues. Hence by limiting the goals of one's earnings to the second level, he says, the person will only be able to fulfill a part of his religious pillars, namely Øalāh (prayer) and Øawm (fasting). Al-Shaybānī said the Prophet (May Allāh's blessings and Peace be upon him) used to pray for the expansion of his rizq in his old age,

وكان صلى الله عليه وسلم يقول في دعائه: "اللهم اجْعَلْ أوسَعَ رزقي عند كِبَرِ سِنِّي وَانقِضَاء عُمُرِي".

He upon whom are Allāh's blessings and Peace used to say in his supplication," Oh Lord grant the widest means of my sustenance in my old age towards my last days"[15]. Al-Shaybānī said among the companions there were those who accumulated wealth for noble causes and there were those who refrained from accumulating wealth and instead dedicated their time exclusively to cIbādah. However, al-Shaybānī emphasized that the means to accumulate such wealth must be lawful and the goal must be for preserving the dignity of man. One should not accumulate wealth just for the sake of accumulating it. He emphasized that earnings should preferably be sufficient not only to help friends and relatives but also the less privileged members of the society. The work effort should largely be in the sector that has a wider sphere of maÎlaÍah (public interest) to the society and one from which Îadaqah can be derived.. He cited the following Prophetic ÍadÊth to support his point,

وقال صلى الله عليه وسلم: "خَيرُ النَاسِ مَنهُوَ أَنفَعُلِلنَاسِ".

"He upon whom are Allāh's blessings and Peace said, "the best of the people are those who are most useful to the society"[16]

In the following section, we will use al-Shaybānī 's three levels of al-Kasb to develop Infāq Model.

6. INFĀQ MODEL BASED ON AL-SHAYBĀNĪ 'S LEVELS OF AL-KASB

Based on al-Shaybānī ‹s levels of al-Kasb explained in Section 5 above, his general theory of the levels of al-Kasb can be represented by equation (2) below:

(2) $KS = f(K_{fa} + K_{md} + K_{mb})$
where,
KS = al-Kasb (earning)
K_{fa} = FarÌ al-cAyn Kasb (obligatory earning)
K_{md} = Mandūb Kasb (recommended earning) and
K_{mb} = MubÉÍKasb (permissible earning)
Whereas al-Shaybānī defines al-Kasb as 'the ÍalÉl means of acquiring māl (wealth), Infāq is the spending aspect of that māl. Abū Jayb (1998) defines Infāq as spending of māl and its disposition. Similarly, QalcAjī (1997) refers to it as the spending of māl on basic needs and other expenditures. Therefore, while al-Shaybānī's three levels of al-Kasb represent the objectives for acquiring māl through ÍalÉl means, Infāq on the other hand fulfills these objectives. Hence, the relationship between al-Kasb and Infāq is presented in Equation 3 below:

(3) KS = IQ
where,
KS = al-Kasb (earning)
IQ = infāq (spending)

Infāq thus corresponds to al-Kasb in terms of the general theory represented by the three levels. The Infāq general theory model is:

(4) $IQ = f(I_{fa} + I_{md} + I_{mb})$
where,
I_{fa} = FarÌ al-cAyn Infāq (Obligatory spending)
I_{md} = Mandūb Infāq (Recommended spending)
I_{mb} = MubÉÍ Infāq (Permissible spending)

Hence, the general concept of the first level of Infāq (FarÌ al-cAyn) is represented by

(5) $I_{fa} = f(BN_s + BN_f + BN_p + D_s + S)$
where,
BN_s = the basic needs for one's self
BN_f =the basic needs for one's family
BN_p = the basic needs for one's parents
D_s = settling one's debt and
S = savings
At this level of Infāq, it is compulsary for every individual, besides his basic needs, to spend for the basic needs of his family members and his parents.

He has to settle his debts and save for the future needs of the family.From this general concept several other situations can be assumed although al-Shaybānī mentions two situations. That is, assuming the individual has no family, neither parents nor debt obligations, then his Infāq function would be as shown in Equation 6below:

(6) $I_{fa} = f(BN_{s)}$
where,
I_{fa} = FarÌ al-cAyn Infāq (Obligatory spending) and
BN_s = the basic needs for one's self.
Other wise if it is assumed that he has debt obligation, then his Infāq will cover the basic needs plus the debt expenditure (Equation 7).

(7) $I_{fa} = f(BN_s + D_{s)}$
where,
I_{fa} = FarÌ al-cAyn Infāq (Obligatory spending),
BN_s = the basic needs for one's self and
D_s = settling one's debt.
In the second level, we assume the individual has fulfilled all the Infāq required in the first level (I_{fa}), and he is now required to assist the relatives, visitors and friends. Thus his Infāq function will be represented by

(8) $I_{md} = f(I_{fa} + R_s + V_s + F_{r)}$
where, R_s is One's Relatives, V_s is One's Visitor(s) and F_r is One's Friend(s). Here again as in the first level, several situations can be assumed. If the individual is in a situation where he has no close relatives then his obligations will only be to spend on visitors and friend. Hence his Infāq function would look as under:

(9) $I_{md} = f(I_{fa} + V_s + F_{r)}$
The Third Level of Infāq (MubÉÍ) will be denoted by:

(10) $I_{mb} = f\,(I_{fa} + I_{md} + Z_t + H_j + S_{q\,+}\,O_v)$
Where, Z_t is Zakāt, H_j is ×āj, S_q is Îadaqāt and O_v is other virtues.
This third level is optional according to al-Shaybānī . It comes after fulfilling the first two level, I_{fa} and I_{md}. In the third level, the individual can choose not to accumulate wealth and thus limit his Infāq to the second level. But if we assume that the individual chooses to accumulate wealth then he will have to do Infāq for his Zakāt and ×āj obligations and provide voluntary Îadaqāt to the members of the society (Equation 9).

7. IMPLICATIONS OF INFĀQ MODEL

Kahf (1981)suggests that the Muslim consumer must replace the term 'consumption' with 'final spending', which comprises spending for the sake of Allāh, which has been excluded in the term consumption in the conventional analysis. The term presummably will capture the spiritual dimension of consumption. The present study introduces the term Infāq, which is all-encompassing. Its use in the Qur'ān and ÍadÊth relates to spending on the self, on the family, on the parents, on the society, for the sake of Allāh, and so on. Therefore, just like al-Kasb, Infāq embodies the individual, social, material, spiritual, moral and legal dimensions into the individual's spending decision making and behavior.

The Infāq model combines both the FarÌ al-ᶜAyn and the FarÌ al-Kifāyah concepts in the individual's spending decision making and behavior. This automatically makes every individual socially responsible and instills in him the moral duty of caring for others. Economically, it allows the individual to spread his earnings, which presummably will narrow the gap between the haves and the have nots thereby contributing to the equitable distribution of income and wealth. Besides, the notion of caring for others he will contribute to their income, reduce their marginal propensity to consume and increase their marginal propensity to save, something that is an inherently growth friendly.

The first and second levels of al-Kasb oblige every capable member of the society to earn and make Infāq dependant upon obligatory Kasb. This notion discourages idleness and inspires efficiency in the economy. Furthermore, in the first level, indebtedness is discouraged and savings is encouraged. Needless to say, savings is the sacrifice of present consumption for future consumption, which also includes the consumption of future generations. On the other hand, indebtedness brings forward future consumption to the present, thereby making future generations poor, something that goes against the spirit of the ÍadÊth cited in (4) of sub-section 5.1 of this paper. Therefore, discouraging indebtedness means Muslim households and the socities at large should avoid debt-based economic system that will slide them into nations of indebtedness instead of being nations of savers and investors. The model is also realistic as it addresses different situations at the various levels of income. The individual is encouraged to strive for earnings to the extent of contributing to a wider sphere of maÎlaÍah for the society. Finally, in the model, when the individuals achieve the second level in their Kasb and Infāq, they rise above the level of Zakāt receipients. Instead, they become potential Zakāt contributors in the following level, third level in the heirrachy of Kasb and Infāq.

8. CONCLUSION

This paper has presented the economic ideas of al-Shaybānī on major issues in general and his levels of al-Kasb in particular. The paper used the three levels of al-Kasb as provided by al-Shaybānī to develop the Infāq model. The concept of the model has several advantages over the conventional micro-consumption models.The primary features of this model are its simplicity and comprehensiveness. It is easy to understand yet it embodies the individual, social, material, spiritual, moral and legal dimensions into the individual's spending decision making and behavior. The model is more realistic in the context of the understanding of human behavior, growth friendly and instills the spirit of cooperation and social responsibility at the individual and social levels. The paper hopes to trigger the interest of scholars and researchers in exploring this new direction of research and to further improve the model through rigorous analysis.

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ENDNOTES

1. Al-Iktisāb p.99

2. *Al-Iktisāb*, p.36

3. When one analyses the stated ÍadÊth on basic needs, he derives three new interpretations. Firstly, the first two items in the hadith, namely food and clothing are the direct responsibility of the individual. Secondly, in the last two items: shelter and transport, the Prophet s.a.w begins by the word if, which is a conditional statement. It can be understood by posing a counter question. That is, what if a person does not have shelter, what if he does not have transport? The answer is, then the society or the state should provide for him. This is unlike the first two items: food and clothing where the statement is unconditional. The third interpretation is

that the term 'if' used in the ÍadÊth is infinite. That is, if you have health care, if you have education, and so on. With such infinite lists of basic needs, it indicates that the basic needs vary according to time and place

4. AbËDÉwËd, Sunan, kitÉb 88, Chapter 39, ÍadÊth No.3548, p.478

5. *Al-Qur'ān*, 65:6.

6. *Al-Qur'ān*, 65:7.

7. *Al-Qur'ān*,2:233.

8. Ibn×ajar al-'AsqalÉnÊ, AÍmadibn[c]Ali, *Fat-Í al-BÉrÊ*, KitÉb 30, Chapter 51, ÍadÊth No.1968, p.209.

9. .*Al-Iktisāb*, p.36.

10. *Al-Iktisāb*, p.125.

11. *Fat-Í al-BÉrÊ*, KitÉb 56, Chapter 137, ÍadÊth No.3004, p.162.

12. AbËDÉwËd, Sunan, Chapter 45, ÍadÊth No.1675, p.110.

13. *Al-Iktisāb*, p.37.

14. *Al-Qur'ān*, 79:40-41

15. Narrated by al-ÙabrÉnÊ, *Al-Iktisāb*, p.132.

16. *Al-Iktisāb*, p.41.

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Antecedents of *Zakat* Payers' Trust: The Case of Nigeria

Mustafa Murtala Oladimeji Abioye[a], Muslim Har Sani Mohamad[b] and Muhammad Akhyar Adnan[c]

[a]*Department of Accounting, Faculty of Management Sciences, University of Abuja, Abuja, Nigeria. (Email: mmabioye@gmail.com)*
[b]*Department of Accounting, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia (IIUM), Kuala Lumpur, Malaysia (Email: muslimh@iium.edu.my)*
[c]*Department of Accounting, Faculty of Economics, Universitas Muhammadiyah Yogyakarta (UMY), Yogyakarta, Indonesia (Email: adnan@umy.ac.id)*

ABSTRACT

Zakat payers' trust is vital to *zakat* organizations because its absence will undermine the institutional effectiveness of zakat. Unlike other forms of voluntary donations, *zakat* is a religious duty guided by divine rules. However, *zakat* payers have choices to turn to collection channels of their preference either through governmental or voluntary *zakat* institutions. With increasing number of charitable organizations, competition for limited zakat and other donation becomes intense. Understanding the *zakat* payers' compliance behavior is central to the development of *zakat* institutions because their effectiveness to help the poor and other beneficiaries is heavily dependent on zakat collection. However, such studies are sparse. Therefore, the aim of the paper is to fill this gap by developing and validating the model of *zakat* payers' trust in *zakat* institutions. The constructs of trust's antecedents were drawn from resource dependence theory, legitimacy theory, and donor trust literature. Through structural equation modeling test, we found perceptions of board capital, legitimacy management and stakeholders' orientation are important to determine *zakat* payers' trust. The trust model represents the main contribution of this study. Importantly, necessity of understanding *zakat* payers' trust are more pertinent at the place where proper *zakat* administration is still in its infancy stage as in the case of Nigeria.

JEL classification: M4

Key words: Trust, Board capital, Legitimacy management, Stakeholders' orientation, *Zakat* payers

1.0 INTRODUCTION

Donor trust is especially important to the voluntary sector since it is often difficult for a donor to adequately assess whether his money has been used as promised. Absence of donors' trust will impede their giving behavior. As suggested by Sergeant and Lee (2002), the separation of market for resource attraction (i.e. funding) and resource allocation (i.e. programs) makes the opportunity for monitoring problematic. Thus, charitable organizations must put in place factors that create donors' trust. The necessity for trust is, indeed, very great in respect of *zakat* institutions [1]. This is due to the fact that z*akat* payers must have sufficient trust in an organisation that they will delegate a religious duty. Unlike other forms of voluntary donations, *zakat* is a religious duty and is guided by divine rules. However, *zakat* payers can pay zakat to collection channels of their choice either through governmental or voluntary *zakat* institutions. Without trust in these organizations, devoted Muslims may also distribute *zakat* directly to its beneficiaries or hold payments until ideal zakat administration is in place.

Understanding the *zakat* payers' compliance behavior is important to the *zakat* institutions because their effectiveness depends on the level of support that *zakat* payers' provide. As argued by Sargeant and Lee (2004), donor trust to the charitable organizations plays an important role in fostering giving and in determining the amount of donations. These are integral elements of the sustainability of charitable organizations. Understanding factors that can enhance *zakat* payers' trust would certainly provide opportunities for *zakat* institutions to improve performance in terms of *zakat* collection and distributions.

Researchers have attempted to identify demographic, socioeconomic and psychographic variables that influence *zakat* payment and the choice of *zakat* distribution channels (Idris and Ayub, 2002; Nor, Wahid and Nor, 2004; Muhammad, 2008; Wahid, Ahmad, and Kader, 2008). However, none of these studies have addressed *zakat* payers' perceptions of the *zakat* institutions and their attributes that can fuel giving behavior amongst *muzzakies* (*zakat* payers). Accordingly, knowledge of the antecedents of donor trust will assist managers of *zakat* institutions to attract and retain *zakat* payers for long term sustainability of their organizations. The main subject of previous studies has been zakat payers' attributes than zakat institutions' governance and management policies. Thus, the aim of the paper is to fill this gap by developing and validating the model of z*akat* payers' trust. In the model, we examine the impact of governance, legitimacy management and stakeholders' orientation of z*akat* institutions on z*akat* payers' trust. Therefore, the study represents a significant contribution to the body of knowledge in charitable organization literature with specific focus on sustainability of *zakat* institutions. Importantly, issues on *zakat* payers' trust are more pertinent at the place where proper *zakat* administration is still in its infancy stage as in the case of Nigeria. Nevertheless, the findings will be also very helpful to *zakat* institutions facing legitimacy problem in other jurisdictions.

This paper on the zakat payment sustainability in Nigeria begins by providing some background on the emerging *zakat* sector in Nigeria and a discussion of the current situation of *zakat* management in Nigeria. This is followed by the literature review section. The fourth section is the discussion of the theoretical background and hypothesis development section. The fifth section reviews the methodology of the study while section six discusses the results. Section seven concludes the paper.

2.0 LITERATURE REVIEW

2.1 *ZAKAT* INSITUTIONS IN NIGERIA

The re-emergence of organized *zakat* institutions in Nigeria, after it was declared illegal by the colonial authority, can be traced to two factors. First, the high incidence of poverty among the Nigerian Muslims has led to the emergence of Kano *Zakat* Council in the northern region in 1982 (Aliyu, 2002) and the Muslim Welfare Fund by 1997 in the western region of Nigeria. This marked the beginning of private *zakat* institutions in Nigeria. The second factor was the declaration of the Islamic legal system in Zamfara state in 1999. The Zamfara State *Zakat* and Endowment was established as one of the structures for implementation of a *Shari'ah* legal system. Eleven other states in the northern region also established *zakat* institutions with different levels of implementation. The establishment of these institutions increased the awareness about formal *zakat* management in Nigeria. *Zakat* and *Sadaqa*h foundation also came on board in 2000.

With these development, two major issues feature prominently in the Nigerian *zakat* management landscape. First, a majority of *zakat* collection by governmental institutions is from the farmers (based on the preliminary exploratory findings) while the level of collection by both governmental and non-governmental is grossly low compared with the *zakat* payment potentials of Muslims. In the year 2002 a study conducted by Aminu Ibrahim and Co, Chartered Accountants confirmed a wider gap between the actual *zakat* performance and the *zakat* payment potentials of Muslims resident in Kano state. This study only identified the problem of low *zakat* collection and proffered solution but failed to investigate the cause of the poor *zakat* collection by Kano state *zakat* institutions. The audited report of the other three major *zakat* institutions also confirms poor *zakat* collection scenario. In 2008, it was reported by a British broadcasting corporation, Bauchi, that the rich in the state give their *zakat* to the poor in their neighborhood. One possible reason for the behaviour of the rich in Nigeria may be lack of trust in the formal *zakat* institutions. Therefore, knowledge of the antecedents of trust among the Nigerian *zakat* payers will surely help the sustainability of *zakat* institutions in Nigeria.

2.2 DONOR TRUST AND CHARITABLE ORGANIZATIONS

The review of studies on donor trust began with studies on trust in it generic usage. The concept of trust in organizational studies is widely discussed and researched in marketing literature. Trust is considered potent in commercial relationships either in business to business deals or trade between firms and customers (Berry, 1995; Morgan and Hunt, 1994). There is a general agreement that trust is important in a number of ways. It promotes cooperative behavior, reduces uncertainty and risk in people's relationship, decreases transaction costs and facilitates formation of ad hoc work groups (Meyerson, Weick and Kramer, 1996; Doney and Cannon, 1997; Gambetta, 1998).

Controversies exist in marketing literature as to antecedents and consequences of trust. Many authors, in their definition, have identified some elements as determinants while in other studies the same set of elements are treated as consequences. Among antecedents found in the literature include personal characteristics of the partners such as honesty, sincerity, moral integrity, frankness, empathy, reliability and affinity with trustor (Swan and Nolan 1985; Moorman, Deshpande and Zaltman 1993), shared values which partners pursue (Morgan and Hunt 1994), goal congruence (Anderson and Weitz 1989), and reputation (Ganesan 1994; Doney and Cannon 1997).

Discussion on the consequences of trust found in the literature include commitment reflecting the effort that individuals make to maintain a relationship (Moorman, Zaltman and Desphande 1992; Morgan and Hunt 1994; Ganesan 1994; Nielson 1998), reduction of transactions costs where business deals are completed based on trust rather than via detailed legal contracts (Zaheer and Venkatraman 1995), greater ease in influencing partners (Swan and Nolan 1985; Swan, Trawick and Silva 1985), consequently greater sales (Crosby, Evans and Cowles 1990; Dahlstrom and Nygaard 1995; Dion, Easterling and Miller 1995) and continuity of the relationship (Ganesan 1994; Mohr and Speckman 1994; Kumar 1996). Specifically, as suggested by Nielson (1998) that the consequence of trust should lead to greater probability of allocating resources in favor of parties who are trusted, this clearly provides basis for exploring relationship between *zakat* payers' trust in *zakat* organizations and their *zakat* compliant behavior. In other words, zakat payers' trust is correlated positively with their choice of institutions to which they pay their obligatory donation.

Within studies of fostering donors' giving behavior in charitable organizations, it appears that Sargeant and Lee (2002 a & b) to be the first empirical study on donor trust. According to them, previous studies have approached trust and its relationship to donor behavior from a normative or philosophical perspective. Moreover, they assert that no prior study before them has operationalized trust in the voluntary sector context. Due to limited number of literature in the area of donor trust, this study is heavily influenced by the work of Sargeant and Lee (2002 a & b), Sargeant et al. (2006), and Torres-Moraga et. al. (2010) in exploring supports of role of trust in segregation of different groups of donors, and in determining their level of donation in specific charitable organizations.

2.3 *ZAKAT* PAYERS' COMPLIANCE BEHAVIOUR

Understanding *zakat* payers' compliance behavior is particularly crucial to *zakat* institutions because many Muslims consider that majority of their governments have political agenda in settling charitable organizations and as such adversely affect their trust in them. This attitude against governmental institution led to the emergence of voluntary organizations which filled the gap by collecting and distributing *zakat* along side with other humanitarian donations (Krafess, 2005). Besides, proliferation of voluntary organizations is a serious challenge to the nongovernmental charities. For example, in Jordan, a country with about 5.25 million people has over 650 registered voluntary bodies while the number of voluntary organizations in Egypt is put at about 14,000. The resultant effect is competition for the available limited *zakat* and other donations. Consequently, *zakat* institutions adopt marketing strategies like promotional gifts as well as high investment in technology to gain loyalty of *zakat* payers. This is prevalent in countries like Malaysia and Singapore. Wholesale adoption of marketing strategies without adequate understanding of factors that engender trust in *zakat* institution may constitute sheer waste of *zakat* payers' money. It does appear that these efforts do not generate expected outcomes (Wahid et. al., 2008).

Studies on behavioural aspects of *zakat* are limited. Nevertheless, the following review of relevant literature highlights the need to study *zakat* payers' trust. Idris and Ayub (2001) conducted a study on the dimensions of attitude towards *zakat* on employment income and their implications on compliance behaviour. Idris, Ali and Ali (2003) discuss the impact of intrinsic factors on compliance behaviour toward *zakat* on employment income, while Nor, Wahid and Nor (2004) focus on the awareness of paying *zakat* on income among professionals. Ahmad, Wahid and Mohamad (2006) explore factors contributing to dissatisfaction towards *zakat* institutions, whereas Muhammad (2008) studies the perceptions of lecturers on *zakat* administrations with Wahid, Ahmad and Kader (2008) exploring factors influencing dissatisfaction among *zakat* payers towards *zakat* distribution.

Past studies have identified a number of factors that influence the behaviour of *zakat* payers and their attitudes of *zakat* payers toward *zakat* on employment income. Idris and Ayub (2001) identify the general acceptability, positive acceptability, uncertain acceptability, conditional acceptability and technical acceptability as the five dimensions of attitude towards *zakat* on employment. Of these, they discovered that only positive acceptability, uncertain acceptability, conditional acceptability are significantly related to compliance behaviour.

Idris, et al. (2003) investigates the impact of motivational factors such as perceived service quality, degree of knowledge of *zakat*, degree of exposure to promotional campaigns and level of religiosity on *zakat* compliant behaviour. He found that perceived service quality, degree of knowledge of *zakat*, degree of exposure to promotional campaign is significantly related to *zakat* payment behaviour while the level of religiosity has an inverse relationship with *zakat* payment behaviour. The unexpected relationship between the degree of religiosity and compliance might be linked to differences of opinion on the legality of the inclusion of employment income as part of wealth subjected to *zakat*.

While the degree of religiosity is not a significant factor influencing the behaviour of *zakat* payers in the study by Idris et al. (2003), Nor et al. (2004) found that the level of religious belief and religious education are the two most significant factors influencing the payment of *zakat* on income. Insignificant variables like gender, number of dependants, level of education and knowledge of *zakat* on income were found to be related to the behaviour and compliance of *zakat* payers. *Zakat* collection centres were not found to have any significant influence on payment of *zakat* on income.

Prior studies have also addressed the decision of *zakat* payers regarding their selection of channels for *zakat* distribution to reach the beneficiaries. Ahmad et al. (2006) examines factors that determine attitudes toward *zakat* institutions based on a sample of 753 respondents across six privatized *zakat* institutions. He found that *zakat* distribution patterns and efficient management of *zakat* is related to payment of *zakat* to *zakat* institutions. Approximately 57 % of the respondents reported that they were not satisfied with the existing distribution of *zakat* and that it significantly affected their choice of *zakat* distribution channels. In a similar study, Muhammad investigates the perceptions of lecturers towards *zakat* administrations. In his classification of his respondents, only 12% paid *zakat* to beneficiaries in Selangor while 37.5% of respondents in Kelantan paid directly to the needy.

High patronage of *zakat* institutions was attributed to privatization and the market type of approach to *zakat* collection activities. Feelings of personal satisfaction were cited as the major reason for paying to the needy. In Selangor approximately 58% of those who paid to the needy cited the same reason while approximately 70% of their counterparts in Kelantan also gave the same reason. Among the major findings of Muhammad include the significant relationship between favourable perceptions of *zakat* distribution and payment of *zakat* to *zakat* institutions and a significant relationship between perceptions of poor *zakat* distribution and increased probability to pay *zakat* directly to the recipients. Unlike Muhammad, Wahid et al. did not find any links between *zakat* distribution and a willingness to pay *zakat* nor did he find any significant effect of privatization on *zakat* payment.

There is no doubt that prior research on *zakat* payment behaviour will greatly contribute to *zakat* management especially in Malaysia where most of the studies were carried out. However, it is evident their findings are mixed and not integrated. Besides this, most findings are based on employment income in the public sector while private sector is left unexplored. As a narrow scope of study will limit the general applicability of the findings, Idris and Ayub (2001) called for studies of other sectors and jurisdictions. In addition, more studies are needed to provide greater understanding on relationship between *zakat* payers' compliant behaviour and attributes and actions of board members and top management of *zakat* institutions. Such knowledge and studies on steps and actions of *zakat* institutions that lead to improvement in collection and effective distribution of *zakat* is necessary but sparse. For instance, factors such as religiosity, religious education are beyond the control of *zakat* institutions, hence their contribution to knowledge that will improve *zakat* collection by *zakat* institutions is limited. But issues pertaining to distribution pattern, personal satisfaction, efficiency of management, *zakat* collection centres exposure to promotional activities will be very helpful to *zakat* management practices. Although, knowledge of influences of these factors is, in no doubt, useful, these factors are output of decisions made by decision making organ called board of directors or trustees.

The impacts of board on the type and scope of decisions an organisation made are well documented in governance literature (Herman, and Renz,1998 and 2000; Hillman and Dalziel,2003; Brown, 2007). Besides, Muhammed (1990) and Ghazali and Ibrahim (1990) identify trust of *zakat* payers as major factor that will influence their payment decision. None of these studies have specifically addressed to identify determinants of *zakat* payers' behaviour that make them pay *zakat* through organizations of their choice. Therefore, findings from studies specifically addressing the issue of the trust of *zakat* payers in *zakat* institutions will enrich the literature with new insights of ways in improving performance of such institutions. Thus, the current study examining the role of governance and management policies on *zakat* payers' trust is an attempt to bridge this gap in the *zakat* management literature.

3.0 THEORETICAL BACKGROUND

The current study falls within a broad theoretical area of organisational resource management. In the context of *zakat* institutions, understanding the role of board of trustees is a vital component of organisational resource management and also constitutes an essential part of this theoretical area. Although a number of board functions have been identified in the governance literature, the four critical roles often cited include monitoring, service, strategy and resource provision (Ong and David, 2007; Daily et al., 2003; Zahra and Pearce, 1989).

Zakat institutions, traditionally, rely mainly on contributions from the individual *zakat* payers. A typical *zakat* payer has the option of paying directly to the poor or through a third party in the form of *zakat* institutions. The fact that payment of *zakat* is a religious duty, its payers often take necessary steps to ensure it is done as prescribed. Doubt as to the appropriateness of its implementation is heightened when it's done through a third party. Accordingly, they often require signals to mitigate this information asymmetry. When organisations face legitimacy problem, disclosure is one of the means of solving the problem (Suchman, 1988). Similarly, resource dependence theory suggests that the board should be vigorous to provide resources including legitimacy for organisations (Pfeffer and Salancik, 1978).

Resource dependence theory is based on the belief that environments are the source of scarce resources and organizations are dependent on these limited resources for their survival. Therefore, lack of control over these resources creates uncertainty for firms operating in that environment. Accordingly, organizations must develop ways to exploit these competitive resources in order to ensure their own survival (Pfeffer and Salancik, 1978). According to them, three factors influence the degree of dependence of organizations on a given resource: The overall importance of the particular resource to the firm, the scarcity of the resource and finally, and the competition between organizations for control of that resource.

Besides, resource dependence theory also inferred that a firm's strategic options were determined to a great extent by the environment. Consequently, to reduce the impact of this environmental uncertainty on organizational performance, resource dependence theorists argue that it is necessary for organizations to develop and sustain effective relationships with their external environment. Board of director is seen as main instrument of sustaining fruitful relationship with the external environment.

Legitimacy theory is based on the notion of social contract which is a set of expectations a society holds about how an organization should conduct its operations. Organizations are expected to comply with the (terms) expectations embodied within the social contract. Literature on organizational legitimacy falls – fairly neatly into strategic and institutional approaches (Oliver, 1991). The strategic approach depicts legitimacy as an operational resource (Suchman, 1988) that organizations extract from their cultural environments and that they employ in pursuit of their goals (Ashforth and Gibbs, 1990). On the contrary, the institutional approach views legitimacy as a constraint and concerns on the cultural environment in which organizations exist as well as the pressure that the environment exerts on organizations to engage in expected normative behavior.

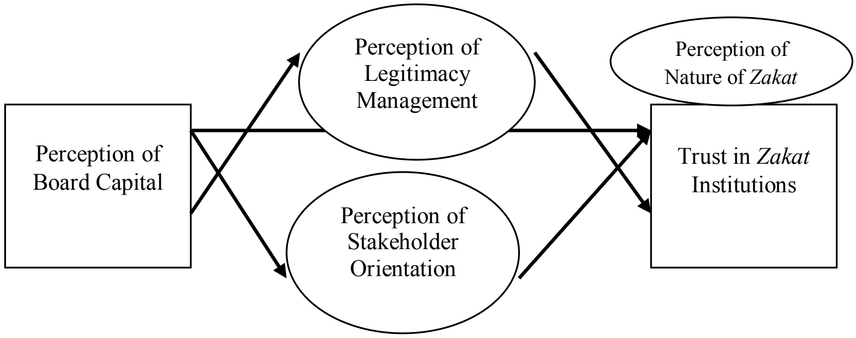
From the discussion above, it is apparent that the link between organization's legitimacy and resource dependence theory is the role and functions of the board in mobilizing institutions' resources to manage pressures of external environment. According to Hilman and Dalziel (2003), the function of resources provision refers directly to the ability of the board to bring resources to the firm, resources being "anything that could be thought of as a strength or weakness of a given firm" (Wernerfelt, 1984, as cited by Hilman and Dalziel, 2003). Pfeffer and Salancik, 1978) assert that four primary benefits can be provided by the boards. These include advice and counsel, legitimacy, channels for communicating information between external organizations and the firm, and preferential access to commitments or support from important elements outside the firm. As the aim of the study is to determine what factors that should exist in *zakat* institutions that promote *zakat* payers to pay their dues in such organizations, the two theories and donor trust literature provide relevant framework to for the study. Detailed discussion is given in the discussion of the model and hypotheses generation.

4.0 RESEARCH MODEL AND HYPOTHESES DEVELOPMENT

Figure 1 displays the theoretical model of the study. The model clearly shows that antecedents of *zakat* payers' trust in *zakat* institutions are perception of board capital, perception of legitimacy management, perception of stakeholders' orientation and perception of the nature of *zakat* institutions.

Board capital is drawn from governance literature. It is assumed that the degree of heterogeneity in the board will influence the type of legitimacy management policies as well stakeholders' orientation of *zakat* institution. It is proposed that the combined effect of these should affect the trust of *zakat* payers in a *zakat* institution. Finally, based on *zakat* literature, it is assumed that the *zakat* payers have different perceptions regarding types of *zakat* institution and this should affect their trust in *zakat* institutions**.**

FIGURE 1
Theoretical Model



4.1 PERCEPTION OF BOARD CAPITAL

The concept of board capital was introduced in strategic management literature by Hillman and Dalziel (2003) as the sum of the human and social capital of the board of directors. They assert that board capital, or sum of individual director's human and social capital, serves as a proxy for the ability of a board to engage in board roles such as provision of resources for the firm (Haynes and Hillman, 2010). Board members often have substantial influence in shaping the behavior of firm by virtue of their strategy formulating and oversight roles. They influence setting of organizations goals and priorities as well as how resources will be allocated to meet those goals. Members, however, bring different values, disciplinary norms, functional expertise and social connections to their role (Jensen and Zajac, 2004). Therefore, there are likely to be differences of opinion when it comes to setting organization's values, priorities and making resources allocation decisions. Thus board capital may be critical in determining stakeholder management practices.

One of the roles of the boards that have been theoretically identified is the strategic role. Board's involvement in strategy has been found to include working with management to develop strategic planning. From practitioners' perspectives, Lusthaus, Anderson and Murphy (1995) view strategic planning as one of the measures of an organizational capacity. To them strategic planning refers to the pattern of calculated responses to the environment which includes resource deployments that enable an organization to achieve its goals. It entails formulating activities that lead to long term organizational success. It involves exploring the fundamental questions: What are the major services that we offer? Who are our clients and what services do they want us to provide?

Another role of board is to provide resource for organizations. Hillman and Dalziel (2003) propose that boards also function as resource catalysts for organization by providing linkages to necessary resources, providing legitimacy, links to other organizations and assistance in acquiring resources. Green and Griesinger (1996) found that boards that engaged in resource – related activities, such as involvement in fund raising and making personal financial contributions were more likely to be associated with measures of improved organizational performance. Herman and Renz (2000) found that most effective non-profit organizations do have prestigious boards. The importance of social and financial status in board ability to perform its resource provision role has implication for board of *zakat* institutions. Prestigious and committed boards should be able to attract more *zakat* to *zakat* institutions

If donors trust is critical to the sustainability of nonprofit organizations, it can be inferred that strategic planning is imperative for trust building. By implication, board capital that influences strategic planning has an indirect influence on trust building. Since, the object of strategic planning is organizational survival and one way to achieve this is to play attention to satisfaction of organization' stakeholders and organizational legitimacy, it can be inferred that board members also influence both stakeholder orientation and legitimacy management. Also, linkage provision role of board can be construed as an evidence of trust building activity for an organization. From the discussion, board capital impacts on trust, legitimacy management and stakeholders' orientation. Thus it is hypothesized as follows:

$H_{1:}$ *The higher the perception of the board capital of a zakat institution, the higher the zakat payer's trust.*

$H_{2:}$ *The higher the perception of the board capital of a zakat institution, the higher the perception of legitimacy management.*

$H_{3:}$ *The higher the perception of the board capital of a zakat institution, the higher the perception of quality of stakeholders' orientation.*

4.2 PERCEPTION OF NATURE OF *ZAKAT* INSTITUTION

Zakat institution, by rule, should be run by an Islamic government [2]. But private organizations can run *zakat* institutions either as sole *zakat* fund administrators where there is no Islamic government (Al-Qaradawi, 1999; Islam, 1999) or co exist with governmental institutions (Al-Qaradawi, 1999; Faridi, 1990; Kahf, 1990; Mohammad, 1990; Hassan, 2007). Perceptions of people regarding performance of public and private sectors organizations vary. There is general feeling that private sector organizations are more efficient than governmental organizations. Governmental *zakat* institutions may not be immune against this general perception of inefficiency against government. Hassan (2007) reports that the average annual combined *zakat* collections of three non-governmental *zakat* institutions, between 1988 and 1997, were 538% of the average annual *zakat* collection by the governmental *zakat* board within the same period in Bangladesh. Similarly, Scoth (1985) finds that rice farmers in Kedah, a state in Malaysia, were reluctant to pay to the non Islamic government of the time because of the fear of inappropriate distribution. Evidences from these studies appear to be reflection of role of trust in the selection of organization into which individuals pay their *zakat* when they have the freedom to choose. Obviously, these may not be complete picture of public perception against *zakat* institution. There is therefore, a need for empirical evidence to provide insight into this phenomenon. Both governmental and nongovernmental *zakat* institutions exist in Nigeria and performance of governmental as evidenced by the audited reports tend to support this perception. An empirical support is, however, desirable to provide more insight. This leads to the fourth hypothesis.

H_4: *The higher the belief in governmental zakat institution, the higher the perception of trust of zakat payers in zakat institutions.*

4.3 PERCEPTION OF LEGITIMACY MANAGEMENT

Either gaining, maintaining or repairing legitimacy, Suchman (1995) suggested that organizations should respond to social expectation effectively or else it would pose serious problem to its existence. According to Deegan(2006), the central theme in most studies under the legitimacy theory is the role of public disclosures of information to support, create or regain organizational legitimacy. In this context, legitimacy is treated as a resource upon which most organizations rely upon, to varying degrees, for their survival. Legitimacy theory, like a number of other theories such as political economy theory and stakeholder theory, is considered to be a systems- oriented theory (Deegan, 2002) and a system oriented organization and society permit the tendency to focus on the role of information and disclosure in the relationship between organizations, the state, individuals and groups (Gray, Owen, and Adams, 1996). Using a system view, legitimacy theory assumes an organization is influenced by the society and in turn, society in which an organization operates has influence on it. Within a given society, social oriented theories recognize the existence of power conflicts and the various struggles that occur between various groups (Deegan, 2002). Effective managers should know how to manage the expectations of these conflicting groups for the survival of their organizations.

Organizations, to system oriented theorists, do not have inherent right to exist (Suchman, 1995). To them organizations exist to the extent that the particular society considers that they are legitimate and as such "confer" upon them (the organizations) the "state" of legitimacy. Where society is not satisfied that an organization is operating in an acceptable manner, social contract is perceived as breached. The society may subsequently revoke the organization's "contract" to continue its operations through boycott of products, withdrawal of supply of raw materials or even lobbying government to impose prohibitive taxes or fines to prevent the continuity of actions deterred by the society. This is a case of threat to legitimacy which effective managers should manage for the benefit of their organization. In the context of *zakat* institution, the *zakat* payers may resort to distributing *zakat* direct to the beneficiaries.

Management of legitimacy becomes a very important issue because of differences in manager's perceptions. Besides, the perception of managers about degree of importance of different stakeholders may also differ. The more important a stakeholder is considered to an organization, the more effort will be exerted in managing the relationship (Gray et al., 1996). Information is a major element that can be employed by organization to manage (or manipulate) the stakeholder in order to gain their support and approval or distract their opposition and disapproval. Deegan (2002) also affirms that corporate disclosure policies are considered to represent one important means by which management can strategically influence external perceptions about their organization.

Information communication is based on the organization's view of legitimacy. When it is seen as two dimensional involving strategic communications targeted toward specific organizational audiences and also encourages participation of the organizational stakeholders. If legitimacy is regarded as critical to ensure balance relationship among stakeholders of an organization for survival, then, its management should be related to trust of these stakeholders. Therefore, it could be inferred that *zakat* organizations must make available appropriate information that promote acceptance of *zakat* payers. This leads us to the fifth hypothesis:

H_5: *The higher the perception of the quality of the legitimacy management of a zakat institution, the higher the perceived trust by the zakat payers.*

4.4 PERCEPTIONS OF STAKEHOLDERS' ORIENTATION PRACTICES

Stakeholder orientation refers to how organizations manage their stakeholder groups through resource allocation decision (Berman, Wicks, Kotha and Jones, 1999). Most studies on non-for profit organizations have used time allocation as a measurement of stakeholders orientation because this type of organization particularly face hard choices in time allocation due to the smaller staff-to-workload ratios that is prevalent within the sector (Light, 2002; LeRoux, 2009). Accordingly, time is regarded as a critical resource that must be allocated among a number of organizational activities in order to accomplish the organization's objectives. Organizational time allocation decisions, therefore, have consequences for stakeholders. In the context of *zakat* institution, the resource allocation encompasses both time and other material resources.

According to Berman et al. (1999), there are two opposing views in the corporate governance literature about the ways organizations allocate time and attention to stakeholder group. The two models of stakeholder management: normative model (intrinsic stakeholder commitment) and the instrumental model (strategic stakeholder management). Stakeholder orientation views have their roots in these two divergent views. The intrinsic stakeholder commitment model is grounded in the corporate ethics as being inextricably linked to strategy and organizational behaviors. This model suggests that organizations should give equal attention to all stakeholders' interest. Advocates of instrumental model challenge the normative model as an inaccurate account of organizational behavior (Jawahar and Mc Laughling, 2001).

Drawing from resource dependence view of organization (Pfeffer and Salancik, 1978), advocates of the instrumental model argue that organization are often under pressure to strategically place some stakeholder interests over others not only to achieve higher financial performance but also for survival. Jawahar and Mc Laughling (2001) argue that organizations are likely to favor certain stakeholders depending on the degree of dependence on those stakeholders for resources critical to the organization's survival. These two approaches present a serious challenge to managers of organizations in general and managers of voluntary institutions in particulars. In organizations dealing with customers, the relationship is between sellers and buyers but in voluntary organizations act as intermediary between "sellers" (donors) and "buyers" (beneficiaries). They have different types of donors with different interests. Therefore, voluntary managers should be able to strike balance in their stakeholders' orientations policies. In the context of *zakat* institution, normative prescriptions suggest that most *zakat* payers will expect better treatment of the *zakat* beneficiaries. How this treatment affects their trust in *zakat* institution has, however, not been empirically tested. Thus, this leads us to the sixth hypothesis.

H_6: *The higher the perception of the quality of the stakeholder's orientation practices of a zakat institution, the higher the perceived trust by the zakat payers.*

5.0 METHODOLOGY

5.1 VARIABLE MEASUREMENT

5.1.1 PERCEPTIONS OF *ZAKAT* PAYERS' TRUST (PTZ)

Lack of universally accepted scholarly definition for the concept trust has made operationalizing trust problematic. Issues of multidimensionality and reliability have been reported (Corazinni, 1997; Rousseau et al., 1998) and a number of scholars have criticized wholesale adoption of psychological measures for business context (Dwyer and Oh, 1987). Scholars operationalize trust differently, depending on the focus phase of trust they study (Rousseau et al., 1998). Several dimensions of trust have been explored in various attempts at modeling the concept. Some have consider motivation and ability (Andaleeb, 1992) while others focus on credibility and benevolence (Ganasan, 1994). There are other groups that look at the cognitive and behavioral aspects of the concept. After assessing most of the available approaches, Bigley and Pearce (1998) warn against inclusion of too many dimensions in order not to avoid degradation of attribute precision and undermine the utility of result obtained. In the same line of thought, Morgan and Hunt (1994) remarked that trust exists in the presence of the cognitive component alone even though they identify two dimensions of trust. The researcher adopts the same position in this study. Accordingly, trust is operationalized as a series of beliefs which *zakat* payers hold regarding the attributes of a *zakat* institution that will be fair to its stakeholders. Therefore, the six items that measure the underlying components of perceived trust in *zakat* institutions were adapted from questionnaire items developed by Sargeant et al. (2002a) which measured donors trust

5.1.2 PERCEPTIONS OF BOARD CAPITAL (PBC)

Board capital is regarded as the sum of an individual director's human and social capital and a proxy for the ability of a board to engage in board roles such as the provision of resources for the firm. Therefore, PCB is operationalised as a set of attributes that *zakat* payers expect from the boards of *zakat* institutions to ensure that they demonstrate competence, effectiveness and fairness in their relationship with stakeholders of *zakat* institutions. Of the five items measuring the preference for board capital, three are adapted from the study of Hillman and Dalziel (2003) who are the first to coin the concept of board capital. The fourth item is derived from Qaradawi (1999) while the fifth item is derived from Callen, Klein and Tinkelman (2003). The observed variables include the professional background of board members, the presence of an honest member on the board, the presence of a scholar of Shariah on the board, the presence of an influential person on the board, and the presence of a *zakat* payer on the board.

5.1.3 PERCEPTIONS OF THE NATURE OF *ZAKAT* INSTITUTION (PNZ).

Zakat institutions, by rule, should be run by an Islamic government. However, private organisations can run *zakat* institutions either as sole *zakat* fund administrators where there is no Islamic government (Al-Qaradawi, 1999; Al-Qaradawi, 1999; Islam, 1999) or coexist with government institutions (Faridi, 1990; Kahf, 1990; Mohammad, 1990; Hassan, 2007). People's perceptions regarding performance of public and private sectors organisations vary. There is a general feeling that private organisations are more efficient than government organisations (Analoui, 2009**).** Therefore, PNZ is operationali zed as a set of perceptions of *zakat* payers regarding the ability and importance of government *zakat* institutions. The four items that measure the underlying components of the perceived nature of formal *zakat* institutions are adapted from Al-Qaradawi (1999). The observed variables include the suitability of the government to run *zakat* institutions, the suitability of non-government organisations or their inability to effectively run *zakat* institution, the ability of government to add legitimacy, and the influence of government ownership on the effectiveness of *zakat* institutions.

5.1.4 PERCEPTIONS OF LEGITIMACY MANAGEMENT (PLM)

The general purpose of financial reporting is to provide information that is useful to a variety of users who have an interest in assessing the performance of an enterprise and its management with the intention of making informed decisions. For charities, contributors represent a key shareholder group whose primary source of information is the published financial statements. To protect the interest of various stakeholders, regulators of charities propose the scope of information disclosure by charities. Those who prepare the information consider the requirements of the regulators burdensome (Jetty and Beattie, 2009), while the contributors consider the current scope of disclosure as less useful (Hyndman, 1990 and 1991)). Since *zakat* institutions is a typical charity, PDP is operationalized as a type of broad based information which *zakat* payers expect *zakat* institutions to disclose in order to be legitimate. The three items used to measure the preference for disclosure practices, which reflect the perceptions of *zakat* payers of information that may promote the public acceptance of *zakat* institutions, are adapted from findings from Hyndman (1991) and Greenfield and Larkin (2000). The observed variables include disclosure of *zakat* collection and distribution in audited reports, the disclosure of achievements, and the disclosure of the list of board members and relevant information on staff.

5.1.5 PERCEPTIONS OF THE MODEL OF STAKEHOLDERS' ORIENTATION (PSO)

Scholars argue that the goals of an organisation operate as inducements considered essential for motivating participants to contribute to organisations (Simon, 1947 as cited in Minkoff and Powell, 2006). In the context of non-profit organisations, the goals they pursue serve as a signal of what they consider important and through the signal potential, contributors may be induced to invest their time, energy and resources (Minkoff and Powell, 2006). Attention to stakeholders is important throughout the strategic management process because success for public organisations and certainly their survival depend on satisfying key stakeholders according to their definition of what is valuable. If key stakeholders are not satisfied, at least minimally, according to their criteria for satisfaction, the normal expectation should be that something will change, for example, budgets will be cut (Bryson, 2004). For charitable institutions, contributors represent a key stakeholder group (Jetty and Beattie, 2009).

In the context of this study, *zakat* payers are therefore the key stakeholder group for *zakat* institutions. Consequently, PSO is operationalized as a series of activities which *zakat* payers expect *zakat* institutions to carry out to ensure fairness to all stakeholders and guarantee their legitimacy. Legitimacy management is measured by the extent of disclosures practices, while stakeholders' orientation is an indicator of stakeholders' management. The four items used for stakeholders' orientation, which depict actions which *zakat* payers perceive as a measure of fair attention to each stakeholder group, are adapted from the scale for stakeholder orientation developed by Yau et al. (2007). The observed variables include a systematic assessment of the satisfaction of *zakat* payers, the monitoring of disbursement to *zakat* recipients, assessment of the influence of boards on the style of stakeholder management and the search for information on alternative channels of distribution.

5.2 INSTRUMENT DEVELOPMENT

Although *zakat* institutions have something appears similar to conventional charity organizations, they are ideological poles apart. Therefore, it was considered appropriate to develop new scales, specifically for use in the current Islamic context. To accomplish this, the researcher, therefore, followed the suggestion of Churchil (1979) and Green and Webb (1977) that the first step to scale development is the review of pertinent literature and experience survey by interviewing *zakat* managers. Accordingly, the review resulted in a number of factors posited to influence donor selection of a particular charity organization and extensive list of items used to measure these factors. Based on the review and in line with Green and Webb (1997), specific definitions for each construct of interest were developed. Using these definitions as the starting point, a pool of 44 items was generated to tap the underlying constructs measuring factors influencing payment of *zakat* to a specific *zakat* institution.

A panel of judges comprising of two faculty members, three Nigerian doctoral students and a management staff in one of Nigerian *zakat* institutions was formed. In line with suggestion of deVellis (1991), the judges were to determine the relevance of each item to specific construct, comment on the fitness of individual items, evaluate the items clarity and conciseness. Each judge was provided with working definition of each construct and asked to categorize each item according to these definitions. Following the suggestion of deVellis (1991) and the approach of Sargeant and Lee (2002 a & b), panel members were also required to evaluate each item for its appropriateness and clarity based on rating scale from 1 – 5. A consensus in respect of categorization, appropriateness and clarity ratings of minimum of four was used to admit items to the final pool. At the end of this process, 12 items were eliminated from the initial pool resulting in retention of 32 items. The judges were also to determine the substitutability of marketing constructs with appropriate accounting concepts. As a result, perception of board capital, perception of legitimacy management, and perception of stakeholders' orientation respectively substituted reputation, perceived communication effectiveness and perceived opportunism. Attitude toward philanthropy and beneficiaries of the organisation were not considered particularly relevant to *zakat* as a religious obligation. There was no consensus on the substitutability of familiarity with perceived nature of *zakat* institution. However, it was agreed to include the later in the study.

5.3 QUESTIONNAIRE DEVELOPMENT AND PILOT STUDY

After the final 32 items were deemed as good candidates for questionnaire by the panel of judges, they were randomly ordered and incorporated into a questionnaire. The purpose of the pilot study was to provide empirical evidence on the validity and reliability of the instrument. Two pilots were conducted. This first led to further reduction of items to 27 items. To further refine the items, result of second pilot was factor analyzed with the aid of Version 18 of SPSS. The result of the rotated factor analysis using varimax was the elimination of six more items leaving 21 items loaded against five factors confirming our expectations on constructs of the study. Despite the result of the factor analysis, 22items were incorporated into the final questionnaire because of the practical significance of the one item added. The reliability analysis using Cronbah's (1951) alpha was conducted to assess the internal consistency of the scale exceeds an acceptable standard of 0.70 (Nunnally, 1979). The size of the responses for the pilot did not permit further scale purification as recommended by de Vellis, (1991), and Pritchard, Havitz and Howard (1999). However, the level of reliability coefficients for the entire construct is compensated for this limitation.

5.4 SAMPLE AND DATA COLLECTION

Since 1953, the political elites in the Nigeria have realized the political value of census figure and they have been doing everything to resort to it (Okolo, 1999). Accordingly, it is difficult to rely on official figures without reservations. In the same footing, attempts were made to obtain reliable list of potential respondents to serve as sampling frame by collating the list of Muslim accountants from the directory of members of the Institute of Chartered Accountants of Nigeria (ICAN), which the researcher is also a member. This exercise proved unhelpful as most of the contacts addresses were outdated. Similar experience was expected from other institutions that were not as organized as ICAN. Therefore, Muslim professionals who observe religious seclusion in the last ten days of the Islamic fasting month (*itqaf*) were considered as the best alternative. Twelve mosques were purposively selected. With the help of leaders of the worshippers in each of these selected mosques a list of professionals was prepared. To achieve the objectives of the study and given the above scenario, group of professionals is considered appropriate as sample of the study because they are income generating individuals and high potential *zakat* payers. From the list, 480 respondents were randomly selected. 390 usable questionnaires were obtained from the total of questionnaires that were returned representing a response rate of 85 per cent.

Demographically, 53.3% were workers in the private sector, 22.3% were 30 years and below, 43.8% were between 31 and 40 years, 25.1% were between 41 and 50 years while 8.7% were above 50 years. From the total respondents, 56.7% were actual *zakat* payers. Furthermore, 59.7% fell in upper middle income category while 40.3% fell in categories of middle income and below. For these two categories, a test of mean differences between groups of respondents based on *zakat* status, income level and job sectors does not suggest significant differences in their perceptions. In addition, 61.5% of the actual *zakat* payers paid directly to the needy, 31.7% paid to NGOs, while 6.8% paid to the government. Besides, 28.7% were holders of master degree and above, 51.3% were holders of first degree or its equivalent and 20% were holders of ordinary diploma certificate or its equivalent. The distribution of the respondents on professional basis is given in Table 1.

TABLE 1.
Characteristics of the sample by profession and sectors

Profession	No.	Public Sector	Private Sector
Law	36	12	24
Banking and Accounting	63	11	52
Lecturing	57	46	11
Engineering and ICT	66	27	39
Medical and Allied	56	37	19
Architecture and Allied	33	14	19
Others	79	35	44
Total	390	182	208

5.5 ANALYSIS OF DIMENSIONALITY

An exploratory examination base on factor analysis using principal components and varimax rotation was conducted (Hair, Black, Babin and Anderson, 2010). Five factors were identified: Perceived Trust in *Zakat* Institution (PTZ), Perceived Board Capital (PBC), Perceived Nature of Formal *Zakat* Institution (PNZ), Perceived Legitimacy Management (PLM) and Perceived Stakeholders' Orientation (PSO). The total variance explained by the five factors was 69.19% (See Table 2). The exploratory factor analysis is followed by a confirmatory factor analysis using structural equation modeling (AMOS Version 18). The result of the confirmatory factor analysis is as shown in Table 2. Virtually all the constructs have acceptable loadings.

TABLE 2:
Exploratory Factory Analysis

Construct	Items	Factor Loading	Variance Explained	Eigenvalue
Perception of Trust in *Zakat* Institutions (PTZ)	PTZ1	.642	15,696	3.296
	PTZ2	.824		
	PTZ3	.800		
	PTZ4	.589		
	PTZ6	.736		
Perceptions of Nature of Governmental *Zakat* Institutions (PNZ)	PNZ1	.896	14.958	3.141
	PNZ2	.854		
	PNZ3	.925		
	PNZ4	.855		
Perception of Stakeholders' Orientation (PSO)	PSO1	.875	14.370	3.018
	PSO2	.850		
	PSO3	.800		
	PSO4	.752		
Perception of Board Capital (PBC)	PBC1	.798	13.408	2.816
	PBC2	.712		
	PBC3	.742		
	PBC4	.693		
	PBC5	.666		
Perceived of Legitimacy Management (PLM)	PLM1	.858	10.763	2.260
	PLM2	.841		
	PLM3	.668		

5.6 CONSTRUCT RELIABILITY AND VALIDITY

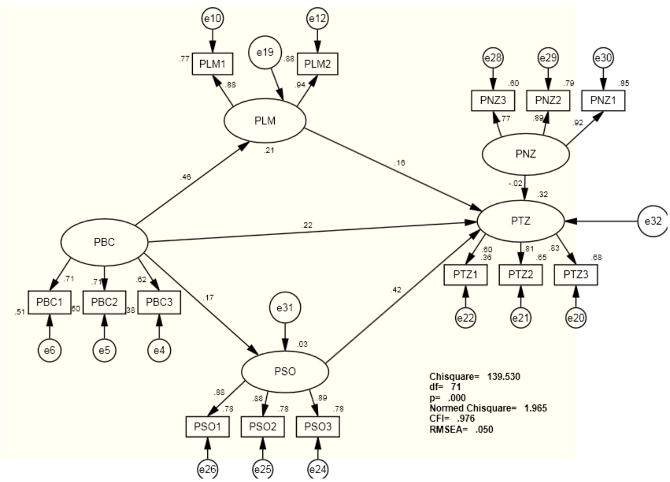
Three reliability tests were conducted to assess the reliability of the constructs: composite reliability coefficient (Joreskog, 1971), average variance extracted (AVE) (Fornell and Larcker, 1981) and Cronbach alpha (Cronbach, 1951) were used. The results show that the measures are above the minimum recommended in all the constructs except PBC which is marginally below the .5 recommended as benchmark.

The validity of the construct was assessed in terms of convergent validity and discriminant validity (Hair et. al., 2010). For convergent validity, AVE and absence of cross loading were the criteria used and for discriminant validity, test for existence of perfect correlation between pair of constructs in the model was used. (Hair et. al., 2010).There is reasonable evidence to suggest convergent validity. Except for PBC with AVE of .464, the results for all other constructs in respect of convergent validity were above minimum bench mark. This reasonably demonstrates that the measure harmonizes with another measure (Bryman and Cramer, 2009). For the discriminant validity, variation in the fitness is evidence of absence of perfect correlation in a pair of constructs suggesting that they measure different phenomena in the model.

RESULTS

The hypotheses were tested using structural equation modeling. The results show acceptable fitting indices: χ^2 139.53 (71)P≤0.00; CFI 0.976; GFI 0.953; NFI 0.952; RFI 0.939; RMSEA 0.05; Normed χ^2 1.27. As shown in figure 2, perceived board capital, perceived legitimacy management and perceived stakeholders orientation have direct and positive relationship with *zakat* payers' trust in *zakat* institution. This result supports H_1, H_5 and $H_{6.}$ Also, perceived board capital is positively related to perceived legitimacy management and perceived stakeholder in support of H_2 and $H_{3.}$ Finally, Perceived nature of *zakat* institution has a negative but very weak relationship with perceived trust in *zakat* institution.

FIGURE 2:
Structural Model of *Zakat* Payers' Trust in *Zakat* Institutions



7.0 .DISCUSSION AND CONCLUSION

This study is an initial attempt to explain antecedents of *zakat* payers' trust in *zakat* institution within the context of emerging *zakat* sector as in Nigeria.

It is believed that such knowledge will help *zakat* organizations to improve their *zakat* collections and ultimately be able to serve wider beneficiary groups. Four factors were identified as possible antecedents to *zakat* payers' trust: perception of board capital, perception of legitimacy management, perception of stakeholders' orientation and perception of effectiveness of governmental *zakat* institutions.

The perception of board capital is positively related to *zakat* payers' trust. This finding is in agreement with findings by Certo, Daily and Dalton (2001) where it was found investors were willing to pay premium on initial public offer as a result of the reputation of those on the boards of the new companies. It also agrees with the assertion made by Abd Wahab and Abdul Rahman (2011) that board composition is a principal factor determining efficiency of *zakat* institutions. More importantly, the findings confirm expectation derived from the resource dependency theory about critical function of the board to draw all necessary resources key to the survival of the organizations as in this case to develop relevant factors to improve *zakat* payers' trust The finding underscores the need for *zakat* institutions to pay special attention on the recruitment and functions of members of their boards.

Besides the effect on *zakat* payers' trust, the results also indicate that perception of board capital is highly related to the perception of broad legitimacy management by the *zakat* institutions suggesting a link between quality of board and type of disclosure policies which an organisation pursue. This finding is consistent with the finding of Lusthaus, Anderson and Murphy (1995) where practitioners consider that strategic policy as one of the measure of organisational capacity. This further emphasizes the need to pay attention on selection of board members as this finding suggests significant link between quality of board and quality of legitimacy exercise by an organisation.

Furthermore, the findings indicate that perceptions of both legitimacy management and stakeholders' orientation practices are related to *zakat* payers' trust in *zakat* institutions. However, the magnitude of coefficient of correlation of perception of stakeholders' orientation is higher than that of legitimacy management indicative of preference for stakeholders' orientation over legitimacy management. This preference may reflect degree of apathy towards financial statements of charities as found by Hyndman (1990) where he found that most of donors studied did not take special interest in studying the financial statements of charities they supported. It may also be an indicator of reservation they have for the integrity of information relative to varying experiences in stakeholders' orientation.

The inverse relationship between the beliefs in the effectiveness of governmental *zakat* institutions to *zakat* payers' trust indicates, though weak, belief in the effectiveness of nongovernmental *zakat* institution. The very low size of the coefficient of correlation between the belief in governmental *zakat* institution and trust indicates need for further studies to investigate the relationship in greater depth. Apart from the relationship of the individual independent variables to the dependent variable, *zakat* payers' trust, the explanatory power of 30% appears to be reasonably high for social study research.

The findings of this study constitute a significant contribution to the existing body of knowledge and *zakat* management practices. In the area of academic contribution, a model of *zakat* payers' trust with four components is developed. Notwithstanding that most of the factors linked to *zakat* payers' behavior were not included due to inconsistency, the model developed was tested to be valid and reliable. Apart from that, it will provide useful foundation on which further theoretical and empirical studies in the field of *zakat* management can be built.

Further, the findings will greatly assist *zakat* managers in the discharge of their divine responsibilities. They will be more informed on how to reposition their organization to achieve improved *zakat* collections and ultimately be able to serve wider beneficiary groups. In addition, it will help in providing a guide on relevant expenses to be incurred and on relevant information which may bring positive results to their organizations. The result of the relationship between trust and perceived nature of *zakat* institution is instructive. It may be necessary to carry out a survey on *zakat* preference regarding their preference on the type of *zakat* institutions rather than forcing a particular type based on normative prescription. The outcome of this survey is expected to assist the policy makers in establishing a *zakat* institution that will be perceived as legitimate by the public.

This study is not without limitations. The findings are based on cross-sectional data as opposed to panel or longitudinal data. This explains the reason for the avoidance of causal link in the relationship between the constructs. Longitudinal data will provide more insights into the probable causation. It is assumed in this study that only conscious Muslims will pay *zakat* as a religious duty. Therefore, the use of religious professionals as target sample is appropriate. Besides, an invariance of the model has been separately tested in other paper and found to have general applicability across region and between the actual and potential *zakat* payers. The exclusion of religious Muslims who are farmers and artisans represents another limitation as it is not unlikely that they would respond differently.

The current study is an initial attempt to build and test a model of *zakat* payers' trust. Therefore, the findings are indicative rather than being conclusive. In that regard, it will be useful to assess the generalization of the model developed in this study to other Muslim and non-Muslim countries. It is believed that any replication of this model will lead to a more comprehensive model of *zakat* payers' trust. Factors such as familiarity with the institution and affiliation with a particular school of thought may be considered in future studies. The major challenge at the early stage of the study was the paucity of study on the behavior of *zakat* payers. As such, studies on segregation of *zakat* payers based on demographic psychometric factors are a promising area of research. This stream of research will lay a platform for future research in *zakat* payers' behavior. Although significant caution has been put into the development of the scales developed in this study, their validity and reliability may need further examination in future research. While there is every reason to believe that the use of religiously and socially conscious Muslims as the sample for the study is appropriate, varied sampling frame may be necessary to further strengthen these initial findings.

ENDNOTES

[1] *Zakat* institution as a form of charitable organizations is mainly responsible for administering *zakat* collection from *zakat* payers and distributing them to specific beneficiaries (*zakat asnaf*) including poor and destitute.

[2] Any government is based on Islamic *Sha'ria* principles.

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Perception of Future Marketers and Accountants Towards the Need for Marketing of Public Accounting Services

Yusof Ismail[a] and Hajdin Berisha[b]

[a]*Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia, P.O. Box 10, 50728 Kuala Lumpur, Malaysia. (Email: yusof_iiu@yahoo.com)*
[b]*Independent Researcher, Kosovo. (Email: hajdinberisha@yahoo.com)*

ABSTRACT

The law requires public companies to be audited, whereas auditing is optional for other types of business organizations. The paper sets out to ascertain whether marketing may be considered relevant to external auditors. The main purpose of the study is to present preliminary assessments on whether future marketers and accountants think marketing might be considered a necessity or redundant for public accounting firms. The study uses pairs of scaled question and open-ended components as instrument to solicit the opinions of two cohorts of university students associated with the two disciplines. The first cohort comprises third year and graduating students who have studied at least a course in marketing whereas the second cohort consists of relatively junior students. The questionnaires were given to the first cohort outside the class, whereas to the second cohort in class. After careful screening, only 56 out of 104 questionnaires collected were found usable. The open-ended responses of the respondents were content analyzed by the authors independently and the resulting classifications discussed to reach consensus. While the prospective marketers and auditors thought that promotion is important to audit firms, their reputation and service quality supersede the former in importance.

JEL Classifications: M31, M42

Keywords: Accountant, Auditing, Marketer, Malaysia, Marketing, Promotion, Public accounting

INTRODUCTION

Marketing is relevant to any profession, including accounting. One common question confronting accountants and marketers alike is whether accountants – specifically public accountants or auditors – need to market their services. Whilst there are pros and cons to promoting professional services as deliberate programs, public accounting firms have been carrying out marketing activities. What are some of the reasons for public accountants to market their firms and services? What methods could have they been using and why? These are some of the major questions that the paper attempts to address.

LITERATURE REVIEW

Survival and growth of service companies, particularly audit firms are highly dependent on the extent of relationship between audit service quality and client satisfaction with audit firms. According to Ishak *et al.* (2006), research has revealed that customer satisfaction was found to partially mediate the relationship between reliability and customer loyalty.

Deregulations in audit firms over the past few years allowed accounting firms to increase their advertising activities and become more commercial. This has raised questions as to whether competition in the market for audit services has undermined auditor professionalism. Numerous commentators have specifically observed that the deregulation of advertising has forced auditors to become more competitive, and suggest that this may have contributed to a loss of professionalism. The orientation towards winning more customers through marketing activities enhances audit firms' profits but has resulted in lower quality of services provided to customers. This approach works only in a short term orientation as in the long run customers are able to understand that other organizations have been able to provide better services to customers. And, hence customers will opt to shift their preferences of audit firms (Hay and Knechel, 2010).

Some firms may perceive competition negatively. In fact, the greater the competition is the greater possibilities for customers to receive high quality services. Higher tendencies for marketing activities will be present among audit firms and if managed properly will lead to a larger number of customers. However, whether advertising of audit firms is associated with higher or lower fees for services provided has been a controversial issue for many years (Hay and Knechel, 2010).

It is conceivable that audit fees will highly depend on the type of advertising of the audit firm; whether advertising is priced-based or quality-based. Price-based advertising may lead to reductions in audit fees (DeAngelo, 1981). In contrast, the purpose of quality-based advertising is to build brand value and differentiate the quality of services leading to higher fees. However, in general it can be argued that advertising is associated with higher prices because of the need to recover the cost of advertising and because there is an incentive to increase quality to justify advertising expenditures (Hay and Knechel, 2010).

Accounting firms have heavily relied on market orientation in the past. However, according to Ozer, Kocak and Celik (2006), accounting firms believe customer orientation to be the most significant construct within market orientation. Accounting firms as well as other service organizations have persistently been rendering services based on customer needs. However, this trend has changed. Audit firms now are trying to offer a wide range of services in advance rather than waiting for customers to realize what they actually need. Hence, emphasizing the importance of being customer oriented. Moreover, audit firms are now constantly looking for ways to alert customers for their future needs for which customers might not be able to identify at a particular time.

Besides, professional service organizations are increasingly involved with marketing activities in order to develop and maintain relationships with their clients. Since these professional service organizations, particularly accounting firms are restricted by professional standards, they are striving to best understand marketing programs. Hence, understanding of customers can create better relationships with them (Barr and McNeilly, 2003).

However, although competition in audit market was greater in the 1980s than at any time, marketing in the past has mainly been practiced by organizations in a traditional way. This trend has changed with discoveries of advanced technologies. At present times, organizations have shifted to the digital mode of advertising which enables them to create presence, relationships, and mutual value with customers (Rowley, 2004). Such mode provides better marketing strategies but has also raised concerns about the validity of data that organizations provide in the digital form and the impact of these data in audit firms' professionalism. This is because auditors have little control over web contents and the changes that can be made to audited information (Iqbal**,** 2005). Hence, while companies attempt to enhance their own as well as an audit's firm image through audited data, if these data are altered and inaccurate, the reverse may occur.

This raises the issue of whether the information provided is due to any changes being made by the information providers (organizations) or the information is provided as being audited by an audit firm but it is inaccurate. If the latter case exists, the inaccurate information provided to external parties will have a tremendous effect in the image, reputation and the professionalism of the audit firm. This will also have legal consequences towards the firm that provided the information as well as for the audit firm. On the other hand, potential investors and users of financial statements (outsiders) fear that those in control (of organizations providing information to public) operate the enterprise contrary to the interests of the outsiders. Hence, resulting in higher demand for public accounting firms (Benston,1985).

One of the main concerns of service organizations is its marketing and advertising activities (Macintyre and Hayes, 1990). If controlled effectively marketing programs can be of utmost importance for service organizations as they are one of the main flows of information in a company providing useful information about the general marketing environment. This in turn will support managers to better understand the market of the industry and accordingly generate effective decisions. Although costs involved in marketing activities are considerably high, service organizations have perceived these costs to be valuable as such marketing activities result in better relationship with customers which in turn will result in future customer retention and increment of the bottom line, profits.

Another concern that audit firms should consider in their marketing activities is the ethical responsibility towards their clients. While striving to increase their profits, demonstrating high ethical standards and being honest to customers will enhance reputation and the image of audit firms. According to the Code of Ethics for Professional Accountants established by International Federation of Accountants' Ethics Committee (2005), a professional accountant is required to comply with the fundamental principles, (a) Integrity, (b) Objectivity, (c) Professional Competence and Due Care, (d) Confidentiality and (e) Professional Behavior in all his professional activities. Although Code of Ethics for professional accountants establishes ethical requirements for professional accountants, the extent of moral behavior is highly dependent on the personal values of an auditor.

Moreover, the above code has set clear guidelines which serve as directives for advertisement of audit firms. Marketing for audit firms should be completely handled in accordance with the professional principles and their actions should not affect negatively the professionalism of an audit firm. Hence, no exaggerated claims for services offers should be made. Section 250, clause 250.2 of Code of Ethics of International Federation of Accountants' Ethics Committee (2005) states that "if the professional accountant in public practice is in doubt whether a proposed form of advertising or marketing is appropriate, the professional accountant in public practice should consult with the relevant professional body". Thus, when audit firms are faced with ethical dilemmas in their marketing activities they should not take actions which are against their professionalism.

According to O'Donohoe and Petersen (1991) in their comparison between marketing advices published in professional accounting journals and accountants' marketing practices, both of these sources emphasize referrals, personal communications, practice specializations and good working relationships to be of utmost importance. Although accountants emphasized personal communication methods and referrals to be important, large firms tended to be more systematic and sophisticated in the practice of advertising and public relations whereby limited authority was given to those with marketing responsibility.

Although, personal communication with customers tends to be highly effective, its limitations hinder an accounting firm to be effective. The large number of customers to be personally contacted limits the effectiveness of such method (O'Donohoe and Petersen, 1991). Hence, many organizations practice the mass marketing strategy that enables them to reach a large number of customers while reducing costs of marketing. As with other service organizations, word-of-mouth is perceived to be the most effective method for creating customer awareness about an audit firm. The quality of services provided by an audit firm will result in positive perceptions of customers who will later become "agents" of the audit firm to use the latter's services. On the other hand, accounting firms should be highly concerned that if quality of services rendered is below legal requirements because this will result in negative word-of-mouth advertisement.

METHODOLOGY

A one-page instrument was devised to capture the respondents' perceptions of the need for audit firms to engage in promotion activities. At the outset of the questionnaire, the subject matter and purpose of the study were stated clearly: "We desire to obtain your opinions on two disciplines, i.e. marketing and auditing (*verifying the financial accounts of a company*). Our main concern is to find out whether audit firms should engage in marketing activities in order to obtain their clients (customers)."

The questionnaire provided a scaled sub-question together with its open-ended counterpart and using a scale continuum of 1 (Disagree) to 5 (Agree) respondents were asked to indicate their opinions, such as whether an accountant should study at least a course in Marketing and if so, explain with at least one reason.

The instrument was administered on two sections of undergraduate Business Ethics students in class, and third and fourth year undergraduates outside the class. Although 104 questionnaires were collected only 56 were found usable and were analyzed for this study.

There were altogether nine questions related to the subject matter under investigation and five respondent's background questions placed at the end of the questionnaire. Background questions include gender, level (year) of study, degree program, preference to work with an audit firm, and preference to work with a marketing firm.

FINDINGS

Table 1 shows the demographics of the respondents. Out of 56 qualified respondents, females outnumbered males: 55.4% and 44.6% respectively. Almost all of the respondents were in their second through fourth year of studies (the sample included only close to 2 percent of first year students). About seventy percent (73.2%) of the respondents were third and fourth year students. Bachelor of Business Administration (BBA) students comprise the majority (57.1%), followed by Bachelor of Accounting (BAcc) (32.1%), and lastly Bachelor of Economics (BEcon) (10.7%).

TABLE 1
Demographics of respondents

	Frequency	Percent
Gender		
Male	25	44.6
Female	31	55.4
Total	56	100.0
Year of studies		
1	1	1.8
2	14	25.0
3	21	37.5
4	20	35.7
Total	56	100.0
Degree		
BAcc	18	32.1
BBA	32	57.1
BEcons	6	10.7
Total	56	100.0

All of the respondents were competent to give their views on marketing and auditing because they (94.6%) have completed the two relevant courses, i.e. Marketing Principles and Financial Accounting I. Table 2 shows the number of courses related to marketing and financial accounting the respondents have studied.

TABLE 2
Marketing and accounting courses studied by the respondents

MARKETING	N	Percent	FINANCIAL ACCOUNTING	N	Percent
Marketing Principles	53	94.6	Financial Accounting I	52	94.6
Marketing Management and Strategy	6	10.7	Financial Accounting II	40	10.7
Consumer Behavior	20	35.7	Financial Accounting III	15	35.7
Marketing Research	6	10.7	Financial Accounting IV	12	10.7
Promotion Management	8	14.3	Financial Accounting V	6	14.3
International Marketing	10	17.9	Financial Accounting VI	4	17.9
Service Marketing	3	5.4	Auditing I	14	5.4
Internet Marketing	1	1.8	Auditing II	3	1.8

Table 3 presents respondent's job preferences. When asked to make a career choice, almost all of male respondents would like to work both in audit firm and marketing firm, whereas the preference for female is lower for marketing than audit firm. However, t-test does not disclose statistically significant differences between genders.

TABLE 3
Preference to work with audit and marketing firms by gender

	Gender	Frequency	Percent	Mean	Std. Deviation	Std. Error Mean
Work with audit firm	Male	24/25	96.00	3.21	1.250	.255
	Female	27/31	87.09	2.63	1.334	.257
Work as marketer	Male	24/25	96.00	3.54	1.318	.269
	Female	26/31	83.87	3.46	1.067	.209

Note: Numerator = actual responses; denominator = total in sample

Table 4 reveals the results that the year of study differentiates preferences to work with either type of firms. Third year students show higher preference to work in audit firms compared to their seniors (t-value=2.344, df=38 p=.024), whereas they show less preference for marketing firms (t-value=2,527, df=37 p=.016).

TABLE 4
Preference to work with audit and marketing firms by year of study

	Level	N	Mean	Std. Deviation	Std. Error Mean
Work with audit firm	3	21	3.38	1.244	.271
	4	19	2.42	1.346	.309
Work as marketer	3	20	3.05	1.317	.294
	4	19	4.00	1.000	.229

As expected, BAcc students prefer to work with audit firms (t-value=4.598, df=48, p=.000) whereas BBA students prefer working with marketing firms (t-value=-3.617 df=48p=.001) as depicted in Table 5.

TABLE 5
Preference to work with audit and marketing firms by degree program

	Degree	N	Mean	Std. Deviation	Std. Error Mean
Work with audit firm	BAcc	18	3.89	.832	.196
	BBA	32	2.41	1.214	.215
Work as marketer	BAcc	18	2.78	1.166	.275
	BBA	32	3.91	.995	.176

Pearson correlation results in Table 6 provide additional support for inverse relationship between those who prefer to work in an audit firm versus marketing firm (Pearson's coefficient -.458, p=.001).

TABLE 6
Correlations between two career preferences

		Work with audit firm	Work as marketer
Work with audit firm	Pearson Correlation	1	-.458
	Sig. (2-tailed)		.001
	N	51	50
Work as marketer	Pearson Correlation	-.458**	1
	Sig. (2-tailed)	.001	
	N	50	50

** significant at the 0.01 level (2-tailed).

Table 7 presents frequency results which revealed that 40.4% of the respondents expect accountants (auditors) to study at least a marketing course, and that audit firms need to promote themselves (78.6%). When the respondents were asked to make a contrast between the required promotion for audit firms in comparison with law firms and medical firms, their verdict was 32.1% and 51.9% respectively. In other words, according to the respondents audit firms need promotion more than legal and medical firms (i.e. clinics). T-test analysis, however, does not reveal any significant differences between male and female respondents and (BAcc and BBA) degree programs on the same matter.

TABLE 7
Need to study Marketing and Accounting

	Accountant Studying a Marketing course	Marketer Studying a Financial accounting course
N	56	56
Agree	40.4%	79.7%
Mean	4.16	4.11
Std. Deviation	.890	.867

Table 8 shows respondents' views of the main reasons for accountants to study marketing. Exposure to overall management of firms (47.9%), need of knowledge in marketing to promote audit firms (20.8%), and enhancement of career promotion for the accountants (12.5%) were highlighted to be some of the major reasons.

TABLE 8
Reasons for studying marketing

	Frequency	Percent
Enhancing career promotion	6	12.5
Finding clients	1	2.1
Managing costs and budgets	4	8.3
Overall management	23	47.9
Promoting the firm	10	20.8
Understanding company needs	4	8.3
Total	48	100.0

The whole study defines audit firm as follows:

An *accounting firm* (also called *audit firm*) is a company that provides a number of services such as writing up accounts for a client (i.e., a company), preparing tax returns, providing company secretarial services, and auditing company accounts. *Auditing* is verifying (checking) whether the accounts are being prepared truly and properly.

With a common reference to the definition above, the respondents answered three inter-related questions. Table 9 shows combined results of the three related questions (4, 5, and 6). The results were assembled in the same table for comparison. The table shows the summary responses to methods of audit firms obtaining their clients, knowing the existence of audit firms and methods that audit firms need to employ in order to retain their client clients.

According to Table 9, respondents highlighted that audit firms obtain their clients using referrals (30.6%), promotion (22.4%), advertisement (20.4%), contacting potential clients directly (14.3%), and quality work (12.2%). However, referral constitutes only 20.0% of the method potential clients use to learn about audit firms, and it is certainly one of the methods audit firms might use to retain their clients (17.5%).

TABLE 9
Obtaining and retaining clients and knowing audit firms

	Methods of obtaining clients Q4		Knowing existence of audit firms Q5		Retaining clients Q6	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Referrals	15	30.6	8	20.0	7	17.5
Promotion	11	22.4	5	12.5		
Advertisement	10	20.4	15	37.5	1	2.5
Contacting clients	7	14.3	5	12.5		
Website			7	17.5		
Quality work	6	12.2			32	80.0
Total	49	100.0	40	100.0	40	100.0

Including economical and quality service with nine counts (22.5%).

Referring to Table 9 if advertisement was incorporated into promotion then the percentage for promotion for each of the first two questions (Q4 and Q5) would be increased to 42.8% and 50.0%, respectively.

The most powerful method to retain clients (Q6), according to the respondents is "quality work" (80.0%), irrespective of the methods listed in response to Question 4. In response to the question: "Do you think audit firms need to promote, market and advertise themselves?" Approximately 80% (78.6%) of the respondents said the firms do need to promote themselves.

Two main reasons surfaced from the analysis of responses, i.e. to make their existence known and as competitive tool. Results revealed that 58.1% of the respondents are of the opinion that audit firms need to promote themselves to create awareness in the market while 41.9% indicated competition as a reason for marketing of audit firms.

Responses to competition averaged 3.45 out of 5.00 (Std. Deviation .932, N=53, on the scale *Low* 1 2 3 4 5 *High*). There is no significant difference when t-test was performed on gender and degree programs. In their evaluation of the importance of marketing of audit firms in comparison with two other professional firms, i.e. legal and medical, the respondents insisted that audit firms need promotional efforts the most with grand means exceeding 3.00. The respondents suggested law firms do not need promotion (3.19) as much as medical firms (3.52), while t-test analysis does not produce significant differences for gender and degree programs for each of the three types of firms when tested.

DISCUSSION AND CONCLUSION

Views of respondents suggest that there is some association between their year of studies and majors and their preference to work with audit- and marketing-related firms. The respondents seemed to have rightly assumed their roles as potential future accountants and marketers.

Marketing is related to competitiveness (41.0%), and forty percent of the respondents are of the opinion that accountants should study the discipline. Auditors need to understand their clients (Barr and McNeilly, 2003), and promote their services accordingly. This perception is consistent with the deregulation of advertising (Hay and Knechel, 2010) and the need for audit managers to control effectively their marketing programs within the budget constraints (Macintyre and Hayes, 1990). Accountants may obtain clients may be obtained through referrals (30.6%) and quality work (80.0%). Due to limited effectiveness of referrals as a strategy, O'Donohoe and Peterson (1991) argue that firms might resort to other forms of promotion.

Promotion and direct contact with potential clients (promotion 22.4%, advertisement 20.4%, contacting clients 14.3%) as revealed in this study are methods which audit firms might use to reach a large number of potential clients (O'Donohoe and Peterson, 1991).

To sum up, accountants need to study marketing for a number of reasons including enhancing career promotion, finding clients, managing costs and budgets, overall management, promoting the firm, and understanding company needs. Close to half of the respondents think that audit firms need to engage in promotion activities for at least two main reasons: creating awareness of the availability, and to be competitive. The respondents suggest a few methods: Referrals, promotion, advertisement, contacting potential clients directly, website, and maintaining quality work. Powerful promotional tools comprise referrals (17.5%) and quality work (80.0%), whereas advertisement (2.5%) is not considered as significant.

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Diminishing Partnership: Bankers Strategic Response to *Shariah* Compliant Home Financing

Dzuljastri Abdul Razak[a] and Yusof Ismail[b]

[a] *Department of Finance, Kulliyah of Economics and Management Sciences International Islamic University Malaysia, P.O Box 10, 50728 Kuala Lumpur, Malaysia. (dzuljastri@iium.edu.my)*
[b] *Department of Business Administration, Kulliyah of Economics and Management Sciences, International Islamic University Malaysia, P.O Box 10, 50728 Kuala Lumpur, Malaysia. (yusof@iium.edu.my)*

ABSTRACT

Diminishing Partnership (DP) is a relatively new concept in home financing based on equity compared to the established debt concept used in conventional and BBA home financing. Under DP home financing, the customer and bank share profit based on the rental value of the house instead of predetermined interest rate where the bank gains profit upfront. As such DP is claimed to be fairer and more flexible than debt financing which result in more justice, equality and cater for societal well being in line with the *Maqasid al Shariah* (Al-Ghazali, 1937). This research adopted a mixed method by using questionnaires to survey the perceptions of customers. The perceptions of bankers and *Shariah* scholars were obtained by means of semi structured interviews. Four common issues were investigated namely, concept used, method of computing and pricing, *Shariah* compliant and preference for the product. The main findings indicated that customers perceived DP home financing meet their needs better than the debt financing concept. The *Shariah* scholars also agreed that DP possesses justice, fairness and cater for the well being of individual and society. Contrary to expectation, the overall views of the bankers support the implementation of DP except for a few reservations regarding pricing and operations. The results imply that DP home financing concept is more widely acceptable by the three stakeholders compared to the existing BBA. The results provide a strategic response for bankers to promote DP home financing to their existing and potential customers as a *Shariah* compliant home financing product.

JEL Classification: G02, G21, K00, Z12

Key words: Customers, Bankers, *Shariah* scholars, Diminishing Partnership and *Maqasid al Shariah*

1.0 INTRODUCTION

The growth of Islamic banking and finance in Malaysia is indeed very encouraging. The annual average rate of growth was between 18-20% per annum. The central bank of Malaysia, Bank Negara Malaysia (BNM), has set a target of 20% of all deposits and financing in the banking industry to be under Islamic banking by 2010. This is mainly attributed to demand for financing products in the retail banking sector. The development of Islamic products began in 1962 with the implementation of the savings account by *Tabung Haji* based on the concept of *Wadiah* (guaranteed custody). With the establishment Bank Islam Malaysia Berhad (BIMB) in 1983, more products were developed utilizing other concepts such as *Murabahah* (cost plus) for working capital, *Bai Bithaman Ajil* (deferred installment sale) for house financing, *Ijarah* (leasing) for equipment and vehicle financing. The concepts of *Mudharabah* (trustee profit sharing) and *Musharakah* (joint venture profit sharing) are mainly used for project financing. More products are being developed to date to meet the rapid growth of the Islamic banking and finance industry.

The development of home financing products was attributed to the high demand for houses in the residential sector market. Outstanding loans for residential property in commercial banks increased by 10.3% from RM 174 billion as at 31 December 2007 to RM 192 billion as at 31 December 2008 (BNM: 2008). Based against this back drop, commercial banks continue to play a major role in providing home financing products to meet the increasing demand of customers for conventional loans and Islamic financing. The motivation for this research is to examine the impact of using the current debt model for Islamic home financing based on the *Bai Bithaman Ajil* (BBA) home financing which remained the major financing product for past 27 years. The existing BBA operations raised several issues regarding the application of its concept, method of computation and pricing, *Shariah* compliant and preference for the product. Given these issues the study explore an alternative mode of home financing known as Diminishing Partnership (DP) which is based on equity and examine whether it can address the salient issues currently faced by BBA home financing. The DP model has been practiced by Islamic financial institutions and cooperatives in UK, Canada, US, Middle East and Australia to avoid Muslim community from engaging in *riba* (usury) and *gharar* (uncertainty) and was introduced in Malaysia by Kuwait Finance House (KFH) in 2005.

This paper will examine the perceptions of three stakeholders namely customers, *Shariah* scholars and bankers with regards to the concepts used, methods of computation and pricing, *Shariah* compliant and preference for the products. The paper is organized in the following manner. The immediate section discusses the relevant literature and issues confronting the conventional and BBA home financing. This is followed by the hypotheses development before the study design is discussed. The subsequent sections cover the analysis and results before conclusions are offered.

2.0 LITERATURE REVIEW

Islamic law (*Shariah*) of commercial transaction is fundamentally rooted on the premise of total eradication of *riba (*usury) and *gharar (*uncertainty). It balances the moral and material needs of a society to achieve socio-economic justice. In fact, the very objective of the *Shariah* is to promote the welfare of the people, which lies in safeguarding the faith, life, intellect, posterity and wealth (Al-Ghazali, 1937). The primary goal of Islamic economics is equitable distribution. Islam views that inequity is created by mass exploitation of resources to obtain maximum profit. Principles of Islamic commercial transaction are nurtured to check exploitation, inequities and the creation of economic imbalances in society by means of various concepts and principles to eradicate unjust enrichment. Central to the Islamic concept is justice. All transactions whether it is judicial, political or private are subject to this concept (Al Quran, Al-Hijr: 85).

Islamic economic principles promote the sharing of risk and rewards in wealth creation via equity rather than debt. It promotes entrepreneurship and creativity in the economic cycle. In the Islamic economic model, each individual is involved in the economic activity. This differs from modern capitalism where profit maximization is the sole motive and the bank is broadly content with earning interest on the loan regardless of the latter's social and financial implications to the business. In addition, the orientation of modern capitalism does not include God and society as its integral part of acquiring wealth. As such, it does not have any restriction in the way wealth is obtained. The different approaches in world view between Islam and modern capitalism is reflected in the practice of Islamic banking and finance of which the salient feature is the prohibition of *riba* (usury*)* and *gharar* (uncertainty).

The concept of financing in Islam differs with that of conventional financing. Loan is the main mode of financing under conventional financing using interest as a time factor for borrowed money. The Quranic injunction prohibits financial activities that have interest element and/or have no genuine nexus to trading activities under the *Shariah* law. This implies that money in itself has no intrinsic value and can only serve as a medium of exchange. Hence, money cannot be traded as a commodity in Islam. This differs from conventional financing where money is treated as a commodity and loans are lent out with interest as its pricing mechanism. Trading "money with money" tantamount to *riba* (usury) which is strictly prohibited in Islam. *Riba* literally means an increase, addition, expansion or growth (Al Zubaydi, 1306). In *Shariah, riba* (usury) technically refers to the 'premium' that must be paid by the borrower to the lender with the principal amount as a condition for the loan or for an extension on its maturity. Ibn Manzur (1990) says that what is prohibited is the extra amount, benefit or advantage received on any loan.

Bai Bithaman Ajil (BBA) is among the earliest attempts to provide an Islamic based home financing product. It is by far the most predominant and widely used concept by financial institutions in Malaysia. Its concept is based on deferred installment sale whereby the banks purchase the house and later sell it to the customer inclusive of profit margin. Bank capitalizes its profit up front in the sale of the property to the customer who in turn is required to pay a fixed sum until the tenure ends. It is similar to debt financing which resulted in high cost and poses a burden to one family's budget. Critics of this concept have accused that the existing BBA practiced in Malaysia is seen not to be in compliant with the *Shariah* principle as the bank does not take the risk of ownership and liability on the property and thus it is not acceptable by international scholars (Rosly, 2005) Besides, the reliance on interest rate as a benchmark for determining the margin to be charged defeats the 'interest free' concept.

The *Musharakah Mutanaqisah* or Diminishing Partnership (DP) concept was introduced to overcome the main criticisms of BBA. The DP model is based on the practice by a highly successful Islamic Cooperative Housing Corporation (ICHC) in Toronto, Canada established in 1981 out of necessity to avoid the Muslim community from engaging in *riba* (usury). It is based on an equity model different from the traditional debt-based mortgage. DP focuses on joint purchase of property between customers and banks. There are four portions to the contract. First, the customer enters into a partnership (*musharakah)* under the concept of '*Shirkah-al-milk*' (joint ownership) agreement with the bank (Usmani, 2007). Customer pays, for example, 10% as the initial share to co-own the house whilst the bank provides for the balance of 90%. Secondly, the customer promises to purchase the units of share Thirdly, the bank leases its share (90%) in the house ownership to the customer under the concept of *ijarah* (leasing), i.e. by charging rent and the customer agrees to pay the rental to the bank for using its share of the property. The periodic rental amounts will be jointly shared between the customer and the bank according to the percentage of share holding at the particular time. Finally, the customer redeems the financier's 90% portion of ownership by purchasing the remaining shares until the house is fully owned by the customer. Bank takes ownership and assumes responsibility of the property until the financing amount is fully settled and customer takes possession of the property.

The DP concept is *Shariah* compliant as it promotes true spirit of Islamic banking by emphasizing on the welfare of the people and takes care of the well being of society (Ahmad, 2000; Siddiqui, 2001; Rosly and Bakar, 2003). Since the DP rests on profit and loss sharing and not on debt as in BBA, DP is seen as not causing hardship and harm to customers. Bank takes ownership and assumes responsibility of the property until the financing amount is fully settled and customer takes possession of the property. This addresses the principle that should be observed in Islamic sale transaction whereby the seller must take possession of the goods and liability before it is sold to the buyer. The use of rental rate in place of fixed interest also addresses the criticism faced on BBA which still uses conventional benchmark to date. The major differences between DP over BBA are that the customer is not indebted to the bank over a long period and the basis for rental is on the value of property. Hence, it eliminates the use of interest which is forbidden in Islam. Furthermore, DP is also flexible and the customer can own the house earlier by purchasing additional bank's share.

There were at least three previous studies that evaluate the perception of customers on BBA and DP. Junaidi (2003) conducted a survey of four banks and 35 customers in Brunei. The result indicated that banks have mixed feelings in the implementation of DP. Conversely, customers were eager to replace BBA with the DP concept. Two studies were conducted in Malaysia. Ahmed (2006) studied the perception of Muslims academic and non academic staff on both products in IIUM using survey method based on 66 useable samples. The descriptive results indicated that there was a stronger preference for DP home financing compared to BBA. However, no hypothesis was formulated to ascertain the differences between BBA and DP. Smolo (2007) administered an on line survey using 78 bank officers and customers as samples. The result indicated that there was a stronger preference for DP compared to BBA. Results further indicated that the BBA practiced in Malaysia was similar to the contentious sale known as *Bai Inah* (sale and buy back). Respondents preferred DP as it was reflective of the *Maqasid al Shariah* (purposes of *Shariah*). Similar to the previous study conducted by Ahmed (2006), the results obtained were only descriptive without proposing any hypothesis to investigate the differences between BBA and DP.

3.0 HYPOTHESIS DEVELOPMENT

Based on the literature review five hypotheses were developed to test the perception of customers on home financing based on BBA and DP home financing concepts.

3.1 CONCEPT – DEBT VERSUS EQUITY

Debt concept in Islam is based on actual buying and selling and is classified under the contract of *Murabahah* and *Bai Bithaman Ajil (BBA)*. The difference between debt financing in Islam and conventional loan is that there is real purchase of asset. Otherwise, it means that the bank is using money as the asset (commodity) in the buying and selling transaction which tantamount to *riba* (usury). The equity concept differs from debt as it falls under the contract of partnership such as *Mudharabah, Musharakah* and *Musharakah Mutanaqisah*. Under this arrangement, customer and bank share their capital to purchase the asset. Profit is not determined up front as in debt financing but realized gradually based on the profit sharing ratio agreed between them. Hence, the customer is not indebted to the bank at the onset as in conventional and BBA home financing. The purpose of asking the respondents' opinion on the differences between debt and equity concept is to evaluate their preference between these two concepts in their choice for home financing. Hence the first hypothesis used to test this concept is:-

H_1: *There is a difference in customers' perception on the concept of debt and equity between BBA and DP home financing.*

3.2 METHOD OF COMPUTATION AND PRICING BETWEEN BBA AND DP

The profit rate for BBA home financing is benchmarked on market interest rate or Based Lending Rate (BLR) which prices money as a commodity. We take an example of a customer who wishes to purchase a house for RM 250,000 and paid (10% of the purchase price) to the developer as down payment. The bank provides financing for the balance of RM 225,000 for 20 years at profit rate of 10 % per annum. Using the present value of annuities formula similar to conventional financing, the monthly installment computed is RM 2,171.30 payable for 240 months and the selling price to the customer amounted to RM 521,112. The difference between RM 521,112 and the original financing of RM 225,000 i.e. RM 296,112 is the total profit earned by the Islamic bank in this transaction. The profit amount is capitalized upfront and remained fixed unlike under conventional loan, where the interest varies and unearned until the elapse of time.

In the case of DP home financing, rental rate replaces interest rate as the benchmark to determine the profit. Rental rate is based upon the actual market value of the property. The rental rate differs between each type of house, location and amenities available. For example a single storey house would have lower rental in rural area than in town area. A condominium would have higher rental than single storey house due to the facilities available. The rental reflects actual value and not interest rate which is the price for money. Using the same example, we assumed that customer owns 10 percent shares of the house amounting to RM25, 000 initially. The bank owns the remaining 90 percent, i.e. RM 225, 000. The rental rate agreed was RM 1,744.42, i.e. 8.37 % [1] The customer pays another RM 190.17 monthly[2] to redeem the bank's share in 20 years (Meera and Abdul Razak, 2005). This gives the total monthly payment as RM 1,934.59. The payment schedule for the DP home financing facility is indicated in Table 1 below:

1 8.37% p.a obtained by RM 1,744.42 x 12/RM 250,000.
2 RM 190.17 obtained by i.e. 0.0069 {250,000 – (1.0069) 240 X 25,000} = RM 190.17.
(1.0069) 240 - 1

TABLE 1
Payments Schedule for Diminishing Partnership Home Financing

Month	Monthly Rent (RM)	Monthly Redemption (RM)	Total Payment (RM)	Customer's Ratio (%)	Rental Division: Customer	Rental Division: Financier	Customer's Equity (RM)	Financier's Equity (RM)	Financier's Cash flow (RM)
	A	B	C=A+B	D	E	F	G	H	
0							25,000.00	225,000.00	(225,000)
1	1,744.42	190.17	1,934.59	0.1000	174..44	1,569.98	25,364.61	224,635.39	1,934.59
2	1,744.42	190.17	1,934.59	0.1014	176.98	1,567.44	25,731.76	224,268.24	1,934.59
3	1,744.42	190.17	1,934.59	0.1029	179.55	1,564.87	26,101.48	223,898.52	1,934.59
-	-	-	-	-	-	-	-	-	-
240	1,744.42	190.17	1,934.59	0.992	1,730.46	13.95	250,000	0	1,934.59

Table 2 below compares the differences between BBA home financing and DP. As can be seen, the balance in BBA after 10 years was higher than DP because bank capitalized its profit upfront in BBA.

TABLE 2
Comparison between BBA and DP

Types of Financing	BBA Financing	DP Financing
Profit rate / Rental Rate	10% per annum	8.37 % per annum
Financing amount	RM 225,000	RM 225,000
Monthly payment	RM 2,171.30	RM 1,934.59
Total cost of payment in 20 years	RM 521,112	RM 464,301
Total profit earned by bank[1]	RM 296,112	RM 239,301
Balance after 10 years	RM 260,556	RM 156,889

Thus, it would be appropriate to examine the perception of customers on the method of computation and pricing between BBA and DP home financing using the next two hypotheses:-

H_2: *There is a difference in customers' perception on the method of computing profit between BBA and DP home financing.*

H_3: *There is a difference in customers' perception on the use of profit and rental in pricing between BBA and DP home financing.*

3.3 *SHARIAH* COMPLIANT

The current practice of home financing in Malaysia does not genuinely fall under the concept of buying and selling required by the *Shariah* as the banks do not buy the house directly from the developer and hence do not have possession of the property. Instead, it falls under the contentious sale of *Bai Inah* (sale and buy back) as the customer first purchases the house from the developer and sells the house to the bank for cash. The bank then sells the same house to the customer inclusive of its profit on deferred payment basis. This practice of *Bai Inah* has subjected BBA mode of financing to criticism from international *Shariah* scholars. In contrast, the DP home financing, does not involve *Bai Inah* as in this mode of financing, both the bank and customer jointly purchase the house and own it. Hence, the bank takes possession and risk of ownership meeting the *Shariah* requirement of *iwad (*equivalent counter value) for a bona fide sale. Thus, the following hypothesis is developed to investigate customers' awareness on issues regarding *Shariah* compliant between BBA and DP home financing:-

H_4: *There is a difference in customers' perception over the belief that bank's real purchase and ownership risk between BBA and DP home financing is Shariah compliant*.

3.4 CUSTOMER PREFERENCE FOR THE TYPE OF HOME FINANCING

Customers' preferences between BBA and DP home financing depend on how would gain from the features of the products. Customers perceived BBA home financing as similar to conventional financing as both modes of financing cause them to be indebted to the bank. Hence, customers would face hardship if they are not able to pay their monthly installments. Nonetheless, due to the equity concept in DP home financing, they perceived that the product is fairer as both bank and customers are joint owners. Another reason for their preference of DP home financing over BBA could be because of the bench mark used. In the case of DP, the actual rental rates reflect the real value of the property based on the types and locations of the property. However, for BBA home financing the interest rates charged do not reflect the value of the house as it is based on the price of money. Furthermore, as DP home is based on profit sharing, it enables customers to own the house earlier by purchasing more of the bank's share. This would reduce the period of financing. In the case of BBA home financing the bank had already included its profit upfront as it is based on debt financing. Hence, the acid test to find out which concept is the preferred choice by customers would be tested in the last hypothesis:-

H_5: *There is a difference in customers' perception in seriously considering applying for BBA and DP home financing.*

4.0 METHODOLOGY

4.1 RESEARCH DESIGN

There are two types of research designs. One for customers' survey, whilst semi structured interviews were used for the bankers and *Shariah* scholars. The research instrument for the survey is questionnaire using five points Likert scales. The questionnaire contained a total of 10 questions i.e. five each for BBA and DP respectively. The variables measured are concepts used method of computation and pricing, *Shariah* compliant and customers' preference. A pilot test was carried out on 30 IIUM postgraduate students. There was minor rewording needed and subsequently rectified. This study adopted a convenience sampling technique using post graduate students because of the need to explain the product features for BBA and DP home financing. This is very important especially for DP home financing as it was newly introduced. Hence, all the respondents need to have the knowledge of the product features before filling the questionnaires. The choices for post graduate students was appropriate due to their income level and working experience and were representative of existing and potential house buyers. According to Singhapakdi et al. (1966), students are considered a valid sample for exploratory study and when items in the questionnaires are relevant to the respondents who answer.

The selection of *Shariah* scholars and bankers were made based on judgment sampling technique. In the case of Islamic finance, this was inevitable since the number of experts on Islamic finance is limited and due to unavailability of a sampling frame consisting of experts listing. According to Sekaran (2003), it is best to select respondents who possess the required knowledge and skills in their respective area. Since the objective of this study is to investigate the opinions of the experts and practictioners on DP and comparing the model with BBA , it is therefore considered sufficient to select six *Shariah* scholars and six bankers. In order to ensure the validity of the respondents' opinion the selection criteria for *Shariah* scholars were based on their qualifications, area of specialization and working experience. They should have a minimum of Master's degree and specialize in teaching of *fiqh* (Islamic law) and/or *muamalat.* In selecting the bankers, their positions and work experiences were considered. They should be directly involved with product development or supervising the Islamic Banking department/ division.

4.2 DATA COLLECTION

The survey questionnaire was carried over a period of two months from August to September 2007. A total sample size of 300 respondents was targeted based on past studies (Haron et al., 1994; Metawa et al., 1998), pertaining to customers' perception. The interview was carried out using semi structured questions. Permission was requested to audio tape the interview using a media device. The questions asked were similar with the variables of the survey questionnaires as the intention to gain a better understanding of customers' perception. Some of the questions asked were regarding their opinions on the theoretical and practical aspects of debt and equity. Their views were also requested on the aspects of operations and issues that arise during its implementation. The interviews were conducted at the respondents' office with an average period of one hour per session. Data collected was transcribed into field notes and analyzed using matrices (Miles and Huberman 1994, p. 240). Each matrix is built based on the answers to the research questions provided by each respondent. The process involved selecting, simplifying and coding the data collected into common themes. The process also involves identifying certain key words and phrases, direct quotes and counting their frequencies. The information gathered were placed under the respective matrices and further examined based on the research objectives and research questions.

5.0 FINDINGS

5.1 CUSTOMER SURVEY

5.1.1 PROFILE OF RESPONDENTS

A total of 320 respondents participated in the survey, however only 300 questionnaires i.e. 94% were useable and the remaining 20 were excluded from the analysis. The respondents' distribution by universities indicated that 47% were from IIUM (n= 140), 30% from UiTM (n= 90) and 23 % from UPM (n= 70). Forty percent of the respondents were house owners while the remaining sixty percent indicated that they intend to buy a house in future. The demographic breakdowns of the respondents are indicated on Table 3 below.

TABLE 3
Demographic breakdown of the respondents

Profile of Respondents	Frequency	Percentage (%)
Gender		
Male	164	54.7
Female	136	45.3
Marital status		
Single	158	52.7
Married	137	45.7
Divorced	5	1.6
Age		
Below 20	-	-
20-30	166	55.3
31-40	98	32.7
41 and above	36	12
Race		
Malay	183	61

Chinese	45	15
Indian	7	2.3
Others	65	21.7
Religion		
Islam	250	83.3
Buddha	41	13.7
Hindu	4	1.3
Christian	5	1.7
Qualification		
Diploma	3	1
Degree	251	83.7
Master	46	15.3
Working experience		
< 1 year	63	21
1- 5 years	87	29
6-10 years	74	24.7
11-20 years	69	23
> 20 years	7	2.3
Monthly Income		
< 3000	134	44.7
3001-5000	96	32
5001-10,000	53	17.7
10,001-20,000	13	4.3
>20,000	4	1.3

5.1.2 ANALYSIS OF CUSTOMERS' PERCEPTIONS ON BBA AND DP HOME FINANCING

The descriptive statistics obtained from the survey to analyze customers' perceptions on BBA and DP is described on Table 4.

TABLE 4
Customers' perception of the features and operations of BBA home financing

	Level of measurement / Percentage	Disagree (%)	Neutral (%)	Agree (%)	Mean	Std Dev.
1a	The debt concept used in BBA home financing is similar to that in conventional home financing	36.3	16	47.7	3.16	1.22
1b	The profit sharing concept in DP home financing is not similar to that in conventional home financing	7	15	78	3.98	0.90
2a	The method of computing profit in BBA home financing is similar to conventional home financing.	34	15.7	50.3	3.26	1.20
2b	The method of computing profit in DP home financing is not similar to conventional home financing.	9	14.7	76.3	3.91	0.90
3a	The pricing for BBA home financing is similar to conventional home financing except that profit rates replace interest rates	19.7	18.3	62	3.58	1.11
3b	The pricing of DP home financing is not similar to conventional home financing as rental rates replace interest rates	6.4	16.0	77.6	3.96	0.85
4a	BBA home financing is not *Shariah* compliant because there is no real purchase of property and bank does not take ownership risk	13.3	22.7	64	3.69	1.05
4b	DP home financing is *Shariah* compliant because there is real purchase of property and bank takes ownership risk	3.3	21	75.7	3.99	0.80
5a	If I apply for home financing, I would seriously consider taking BBA home financing	44.7	35	20.3	2.58	1.17
5b	If I apply for home financing, I would seriously consider taking DP home financing	6.3	21.7	72	3.99	0.95

Measure of reliability was determined by means of Cronbach alpha coefficient which suggests acceptable internal consistency lying between 0.70 to 0.80 (Nunnally, 1978). Hence, hypothesis test was conducted to measure the significance of the following variables.

5.1.3 HYPOTHESIS TESTING

Statistical paired t-tests were used to test the five hypotheses that had been developed for BBA and DP, the results of which are shown in Table 5.

TABLE 5
Differences in perceptions between BBA and DP home financing

No	Hypothesis	Mean BBA	Mean DP	Mean Diff	T	p-value
H_1	*There is a difference in customers' perception on the concept of debt and equity between BBA and DP home financing.*	3.166	2.013	1.153	11.705	0.000
H_2	*There is a difference in customers' perception on the method of computing profit between BBA and DP home financing.*	3.256	2.090	1.166	12.935	0.000
H_3	*There is a difference in customers' perception on the use of profit and rental in pricing between BBA and DP home financing.*	3.583	2.043	1.540	16.573	0.000
H_4	*There is a difference in customers' perception over the belief that bank's real purchase and ownership risk between BBA and DP home financing is Shariah compliant.*	2.310	3.990	-1.680	-19.537	0.000
H_5	*There is a difference in customers' perception in seriously considering to apply for BBA and DP home financing.*	2.580	3.996	-1.416	-16.095	0.000

$p < 0.05$

6.0 DISCUSSION AND IMPLICATION

The *Shariah* scholars view that it is important for the bank to have ownership and possession of the house before it is sold to the customer. This follows the same requirements for a legitimate sale mentioned in the literature whereby there must be an underlying real asset to be traded (Al-Zulhayli, 2003; Usmani, 2007). However, bankers felt that there is nothing wrong with the buying and selling of BBA although it does not involve real asset. This could be because they are more familiar with conventional financing where money can be traded for money**.** The findings explained the reason why the customers felt that the existing BBA home financing is similar to conventional loan as money is being traded for money which is not permissible by the *Shariah* because money does have intrinsic value (Usmani 2001; Ayub, 2007; Aziz, 2009). This controversy is resolved in DP home financing as both scholars and bankers agreed that bank takes ownership and possession of the house which is the real asset and not the exchanged of money. The property is jointly owned between the bank and customer by means of equity sharing until the end of the financing period. Likewise, majority of the customers viewed that the concept of DP home financing differs from BBA home financing as bank takes ownership and possession of the property (H_1). On the method of computation and pricing of BBA both the *Shariah* scholars and bankers agree that the current practice is similar to conventional loan which is based on time value of money formula.

This findings explains the results of the survey whereby majority of customers felt that there is not much difference between the method of computing profit between BBA and conventional home financing with the exception of profit rates replacing interest rates (H2). This is because the formula used for computing the interest/profit for both products are benchmarked against market interest rates. This is supported by studies made by Chong and Liu (2009); Kaleem and Md Isa (2003) and Bacha (2004) which show there are similarities between the benchmark used in Islamic financing and conventional financing. Conversely, the method for computing profit in DP is different as actual rental rate takes into consideration factors such as size of the house, locations and amenities surrounding it. A comparison between the balance outstanding after 10 years of financing between BBA and DP as indicated in Table 2, clearly indicates that financing using DP is lower as the profit amount is not capitalized upfront as in BBA home financing. Majority of the customers felt that taking into consideration the real factors to determine the actual rental rate of the house in DP is fair and different from profit rate in BBA because it avoids the current interest rate as a bench mark (H3). Moreover, they can make use of their rental portion to redeem the bank's share of property. In addition, the customer can purchase additional share to own the house earlier. Nonetheless, bankers expressed their reservation that further study should be done in determining a fair rental benchmark due to the unique characteristics of each house.

There are also issues on *Shariah* compliant in BBA home financing highlighted during the interviews with *Shariah* scholars and bankers. The scholars said that the current practice of BBA home financing is structured as *Bai Inah* (sale and buy back) which is a contentious sale as the banks bear no risk in buying and selling the same property to the customers (Rosly, 2001; Mohamed, 2005 and Dusuki, 2007). However, only three of the six bankers (50%) seem to be aware of this issue. This could be due to lack of knowledge on the details of *Shariah* ruling which falls under the purview of the *Shariah* scholars. It is surprising that customers seem to be more aware on the issue as indicated from the survey that majority of them felt that bank does not take ownership and possession in the existing BBA home financing.(H4). The issue of *Bai Inah* can be avoided with the implementation of DP home financing as bank and customers jointly own the property based on their respective equity portion until it is fully settled. This is agreed upon by the *Shariah* scholars and bankers during the interviews. As banks take risk, liability and effort in owning the property, they fulfill the requirement of *iwad* (equivalent counter value) of a valid sale which entitle them to earn the profit from the transaction (Rosly, 2005; Sanusi 2006)

7.0 CONCLUSION

The results of this research are in line with opinion of scholars that the purpose of the Islamic banking system is to provide justice and the accomplishment of the socio-economic goals of Islam (Chapra, 1985; Mirakhor, 2008). In doing so, it should avoid injustice and hardship to customers and follow the ethical principles aiming at eradicating all kinds *zulm* (injustice) in financial dealings (Siddiqi, 1983). This is supported by the last hypothesis which indicates that there is a significant difference in customers' willingness to apply for BBA and DP home financing (H5). The descriptive statistics revealed that only 20.3 % of the customers would seriously consider taking BBA home financing compared to 72% seriously considering taking DP home financing. This is indeed a surprise as BBA was introduced 27 years ago in the industry and hence should be getting greater support compared to DP which was only introduced 5 years ago. The higher response for DP indicates that customers are more satisfied with its features that reflect fairness, justice, cater for societal well being and equitable distribution of wealth and income in line with *Maqasid al Shariah* which promote the welfare of the people, by safeguarding their faith, life, intellect, posterity and wealth (Al Ghazali, 1937) The overall results of this research emphasized the need for banks to be innovative in its product development and also sensitive to the changing needs and wants of customers by introducing more value added features that are available in DP home financing compared to BBA (Chapra, 2008) (Saeed *at el,* 2001). The results of this study provide bankers with the strategic response needed for *Shariah* compliance home financing.

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NOTES TO CONTRIBUTORS

Aims & Scope of the Journal

The *International Journal of Economics, Management & Accounting* (IJEMA) is an internationally refereed journal published twice yearly by the Kulliyyah of Economics and Management Sciences, International Islamic University, Malaysia. In line with the objectives of the Kulliyyah and the University, the Journal is dedicated to the development, promotion and understanding of Islamic Economics in its widest sense, including issues related to management and accounting, in order to keep scholars and relevant institutions informed on research in the field of Islamic Economics.

Based on the Islamic worldview concerning God, man, nature and the concept and purpose of religion, this Journal promotes the idea that economic activity cannot, but be a part of *al-dÊn,* and must be guided and developed within the twin epistemological foundations of revelation and reason. In the Islamic worldview, the former portrays the ultimate foundation of *tawhÊd*, while the latter acknowledges the intellect of man irrespective of religion or color. While acknowledging the great strides in conventional economics, the Journal is committed to the idea that ultimate solutions to human problems cannot be sought without reference to revelation and the Divine.

Within this framework, the Journal focuses on theoretical, applied, methodological and interdisciplinary works dealing with historical or contemporary economic issues.

The editorial board welcomes original submission in the areas of Economics (including relevant *fiqh* deliberations), Management and Accounting to cover historical and case studies, as well as methodological, conceptual, theoretical, analytical and applied issues. Apart from discussions from the Islamic perspective, articles can also be of the conventional sense, preferably pertaining to Muslim countries for case studies. The Editorial Board also welcomes book and article reviews of materials in the English language and those which are originally written in languages other than English.

Submission of Manuscripts

Manuscripts and editorial communications should be addressed to the Editor, *International Journal of Economics, Management & Accounting*, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia, Jalan Gombak, 53100 Kuala Lumpur, Malaysia. Articles should generally be no more than 8000 words. Each manuscript should have a title page and an abstract of about 150 words. The title page should contain the title, full name(s), designation(s), organizational affiliation(s), and one contact address. Articles must be submitted through electronic mail to: jenm_editor@iium.edu.my. All articles are received on the understanding that they are not under concurrent consideration at another journal. Exclusive copyright of accepted manuscripts shall be assigned to the Publisher, and in consideration for this, the softcopy of the published article will be provided to the author.

Layout

Articles should be typed in double-space while footnotes should be numbered consecutively and placed at the end of the manuscripts. As far as possible, footnotes should be kept to a minimum. Tables and diagrams should be provided on separate sheets at the end of the manuscript and their positions indicated in the text. Authors should consult the *Chicago Manual of Style* for text and citations when preparing papers for submission to the Journal.

References should be placed in alphabetical order at the end of the text. They shall appear in the following format:

Books: Siddiqi, Muhammad Nejatullah. *Partnership and Profit-Sharing in Islamic Law.* Leicester: The Islamic Foundation, 1985.

Periodicals: Geske, R. "The Valuation of Corporate Liabilities as Compound Options." *Journal of Financial and Quantitative Analysis* 12 (1977): 541-52.

All foreign words must be typed and transliterated. The Editorial Board reserves the right to change the transliteration of all historical names, titles and non-English terminology to bring them into conformity with its own style.

Use of Mathematics

Mathematics should be used only when necessary and the conclusions derived must be explained and made intelligible to a non-mathematical reader. Wherever possible, authors are encouraged to place the mathematical parts of the article in an appendix. In cases of empirical articles, authors are expected to make readily available a complete set of data and any specialized computer programs to interested readers.

Refereeing Procedure

Articles will be acknowledged upon receipt and will be read by two expert reviewers in addition to the editors. Editorial decision will normally be made within six (6) weeks, but circumstances beyond control occasionally dictate a longer cycle. If authors are invited to prepare a revision for further consideration, the major issues to be resolved will be outlined and will be forwarded to them as quickly as possible.

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Books selected to be reviewed should not be more than two years since the date of their first publication.