

**PERCEPTIONS AND EXPERIENCES OF BRITISH-
BASED MUSLIMS ON ISLAMIC BANKING AND
FINANCE IN THE UK**

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To my beloved 'Ami' (Mother) who believed in me and dedicated her life in helping me achieve this degree. Her prayers are springboard for my success. To my sister, and wife who supported me, and to my daughter whose smiles motivated me.

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DECLARATION

I hereby declare that I am the author of this thesis; that the work of which this thesis is a record has been done by me, and that it has not previously been accepted for a higher degree.

Signed: _____
Umair A Riaz

Date: _____

CERTIFICATE

We certify that Umair A Riaz has worked the equivalent of six semesters on this research, and that the conditions of the relevant ordinance and regulations have been fulfilled.

Signed: _____
Professor Bruce Burton

Date: _____

Dr. Lissa Monk

Date: _____

Dr. Anne Fearfull

Date: _____

ABSTRACT

PERCEPTIONS AND EXPERIENCES OF BRITISH-BASED MUSLIMS ON ISLAMIC BANKING FINANCE IN THE UK

The purpose of this study is to critically examine the perceptions, experiences and expectations of British-based Muslims on Islamic Banking and Finance. Many academics have examined the phenomenon of Islamic banking by exploring the growth of the industry, investigating selection criteria and evaluating institutional performance. Many studies analyse the attitudes of Muslims and non-Muslims towards Islamic banking from a finance perspective, ignoring theological debates and insights from critical perspectives. This thesis attempts to fill the gap in the literature by engaging in critical debates among ordinary Muslims, Islamic scholars and Islamic banking employees in an attempt to gain insights so that Islamic banking practices can be improved to serve the disadvantaged.

In the past, philosophers have used critical theory to engender change in both society and culture. Critical theory aims to liberate human beings from the circumstances that enslave them while challenging injustices and inequalities in contemporary society and calling for a new empowering democracy that could serve the needs of neglected groups through satisfying accountability. Thus, critical theory using its immanent critique can help challenge the social realities of Islamic banks in replacing extant inaction based on the false correspondence between Islamic values and Islamic banks' operations with emancipatory praxis, aimed at making the ideal real.

To achieve these objectives, a mixed-methods approach was employed involving the employment of semi-structured interviews with 25 Muslims around the UK to ascertain their views and attitudes towards the practices of the nation's Islamic banks. Questionnaire surveys were distributed to cover a wider sample of Islamic scholars from UK mosques and employees within British branches of Islamic banks to explore their perceptions and views on practices and factors contributing towards the growth (or lack of growth) in Islamic financial services in the UK.

The results of the interviews indicate that the majority of Muslims are unhappy and unsatisfied by products and services of Islamic banks in the UK. The criticisms include: concern about the cost of products to conventional ones; a lack of advertising, focus on the rich in society and the "twisting" and "rebranding" of the names of products to produce *Shariah*-compliance; the absence of efforts to achieve social justice and equality in the society; and employing the same *Shariah* scholars across *Shariah*-boards, thereby reducing opportunities for newer and younger scholars. However, the main perceived potential advantage of Islamic banks is the satisfaction of knowing that investments will not be used to fund "unethical" projects. The Muslims taking part in this study also showed a strong need for '*Ijtihad*' by Islamic and *Shariah* scholars in order to remove any doubts and easy understanding of Islamic financial products.

The results of the questionnaires indicated that the views of Islamic scholars were similar to those of Muslims living in the UK. However, the evidence reveals a lack of trust regarding Islamic banks' actual practices v.v. what they claim to do, as well as a degree of misconception among non-Muslims over Islamic banking activities. Whilst the scholars and Muslims taking part in the study expressed a need for specialised products for women, children and young entrepreneurs, the banking employees indicated a lack of understanding of Islamic products among Muslims and a lack of qualified *Shariah* scholars in the industry to be the main issues. The latter group called for more cooperation between Islamic scholars and the Islamic banking industry to overcome the problems, whilst strongly calling for '*Ijtihad*' so that the voices of underprivileged Muslims can be heard better.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Recent years have witnessed the remarkable development of the phenomena of Islamic banking and finance (Akbar *et al.*, 2012). This kind of banking system bases its wisdom on Islamic economic system that emerged to free Muslims from colonisers from conventional system in practicing their religion over financial issues. Throughout history, radical changes, including a decline in the power of the social order of Islam, new secular norms, Western inspired culture and a market-based socio-economic order have been suggested as a representing threat to the traditional heritage of Muslim societies (Ahmad, 1990). The idea that the approach to socio-economic development should be adopted within a secular framework was spread among the rulers and elites in both pre and postcolonial periods (Ahmed, 1990). Nevertheless, the works of critical Muslims have shaped Islamic economics and led to the development of an Islamic worldview that is consistent with the modern environment, but also reflects “Islam’s wider civilisational heritage” (Kersten, 2011, p. xv)¹. These critical Muslims called for new possibilities to create a dialogue to open new meanings (Kersten, 2011, p. 38), which allowed them to reconcile and improve Islamic heritage with modern European thought and science (Kersten, 2011). For them, Islam was not only a ‘religious doctrine’ but also an ideology representing a wider ‘civilisational heritage’ that, if engaged with critically, can enlighten a Muslim worldview compatible with the contemporary world and all aspects of life, including finance (Kersten, 2011, p. xiv). Consequently, such

¹ Kuran (1989) argues that Islamic economics did not emerge as a discipline in its own right until the mid-1960s. Most notable and still cited are writings of a large number of prominent Muslim scholars (Islamic philosophers and theologians) like Abu Yusuf (d.798), al-Mawardi (d.1058), Ibn Hazm (d.1064), al-Sarakhsi (d.1090), al-Tusi (d.1093), al-Ghazali (d.1111), al-Dimashqi (d. After 1175), Ibn Rushd (d.1198), Ibn Taymiyyah (d.1328), al-Shatibi (d.1388), Ibn Khaldun (d.1406) and Qutb, but these works showed no attention for the economic concepts and Islamic tools developed recently. For more recent works, please see: Mirakhor, 1987; Siddiqi, 1992, 2002; Essid, 1995; El-Gamal 2001, Usmani 2002; and Chapra, 2003.

rational became imperative to the increase in awareness of Muslim societies in embracing Islam² as a way of life and also triggered the development and establishment of Islamic economics and finance.

The Islamic economic system was based upon a number of principles found in Islamic law. The central features are the prohibition of interest while relying on equitable profit risk sharing and the principles of economic justice and fairness (Wilson, 1997; Zaher and Hassan, 2001; Kuran, 2006). Iqbal and Ali (2007) assert that this kind of economic system contemplates both the market and non-market instruments as vital part of Islamic system of economic justice. It is built on the notion of providing rights and responsibilities and attempts to make a balance between the self and social interest while its philosophies of trade limit exploitation and ensure mutually beneficial transactions (Iqbal and Ali, 2007). Chapra (2007) concurring with these thoughts notes that:

“It is hoped that the development of this new discipline with its explicit commitment to the satisfaction of the material as well as the spiritual needs of the human personality, and to moral values, socio-economic justice, and family and social solidarity, will not only help the Muslim world but also provide a new impetus to economics in general”.

(p. 115)

Moreover, Iqbal and Ali (2007) recognise a consensus among Islamic scholars that the Islamic system differs from its secular equivalent. “The practical manifestation of this

² Malakawi (2002) notes that “Islam is founded upon the fundamental principal that man, life, and universe are all the creations of the eternal, one and only one God whose main name in Islam is *Allah*” (p. 12). It teaches humans how to lead his life in matters not only confined to scarred matters (Abdul-Rahman & Goddard, 1998; Ansari, 1980; Ansari, 2001; Kamla *et al.*, 2006; Tinker, 2004; Lewis, 2006). Hamid *et al.*, (1993) maintain that: “Adherents to Islam have to be obedient to God and to appreciate the purpose of their existence in this world. The human race, according to Islam, owes its existence to God. Thus, a man has to relate his conduct to the purpose of his existence as envisaged by God” (p. 135).

world view is also apparent from Islam's different emphasis on the various economic and social aspects of life, a reflection of which is expected to appear in the individual and collective behaviour” (p. 4). The Islamic framework is based on *Shariah* rules covering all aspects of human life governing economics, business and cultural aspects (Iqbal, 1997). For Lewis (2001), *Shariah* is a legal system based on Islamic laws given in the Holy *Quran*. Muslim scholars believe that the welfare, prosperity of people, social justice and dealing with the hardships of people is some of the main objectives of *Shariah* (Abu Zahra, 1957). For Muslims, Islamic teachings and *Shariah* provide a comprehensive code of teachings and laws, which Muslims perceive as their duty to abide in all aspects of their lives (Kamla, 2009). They do not regard there should be any separation between their secular and religious affairs (Gambling and Karim, 1991); these laws are based on guidelines prescribed in the *Quran*, operationalised by *Sunnah* and extended on *Ijtihad*³ and the method of analogical reasoning which is used is known as *Qiyas*⁴.

With strict philosophies of lending, Islamic banking gained popularity and success in several Muslim and non-Muslim countries. Renewed awareness and motivations in Islamic industry stemmed from its strong economic and social considerations, backed by its unique features (Akhtar, 2007)⁵. Most significant to its appeal was the asset-

³ *Ijtihad* refers to further elaboration of the rules of the *Quran* and *Sunnah* to provide independent reasoning and analogy. This is developed by Islamic scholars to make rulings on situations where there is no clear or exact answer available.

⁴ *Imam* Shafi was one of the first few individuals to bring a new kind of analogical reasoning in order to approach the *Quran* and *Hadith*. This new understanding was different compared to the consensus (*Ijma*) that scholars had established; a consensus which had been the main way of interpreting the holy texts up until *Imam* Shafi's work. This kind of legal reasoning became a core factor in the development *Fiqh* and has been widely referred to as “analogy” or *Qiyas* (Hallaq 1999).

⁵ Lieber (1968) also contended that “From the seventh century AD onwards, Muslims succeeded in developing long distance trade and international commerce on a scale which surpassed anything known before. This is, perhaps, because Islam is one great religion which affords the merchant a highly honoured place in society” (p. 230).

backed and equity-based transactions, equitable distributions of risk among the parties involved and higher ethical standards which in theory should lead to non-exploitation of social welfare (Kuran, 2004). While Islamic economics is still polishing its tools, it has made its way deeper in to practice (Iqbal *et al.*, 2007). Academics (Chapra, 1985; Kaynak *et al.* 1991; Gambling, Jones, & Karim, 1993; Kennington *et al.*, 1996; Gerrard and Cunningham, 1997; Archer, Karim, & Al-Deehani, 1998; Obaidullah, 1999; Mirza & Baydoun, 2000; Chapra and Khan, 2000; Almosawi, 2001; Dar Presley, 2001; Ford & Jones, 2001; Lewis, 2001; Lewis and Algaud, 2001; Devlin, 2002a, b; Ismail, 2002; Maurer, 2002; Siddiqi, 2002; Haron 2005; Bley and Kuehn, 2004; Karbhari *et al.*, 2004; El-Gamal, 2006; Lymperopoulos *et al.*, 2006; Dusuki and Abdullah, 2007; Chapra, 2007; Amin and Isa, 2008; Kamla, 2009; Loo, 2010, Ali and Syed, 2010; Lee and Ullah, 2011; Akbar *et al.*, 2102; Abdul-Rehman and Masood, 2012, including many others) have carried out research over past three decades in the areas of Islamic banking to illustrate that it is not only an economic term used by Muslims, but is an efficient and productive form of financial intermediation. While it was previously a small segment and unknown for some; Islamic banking has been successful in attracting a wider circle of followers in recent years due to cash-rich Muslim investors from Middle-East and rising demand for ethical investments. Critics of conventional banking argue that the conventional system is based on profit maximisation and prompting banks to take high financial risks, resulting in social problems (Chapra, 2007; Khan and Bhatti, 2008). Such concerns called an increase in demand for ethical alternatives to conventional banking system in West while making Islamic banking system one of the most debatable areas for academics (Wilson, 1997; Khan and Bhatti, 2008).

Meanwhile, by introducing and encouraging the Islamic industry, the UK government asserted to tackle financial exclusion of UK Muslims and intends to provide ethical alternatives to non-Muslims. Since then, Islamic banking has become a global phenomenon (Masood *et al.*, 2009). Recent surge in interest in Islamic services in the UK is constant with growing popularity of *Shariah*-compliant and ethical banking in other countries⁶. The United Kingdom has become the hub for Islamic Finance in the West (Ahmad, 2008). London, specifically, as an international hub for Islamic finance attracts significant Islamic funds through investment banks having financial links with the Middle-East. This is consistent with the British tradition of demonstrating the religious neutrality and diversity by treating all religions equally. The last few years have also seen the appearance of Christian and Jewish investment funds (Housby, 2011). There is a broad agreement among these three faiths over which areas of investment are unacceptable.

While some argue that there is significant demand for Islamic financial services in the UK (Housby, 2013), there are still reasons to believe that the demand of for Islamic services may prove to be a mirage (Dar, 2004; Dusuki, 2007). This is because the assets of Islamic banks consists of financing based on genuine profit and loss sharing appears to be under 5 per cent (Lewis and Algoud, 2001; Dusuki 2007). For some, Islamic banking existence in the UK is still minimal and Muslims acquire its products exclusively (Dusuki and Dar, 2007; Rashid and Hassan, 2009). The first wave of Islamic products appeared to have benefited a large amount of Muslims; misleading the rest of population into thinking that the remarkable growth in Islamic industry in the

⁶ By some (optimistic) estimates, Islamic banks could account for 50 per cent of all savings in Muslim world by 2010 (Zaher and Hassan, 2001, p. 167).

first few years in the UK could be sustained indefinitely. In fact the rate of growth has declined over the years, and different providers of finance are competing for the same customers (Housby, 2013). Long-term growth requires enticing new customers with no preceding business or interaction with Islamic finance. Also, there is little knowledge in non-Muslims regarding the availability of Islamic finance in the UK. Recent studies indicate that Islamic banks are not fully fulfilling their social role in accordance with the directives of *Shariah* (Metwally 1992; Aggarwal and Youssef 2000; Maali *et al.*, 2003). Usmani (2002) highlights that Islamic banks “were supposed to adopt new financing policies and to explore new channels of investment which may encourage development and support of small scale traders to lift up their economic level” (p. 116). Usmani further argues that Islamic banks should have adopted profit and loss sharing mechanisms like ‘*Musharakah*’ in gradual phases, and should have augmented the scope of *Musharakah* financing. However, it remains that very few Islamic financial institutions have given consideration to this social facet. For instance, Islamic banks have been perceived to mirror conventional finance by adopting interest-like fixed return instruments (Warde, 2000). El-Gamal (2002) maintains that these Islamic banks consciously select financial products so that they are as contiguous as possible to the efficiency level of conventional financial products while they neglect the equity principles and criteria of concern to Islamic advisors. According to Youssef (2004), Islamic banks put heavy bias on *Murabahah* (mark-up) contracts in their portfolio “which is often explained by the financial necessity and economic rationality of the instrument” (p. 64). In addition, Badawi (1996) contends that Islamic finance’ direct contribution is towards growth of money relatively to the growth of the economy. Sairally (2007) concurs with the above and states that the mere replacement of *Riba*

with other fixed return approaches of financing and the oblique risk-averseness of Islamic banks do not illustrate the socio-economic commitment to society.

Although there is a clear contradiction in the practices of Islamic banks, little research has been conducted to study this problem from the perspectives of Muslims, Islamic scholars and Islamic banking employees. Most research associated with Islamic banks fails to pay attention to these stakeholder groups in one study, hence, the motivation for this study.

1.2 Research Motivations and Contributions

This thesis examines the perceptions and expectations of UK Muslims on Islamic banking and finance. Academics previously have put forward various opinions and results on exploring perceptions on Islamic banking and finance in several countries. All of the previous studies reveal some inspiring and useful information, but most of these studies have been carried out without proper theoretical framework, more specifically a context that is built on a critical perspective. The first motivation for the decision to study the perceptions of Muslims, therefore, is to bring the Islamic scholars into discussions. Second, the literature on Islamic Banking in the UK revealed that prior studies only used questionnaires to ascertain the perceptions of Islamic banking while ignoring interview surveys. Those studies, which did use interview surveys, did only use a very small sample ignoring Muslims from other parts of the UK. Unlike previous studies, this thesis attempts to bring the voices of Islamic scholars into the study of Islamic finance. The third motivation for the study was to conduct a study of Islamic finance from critical perspective in a non-Muslim country focusing mainly on financially disadvantaged community. Previous studies that have been undertaken in

the area of Islamic finance seemed to have use a relatively small sample for their data collection and most of these studies are descriptive in nature, which focuses on evaluating the performance of Islamic banks rather than engaging in theological and religious debates in an attempt to gain insights in to people's and Islamic scholars' perceptions so that the Islamic banking practices can be improved to serve the disadvantaged. The current thesis therefore takes a critical approach in examining people's perceptions in an attempt to bridge the gap between the Muslims, scholars and industry. Using a theoretical framework is one of the main contributions of the thesis, since previous studies have overlooked the use of critical-postmodern approach whilst exploring the phenomenon of Islamic banking in the West.

Another contribution is that most of the previous studies which have investigated Islamic banking and finance have ignored multiple stakeholders and have only focused on one group at a time. The current thesis takes three stakeholder groups (Muslims, Islamic scholars and Islamic banking employees) into account while exploring the perceptions and experiences of Muslims. Most significant are the voices of Islamic scholars, which have not appeared in any recent study. A combination of voices gathered from Islamic scholars, Islamic banking employees and everyday Muslims should improve understanding of the actual perceptions of Muslims towards the ideal structure of Islamic banking. Not many studies like this have been carried out; one that investigates the perceptions of key stakeholder groups in a dual-banking system. Finally, to date, the analysis which has been conducted has employed questionnaires, from which most of the studies have focused on a relatively smaller sample. Those studies, which did employ interview surveys, used a very smaller sample and focused only the banking employees, whilst ignoring the perceptions of Muslims and scholars.

1.3 Research Questions

The present thesis attempts to answer the following research questions:

(i) To what extent do Islamic banks promote social justice via the current practices and products provided by them?

(ii) Whether accessibility of Islamic products for Muslims has improved and have Muslims been able to fulfil their financial needs with the products and services provided by the Islamic banks in UK?

(iii) To investigate the perceptions of Islamic scholars (*Ullamas*) on Islamic finance, their knowledge and experience of the *Shariah*-compliant products offered by the banks and the extent to which they are active in the community in educating Muslims about Islamic finance?

(iv) Have the practices of Islamic banks improved over time; if not, how can the practices of Islamic banks be improved by the effecting the postmodern approach so that the financial needs of Muslims can be better served?

To answer the above research questions, both qualitative and quantitative research methods are employed. At first, it was intended to employ only qualitative method to address the research questions with the use of interview surveys. However, due to lack of access to Islamic banks' employees and Islamic scholars around the UK, questionnaire surveys were employed to collect the data. The researcher initially conducted interviews with UK Muslims who have been involved with Islamic banking and who were willing to engage with Islamic banking at some point or had some knowledge of Islamic banking. The interviewees were drawn from a mix of

backgrounds and from various parts of the UK, including British born Muslims and some of those born abroad but settled in the UK. The interviews sought views about their perceptions on Islamic banking and their experiences to find out the current practices of Islamic banks.

After the interviews were completed, quantitative analysis was conducted in form of structured-questionnaires to gather the perceptions of Islamic scholars and Islamic banks' employees. Further tests included Kruskal-Wallis and Mann-Whitney tests, which were carried out to compare the responses between the individual groups to find any difference, and also to compare the views of Islamic scholars with Islamic banks' employees. Finally, interviews were conducted with twenty-five ordinary Muslims in the UK and a sample of 60 questionnaire responses was collected from Islamic scholars and a sample of 38 questionnaire responses was collected from Islamic banking employees.

The interviews findings reveal that Islamic banks are established on the motive of *Riba*-free banking which is based on PLS (profit and loss sharing) concept. Some participants see it more of an ethical banking system rather than being "Islamic" since the products and services of Islamic banks' do not reflect equality and fairness. Many participants have argued that Islamic banks have spotted a gap in the market and they are out there to exploit the weakness of religious conscious consumers. There participants prefers that Islamic banks for pay more attention to social responsibility, be more transparent, help the poor and underprivileged ones and should make their operations more transparent in order to earn the trust of Muslims as well as the non-Muslims in the UK.

Whilst on the other hand, these participants agree that the British government has been putting effort to streamline and make Islamic banking more accessible for the UK population. Despite these efforts, Islamic banking is very restricted in terms of its presence in Scotland and Northern Ireland. Islamic banks have very limited number of branches across England and have inadequate facilities. Participants see Islamic windows to be more efficient and accessible. In terms of growth, participants state that lack of advertising, complex literature, Arabic names, lack of British born scholars in their boards and using same scholars across their Shariah boards could be some of the key reasons behind the lack of growth and dearth of success. In terms of Islamic scholars, participants have mentioned that *Imams* in British mosques are not familiar with Islamic banking and the issues related to Islamic finance. These participants claimed that they do not see any lectures or sermons delivered on the topics of Islamic finance. There are contradictions in advices of *Imams* from different schools of thought that make young Muslims being isolated from the religious scholars consequently turning them to search Internet for answers. The participants have shown a strong desire for new products specialised for children and bridging the gap between Islamic scholars and Islamic banks so these scholars can be equipped with the knowledge of Islamic finance.

From the questionnaire analysis, the results reveal that Islamic scholars agree with views of Muslims that Islamic banks do not play any role in enhancing social justice. In terms responsibilities of Islamic banks, there is a broad agreement between scholars and bankers over serving the needs of the Muslims and following *Shariah* law. An interesting finding emerged from the analysis, indicating that *Muftis* put more emphasis on religious issues than the issues of transparency and other operation of banks such as

publishing accurate annual reports. In terms of accessibility, there is a broad agreement among scholars and bankers over the need for a *Shariah* board comprised of high profile Islamic scholars. This is however, in contrast with the views of Muslims, who showed a strong desire for fresh talent of scholars. Islamic scholars indicate a lack of understanding and awareness among Muslims which could be due to complex literature and Arabic terminology of Islamic finance. Moreover, Islamic scholars are contended on that face that Islamic banks' *Shariah* compliance is still weak and many Muslims as well as non-Muslims do not trust Islamic banks. Bankers point out that the lack of compliance is due to the inconsistency in advice of Islamic scholars in terms of following four schools of thought. Islamic scholars also agree that Islamic banking is still very restricted in terms of accessibility and lack in service quality, branches and advertisement. For these reasons, Muslims are still not able to fulfil their financial needs with the products and services provided by the Islamic banks.

Islamic scholars show a strong desire for cooperation between the industry and themselves. By doing this, Islamic would be able to gain knowledge of contemporary Islamic banking industry and they would be able to teach Muslims better over the issues of Islamic finance. These views are consistent with the opinion of Muslims, who previously stated a desire for bridging the gap and involving scholars in the industry. In addition, *Imams* have shown a strong desire for special training on Islamic economics to deal with the issues of Islamic banking and help people understand its rudiments. In this way, Islamic scholars will be able to educate Muslims on Islamic finance. Scholars in general express a desire for revising current Islamic banking practices. They also agree with the views of Muslims on introducing products for women and children and to integrate loans such as *Qard Hassan* into the banks' sales portfolio. Bankers have a

shown a great desire for increased *Ijtihad* before making products Islamically *Shariah*-compliant to evade misperceptions among both Muslims and non-Muslims. Banking employees state that practices of *Ijtihad* can remove doubts and help the industry create products that are specially designed for people living in the UK. Thus, by using this postmodern approach, the needs of Muslims can be served better.

1.4 Structure of the Thesis

The remainder of the thesis is organised as follows: Chapter 2 highlights the UK financial system- especially the Islamic banking system. However, the emphasis is placed on the UK regulatory system, which is governed by the FSA (Financial Services Authority). The FSA oversees the investment industry, but has since developed to become a fully operational regulator of the banking, building society and insurance industry. In addition, the UK Islamic market and the growth of *Shariah*-compliant banking are discussed briefly. Moreover, a detailed explanation of Islamic *Shariah*-compliant products and services also with their usage is discussed to inform the reader about the Islamic products and services currently being used in Islamic banks in the UK. A detailed analysis of historical development and operations of Islamic banks and Islamic windows is provided, such as the Al-Baraka Bank, Al-Buraq and the Islamic Bank of Britain. Additionally, a major portion of the chapter discusses the profiling of Muslim communities, including their geographical location, education and occupations and religious leaderships. The chapter concludes by shedding some light on the role of Islamic scholars in educating Muslims in the UK and giving background information regarding structure and growth.

Chapter 3 of the thesis supplies a comprehensive review of the literature on Islamic finance, outlining Islamic economics and the concept of social justice relevant to Islamic banking. Initially the chapter outlines the principles of the Islamic economic system including the prohibition of *Riba* and promotion of profit and loss risk sharing. The chapter then moves on to discuss the motivations and development of Islamic banking, including its historical evolution, outlining two models of Islamic banking which have been identified by previous authors such as Chapra (1985) and Ismail's (2002) model. The chapter then focuses on the critiques and challenges of Islamic finance from the previous literature aiming on main issues such as: profit and loss sharing, socio-economic dimensions, regulatory framework, liquidity and risk management, religious inconsistency and Accounting procedures. The final section of the chapter focuses on the findings of previous studies on Islamic banking and finance to investigate the accessibility of Islamic finance, attitude towards Islamic banking, bank selection criteria and Islamic banking practices. Overall, the literature provides a detailed background to the issues investigated in the current thesis; the information will allow a comparison between the results of current investigations and findings of previous literature.

Chapter 4 of the current thesis concentrates on bringing insights in to theoretical framework by highlighting the usefulness of theory into research. The chapter then focuses on the origins of critical theory by outlining and unfolding the critical theory and its advocates. The chapter then proceeds to discuss the emergence of postmodern stance, which developed to evaluate the short fallings of critical theory and sketches the background and several explanations of postmodernism and its relevance; it introduces the approaches towards postmodernism and cast some light on the relationship between

postmodernism and accounting. The chapter then proceeds to concentrate on religion and postmodernism, by explaining how the postmodernism can help bring a change from the role and efforts of critical Muslims who have engaged in critical dialogues in order to bring emancipation. Reasons for choosing critical theory with a postmodern approach are also highlighted before the chapter concludes.

The methodology and methods underpinning the research in this thesis are discussed in Chapter 5. The chapter starts by outlining the basic assumptions of Burrell and Morgan's (1979) about the social science research and society. Based on these assumptions, the chapter outlines the four paradigms of social science research identified by Burrell and Morgan (1979). Because of the nature of research questions addressed in this thesis, the research lies between a 'middle-point' between the two extremes of Interpretative and Radical Humanist approach. The chapter also highlights the critiques of Burrell and Morgan (1979) paradigms and presents the approaches of others including, Chua (1986), Boland (1989), Guba and Lincoln (1994), Laughlin (1995) and Ryan *et al.* (2002) towards the paradigmatic positions in the accounting research. The chapter then focuses on bringing out the research assumptions underpinning the current study, and the reasons as well the motivations behind employing the desired research methods. This section explains the reasons for choosing proposed and actual methods and the setbacks the researcher faced in data collection process. Lastly, the chapter discusses the research methods espoused for this study; both qualitative and quantitative methods have been employed to address the research questions from the target audience in the current thesis.

Chapter 6 presents the findings from interviews conducted with ordinary Muslims in the UK. This chapter analyses the perceptions and experiences of participants about the practices of Islamic banks. In particular, the chapter reports the findings about the understanding and awareness of Islamic banking among Muslims, the socio-economic role of Islamic banks in society, accessibility of Islamic banks, role of Islamic scholars and the growth of Islamic banking and finance in the UK. The chapter presents a mix extent of views about the Islamic banking and concludes the chapter by putting forward suggestions on how Islamic banking practices could be revised to meet the need of UK Muslims.

Findings from the questionnaire survey are reported in Chapter 7; it examines the perceptions of Islamic scholars and Islamic banking employees through a structured-questionnaire survey. The chapter begins by outlining the process used to distribute, collect and analyse the questionnaires before proceeding on survey results. Views were gathered concerning: objective of Islamic banks in the UK; responsibilities of Islamic Banks; factors in making choice between Islamic banks; ways of educating Muslims over Islamic banking; role of Islamic scholars in educating and promoting Islamic banking in the UK; growth of Islamic banking, including the factors that may hinder the growth of Islamic banking and finance in the UK; popularity of Islamic banks; difficulty in *Shariah* compliance; ways on improving Islamic finance and empowering the disadvantaged Muslims in the UK, as well as an evaluation of performance of Islamic banking in the UK.

Finally, Chapter 8 concludes the thesis. This chapter summarises the main findings that have emerged from the views of ordinary Muslims, Islamic scholars and the Islamic

bank's employees, and discusses the contributions of the current study. In addition, it outlines the limitations of the current study and provides justification for these limitations. Lastly, the chapter offers some suggestions for future research into the area of Islamic banking and finance from different perspectives.

1.5 Conclusion

The current chapter has laid out the scene for the remainder of this thesis. It has provided an understanding of why this research was conducted and motives behind the current study. In particular, it has highlighted the research questions in this thesis, which focus on the perceptions of Muslims on Islamic banking and finance. In addition, the chapter has outlined the structure of thesis and subsequent chapters.

CHAPTER 2

ISLAM AND ISLAMIC BANKING IN THE UK

2.1 Introduction

The growth of Islamic banking is not just limited to Muslim countries, but is now a feature of many other nations including the UK (Ahmad, 2008). Ahmad notes that Islamic banking is increasingly attracting non-Muslim customers, particularly those interested in ‘ethical banking’. London has become a hub for the Islamic financial industry, including both retail and corporate banking (Ahmad, 2008; Housby, 2013). Despite Islamic banking having faced criticism from several conservative non-Muslims, the UK government has vigorously supported the Islamic financial industry resulting in the emergence of several Islamic institutions and Islamic-windows (Ahmad, 2008). Despite the boost to Islamic banking in the UK, a large segment of the UK population remains doubtful or uninformed about Islamic banking and its operation (Ahmad, 2008)⁷. Housby (2013) argues that this may reflect the failure of the industry to meet expected growth and esteem goals. However, this scepticism may have several causes including the lack of a coherent regulatory framework (Zaher and Hassan, 2001). Given this complex background the present chapter outlines the historical background of the financial banking sector in the UK, focusing in particular on the development of the Islamic banking system; difference in regulations and regulatory framework and the impact of these are discussed. The chapter also provides a detailed description of the UK Muslim community; giving background information regarding structure and growth, as well as outlining the role of *Imams*, all of which are central issues in this thesis.

⁷ With the exception of Islamic-window provided by Lloyds TSB, and Islamic mortgages provided by Islamic bank of Britain, there are no Islamic banks in Scotland.

The chapter is organised as follows: Section 2.2 outlines the UK financial system, focusing mainly on Islamic financial markets, their growth, development and challenges; before section 2.3 explores *Shariah*-compliant contracts, highlighting their key structures and features. Section 2.4 then highlights Islamic banks and Islamic-windows in the UK, providing details of their operations, products and services. Section 2.5 provides an overview of Muslim demographics including mosques; the religious leadership of Islamic scholars and their role in society; Section 2.6 summarises and concludes the chapter.

2.2 The UK Financial System

2.2.1 The UK Regulatory System

The UK is located in north-Western Europe, bordered by the Irish Sea, the Atlantic Ocean, the North Sea, the English Channel and the Irish republic. The UK, which is governed by a constitutional monarchy and a parliamentary system, consists of four partly autonomous nations: England, Scotland, Wales and Northern Ireland. The UK is classed as a developed country and in 2010 was listed as the world's 6th largest economy by nominal GDP⁸. The UK is a member of many global institutions including the Commonwealth of Nations, the OECD, NATO, the Council of Europe, and is a member state of the European Union. The country does not have a written constitution and its governance is based on the statute of common law and traditional rights. HM Treasury is responsible for governing the financial and economic policy of the country. The Bank of England is the central bank of the United Kingdom. The bank is responsible for setting interest rates and issuing the currency (pound sterling).

⁸ <http://www.economywatch.com>.

The UK financial system has been subject to regulate on-going change since the early 1980s. Buckle and Thompson (2004) argues that the main forces driving the process in any financial system are: (i) changes in the market environment; (ii) changes in portfolio choices; (iii) changes in the preferences of the providers of financial services; and (iv) deregulation, growth of investment and a decline in barriers to entry to the development of new types of financial instruments. As a result of such dynamism, First Direct initiated retail banking in 1989 under the auspices of HSBC (Buckle and Thompson, 2004). The next major stage in the development of the UK banking sector arose from the establishment of the FSA (Financial Services Authority)⁹. The FSA was formed in 1997 to oversee the investment industry, but has since developed to become a fully operational regulator of the banking, building society and insurance industry¹⁰. In 1998 the supervision of the banking sector was transferred from the Bank of England to the FSA following the issue of a new Financial Services and Markets Act (FMSA) 2000. The main formal objectives of the FMSA are to help consumers of financial institutions' products and services, get 'fair' deals and to promote 'efficient' financial services in the UK. According to the FMSA, the FSA is required to pursue four objectives relating to the maintenance of market confidence in the UK financial system: (i) to reduce any scope for crime; (ii) to provide protection for consumers; (iii) to

⁹ On 1st April 2013 the FSA was replaced by the Financial Conduct Authority (FCA) under the auspices of the Financial Business Act (2012). However the FSA was extant throughout the time during which the study was planned and oversaw development of the Islamic banking sector in the UK discussed in this chapter. It was therefore decided to concentrate on descending the FSMA/FSA regime here. In addition, much of the empirical work took place while the FSA still existed.

¹⁰ www.fsa.gov.uk

promote public awareness; and (iv), to increase public understanding of the financial services industry¹¹.

The UK has one of the world's most developed financial sectors (Wilson 2000). London is the largest stock market in the world for inter-bank transactions and exchange dealing. The demutualisation of leading building societies mainly due to the Building Society Act of 1987¹² meant that the structure of the UK banking sector changed rapidly. In particular resulted the dominance of the big four, Lloyds, Barclays, NatWest and Midlands ended (Wilson, 2000)¹³. Furthermore, the entry into retail banking of supermarket groups including Sainsbury, Marks and Spencer, Tesco Finance and Standard Life is a significant development; all these companies are offering banking services through their networks at much lower cost than banks with high level of staffing and resources Wilson (2000).

2.2.2 UK Islamic Markets and the Growth of *Shariah*-Compliant Banking

Wilson (2000) notes that Islamic finance has become increasingly significant in the West, notably London, despite the regulatory and cultural challenges presented in non-Muslim countries. Figure: 2.1 highlight the growth of *Shariah* assets in several

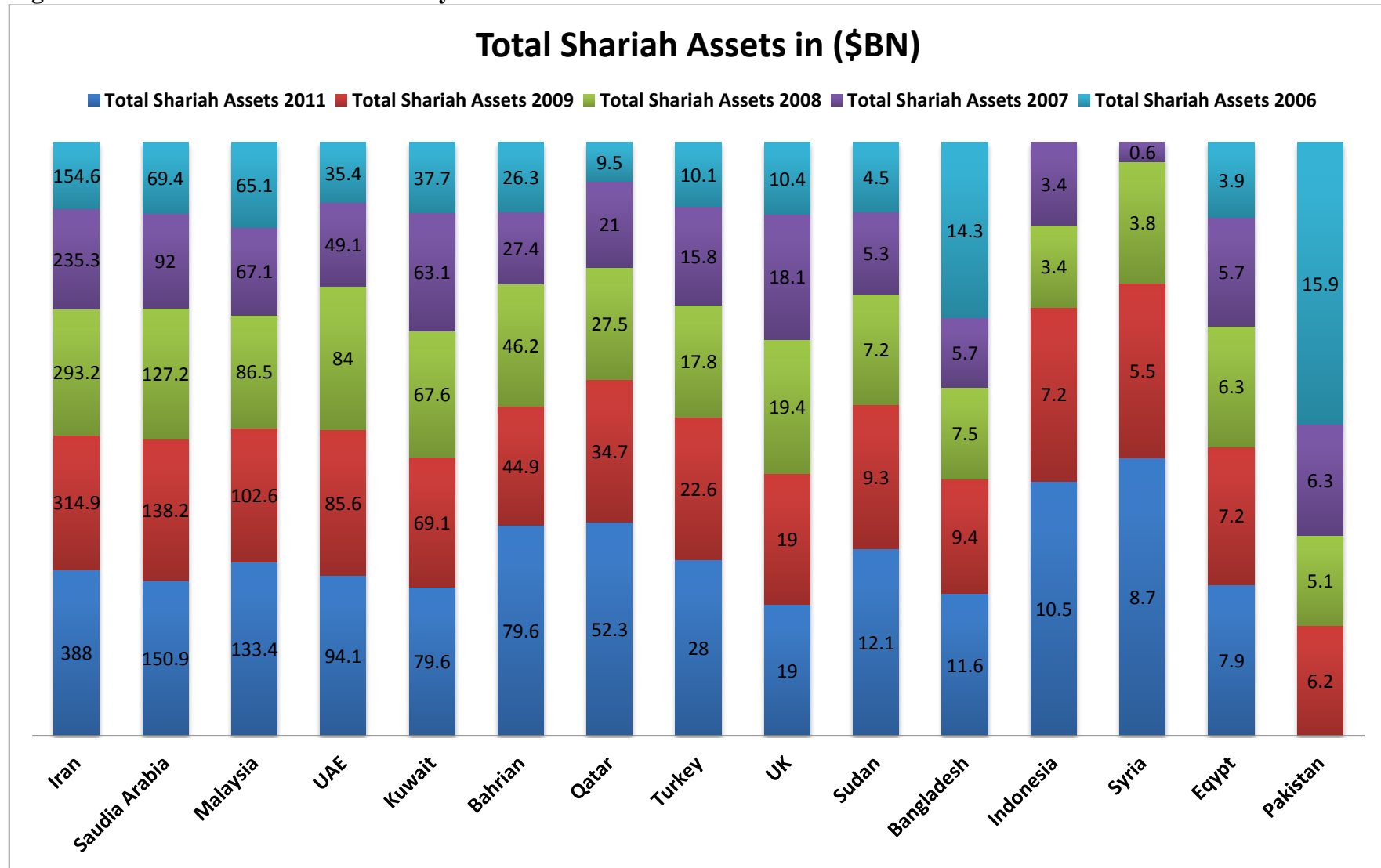
¹¹ The FSA also outlines requirements for any entity looking to conduct financial activity in the UK. The following specific guidelines must be followed: (i) if the business or firm is a corporate body, then it must be registered in the UK and if it has a head office, it must also be based in UK; (ii) if the regulated firm has links with another firm, these should have no effect on the supervision of the firm; (iii) the business must have the legal status of a corporate body or a partnership; (iv) the firm must have adequate resources to conduct business in the UK; and (v) the business must be able to satisfy the FSA that it has connections with its shareholders and employees.

¹² The Building Societies Act 1986 gave building societies what, at the time, was a completely new legal framework for the first time since the original inclusive building society legislation in 1874. That Act has then been amended on several occasions, and was substantively revised by the Building Societies Act 1997, by the Financial Services and Markets Act 2000 and by the Financial Services Act 2012.

¹³ Lloyds merged with the Trustee Savings Banks (TSB), while NatWest and the Royal Bank of Scotland joined together. The acquisition of Midland Bank by the HSBC resulted, a rise in a market share, in conjunction with First Direct. However, Barclays managed to maintain most of its market share.

countries from 2009-2011. It also depicts the global growth in Islamic finance and highlights that the UK has the eighth fastest growing Islamic banking sector in the world, with only Islamic nations ahead of it. The most notable aspect of the chart reveals UK being one of the non-Muslims countries to have a constant increase in the amount of Shariah assets from 2006-2011. A recent report from banker 2013 reveals that UK ranks, number 17 out of 20 largest countries ranked by total *Shariah*-compliant assets in 2013.

Figure 2.1: Growth in Islamic Finance by Asset Value



Source: The Banker (2006-2007-2008-2009-2011).

This growth partly reflects demand from Muslims (Wilson, 2000; Housby, 2013). Qorchi (2005) maintains that there are two main reasons behind the growth of Islamic institutions in the UK. One is the strong demand from Muslims and the second is the competitiveness of products provided by Islamic banks in the UK that aim to attract Muslims as well as non-Muslims¹⁴. The development of the Islamic finance industry in the UK was encouraged by the government to satisfy the need of nearly three million Muslims in the UK (Alam, 2004; Ahmed, 2008); currently, Islamic financial products offered at the retail level include Islamic investment accounts, commodity and equity based funds, Islamic portfolio management, equity and debt based contracts and Islamic mortgages. Much of the Islamic banking activity in the UK can be categorised as investment banking and corporate finance, although private banking services are also on offer for Muslims (Wilson, 2000)¹⁵. According to an HM Treasury Report (2008), there has been a large increase in liquidity in the Middle East; local financial markets have been unable to accommodate this surge leading to a spill-over into international markets. The UK with its strong banking sector and established openness has been favoured as a home for these financial drifts¹⁶.

¹⁴ The global Islamic finance industry is estimated to be worth £800bn, and is growing at a rate of between 15 per cent and 20 per cent per year.

¹⁵ Currently there are 22 Islamic banks operating in the UK including 5 that are fully *Shariah*-compliant, more than in any other Western country. 20 *Sukuk* have been issued on the London Stock Exchange, While 7 *Shariah*-compliant exchange-traded funds and 20 law firms supplying services in Islamic finance have been established with advisory services provided by Big Four professional service firms. Several institutions offering education and training in Islamic finance have been also opened (IFSL Research, Islamic Finance, 2010). The universities and business schools offering Islamic finance in the UK are: Aston Business School, Bangor Business School, Cambridge Judge Business School, University of Dundee, The Centre for Islamic Finance at The University of Bolton, Durham University and Business, School ICMA Centre Henley, University of Reading, Glamorgan University, London School of Business and Finance, Newcastle Business School, The Oxford Centre for Islamic Studies, University of East London's Royal Docks Business School, Salford Business School (UKIFS).

¹⁶ HM Treasury, The development of Islamic finance in the UK: the Government's perspective.

The largest volume of Islamic finance, booked in the UK originates from Muslims countries, primarily from the Gulf region. There are a number of reasons behind the growth of Islamic finance in the UK: (i) it is still considered to be a new, attractive industry, growing as a result of the success of the banking industry in Middle East and South Asian markets (Ainley *et al.*, 2007)¹⁷; (ii) many international financial institutions such as HSBC and Lloyds have had a presence in the Middle East and South Asian markets for several years; this has enabled them to develop knowledge and expertise of local markets and the broader Islamic banking system. These banks subsequently applied this knowledge to ‘Islamic-windows’ in the UK which provide retail banking services to Muslims by allowing to access Islamic banking products even when the bank itself is not Islamic (Ahmed, 2008); (iii) the introduction of legislative changes designed by the UK government to remove obstacles to the development of Islamic finance has helped to increase its growth in the UK. For instance, The Finance Act (2003) helped to prevent multiple payment of stamp duty on Islamic mortgages¹⁸. Additional measure include the extension of tax relief on Islamic mortgages to companies and individual; the January (2010) announcement that regulators will introduce measures to provide clarity on the treatment of corporate *Sukuk*, reducing the legal costs for these types of investments and removing unnecessary obstacles to their issuance’ (IFSL Research, Islamic Finance, 2010); and (iv) arguably the most important factor influencing the UK’s Islamic finance industry was the aforementioned establishment of the FSA in 1997 and the combining of different regulators via 2000

¹⁷ At the beginning of 2008 the UK hosted five stand-alone Islamic retail and wholesale banks, over twenty conventional banks with Islamic-windows, and one stand-alone *Shariah*-compliant insurance provider, at least nine fund managers providing opportunities for investment in *Shariah*-compliant funds and one *Shariah* compliant hedge fund manager (www.hm-treasury.gov.uk).

¹⁸ Additionally, Finance Acts 2005 and 2006 saw the introduction of two types of borrowing concepts. In 2005, Government legislated for *Murabahah*, in which the return equates in substance to the return on an investment of money at interest, it will be taxed as if it were a loan and in 2006 the government regulated diminishing *Musharakah* to be in Home Purchase Plans. The Finance Acts and other legislation can be accessed on the website of the Office of Public Sector Information at: (www.opsi.gov.uk).

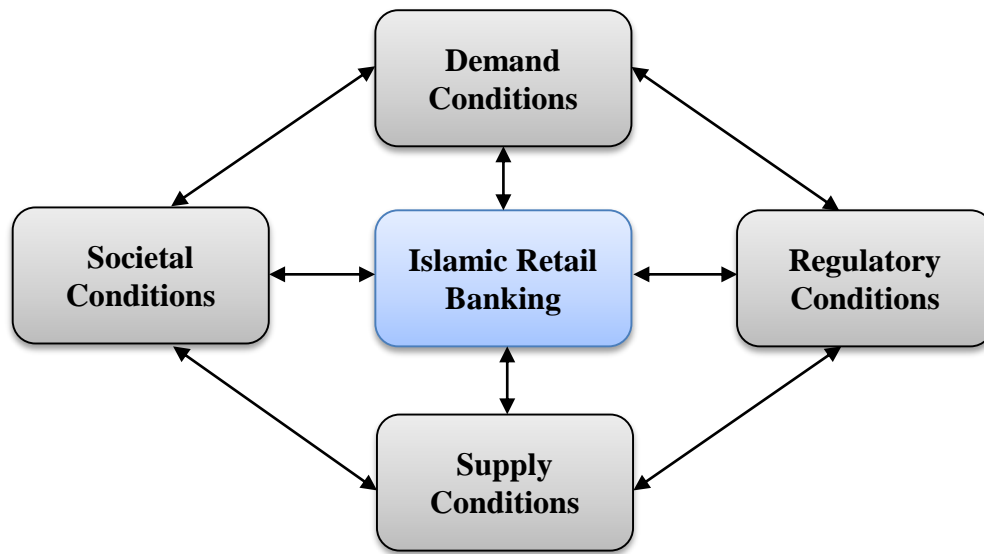
FSMA. This has helped resolving several “complications and conflicts by smoothing out some of the regulations and simplifying” the products and processes of Islamic institutions (Ainley *et al.*, 2007, p. 10).

The efforts of the UK Government, FSA and the Bank of England to support the development of Islamic banking have gathered pace over the past decade. For example, according to an HM Treasury Report 2008, the Bank of England began to recognise the potential for wholesale and retail Islamic banking in the UK in the year 2000. Working together with HM Treasury it established a group to investigate and remove obstacles to the development of Islamic banks in the UK¹⁹. In 2003, HM Treasury, HM Revenue and Customs and the FSA introduced several changes to the tax system aimed at enabling UK financial institutions to offer a range of Islamic financial products including mortgages, asset finance and trust funds. Since then the FSA has authorised several Islamic bank and financial centres, and these are currently the only stand-alone Islamic financial institutions in the European Union. In 2007, the UK Department of Trade & Investment (UKTI) established a subgroup to produce a strategy for the promotion of the UK as a centre for the provision of Islamic financial services²⁰. The FSA policy in this regard was to fit Islamic banking into the current regulatory system; the FSA saw no obstacles to this and followed a non-discriminatory regime, where all sectors would be treated similarly (Ainley *et al.*, 2007). Figure 2.2 illustrates the determinants of Islamic retail banking that contributes towards the success of Islamic banks.

¹⁹ In 2013, Islamic Finance Task Force (IFTF): IFTF is a Ministerial-led Task Force set up to promote the UK as an Islamic financial center and to attract inward investment.

²⁰ The sub group consisted of 15 practitioners and representatives from the UKTI and HM Treasury. Four private sector working groups were set up to feed into the sub-group; banking & Insurance, Legal, Accountancy and Education, Training and Qualifications (HM Treasury report, 2008).

Figure 2.2: The Determinants of Islamic Retail Banking



Source: Reproduced from Volk and Pudelko (2010, p. 195).

Burnside (2011) notes that in modern financial markets, where people are increasingly calling for high levels of ethical behaviour on the part of financial institutions, the Islamic banking movement is well-planned to prosper. This sector is perceived by many non-Muslims as an option for an alternative to ethical banking (Housby, 2013). Additionally, Ainley *et al.* (2007) maintains that opportunities for Islamic banking's expansion are significantly high, and it could continue to develop if it can convince the UK population about its ethical dimension and suitability for non-Muslims who prioritise this issue.

2.2.3 Barriers to Development and Future Challenges for Regulating Islamic Banking in the UK

The UK government's stated aims in supporting the development of Islamic finance remain ensuring that everyone, irrespective of their beliefs, has access to financial products, and the UK should remain a gateway for Islamic finance by continuing to

provide competitive products. However, some barriers remain, as acknowledged in the HM Treasury Report of 2008. The first relates to the lack of standardisation, and the lack of commonly accepted standards and practices regarding *Shariah* law interpretation. Because the precise implications of *Shariah* principles vary, scholars' often disagree about their application to financial assets. This causes difference of opinions on the permissibility of certain products and practices, resulting in a loss of confidence in the industry and a burden on *Shariah* scholars. Second, there is a shortage of *Shariah* scholars with the necessary expertise on Islamic finance and Islamic jurisprudence; this means that many scholars are members of numerous *Shariah* boards, which can cause conflicts of interest.

In identifying the challenges of regulating Islamic banks, three areas have been identified by the FSA as potential difficulties for Islamic banks in the future (Ainley *et al.*, 2007). These relate to the regulatory definition of Islamic products: (i) the definition of Islamic products under the Regulated Activities Order of 2001 differs from the formulation used for the conventional equivalent products. This has a further implication for the applicant; it needs to assess whether its Islamic products can be authorised under the Regulated Activities Order. If the product falls outside the FSA's regulatory framework, problems may arise in terms of restrictions regarding to whom these Islamic products can be sold; (ii) the role of *Shariah* advisors has to be made clear and explicit, for example, clarity is needed in terms of whether the scholars are working as simple advisors or instead have an executive role (Ainley *et al.*, 2007). If any of these advisors are acting as a director as well, it might involve them in the corporate decision-making activities, causing another difficulty for the FSA in recognising the multiple memberships of SSB advisors; (iii) as the financial products provided by Islamic banks

in UK are relatively new in relative to those of conventional banks, individuals have less experience of these products and services; so the advertising of these products must therefore be ‘clear, fair and not misleading’.²¹ The FSA also suggests that consumers need to have a better understanding of these products and their names to avoid any miss-selling. In this context, the discussion now turns to explanations of *Shariah*-compliant products and elaboration of their application and implementation.

2.3 Operations of Islamic Banks

2.3.1 Islamic Financing Modes

Central to any Islamic banking system are the notion of profit and loss risk-sharing (Dar and Presley, 2000). Islamic jurisprudence²² permits a wide range of financing to be implemented; Hassoune and Volland (2006) assert that Islamic banks use a variety of equity-and debt-based instruments, which sets these institutions apart from conventional ones. Siddiqi (2002) explains that Islam recognises and deals with the issue of possible losses in money-lending transactions by introducing the profit and loss (PLS) system, which absorbs the impact of inflation. The Islamic concept of *Uqud* (contract) is important for Muslims as it provides a comprehensive understanding of the several contractual dealings that exist in human life. For instance, *Quran* says in (Chapter 5, Verse. 1), “O you who believe! Fulfill your contracts”, indicating the importance of contracts that Muslims are expected to achieve. Furthermore, the Islamic acceptability of contract comes from the following verse in The Holy *Quran* (Chapter

²¹ www.fsa.gov.uk

²² Two main tendencies were formed during the creation of jurisprudential processes in the late Umayyad and early Abbasid period. First, in order to keep the Islamic doctrine consistent and coherent, lawful procedures became more logical in order for a more analogical deduction. The second tendency was increased importance of the practices of *Sunnah* (Coulson, 1994, p. 36).

2, Verse. 282), “O you who believe! When you contract a debt for a fixed period, write it down. Let a scribe write it down in justice between you. Let not the scribe refuse to write as *Allah* has taught him, so let him write”. Thus, the remainder of this section focuses on some major Islamic financial contracts that reflect these basic principles.

2.3.2 *Mudarabah* Contract

In an Islamic context, *Mudarabah* indicates the payment of a specific amount of money to a person who uses it for business and makes a profit from it (Usmani, 2002). Al-Khafif (1941) defines *Mudarabah* as a contract for sharing profit of a business in which one party contributes with capital and the other with labour. Usmani (2002) further explains that a *Mudarabah* contract is whereby a person gives a defined amount of capital to a person with the intention of trading it for an agreed share of profit in agreed proportion. Under the *Mudarabah* contract, the financier allows the *Mudarib* (the working partner) to employ their capital in an investment project; Obaidullah (2005) characterises this type of arrangement as an equity-based mode of financing in which, for a specific venture of the client, the bank provides finance. The underlying assumptions of *Mudarabah* state that the owner of the capital is the bank, but it cannot interfere with the management and is only concerned with the profit. If profit is not realised, the bank does not receive any share. Doi (1984) interprets *Mudarabah* contracts as those in which a certain amount of stock is offered by the financier to a client in order to earn profit from their joint partnership. The financing party gets an entitlement to profit in return for the capital provided. Saleem (2008) states that *Mudarabah* is a very effective instrument for removing interest from society by providing an interest-free tool for skill utilisation. It can especially help in mobilising resources of society. Sultan (2006) notes that in *Mudarabah* contract the customer can

treat the fund provider to as a bank that has no voting rights; However, Maurer (2002) notes *Mudarabah* contracts carry no absolute guarantee of return.

In a *Mudarabah* contract, the profit-and loss-sharing ratio is determined by both the bank and the client at the beginning of the contract. In an event of disagreement whereby the bank wishes to dissolve the partnership, any joint venture must be liquidated before dissolution. After dissolution, any profit realised from the liquidation is paid towards the capital and is then shared between the bank and the client. As Zaher and Hassan (2001) note that the bank and the client are temporary partners, therefore the bank is entitled to a share of return, but has to absorb all losses.²³ However, Hassoune and Volland (2006) argue that banks can manage risk by giving careful attention to the asset side of the balance sheet and closely controlling the supervisory tasks. Additionally, as Albalawi (2006) notes, in *Mudarabah* contracts banks are entitled to detailed information regarding decisions taken by the client and can also perform their own audit on the accounts.

The concept of *Mudarabah* existed in the pre-Islamic Middle-East (Crone, 1987; Kazarian, 1991; Cizaka, 1995). The Arabs practised *Mudarabah* contracts while trading goods to Syria in the summer and Yemen in winter; on their return after the goods were sold, they prepared balance sheets and calculated profits and losses (Gafoor, 1999)²⁴.

²³ Further rules of *Mudarabah* include that the bank should not consume any money from the contract for personal use or expenses, unless this was agreed at the time of contract. The bank also has no entitlement of any other money generated besides the profit from the contract unless it was specified to the financier or the nature of business requires it. Furthermore, the bank should be honest and should be trusted in all matters relating to the contract (Usmani, 2002).

²⁴ Archer *et al.* (1998) maintain that a *Mudarabah* contract is very similar to ‘*Commenda*’ used by merchants and Italians in the late-middle age.

Since the advent of Islam all interest-based transactions became forbidden and all the finance and business had to be conducted on a profit-sharing basis.

Tahir (2007) and Chong and (Liu) 2007 argue that the implementation of *Mudarabah* in Islamic banking system, in real practice has raised comments from the scholars. Investors are attracted on the promise that they will get return out of *Riba*-free financing, but the contract forms, the profit and loss calculations, the funds management practices, the accounting conventions, and the methods of distribution of profits are not different from those conventional interest-based banks (Tahir, 2007). Chong and Liu (2007) report that theoretically, *Mudarabah* deposits are supposed to be equity-based contracts because of their profit and loss sharing aptitude, however, in reality, the results show that these *Mudarabah* deposits are more debt-based than equity-like contracts.

2.3.3 *Musharakah* Contract (Joint-venture profit)

Obaidullah (2005) defines *Musharakah* financing as an agreement between two parties bound in a partnership to contribute capital and entrepreneurship. In such a contract the bank, together with the investor, provides equity financing for the project in pre-agreed proportions (Usmani, 2002). Although, *Musharakah* may seem similar to *Mudarabah*, *Musharakah* differs in one key respect, specifically that the financier is given the right of voice in management. Also a *Musharakah* contract involves loss-sharing, whereas in *Mudarabah*, only the financing party is exposed in this way. In this regard, Zaher and Hassan (2001) assert that *Musharakah* observes the principles of PLS and is suitable for long-term financing and encourage its implementation in Islamic banking around the world. Hassoune and Volland (2006) argue that *Musharakah* has been introduced in current Islamic financing specifically in order to bring profit sharing in to

the banking system²⁵. Saleem (2008) states *Musharakah* helps in removing idle resources of economy thus, reducing level of poverty in society²⁶.

Musharakah partnerships are split into two categories, *Sharikat al-milk* and *Sharikat al-aqd*. *Sharikat al-milk* means an ownership of two or more parties. However, it has a further two categories: ‘Compulsory’ and ‘Optional’ *Sharikat al-milk*. Compulsory *Sharikat al-milk* involves automatic transactions such as property being inherited jointly (Mansuri, 2006). In contrast, optional *Sharikat al-milk* involves situations such as two parties voluntarily purchasing a property (Mansuri, 2006). The rules in *Sharikat al-milk* give each partner control of their own share and partners are not allowed to dispose of any asset with respect to others’ shares; however, each partner can sell his share without the permission of the others.

Sharikat al-aqd partnership is a result of an agreement between two or more parties in order to share profits (Mansuri, 2006). Here, the investor is exposed to the risk of capital loss. All the parties, including the bank, have the right to participate in all activities and management of the project (Gafoor, 1996). Partners can agree on a condition where a particular partner can choose not to work and become ‘sleeping’ restricting his entitlement in profit sharing to the extent of his investment ratio. If all the partners in *Sharikat al-aqd* contract agree to work for the joint venture, each is treated as an agent of all, and work done by them must be authorised by all of the

²⁵ Several UK Islamic banks and Islamic-windows such as the Islamic Bank of Britain, Lloyds TSB and Al-Buraq offer *Musharakah* financing.

²⁶ *Musharakah* contract can be used for any of transaction and based on any specified period of time; this can be extended at any point by the agreement of all the partners, and easily terminated on the death of any partner (Yasin, 1997).

partners (Usmani, 2002). With reference to *Musharakah* contracts Siddiqi (1985) noted that:

“Under *Shirkaht* (a participation of two or more persons) it is not necessary for every party to enter into practical transactions, although none can be formally excluded from active participation. In principle, every party has the right to participate, though in practice he may not. By mutual agreement, it is possible that capital may be provided by a few persons and the business carried out by one or more persons, or that capital is provided by one person and business is carried out by many persons jointly, possibly including the person providing the capital”.

(p. 16)

In *Musharakah* home financing, there are two types of *Musharakah* contracts: ‘diminishing’ *Musharakah* and ‘constant’ *Musharakah*. Diminishing *Musharakah* involves a bank agreeing to transfer ownership to the partner gradually upon receiving payments. As the client makes payments, the bank’s share of ownership declines over time and the partner’s share of ownership increases until the partner becomes the sole owner of the venture. On the other hand, in constant *Musharakah*, the share of all partners remains the same throughout the period of the specified venture (Mansuri, 2006). While using *Musharakah* for commercial ventures, the financial liability of banks and other institutions is considered to be limited in nature. Hence, Siddiqi (1983) noted that:

“When the bank is to sign a partnership contract, provision must be made for the financial liabilities not to exceed the contributed capital. This is possible when the bank has invested its capital on the principle of ‘*Shirkat-inan*’ (partnership), and its business is run on the condition that it will not be expanded beyond the partnership capital. When taking or giving loans or credit a limit should be set such that, at any given time, the financial liability of the joint business will not exceed the total of its cash deposits and assets”.

(p. 21-22)

2.3.4 *Murabahah* Contract (Cost plus Mark-up)

A *Murabahah* contract is a debt-based agreement based on the principle of mark-up. With these arrangements Islamic banks are permitted to purchase any tangible assets at the request of a client and sell at a pre-determined mark-up (Mills and Presley, 1999; Chong and Liu, 2007). While it may seem that the mark-up charged by the banks is just another form of interest charged in conventional banking, in *Shariah* this type of mark-up is viewed as profit from acquiring an asset for resale purposes; consequently the asset is sold for money and not classified a mere exchange of money for money (Wilson, 1983). The bank bears the risk of a price fall and takes all the responsibility for the goods until they are delivered to the customer. While discussing *Murabahah*, Zaher and Hassan (2001) explain that the client takes responsibility for negotiating terms with the bank and during the life of contract the mark-up cannot be altered. The amount of mark-up is itself normally determined by either LIBOR (London Inter-Bank Offered Rate) or US Treasury Bill rates.²⁷ However, Kuran (2004) argues that because banks, whose mission is to presumably reduce interest from its transactions, make use of this tool, they are effectively adopting interest, but dressing it up in an Islamic friendly way. Kuran (2004) further asserts that in practice Islamic banks have adopted and devised several other methods for penalising customers. Similarly, Islamic scholars such as (Homoud, 1994; Gafoor, 1999; and Khan and Bhatti, 2008 a, b) stress that the practice of *Murabahah* contracts grossly violates the principles of *Shariah* law. For Saleem (2008), *Murabahah* may help consumers buy large assets but it has no direct effect upon eradicating poverty.

²⁷ Transaction size, asset type and credit rating also sometimes affect the mark-up.

2.3.5 *Ijara* (leasing)

Ijara is a debt-based Islamic mechanism used in two different situations: hiring an asset or property, and employing a person's services (Mansuri, 2006). UK Islamic banks including HSBC *Amanah Finance*, the Ahli United Bank and the United National Bank use *Ijara*, with some minor modifications. The two categories of *Ijara* (leasing), are known as: '*Ijara al-ashya*' and '*Ijara al-askkhas*'. *Ijara al-ashya* refers to the hiring of property asset. In this contract the bank purchases the asset and then leases it back to the client upon agreement of time period and other conditions (Obaidullah, 2005). This contract has three main foundations: contracting parties; the offer and the acceptance of the contract; and conditions of the contract. The client has an option to terminate the contract at any time before its expiry; otherwise the ownership is transferred to the client after all the instalments. Rental charges on property are permitted by *Shariah* law on the pre-condition that the bank maintains the risk of asset ownership; insurance, damages, repairs and depreciation are the responsibility of the leaser. The other type of *Ijara, al-askkhas* is used when hiring labour services, except those prohibited in *Shariah* such as magicians or singers (Mansuri, 2006).

However, Kuran (2004) and Chong and Liu (2007) argue that Islamic banks' *Ijara* financing activities are no different from those of interest bearing ones. Similarly, Zaher and Hassan (2001) maintain that Western financial contracts are comparable to *Ijara*; in particular, in both cases the client gains ownership of the asset at the completion of the lease, which in principle violates the rules of ownership in *Shariah* law.²⁸

²⁸ Islamic scholars have, however, prohibited combined contracts (for example, a transaction that combines both lease and purchase) as the Prophet Muhammad (PBUH) prohibited combining multiple contracts in one transaction (Mansuri, 2006).

2.3.6 *Salam* and *Istisna* Contracts

Salam is a *Shariah* approved contract where payment is made now for products to be delivered at a specified time in future. The precise meaning of the word *Salam* is to ‘advance’ (Mansuri, 2006). *Salam* is useful in reducing agricultural sector poverty easily, by enabling the banks and farmers to contract with each other in order to get finance at suitable time, instead of usurious loans (Saleem, 2008). It attempt to provide the financial needs of farmers who require funding to grow crops to the point of the sale and to meet the financial needs of traders in the business of import and exports (Usmani, 2002). Usmani (2002) highlights some of the main rules regarding the *Salam* contract; he states that the price must be agreed before entering into the contract and must be paid in full. However, if the payment is not made in full, then it would be classed as a debt meaning that the main aim of fulfilling the financial needs of the buyer would not be achieved. Usmani (2002) further states that only those goods whose quality and quantity can be pre-specified should be involved as disputes at delivery can occur if this is not the case²⁹. Furthermore, since the rate or price set in a *Salam* contract is lower than the spot rate, the difference must be a ‘valid’ profit (Mansuri, 2006). Mansuri (2006) notes that, when applying *Salam* contracts, Islamic institutions must take special care, as there can be significant counter-party risk with the client defaulting after taking the payment in advance. The banks also face commodity price risk, as they may receive goods that are lower in price than originally expected, as well as quality risk, as they might receive goods lower in quality than was initially agreed. Finally, they may face asset-holding risk; if the goods are not delivered in time this could result in a possible

²⁹ The place and date of delivery must also be specified.

asset loss for those unsold goods. In this case extra storage costs will be borne by the bank holding the goods³⁰ (Visser, 2009).

Istisna is one of the *Shariah* modes of financing widely used by Islamic banks to manufacture a specific product for them. It is used in practice for various kinds of projects such as: housing, construction of buildings, plants, roads, ships, machines and equipment, creating employment of factors of production and wealth to society without harmful effects of interest (Usmani, 2002). In *Istisna*, the manufacturer uses its own material and the price is fixed with the consent of all parties (Usmani, 2002). The main conditions for an *Istisna* contract to be valid are that: the commodity specifications must be fully settled in terms of price, quality and quantity; there should be work or performance involved, and the time of completion of work and delivery is not fixed (Mansuri, 2006).

2.3.7 Takaful and Sukuk

Takaful, is a form of Islamic insurance designed to serve as an alternative to its conventional counterpart (Al-Qaradaghi, 2011). *Takaful* is a *Shariah*-compliant mutual insurance arrangement in which a group of individuals pay money into a fund which is then used to cover pay-outs to members of the group when a claim is made. Khorshid (2004) and Sadiq (2006) note that in *Takaful*, surplus funds are distributed among shareholders and participants on the basis of *Mudarabah*; In contrast, all profits in conventional insurance belong to the shareholders only. There are two *Takaful* insurance providers in the UK: Salaam Halal Insurance (SHI, 2010) and Muslim

³⁰ www.financialislam.com.

Insurance Services (MIS, 2010)³¹. While there has been a rapid growth in the *Takaful* industry, it is still in its early stages in the UK³². According to Choudhury (2007) *Takaful* is alternative to premium-based financing in which resources are mobilised into diversified ventures that are ‘socially embedded’ in “Shariah meaning of social wellbeing for the mutual benefit of the insurance company and the insured” (p. 91). These kinds of projects are very well risk-diversified due to the increase in opportunities and numbers of stakeholders (Choudhury, 2007).

Sukuk bonds are structured asset-based investment bonds and certificates that represent ownership by the *Sukuk* holders in an underlying asset. Returns are rewarded to the investors in line with their relative ownership in that asset. *Sukuk* may be issued by governments or by private companies (Usmani, 2002)³³. Table 2.2 summarises the major contracts used in retail Islamic banking discussed in this part of the chapter while highlighting their features and structure.

³¹ As of July 2012, there have been 42 *Sukuk* have been issued at the London Stock Exchange, worth US \$35,236 million and 9 in Irish Stock Exchange worth US \$4853 million. The first *Sukuk* listed on LSE was for the UAE-based National Central Cooling Company (Tabreed) for the amount of US\$200 million in 2007.

³² Abdul-Rahman (2009) notes that there is a potential demand for growth of *Takaful* worldwide.

³³ So far 37 *Sukuks* have been issued raising \$20bn currently listed on the London Stock Exchange, including 10 in 2011. Seven exchange rate funds and two exchange trade products are also quoted on the London Stock Exchange (www.londonstockexchange.com).

Table 2.2: Islamic Contracts and their Structure

Contract	Description	Ownership	Profit and Loss Sharing	Islamic Banks in the UK Offering these Contracts
<i>Mudarabah</i>	<ul style="list-style-type: none"> • Equity-based financing • Not obliged to pay back the entire financing 	<ul style="list-style-type: none"> • Financer does not have a voice in management. • Ownership assets remain with the investor at all times 	<ul style="list-style-type: none"> • The profit is shared in pre-agreed ratios, and the Islamic bank suffers losses • Generates positive or negative profits. • Only financer suffers loss • Complete uncertainty 	Islamic Bank of Britain
<i>Musharakah/ Diminishing Musharakah</i>	<ul style="list-style-type: none"> • Equity-based financing • Not obliged to pay back 	<ul style="list-style-type: none"> • The financer is given right of voice in management 	<ul style="list-style-type: none"> • Every partner bears loss according to ratio of their investment 	Islamic Bank of Britain, Al-Buraq, HSBC, Lloyds TSB
<i>Murabahah</i>	<ul style="list-style-type: none"> • Combination of trading and debt • Obligated to pay back the entire financing 	<ul style="list-style-type: none"> • Full control of the use of finance. 	<ul style="list-style-type: none"> • Financer suffers to the full extent of capital • Only for a short period; the goods purchased are taken over by finance user • Certainty for a short period of contract 	Ahli United Bank
<i>Ijara</i>	<ul style="list-style-type: none"> • Lease-based financing • Only rent is paid 	<ul style="list-style-type: none"> • Full control of the use of the finance. • Until the asset is disposed of. 	<ul style="list-style-type: none"> • Non-profit and loss sharing mode. • Financer suffers to the full extent of capital as well as of the opportunity cost of capital 	Islamic Bank of Britain, Ahli United Bank, Al-Buraq, United National Bank
<i>Salam</i>	<ul style="list-style-type: none"> • Combination of trading and debt. • Obligated to pay back the entire financing. 	<ul style="list-style-type: none"> • Full control of the use of the finance. 	<ul style="list-style-type: none"> • Financer suffers to the full extent of capital 	N/A

Note: The table highlights the some of the major contracts used by retail Islamic banks and Islamic-windows as well as providing the information about their structure and key features.

2.4 Islamic Banking in the UK

2.4.1 Stand-alone Islamic Banks

There are five stand-alone fully *Shariah*-compliant Islamic banks operating in the UK, providing Islamic financial services to both Muslims and non-Muslims. Table 2.3 lists these banks along the non-Islamic banks with Islamic-windows.

2.4.1.1 The Case of Al-Baraka

Islamic banking came into existence in the UK in 1982 when Al-Baraka International Investment Company³⁴ started accepting deposits and providing home purchase finance to Muslims in the UK. However, its business really took off in 1987 when it opened its first branch in London. Although, Al-Baraka was an immediate success, the Bank of England was unhappy that the bank was owned by a single individual, a situation that UK banking regulations caution against (Housby 2011).³⁵ The Al-Baraka bank grew initially by offering *Shariah*-compliant contracts such as *Musharakah* as discussed earlier in the chapter.³⁶ Al-Baraka developed its main business in housing finance by providing long-term Islamic mortgages from 1988. Here the bank would sign contracts such as *Musharakah* to purchase the property. However, the ownership share depended on the financial contribution of each party with the bank's share gradually decreasing as the client's share rose through the instalment and payments made over the contract period (Wilson, 2006). As noted earlier, in a *Musharakah* contract, the financier participates in profit only and the client participates in both profit and loss, whereas in

³⁴ A Saudi-based company owned by Sheikh Saleh Abdullah Kamel.

³⁵ Housby (2013) notes that this rule followed the collapse of the Bank of Credit and Commerce International (BCCI) in 1991. The situation is seen as potentially leading lead account holders to face a high degree of risk.

³⁶ For a sum of at least £5000 with 75 per cent of annually declared profit going to those deposits and up to 90% for one-year deposits (Wilson, 2000).

conventional mortgage, there is no profit and loss agreement between the financier and the client. Any losses occurring due to technical difficulties are borne by the client only. Whilst Al-Baraka was making a profit, it was not competitive relative to conventional banks in terms of cost base. In order to bring Al-Baraka in line with other banks in the UK, the Bank of England allowed the bank some time to seek diversification of ownership, however the owner did not wish to dilute the ownership with others and, as a result, the bank surrendered the banking license to offer financial service and therefore decided to operate as an investment company instead (Wilson, 2000)³⁷.

An additional concern related to the bank being based in Saudi Arabia, but it was not incorporated there regulations and was not subjected to any Saudi supervision or oversight (Housby, 2013). The historical significance of the Al-Baraka in the UK is limited, however, as it closed in 1993. Nonetheless, it showed the desire of Muslims for *Shariah*-compliant financial services.³⁸ In addition, the activities in the UK of the Al-Baraka bank represented the first time that the concept of Islamic banking was introduced to non-Muslims, bankers and non-bankers alike. After the closure of Al-Baraka, the awareness of Islam among bankers increased and Eddie George, the governor of the Bank of England, gave many speeches aimed at promoting Islamic banking in the UK (Housby, 2013). In a speech given on 2003 he supported the development and growth of Islamic banking thus:

“If only we could encourage the Islamic community to develop a more consistent and desirably more standardised specification of the products they wished to introduce then, with a little imagination, we could surely find ways of fitting them in to our legal and regulatory

³⁷ The downfall of the bank was due to the introduction of regulatory requirements by the Bank of England following the BCCI collapse (Wilson, 2000).

³⁸ In the opinion of many UK Muslims, Al-Baraka was useful as far as home financing was concerned and many of them were planning to purchase their homes using the bank's *Musharakah* contacts Housby, 2013). The bank claimed to have made a profit of £3 million in its last year of business (Housby, 2013).

framework in this country, on a par with our more traditional financial instruments. I couldn't see how our essential legal framework needed to be disturbed or why our economic or social objectives needed to be adversely affected on this basis and it seemed to me, in that case, the principle of live and let live should apply in an open and tolerant society"³⁹.

2.4.1.2 The United Banks of Kuwait

After the closure of the Al-Baraka bank, the next institution to offer *Shariah*-compliant products in the UK was the United Bank of Kuwait. In 1997, they introduced their home purchase scheme, '*Manzil*'.⁴⁰ The scheme was based on the *Murabahah* (cost-plus financing) contract, which is itself based on the concept that the bank buys the asset, and then sells it on at an agreed mark-up to the client (Wilson, 2000). This product proved to be very successful relative to conventional interest-based loans, as most of the Muslims in the UK like the rest of the population preferred to own their own houses (Wilson, 2000). In 1999 the bank introduced *Ijara* contracts, under which the bank buys the property and the customer purchases the equity in instalments while paying rent for it until the whole sum is paid (Housby, 2011). In terms of the success of this product, Housby (2011) notes that although the *Manzil* scheme was available to all, it was difficult in practice for UK Muslims to take advantage of it because under the scheme the bank was prepared to lend only 80 per cent of the valuation and the client was required to make a 20 per cent deposit; for many people, such a high amount of deposit was unacceptable. In addition, the monthly repayments were higher than the conventional mortgages due to legal fees and double stamp-duty⁴¹.

³⁹ Speech given by Sir Edward George, Governor of The Bank of England in 2003, Available at: <http://www.bankofengland.co.uk>

⁴⁰ The United Bank of Kuwait set up its operations in treasury management in the UK in 1991. It merged in 2000 with the Al-Ahli Bank and is now known as the Al-Ahli United Bank (www.iibu.com)

⁴¹ The UK government introduced the removal of double stamp-duty for Islamic banks in 2003 on *Ijara* and in 2005 for *Musharakah* contracts to facilitate the growth of Islamic banks.

2.4.1.3 Al-Buraq

Al-Buraq, through ABC international Bank, started its operations in the UK in 2005, by providing *Shariah*-compliant finance to UK Muslims and non-Muslims with indefinite leave⁴². At its outset Al-Buraq stated that:

“We aim to be the premium provider of retail Islamic banking services and we will work hard to introduce a range of financial products, to provide Muslim communities with the financial services they need in their everyday lives”.

The bank also claimed to have adhered to Islamic laws via a *Shariah* Board of ‘world-renowned’ scholars familiar with the needs of the UK Muslim community⁴³. The bank announced that it would offer products and services tailored not only for Muslim needs, but also for any other consumer regardless of their faith and religion. The bank provided *Musharakah* contracts through the Lloyds TSB Banking Group; like HSBC, Lloyds has forged a high street presence offering easy access for Muslims. The key feature regarding their saving plan listed on the Al-Buraq website is that customers can start by investing a minimum of £500 and save while enjoying ‘peace of mind’ that their initial deposit is protected from any loss and their investment will be linked to the stock market via 20 shares selected from the Dow Jones Islamic Index. However, many scholars have argued that the concept of ‘initial deposit being protected’ does not comply with *Shariah* rules and violates the concept of profit and loss risk sharing in Islam. However, Islamic banks in the UK note that they are required by the Financial Services Authority to follow the regulations in the UK in this regard.

⁴² However, non-UK residents with a wish to purchase property in UK were offered tailored products, in partnership with the Bank of Ireland. Indefinite leave Refers to an immigration status, which allows a person to live in the UK without any time limit on stay and without any restrictions on employment or claiming any benefits (www.ukba.gov.uk).

⁴³ Some of the renowned scholars are: Muhammad Taqi Usmani, Muhammad Imran Ashraf Usmani, Sheikh Nizam Yaquby and Dr Mohamed Elgari.

2.4.1.4 The Islamic Bank of Britain

The Islamic Bank of Britain (IBB)⁴⁴ entered the increasingly competitive UK Islamic banking market in February 2004, offering a full range of *Shariah*-compliant banking services. The IBB was the nation's first independent Islamic bank to operate be, authorised by the FSA in August 2004. The bank currently offers its products and services to UK Muslims via five branches, located in Manchester, Leicester, Birmingham and two in London.⁴⁵ The bank states that it runs its operations based on four moral values; trust, faith, value and convince, and has its own *Shariah* Supervisory Committee to ensure that all transactions and operations remain *Shariah*-compliant. The bank's initial start-up capital came from a group of investors from the Gulf region who had an interest in and knowledge of the UK and believed that the bank could be successful it dedicating itself to the needs of UK Muslims (Housby, 2011).⁴⁶ In October 2004, the bank listed on the London Stock Exchange, raising capital of (up to £38.5 million net of expenses) via an initial public offering (IPO).

Over the first five years of its operations the bank suffered heavy losses, although Housby (2011) maintains that this was mainly due to the recession and the requirement for increased capital reserves imposed by regulators. In 2010, Qatar International Islamic Bank injected £20 million to bail out the IBB. This cash was needed to satisfy the capital adequacy rules of the Financial Services Authority. Notwithstanding these issues, in personal banking IBB offers three products, aimed at both Muslims and non-Muslims: personal current accounts, savings accounts and home purchase plans. The

⁴⁴ Now rebranded as Al Rayan bank.

⁴⁵ See www.islamic-bank.com

⁴⁶ The majority of the shares of the banks are owned by members of the Al-Thani family of Qatar (Housby, 2013).

personal current account is a basic day-to-day account that is free from interest accruals. Funds can be withdrawn anytime from any branch through an ATM⁴⁷. The funds deposited are kept in accordance with *Shariah* principles and the customers receive regular statements. There is no handling fee for running the account, and since interest is neither charged nor given, the account does not incur any additional fees. The savings accounts offered by the IBB are products where the banks accept customers' monies with the intention of investing and generating profit that is shared with customers and shareholders. In the Islamic terminology outlined earlier, such an arrangement is a *Mudarabah* contract. In addition to the standard savings accounts, the bank also provides a *Wakala* Treasury Deposit Account. This is operated under the conditions of an agency agreement. Where, the bank acts as an agent and attempt to achieve an agreed rate of profit for an agreed time period. If the bank is unable to achieve the expected profit, then it terminates the contract by returning the initial deposit with profit accrued at the rate formerly agreed.

The issue of conflict between (i) the Islamic principle of reward being dependent on risk and (ii) the FSA deposit guarantee has been brought to the attention of Islamic scholars. They reacted by arguing that if the pool of funds returns a loss, the bank must make good any shortfall as required by current UK banking regulation, but anyone who does not accept the offer will not be complying with *Shariah* principles (Housby, 2011). The *Wakala* Treasury Deposit account benefits consumers via growth in capital and reduction in the risk of loss. However, on the downside it requires an investment

⁴⁷ The bank provides a debit card to be used in the branch; however it charges a fee to withdraw money from the cash machine.

of at least £50,000⁴⁸. The *Shariah* supervisory board⁴⁹ has approved the IBB's home purchase plan. This product is based on the diminishing-*Musharakah* concept discussed above, whereby with each instalment paid by the customer reduces the bank's share and increases the customer's share.

In terms of business banking, IBB provides three types of products: business current accounts, business savings accounts and general business finance. Business current accounts encourage business customers to deal with large sums of deposits, allowing them to access foreign currency and travellers' cheque services. The deposited money is invested in *Shariah*-compliant companies. The 'Business on Demand Savings Account' allow investors to deposit their money through *Shariah*-compliant activities to generate *halal* profits, which are then distributed among depositors and shareholders at a formally agreed rate. The business finance function of the IBB is based on *Murabahah* principles and allows businesses to generate required amounts of cash from trading in commodities; customers can claim finance up to the value of £20,000.⁵⁰ However, not all commentators see Islamic banks as having progressed to a point at which they might be seen as becoming a part of the mainstream, and have argued that IBB is at only on the fringe of a market, dominated by global banks such as HSBC and Lloyds TSB that offer 'Islamic-windows'⁵¹.

⁴⁸ www.islamic-bank.com

⁴⁹ A *Shariah* Supervisory Board (SSB) guides *Shariah* compliance on behalf of the clients. The SSB is made up of distinguished Islamic legal scholars who assume responsibility for auditing *Shariah* compliance of a bank, including its marketing strategies, thereby functioning as a customer advocate representing the religious interest of investors (DeLorenzo, 2000).

⁵⁰ www.islamic-bank.com

⁵¹ An Islamic-window is a term referred to those conventional banks, which are offering Islamic *Shariah*-compliant product along with the non-Islamic ones.

2.4.2 Islamic-Windows

2.4.2.1 HSBC *Amanah* Finance

As a part of its efforts to further development of Islamic banking in the UK, HSBC introduced Islamic home purchase finance and current accounts in 2003, via the bank's Islamic division, '*Amanah*'⁵². The HSBC *Amanah* bank account was designed to meet the daily banking needs of Muslims so that they could enjoy the security of knowing that their money has not used to earn or pay interest.⁵³ The bank noted that the HSBC *Amanah* Central *Shariah* Committee approved the *Amanah* account of HSBC⁵⁴.

HSBC started its activities with the *Ijara* contract, but later introduced a diminishing *Musharakah* scheme along with the facility of transferring from a conventional to Islamic mortgage with a trade base; here the bank provided up to 65 per cent finance for the property and asking clients to pay the remainder.⁵⁵ However, HSBC, like other banks operating in this new market, met with some legal difficulties for instance, identifying the party responsible for repairs to the property and, in the case of default on payments, having to seek eviction under English tenancy law rather than the *Shariah*-based *Ijara* law. Eventually in October 2012, HSBC closed its retail Islamic operations in the UK due to low levels of growth⁵⁶.

⁵² The meaning of *Amanah* in Arabic refers to 'trust'.

⁵³ HSBC *Amanah* account was available to both Muslims and Non-Muslims as the bank was putting a lot of advertisement but focusing more on Muslims to gain the business.

⁵⁴ www.hsbcamanah.com, (accessed July 2011)

⁵⁵ <http://www.hsbc.co.uk>

⁵⁶ <http://www.bbc.co.uk>

2.4.2.2 Lloyds TSB Islamic Finance

Housby (2011) notes the entry of Lloyds TSB into the market as signifying an important development in the Islamic financial sector in the United Kingdom. Lloyds TSB⁵⁷ offers various Islamic financial products, including a current account, student and graduate accounts, *Shariah* baby-bond child trust fund accounts, a business and corporate account, as well as *Shariah*-compliant mortgages. Lloyds TSB's current and student Islamic accounts do not offer interest or an overdraft facility and have no fee or minimum opening balance (Smillie, 2005). The funds held in these accounts are managed in accordance with *Shariah* law, which means that investment is restricted to industries that are ethical in Islamic terms. So, for example, the bank does not invest in companies, which deal in tobacco, gambling, alcohol or pornography (Smillie, 2005).

Lloyds TSB's Islamic business and corporate accounts are designed to support both new and established businesses wishing to switch from conventional banks. However, the principles applied by the bank in the management of its Islamic business and corporate accounts are the same as in other Islamic finance products, i.e. these accounts offer no credit interest and no overdraft facility, but provide all the other facilities available to traditional business and corporate account holders. Lloyds TSB's *Shariah* baby-bond child trust fund account is essentially a stakeholder account. It allows Muslims to invest in a fund that holds shares in only those companies that comply with *Shariah* law.⁵⁸ Lloyds TSB's Islamic Home Finance Service provides a *Shariah*-compliant mortgage, which is provided through the Arab Banking Corporation

⁵⁷ To comply with a ruling by the European Commission in 2009, Lloyds and TSB have become separate banks from 2014. Both Banks provide Islamic services and TSB will remain part of Lloyds Banking Group until it is transferred to a new owner in late 2014.

⁵⁸ www.lloydstsb.com

International Bank. The product offers Al-Buraq, an Islamic home finance service that helps people to buy their home according to the Islamic principles of *Ijara* and diminishing *Musharakah*; the bank and customer jointly buy and own a property, with the bank purchasing up to 90 per cent and the customer buying the remainder. Monthly payments over an agreed period then allow the customer to buy the bank's share and the property is eventually fully transferred to the customer's name (Smillie, 2005). Lloyds TSB currently offers Islamic financial services through 32 of its branches across the UK and this number is growing (Warsame, 2009). Other British-based banks offering Islamic financial services include Barclays Bank & ANZ Grindlays.

2.4.3 Global Banking providers of Islamic Financial Services

In addition to the above-mentioned Islamic banks, there are several Institutions in the UK⁵⁹ operating under the compliance of the FSA⁶⁰ and providing Islamic retail, investment banking and asset management in the UK. Table 2.3 lists these and all other organisations currently operating along with their products and life span. Amongst those listed are Dresdner Kleinwort Benson and ANZ International Islamic, which provide investment fund management services in London, as well as Citibank International and Standard Chartered (Wilson, 2000).

⁵⁹ The UK was ranked the 9th largest country by *Shariah*-compliant assets in 2012, with more than 20 institutions offering Islamic finance and five wholly *Shariah*-compliant banks.

⁶⁰ Now the Financial Conduct Authority (FCA)

Table 2.3: Islamic Banks and Islamic-windows in the UK

Stand-alone Islamic Banks	Inception	Activities
Islamic Bank of Britain	2004	Retail (Musharakah/Ijara) and Corporate Banking
Bank of London and Middle East	2007	Trade Finance Investment, leasing
European Finance House (Qatar Islamic Bank)	2008	Corporate Finance
European Islamic Investment Bank	2006	Treasury, Capital Markets and Private Equity, Corporate Advisory
Gatehouse Bank	2008	Real Estate and Treasury
Islamic-windows	Activities	
Ahli United Bank	Retail Banking (Murabahah and Ijara), Trade Finance Investment, Real Estate	
Ansar Muslim Finance	Retail Banking (Musharakah)	
Al Baraka	Retail Banking (Mudarabah Musharakah)	
Al Buraq	Retail Banking	
ANZ International	Trade finance Investment, Leasing	
Al Rajhi Banking	Trade finance Investment, Leasing	
Lloyds TSB Islamic <i>Shariah</i>	Musharakah	
Citibank International	Trade finance Investment, leasing, Project finance, Financial Engineering	
Dresdner Kleinwort Benson	Trade finance Investment, Investment Banking, Leasing	
Hong Kong & Shanghai Banking Corporation	Trade finance Investment, Investment Banking, Leasing	
HSBC Amanah Finance	Retail Banking (Musharakah/Ijara)	
National Commercial Bank	Trade Finance Investment, Leasing	
European Islamic Investment Bank	Corporate banking	
Lloyds Banking Group	Retail Banking	
Standard Chartered	Corporate Banking	
UBS	Asset Management and Investment Banking	
Gatehouse Bank	Corporate Banking	
United National Bank	Retail Banking (Ijara)	

Note: This table highlights the Islamic banks and Islamic-windows operating in the UK as of (January 2013) and details their activities in the area.

2.5 Muslims in the UK

2.5.1 Profiling British Muslims

During the eighteenth century, Britain became a major military and colonial power. Having established control of the Indian sub-continent, Britain went on to dominate the Persian Gulf region and several other majority Muslim states over the following century, including the Middle East and Somaliland. This expansion into the Islamic world meant that whenever there was a need for cheap labour, Muslims formed a large proportion of the workforce (Gilliat-Ray, 2010). By the nineteenth century Britain's influence on politics and trade made it an attractive destination for travellers, scholars, entrepreneurs and for teachers of Eastern languages and culture. Therefore, Muslims increasingly came to Britain to both gain education and employment (Gilliat-Ray, 2010). During this period a steady stream of Indian students attended British universities including Muhammad Ali Jinnah, the 'founder' of Pakistan (Gilliat-Ray, 2010) and many of these students and workers settled in Britain. In the mid-nineteenth century, a major transformation took place in the shipping industry⁶¹ and this had a profound effect on Muslim settlement in Britain; by the end of the nineteenth century, the number of Muslims was estimated to be 10,000 (Ansari, 2004). Although the UK is historically a Christian society, everyone has a freedom to practise the religion of his or her choice. Muslims have not only challenged the presumptions of legal modernity but have also shown that "they can become citizens while at the same time retaining their Muslim identity" (King, 1995, p. 112). The UK's current population totals around

⁶¹ The First World War led to an increase in maritime activities, which increased the level of migration of Muslims who worked on British ships as seamen and sailors. Post Second World War migration; there was a serious labour shortage in Britain after the war, coupled with economic reconstruction and capital investment. Muslims responded to the rising demand for cheap labour in the garment factories, shoemaking businesses, restaurants, and transport and health services.

63 million according to the 2011 census⁶² with around 3 million identifying themselves as Muslims, making it the nation's largest religious group. In Europe as a whole, the Muslim population is nearly 56 million with London reported to be the most diverse population center with the highest proportion of Muslims.⁶³ Housby (2013) notes that a large number of British Muslims originated from the Indian sub-continent but there is also a sizeable community of Turks and Arabs, mainly resident in north London. In addition, there is a small Arab community, mainly of Egyptian and Palestinian origin. Gilliat-Ray (2010) suggests that around three-quarters of Britain's Muslim population is from an Asian ethnic background, of which 43 per cent are Pakistani, 17 per cent are Bangladeshi, 9 per cent are Indian and 6 per cent are from other Asian nations. Yilmaz (2002) notes that Muslims are not lost between cultures. "They navigate across different cultures rather skilfully; they are indeed 'skilful legal navigators', applying relevant law in different contextual situations aiming to meet the demands of different overlapping normative orderings" (p. 351). This is an indication of a postmodern response to legal modernity in which people ethnic cultures and values are treated with equality. This reminds us again "that legal modernity has limits and that legal postmodernity is a 'reality' (Yilmaz, 2002, p. 352).

2.5.2 Geographical Location and Housing

After the Second World War, Pakistani and Bangladesh migrants came to UK and lived in private housing located close to the northern textile mills and large Islamic communities now reside there (Simpson, 2004). A large population of Muslims, mostly

⁶² www.statistics.gov.uk

⁶³ National Statistics data from 2011 census.

Pakistanis, also exists in Birmingham, England's second biggest city.⁶⁴ Most of the rest of the UK's Muslims are found in London, which is home to a diverse Muslim community mostly Arab and Turkish and Bangladeshi in origin.⁶⁵ In Scotland, nearly half the Muslim population is in Glasgow, mostly of them are of Pakistani origin. Cardiff has the most Muslims in Wales while a small Muslim community resides in Northern Island⁶⁶.

2.5.3 Education and Occupation

In education and employment, Muslims of all origins have higher levels of participations in compulsory education than the UK population as a whole (Housby, 2011)⁶⁷. Given the popularity for educational achievement, there are also high proponents of doctors, lawyers, accountants and information technology specialists; such groups of professionals require a wide range of personal banking services and mortgages (Wilson, 2000). A large number of British Muslims especially the migrants of South Asian origin have small business including 'corner shops', neighbourhood food stores, curry restaurants and textile manufacturing businesses (Wilson, 2000; Gilliat-Ray, 2010; Housby, 2011). All of these groups have small business financing needs mainly to cover mortgages on premises and equipment purchases along with housing mortgages. However, Choudhury *et al.* (2004) argue that Muslims are the most disadvantaged faith group in the British labour market⁶⁸, suffering from

⁶⁴ The British South Asian Muslims were located in textile towns and engineering regions in the North, the Midlands, and the South East.

⁶⁵ Other cities that have attracted a lot of Muslims are Manchester, Leicester, Leeds, and Luton. However, there are significant numbers of Muslims living in most large English and Scottish cities.

⁶⁶ <http://www.ons.gov.uk/census>

⁶⁷ In addition, there are a significant number of Muslim students temporarily resident in the UK; the largest groups of these coming are from Malaysia and the Indian sub-continent (Wilson, 2000).

⁶⁸ In those disadvantaged groups, Muslim women suffer from higher unemployment rates and inactivity levels than their male counterparts and other ethnic minority women (Velayati, 2014). 68 percent of British Muslim women are inactive because Muslim men/families do not let them work (ESRC, 2012).

disproportionate levels of unemployment and inactivity, and are over-concentrated in certain low-paying sectors of the economy.

2.5.4 Religious Leadership

To reflect the growing number of UK Mosques as detailed in Table 2.4, The Muslim Council of Britain (MCB) was inaugurated back in 1997, bringing together representation of more than 250 British Muslim organisations so as to allow their voices to be heard at a national level. Amongst the issue of concern to the MCB is the question of whether British Muslims are committed to observe Islamic principles on financial matters. Here, Wilson (2000) notes that religious devotion remains strong, both in younger and older generations and the majority of Muslims attend mosques on a regular basis. Despite being influenced by British society and culture, the majority of the young are proud of their identity, and many have an excellent knowledge of Islam (Gilliat-Ray, 2010). In terms of leadership in Islam *Imams* and *Ullamas* are often employed to work in mosques as recognised scholars.⁶⁹ According to Ghozzi (2002) the ‘*Ullama*’

“Present themselves as custodians of an authoritative dogma, reproducers of an authoritative legacy, and interpreters of an authoritative law. In public they have always acted as a distinctive category of dignities or as *Allah*’s elite among His people, [men] wearing distinctive costumes and a distinctive type of beard”.

(p. 317)

Ullamas are highly educated in the study of Islam and therefore considered competent to make decisions on everyday religious matters (Gilliat-Ray, 2010)⁷⁰. There are over

⁶⁹ Most of the *Ullamas* (Islamic scholars) are also qualified and trained to be an *Imam*.

⁷⁰ The ‘*Imams*’ are almost regarded as intermediaries between God and humanity, officiating wedding contracts and funeral prayers. In contrast, a scholar with particular expertise in legal matters is known as ‘*Mufti*’ and such an individual has the authority to issue a legal opinion is known as ‘*fatwa*’. Another category of religious specialism in Islam is the ‘*Hafiz*’, an individual who has memorised the entire *Quran*. A ‘*Qari*’ is someone equipped with the techniques of correct recitation of the *Quran*. A more respectful way of referring to a person who carries out the functions of supervising the Mosque and

1600 Mosques in the UK⁷¹ (see: Table 2.4) providing Muslims with a place of worship and the facility to discuss their financial and other personal matters with Islamic scholars.

educating children is the '*Mullah*' or '*Molana*' who has an academic degree in Islamic studies. Finally, a '*Kahtib*' is someone with the religious knowledge required to deliver Friday sermons (Gilliat-Ray, 2010).

⁷¹ www.muslimsinbritain.org

Table 2.4: Mosques in the UK

Panel A: Regional Breakdown	Number of Mosques	
England	1535	
Wales	39	
Scotland	59	
Northern Ireland	2	
Offshore Islands	5	
Panel B: Britain's Biggest Mosques	Town	Size
Suffa-tul-Islam Central Masjid	Bradford	8000
Central Jamia Mosque Ghamkol Sharif	Birmingham	6000
Birmingham Central Mosque	Birmingham	6000
Islamic Cultural Centre	London	5400
Jamiyat Tabligh-ul-Islam,	Bradford	5200
Leeds Islamic Centre	Leeds	4700
Jamia al-Akbaria	Luton	4700
Masjid-e-Jamia Al Madina	Middlesbrough	4500
Jamia Masjid Ghousia	Luton	4500
East London Mosque & London Muslim Centre	London	4500
Masjid-al-Farooq	Leicester	4000
Markazi Masjid	Dewsbury	4000
Madni Jamia Masjid	Bradford	4000
Jamia Masjid Ghosia	London	4000
Husseini Islamic Centre	London	4000
Jamiyat Tabligh-ul-Islam Mosque	Bradford	3800
Wolverhampton Mosque Trust	Wolverhampton	3600
Markazi Jamiat Ahl-e-Hadith UK	Birmingham	3500
Makki Masjid	Blackburn	3500
Jamia Masjid	Bradford	3500
Al-Madina Mosque	London	3400
Jamia Mosque	Leicester	3200
Jamia Masjid	London	3200
Greenwich Islamic Centre	London	3200
Masjid Ilyas	London	3000
Manchester Central Mosque and Islamic Cultural Centre	Manchester	3000
Jamia Masjid Bilal, Bulwer Street	Rochdale	3000
Hounslow Jamia Masjid & Islamic Centre	London	3000
Faidhan-e-Madina	Peterborough	3000
Croydon Masjid and Islamic Centre	London	3000
Central Mosque Lanarkshire	Motherwell	3000
Baitul Futuh	London	3000

Note: The table provides a summary of the number of mosques in each region of (Panel A) and the 32 mosques with capacities of 3000 or more in Panel B.

Source: UK Mosque Statistics as at 11/04/2013.

Imams and *Ullamas*⁷² are now increasingly expected to engage with a broader range of activities, especially regarding the needs of youth; moreover, they should be active

⁷² The four schools of thought in *Sunni* Islam are built upon the teachings and understanding of four *Imams*: *Hanfi* (699-767 CE), *Shafi* (767-820 CE), *Malaki* (712-795 CE) and *Hanabli* (780-855 CE). They

community leaders, engaging and addressing the educational, political, financial issues and social realities facing Muslims in contemporary Britain (Housby, 2013). *Imams* are also expected to publicly address issues of local need and inequality and speak about the issues of global injustice as many Muslims have suffered a range of disadvantages, educationally and materially (Housby, 2013).

While criticising the roles of *Imams* in the UK, Housby (2013) notes that those working in British Mosques have not adapted fully to British life, with the majority of them having been born abroad and coming to the UK to serve British-born Muslims. This tendency reflects Mosques and Islamic committees preferring to recruit *Imams* from abroad rather than religious trained scholars in Britain (Housby, 2013). In this context, Gilliat-Ray (2010) asserts that the Urdu language has become a marker of identity among young British-based Muslims; thus, it has come to be viewed primarily as a language of religious texts. Many *Imams* deliver their speeches and sermons in Urdu, consequently, Housby (2013) argues that those who are expected to provide religious advice and leadership may be poorly equipped to offer guidance to young British Muslims over financial affairs, given the dominance of English in its institutions, personnel and products literature. More generally, Rahman *et al.* (2006) notes that:

“[*Imams* are] ‘mainly’ imported with a conservative understanding of their role... [they are] unable to adequately meet the needs of growing demands with respect to a range of skills and knowledge of British society”.

(p. 3.8.I)

have interpreted the *Hadiths* of Prophet Muhammad (PBUH) according to their understanding and are considered the most influential *Imams* of *Sunni* Islam (Abu-Zahra, 2000). The first group of scholars were the traditionists (the *ahl-al-hadith*) in construing the *Quran*, they focused on the *Hadith* or on the sayings and deeds of Prophet Muhammad PBUH and his Companions.

Similarly, Gilliat-Ray (2010) states that young British-born Muslims are making lifestyle choices that are Islamic- but consistent with the broader British way of life, and the complex social and economic realities of this situation are not always addressed by *Imams* and *Ullamas*. Furthermore, many Muslims women in Britain have also suffered the consequences of poor accessibility to religious leadership, as *Imams* are often remote and approachable only at mosques where women are not permitted to enter. Additionally, Gilliat-Ray (2010) maintains that many *Imams* working in British mosques cannot address the questions posed to them by Muslims as “they may understand the text, but not the context of the questioner” (p. 166), i.e. their religious advice is framed against the background of the culture from which they have come, usually the Indian sub-continent, and not the UK. Given these difficulties, Muslims, searching for *fatwa* where advice is sought from scholars before selecting an interpretation, have started using the Internet for finding answers. With an increase in the presence of influential English-speaking Muslim intellectuals such as Hamza Yusuf (USA), Abdul Hakim Murad (UK) and Tariq Ramadan (Swiss), young British Muslims now have the option of bypassing local *Imams* for guidance that more closely reflects the linguistics, social, political and economic reality of their day-to-day lives.

Given these assertions about a relevant gap, this study examines the perceptions of Islamic scholars, including *Imams* and *Ullamas*, regarding Islamic banking and finance to investigate whether they are equipped with the knowledge of the key issues in contemporary times and whether they are active in the community in educating the UK-based Muslims on these.

2.6 Conclusion

This chapter has outlined the main features of the UK financial system, focusing on the Islamic banking sector and associated *Shariah*-compliant products. It has been observed that the UK has developed a very strong Islamic Banking system and the government along with the FSA and the HM Treasury, have been actively working to encourage its growth in the face of a number of challenges. In this context, efforts of the UK regulators to encourage Islamic banking by removing specific developmental obstacles over some time and streamline legislations were discussed. The chapter has detailed the number and type of Islamic banks and Islamic-windows operating in the UK. Most importantly, an overview of the Muslim community and the role and leadership of Islamic scholars has been explored, with potential difficulties in the latter regarding financial and other matter, explored. Nonetheless, the UK economy has shown remarkable resilience in supporting Islamic banking especially in London. Having discussed the main institutional and religious context to the study, the background to the empirical analysis is developed in the chapter via a discussion of the most important literature in the areas of most relevance.

CHAPTER 3

THE LITERATURE REVIEW

3.1 Introduction

Although Muslims have used Islamic financial products since the time of Prophet Muhammad (PBUH), the first study on Islamic finance did not appear until the mid-twentieth century (Mawdudi, 1961; Siddiqi, 1983). Since then, Several Muslim and non-Muslim researchers have investigated the growth and phenomenon of Islamic banking (Mills and Presley, 1999; Warde, 2000; El-Hawary *et al.*, 2004). For example, Woodley (2009) states that Islamic economics of (which Islamic finance is a sub-discipline) emerged as an academic area of enquiry in the 1970s. According to Obaidullah (2005), this branch of economics was distinctive in recognising that all transactions in a truly Islamic financial system should be subject to *Shariah* rules. Similarly, Ahmed (1994) suggests that Islamic banking within an Islamic economic system must be based on zero-based interest, equity participation, joint ventures and profit sharing. However, some studies (Sadr, 1982; Siddiqi, 1985; Ahmad, 2000; Siqqidi, 2002; Rosly and Bakar, 2003) regard profit-loss sharing (PLS) as the only strict principle of an Islamic banking system. These authors maintain that the use of *Shariah*-permissible contracts should not exist alongside equity-based contracts. Additionally, they emphasise the socio-economic objectives that Islamic economics seeks to achieve and stress that Islamic banks should not only be profit-orientated but should also promote Islamic principles of justice and equality. In this regards, Khan *et al.* (2007) maintain that Islamic banks should strongly promote Islamic values since the main reason Muslims use these institutions is their religious belief. This chapter thus seeks to explore the relevant literature on Islamic banking and provide an overview of findings of previous studies which have been carried out in this area. It also identifies a gap in the academic literature which the current thesis seeks to fill.

The remainder of the chapter is structured as follow: Section 3.2 discusses the principles underpinning an Islamic economic system and the notion of social justice that is a prominent tenant of this religion. Section 3.3 explains the evolution and global development of Islamic banking. Additionally, it explores the challenges and regulatory changes necessary for the development of Islamic banking. Section 3.4 highlights the criticisms that have been levelled against Islamic banks; it provides an overview of some failures within Islamic banking. Section 3.5 reviews the literature and identifies key studies conducted on Islamic banking and finance practices across different countries before Section 3.6 provides a summary of the main findings and concludes the chapter.

3.2 Insights from Islamic Economics

3.2.1 The Islamic Economic System- Context

Al-Qaradawi (2005)⁷³ states that for Muslims, *Shariah* guides Islamic concepts such as *Tawheed* (Unity of God), *Khilafah* (vicegerency), *Umma* (community), *Adl* (justice), *Ihsan* (kindness), *Hikma* (wisdom) and *Tawadu* (modesty). The Islamic economic system is based on the *Shariah* principles of equality and fairness (Kuran, 2004). These are reflected in daily activities such as conduct of business transactions, the distribution of income or wealth and by the treatment of each human on equal terms. Therefore, the philosophy underpinning Islamic banking can be understood in the context of an Islamic economic system that encompasses every aspect of a Muslim's life. Based on this notion, Ahmad (2000), Chapra (1985, 2000a, b), Siddiqi (2001) and Naqvi (2003) note

⁷³ Yusuf Al-Qaradawi is one of the most prominent Islamic Scholars. In the Arab world, he has been the most influential Islamic scholar over the last two decades. He memorised the *Quran* as a child, and was educated at Al-Azhar, the famous Egyptian Islamic School. He has established many research centres for Islamic studies in the Arab world, and was considered the most influential Islamic personality for four years running by the Dubai Islamic Society of the Holy *Quran* (Kamla *et al.*, 2006, p. 248).

that Islamic banking is a subset of an Islamic economic system that endeavours to achieve a fair and just society according to *Shariah* rules. Islam encourages individuals to engage in economic activities so as to pursue a happy life. The need for setting these boundaries comes from the *Holy Quran* (Chapter 67, Verse. 2), which states that: “*Allah* has created life and death to test human beings and *He* tests them by prohibiting certain things”. According to the Islamic economic model, the consumption of *Riba* (Interest), gambling and *Gharar* are strictly prohibited in order to promote social justice and equality within society (Kuran, 2004). Furthermore, unlike mainstream Western concepts of financial performance which measure success according to the level of profits earned, *Shariah* considers this notion as ‘an abuse of society’ in general. Islamic principles, on the other hand, are in line with *Shariah* perspectives, incorporating socio-economic measures to promote growth and development in society when determining performance (Lewis, 2001; Kula, 2008). In this context, Abdul-Rauf (1978) argues that the Islamic concept of economics can be defined as a framework that must respect human actions to maintain economic life while taking into account the material and spiritual needs of individuals within society in a balanced way. An Islamic economic system should therefore encompass all aspects of a Muslim’s life from social-economic goals to social justice, human wellbeing, equality and the alleviation of poverty (Chapra, 1985). Choudhry (2007) argues that in conventional economics, capital formation ensues over a period of time of waiting through the route of interest rate either of the short or long run. However, in Islamic resource mobilisation system, contrary to the theory of capital via savings, money is not to be held in savings; it is ‘mobilised’ in the real economy by *Shariah*-compliant financing instruments such as *Mudarabah*, *Musharakah* and *Murabahah*.

Muslims view an Islamic economic system as an alternative to both socialism and capitalism (Wilson, 1997). In such system, *Allah* is the ‘owner’ of the whole universe and humans are only beneficiaries, or temporary guardians, of any assets that they own (Kamla *et al.*, 2006). The Islamic economic system creates a balance between the material and spiritual needs of human beings (Rice, 1999). This focus is rejected in practices such as corruption and unfair trade being condemned in Islam, where they should play no role in business; instead, businesses should offer ethical products at all times and ensure that consumers do not pay inflated prices for services rendered. Theoretical approaches to Islamic finance argue that financial institutions should ensure that all practices are conducted in accordance with *Shariah* laws, especially that emphasising socio-economic justice and the prohibition on interest (Wilson, 1997; Zaher and Hassan, 2001; Beekun and Badawi, 2005; Kuran, 2004; 2006; Kamla, 2009). For this reason, Islamic banks have developed several financing instruments that are free from *Riba* (interest) being based instead on profit and loss sharing.

However, Siddiqi (2001), Haron and Hisham (2003) and Hassan and Musa (2003) note that Islamic banking is phenomena that is much more than the prohibition on interest. It is instead a system which aims to contribute to the fulfilment of socio-economic objectives and the establishment of social justice; it should also seek to establish a balance between earning and spending for the improvement of society as a whole (Haron, 1995; Al-Omar and Abdel-Haq, 1996)⁷⁴. Consequently, Islamic banking should aim to create a ‘harmonious, balanced and equal’ society; encouraging the equal distribution of wealth while forbidding activities that may harm individuals (Siddiqi,

⁷⁴ Ahmed *et al.* (1996) see social justice to be the trademark of the Islamic economic system. To achieve this economic system, eradication of interest and presence of a well-functioning *Zakat* system are essential.

2001). Such practices require banks, the focus of the current study, to undertake ethical investments and avoid monopolies; they must treat their employees and customers fairly (Kamla *et al.*, 2006; Wilson, 2006). Thus, the objective behind the establishment of Islamic banks, should also involve the development of ethical services along with interest-free products that do not discriminate against any group of society based on age, culture, gender or religion; they should not be limited to Muslims (Beekun and Badwai, 2005; Dusuki and Dar, 2007). Beekun and Badwai (2005) also argue that the societal responsibility of Islamic financial systems should not be limited to approaching, educating and serving Muslims and Non-Muslims; everyone should also have the right to have equal employment and shareholding opportunities within financial institutions. By following this philosophy, Islamic banks could attract large numbers of customers, including non-Muslims, (Tameme, 2009) for whom these concerns are important. These notions will be explored in the interview chapter that follow later in this thesis, in the context of whether Muslims and non-Muslims have equal opportunities in terms of financial activities.

3.2.2 The Notion of Social Justice

Although the notion of social justice has been defined in many different ways, all of these base an ideology through which individuals in a society treat each other fairly and share its benefits (Kuran, 2004). Justice in Islam is neither the only foundation block for the true Muslim nor is it merely one of the five pillars of Islam (Syed, 2003). The foundation upon which the social justice concept is built directly relates to the religious sphere of faith for Muslims, although some implications are based on law and politics, translated differently in different cultures. For example, Rawls (2005) asserts that justice can be referred to as fairness and needs five conditions for its existence: freedom

of thought and liberty of conscience; freedom of movement; access to power and positions of responsibility; ability to obtain income and wealth; and the social basis of self-respect (Hanzl and Hunsaker, 2003). Classical philosophers define justice in two forms: corrective and distributive justice. In distinguishing between these, Pellissier-Tanon and Moreira (2007) argue that they differ in their techniques but not their domains. Pellissier-Tanon and Moreira acknowledge that Aristotle (1131-a 1) notes that distributive justice regulates the sharing among individuals of objects that have not yet been appropriated. By contrast, corrective justice consists of morality in the private transactions involving objects that are already appropriated. Gruchy (1987) describes ‘social provisioning’ as a way in which every society must decide what to produce, as well as how to produce and distribute it. Presley (1988), in exploring the notion of social justice within Islamic literature, notes that Islam is not merely a religion, but a code that covers all aspects of human life and imbuing a moral responsibility on attempts to create a new socio-economic order⁷⁵. Islam also argues that a true form of social justice in society cannot be achieved either by giving individuals absolute freedom or severely curbing individual rights; a balance between these two extremes is needed. Illustrating this idea, Qutub (1980) noted that:

“Islam affirms that just as encroachments upon society by the cupidity and ambition of the individual are a kind of social oppression which is inconsistent with justice. Similarly, encroachments upon the nature and ability of the individual by society are also a kind of injustice. It is an injustice, not only to the individual, but to the society also. For the evil effects of suppressing the activity of the individual by crushing his natural trends and propensities do not only result in the deprivation of that one individual of his due but also results in

⁷⁵ For Iqbal *et al.* (2007) The conventional economics has given its supreme attention to distribution of resources through the process of market exchange, but contributed diminutive attention to redistribution certain level of social justice, whereas an Islamic perspective has “focused on the distinct nature of Islamic economics and finance in their emphasis on market and non-market process of distribution and redistribution for economic justice” (p. 5)

precluding the whole society from availing itself of his maximum abilities”.

(p. 127)

Thakur (1996) maintains that religion, through its emphasis on morality and spiritual visions, advances the cause of social justice, while Thakur (1996) and El-Gamal (2006) note that the main message of Christianity and Islam in particular is to advance social justice in societies⁷⁶. Kamali (2002) conserves that an examination of the *Quran*'s pronouncements: “leaves one in no doubt that justice is integral to the basic outlook and philosophy of Islam, within or beyond the *Shariah* itself” (p. 11). Islam promotes its own notion of fundamental rights for humanity, rights which have to be followed by the faithful under all circumstances. Naseef (1998) argues that “unity, trusteeship and accountability- the three central concepts of Islam, are also the pillars of the environmental ethics of Islam” (p. 13). While, Kuran (2006), Ahmed and Iqbal (2005), El-Gamal (2006) and Kamla (2009) state, Islam advances social justice within society while *Shariah* law encourages Muslims to create harmony by establishing equality. According to Kamali (2002) its philosophy is based on divine unity and human co-operation, with the *Quran* affirming “the fraternity of people, their unity of origin, and equality in the eyes of the Creator” (p. 134). In line with this reasoning, Muslim philosophers argue that the collective duty of society is to provide all with the necessities of life but also to eliminate gross inequalities in income as well as wealth (Ahmed, 1991). On the other hand, Ahsan (2002) argues that even though the *Quran* places prodigious importance on peace, justice and equality, the majority of Muslims

⁷⁶The *Quran* States: “O you who believe! Stand out firmly for justice, as witnesses to *Allah*; even though it be against yourselves, or your parents, or your kin, be he rich or poor, *Allah* is a Better Protector to both (than you). So follow not the lusts (of your hearts), lest you may avoid justice, and if you distort your witness or refuse to give it, verily, *Allah* is ever well-acquainted with what you do” (Chapter 4, Verse. 135).

today live in poverty, oppression, conflict, injustice, and are far from meeting their basic human needs.

Additionally, Islamic scholars believe that in order to achieve social justice, it must satisfy two principles: fairness and equality (Kuran, 2004). The principle of fairness is illustrated by the notion that economic gains are to be earned while losses deserved, although, the principle of equality forbids wide variations in the distribution of wealth or services within society (Kuran, 2004). In order to achieve social justice, Islam prohibits Muslims from engaging in or charging *Riba*. Instead, Muslims should follow *Allah's* laws of *Waqf*⁷⁷, inheritance, *Zakat*⁷⁸ and voluntary charity; these laws command every individual to work in *halal* occupations in order to earn his or her livelihood, secure food and shelter for their family, and help the underprivileged in society (Salleh *et al.*, 2013)⁷⁹. If a person is unable to satisfy his or basic needs then they are eligible to apply for help from society in the form of aid from *Bayt-el-mal* (the treasury) or from *Takaful*. In this way Islam promotes justice in all aspects of human life (Ahmed, 1991). *Zakat* (a financial sum to be given to the needy or worthy based on the application of a pre-determined rate applied to the value of net assets at 2.5 per cent) is one of several injunctions placed on Muslims; Islamic economists see it as a powerful instrument for bringing the outcomes of an economy into line with the principle of equality (Kuran, 2004). The concept of *Zakat* is based on charity and helping fellow human beings, whether Muslim or non-Muslim. This notion is also used to implore redistributing

⁷⁷ *Waqf* is a form of charity trust involving volunteering social work from the community. It is a non-profit charity such as healthcare management, the allocation of resources to fair distribution of income and wealth and other facilities, and to level social differences between Muslims.

⁷⁸ Ahmed (2002) notes that *Zakat* is one of the five pillars of Islam, is an obligatory levy that must be distributed from the rich among the Muslim society to the beneficiaries specified in the Holy *Quran*.

⁷⁹ Man's responsibility towards nature is not only related to benefits for himself, his society and future generations, but extends to the valuation of nature itself irrespective of man's or other creatures' use of it (Kamla *et al.*, 2006).

wealth from the rich to the poor (Badawi, 1979). The *Quran* says on this concept, “And those in whose wealth and possessions there exists a given right for the beggar who asks, and for the unlucky who has lost his property and wealth” (Chapter 70, Verses. 24-25). Chapra (1985) and Khan and Bhatti (2008a, b) argue that a ban on interest (*Riba*) and the levying of *Zakat* leaves capitalists with little possibility of ‘excessive’ profiteering⁸⁰.

In addition to the formal injunctions, there are informal requirements placed on individuals with the intention of redistributing wealth among people. One of these voluntary suggestions is the notion of charitable donations. Individuals are urged to avoid extravagance, as it violates the principle of equality associated with an above average level of consumption (Kuran, 2004)⁸¹. Additionally, individuals are also prohibited from discriminating against others, as the *Quran* states in (Chapter 49, Verse. 31):

“O mankind! We have created you from a male and a female, and made you into nations and tribes, that you may know one another. Verily, the most honourable of you with *Allah* is that (believer) who has *At-Taqwa* [i.e. one of the *Muttaqun* (pious)]. Verily, *Allah* is All-Knowing, All-Aware”.

Another formal injunction associated with the Islamic notion of social justice is the law of inheritance; this requires that the wealth of a deceased person must be distributed widely among the immediate relatives (Kuran, 2004)⁸². Kuran (2004) notes that the

⁸⁰ The *Quran* (Chapter 9, Verse. 60) has specified that those who are eligible to receive *Zakat* payments include the poor, the deprived, those who are unable to pay their debts, destitute travellers and those on the path of *Allah* (Taheri, 2000).

⁸¹ Islam discourages luxurious and lavish living. ‘Muslims see the existence of luxury as an expression of social injustice, as few can afford luxurious items at the expense of the deprived masses’ (Smith, 2006).

⁸² The exact number of family members and each individual’s relationship with the deceased determines the percentage of an estate to be inherited.

pursuit of monetary gain is allowed and considered to be legitimate in Islam provided that it does not involve unfairness. However, the author maintains that the prohibition of interest is the main instrument for promoting fairness in society.

Iqbal (1997) asserts that the prohibition of interest is based on the idea of promoting social justice and equality in society; Islam encourages trade and profit and loss sharing (PLS), but interest is forbidden since while profit symbolises the creation of wealth, interest represents a cost accrued irrespective of the outcome of the transaction. More generally social justice demands the sharing of rewards and losses by both lenders and borrowers, so the process of wealth accumulation and distribution can remain 'fair' within an economy. The philosophical foundations of an Islamic financial system go beyond the interaction of factors of production and economic behaviour. While the conventional financial system focuses principally on the economic and financial aspects of transactions, the Islamic system places an equal emphasis on the ethical, moral, social, and religious dimensions of a trade in order to enhance equality and fairness for the good of society as a whole (Iqbal, 1997).

Rahman (1982) notes that the message of Muhammad (PBUH) not only sought to eliminate the notion of a plurality of gods, but also represented a sustained effort to establish socio-economic justice amongst the followers of the *Quran*. Rahman also maintains that all humans are responsible to one God; socio-economic justice and the distribution of wealth are highlighted as goals which build upon the trusteeship role of individuals and their accountability to God. Additionally, Rahman (1982) notes that belief in God is related to the development of an ethical based socio-political order that enables a successful society to flourish. The *Quranic* emphasis on socioeconomic

justice implies that any legislation or rules should have social justice as their end goal. In this regards, the link between accountability and social justice entails accounting information being mobilised to empower the oppressed and liberate them from any injustices that they may face. In this way, Jacobs (2011) notes that accounting- through engagement and education- can be used to serve the notions of equality and justice; the methods of re-interpretation of texts could be applied in accounting when re-examining its structures so as to bring freedom and social justice. Given this context, the present study attempts to explore whether Islamic Banks promote social justice and equality in society; as Khan and Bhatti (2008a, b) assert, an emphasis on conducting business with poorer groups in society is a unique feature of Islamic banking and helps it promoting social justice and economic growth. The extent to which this reality (and its conception) is pervasive in the UK is one of the central research questions here.

3.2.3 Principles of an Islamic Economic System

The Islamic economic model outlined in this chapter follows reflects the notions of *Fiqh* and *Ijtihad*⁸³; these are the rules that must be adhered to for transactions to be valid under *Shariah* law. Sardar (2003) however, notes that ‘*Shariah*’ which most Muslims translate it as Islamic law and to be divine, there is nothing divine about it. The only thing which precisely divine in Islam is the *Quran*. The *Shariah* is a “human construction; an attempt to understand the divine will in a particular context. This is why the bulk of the *Shariah* actually consists of *Fiqh* or jurisprudence, which is nothing more than legal opinion of classical jurists” (p. 28). In *Fiqh*, Muslim scholars gather

⁸³ The term *Ijtihad* is recognised as independent reasoning or reasoned struggle to understand and apply Islamic principles.

different interpretations of *Hadiths*⁸⁴ and the *Quran*, as proposed by individuals who are knowledgeable about the Islamic religion⁸⁵. Chapra (1992) argues that an Islamic economic system has four objectives: need fulfillment; the generation of income from sources which would be acceptable within Islam; the equitable distribution of income; plus wealth, growth as and stability. Chapra proposes further that in order to achieve these objectives, a socially agreed filter mechanism must be developed to avoid ‘wasteful’ spending. Such a requirement derives from the Islamic concept of accountability to *Allah*. Under an Islamic system, the economy would have to be restructured based on the objectives of *Shariah*. The system would promote a positive goal-oriented role for the government in raising moral consciousness and accelerating social as well as economic reforms with suitable incentives. Thus, Islamic finance is based on four main principles: (i) free consent, in which Islamic *Shariah* law requires the mutual consent of both parties before any contract is entered in to. The consent should not be obtained through fraud or misrepresentation, but through free will. A consent made in the state of intoxication or by force makes a contract invalid. This principle of free consent is emphasised in the Holy *Quran* in several places. For instance, the Verse from (Chapter 4, Verse. 29) of *Quran* is often cited to support this principle: “O you who believe! Eat not up your property among yourselves unjustly except it be a trade amongst you, by mutual consent. And do not kill yourselves (nor kill one another). Surely, *Allah* is Most Merciful to you”; (ii) Islamic banking is characterised as an interest free system (Akbar *et al.*, 2012). Prohibition of interest is

⁸⁴ *Hadiths* are sayings of Prophet Muhammad (PBUH), recorded in books after his life. The most prominent and authentic books of *Hadiths* are: Sahih Bukhari, Sahih Muslim, Sunan Abu-Dawood, Sunan Tirmizi, An-Nasai and Ibn-e-Majah.

⁸⁵ This process has had a great impact on the development of Islamic finance, although in some cases disputes among the scholars have been reported (Ainley *et. al*, 2007).

one of the main principles of an Islamic financial system. In this regard, the term *Riba*⁸⁶ is used in *Shariah* in two senses: first, the fixing of a positive return in advance on a loan as a reward for where the lender is waiting to be repaid; and second, in the direct purchase and sale of commodities and services (Zaher and Hassan, 2001). Saleh (1992) defines *Riba* in the *Shariah* context as:

“An unlawful gain derived from the quantitative inequality of the counter-values in any transaction purporting to affect the exchange of two or more species, which belong to the same genus and are governed by the same efficient cause”.

(p. 16)

According to Muslim scholars (e.g. Ahmad, 1952; Khan, 1986; Mannan, 1970; Lewis and Algoud, 2001) interest, being a predetermined cost of production, tends to prevent full employment of resources as it increases instability in the trade cycle, causing more intense fluctuations, by increasing the cost of capital (Keen, 1997). While it may seem evident that interest can be used to help the poor ones, the *Holy Quran* makes it clear that dealing with interest has serious consequences no matter what the apparent short-run benefit. Any income resulting from interest should not be utilised for one's personal use. Whilst, Muslim scholars have acknowledged the lack of a theory of interest, they also deny that interest can be seen as a reward for saving (Zaher and Hassan, 2001). In terms of viewing interest as a reward for saving, scholars have argued that interest could only be justified if it resulted from an investment and capital growth in the form of profit (Zaher and Hassan, 2001). Mohsin (1986) notes that Islamic banking, based on the elimination of *Riba*, can lead to a more stable system; thus:

“The Islamic model of banking based on the principle of equity participation may well prove to be better suited to adjusting to shocks

⁸⁶ *Riba* occurs when an exchange between financial assets involve additional amount in the counter exchange (Sultan, 2006).

that result in banking crisis and disruption on the payment mechanism of the country. In an equity-based system that ...does not guarantee the nominal value of deposits, shocks to asset positions are immediately absorbed by changes in the values of the share deposits held by the public in the banks. Therefore, the real value of assets and liabilities of banks in such a system will be equal at all points in time. In the more traditional banking system since the nominal value of deposits is fixed, such shocks can cause a diversion between real assets and liabilities”.

(p. 19)

Usmani (2002) states that the prohibition of interest arises from four revelations: Islamic teaching where principles often evolve on a gradual basis. The first revelation⁸⁷ concerns the prohibition of interest, but does not seem to explicitly prohibit it. It instead involves a comparison between groups of people who give to charity and those who lend money for interest. It makes clear that those who give to charity for the pleasure of *Allah* are better than those who loaned money for interest. This verse therefore encourages people to use charity and move away from activities involving *Riba*. The second revelation⁸⁸ clearly forbids people from earning interest, highlighting the punishment which awaits those who are still engaged in this activity. The third revelation⁸⁹ emphasises the prohibition of interest and also warns the faithful of the punishment associated with this form of return.

⁸⁷ First Revelation: “And that which you give in gift (to others), in order that it may increase (your wealth by expecting to get a better one in return) from other people’s property, has no increase with *Allah*, but that which you give in *Zakat* seeking *Allah*’s Countenance then those, they shall have manifold increase” (Chapter 30, Verse. 39).

⁸⁸ Second Revelation: “And their taking of *Riba* (usury) though they were forbidden from taking it and their devouring of men’s substance wrongfully (bribery, etc.), And We have prepared for the disbelievers among them a painful torment.” (Chapter 4, Verse. 161).

⁸⁹ Third Revelation: “O you who believe! Eat not *Riba* (usury) doubled and multiplied, but fear *Allah* that you may be successful. And fear the Fire, which is prepared for the disbelievers. And obey *Allah* and the Messenger (Muhammad) that you may obtain mercy.” (Chapter 3, Verse. 130).

Finally the fourth revelation⁹⁰ stresses the penalty for those individuals who engage in interest-bearing transactions. Similarly, Ansari (1992) notes that these verses were revealed as the religion developed and at a time when *Shariah* had placed strict orders on Muslims to abide by Islamic laws. In addition to the prohibition of interest in the Holy *Quran*, the Prophet Muhammad (PBUH) also warned people about dealing in interest by saying, “Be Cursed the person who consumes interest, feeds it to others, he who records it and he who is a witness to this interest bearing transaction, they are all equal in the sin” (Muslim 2, p. 27).

Thus, it is not only the individual who earns the interest that is guilty, but also all parties to the transactions as well as those who facilitate its occurrence. Ahmad (1994a) notes that, although the elimination of interest is not the main purpose of an Islamic economic system, it is one of its key elements along with the prohibition of *Gharar* (speculation); (iii) Islamic *Shariah* law strictly prohibits *Gharar* according to several books of *hadiths*⁹¹. *Gharar* denotes to speculation, risk and uncertainty in transactions in Islamic *Shariah* law. Al-Suwailem (1999) asserts that *Gharar* is prohibited because it is similar

⁹⁰ Fourth Revelation: “Those who eat *Riba* (usury) will not stand (on the Day of Resurrection) except like the standing of a person beaten by *Shaitan* (Satan) leading him to insanity. That is because they say: ‘Trading is only like *Riba* (usury),’ whereas *Allah* has permitted trading and forbidden *Riba* (usury). So whosoever receives an admonition from his Lord and stops eating *Riba* (usury) shall not be punished for the past; his case is for *Allah* (to judge); but whoever returns [to *Riba* (usury)], such are the dwellers of the Fire - they will abide therein. *Allah* will destroy *Riba* (usury) and will give increase for *Sadaqat* (deeds of charity, alms, etc.) And *Allah* likes not the disbelievers, sinners. Truly those who believe, and do deeds of righteousness, and perform *As-Salat* (prayers), and give *Zakat* (charity), they will have their reward with their Lord. On them shall be no fear, nor shall they grieve. O you who believe! Be afraid of *Allah* and give up what remains (due to you) from *Riba* (usury) (from now onward), if you are (really) believers. And if you do not do it, then take a notice of war from *Allah* and His Messenger but if you repent, you shall have your capital sums. Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums). And if the debtor is in a hard time (has no money), then grant him time till it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know. And be afraid of the Day when you shall be brought back to *Allah*. Then every person shall be paid what he earned, and they shall not be dealt with unjustly” (Chapter 2, Verses. 275-81).

⁹¹ See Muslim (2783), Ahmad (7104), Abu Dawud (2932), Al-Tirmidh (1151), Al-Nasa (4442), and Ibn-e-Majah (2185).

to a zero sum gain in an exchange game; if one party profits from the speculative transaction, it is at the expense of another which means that such trades are associated with exploitation. El-Gamal (2001) maintains that *Gharar* is best explained as a trading in risk Islamic *Shariah* law prohibits undertaking any transaction involving *Gharar*; this prohibition extends to investments such as trading in futures on stock markets (Lewis, 2001). According to Sarakhsi (1978) *Gharar* ensues where the consequence of a certain contract or transaction is unknown. Prohibition on games of chances is explicit in Islam and the argument among Islamic scholars is that such trading in derivative contracts is akin to gambling on the future prices of investments. Kuran (1989) argues that “Transactions involving speculation caused by avoidable ignorance are considered objectionable, again on the grounds that they may result in unearned gain for one party and undeserved loss for the other” (p. 175). Similarly, Imeson (2007) notes, transactions must avoid any uncertainty and speculation that could lead to the unjust exploitation of one party. While arguments continue about the validity of *Gharar* in Islam, many believe that *Gharar* is in effect another name for Insurance, as it relates to uncertainty and risk, and forces individuals to pay for services which they may never need; and (iv) The prohibition of *Qimar* (gambling) and *Maysir* (games of chance) are also mentioned in the Holy *Quran*. *Qimar* occurs unless the pay-out of the policy only takes place if an incident or an unforeseen event occurs, and where this condition is mentioned in the contract. This argument is similar to lotteries and other forms of gambling or insurance policies where the pay-out will only arise if certain unforeseen conditions are met, such as drawing the exact numbers of a lottery ticket or an insurance company having to pay for a specific claim. *Shariah* prohibits conventional insurance; rather, it encourages the use of *Takaful* (a pool of funds gathered to reimburse in case of losses), a fully *Shariah-*

compliant tool⁹² (Usmani, 2002). *Maysir* on the other hand simply refers to getting something very easily. In Islam, *Allah* commands followers to establish equality for all human beings in their work and lives. Any practice that includes *Qimar* or *Maysir* is explicitly prohibited in Islam. *Allah* says in The *Holy Quran* (Chapter 5, Verse. 90) “O ye who believe! Intoxicants and games of chance, and idols and divining arrows are an abomination of Satan’s handiwork. Leave it aside in order that ye may succeed”. This study thus explores whether Islamic banks follow the above-mentioned principles in their transactions and whether their primary objectives follow *Shariah* notions providing social justice, or instead emphasise profit maximisation.

3.3 The Development of Islamic Banking and Finance

3.3.1 Objectives of Islamic Banks

Burgess and Pande (2004) assert that the lack of access to finance is a key reason why the poor remain poor. Similarly, Hassan and Alamgir (2002) maintain that: “the roots of poverty lay in the fact that the poor are ‘systematically disorganised’ by economic, social and political relationships within which they are caught” (p. 125). In this regard, Moore (2001) maintains that non-Islamic banks are less willing to provide loans to the poor; instead, the institutions are more geared towards helping higher income groups. This unavailability for the poor pushes them towards unregulated money lenders and the payment of usurious rates of interest, keeping them in a cycle of poverty (Hassan and Alamgir, 2002). However, Islamic banks regularly claim that their activities are interest-free and their motives rest on considerations that are broader than simple profit maximisation (Kuran, 2006). In theory, Islamic banking and finance should provide

⁹² Pakistan: Council of Islamic Ideology, (1992).

practical alternative to cash-poor and micro-entrepreneurs (Ahmed, 1991). For instance, *Mudarabah* underlines the profitability of the project rather than its ability to pledge collateral, therefore providing an effective way for banking to redistribute wealth from the rich to poor and achieve social justice (Ahmed, 1991). In addition, Khan (1994) explains that Islamic banks can finance corporations involved in infrastructure projects like water supply, roads, schools and energy projects needed in order to eliminate poverty⁹³.

According to Hassan and Lewis (2007), the functions of Islamic banks can be summarised as: the achievement of broad social-economic benefits by investment policies that reflect the needs of the population. The same text argues that Islamic banks must favour projects in housing, health services and the food sectors, and should lend so as to ensure an adequate and affordable supply of goods and services. The second objective focuses on job creation within the economy. The main emphasis of lending according here should be on those sectors which add value, such as agriculture and technology-intensive activities because of their potential for job creation and education. The third suggested objective for lending by Islamic banks is the promotion of entrepreneurship through Profit and Loss risk-sharing (PLS) mechanisms using *Mudarabah* and *Musharakah* contracts. Financing must be specific to each firm's economic and financial conditions and smaller enterprises must be given priority; banks should also advise borrowers. The fourth important objective is the promotion of social justice and equality, as well as the alleviation of poverty, through the establishment of *Zakat*. Islamic banks should facilitate the collection of this tax and aid in the distribution

⁹³ Iqbal (2002) agrees with this view when he notes that by prohibiting interest and using PLS sharing agreements such as *Mudarabah*, Islamic banks should provide greater opportunities for the poor.

of funds to the poor⁹⁴. The final objective of banks is to promote regional balance by channelling money to areas where there is underinvestment. In addition, Siddiqi (1998) has classified the activities of Islamic banks into three undertakings: (i) services for which the bank charges a fee or commission; (ii) Investment of capital on the principle of partnership; and (iii) fee based services. Furthermore, in explaining the duty of Islamic banks towards the society in which they operate, Al-Omar and Abdel-Haq (1996) indicate that:

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

(p. 27)

Table 3.1 brings together some of the main differences between the objectives of Islamic banks and conventional banks as suggested by the literature in the area.

⁹⁴It may be possible to develop non-profit sharing methods that meet the needs of Muslims. A prime example of that method is the *Qard Hasan*. This is based on an interest-free loan given to help people merely to please *Allah* and must therefore not include any expectations of any return.

Table 3.1: Differences between Islamic and Conventional Banking

Islamic Banking	Conventional Banking
Interest is/should be avoided at all levels of financial transactions.	Interest is the basis of all financial transactions.
The relationship between financier and entrepreneurs is mutual and cooperative.	Creditor-debtor relationship.
An advanced step towards the achievement of Islamic economics.	Part of the capitalistic interest-based financial system.
Inter-bank transactions are on a PLS basis.	Solely on an interest basis.
Ensure social justice and welfare of society.	Not concerned.
Socially needed investment projects are considered.	Projects below the fixed interest level and/or with negative NPV are not considered.
Islamic banks become partners in the business of the client after sanctioning the credit and bearing the loss (i.e. in <i>Mudarabah</i> contracts).	Do not bear any client loss.
Islamic banks work under the surveillance of the <i>Shariah</i> Supervisory Boards who only authenticate products that are approved by <i>Quran</i> and <i>Hadiths</i> .	No such surveillance.
Depositors bear the risk, no need for deposit insurance.	Depositors do not bear any risk, moreover the bank is inclined to pay back principal with a guaranteed interest amount.
Financial resources in favour of the poor and disadvantaged in society.	Not concerned.
Islamic Banks pays <i>Zakat</i> on income and inspires clients to pay this money.	No <i>Zakat</i> system.
Dual targets such as implementation of the objectives of <i>Shariah</i> and profit.	Profit and maximisation of shareholders' value is the main duty of business.
Prepare and implement investment plans to reduce the income inequality and wealth disparity between the rich and poor.	Increase the gap.
Eradication of the exploitation of interest and its hegemony.	Helps to increase capital of the entrepreneurs.
Islamic banks become partner in the business of the client after sanctioning the credit and bear loss	Do not bear any loss of client.

Note: The table highlights some of the main differences between Islamic banking and conventional banking.

3.3.2 Islamic Banking and its Theoretical Foundations

Recent years have seen a growing number of contributions on the topic of Islamic banking and finance; for example, Moore (1997), Gafoor (1999), El-Gammal (2000), Warde (2000), Lewis and Algaud (2001), Iqbal and Llewellyn (2002), Obaidullah (2005), Iqbal and Molyneux (2005), Ainley *et al.* (2007), Khan (2007), Khan and Bhatti (2008a, b), Dusuki (2008), Rashid *et al.* (2009), Masood *et al.* (2009) and Woodley (2009). The literature points out that the key focus of Islamic banking is the prohibition on *Riba* and the use of PLS contracts instead. For example, the earliest of these studies, Moore (1997) states that the main difference between Islamic banks and conventional banks is ‘the time value of money’, although the operations and functions of both types of banks are similar. Rosly and Bakar (2003) note that it would be impractical to expect that Islamic banks to act as charitable organisations and provide free loans to the community or monetary assistance to society’s poor. On the other hand, it would also be inappropriate for Islamic banks to adopt profit maximisation as their sole goal, while neglecting other social obligations (Haron, 1995).

Scholars within the Muslims traditions have identified two Islamic banking models. Sadr (1982), Siddiqi, (1985), Ahmad, (1994), Ahmad, (2000), Haron (1996), Chapra (2000a, b), Siddiqi, (2002), Haron and Hisham (2003) and Dusuki and Abdullah (2006) support the model of Islamic banking proposed by Chapra; this model promotes the idea that Islamic banks have a socio-economic purpose rather than a profit orientated goal. On the other hand, Lewis and Algaud (2001) and Satkunsegaran (2003) advocate the Islamic banking model of Ismail (2002) and Tag el-Din (2003), which argues that Islamic financial institutions, like conventional banks should aim to maximise their profit as long as its activities comply with *Shariah* law. Ismail (2002) argues that

Islamic banks belong to the commercial sector and have responsibilities to their shareholders and not to the larger society. The task of fulfilling socio-economic objectives (such as *Zakat* or investing in community projects) is the responsibilities of NGOs and social organisations. Some academics assert that there is no difference between these two models as both suggest that Islamic banks must act in a socially responsible manner. In practice, the difference relates to the emphasis placed on social goals, although, Satkunasegaran (2003) asserts that Chapra's (1985) model is more relevant in situations where a large Muslims majority exists, whereas the other model is more appropriate for multi-faith religious countries; in such situations, the author suggest that a focus on goals other than profit maximisation might cause adverse selection problems.

Khan and Bhatti (2008 a, b) state that Islamic banking is a fast-growing discipline that has added an ethical dimension to global financial practices. While, Siddiqi (2002) suggests that PLS transactions, helps to absorb any diverse outcomes on the asset side of the balance sheet, represents a tangible additional benefit⁹⁵. However, Khan (2004) suggests that only a small portion of the assets in the balance sheets of Islamic banks consists of loans based on the genuine sharing of profits and losses. The rest is dominated by debt-based financing or *Murabahah* contracts. Similarly, Ismail (2002) argues that in Islamic banking, debt-based contracts are given a high level of importance. What is apparent from this discussion, is a that a lively debate is taking place about the practices of Islamic banks and their underlying aims.

⁹⁵ See also (Akbar *et al.* 2012)

3.3.3 The Historical Evolution of Islamic Finance

Iqbal and Mirakhor (1999) identify three eras of development in the theory and practice of Islamic banking. First they point to the period 1950-1975 where the focus was on the development of a conceptual framework from. The second relates to an era of 'experimentation' from 1975-1990 while the third spell started in 1990 and continues to the present. Iqbal and Mirakhor (1999) argue that in the first period the efforts of Muslim scholars were concentrated on raising the issue of *Riba* among Muslims; here, the authors point to the work of 'Shaikh Mahmud Ahmad' who combed through the different theories of interest suggested since the time of Adam Smith⁹⁶. This academic analysed the writings of 'Cassels, Samuelson, Bohm Bowerk and Keynes, in particular, noting that none of these economists held a strong conviction that the existence of a fixed and predetermined rate of interest was a 'hindrance' to economic growth.

Venardos (2010) argues that Islamic finance has become recognised by both Muslims and non-Muslims across the world as an ethical investment and an alternative method of protecting against excessive risk. Venardos maintains that Islamic finance encourages businesses to generate 'legitimate' profits in accordance with *Shariah* principles by ensuring that any funds invested reduce a firm's risk exposure. The notion of 'Islamic' finance can be traced to the birth of the religion itself, after⁹⁷ which a remarkable change in the political, social, judicial, as well as economic spheres of many nations was introduced (Chachi, 2005). Islam promoted new principles of social justice, honesty and benevolence and gave the merchants a highly honoured place in society;

⁹⁶Ahmad (1989) has noted that the failure of early Islamic banks was due to the lack of a substitute for interest being developed.

⁹⁷Although Arabs before Muhammad (PBUH) used to practice *Musharakah* and *Mudarabah*, they usually employed interest in their transactions.

in fact, it promised them an elevated position in paradise if they dealt with their business transactions in accordance to these Islamic values (Weit, 1955). This promotion of trade stimulated the development of banking operations such as lending, borrowing, transferring, guaranteeing and safeguarding (Chachi, 2005). Although many historians argue that medieval literary or documentary sources do not identify the existence of banks or any other autonomous institutions whose primary concern was dealing in money in Arabia during Medieval times, there was a significant amount of evidence of extensive ‘banking’ activities (Chachi, 2005). For example, at the end of the 8th century, many texts refer to the fact that an *al-jahbadh* (a term which is used to describe a financial clerk) was appointed by families to deal with financial matters such as overseeing treasury procedures and changing, collecting or examining money (Chachi, 2005). During the reign of the Caliph al-Muqtadir (980-1032 AD) these *al-jahbadh* assumed an even more important role, conducting transactions similar to almost all modern banking functions- without recourse to interest- such as administrating deposits, remitting funds from place-to-place via the medium of the *Sakk* (cheque), the *Suftajah* (bill of exchange), or the preparation of a monthly and yearly accounting statement called an *al-khatmah* (balance sheet) (al-Qalqashandi, 1913; al-Jahshiyari, 1938; Pellat and Schacht, 1965 and Metwalli and Shahata, 1983). Furthermore, both Chapra and Khan (2000) and Chapra and Ahmed (2002) have noted that at a very early stage of Islamic history, Muslims established a working financial system in the absence of interest, based primarily on the PLS sharing models of *Mudarabah* and *Musharakah* (Chachi, 2005)⁹⁸. For example, Prophet Muhammad (PBUH) himself first employed

⁹⁸ Lieber (1968) also observed that: “The merchants of Italy and other European countries obtained their first education in the use of sophisticated business methods from their counterparts on the opposite side of the Mediterranean, most of whom were Muslims, although a few were Jews or Christians. One obvious result is the large number of words of Eastern origin mainly Aramaic, Arabic or Persian, which were introduced into the commercial terminology of medieval Europe” (p. 230).

the techniques of *Mudarabah* while trading as a *Mudarib* for his wife Khadija. The system had to be relatively sophisticated and widely disseminated in order to facilitate the spread of the Arabic empire throughout all of the Middle East, North Africa and Southern Europe (Chachi, 2005).

After the 12th century, the Islamic Empire started to decline. It lost its economic and technological dominance for a number of reasons: (i) a breakdown in the political unity among different Arab groups; (ii) the rise and development of different antagonistic sects (all claiming to be the only ‘real’ Muslims) such as the *Sufis*, the *Shiites* and the *Ishmaelites*⁹⁹; (iii) the extravagance and lavish expenditure of the authorities; (iv) the lack of organisation skills needed to cope with such a large empire and the attendant growth in bureaucracy; and (v) the prolonged warfare with the crusaders, Mongols and Tartars (Chachi, 2005). These factors contributed to centuries of ‘prolonged decay’ and deterioration among Islamic institutions (Chachi, 2005). Indeed from the 12th century until the mid-20th century, the united caliphate split into tens of small dynasties, which spent most of their time fighting each other; as a result, it was relatively easy for external powers to colonise the Muslim world. In addition, European machine-made consumer goods delivered a severe blow to local handicrafts, many of which were wiped out in the decades. Overtime, every Muslim country, under pressure from the newly dominant ‘West’, started adopting laws and legal systems based on Western models, particularly in the civil and commercial spheres (Chachi, 2005). Hence a number of Islamic

⁹⁹ Sufis are the followers of Sufism which is believed to have begun as religious teachers in the Middle East where they came to learn the Truth of Islam directly from Mohammad PBUH. Masters who were “ordained” directly by Mohammad founded three major Sufi schools or orders. The most essential mystical knowledge was then passed down from each master to a disciple selected to follow as the leader of the school. Other disciples were sent out as masters to establish new schools. Shiites are followers of *Shiaism*, which is the second largest sector in Islam after *Sunni*'s. They believe that only Ali (the son-in-law of Prophet Muhammad PBUH) was the only subsequent *Imam*. Ishmaelites are known as the descendants of ‘Ishmael’ (Son of Abraham) mentioned in the Bible and *Quran*.

institutions, including the Islamic system of financial intermediation, gradually became displaced, and Islamic commercial practices abandoned (Issawi, 1966; Lewis, 1970; Chapra, 2000; and Chapra and Khan, 2000). Western-based banking systems and business models thus dominated the Muslim world by the 1980s. Even after Muslim countries achieved their independence in the mid-20th century, the Western banking and financial system continued to dominate international trade. However, as newly independent states gained more control over domestic matters in the 1950s, support for the establishment of national ‘Islamic Banks’ or ‘Interest-Free Banks’, - which would not only offer all banking services, but facilitate the religious beliefs of the people,- arose very quickly (Vogel and Hayes, 1998).

3.3.4 Islamic Banking in the Modern Environment

The first instance of ‘modern’ Islamic banking emerged in Egypt in 1963, by Ahmad El-Najjar (Chachi, 2005). This was followed by the establishment of both the Islamic Development Bank and the Dubai Islamic Bank, the world’s first commercial Islamic banks in the UAE in 1975; with an increase in the need for Islamic banking the number of banks increased to nine by 1976¹⁰⁰. Kuran (2004) attributed this growth to the emergence of a political independence movement along with an emphasis on religious identity; he further argued that the main driver of demand for an Islamic economy was a socio-political ideology based on religion. El-Gamal (2006) maintains that Islamic economics has become established over the last three decades as a subfield of economics; he notes that although Islamic economics was initially conceived of as an independent issue in Islamic social science, it quickly lost this anatomy and redefined

¹⁰⁰ <http://www.shariah-fortune.com>.

itself in terms of social and normative ethical values. El-Gamal (2006) however, suggests that Islamic economics has largely failed to escape the influence of Western economics and has been ‘captured’ by the systems it initially emerged to replace.

Following the initial success of Islamic institutions, a number of Islamic *Shariah*-compliant banks started their operations in several Muslims countries.¹⁰¹ These banks were mainly founded in Middle-Eastern countries during the mid-1970s, the start of the second period identified, as noted earlier by Iqbal and Mirakhor (1999) as ‘experimental’. However, with the success of these institutions Islamic banks began to form in non-Islamic countries. The International Islamic Bank of Investment and Development in Luxembourg was setup in 1980 was the first to be formed outside the Muslim world and many others have since been set up as Muslims throughout the world seek financial services that comply with their beliefs. In the Islamic world itself, eight countries¹⁰²: Pakistan, Malaysia, Iran, Indonesia, Saudi Arabia, Bahrain, Kuwait and Sudan have attempted to establish a common Islamic banking system; in 2002, these nations signed an agreement specifically designed to promote Islamic banking.¹⁰³

¹⁰¹ The Islamic Development Bank in Saudi Arabia (1975), The Dubai Islamic Bank (1975), The Faisal Islamic Bank in Egypt (1976), The Faisal Islamic Bank of the Sudan (1977), The Jordan Islamic Bank (1978), The Islamic Development Bank in Saudi Arabia (1975), The Jordan Financial and Investment Bank (1978), The Islamic Investment Company Ltd in The United Arab Emirates (1978) and Kuwait Finance House (1979), Source: (Venardos, 2005, p. 64).

¹⁰² Islamic banking was introduced by the formation of Bank Islam Malaysia Berhad in 1974. Since then it has expanded throughout the country forming other 80 branches; the bank was listed on the Kuala Lumpur Stock Exchange on January 1992. The Islamic Banking Act of 1983 allowed a dual banking system, which allowed both conventional and Islamic banking to operate side-by-side (Venardos, 2005). In Pakistan the federal *Shariah* Court in July 1985 declared the procedures of the banks to be “un-Islamic” due to the mark-up technique (Khan 2009). In a meeting held on September 2001, under the chairmanship of President of Pakistan, it was decided to shift the whole economy to an interest free economy on a gradual basis without disturbing any financial operations. By the end of 2003 one bank (bankislami) was fully operational as an Islamic bank and three conventional banks were operating Islamic banking branches (Khan 2009). The State bank of Pakistan reported significant growth in the Islamic banking industry (Khan 2009).

¹⁰³ “Government encouraging Islamic banking in country”, The nation (www.nation.com.pk)

El-Qorchi (2005) argues that Islamic finance has developed at a significant pace. The number of Islamic institutions has risen to 300 in around 75 countries worldwide. Over the last decade, this growth has quickened and institutions have expanded globally with the support of oil-rich Gulf States (Henry and Wilson, 2005). The success of this contemporary phenomenon is, in part, due to the desire of Muslims to invest and save their wealth in a way in which they perceive to be compatible with their religion (Iqbal, 1997; Murtuza, 2000). However, the success of Islamic banks has further been encouraged by the entry of conventional banks into Islamic banking markets using Islamic-windows (Pollard and Samers, 2007). These conventional banks observed a significant opportunity for business growth of this nature and started providing Islamic financial services and products to Muslims and non-Muslims around the world, including Europe and the United States. According to Ernest & Young's report on (World Islamic Banking Competitiveness 2013), Islamic banking assets are expected to cross the \$1.8 trillion mark in 2013 up from \$1.3 trillion in 2011; it further predicts that successful transformation could see the profit pool of Islamic banks rise by an additional 25 per cent by 2015. Whilst the 2007 Islamic banking review reported an annually compounded total asset growth rate of 96.8 per cent between 2002 and 2007. These sorts of figures suggests that the Islamic banking has developed critical mass and may prove itself to be an alternative to the conventional banking system in years to come.

Shariah Supervisory Boards (SSBs)¹⁰⁴ are one of the most important governance mechanisms underpinning the growth of Islamic finance¹⁰⁵. These religious boards

¹⁰⁴ The SSB is a self-regulated corporate governance mechanism that assists Islamic banks to manage their funds efficiently while at all times observing with the *Shariah* (Khir *et al.*, 2008).

¹⁰⁵ Rammal (2006) notes that the existence of *Shariah* boards was a prerequisite for Islamic banks' admission into the International Association of Islamic Banks.

consist of high calibre Islamic scholars who take part in daily decision-making process regarding Islamic products and services. SSB's are also known as in-house religious advisors that certify and issue a report to user of financial statements of financial institutions. Their duty is also to make sure that the banks have adhered to Islamic *Shariah* laws (Karim, 1989). In identifying the activities of SSB Gambling *et al.* (1993) argues that they have three main roles: (i) to examine the bank's transaction and dealings with customers and to establish whether there have been any breaches of *Shariah* rules; (ii) to agree and establish *Shariah* principles for banks; and (iii) to issue a compliance statement in the annual reports of the bank stating their view on whether the bank has operated in compliance with *Shariah* laws¹⁰⁶. El-Gamal (2002) characterises SSB as engaging activities such as: provide *Shariah* opinions on various financial matters, assisting investors and consumers on *Shariah* matters upon request; supervising Islamic banks' activities; ensuring that products and services are in line with the *Shariah* principles in terms of their documentation, transactions and advertising; validating relevant product documentation checking on 'real' and 'legitimate' transactions underlying financial contracts; and making sure that *Riba* and *Gharar* are not included in any of the contracts¹⁰⁷. Karim (1989) suggests that *Shariah* scholars on SSB have much more power than the ordinary scholars; their authority is recognised by the banks¹⁰⁸. One of the differences between the role of external auditors and the SSB is that the former are influenced primarily by economic factors whereas

¹⁰⁶ Briston and El-Ashker (1986) suggest that the procedures of SSB can be divided into three main categories: to check religious performance, to provide advice and to report on the management and audit of *Zakat* funds in order to ensure that the net assets of the Islamic institutions are accurately calculated and administered. SSB participate in workshops and conferences, marketing and publishing material related to their operations.

¹⁰⁷ Delorenzo (2000), an Islamic scholar, argued that unless SSB endorses a product, its authenticity is doubtful. Therefore, at that point it is up to the individual consumer to determine whether that product complies by *Shariah* ruling or not.

¹⁰⁸ According to Dar and Presely (2000), SSB consist of Islamic scholars whose decisions and recommendations are supposed to be in line with Islamic law.

SSB scholars are guided by moral values (Karim, 1989)¹⁰⁹. Moreover, Gambling *et al.* (1993) assert that SSBs have the right and power to access any bank information that may become relevant when conducting their duties, while Karim (1994) notes that SSBs constantly attempt to improve the existing contracts of the banks and engage with external auditors in the setting up accounting policies according to *Shariah*; this includes issues relating to accounting standards that violate *Shariah* laws. Importantly, they issue an annual report to assure and satisfy consumers that the operations of the bank are in line with *Shariah* laws¹¹⁰.

In addition, to the SSB, the accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)¹¹¹ works closely with the Islamic industry to develop a core set of accounting, governance, auditing and *Shariah* standards for Islamic financial institutions (Greuning and Iqbal, 2007)¹¹². Other notable efforts of AAOIFI are to inform and encourage banking supervisors around the world to adopt and implement AAOIFI standards for benchmarking Islamic institutions in their jurisdiction to improve comparability and transparency of financial reporting of Islamic banking¹¹³ (Greuning and Iqbal, 2007). AAOIFI is an independent, non-profit organisation that prepares accounting, auditing, governance, ethics and *Shariah* standards for Islamic financial institutions. AAOIFI was established in accordance with the Agreement of Associations

¹⁰⁹ Members of the SSBs are, in principle, guided by their “moral beliefs and obligations to religious peers and community” (Karim, 1989, p. 39).

¹¹⁰ Scholars must be involved from the start till the end of the contract and should be from an independent body and in the process of approval and implementation, the knowledge of the scholars must not be restricted to one particular school of thought as well having some renowned scholar in SSB is not sufficient either (Mudawi, 1984, quoted in Gambling *et al.*, 1993, p. 198)

¹¹¹ AAOIFI standards and membership body information are available at <http://www.aaofii.com>.

¹¹² The AAOIFI has developed the framework for capital adequacy guidelines (laid by Basel Committee on Banking Supervision) for Islamic banks, which takes in account the differences between deposits accounts in conventional banks and investment accounts Islamic banks (Greuning and Iqbal, 2007).

¹¹³ Countries such as Malaysia, Bahrain and Sudan have developed specific regulatory guidelines for Islamic banking industry (Greuning and Iqbal, 2007).

and started producing standards in 1993 (Hassan and Lewis, 2007). To date, it has issued 56 standards on accounting, ethical, auditing, governance and shariah issues. Hassan and Lewis (2007) note that AAOIFI standards are not automatically mandatory, but are instead advisory in nature. However, the AAOIFI has taken significant steps to encourage the application of these standards throughout the Islamic world; as a result, Bahrain and, most recently, Syria now treat these standards as mandatory.

Similar to AAOIFI, the Islamic Financial Services Board (IFSB)¹¹⁴ is engaged in the development of regulatory and transparency standards to address characteristic-specific to Islamic financial institutions, keeping in mind the national financial environment, core principles, and international standards” (Greuning and Iqbal, 2007). Moreover, International Islamic Financial Market (IIFM) has been setup to (i) improve collaboration among regulatory bodies; (ii) address liquidity problems; (iii) explore autonomous asset-backed structure; and (iv) to cooperate on development of primary and secondary Islamic bonds (*Sukuks*). Lastly, the International Islamic rating Agency (IIRA) has been setup to assist in the development of financial markets by providing assessment of risk profiles of Islamic instruments. It does not provide opinion on Islamic products; rather assess the levels of compliance and *fatwas* (proclamations) of their *Shariah* committees (Greuning and Iqbal, 2007). While these key regulatory bodies have been working on developing a framework for Islamic banking around the world, substantial challenges and criticism still exist in the practices of Islamic bank. The discussion now turns to these below.

¹¹⁴ The IFSB was established in Kuala Lumpur, Malaysia in 2002, with the efforts of AAOIFI, International Monetary Funds, the central banks of several Islamic banks and the Islamic development bank. It has 110 members including 27 supervisory and regulatory authorities including 28 financial institutions from 21 countries (<http://www.ifsb.org>).

3.4 Critiques and Challenges of Islamic Banking

3.4.1 Critiques of Islamic Banking

There is a tendency in the Islamic finance literature to assume the theoretical superiority of Islamic banking, based on PLS, over the conventional interest-based banking system. However, Dusuki and Abdullah (2006) argue that the practices of Islamic banks differ in many ways in practice from the normative ideal; thus, debates concerning the extent to which banking practices in the institutions concerned are really 'Islamic' has been an on-going concern among researchers and practitioners in this area.

3.4.1.1 Profit and Loss Sharing – The Theory/Practice Gap

Contemporary Islamic banks differentiate their activities and products from those of conventional banks by placing a ban on interest and encouraging lending on the basis of profit and loss sharing (PLS); the PLS product has become the primary instrument that Islamic finance is built upon (Dar Presley, 2000). However, in practice PLS contradicts and constitute only a small part of the operations of Islamic banks. In this regard, Nienhaus (1986) notes that not all Islamic banks follow a PLS system and even those that do adopt models based on PLS principles do so for only a part of their activities¹¹⁵ (Dar and Presley, 2000). Dar and Presley (2000) report that some Islamic banks' operations are instead based on a mark-up related to deferred payment sales; these interest-bearing products are regularly passed and marketed by SSBs and further legitimised as Islamic by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) (Kuran, 2004; El-Gamal, 2006). Additionally, studies

¹¹⁵ Other studies such as Obaidullah (1999), Chapra and Khan (2000), Dar and Presley (2001), Khan and Ahmed (2001) also maintain similar views on the lack of usage of PLS instruments in Islamic banks.

such as Lewis and Algaud (2001), Kuran (2004) and Yousef (2004) suggest that the usage of PLS instruments such as *Musharakah* and *Mudarabah* have declined over the few years despite the industry growth figure referred to earlier. Instead, asset portfolios and other debt-based contracts represent a growing proportion of Islamic banks 'operations'¹¹⁶. In this context, Yousef (2004) argues that Islamic banks utilise instruments that are similar to debt when providing loans (such as *Murabaha*) and their balance sheet are predominately based on these debt-based assets; the PLS principle is never strictly applied. In other cases, the PLS notion is partially implemented through complex formulas aimed at maintaining returns on financial assets and profits from bank investments (Zaher and Hassan, 2001). In addition, arguments raised by Ahmad (1994), Siddiqi (2002), Rosly and Baker (2003) and Warde (2000) highlight that Islamic banks cannot really claim superiority over an interest-based system; Nienhaus (1986) argues that this is due to the mixed nature of most modern economies and the need to compete with banks that offer interest-bearing products. Nienhaus identifies two problems for Islamic banks in applying PLS techniques within a mixed economy: (i) PLS techniques do not provide information about the earnings of the institution in advance of the lending transaction being completed and only provide a rough guide of possible figures; and (ii) the usage of the PLS system by Islamic banks can lead in practice to more risky projects being adopted due to the nature of the arrangement itself; the return on such an agreement will not be fixed (as with an interest-bearing loan). Kuran (2004) suggests that some Islamic Banks choose not to use PLS techniques because of their inability to properly distinguish between 'good' and 'bad' investments. They fear that by employing PLS techniques, they may end up with losses¹¹⁷. As a

¹¹⁶ Dar and Presley (2001) report that less than 20 per cent of Islamic banking operations adopt PLS techniques of *Musharakah* and *Mudarabah* financing.

¹¹⁷ Kuran (2006) advocates that when financing, Islamic banks engage in project financing, they typically favour short-term and safe ventures rather than long-term projects, which bring uncertainty.

result, observers depict the activities of Islamic banks as ‘merely a fiction’ (El-Gamal 2007)¹¹⁸.

A recent trend has seen PLS modes of financing become more comparable to their non-PLS counterparts via a reduction in the products’ risk. Consequently, Islamic banking is becoming more of a hybrid system, somewhere in between conventional banking and the ‘ideal’ (Zaher and Hassan, 2001). However, the extent of any divergence from the ideal varies from country-to-country and situations need to be evaluated on a contextual basis¹¹⁹. For instance, Zaher and Hassan (2001) assert that in some countries Islamic banking practices diverge in terms of deposits and investments as the capital value is explicitly guaranteed either legally (in written contracts) or through an informal understanding between the banks and the public. Karbhari *et al.* (2004) also express their concern about the difficulties associated with the concept of PLS sharing in certain countries; they argue that a return on investment cannot be guaranteed at the start of contracts according to *Shariah* law. It is difficult, therefore, for Islamic banks to operate in Western countries such as the UK, where the banking system provides a guarantee of a fixed rate of return.

Whilst studies such as Obaidullah (1999), Chapra and Khan (2000), Dar and Presley (2001), Khan and Ahmed (2001), Lewis and Algaud (2001), Siddiqi (2002), Rosly and Bakar (2003), Kuran (2004), Yousef (2004), and Iqbal and Molyneux (2005) all claim that debt-based financing is used more than PLS agreements by Islamic banks in

¹¹⁸ Sundararajan (2005) calls for special consideration by the Islamic banks and their regulators in measuring risk and devising its control methods.

¹¹⁹ Zaher and Hassan (2001) note that the more Islamic banking practices diverge from the paradigm version; the more Islamic banks lose their distinctive features. Eventually, Islamic banking may mirror with conventional banking except for the terminology.

practice, authors such as Lewis and Algaud (2001), Satkunsegaran (2003) and Ismail (2002) maintain that the relative merits of debt-based financing and PLS agreements is not unequivocal in the Holy *Quran*. However, the authors acknowledge that the use of debt-based financing may result in an inequitable distribution of income and wealth.

In criticising the concept of prohibition of interest, Kuran (1989) argues that it “deceptively straightforward in an abstract setting, poses a fundamental practical problem that many writers do not even acknowledge” (p. 178). Under inflation, it is problematic to identify, whether the borrower of a loan obliged to reimburse the lender for variations in purchasing power or not? Kuran (1989) notes that some of the authors who address the issue, refrain from taking a position. While, those who do take a position are separated, with some saying that “fairness requires the indexation of loans, others that it bars indexation. For those who favour indexation, an unresolved issue is whether the relevant price level is to be based on the lender's consumption basket or on that of the borrower” (p. 178).

Khan (2010) reports that sometimes Islamic banks simply lie in their accounting and report conventional transactions as being Islamic. For instance, Faisal Islamic Bank of Egypt , the sixth largest bank in the world bought conventional government bonds and reported the income as “religiously legal operations” (Soliman, 2004, p. 281). Khan (2010) further finds that sometimes Islamic banks do not highlight their conventional activities in their reports.

3.4.1.2 Socio-economic Dimensions

Kuran (2004) notes, in reality, Islamic banks consider financial benchmarks to be more important than the social dimensions of their activities and the health of future generations. Like conventional banks, Kuran (2004) argues, Islamic banks are contributing to a rise in a debt-based culture within society without any focus on the social and ethical dimensions of lending and borrowing. For Kuran (2004), the only difference between Islamic and conventional banks is cosmetic: councils of religious leaders, ‘veiled females’ and ‘bearded males’ manage Islamic banks. Other authors have suggested that the ideals of Islamic banking have been ‘captured’ by Western capitalism. For example, they highlight how contemporary Islamic banking has gained the support of Western governments and international organisations, and note that multinational oil and construction corporations claim to employ Islamic financial products in their operations (Henry and Wilson, 2005).

The geographical spread of Islamic financial notions is reflected in President Bush appointing the first Islamic advisor in White House during 2009 and UK Prime Minister Brown proclaiming that he would like the UK to be a ‘gateway’ for Islamic banking (El-Gamal, 2007; Pollard and Samers, 2007). Thus, these authors suggest that contemporary Islamic banking poses little challenge to Western capitalism; on the contrary, Islamic banking is seen to be flourishing under capitalism (Henry and Wilson, 2005; Wardi, 2005; Pollard and Samers, 2007). Furthermore, Pollard and Samers (2007) report that Islamic banks have withdrawn from certain neighbourhoods and refused to deal with poorer customers in the US and the UK. In effect, Islamic banking has departed from its fundamental principles including the goals of social justice as well

as the eradication of poverty (Kuran, 2006)¹²⁰. Critics have also argued that Islamic financial institutions have developed in a way that generally serves the needs of extremely rich individuals. In addition, most of the Islamic banks have not offered ‘micro financing’ to small enterprises or entrepreneurs (Ahmed, 2004). For Ahmed (2004), micro financing can help in employing the surplus labour force productively and as an important means of employment generation and development of societies.

On the other hand, conventional banks have been exploiting Islamic financial markets by developing financial instruments without interest which can be marketed as acceptable to customers concerned about the issue. Tett (2007) notes that a growing interest in Islamic banking has boosted the profits of many large Western multinational banks and financial institutions. These institutions have used the opportunity to market their products under the banner of Islamic banking. For that reason, this thesis attempts to explore whether Islamic banking practices are following the ‘ideal’ version in terms of improving social justice and social responsibility in society or whether these banks are instead focused primarily on profit maximisation goals¹²¹.

3.4.1.3 Criticism of the SSB and the AAOIFI

The AAOIFI has claimed to be developing standards on the basis of *Shariah*. However, these standards are based on the publications of Western mainstream international

¹²⁰ Dar (2004) also believe that the preliminary discipline of Islamic banking as an integral part of the Islamic economic system, designed to achieve policy objectives like sustainable development has diverged from social banking to and profit motive industry. Siddiqi (2004) also argues that current Islamic financial institutions are greatly engaged in the ‘financial engineering’ of products which is profit-driven whilst there is neglect of ‘social engineering’ which is enthused by social goals.

¹²¹ Sairally (2005) in her paper entitled “Evaluating the 'Social Responsibility' of Islamic Finance: Learning from the Experiences of Socially Responsible Investment Funds”, used a sample of 48 Islamic Financial Institutions in 19 countries. Her findings reveal that more integral and deliberate ethical policy is needed towards corporate social responsibility of these institutions.

accounting bodies, especially the IASC (International Accounting Standards Committee) (Maurer, 2002); Maurer (2002) argues that in fact the pronouncements of AAOIFI are the same as any other standards issued by accounting bodies in Western countries. Maurer suggests further that AAOIFI has embraced Western capitalism and a market-based ideology. In supporting these views, El-Gamal (2006) argues that consumers associate the standardisation of Islamic practices and products by AAOIFI as a sign of maturity, thus creating false perceptions in the minds of borrowers about the true nature of Islamic banking and finance. Consequently, this has reduced pressure on Islamic banks to educate the public about the importance of Islamic banking and the difference between Islamic and conventional products¹²². The focus of AAOIFI is largely limited to technical concerns in relation to *Zakat* and *Sukuk* as well as the prohibition of interest; it has done very little about facilitating the emancipation of oppressed groups within Islamic accounting and finance. In this regard, El-Gammal argues that *Sukuk* (Islamic bonds) are simply ‘thinly veiled versions’ of financial instruments with interest embedded in them. For El-Gamal, Islamic finance is a modification of classical conventional practice and not an extension of Islamic jurisprudence. Furthermore, Iqbal *et al.* (1998) and Karbhari *et al.* (2004) assert that due to a lack of experienced and qualified staffs, Islamic banks tends to employ workers from non-Islamic institutions leading to the spread of knowledge from the conventional system to Islamic banks; this has resulted in employees having a fairly limited ability to apply Islamic principles to banking.

¹²² Lewis (2001) and Maurer (2002) assert that concern about the global acceptance of their standards has led the AAOIFI to combine forces with the world’s dominant auditing and accounting firms.

Although in theory SSBs strictly monitor banks for any activity which is not in line with *Shariah* principles, several researchers have argued that the operations of these boards are not fully compliant with the ideal version of *Shariah* law. El-Gamal (2002) argues that the operations of Islamic banks are different from the conventional banks; therefore they should not adapt conventional banks' ways in presenting their financial reports. Similarly, Hairul *et al.* (2005) assert on this notion:

“Without a strong and proper *Shariah* review, the *Shariah* committee would not be able to support their opinion thus failure to discharge their entrusted duties as expected by the stakeholders. An effective *Shariah* review will be able to assist the *Shariah* committee in forming their opinion with the appropriate evidence on *Shariah* compliance or noncompliance”.

(p. 10)

With regards to accounting standards, Islamic banks have not been able to follow accounting standards properly. Karim (1999) point out many difficulties in using International Accounting Standards for Islamic banks; for instance, many Islamic institutions employ *Murabahah* financial contract in which a condition is imposed where the bank must possess the title to the goods before delivery to customer. The purchase order made by the customer may or may not be binding on him. Hence, the valuation of such stocks is a problem in the accounts. Moreover, International Accounting standards do not have any specific criteria to deal with the status of Islamic investment accounts, since they are neither debt nor equity in conventional way. There are also no disclosure requirements to disclose the bases of profit allocation between account holder and shareholders. Therefore, Islamic banks attempt to use different methods, which have resulted in the incomparability of their performances¹²³.

¹²³ Ariffin *et al.* (2005) call for a need for publicly disclosed information that can help in assessment of risks. For them, setting up of proper regulatory standards for relevant information disclosure will be helpful in growth of Islamic banks.

3.4.1.4 *Shariah*-Compliant Banking in the UK

Since Islamic products and contracts in the UK are underpinned by a range of schools of religious thought, individual *Shariah* advisors occasionally arrive at different conclusions about certain products (Zaher and Hassan, 2001; Karbhari *et al.*, 2004); this can lead to variations in practices among Islamic banks (Zaher & Hassan, 2001). The use of diverse systems, models and theories have made it challenging to understand the true essence and significance of Islamic banking amongst Muslims and non-Muslims, resulting in doubts regarding the authenticity of this form of financing as an autonomous phenomenon (Karbhari *et al.*, 2004). Relatedly, Warsame (2009) has argued that the instruments employed by Islamic banks are increasingly becoming ‘suspiciously’ similar to other products which do not fully reflect *Shariah* principles. Some Muslim scholars working in this area have even admitted that the debt-based models of Islamic finance are virtually identical to conventional methods; for example, Usmani (2002) has argued that debt-based instruments ‘are being abused’; pointing out that *Shariah* only allows them where equity-based products cannot work. Additionally, Usmani (2002) contends that Islamic banks in the UK use conventional instruments like Libor¹²⁴ when benchmarking their activities; for that reason, the net results of Islamic contracts are similar to those employing interest-based transactions¹²⁵. Usmani (2005) argues further that when ‘ordinary’ individuals who have no in-depth knowledge of banking realise the true nature of these Islamic transactions, they become suspicious about the *Shariah*-compliance of all loans and deposits and the whole notion of Islamic

¹²⁴ The London Interbank Offered Rate (LIBOR) is an average interest rate charged overnight by banks on borrowing from each other.

¹²⁵ In 2012, a group of 16 banks working with industry associations and data provider Thomson Reuters created a reference rate called the Islamic Interbank Benchmark Rate “IIBR”. The first Islamic benchmark rate approved by the *Shariah* committee (<http://www.global-islamic-finance.com>).

banking is called into question. Siddiqi (2002) therefore recommends that these debt-based instruments be removed from Islamic banking. Thus,

“I would prefer that *Bai Muajjal* (credit sale) is removed from the list of permissible methods altogether. Even if we concede its permissibility in legal form, we have the overriding legal maxim that anything leading to something prohibited stands prohibited. It will be advisable to apply this maxim to *Bai Muajjal* in order to save interest-free banking from being sabotaged from within”.

(p. 6)

Likewise, Kuran (2004) has argued that the real purpose of Islamic banking is to promote social justice within society. However, it appears from the practices of UK Islamic banks that there is little or no de-facto concern about social justice; their operations are similar to the activities of conventional banks (Kuran, 2004). For example they do not apply the concept of *Qard Hassan*¹²⁶ which is an important aspect of *Shariah* (Kuran, 2007). Hence, Islamic Banks rarely facilitate and support struggling consumers by allowing them more time for loan and mortgage payments an issue specifically mentioned in the Holy *Quran*:

“And if the debtor is in a hard time (has no money), then grant him time till it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know” (Chapter 2, Verse. 280).

In conclusion, the evidence suggests Islamic banking is failing in the challenge one of it's to be different from conventional banking; thus, it has not lived up to key goals (Kuran, 2006). Awareness of this failure within the industry would be a step on the road to changing current practice in order to align Islamic financial institutions' activities with *Shariah* principles of social justice.

¹²⁶ It is an interest free loan given by the banks for the purposes of social welfare of through which the customer repays the loan without accruing interest or profit and this type of loan is usually given to people for a short term and these funds are for humanitarian and welfare purposes. Salleh *et al.* (2013) notes that this kind of loan is ranked higher than charity and even associated as a loan to God himself.

3.4.2 Challenges Faced by Islamic Banking and Finance

3.4.2.1 Regulatory Framework

Whilst theoretical developments in Islamic banking have demonstrated clear viability, its implementation faces several challenges. Zaher and Hasaan (2001) argue that one of the most significant ones relates to the lack of an agreed supervisory and legal framework for Islamic banking¹²⁷. As a result, Islamic banks operating in non-Islamic countries have little choice but to adopt Western-orientated models. Islamic banks and financial institutions face further specific difficulties in operating in non-Islamic countries owing to lack of a fully-formed theoretical paradigm that operates in accordance with *Shariah* law. In fact none of the organised financial centres can currently claim to be functioning according to the Islamic principles. Iqbal (1997) and Iqbal and Mirakhor (1999) assert that to maintain the growth of Islamic banking, there is a need to develop supervisory and regulatory foundations that would address the issues specific to Islamic finance. Moreover, Iqbal (1997) highlights the need for an Islamic financial centre or a ‘hub’ that is fully operational, *Shariah*-compliant and can take the responsibility of overseeing Islamic banks’ globally. These specific issues are explored using questionnaires later in this thesis.

3.4.2.2 Liquidity and Risk Management

Zaher and Hasaan (2001) assert that Islamic banks in Western markets lack the risk management tools and understanding required to provide agents with products that can hedge practically against volatility. In the absence of interest rates, the risk manager in

¹²⁷ Other issues include lack of proper understanding of the framework of Islamic financial instructions and the implementation of different accounting standards including the risk of being exposed different prudential supervisory standards depending on the country they operate in (Greuning and Iqbal, 2007).

an Islamic bank faces a greater challenge in managing pricing risk and liquidity. Therefore, Islamic banks typically hold higher levels of liquidity than Western banks, facing a consequent negative impact on the ability to compete in the market. For this reason, Iqbal and Mirakhor (1999) suggest that Islamic banks must develop liquid secondary and money markets in order to compete with the Western conventional banks. In addition, Iqbal and Mirakhor urge the development of instruments for effective fiscal and monetary policy, with *Shariah*-based instruments by which asset portfolios generated in Muslims countries can be marketed in the West. Iqbal and Mirakhor (1999) also stress developing an equity-based benchmark rate for pricing assets and evaluating the portfolio performance of Islamic banks; in the absence of such benchmark, most of the Islamic banks are constantly using LIBOR as a proxy. However a *Shariah* compliance advisor, Subhani argues that:

“The use of LIBOR in Islamic finance is not a compromise on the industry. The prohibition of *Riba* lies not in the quantum of the financial return or its similarity or equality with something else but entirely in the method of its generation. If the financial return is not self-generating (money on money), it is permitted regardless of its equality with any other financial return (e.g. Libor). If the financial return is self-generating, it is prohibited even it is not equal to any other financial return (e.g. Libor)”¹²⁸.

Finally, Iqbal and Mirakhor (1999) assert that a banking system can only operate efficiently in the long run if rates of return are high and the cost of financing is low; thus, they argue, massive government involvement and taxes must be employed to boost the growth of Islamic banks.

¹²⁸ Available at: (www.kantakji.com)

Zaher and Hasaan (2001) perceive the classification of risk sharing funds engaged with Islamic banks as difficult. The essential concern is that if these funds represent capital, they would be defined as bank deposits under Western banking regulations, whereas, if the funds are defined as investments, they would not. Therefore, the classification of these funds has implications for Islamic banks' capital requirements. Moreover, since Islamic banking is relatively new, and their assets are often long-term and illiquid, regulators in Western countries argue that Islamic banks should hold extra liquidity to ensure investors' deposits¹²⁹ (Zaher and Hasaan, 2001).

3.4.2.3 Religious Inconsistency

Warde (2000) recognises that the challenges faced by the Islamic banks include cultural matters, primarily relating to issues of trust and risk. Therefore, Islamic banks still have to adapt themselves to the cultures of the people around the world to gain their confidence. Additionally, Zaher and Hasaan (2001) highlight that there is a lack of uniformity in religious principles applied in Islamic countries; since there is no universally accepted Islamic centre with responsibility for guidance and advice, Islamic banks consult their own religious boards and advisors to seek approval for new products. Iqbal and Mirakhor (1999) argue that the opinions of *Shariah* advisors therefore inevitably differ, reflecting the different schools of religious thought in examining and evaluating new products¹³⁰. The variation in interpretation may mean that identical financial products are rejected by one SSB but accepted by another.

¹²⁹ As a result, Islamic banks in Turkey are now expected to follow the same body of legislation as conventional interest-bearing banks and are expected to hold 6 per cent liquidity in the form of Treasury bills and invest an additional 50 per cent for their own capital.

¹³⁰ The four schools of thought in Islam are built upon the teachings and understanding of four *Imams*: *Hanfi* (699-767 CE), *Shafi* (767-820 CE), *Malaki* (711-795 CE) and *Hanabli* (780-855 CE) are being considered the most influential *Imams* of Sunni Islam.

Another problem is that many people do not understand Islamic banking; basic principles might be clear but there appears to be no simple definition of an ‘Islamic bank’ or an Islamic banking product (Zaher and Hasaan, 2001). This issue in turn is causing confusion for Muslims seeking *Shariah*-compliant products, but also for regulators examining *Shariah*-based products, resulting in missed business opportunities (Ainley *et al.*, 2007).

Khan (2010) notes that a *Shariah* board is usually comprised of between one and three respected scholars (Ullama). He points out that how these scholars certify the practices to be “Islamic”, when they do nothing more than replicating the interest based banking product to standard using Islamic terminology. He explains two possible answers to this. First, the *Shariah* scholars are satisfied if the Islamic financial institutions “conceive their customers that they are partaking in something exclusively Islamic, something that reinforces the borrower’s ‘Islamic identity’, rather than in ensuring that the financial products on offer are truly different” (p. 817). Second, “scholars are sought after by multinational and national financial institutions eager to gain the imprimatur of *Shariah* certification, and these firms are willing to pay top dollar”. For instance, Morais (2007, p. 122) reports that there are only 20 or so “rock star” *Shariah* scholars worldwide who have the necessary stature to certify something as *Shariah*-compliant; these scholars sit on 40–50 *Shariah* boards each and earn between US \$20,000 and \$30,000 per board annually¹³¹.

¹³¹ Khan (2010) notes that Malaysia, in response to the common discernment of *Shariah* boards being mere rubber-stamps, has banned scholars from serving on more than one *Shariah* board at a time; whereas, the Persian Gulf countries are practically unregulated and some *Shariah* scholars have strongly resisted any attempt at regulating their activities.

Similarly, Ainley *et al.* (2007) argue that Islamic institutions have a shortage of skilled staff that can manage and develop innovative *Shariah*-compliant products. Hence, there is a genuine need for *Shariah* scholars in the industry, individuals who are not influenced by any internal or external factors (Ainley *et al.*, 2007). This development requires: (i) providing an education, especially in Western countries, for experts including religious scholars to fully understand the needs of consumers; (ii) is to employ qualified scholars from all around the world and conduct a yearly audit of the *Shariah* board; and (iii) to form a council of religious and banking scholars with international exposure, to streamline rules and thereby minimise any confusion about the process of clearly defining and introducing new products. In the present study, questions will be asked about the important issues to establish the extent of Islamic scholars de-facto influence in educating Muslims, and to verify how Islamic scholars' decisions vary from one specific school of thought to another in giving advice to Muslims.

3.4.2.4 Accounting Procedures and Practices

Zaher and Hasaan (2001) and Iqbal and Mirakhor (1999) argue that Western accounting procedures are not adequate in an Islamic context because of differences in the nature and treatment of financial instruments. Therefore, there is a need to standardise accounting and auditing process via a process of religious approval of new instruments, accounting standards and procedures consistent with *Shariah* law; this, along with consideration of disclosure requirements, should enhance confidence and monitoring, as a well-defined reporting framework will help integrate Islamic markets with international markets (Iqbal, 1997). In this regards, Iqbal (1997) and Zaher and Hasaan (2001) state that stock markets in emerging Islamic countries such as Egypt and Pakistan and Jordan are not fully compatible with Islamic principles; only stock markets

in Sudan and Iran are identified as being close to operating in compliance with Islamic principles. Furthermore, in terms of implementing Islamic banking in non-Muslims countries, Ainley *et al.* (2007) have identified an issue with Islamic contracts that the governing laws of the country the bank operates in enforce their terms and conditions. Therefore, in the event of dispute or dissolution, the courts are unlikely to base their decisions on *Shariah* laws. It is then vital for contracts to be written carefully to minimise any problems that may occur in future in regards to conflicts (Ainley *et al.*, 2007). In terms of the UK, Islamic contracts are governed by English law and in the event of any dispute; the courts are likely to follow English law rather than *Shariah* law to resolve the matters (Ainley *et al.*, 2007).

3.4.2.5 Growth, Size and Misconceptions

Another key challenge for Islamic banks is size (Zaher and Hasaan, 2001). Many Islamic banks are extremely small and struggle to remain serious players as the Islamic market continues to expand. Zaher and Hasaan (2001) suggest that Islamic banks must reach mutual understanding to cooperate and merge. They may also wish to specialise in areas of development; for example, they might focus on agriculture sector in Africa and Asia. On the other hand, in Europe capital financing could be their speciality. Additionally, with the exception of Malaysia Islamic banks are excluded from lender of last resort status, i.e. where the central bank in the West stands behind the banking system to offer systematic liquidity if there is a shortage of funds. Islamic banks are not able to avail of this opportunity due to the interest payment on loans (Zaher and Hasaan, 2001). Another challenge to the Islamic banking industry in the West is the negative association that the media have made with Islam, including terrorism, especially after the 9/11 events (Ali and Syed, 2010). Thus, many non-Muslims perceive any activity

associated with Islam and Muslims to be suspicious, affecting the growth of Islamic finance in the West. Another challenge faced by Islamic banks is the lack of awareness among Muslims and non-Muslims about the availability of their products and services. For example, Loo (2010) found that 86 per cent of non-Muslims in Malaysia do not understand Islamic banking practices; such a lack of understanding amongst non-Muslims also exists in the UK (Karbhari *et al.*, 2004)¹³². Therefore, there is a need to raise general levels of awareness by ensuring consumers know that these products exist and to maintain confidence about the authenticity of the products and the manner in which they are regulated (Karbhari *et al.*, 2004). These challenges have not been fully met, and represent substantive barriers to the development and growth of Islamic banks worldwide. These issues are explored in detail in the present study to establish whether the issues are now being addressed and whether Islamic banking is taking the initiative to listen the silent minority in the UK. Notwithstanding these difficulties, there a number of legal and regulatory changes are being made to promote Islamic banking across the world and the discussion now turns to these.

3.4.3 Legal and Regulatory Changes to Promote the Development of Islamic Banking

With the presence and growth of Islamic finance across the world, there has been an effort to set up standards and principles governing Islamic financial services in the manner called for in the previous section so as to encourage harmonisation across institutions, products and services. To this end, the Islamic Financial Services Board was established in 2002 to promote the development of Islamic products and services

¹³² One obstacle to Islamic finance relevant here is the use of ‘Arabic’ terms used by Islamic banks to name their products (Bley and Kuehn, 2004).

according to *Shariah* principles. Sixteen central banks are now members as well as several Supervisory Agencies including the International Monetary Fund (IMF) and the World Bank (Maeda, 2010). Thus, Venardos (2001) argues that the Islamic financial infrastructure is being improved to support risk management and governance in Islamic banks. Further to these changes, several countries are taking initiatives to integrate Islamic banking with their current banking systems. For example, the managing director of Monetary Authority of Singapore has commented:

“As the prudential objectives of adequate capitalisation and liquidity, appropriate management of risks and concentration, corporate governance and controls are largely similar between Islamic financial services and conventional financial services, our existing regulatory framework, with suitable requirements, can facilitate the development of Islamic finance in Singapore”¹³³.

Selvam (2010) notes regulatory changes that have been made to help Islamic banking achieve four key objectives: (i) to enhance banking systems’ to incorporate Islamic banking transactions; (ii) to increase the capacity of Islamic banks in order to attain a better management of liquidity and management risk; (iii) making Islamic *Shariah*-compliant products more accessible to investors; and (iv) to provide incentives to institutions to undertake *Shariah*-compliant contracts and activities. Moreover, *Sukuk*, *Ijara*, *Murabahah* and *Mudarabah* have been further refined to facilitate investors (Selvam, 2010). Several specific initiatives have been taken in countries as diverse as Brunei, Malaysia, Indonesia, Pakistan¹³⁴, the UK and the US to promote Islamic

¹³³ Address by Mr. Heng Swee Keat, Managing Director of MAS, in Singapore on 12 June 2006.

¹³⁴ For instance, Islamic banks in Pakistan have to obtain written approval from the State Bank of Pakistan before opening each Islamic window, as well as providing the regulator with additional details on staffing, training and marketing arrangements. So far, As of December 2013, Pakistan's full-fledged Islamic banks had a combined network of 767 branches while conventional banks had 441 Islamic branches and 96 sub-branches. These Islamic banks held assets worth 1 trillion rupees (\$10 billion), a 21.1 per cent increase from 2011 and representing 11.2 per cent of total banking assets.

banking. For example in Brunei incentives have been established for setting up Islamic funds; arguably the most important of these is the setup of a centre for Islamic banking and finance management studies (CIBFM) under the supervision of the University of Brunei Darussalam (Khairuddin and Ashak, 2010). In Malaysia, initiatives include: issuing international *Takaful* licences; allowing Malaysian financial institutions to set up International currency business units to offer Islamic services with a 10-year tax exemption; an amendment of the Stamp Act 1949; and adjustments to income tax rules (Thani and Hussain, 2010). Indonesia has undertaken steps to that include the amendment of Bank Law of Indonesia no. 23 in 1999, which gives the central bank the authority to develop policies and regulations that encourage *Shariah*-compliant banking principles in Indonesia. However, the country has faced problems because of a lack of qualified professionals in the Islamic finance field, as well as the more general double taxation issue (Hamzah, 2010). In order to overcome these issues, Hamzah (2010) notes that several new courses and educational institutions have been setup, along with the central bank in Jakarta issuing regulations to begin streamlining double taxation. Similar measures have been taken in the US and the UK to offer *Shariah*-compliant products and services. For example, in the UK the removal of double stamp duty and increased that growth of Islamic financial services and more recently, David Cameron has announced that the UK will become the first non-Muslim country to issue an Islamic bond; also plans for a new Islamic index on the London Stock Exchange by early 2014¹³⁵. The index would identify companies which are filtered according to Islamic principles and which work in much the same way as socially responsible screens. The investment-grade *Sukuk* bond would be a welcome for investors as a liquidity instrument.

¹³⁵ <http://www.bbc.co.uk/>

With regards to new frameworks for Islamic banking Asutay (2007) argues that the industry should, emphasise issues of community banking, microfinance and social responsible investment; introducing social justice and ethics directly to the working of Islamic banking Institutions can accomplish this. The creation of ‘ethical’ Islamic banking and investment institutions, in the form of Islamic social banking, should be the next stage of financial development in the moral economy the of Muslims world Asutay (2007).

3.5 Review of the Survey Literature on Islamic Banking

3.5.1 An Overview

A number of prior survey-based studies have explored Islamic banking, from a range of different perspectives. However, the empirical work contained therein employs diverse methodologies and arrives at different conclusions. Table 3.1 summarises the “key and the most relevant” studies of this nature conducted on Islamic banking and finance over the last few years; these emphasise selection criteria; performance and development; service quality and efficiency; and general perceptions of Islamic banking and finance in around the world. The selected studies shown in Table 3.1 were based on the criteria that they were using the similar objectives and methods to this study and were they were seemed to be the most relevant to list on the table in order to determine the gaps in literature. The table also shows the time period, methods and sample sizes employed to help provide an indication of the gaps in the existing literature that this thesis attempts to address.

Table 3.2: Prior Survey-based Studies on Islamic Banking and Finance

Study	Sample	Country	Objectives	Findings and Conclusion
Dusuki (2007)	1500 Questionnaires	Malaysia	To explore the perceptions and opinions of several stakeholders on the overall performance and operations of Islamic banking in Malaysia.	There is a consensus that Islamic banks should adopt the profit maximisation principle to remain competitive and sustainable. More support for Chapra's model, only 10 per cent support for Ismail's model.
Amin and Isa (2008)	SERVQUAL Measurement Scales	Malaysia	To examine the relationship between service quality perception and customers' satisfaction in Malaysian Islamic banks	The results showed that Muslims' awareness of Islamic banking products and services were high compared to non-Muslim customers and majority of the Islamic banking customers were satisfied with the overall service quality provided by their banks.
Waseem Ahmad (2008)	9 Interviews	UK	To explore the opportunities for development of Islamic finance and the challenges faced by Islamic banking in the UK.	Islamic banking in the UK lacks the full support of the religious leaders and it has been facing continuous problems in its development.
Zainol <i>et al.</i> (2008)	200 Questionnaires	Malaysia	To determine the views and perceptions of employees in Islamic banks and conventional banks in Malaysia	The results of the study suggest that employees have positive perceptions of Islamic products and services in Islamic banks in Malaysia.
Dusuki (2007)	1500 Questionnaires	Malaysia	To explore the perceptions and opinions of several stakeholders on the overall performance and operations of Islamic banking in Malaysia.	There is a consensus that Islamic banks should adopt profit maximisation principle to remain competitive and sustainable. More support for Chapra's model, only 10% support for Ismail's model.
Hossain and Leo (2009)	120 Questionnaire	Qatar	To evaluate the service quality in retail banking in the Middle East in general, and Qatar in particular.	The results indicate that customers' perception is highest in the tangibles area and lowest in the competence area.

Warsame (2009)	255 Questionnaires	UK	To assess the extent to which the introduction of <i>Shariah</i> -compliant financial products in the UK has significantly improved the financial inclusion level of less affluent UK Muslims.	<i>Shariah</i> -compliant financial products in the UK currently do not meet the financial needs of UK Muslims and the awareness of <i>Shairah</i> compliant products is relatively low in UK Muslims.
Hamid and Masood (2011)	200 Questionnaires	Pakistan	To investigate the choice criteria for Islamic home financing in Pakistan.	The results indicated that the <i>Shariah</i> principle is the most important consideration for customers, followed by efficiency.
Lee and Ullah (2011)	357 Questionnaires	Pakistan	To examine the different motivational factors that lead to customers' Islamic bank selection decisions in Pakistan.	The findings reveal that Islamic banks' customers highly value <i>Shariah</i> compliance in their banks.
Memon and Kamla (2011)	15 Interviews	UK	To explore the perceptions of Non-Muslims in the UK about Islamic banking and finance as an ethical alternative	The results demonstrate that Islamic banking has a potential to succeed if it satisfies the needs of the 'cash poor' and customers neglected by conventional banking system.
Ahmad and Abdul-Rahman (2012)	Data Envelopment Analysis	Malaysia	To examine the relative efficiency of Islamic commercial banks and conventional commercial banks in Malaysia.	The findings reveal that conventional commercial banks outperformed Islamic commercial banks in all efficiency measures; this is attributed to managerial efficiency and technological advancement.
Abdul-Rehman (2012)	225 Questionnaires	Pakistan, UK and UAE	To determine the relationship between customer satisfaction and the service quality of Islamic banks.	The findings report that assurance, reliability and empathy are significant factors for UK and Pakistani customers. In contrast, assurance and tangibles are most important for UAE customers.
Akbar, Shah and Kalmadi (2012)	35 Questionnaires	UK	To explore the understandings and perceptions of customers about Islamic banking practices in the UK.	The findings suggest that Islamic banking in the UK is not fully aligned with traditional Islamic finance theory

Note: This table provides a summary of previous survey-based studies that have been conducted in several countries on Islamic banking and finance.

3.5.2 Growth of Islamic Banks

In exploring the development of Islamic banking, Ahmad (2008) investigates the opportunities and challenges for its development in the UK. The author examines the involvement of Islamic banking and finance in Muslim lives in an attempt to understand the core concepts and how Muslims choose between Islamic and conventional banking. Ahmad uses a qualitative methodology to ascertain customers' behaviours and perceptions, conducting in-depth interviews with community leaders to explore their perceptions. The results suggest that Islamic banking in the UK has been facing problems in serving the growing Muslim community and it must do more in future to help understand people's need for specific products and services.

3.5.3 Accessibility of Islamic Banks

Warsame (2009) explores the introduction of *Shariah*-compliant financial products in the UK to discover whether its accessibility has improved overtime. The study observes the attitudes of UK Muslims towards existing *Shariah*-compliant financial products and their buying behaviour. The study employs a qualitative methodology using 225 questionnaires and semi-structured interviews for data collection in four cities: London, Manchester, Leicester and Birmingham. The findings reveal that the conventional banking system does not satisfy the needs of UK Muslims, but reports that the demand for *Shariah*-compliant products and services is also very low. Warsame argues that this could be as a result of financial illiteracy in the population and suggests that to overcome this problem, educating local *Imams* on Islamic finance is necessary. However, it should be noted that the study uses very limited samples to only four cities, excluding the Muslim population in other parts of the UK. In investigating the

performance of Islamic banks in Kuwait, Al-Fadhli (1998) analyses the performance of Islamic banks using financial indicators and comparing the results with those for conventional banks. The study uses three main tools: the financial analysis of each bank using accounting ratios; customer surveys to test the satisfaction levels; and questionnaires and interviews aimed at senior management. The results indicate that Islamic banks are broadly on a par with conventional banks in terms of performance and evaluation. With regards to the interviews with the senior management, the study discloses that Islamic banks are very adaptable in their operations and can overcome most obstacles to their success. The author concludes that Kuwait Islamic banks has been successful in establishing an alternative to conventional banking, in terms of providing a real alternative that is attractive to customers.

The literature on customers' Islamic bank selection criteria now extends to several countries. For example, in investigating the selection criteria for Islamic financing, Kaynak *et al.* (1991) in (Turkey); Boyd *et al.* (1994) in USA; Kennington *et al.* (1996) in (Poland); Almosawi (2001) in (Bahrain); Ford & Jones (2001) in (UK); Devlin (2002a, b) in (UK); Abdul-Rehman and Masood (2012) in (Pakistan and UK); Haron (2005) in (Malaysia); Lymperopoulos *et al.* (2006) in (Greece); Mylonakis (2007) in (Greece); Amin and Isa (2008) in (Malaysia); Amin *et al.* (2009) in (Malaysia) and; Hamid and Masood (2011) in (Pakistan); empirically explore choice criteria, perceptions and attitudes towards Islamic finance. In the UK, Masood *et al.* (2009) report that the strongest influences on choice are facility charge, efficient services, ethics and reputation. In Pakistan, Hamid and Masood (2011) and Abdul-Rehman and Masood (2012) use questionnaires to gather perceptions on the selection criteria used by Islamic banks. The results reveal that the *Shariah* principle is the most important

factor considered by customers in choosing an Islamic bank, although service efficiency was also significant.

3.5.4 Bank Selection Criteria

In exploring customer satisfaction, Abdul-Rehman (2012) studies the relationship between customer satisfaction and the service quality of Islamic banks using a CARTER model¹³⁶ in three countries; Pakistan, UK and UAE. The author employed questionnaires to collect data from 225 people (75 from each country) and to find the most significant factors in decision-making. The findings revealed that reliability, assurance and empathy are significant factors for customer satisfaction in Pakistani and UK banks, whereas tangibility and assurance were the most important in the UAE. The results also indicated more generally that most respondents in all three countries are satisfied with the banking services provided to them. Lee and Ullah (2011) investigate motivational factors' leading to selection decisions in Islamic banks in Pakistan, using a sample of 357 questionnaires. Their study reveals that Pakistani Islamic banks' customers value *Shariah* compliance most highly in their bank. An earlier study by Amin and Isa (2008) explores the relationship between customer satisfaction and the service quality of Islamic banks in Malaysia using SERVQUAL measurement scales. Their findings reveal that Muslims' awareness of Islamic banking products and services is high compared that to non-Muslim customers and the majority of Islamic banking customers are satisfied with the overall service quality provided by their banks. Elsewhere in the Islamic world, Hossain and Leo (2009) conduct a study of Qatar to evaluate and explore service quality in retail banking on the basis of 120 questionnaire

¹³⁶ CARTER model is developed by Othman and Owen (2002), based on six dimensions of the service quality: Compliance, Assurance, Responsiveness, Tangible, Empathy and Reliability.

responses. The findings reveal that customers' perception was highest in the tangibles area and lowest in terms of staff competence. A rare quantitative study on the issue, by Ahmad and Abdul-Rahman (2012) compares the efficiency of Islamic commercial banks and conventional commercial banks in Malaysia using Data Envelopment Analysis. The authors report that conventional commercial banks outperform Islamic commercial banks in all efficiency measures, primarily because of managerial efficiency and technological advancement. Additionally, studies such as: Haron *et al.* (1994); Loo, (2010) in Malaysia; Bley and Kuehn (2004) in UAE and; Gerrard and Cunningham (1997) in Singapore reveal convenience and considerations were most significant factors in banking selection criteria rather than religious perspectives¹³⁷.

3.5.5 Attitudes towards Islamic Banking

Few studies on Islamic banking have explored corporate social responsibility dimensions. Exceptions are studies by Dusuki and Abdullah, (2007); Dusuki and Dar, (2007), which reveal that ethical, religious and social responsibility criteria are all important to Muslims. However, in exploring perceptions of employees spread across both Islamic and conventional banks in Malaysia, Zainol *et al.* (2008) report that both groups of employees have positive perceptions of Islamic products and services, but those working for Islamic banks are more optimistic than their counterparts about the industry's future. Also regarding the knowledge of employees of Islamic banks Zainol *et al.* (2008) suggest:

“Banks' management take greater initiative in providing their employees with sufficient knowledge of and exposure to rules of the *Shariah* and the principles governing Islamic banking in particular.

¹³⁷ For more banking selection criteria studies that extensively investigated in the literature, see for example, (Erol and El Bdour, 1989, 1990; Haron *et al.*, 1994; Gerard and Cunningham, 1997; Metawa and Almossawi, 1998; Othman and Owen, 2002; Ahmad and Haron, 2002; and Abbas *et al.*, 2003).

This is to ensure that the employees are well equipped with knowledge to handle their customers and to perform their duties. Hence, moving forward, bank management must be considerably proactive in organising seminars and workshops to expose their employees to innovations in Islamic banking products and services, and to equip them well so that they can face the challenges and meet the objectives.”

(p. 162)

Dusuki (2007) explores the viewpoints of various stakeholder groups on Islamic banking practices in Malaysia. These include customers, depositors, local communities, employees, branch managers, regulators and *Shariah* advisors. On the basis of a sample of 1500 self-administered questionnaires the study reveals that respondents agree that the profit maximisation motive is key for Islamic banks, supporting Chapra's (1985) model. However, respondents also believed that Islamic banks are not merely profit-oriented organisations, but should aim to promote Islamic values.

A study by Ali and Syed (2010) investigates the impact of the perceptions and attitudes of professionals towards Islamic finance of the events of 9/11. The authors find that although, the events in the US created false impressions and misconceptions about Muslims, it significantly contributed towards growth in, and awareness of, Islamic finance. Kamla and Memon (2011) explore the perceptions of non-Muslims in the UK about Islamic banking and finance as an 'ethical' alternative to be mainstream banking. The authors targeted non-Muslim conventional banks' customers based on their likely interest in ethical banking. Twenty-six non-Muslims were approached for interview purposes from which fifteen agreed to take part. These participants were asked about their interest in and thoughts on Islamic banking via employment of semi-structured open-ended questions. The results of the study suggest that Islamic banking has the potential to attract individuals from various social groups, irrespective of religious

beliefs, and has the ability to satisfy the needs of the cash-poor and those neglected customers by the conventional banking system. However, the study argues that since Islamic banks in the UK operate in a non-Islamic context, they require additional effort to get the attention of customers who have dealt only with the conventional system for long periods. Nonetheless, Kamla and Memon argue that there is good potential for a vibrant Islamic industry in the UK if it actually delivers on its promises and for that reason, that:

“For the emergence of a genuine financial industry informed by ethics, better and increased engagement and debates should take place between different religious and secular constituents interested in promoting ethical finance. Islamic finance cannot continue or survive working in isolation from these groups. It also cannot go on ignoring the deep suspicion that both Muslim and non-Muslim customers and stakeholders express regarding the social impact of its activities and claims”¹³⁸.

(p. 27)

3.5.6 Islamic Banking Practices

Adding further to existing literature on Islamic banking perceptions, Akbar *et al.* (2102) explore the issue of whether Islamic banking in the UK is fully aligned with the theoretical version of Islamic finance that emphasises the principles of profit and loss. On the basis of 35 responses to an online the study reveals that most Islamic banks do not operate under the PLS system and in practice follow the traditional interest-based model with a different name. The authors’ overall conclusion is that Islamic banking in the UK cannot be seen as being aligned with the paradigmatical version in any meaningful way.

¹³⁸ The authors acknowledge a major limitation to the study in terms of the lack of participants from a specific region in UK. In addition, the study does not include explicitly the perceptions of Muslims on Islamic banking as an ethical alternative.

Two studies explicitly consider the attitudes of financial institutions towards ‘Islamic’ methods of finance. The first study conducted by Jalaluddin (1999), reports interviews with 80 Australian financial institutions on their attitudes regarding PLS methods in particular whether they would be prepared to lend funds on this basis. Around 40 per cent of the respondents said that they were prepared to lend funds on using PLS, motivated by the need to provide business support and strong growth. The second study in this area was conducted by Karbhari *et al.* (2004), who focused on interviews with financial institutions in London to investigate attitudes towards the problems and challenges faced by Islamic banks in the UK. Most of the interviewees suggested that the use of Islamic methods by conventional banks would promote the establishment and development of Islamic banks in the UK as well as help increase Muslim and non-Muslim customers’ understanding of Islamic finance. However, most interviewees also believed that the UK government did not support the establishment of Islamic banks. A few number of studies on Islamic accounting are found in the literature which discuss the framework of accounting for Islamic financial institutions (Archer, Karim, & Al-Deehani, 1998; Gambling, Jones, & Karim, 1993; Karim, 1990, 2001; Lewis, 2001 and Maurer, 2002) and accounting from Islamic perspective such as (Kamla, 2009; Mirza & Baydoun, 2000). Noteworthy also are the studies of (Archer, Karim & Al-Deehani 1998; Maali *et al.*, 2003), which suggest the distinct need for corporate governance and disclosure by Islamic banks due to the monitoring weaknesses inherent in the Islamic banking system. Maali *et al.* (2003) also find that Islamic banks are disclosing corporate social responsibility (CSR) information far below the expected level.

While previous researchers have examined the performance, choice criteria, motivational factors, efficiency, customer satisfaction, service quality, opportunities for

development, views of employees and stakeholder perspectives, the perceptions and experience of everyday Muslims and Islamic scholars have received very little attention, with no study having explored these in any detail in the UK. Most of the studies have focused only on one stakeholder group at a time, with the exception of a study by Dusuki (2007) which focused on seven stakeholders in Malaysia. In addition, the studies conducted in the UK employed mainly self-administered questionnaires in exploring views. The study of Memon and Kamla (2011) did utilise interviews, but these were with non-Muslims, ignoring other stakeholders. The present study therefore employs both interview surveys and structured questionnaires to explore the perceptions of three specific stakeholder groups (everyday Muslims, Islamic scholars and Islamic banking employees) considered likely to provide relevant and detailed data regarding the development of Islamic finance. Through this approach the thesis attempts to critically assess the dominant practices of Islamic institutions in a postmodern context that emphasises emancipation among the disadvantaged. This theoretical underpinning, set out in detail in the Chapter 4, therefore represents a novel approach to investigating the issues at hand.

3.6 Conclusion

Whilst this chapter has reviewed a rapidly-growing body of work in the area of Islamic-based finance, little is known about perceptions and expectations of Islamic banking in the west, especially in the UK. A number of studies have been conducted on the perceptions of Muslims including the UK, exploring the attitudes and expectations, but these tend to provide only an overview of service quality and are mostly descriptive in nature. None of them attempt to engage a debate among Muslims, Islamic scholars and Islamic banks to explore their experiences and expectations. More generally much of

the literature on Islamic banking focuses on its commercial and economic aspects, while social issues relating to its practices are absent a secondary issue (Ismail, 2002; El-Gamal, 2006). The present study therefore, attempts to fill the gap by investigating the perceptions and expectations of UK Muslims from a critical perspective, collecting the data using detailed face-to-face interviews and structured questionnaires and bringing together the voices of Islamic scholars, Muslims and Islamic banks. The current thesis therefore also contributes to the literature discussed here by exploring the perceptions by examining a particular theology-based financial system.

CHAPTER 4

THE THEORETICAL FRAMEWORK: CRITICAL-POSTMODERN APPROACH

4.1 Introduction

The previous chapter reviewed literature on the development of Islamic finance globally. This chapter outlines the theory that is employed in this thesis, since every piece of research requires a theoretical framework (Abdel-Khalik and Ajinkya, 1979). Porwal (2008) highlights that “no discipline can develop without a strong theoretical base” (p.7). A theoretical framework is a system of concepts and ideas that informs and supports research (Miles and Huberman, 1994; Robson, 2002). Indeed, Miles and Huberman (1994) defined a conceptual framework as a visual or a written product, one that “explains, either graphically or in narrative form, the main things to be studied- the key factors, concepts, or variables- and the presumed relationships among them” (p. 18). Thus, the theoretical framework provides a clear sense of the purpose of the research; without this purpose, a researcher may easily lose their way and waste valuable time. Similarly, Strauss (1995) notes that a theory provides a model for one’s understanding of why the world is the way it is. The conceptual context of research is usually based on the assumptions, beliefs and theories held by the researcher and that lead him/her not only to conduct the research, but also conduct it in the way that they do (Miles and Huberman, 1994; Robson, 2002). For example, Maxwell (2005) argues that there are four resources that a researcher can use when constructing the conceptual design for the research: the researcher’s own knowledge; existing theory and practice; pilot as well as exploratory research and experiments; and the use of a theory in from prior research. A useful theory highlights the main points of the research and draws attention to particular events (Maxwell, 2005). In considering the appropriateness of a theory for a study Martin (2002) notes that:

“The purpose of a social science theory is not to comfort managers with promises of relatively easy solutions but to capture and perhaps even construct organisational experiences, in all their discomfoting complexity, conflict, ambiguity, and flux... An oversimplified theory, however comforting and appealing, is not likely to be useful if it ignores important complexities in the world it attempts, imperfectly, to represent”.

(p. 9)

Heinrich (1984) expressed his views on this issue while discussing an incident in his investigation of caterpillars’ feeding habits:

“The clipped leaf stood out as if flagged in red, because it didn’t fit my expectations or theories about how I thought things ought to be. My immediate feeling was one of wonder. But the wonder was actually a composite of different theories that crowded my mind and vied with each other for validation or rejection.... Had I no theories at all, the partially eaten leaf on the ground would not have been noticed”.

(p. 133-4)

This chapter outlines the theoretical foundation to investigate its suitability for the thesis. It starts by outlining critical theory and its arguments to challenge the society to empower the disadvantaged. It then follows the postmodernism approach explaining how postmodernism can help to bring a radical change in a society. The remainder of the chapter is structured as follows: Section 4.2 outlines the critical theory, the emergence of critical theory and its limitations. Section 4.3 defines the postmodern approach and outlines the approaches of postmodernism. Section 4.4 then outlines postmodern approach from the Islamic perspective, highlighting the roles of Muslim intellectuals and possible conflicts of postmodernism with Islam. Section 4.5 outlines the reasons behind the adoption of postmodern approach as a theoretical framework for the present study, before the chapter concludes in Section 4.6.

4.2 Critical Theory

This study adapts a critical theory perspective with a special focus on postmodernism. In the past, philosophers have used critical theory to engender change in both society and culture. Many attribute this emphasis on change to the writings of Marx (Bernstein, 1976; Burrell and Morgan, 1979; Held, 1980). Others including (Puxty, 1986, 1991 and Tinker *et al.*, 1991) have held that critical theory emerged from the Frankfurt School which sought to critique capitalist society¹³⁹. It provided an understanding of the social conditions of that age, how they had evolved in society, and how these conditions continued to persist to the dis-service of many. Critical theory aims to use this understanding as “to liberate human beings from the circumstances that enslave them” (Horkheimer, 1982, p. 244). Critical theory challenges the injustices and inequalities in contemporary society and calls for new empowering democracy that could serve through satisfying accountability (Gray, 1999). Alvesson and Willmott (1996) state that “the term critical theory is used to refer to scholars and commentators who are closely related, or strongly sympathetic, to the work of the Frankfurt School” (p. 67). Alvesson and Willmott (1996) state that “at the core of the critical theory lies a desire to develop a more rational, enlightened society through a process of critical reflection upon the organisation and efficacy of existing institutions and ideologies” (p. 67). Horkheimer (one of the main founders of Frankfurt School) believed that critical theory is only valid if it meets three criteria: (i) it must be normative at all times; (ii) the proponents must be able to explain what is wrong with the society or the status-quo and identify possible ways for a change; and (iii) the proponents’ must use this criticism of the existing status-

¹³⁹ The Frankfurt School was originally based at the Institute of Social Research (founded 1923) at the University of Frankfurt, Germany (Kincheloe and McLaren, 1997, p. 51; Wallace and Wolf, 1999, p. 100, Calhoun and Karaganis, 2006). Adorno and Horkheimer both returned to Germany after World War II; The Institute of Social Research was re-established there in 1949 (Wallace and Wolf, 1999, p. 100-1).

quo for social transformation (Horkeimer, 1993). Moreover, critical theory highlights the insights to be gained from studying the inter-relationship of social practice with theory. Thus, Gallhofer and Haslam (2008) maintain that:

“Critical theorising encourages a critical emphasis in the original standpoint vis-a-vis the phenomena and practices studied as well as the context in which they are located. This implies recognition that social phenomena and practices and contexts have negative as well as positive potentialities the realisation of which depends on the particular interrelationship between phenomena, practices and contexts. It is the task of the researcher to identify the positive or what we term enabling or emancipatory emphasis in the original potentialities through critical social analysis and to consider their realisation in projects concerned to work towards a better world for all, that is, to enhance well-being globally”.

(p. 12)

Siebert, (1985) notes that critical theory points out the contradictions between normative ethical values and bourgeoisies of capitalist societies (equality, freedom and brotherhood) and their social reality. Brown (2009) maintains that critical theory is not about theological criticism, but about critiquing conditions of injustice and oppression in society. Moreover, McCarthy (1991) notes that critical theory challenges the notion of pure reason basing analysis on the changeability of history, culture and power in which it is embedded. McCarthy (1991) further asserts that the main purpose of critical theory is to make “problematic what is taken for granted in culture, so that a degree of social justice can be had by those who are oppressed” (p. 43). Furthermore, Held (1980) and Antonio (1981) noted that a core aspect of critical theory is ‘immanent critique’- in which people engage in social critique while evaluating certain features of a society¹⁴⁰. Antonio (1981) argued that immanent critique is a “necessary weapon in the struggle for progressive social change, because it provides a basis for critique within historical

¹⁴⁰ Immanent critique is a means of detecting the societal contradictions which offer the most determinate possibilities for emancipatory social change (Antonio, 1981, p. 332).

reality” (p. 333). Held (1980) argued that immanent criticism is instigated by revising and re-examining object’s theoretical principles and assessing its implication. The aim is to adjust the view to open up the object to the possibility of radical change through assessment and reflection (Held, 1980).

Arnold (2009) explains that critical theorisation in accounting and finance offers means of understanding the social and political role of accounting that can have an influence on income, power and wealth distribution within society (Gallhofer and Haslam, 2004; Tinker, 2004). Gallhofer and Haslam (2003) further maintain that critical accounting theorists have also expounded on ways that accounting could bring empowering and emancipatory potentials. Similarly, Alvesson and Willmott (1996) asserted that critical theory challenges taken-for-granted practices in areas such as accounting. Gallhofer and Haslam (2003) maintain that engagement with praxis is crucial for the understanding of emancipatory accounting. Elements of praxis can constitute the mobilisation of counter accounting to pressurise governments towards the change in respect of the ways in which accounting is conducted. This could be done for instance by reminding these institutions of their roles in the public interest (Kamla, 2005). Another element of praxis is by engaging in accounting education and research to stimulate emancipatory engagement. Thus, the immanent critique of critical theory within the context of Islamic banking can help challenge the social realities of Islamic banks in replacing the inaction based on the false correspondence between Islamic values and Islamic banks’ operations with “emancipatory praxis aiming at making the ideal real” (Antonio, 1981, p. 338)¹⁴¹. The Islamic methodology to the aspects of social justice and elimination of

¹⁴¹ In enhancing spiritual aspects to accounting and finance, Shapiro (2009) argues that Christian and Jewish religious traditions can support the spiritual development of people and in their associations with each other and with society.

poverty and its spiritual dimensions to attain this can provide a spur to a more emancipatory accounting (Kamla *et al.*, 2006)¹⁴².

In the development of critical theory, academics have refined their ideas leading to the emergence of a postmodern critical theory (Best and Kellner, 1991; Agger, 1998; Gallhofer and Haslam, 2003)¹⁴³. They have extended the original notion of critical theory by incorporating aspects of postmodernism¹⁴⁴ and postcolonialism. The post colonialist approach within critical theory is concerned with the impact of a colonial past on a society and its relation to the rest of the world. It is contended by postcolonial theorist that colonisers imposed their own values on people and oppressed the society by promoting their political, social, cultural, economic and psychological hegemony (Gandhi, 1998). Postcolonialist theory and research attempts to recognise the role of power in relationships between the colonised society by considering the cultures, values and philosophy of the colonialism and colonised both pre and postcolonisation. It also suggests that no one culture is better than another and a precolonised culture might be preferable to one developed through colonisation (Gandhi, 1998). Furthermore, Gandhi (1998) distinguishes colonialism into two forms: the first relates to the occupation of territories; while the second involves the conquest of cultures and minds of individuals. Several authors have used postcolonial critiques for wide-ranging investigations into power relationships in various contexts such as Gandhi (1998) and Kamla (2007).

¹⁴² Patton (2002) holds that critical theory seeks “not just to study and understand society but rather to critique and change society” (p. 131).

¹⁴³ Antonio (1981) argues that “Critical theory has highlighted primarily the negative moment of the dialectic. It has attacked domination, rather than describing explicit, determinate possibilities for new social formations (p. 341).

¹⁴⁴ A more extreme branch of critical theory that holds its critical stance toward (Western) modernity and the unambiguous narratives of reason and truth.

Critical theory however, did not capture the ‘voices’ of people from other societies. It relied more on Western perspectives and it excluded the gender phenomena (Gallhofer and Haslam, 2003). Therefore, Gallhofer and Haslam, (2003) suggest that it is important to listen to and consider the experiences of people from other societies in order to gain some knowledge and insight about different cultures, religions and people in the context of both their own environments. They argue that a researcher should enter into an open dialogue and an explicit engagement with these other voices. This engagement with the ‘other’ might provide better solutions for global problems i.e. transfer of wealth between social classes in society (Gallhofer and Haslam, 2003). Gallhofer and Haslam (1997) have highlighted the masculine dominance in critical accounting research by arguing that:

“Critical accounting research is dominated more than it would surely like to be by white, male, Western, Anglo-Saxon and middle class researchers. The perspective of, for example, women, the poor, the working class, ethnic minorities, those beyond the English-speaking world, those from ‘developing’ countries, those of the indigenous peoples, those of the ‘emotional’, the perspectives of those most unlikely to write critically and interpretatively on accounting, are surely still very much under-represented and under-played if not entirely absent”.

(p. 74)

Alvesson and Willmott (1996) note that critical theory needs to develop a more rational and open society through a process of critical reflection upon existing ideologies¹⁴⁵. Similarly, Fraser (1994) argues that critical theory proves to be inadequate in the late capitalist societies; thus, critical theory should:

“Render visible the ways in which social inequality taints deliberation within publics in late capitalist societies. Second, it should show how

¹⁴⁵ Young (1990) points out that Habermas and other critical theorists believe that: “We are on the threshold of a learning level characterised by the personal maturity of the decentered ego and by open, reflexive communication which fosters democratic participation and responsibility for all. We fall short of this because of the one-sided development of our rational capacity for understanding” (p. 23).

inequality affects relations among publics in late capitalist societies how publics are differentially empowered or segmented, and how some are involuntarily enclaved and subordinated to others. Next, a critical theory should expose ways in which the labelling of some issues and interests as ‘private’ limits the range of problems, and of approaches to problems, that can be widely contested in contemporary societies. Finally, our theory should show how the overly weak character of some public spheres in late capitalist societies denudes ‘public opinion’ of practical force.”

(p. 93)

4.3 Extending Critical Theory

4.3.1 Delineating Postmodernism

Penna and O’Brien (1996) hold that the term “post” can be understood in two senses: first, they argue that “we are living in a world of flux and transition; the old is crumbling and fading yet the new is still indistinct and ambiguous” (p. 40); Second, they claim that post refers to a sphere in which old and the new overlap. “Here, the present has many contents, many different political, cultural, and economic experiences, many conflicting and unstable social and institutional alliances, many levels of personal and collective action” (p. 40). Eldridge (2007) notes that, postmodernism is a term which is easier to describe than define. Regarding the transition to a postmodern society, Best and Kellner (2001) argue that:

“The transition to a postmodern society is bound up with fundamental changes that are transforming pivotal phenomena from warfare to education to politics, while reshaping the modes of work, communication, entertainment, everyday life, social relations, identities, and even bodily existence and life-forms”.

(p. 2)

Postmodernism emerged from debates within critical theory about how researchers should respond to the modernisation of societies and the diminishing of fundamental beliefs in faith and religion, the spiritual order and empowerment of the modern world.

Previous critiques and justifications have been seen to have failed to interpret the problems created by the modernisation of societies and cultures (Ruccio, 1991)¹⁴⁶. According to Ruccio (1991) the task of postmodernism was to (re)-examine the fundamental assumptions and ideas on which modernism has been constructed¹⁴⁷. The goal was not to create the conditions for interpreting modernists texts; “that was deemed impossible” (p. 497); rather the aim was to challenge the modernist tradition¹⁴⁸. Postmodernism emphasises the interplay of a plurality of discursive practices, ways of knowing social identities. It does not have a universal definition; contemporary theorists use it in different senses¹⁴⁹. These forms depend on the elements of post enlightenment modernity¹⁵⁰ (Ruccio, 1991).

Jameson (1984) and Jencks (1989) symbolise postmodernism to the epoch after modernism that corresponds to a particular form of social and economic organisation. In other sense, postmodernism refers to a point where theoretical debates, concrete investigations, questions and themes intersect (Ruccio, 1991). Ruccio (1991) argues that postmodernism may be understood according to which of the various forms of modernism are currently being investigated and called into question¹⁵¹. Shah (2000) highlights that: “postmodernism is theorised in multiple ways, which has a conceptual

¹⁴⁶ According to Habermas (1985, p. 3) the term ‘modern’ expresses a transition from the old to the new.

¹⁴⁷ Bagshaw (2001) notes that “a modernist culture, built over the last few centuries around forms of rationality, self-discipline, and bourgeois values, is succumbing to the effects of rapid technological and economic change. The weakness of modernist thinking was the search for unitary definitions and the reduction under one label of complex clusters of thought” (p. 206).

¹⁴⁸ Postmodernism has arisen in response to what critics experienced as a fundamental loss of tradition, belief in religion, fixed convention and spiritual order- evoked by the modern world (Ruccio, 1991, p. 497).

¹⁴⁹ The main theorists involved the interpretation of postmodernism are: Lyotard (1924-1998), Baudrillard (1929-2007) Bhaba (1994), Deleuze and Guattari (1987), Derrida (1976, 1978), Foucault (1972, 1973a, 1973b, 1979), Gergen (1991), Jameson (1983), Laclau and Mouffe (1985), Rorty (1989), and Said (1983). Lyotard rejected the meta-narratives and argued that what is seen, as ‘truth’ needs to be deconstructed so people can develop their own ideas.

¹⁵⁰ A condition of society which to exist after modernity.

¹⁵¹ According to Ruccio (1991) elements of this postmodern condition can be located in diverse contributions of Louis Althusser, Jacques Lacan, Michel Foucault, Richard Rorty and Jacques Derrida.

relevance to its rejection of absolutes” (p. 98). Habermas (1985) explains it as “a falling apart of ‘unified’ world-views of religion and metaphysics” (p. 9); Said (1978) explains it as a break with modern politics; Ahmad (1992) notes that it represents a break with nation-state; Baudrillard (1985) contends it to be a continuation and extension of modernism. On the other hand, it is critiqued as non-historical and located in an eternal now (Eagleton, 1991); Gellner (1992) notes it as irrational, relativist and nihilistic; and Ruccio (1991) elucidates that “postmodernism challenges the notion of autonomous rational subject and related ideas of knowledge as representation and of a strict separation between rhetoric and science” (p. 500). Arguably, postmodern analysis is concerned with emancipatory change enabling the potentialities of social practices. It has emerged in the accounting and economics literature to investigate the context and the critique of modernism that emerged in the society¹⁵²; it concentrates on the strains of difference and similarity venting from processes of globalisation and capitalism. Giroux (1991, p. 80), and McLaren (1994b) maintain that:

“The postmodern critique concerns itself with a rejection or debunking of modernism’s epistemic foundations or meta-narratives; a dethronement of the authority of the positivistic science that essentialises differences between what appear to be self-possessing identities, an attack on the notion of a unified goal of history, and a deconstruction of the magnificent enlightenment swindle of the autonomous, stable, and self-contained ego that is supposed to be able to act independently of its own history, its own indigenous strands of meaning making and cultural and linguistic situatedness, and free from inscriptions in the discourses of, among others, gender, race, and class”.

(p. 196)

Eckersley (1999) and Griffin (1993) assert that postmodernism is actually a late stage of the modernity time frame. On the other hand, Lyotard (1984) defines it as

¹⁵² Some of the main discussions on the rise of postmodernism, See Foster (1983); the June 1988 special issue of *Theory, Culture & Society*; Connor (1989); Jencks (1989); and Hucheson (1989).

“incredulity toward metanarratives, which is, somewhat ironically, a product of scientific progress” (p. 24). According to Ahmad (1992) postmodernism assumes a “questioning, or a loss of faith in, the project of modernity. It embraces pluralism, rejects previously accepted orthodoxies, ‘a view of the world as a universal totality’ and the possibility of ‘final solutions and complete answers’” (cited by Eldridge, 2007, p. 530). For Yilmaz (2005), postmodernity “provides a philosophical frame or paradigm in which modernity is critically examined, using primarily the techniques of ‘deconstruction’ developed by hermeneutics and social linguistics” (p. 1). While, Rosenau (1992) argues that postmodernism denotes “a radical potential in the attempt to formulate a defense of difference, while toleration gains importance” (p. 98).

Moreover, postmodernism extols the virtue of critique; its theorists challenge hierarchies, reject the idea of objectivity, and advance arguments for liberal pluralism. It claims that there is no ultimate standard for the judging of truth, because norms and standards are socially constructed by those with power in society (Giddens, 2001). Therefore, there is no absolute standard of reality in society; only different meanings and identities from different individuals (Sandoval, 2007). Contemporary postmodernists propose that society is more complex and interconnected than in the past and that meta-narratives are no longer appropriate (Giddens, 2001; Kell, 2004). In addition, various researchers (Giddens, 2001; Popkewitz *et al.*, 1997; Wallace and Wolf, 1999) argue that values are socially constructed in accordance with an individual’s own exercise of actions; in fact, there can be multiple realities. Thus, it rejects the notions of economic rationalism and managerialism and asserts the subjectivity of knowledge. Postmodernism suggests a new vision of justice and knowledge. For that reason, Turner (1994) indicated:

“Postmodern philosophy offers a simultaneous condemnation of exploitative capitalism and bureaucratic socialism as ‘grand narratives’ that have imposed a barren sameness on the modern social world. It condemns the uniform, patriarchal, rationalist and hierarchical structures of Western modernism.”

(p. 12)

Gandhi (1998) believes that while postmodernism places some limits on boundaries of Western culture, it remains myopic with regard to the non-European world. Postmodernism in the social sciences has been used continuously to describe a historical period filled with social change (Featherstone 1988; Kellner 1988; Parker 1992; Hassard and Parker 1993; Alvesson 2002b); proponents of postmodernism are always engaged in challenging it and do not accept objectivity. Rather, through its constructs, it is argued that there is no ultimate standard for judging truth in the society. The “standards of truth” are socially shaped and constructed by people with power. It is therefore, essential to seek out other opinions and treat them with equal importance (Fuchs and Sandoval, 2008).

Although postmodern theory has its own way of criticising the world and society, it is related to critical theory in terms of its formulation of knowledge as technical, emancipatory and practical (McLaren, 1994a). Postmodernism is a subset of critical theory which makes connections with social science in terms of cultural and discourse analysis (Agger, 1991). For example, Lyotard 1984 argued that postmodernism attempts to explain society in terms of patterned inter-relationships. Agger, (1991) maintained that postmodern theory attempts to examine the social world from multiple perspectives including those concerning race, gender and class. In addition to this

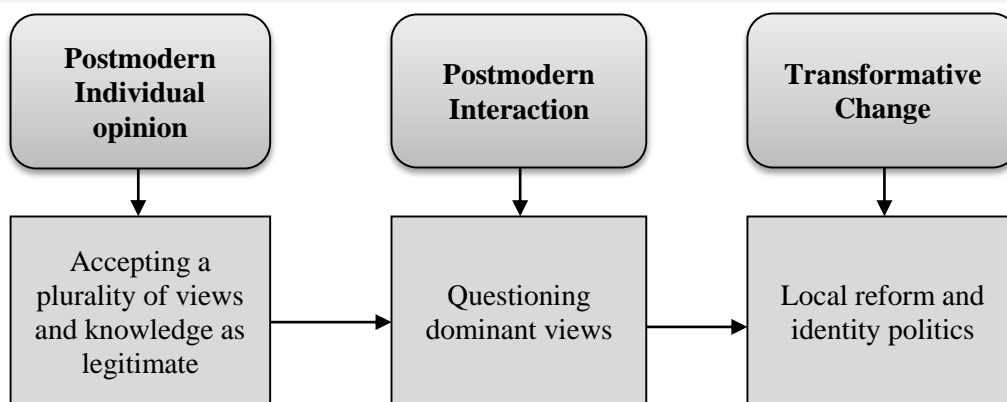
perspective, Foucault¹⁵³ (1980) believed that knowledge must be traced to several practices and discourses, rejecting the view that it can be ‘spoken’ in a universal voice. Arguably, postmodern theory has expanded the importance and research of critical theory by combining it with issues of culture and society; it has helped interpret notions of cultural and religious values in the contemporary society. Thus, Aronowitz and Giroux (1991) claim that:

By combining the best insights of modernism and postmodernism, educators can deepen and extend what is generally referred to as critical pedagogy. We need to combine the modernist emphasis on the capacity of individuals to use critical reason in addressing public life with a critical postmodernist concern with how we might experience agency in a world constituted in differences.

(p. 117)

Fuchs and Sandoval (2008) outline a typology of critique in postmodernism in the Figure below labelled 4.1.

Figure 4.1: A Typology of Notion of Critique



Source: Fuchs and Sandoval (2008, p. 123).

¹⁵³ Subsequently, becoming acquainted with the Frankfurt School, Foucault noted that: “if I had been familiar with the Frankfurt School, if I had been aware of it at the time, I would not have said a number of stupid things that I did say and I would have avoided many of the detours which I made while trying to pursue my own humble path” (Moss, 1998, p. 22). Although Michel Foucault (1926–1984) is frequently labelled as Postmodernist, he himself did not consider himself to be one (Giddens, 2001, p. 675).

4.3.2 Approaches towards Postmodernism

Oord (2001) has identified five approaches to postmodernism: narrative, popular culture, deconstructive, liberationist and constructive postmodernism. Each of these strands provides a different interpretation of what it means to build a social reality within society. Narrative postmodernism recognises the existence of several meaningful realities and truths, but the meanings of such are found in, and arise out of communal use (Oord, 2001). He further notes that this ultimately taken-for-grantedness then attempt to explain two traditions of modernism emerging through postmodern theory: relativism and positivism. Positivism assumes that the world is made up of independent facts capable of empirical investigations and confirmation. Positivists believe that everything meaningful must be expressed in 'realistic' terms. Expressing this in another way is to say that something that is meaningful always possesses a logical explanation. On the other hand, Relativists reject the notion that each individual constructs the meaning of their truth. In that regard, Lyotard (1984) has maintained that there are no 'grand narratives' that account for stories and experiences; thus, there are no foundations upon which to build an individual's outlook on life; rather, culture-specific myths define what is true and meaningful. Although narrative postmodernism has embraced its place in philosophy, its opponents have argued that if every community has its own stories, then there is no space for criticism and re-examination of what has already been revealed (Oord, 2001).

The next approach of postmodernism is popular culture, which is concerned with communications, technology and all possible tools for the propagation of newness and consumerism (Horton, 2003). Another separate strand of postmodernism refers to deconstructive postmodernism, which asserts the downfall of modernism and rejects

the main assumptions of modernism (McGregor, 2003). Its proponents reject the notion of a universal truth and the belief that individuals can be successful through continuous change. On the other hand, deconstructive postmodernists reject the tenets of modernism and the doctrine of the supremacy of reason, and advance the argument that knowledge is entirely subjective and open for discussion and interpretation; this form of postmodernism suggests that individuals express their opinions and preferences with their inner instinct (Berry and Siegel, 2001). Deconstructive postmodernism is characterised by an emphasis on relativism. Relativists argue that no one standpoint is privileged above others and all should be treated equally (McGregor, 2003). In contrast, liberationist postmodernism desires liberation through the events linked with modernism.

Oord (2001) has identified three major forms of liberation postmodernism- feminist, ethnic and ecological. Feminism places the issue of gender at the centre of contemporary discourse and aims to empower the oppressed women in society. Ethnic postmodernists focus on culture and race within contemporary discourse. Those individuals influenced by this postmodern tradition oppose the modernist view of humans and believe in the uniqueness of each person's voice (Oord, 2001). Ecological postmodernism puts the issue of environmental wellbeing at the forefront of contemporary discourse and attempts to counter the modernist idea that the earth is an endless resource for humans. Instead, it points out the finite nature of resources and the consequent need for humans to care for the earth and its resources in order to prolong the conditions for life (Oord, 2001). The last approach of postmodernism is the constructive approach which proposes that modernity is associated with a fragmentation of knowledge. The constructive approach of postmodernism promotes

the need for harmony between religious and scientific institutions (Oord, 2001; McGregor, 2003). Constructive postmodernism rejects the notion of dualisms of modernity, which contends that individuals are interrelated (Oord, 2001). For the present study on exploring the perceptions of Muslims living in the UK, deconstructive approach of postmodernism is adapted as a means of better connectivity and understanding the perceptions of people.

4.3.3 Postmodernism and Accounting

Postmodern theorising draws attention to the political, historical and social construction of knowledge, social relations and people. As stated before, proponents of postmodern theory encourage opinions from people in society to reform new values; several authors and researchers have applied postmodernism to assess the attitudes and behaviours of people and organisational cultures. For example, Townley (1993) used Foucault's analysis to explore the discourse of human resource management. Calas and Smircich (1988) have used postmodernism to answer the question "why should we believe in this author?" Alvesson and Deetz (2006) state that postmodern theorisation can provide useful insight to the way people think about their historical dissatisfactions. In some cases it can also help in easing up tensions in an organisation such as might be seen in agency problems¹⁵⁴. Thus, postmodernism can be seen as a multi-disciplinary theory where proponents attempt to examine the social phenomena of people and society engaging with problems and suggesting a solution.

¹⁵⁴ The principal-agent problem occurs as result of difference in the goals between shareholders and managers. Managers are long-termist and put their goals as sales maximisation, however shareholders are more short-termist and are more concerned about their return on their investment.

Ife (1999) also values some of the offerings of postmodernist thinking, such as valuing difference. He notes that in the valuing of difference, the principles of social justice can often be realised, and he suggests that a focus on processes rather than results may resolve the tension. He proposes a strong framework of universal rights: “This universalism in a discourse of human rights can be counterbalanced by a relativism in the discourse of human needs. Statements of need imply an underpinning of rights, but it is in statements of need that those rights are contextualised within particular cultures and environments” (p. 218).

4.4 A Critical Perspective: Implications for Accounting thought in Religion

4.4.1 Islam and Modernity

Postmodern theory has changed the way that people look at the world, altering how people perceive art, news and culture and, perhaps, how people interpret religion. Although Muslims have gained independence from colonial power, for example independence of Indian sub-continent, they have failed to adapt and develop their own dialogue with postmodernism (Rahman, 1980). For example, Manzoor (1990) relating to the American civilisation argues that Muslims perceive postmodernism as a continuation of Western modernism, and thus, a destructive force, which essentially perpetuates colonisation. This section clarifies what modernism is in relation to Muslims and then proceeds towards Islam in second-modernity and its implications.

Bennet (2005) discusses the intellectual movement behind modernity that it has a number of characteristics: (i) modernity among individuals was spread with the discovery of physics and the theory of evolution. From that perspective, the concept of God was no longer needed as an explanation for the world and the creation of human

beings; (ii) by utilising science and reason, knowledge could be discovered, rather than be confined to Holy Scriptures such as the Holy Bible and the Holy *Quran*; (iii) through the power of reason, mortality (the way lives are lived) could be based on social values and traditions, rather than divine sources; (iv) free from the former ‘restrictions’, people could utilise their reasoning and became independent of religious bounds; and (v) science and reason were considered to be the only source for truth. Leaman (2001) notes that rejection of religion in favour of reasoning made Islamic and other religious scholars use reasoning and rational arguments to defend their faith. Moreover, Eldridge (2007) highlights that “the separation of religion and science, the reliance on humanity rather than on God, the trust in reason rather than revelation, all of which are characteristic of modernity, have been attacked by many non-Western writers” (p. 529). Similarly, Ergene (2006) writes that:

“There is no denying that modernity has encouraged man’s innate egotism. It has seduced him into a position of such overweening confidence that he can no longer properly appreciate the deep truths of life”.

(Cited by Eldridge, 2007, p. 530)

Modernism in the East, particularly among Muslims, was regarded with wariness. It was welcomed and embraced because political history coincided with the end of colonialism and establishment of Muslim states (Shah, 2000)¹⁵⁵. Economically, it offered development but ideologically, its secularism implied a threat to Muslims. Modernists within the Muslim tradition were engendered by European colonialism and provided important figures to Muslims such as “Muhammad Iqbal”¹⁵⁶. Through their

¹⁵⁵ For further details see Esposito and Voll (1996): *Islam and democracy*; Ruthven (1991): *Islam in the world*; and Schimmel (1992): *Islam: An introduction*.

¹⁵⁶ Iqbal studied in the Cambridge University and became a very famous philosopher citing European writers in his writings. His importance is recognised in whole Indian sub-continent for giving a two nation theory, which consequently helped achieving independence for Both India and Pakistan. He is also known for his poetry across the world especially for his poem “Shikwa” (A complaint).

understanding of Western ways and ideas, such figures engaged with colonial powers to seek independence of Indian sub-continent (Akbar and Ahmed, 1992). Modernism from a Muslim's perspective was translated into a desire to acquire Western education and technology (Akbar and Ahmed, 1992). Muhammad Jinnah¹⁵⁷, for example, contributed to the modernisation of Muslims through the ideas and understanding that he gathered through engaging with the education system of a colonial power. Additionally, Muhammad Abduh, known as the father of Arab modernism, presented the concept of modernity to Muslims (Badawi, 1978; Kedourie, 1966)¹⁵⁸. He put forward the argument that rationalism is compatible with Islamic teaching and is actually enjoyed when rightly understood in a version of Islamic modernism (Euben, 1997). Abduh further asserted that Islam properly understands the importance of reason and accepts that reason is a feature of human nature, which is created by God. Moreover, the Holy *Quran* encourages the pursuit of knowledge and truth about the world as a means of survival and well-being. Abduh further asserted that Islam is constitutive of modern reality and truth (Euben, 1997). In Abduh's view, Islam is a 'real civilisation' (civil society based on codes from one aspect to another) and an outlying tool to social and political matters¹⁵⁹. According to Abduh, accepting modernity does not require Westernisation but it is a path that could free Muslims from blind imitations (i.e. capitalism, media, ignorance of religion) to secular society (Euben, 1997). Abduh sees reasoning as the exercise of critical judgement on the basis of empirical and logical proof rather than something based on opinions from inherited truths. In this respect, his thoughts were different from the views of other philosophers who opposed faith in

¹⁵⁷ A leader, who created the state of Pakistan after being educated in London about politics and Western styled democracy.

¹⁵⁸ Other studies (Malik, 1980 and Keddie, 1972) reveal influential modernist figures among such as Sir Syed Ahmed Khan and Syed Jamal-ud-Din Afgani.

¹⁵⁹ See Hourani's chapter on "Abduh's Disciples: Islam and Modern Civilisation", In *Arabic Thought in Liberal Age*, (p. 161-92), for an illuminating discussion of the successors to Abduh's reformism.

divine truth, but promoted the study of facts to reach the truth. Moosa (2003) points out that in the definition of these critical Muslims, “modernity was synonymous with innovation and openness to new knowledge... Innovative thinking (*Ijtihad*) and renewal (*Tajdid*), they argued were emblematic of Muslim discourse” (p. 117).

On the other hand, Sardar (2003) notes that while modernity essentially opposes all non-Western cultures because of their nature, which diverges from the dominant Western culture; postmodernism potentially opens the door for the study of diversity among ethnic cultures and wider humanity. Thus, postmodernism treats all human values, cultures and experiences as equal and celebrates their differences; whereas, modernity suppresses other cultures. Akbar and Ahmad (1992) have linked postmodernism with a spirit of pluralism, a cynicism towards traditional orthodoxies and a rejection of a world view that recognises universal solutions and answers to the problems. They argue that to understand postmodernism better, one must look for the richness of understanding rather than the clarity and possibly a reduction of meaning; one must avoid the idea of either-or and accept and evoke many meanings and realities through self-knowledge. Akbar and Ahmad (1992) note that the use of media can help each group of people to better understand each other. For example, Muslims can come to better understand the beliefs of other religions; while others can understand Muslims better.

4.4.2 Islam and Postmodernity: Interreligious Dialogue

Akbar and Ahmed (1992) note that postmodernism and ethno-religious revivalism need to be explored further and in greater depth by social scientists in order to enrich societies’ mutual understanding and thereby, minimising unsettlement between them.

In addition, they have put forward an argument that ethno-religious revivalism is both a result of and cause for postmodernism. From such a perspective, postmodernism can be seen as highlighting the importance and need for diversity, tolerance and necessity for understanding others. The virtues of religion including piety, compassion, humility and the concern for others seems to be fading, and it is the time for the society to reclaim them (Akbar and Ahmad, 1992). In addition, Akbar and Ahmad (1992) assert that postmodernism is something which is not to be viewed as being limited to an intellectual or an academic discussion, but ought to be regarded as a historic phase of human past, thus, offering the possibilities of understanding and engagement which was not available before; to view it as a phase that could hold the possibility of bringing cultures, minds and people together (Akbar and Ahmad, 1992)¹⁶⁰. According to Armagan (1995, p. 35-6) postmodernism is attractive to Muslims for several reasons: (i) it shows the failures and confines of modernism; (ii) given the exhaustion of modernism, the postmodernist search for alternatives and opportunity for Islam; (iii) in their rejection of the secular uniformity of modernism, postmodernists freely borrow from tradition and religion which Islamists advocate; (iv) the postmodernist emphasis on diversity; and (v) the death of ‘meta-narratives’ strengthens the hand of Islam in its struggle against modern ‘isms’ such as socialism or positivism.

Moreover, Akbar and Ahmad (1992) argue that postmodernism advances the idea of understanding and tolerance; this is where it connects with Islam. The celebration of

¹⁶⁰ For Turner (2000, p. 12), capitalism and bureaucratic socialism are ‘grand narratives’ that have imposed a barren sameness on the modern social world. It condemns the uniform, male-controlled, rationalist and hierarchical structures of Western modernism. Postmodernism advocates a new vision to justice that gives importance to difference, to paradox, to heterogeneity, contradiction, and to local knowledge. This is why; Turner (2000) elucidates that postmodernism found important ally in disciplines such as anti-colonialism.

diversity and emphasis on tolerance are essential features of Islam as the *Quran* mentions (Chapter 2, Verse. 256) “there shall be no compulsion in religion”. Another dimension of relevance states Islam encourages *Ijtihad* (innovative judgement), *Shura* (consultation) and *Ijma* (consensus), and thus acknowledges the value of different opinions and perspectives (Shah, 2000). Ahmed (1992) notes at the time of the Prophet, a judge on his way to Yemen was advised “to decide a problem according to the *Quran*, but if the guidance was not there, then according to the *Sunnah*, and if not there either, then to use his own judgement” (p. 20)¹⁶¹. This acknowledgment of a plurality of perspectives provides a space within the Islamic context where postmodernism frame gains relevance (Shah, 2000)¹⁶². In addition, Al-Ghazali did not hesitate to argue the case for reason in establishing agreed interpretations of particular texts¹⁶³. Yilmaz (2005) notes that medieval scholars also contended for the use of reason. Hence, in modern times, as a response to the rise of Western influence and coupled with decline in Muslim power, “Muslim advocates of renewal, reform, and revival ...argued for a return to the right to exercise *Ijtihad* to facilitate reinterpretation and to renew the Islamic heritage” (p. 192).

To come to terms with pluralism in postmodernism, Eldridge (2007) notes that Islam has a long history of respectful interaction with the world. Muslim scholars such as al-Farabi, al-Baaqillani, Ibn-e-Sina, al-Juwaynial, al-Ghazali and others believed that

¹⁶¹ Kamali (1991) states that following the establishment of the schools of thought; the *Ullama* (Islamic scholars) followed two distinct stances to the study *Fiqh*. One is theoretical, which based on strict adherence to theoretical doctrines and traditions, while the second one is deductive method which is more pragmatic because it sees theory as something formulated according to the legal issues. This approach aims to combine traditions and principles in order to meet a specific case’s needs.

¹⁶² Kamla (2007) argues that as far as Islam is specifically concerned, postmodernists such as Nietzsche and Foucault looked towards Islam as a means of critically attacking aspects of Western culture of which they disapproved.

¹⁶³ Al-Ghazali was a Muslim theologian, jurist, philosopher, and mystic of Persian descent in medieval times.

knowledge was knowledge, and its origin did not undermine its legitimacy (Moosa, 2003). According to Eldridge (2007), education is a key tool in the development of society. Saeed (1994) acknowledges that there is a need within Islamic societies to produce Islamic scholars of the highest quality, who are capable of interpretation of Islam that can meet the challenges imposed by contemporary problems. For that, it is essential that modern literary criticism¹⁶⁴, as in Western societies, be applied to religious sources. Saeed (1994) recognises that certain individuals are better educated and more exposed to modern thought and engaged with modern industry. Among the characteristics of these contemporary scholars, he highlights, is their openness to new experiences and a willingness to change. Additionally, Horkuc (2002) identifies the influence of postmodernism on the theology of pluralism and religious tolerance. Because no religion has priority over other, postmodernists are obliged to accept other religions as equal. Furthermore, an appreciation of the tenets of postmodernism has helped many countries to adapt and change their laws. For instance, Yilmaz (2002) notes that Western countries like the UK, recognises and accepts the needs of Muslims by allowing them to conduct their social and financial activities such as marriages, divorces and financial obligations according to their beliefs. In addition, Moosa (2003) focuses on the rationality of postmodernism and states that:

“Contemporary Muslim thought is profoundly indebted to the labors of Muslim modernist thinkers of the nineteenth and twentieth centuries. Given that modernity, according to the German philosopher Jurgen Habermas, is itself a work in progress, it is not surprising that we have come to recognise many of the errors of enlightenment thinking and modernity as legions of scholars engaged in postmodernism have pointed out. In some ways, postmodernism can be seen as a corrective as well as a continuation of modernity. In the light of what we have learnt about the pitfalls of modernism, we are compelled to ask whether the tradition of

¹⁶⁴ A term used in the arguments, evaluation, and interpretation of literature.

scholarship known as modernism is Islam's redeemer, nemesis, or perhaps a bit of both?"

(p. 117)

4.4.3 The Role of Critical Muslims and Contribution to Emancipation

Critical Muslim intellectuals represent a new generation of thinkers in the postcolonial era (Kersten, 2011)¹⁶⁵. Their ideas and thinking are shaping what is called critical Islam (Esposito and Voll, 2001). These Muslim thinkers are not only challenged to be pioneering Islamic axiom, but they are also required to engage with tradition (Moosa, 2003). Moosa (2003) argues that "staunch advocates of enlightenment rationality within Muslim societies not only challenge the idea of the pre-modern tradition or tradition itself, but propose a version of modernity as a mode of living and thinking for Muslim societies" (p. 111). Their work mixes Islamic heritage with a comprehensive appreciation of Western thought, reflecting the "multilayer identity of the postcolonial Muslim intelligentsia" to which these thinkers belong (Kersten, 2011, p. 25). Their critique and activism of conservative *Ullama* and mentalities as well as their vision for renewal in the contemporary Muslim world are placing them in a possible alternative role to the critical religious scholars (Esposito and Voll, 2001). The key concerns of critical Muslims' is to engage in a critique of both Western knowledge and their own heritage for a possibility of enabling the emergence of an emancipatory theory of interpretation of the Islamic texts" (Kersten, 2011, p.158)¹⁶⁶. In addition, foremost goal

¹⁶⁵ Some of the critical Muslims are Fazlur Rahman (Pakistan); Mohammed Arkoun (Algeria), Hassan Hanafi (Egypt), Anwar Ibrahim (Malaysia), Fathi Osman (Egypt) and Tariq Ramadan (Switzerland), Abdelkareem Soroush (Iran); Mohammed Talbi (Tunis); Madjed (Malaysia) Husyn Ahmed Amin (Egypt); Mohamed Abd Jabri (Sudan); Hassan Al-Turabi (Sudan) and Ismail Ragi Al-Farouqi (Palestine).

¹⁶⁶ Esposito and Burgat (2003) describes these intellectuals as "a diverse group activists (Rashid Ghannoushi, Muhammad Selim al-Awa, Yusuf Qardawi, Mahmud Ayoub, Anwar Ibrahim, Kamal Aboul Magd, Fahmy howeidy, Abdurahman Wahid, Nurcholish Madhid, Abdulaziz Sachedina, Fathi Osman, Tariq Ramadan and Azzam Tamimi) have produced a growing body of literature that re-examines Islamic traditions and addresses issues of pluralism both at the theoretical and practical levels" (p. 95).

of critical Muslim scholars is to overcome the lack of understanding in Islamic thought, where conservative *Ullama* dominate the sphere, and re-engage with issues that are considered ‘unthinkable’ in Islamic thought today (Arkoun, 2002)¹⁶⁷, for instance, issues such as validity of mortgages for Muslims living in the West. Arkoun criticises that traditional *Ullama* in Islamic history have neglected the use of ‘dynamic’ methodology that builds on philosophical contributions of early Muslim theologians and philosophers like Ibn-Rushd. Thus, in order to overcome the condition of ‘unsought’, critical Muslims encourage Muslims to consider cultural and historical context to understand Islamic texts throughout history (Kersten, 2011). In that respect, Rahman (1982) has noted that Islamic heritage transpired in the light of history and points out that many verses of the *Quran* refer to the specific events of Prophet’s life. Furthermore, many of the verses relate to the early Islamic era, which may not correspond with the contemporary needs of Muslims, especially, those living in the West (Abu-Zahra, 1998). However, this does not undermine the religion, on the contrary, as it is interpreted against the empirical standards of history, it is strengthened (Nettler, 1998). Contemporary critical Muslims’ discourses on hybridity and move towards ‘second-modernity’, which attempts to combine universalism, nationalism, ethnicity, relativism and religious diversity (Kersten, 2011)¹⁶⁸. Moreover, critical Muslims’ thought can provide a basis for highlighting the uncertainties underlying much of the mainstream accounting theories from a religious/Islamic perspective and can provide intellectual/coherent change to dominance of objective, secular and

¹⁶⁷ These emancipatory endeavours have been employed previously in Islamic history when Greek philosophy had an influence on Islamic thought to discuss ‘thinkable’ issues (Arkoun, 2002).

¹⁶⁸ According to Kersten (2011) notions of hybridity and second modernity and possibilities of exchange and dialogue allowed Critical Muslims to reconcile and develop Islamic heritage and thought with modern European thought and science.

materialistic perspective in accounting (Kamla (2012). From Kamla's (2012) perspective, basing *Shariah* rules on ethics opens the door to the enquiry of reason.

The interpretations of Muslim scholars throughout the centuries are bound to their own understanding of *Quran* and should constantly be developed within contemporary society through further interpretation and critical examination (Cooper, 1998). This renewal is, thus, achieved through the historical study of Islamic heritage with new principles, problems and understandings (Filali-Ansari, 1998; Esposito and Voll, 2001). This renewal requires *Ijtihad* and collecting views and opinions of scholars, especially, other influential scholars. Furthermore, *Ijtihad* should not be bound to and considered the responsibility of *Ullama* and theologians, but rather the whole community should devote and participate themselves to ongoing reinterpretation (Esposito and Voll, 2001).

Rahman (1982) notes that majority of *Ullama*'s effort lack a coherent understanding of *Quran* in the context it has been revealed (i.e. to establish justice and fairness in society). This lack of effort to interpret *Quran* has deprived Muslims from constructing "a social, coherent elaboration of the moral, social and legal message of the *Quran*" (Rahman, 1982, p. 143). Additionally, Rahman (1980) highlights the problems faced within Muslim societies by arguing that no-one has presented the *Quran* on its own terms, i.e. as a complete way of life embracing the political, the social and the personal tools for development. From Rahman's standpoint Muslims suffer from two problems: first, the lack of genuine understanding for the relevance of the *Quran* in their lives; second, a fear that any contemporary interpretations of *Shariah* might diverge on some fundamental points from previously received opinions of traditional scholars.

Moreover, Rahman (1982) maintains that attempting to gain an in-depth insight to *Quran* does not mean that any interpretation is absolute; and any attempt to interpret in a literalist way can crush its spirit. Therefore, interpretations along with the careful readings of *Hadiths* and applying to circumstances should be continuous, and there is always room for new interpretations in the light of contemporary problems (Kamla, 2012). For this reason, Fyzee (1981) argued, “in every age the *Quran* has to be “interpreted afresh and understood anew” (p. 112). Fyzee recommends a post-enlightenment notion of religion in which belief is a matter of individual conscience and law is a public matter that is enforced by the state. Additionally, Saeed (1994) maintains that Islam is not against development. He points out that Islamic societies would not have developed in the manner in which they did if they had not fully understood the *Quran* and applied it accordingly within contemporary society. Syed (2003), in examining the conditions of Muslim societies noted that:

“The present stagnation of Muslim countries is principally due to the notion which has fixed itself on the minds of the generality of Muslims, that right to exercise of private judgement ceased with early legists, and that a Muslim should abandon his judgement absolutely on the interpretation of men who lived in the ninth century, and could have no conception of the necessities of the twentieth”.

(p. 183)

Eldridge (2007) notes that many contemporary Islamic scholars are calling for renewed effort to re-examine the Islamic texts, which are related to the specific historical contexts in which they have appeared¹⁶⁹. He further asserts that continued interpretation and reinterpretation of foundation texts is necessary in contemporary times. Therefore, Eldridge (2007) maintains that postmodernity, “with its recognition of the validity of

¹⁶⁹ Critical Muslims, in order to overcome the conditions of ‘unthought’ in the Muslim world, encourage Muslim theologians and philosophers, to consider the historic and cultural context of the way that Islamic meanings have been expressed throughout history (Kersten, 2011).

all points of view potentially provides an environment where re-contextualisation could legitimately take place” (p. 533). Additionally, Achrati (2006) notes that postmodernism has provided a framework that has enabled individuals to question religious leaders. In return, this has enabled Islamic scholars to devise new ways of countering the questions postmodernism puts forward. Consequently, this has allowed the thoughts of the Islamic scholars to adapt with the needs of contemporary society. Arkoun (2002) concurs by saying, “There is a need to rethink all the problems related to the articulation of the religious field and the intellectual field with all its epistemological concerns” (p. 28). To do so, Arkoun (2002) suggests a method of ‘Emerging Reason’, which is:

“Interested in all types of silenced voices throughout history, like all those voices silenced today in Islamic contexts, either by official censorship or by the pressures of public opinion manipulated by political activists; it reactivates the persecuted, innovative mind, it refuses to write a history of thought, literature and the arts based exclusively on the so-called representative authors and works selected, in fact, by the dominant tradition in each period and each milieu”.

(p. 29)

Filal-Ansari (1998) asserts that in addition to the rational and scientific approaches, “the intellectuals should propose revolutionary methods in order to achieve real advance in the collective consciousness” (p. 70). Although the efforts of critical Muslims are creating a space, in which people’s voices can be heard from a postmodern perspective, Ahmed and Akbar (1992) states that Muslims can employ some of the conceptual tools of Lyotard, but must differ from Lyotard on certain points. For instance, Ahmed and Akbar (1992) has noted that postmodernism helps Muslims to enjoy optimism, the drive for self-knowledge and tolerance of diversity but he warns of the threat that it poses with its cynicism, scepticism, irony and the rejection of God. Similarly, Sardar (2003)

describes the task of remaining true to the values of Islam while meeting “the challenges of postmodernism as a ‘mega-task’, that will lead to conflict, but he also believes that eventually it will result in a saner and safer society” (p. 121-6). Similarly, Abduh recognised the dangers of unchecked reasoning for the religious truths. Therefore, he always maintained a limit on reasoning by asserting that it should occur within the boundaries of *Quran* and by following an underlying assumption that reasoning has limits and cautions that reason can never encompass the unknowable¹⁷⁰. For instance, questioning the essence of God (Euben, 1997)¹⁷¹. In this respect, Eldridge (2007) believes that if by moving from the revealed to the constructed knowledge, recognising the difference between two and “not rejecting the universal truths”, some theoretical contradictions can be resolved.

Thus, engaging with the masses and giving them a voice, implies integration of people’s experiences, perceptions and stories with accounting research. In this context, there is a real need for accounting thought to overcome scientific reasoning that separates the masses and their values not allowing the voices of the disadvantaged to be heard.

¹⁷⁰ Similar fears are echoed by Afzal-Kahn (2001), who states that “we have to find creative solutions to the burdens of a post-modernity that threatens, in its global ambitions, to collude with pre-modern orthodoxies to maintain, even tighten, the noose of oppression around the necks of the world’s inhabitants” (p. 887).

¹⁷¹ Abduh argues that there are levels of knowing, or kinds of truths, some of which are accessible to human understanding, others of which are entirely inaccessible, and those which require confirmation by an authority other than reason. For example, reason can lead us to belief in the existence of God, an understanding of some of his attributes, awareness of the afterlife, distinctions between good and evil, and the authority of prophecy. Reason can thus lead us to accept the authority of revelation whose truths are therefore consistent with the products of rational inquiry. Such revelation, disclosed by the Prophet whose authority has been established by reason, provides the means to accept truths which reason cannot reach (Euben, 1999).

4.5 Motives behind Critical Framework

Arkoun (2002) and Kamla (2009) note that Muslims' voices are absent in most social science disciplines in the West. Islam in the West is often perceived as an opposite 'trademark' to liberalism (Madeville, 2001). Gallhofer and Haslam, (2004), Jacob and Walker, (2004) and McPhail *et al.* (2004) state that much of the critical accounting research, however, does not engage with religious perspectives when envisioning emancipation. The literature that engross with theology and religion does so from a Christian perspective, ignoring other religious perspectives like Islam (McPhail *et al.*, 2004; Jacob and Walker, 2004; Kamla *et al.*, 2006). Gallhofer and Haslam (2004) suggest that this lack of engagement with critical accounting and religion could be due to perceptions of religion as a "conservative force in the service of hegemony, helping to preserve an 'unjust and exploitive' socio-political and economic order" (p. 383). Gallhofer and Haslam (2004) maintain, "Religious and theological debates can be insightful for emancipatory accounting project" (p.383). Thus, critical accounting researchers propose alternative ways to explore accounting that can challenge the mainstream, dominant understanding of accounting (Chua, 1986; McPhail *et al.*, 2004; Tinker, 2004). For Gallhofer and Haslam (2004), aspects of religious thoughts like "Liberation theology can be insightful for emancipation in accounting project as they are concerned with resisting repression and focus on 'emancipatory praxis'" (p. 383).

Taylor (2004) notes that all interpretation of organisational communication, though mainly the scholarly ones, are shaped by prior texts and their encoded methods and principles. Under such conditions individuals cannot know a truth about organisations except through representations such as interviews and questionnaires. As a result, the postmodern approach suggests and encourages the audience of these representations to

continuously reflect on bringing a potential change by the means of their knowledge enabling them to integrate diverse voices to demonstrate the plurality of organisations. Instead of capturing and categorising a single existing reality, these representations produce multifaceted realities and qualities of organisations. Taylor (2004) asserts that postmodernists view human relations and understanding to be represented by language, and that organisations are marked by contradiction, irony, ambiguity and paradox (Trethewey, 1999; Wendt, 2001). As a result, postmodernists embrace the notion of fragmentation to characterise organisational cultures (Martin, 1992). One of the factors is the recognition of members of an organisation that is subject to dominant narratives promoting modernist values such as rationality and efficiency as requirements for performance (Taylor, 2004). In evaluating whether postmodern theory is supportive for the present thesis, Taylor's (2004) view that postmodern critique of ontology and epistemology that creates a condition in which anything is accepted and no interpretations are given priority over an alternate one, can be drawn upon. The postmodern approach does not deny that a meaning is possible; it rather emphasises the accomplishment of meaning through a continuous process in which meaning is never permanent. The postmodern approach tends to question how particular meanings are produced and under which situations. Bagshaw (2001) states that postmodernist idea enables the researcher "to ask new questions and see new things about the nature of social relations in a time of rapid and unprecedented social change-in particular, from the perspective of those who are marginalised or relatively disempowered in conflicts or disputes" (p. 217).

Using postmodern theory aligns with various ideologies and approaches circulating in organisations and society; this acknowledgement enables the postmodernists to become

aware of the tactical resistance of people. Moreover, using postmodern approach helps view theology inversely and may lead to greater understanding of other cultures and religions. It enables people to consider their relationship with organisational power and knowledge and how their communication power could enable 'change'. Critical thinking provides a basis for highlighting the ambiguities underlying mainstream accounting theories from a religious/Islamic perspective and can provide change to existing views of the universal dominance of secular materialistic perceptions (Kamla, 2012). Mainstream accounting perceptions are ineffective in challenging injustices and bringing change to the *status quo* (Cooper, 1983; Hopwood, 1983; Moerman, 2006). As a result of this lack of contextualisation in mainstream accounting research, there is little understanding of the forces that can bring change. Hopwood maintains that despite a number of studies carried out on accounting perspectives, the majority of these studies adopt technical approaches allowing very little insight into the "broader understandings of the development of the corporate form, its social and economic setting, and the roles which organisational accounts might have played in the emergence of both the organisation as we know it now and the relationships which it has to other bodies and interests" (Hopwood, 1983, p. 289).

Accordingly, accounting in an emancipatory framework should be perceived as a social manifestation that is prejudiced and transformed by the particular organisational and social circumstances it operates in (Hopwood, 1983). Accounting research, therefore, should incorporate historicity that not only adds a historical dimension but also draws attention to the social conditions that are creating and sustaining current socio-economic systems (Davis *et al.*, 1982; Tinker *et al.*, 1982; Cooper, 1983). Thus, debates of accounting perspectives should be open to the participation of the general public and

not remain restricted to the spheres of ‘traditional experts’ (Sikka *et al.*, 1989; Gallhofer and Haslam, 2004).

This thesis attempts to address the gaps identified in the literature by highlighting the notions of social justice and current practices of Islamic banks. The link between accountability and social justice requires that accounting information should be mobilised to empower the masses and liberate them (Kamla, 2012). Using a critical stance could help in reflecting how power structures work to enhance the power of the elites in maintaining their control over the masses. It can contribute to this by reflecting on ways to identify the oppressed in the society and finding methods to help them through questioning and challenging societal structures and ‘providing a space in which their voices can be heard’ (Gallhofer and Haslam, 2004; Sikka, 2012). Accounting practices concentrate on investors and managers while ignoring other forms like employees, public and state (Sikka, 2012). Accounting has become an integral part of the system rather than providing a check of or a challenge to it (Shearer, 2003; McKernan and MacLulich, 2004). Thus, the use of critical theory with the postmodern lens in this case, has the potential to contribute to critical accounting research and discourse by bringing new and exciting insights for the development of an emancipatory accounting project.

Shah (2000) notes that presently with an increasing use of qualitative methodology in research and a general concern with issues of identity, theoretical debates are drawing more attention. In this regard, Shah (2000) asserts that “no explanation is final but each contributes to the development of theory, pointing to further possibilities and venues” (p. 106). In terms of religious debates, through the history, scholars of Islam (whether

Sunni or *Shiaa*¹⁷²) have interpreted the *Quran* and *Hadiths* differently and through different methodologies (like logic, linguistics or contemporary hermeneutics). These interpretations are influenced by the worldview of the particular scholars who possess a distinct type of knowledge and understanding. Thus, an effort is required for engagement with and development of newer interpretations of Islamic texts to overcome contemporary problems and to understand *Quran* in the context in which it was revealed in order to avoid manipulations of texts by political Islamists and governments (Nettler, 1998).

Critical theory with the postmodern approach has been adopted for the present study to address the research questions exploring the perceptions of Muslims, Islamic scholars and Islamic banking employees in an attempt to challenge the *status quo* and the dominating practices of Islamic banks as well as the rational mentalities of *Ullamas* in order to bring emancipation to meet the needs of UK Muslims. It does not in any way challenges the writings of *Quran* or universal truths about Islam. It is strictly applied to *Shariah* laws and their interpretations and the practices of the Islamic banking industry. In the light of discussion of above, Sardar (2003) notes that postmodernism is

“The desert where people are prospecting for a new form of existence, as the remaining vestiges of modernity crumble to dust all around them. This prospecting, the shaping of a future book of our modes of social and cultural existence, will, necessarily, lead to considerable strife and conflict. But beyond this conflict, one can envision and work for the emergence of a saner, safer, society”.

(p. 14)

¹⁷² Both are known as two major segments of Islam. The split occurred after the death of Prophet Muhammad (PBUH), leading to a dispute over the next successor. Southeast Asia, Africa and Pakistan, India, China and some of the Arab world are home to majority of *Sunni* Muslims while; *Shiaa* population largely occupies Iraq, Iran and Lebanon.

4.6 Conclusion

Chapter four has outlined the critical theory and the postmodern approach. It explained different postmodernists' views on postmodernism that have altered how individuals perceive art, science, society, religion and traditions. The chapter further highlighted that a postmodern approach can be adopted with critical theory to engage with the masses and give them a space in which their voices can be heard and to integrate people's stories and experiences in accounting research. The emerging role of Critical Muslims in second-modernity and their approach is explained to support the use of postmodernism in Islam. The chapter also highlighted how the postmodern approach could help to challenge the dominating practices and empower disadvantaged Muslims. This chapter has made the point that accounting research overlooks the potential of spiritual and religious dimensions to help emancipation; it would not be possible to bring emancipation within critical accounting research where the revolution is dissociated from the moral force, which religion and spirituality can provide. The next chapter explains the methodology and methods used for this study and the research paradigms of Burrell and Morgan's (1979), Chua's (1986) and Laughlin (1995) perspectives on accounting. It further highlights and explains the methods adopted for this study.

CHAPTER 5

RESEARCH METHODOLOGY AND METHODS

5.1 Introduction

This chapter outlines the research methodology and methods underpinning the current study. According to Emory, (1980) research is defined as any organised inquiry carried out to provide information for the solution of any particular problem. This chapter highlights the research approaches employed to address the objective of the present study and explains assumptions the underpinning the approaches adopted. Additionally, the chapter documents the paradigms of Burrell and Morgan's framework and critiques presented by Chua (1986), Boland (1989), Guba and Lincoln (1994), Laughlin (1995) and Ryan *et al.* (2002). As this thesis explores the perceptions and experiences of UK Muslims about Islamic banking and finance in the UK, semi-structured face-to-face interviews and self-administered questionnaires were selected to gather the data. The interviews mainly focus on ascertaining the views of UK Muslims on the issues being addressed, while the questionnaires concentrate on gathering the perceptions of Islamic banking employees and Islamic scholars in the UK.

The remainder of the chapter is structured as follows. Section 5.2 outlines the research approach and its assumptions while Section 5.3 highlights the assumptions about the nature of reality and Burrell and Morgan's framework on social science research. Section 5.4 highlights the research paradigm of Burrell and Morgan (1979). Section 5.5 explains the critiques of key philosophers who have questioned Burrell and Morgan's perspectives on research in social sciences. Section 5.6 clarifies the research assumptions underpinning the present study and provides the motives for using Laughlin's (1995) framework for the present study. Section 5.7 and 5.8 discuss the methods (in depth semi-structured interviews and structured questionnaires) employed in this thesis respectively. Section 5.7 highlights how the data are categorised and then

analysed. Section 5.8 describes the self-administered questionnaires before Section 5.9 concludes the chapter.

5.2 The Research Approach

According to McMillan (1984), research is defined as “a scientific inquiry and a systematic process of collecting and analysing information or data for a certain purpose” (p. 4). Summer *et al.* (1990) states that all academic disciplines “have a philosophy, a set of attitudes, values and beliefs “that not only attempt to “establish the ultimate aim of the discipline but also the choice of constructs (theories and models) and the choice of methods by which research” is accomplished (p. 362). Burrell and Morgan (1979) have explored a two dimensional framework for understanding the philosophical assumptions underpinning research within the social sciences. One of the dimensions relates to assumptions about social science and is characterised by a continuum which ranges from an objective view of reality at one end to a subjective notion of reality at the other; the other relates to a researcher’s assumption about society and spans a continuum from regulation at one extreme to radical change at the other. The objective view argues that a researcher can explain human behaviour because relationships are concrete and can be measured scientifically (Burrell and Morgan 1979). By contrast, the subjective approach suggests that human behaviour can only be investigated from an individual’s point of view. Saunders *et al.* (2007) note that the objective approach is based on the notion that social entities exist independent of social actors. Bryman (2004) characterise it by its emphasis on objectivism:

“Objectivism is an ontological position that asserts that social phenomena and their meanings have an existence that is independent of social actors. It implies that social phenomena and the categories

that we use in every day discourse have an existence that is independent or separate from actors”.

(p. 16)

On the other hand, the subjective approach suggests that the actions of social actors are in a constant state of revision (Saunders *et al.*, 2007). According to Willig (2001) research underpinned by this subjective approach is concerned with meaning in context. It involves the interpretation of data acquired through some subjective element in the research process. It seeks to collect insights to human behaviour; people’s attitudes, beliefs and fears. In a discussion about this subjective approach to research, Creswell (1998) states that it is based on diverse methodological traditions of enquiry which seeks to explore a social human problems. Such research adopts a methodology using mainly qualitative methods. In defining what is meant by this approach, Bryman (1988) notes that it involves:

“Participant observation, which entails the sustained immersion of the researcher among those whom he or she seeks to study with a view to generating a rounded, in-depth account of the groups, organisation, or whatever”¹⁷³.

(p. 45)

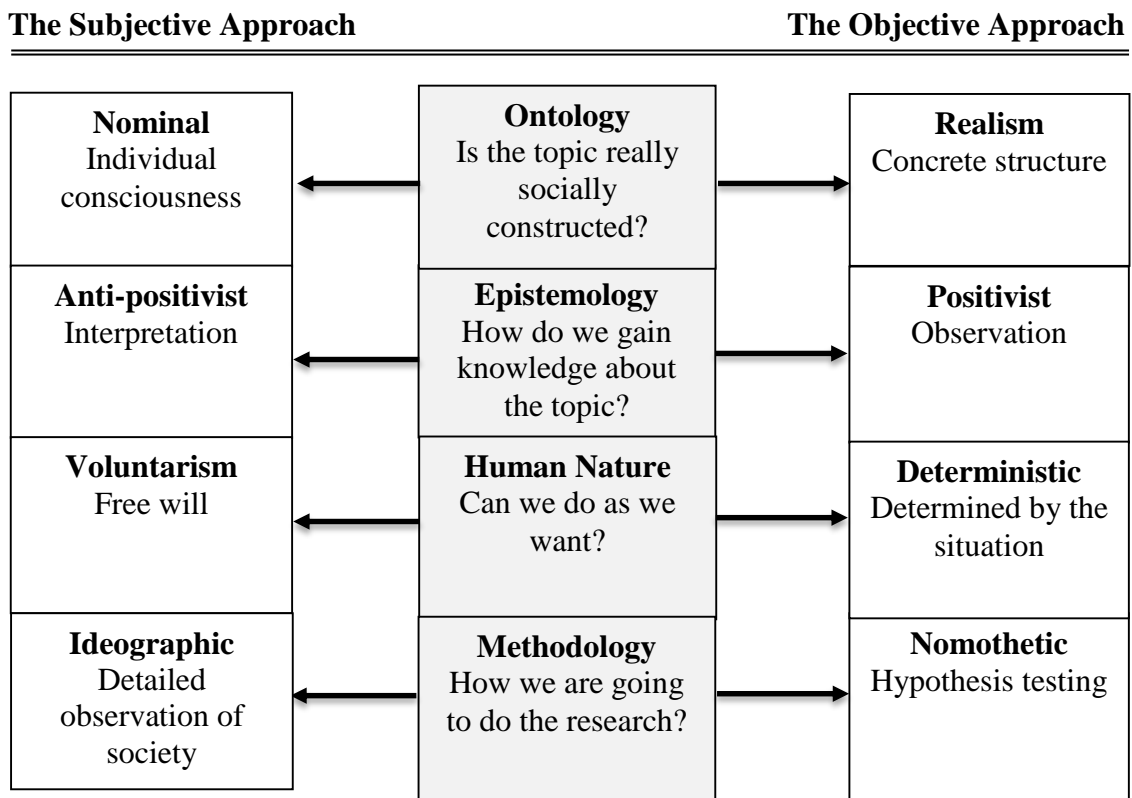
Bryman (2006) notes that the integration of these two approaches have become more pronounced over years. Cresswell *et al.* (2003) concur with this view; they argue that mixed-methods research has advantages in that it conveys a sense of rigour in the research while providing guidance to different stakeholders involved in the process. Bryman (2006) supports the notion behind the mixed-methods approach; with subjective research, the emphasis is on an open-ended approach to the research process that produces surprises and new insights. However, with the objective approach, the

¹⁷³ With respect to quantitative research, Bryman (1988) notes that this a “genre which uses a special language which appears to exhibit some similarity to the ways in which scientists talk about how they investigate the natural order – variables, control, measurement, experiment” (p. 45).

application of techniques can result in greater confidence about new findings and understandings. Therefore, he maintains that if elements of the two are employed in tandem, the potential of unanticipated outcomes is greatly enhanced. Thus, both approaches have been employed in this study.

Burrell and Morgan (1979) note that a researcher’s location along the objective-subjective continuum depends upon four key assumptions about the nature of social science: ontology, epistemology, human nature and methodology. Figure 5.1 outlines these assumptions about social science and highlights how they vary along subjective and objective continuum.

Figure 5.1: The Subjective - Objective Dimension of the Nature of Social Sciences



Source: Burrell and Morgan (1979, p. 3).

5.3 Assumptions about the Nature of Reality

Maedche and Staab (2002) have defined ontology as “a philosophical discipline, a branch of philosophy that deals with the nature and the organisation of being” (p. 11). Ontology raises questions of how the world operates and the way that the world is understood (Saunders *et al.* 2009). Ontology can be divided into two extreme positions; nominal and realism. Realism refers to scientific explanation or a theoretical description of a reality. It relates to a concrete reality where truth can be observed under a realistic view of the world, objects can exist independently of the human mind. By contrast, according to nominalist ontology, reality is only constructed in the mind; no social scientific phenomena exist outside of individual consciousness (Saunders *et al.*, 2009)¹⁷⁴. In addition, nominalism assumes that phenomena are ‘unreal’ and that the social world is based on the principles and concepts that help to structure life, because reality is generated within people’s consciousness (Burrell and Morgan 1979). This study adopts the moderate approach in between realism and nominalism. This is because the context for the study is Islamic *Shariah* law. Islamic *Shariah* law is constructed on a divine scripture; individuals have different understanding of the law. Similarly, Islamic Banks, in an ideal situation have to follow Islamic *Shariah* law, and they generally interpret these laws according to their understanding and level of consciousness. Therefore, both extremes will be rejected and rather a middle approach will be adopted.

¹⁷⁴ Saunders *et al.* (2009) identified two types of realism: direct and critical realism. Direct realism assumes that a researcher observe reality through the senses and follows a metal processing; by contrast, critical realism assumes that a researcher will only be able to understand what is going on in social world if he/she understand the social structures that has given rise to phenomena that a research is trying to understand.

Once beliefs about reality have been addressed, a research must decide about what is meant by the term ‘knowledge’ and its sources. This decision is essentially about epistemology, which is concerned with the process of identifying and gaining knowledge; it focuses on how people perceive knowledge since the attitudes of individuals to this issue influence their behaviour. Burrell and Morgan (1979) notes that epistemology is based on ideas about “what forms of knowledge can be obtained, and how one can sort out ‘true’ from ‘false’” (p. 1). Epistemology, or the development and understanding of one’s own *episteme* help a researcher to understand beliefs and knowledge.

According to Hirschheim *et al.* (1995) epistemology denotes “the nature of human knowledge and understanding that can possibly be acquired through different types of inquiry and alternative methods of investigation” (p. 20)¹⁷⁵. Understandings of epistemology also range along a subjective-objective continuum from positivism at one end to anti-positivism at the other. Positivism assumes that the researcher gains knowledge about an issue by observing social reality (Saunders *et al.*, 2009). Indeed, Bryman (2004) defines positivism as “an epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond” (p. 11). Remenyi *et al.*, (1998) support this view; they argue that working with an observable social reality yields findings, which are similar to those results produced by natural scientists. The positivist approach reflects the philosophical stance of the natural researcher dealing with the observation of social reality, whose final product can be law-like generalisations (Saunders *et al.*, 2009). For Guba and Lincoln (1994),

¹⁷⁵ Morgan and Smircich (1980) noted that, “Once one relaxes the ontological assumptions that the world is a concrete structure, and admits the human beings, far from merely responding to the social world, may actively contribute to its creation, the dominant methods become increasingly unsatisfactory, and indeed inappropriate” (p. 498).

positivists assume that knowledge is hard, real and tangible. By contrast, the anti-positivist approach assumes that researchers interpret social reality; such individuals need to be involved in the research process in order to understand any findings (Burrell and Morgan, 1979). The anti-positivist researcher therefore, focuses on interpretation, in contrast to the positivist who adopts methods such as observation¹⁷⁶.

The ontological and epistemological assumptions made by a researcher influence the view of human nature and they altogether shape the methodology of the researcher's investigation into social situations. This study adopts an anti-positivist approach whilst attempting to gather meaningful information about the knowledge and beliefs of Muslims on Islamic Finance in the UK. Thus, this study involves in-depth semi-structured interviews with Muslims and structured questionnaires with Islamic scholars and Islamic banks' employees to ascertain their views about the research issues being examined. Although, questionnaires are generally designed in an attempt to collect quantitative data, they can in some cases bring qualitative information out. For instance, in present study, statements designed in the questionnaire are built upon the responses received from the interviews conducted, and distributed to participants in order to justify, whether the perceptions of participants agree with those from the interview survey and the previous literature. Moreover, questionnaires in the present study were also designed in a manner that encouraged participants to provide detailed explanation or comments on the questions.

¹⁷⁶ It has been argued that researchers who have adapted anti-positivist approach do not usually agree on one paradigm (Kuhn, 1962).

The third assumption about the nature of social science in Burrell and Morgan's framework is related to human nature and the relationship between human beings. Burrell and Morgan (1979) argued that to understand society, the subjective approach adopts a methodology that highlights and concentrates on the relationship between human beings and their environment; as each one has its own experiences of the society. According to this approach, either humans control their environment (voluntarist) or whether they are controlled by their environment (determinist). From the 'deterministic' perspective, human beings are products of the environment inured by external situations (Burrell and Morgan, 1979). In contrast, the 'voluntarist' view is that, individuals are free willed and "man is completely autonomous" (Burrell and Morgan, 1979, p. 6). Since this study aims to investigate the perceptions and experiences of UK Muslims about a number of Islamic Banking and Finance issues, it recognises that the research subjects may be influenced by the environment in which they live while having some element of freedom about the choice that they make. Therefore, the present study adopts a moderate standpoint between both extremes at either end of the continuum. This will allow the researcher to consider both voluntary and determinist factors when investigating the research questions (Burrell and Morgan, 1979).

The fourth assumption underpinning a researcher's view about the nature of social sciences relates to methodology. It usually denotes to a theoretical analysis of methods adopted to study a particular area. Burrell and Morgan (1979) argue that assumptions about ontology, epistemology and human nature have a direct relationship with the appropriate methodology, which should be adopted; they determine the ways that a researcher investigates the issues, obtains knowledge and considers human nature. An

ideographic approach to methodology refers to the methods, which highlight the historical and biographical aspect of individual behaviour; this approach focuses on “obtaining first-hand knowledge of the subject under investigation” (Burrell and Morgan, 1979, p. 6) i.e. qualitative data such as interviews and discourse analysis. By contrast, a nomothetic view of methodology suggests that laws, which a researcher might study in order to test a hypothesis, govern society; in other words it is not based on individual opinion but on what are regarded within the researcher’s field as being facts. The ideographic methodology is concerned with subjective phenomena and seeks to analyse situations by studying individuals and collecting their opinions about issues. This study adopts an ideographic approach to methodology since the main focus is on investigating the perceptions and experiences of those involved in Islamic banking and finance. Such perceptions can be gathered using methods compatible with the ideographic approach where the opinions of several participants at different ‘levels’ can be ascertained concerning the *status quo*.

According to Burrell and Morgan (1979) the second major decision of a researcher relates to their assumptions about the nature of society; again, they propose a continuum with the sociology of regulation at the one end and the sociology of radical change at the other. Burrell and Morgan (1979) contend that the sociology of radical change has a very distinctive view of society:

“Its basic concern is to find explanations for the radical change, deep-seated structural conflict, modes of domination and structural contradiction which its theorists see as characterising modern society. It is a sociology which is essentially concerned with man's emancipation from the structures which limit and stunt his potential for development”.

(p. 17)

On the other hand, Burrell and Morgan (1979) note that the sociology of regulation is concerned with day-to-day operations and the establishment of cohesion within society¹⁷⁷. Furthermore, the sociology of regulation is concerned with providing “explanations of society in terms which emphasise its underlying unity and cohesiveness. It is a sociology, which is essentially concerned with the “need for regulation in human affairs” (Burrell and Morgan, 1979, p. 17). By contrast, the belief system central to the sociology of radical change is one that promotes emancipation from the system by altering society in a fundamental way, through notions of equality fairness and justice (Gallhofer and Haslam, 2003). It focuses on providing explanations for radical change, modes of domination, deep-seated structural conflict and structural contradiction instead of seeking fundamental changes within the existing societal structures (Burrell and Morgan, 1979). Burrell and Morgan (1979) acknowledge that researchers’ views about society range along “a continuum, not a dichotomy” (p.17); and Ryan *et al.* (2002) propose “there is a middle way between the two extremes which has been labelled ordered change” (p. 40). Table 5.2 highlights the dimensions of the sociology of Regulation and that of Radical Change, providing features of their characteristics.

¹⁷⁷ “It is a sociology which is essentially concerned with the need for regulation in human affairs; the basic question which it asks tends to focus upon the need to understand why society is maintained to focus upon the need to understand why society is maintained as an entity. It attempts to explain why society tends to hold together rather than falling apart?” (Burrell and Morgan, 1979, p. 17)

Figure 5.2: The Regulation-Radical Change Dimension

The Sociology of Regulation	The Sociology of Radical Change
(a) The status quo (b) Social order (c) Consensus (d) Social integration and cohesion (e) Solidarity (f) Need satisfaction (g) Actuality	(a) Radical change (b) Structural conflict (c) Modes of domination (d) Contradiction (e) Emancipation (f) Deprivation (g) Potentiality

Source: Burrell and Morgan (1979, p. 18).

5.4 Research Paradigms

Burrell and Morgan (1979) have identified four paradigms that represent different views of the social world based on a researcher’s assumption about social science and their assumption about the nature of society. These four paradigms are: the Functionalist, Interpretive, Radical Humanist and Radical Structuralist (See Figure: 5.3). According to Collis and Hussey (2003) paradigms denote to “the process of scientific practice based on peoples’ philosophies and assumptions about the world and the nature of knowledge” (p. 46). Saunders *et al.* (2009) state that “A paradigm is a way of examining social phenomena from which a particular understanding of these phenomena can be gained and explanations attempted” (p. 112). Bryman (1988) also stated that a paradigm is

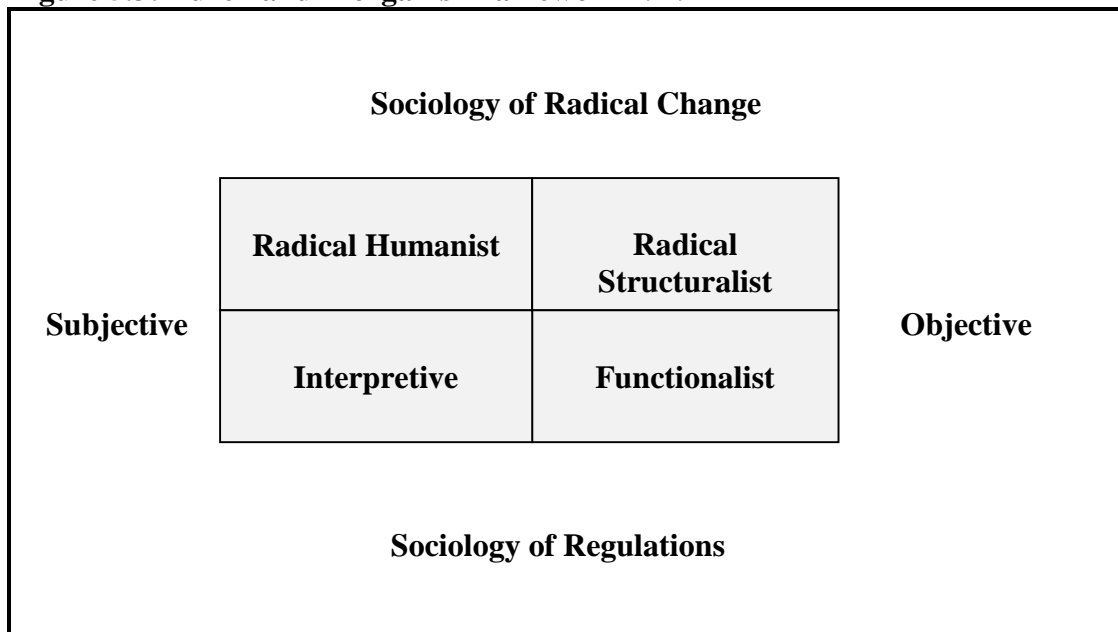
“A cluster of beliefs and dictates which for scientists in a particular discipline influence what should be studied, how research should be done, [and] how results should be interpreted”.

(p. 4)

According to Gioia and Pitre (1990), a paradigm is a set of propositions that explain how the world is perceived from a particular point of view. Such propositions shaped together may be used to establish or impose a particular belief system. Bogdan and

Biklen (1992) claim that a paradigm is a “loose collection of logically held together assumptions, concepts, or propositions that orient thinking and research” (p. 33). Burrell and Morgan (1979) maintain that a paradigm helps a researcher in identifying and clarifying their assumptions about the nature of society in order to provide a clearer understanding as to why a particular method has been adopted. The authors also suggest that a research can only be located in one paradigm at a time; one may have to reject this limitation if one wishes to locate oneself in more than one paradigm within the one thesis (O' Dwyer, 1999). Burrell and Morgan (1979) argue that the Interpretive and Functionalist paradigms share a common concern as they both focus on the sociology of regulation; the researcher does not seek to alter the *status quo*.

Figure 5.3: Burrell and Morgan's Framework 1979



Source: Burrell and Morgan (1979, p. 22)

In fact, each paradigm shares a common set of features with the neighbouring paradigm but differ from their neighbour in terms of one of the two dimensions. The four paradigms have their own perspective on social phenomena. While identifying paradigms in social theory, Burrell and Morgan (1992) suggest that the researcher

should examine existing work in the subject area in terms of the basic assumptions, which previous academics have made since each paradigm leads to a separate social-scientific reality from all of the others. They further argue that this combination of social theory when pooled with prior analyses may help researchers in identifying basic similarities and differences among areas of enquiry. According to their analysis, the four paradigms enable the researchers to see society in four different ways and they are mutually exclusive (Burrell and Morgan, 1992).

The paradigms located in the sociology of Radical Change region of Burrell and Morgan's framework facilitate a discussion on critical debates. This Radical Change paradigm is concerned with exploring individuals' or groups' perceptions when suggesting change. Saunders *et al.* (2007) assert that the Radical Change region of the matrix of the framework is more critical than other areas in the diagram (Saunders *et al.*, 2007). The sociology of Radical Change characterises both the Radical Structuralist and the Radical Humanist paradigms.

The Radical Structuralist paradigm focuses on the notion of Radical Change while accepting an objective view of social science. Theorists located in this paradigm adopt an objective view of the world but wish to engage in critical perspectives and debates¹⁷⁸. Burrell and Morgan (1992) argue that Radical Structuralism theorists are engaged in Radical Change and emancipation. They tend to underline the fact that radical change is part of the structure of every contemporary society. Saunders *et al.* (2007) notes that Radical Structuralist paradigm focuses on the structure of organisations and observes

¹⁷⁸ Philosophers mostly engaged in this paradigm are; Marx, Latour, Habermas and Foucault.

the relationships and the conflicts in between and further, aims to achieve a fundamental change in organisations.

The other paradigm, which adopts an objective approach to the regulation, is the Functionalist paradigm. Theorists engaged in this approach have a realist view of the world with a positive epistemological stance and a nomothetic view of methodology. The Functionalist paradigm helps provide an explanation for social integration, the *status quo* and the consensus (Burrell and Morgan, 1992). Theorists engaged in the study of finance and hypothesis testing is usually located in this paradigm¹⁷⁹. These theorists tend to analyse large data sets, employ market based research techniques and conduct running statistical tests. Burrell and Morgan (1992) note that:

“The functionalist paradigm generates regulative sociology in its most fully developed form. In its overall approach it seeks to provide essentially rational explanations of social affairs. It is a perspective, which is highly pragmatic in orientation, concerned to understand society in a way which generates knowledge which can be put to use. It is often problem-orientated in approach, concerned to provide practical solutions to practical problems. It is usually firmly committed to a philosophy of social engineering as a basis of social change and emphasises the importance of understanding order, equilibrium and stability in society and the way in which these can be maintained. It is concerned with the effective 'regulation' and control of social affairs”.

(p. 26)

The Radical Humanist paradigm places in a subjective view of social science research combined with an interest in the sociology of radical change. It is therefore concerned with attempts to change society from a subjectivist point of view. It recognises that the social world is based on the notion that an individual's consciousness is subjugated by

¹⁷⁹ Theorists who have contributing to this paradigm are: Auguste, Comte, Herbert, Spence, Emile Durkheim, and Vilferdo Pareto. Since the early twentieth century, it has been greatly influenced by the German idealist tradition of social thoughts.

ideological superstructures, which may limit his/her potential (Burrell and Morgan, 1992). Theorists in this paradigm believe that existing social arrangements put constraints on human development; they therefore explore ways of releasing individuals from these constraints. Radical Humanists adopts nominalist view of ontology, an anti-positivist epistemology, adopt an ideographic assumption about methodology and assume individuals have free will¹⁸⁰. Chua (1986) believes “human potentiality is restricted by prevailing systems of domination which alienate people from self-realisation” and that ideological constructs may be embedded in our “taken for granted beliefs about acceptable social practices” (p. 619). Burrell and Morgan claim that this approach seeks emancipation from the *status quo* in order to overcome all barriers and allow individuals to reach their potential. It is necessary therefore, for researchers to ‘learn’ the language of the players within this matrix (Burrell and Morgan, 1979).

The Interpretive paradigm adopts a subjective view of the social science research and is concerned with better understanding by seeking explanations within individuals’ consciousness. Baker and Bettner (1997) claims that the interpretive researcher attempts to hold the meanings that people apply to the symbols and structures of the world around them. Interpretive research depends on observation and linguistic cues (Hooper, 2001) in order to “enrich people’s understanding of the meanings of their actions” (Chua, 1986, p. 615). A theorist¹⁸¹ in this paradigm is inclined to adopt

¹⁸⁰ Most of the work in this paradigm has been influenced by the early work of Marx until 1920, after which Lukacs and Gramsci made their contribution. Their interest in this paradigm was taken over by the Frankfurt School, which has enhanced the debates through the works of Habermas and Marcuse. Several theorists such as Laing, Illich and Castaneda have also contributed it.

¹⁸¹ The Interpretive paradigm is mainly influenced by the German idealist and its foundations were laid by Kant. Since then many theorists such as Weber, Husserl, Schutz and Dilthey have made major contribution.

nominalist ontology, an anti-positivist epistemology, an ideographic approach to methodology and have a voluntarist view of human nature. Burrell and Morgan (1992) note that:

“It sees the social world as an emergent social process which is created by the individuals concerned. Social reality, insofar as it is recognised to have any existence outside the consciousness of any single individual, is regarded as being little more than a network of assumptions and Inter-subjectively shared meanings. The ontological status of the social world is viewed as extremely questionable and problematic as far as theorists located within the interpretive paradigm are concerned. Everyday life is accorded the status of a miraculous achievement. Interpretive philosophers and sociologists seek to understand the very basis and source of social reality. They often delve into the depths of human consciousness and subjectivity in their quest for the fundamental meanings which underlie social life”.

(p. 28-31)

Saunders *et al.* (2007) state that theorists who seek to adopt this approach should understand the difference between human beings and their roles in the social world; they should study individuals in their own social contexts. Burrell and Morgan (1992) note that interpretivism is concerned with the essence of daily life and is involved with issues relating to *status quo*, social integration, cohesion and social order. Furthermore, Saunders *et al.* (2007) note that the interpretive approach is a process of interpreting the social by examining the actions of individuals around the researcher who interacts with the research topic; this interpretation may lead the researcher to adjust their own perspectives. The methods used in interpretive research include case studies, interviews, content analysis and questionnaires.

5.5 Critiques of Burrell and Morgan Framework

The framework proposed by Burrell and Morgan (1979) has inspired several accounting theorists who have tried to classify different research groupings (Chua, 1986; Laughlin

and Lowe, 1990; Hopper and Powell, 1985; Laughlin, 1995)¹⁸². Despite its popularity and usefulness, many have criticised the framework including Chua (1986) and Willmott (1990) and Ryan *et al.* (2002). For instance, Ryan *et al.* (2002) identified problems with Burrell and Morgan's subjective-objective continuum for analysing social science research. They argued that "the human agency is inherently subjective, but can create social structures which then become externalised and, as such, capable of objective analysis". Guba and Lincoln (1994) argued that the paradigm typology provided by Burrell and Morgan relegates research questions to matters of secondary importance once the paradigm most applicable to the research approach has been identified. Furthermore, Guba and Lincoln (1994) noted that:

"Both qualitative and quantitative methods may be used appropriately with any research paradigm. Questions of method are secondary to questions of paradigm, which we define as the basic belief system or world view that guides the investigation, not only in choices of method but in ontologically and epistemologically fundamental ways".

(p. 105)

Guba and Lincoln (1994) have identified competing paradigms of qualitative research and their underlying assumption: positivism, postpositivism, critical theories and constructivism. These paradigms are basic belief systems based on ontological, epistemological and methodological assumptions. They start with Kuhnian notion that beliefs "are basic in the sense that they must be accepted simply on faith (however well

¹⁸² For instance, Morgan and Smircich (1980) adapted the Burrell and Morgan (1979) matrix format to produce a time-line style continuum ranging from 'positivist approach' to a 'phenomenological' standpoint on their subjective-objective scale. Firestone (1987); Creswell (1994, 1998); Bogdan and Biklen (1992); Alvesson and Skoldberg (2000); and Crabtree and Miller (1992) classify methodologies as either quantitative or qualitative. Crabtree and Miller (1992), categorised research traditions under 'domains'. These domains included lived experience, the individual behaviour, the social world, culture, communication, and practice and process. Jacob's (1987) classification system revolved around 'traditions' namely, ecological psychology, ethnography of communication, holistic ethnography, cognitive anthropology and symbolic interactionism.

argued); there is no way to establish their ultimate truthfulness. If there were, the philosophical debates reflected in the pages would have been resolved millennia ago” (Guba and Lincoln, 1994, p. 107). Consequently Guba and Lincoln (1994) maintain that proponents of any particular paradigm must rely on persuasiveness that proof is in arguing their position. Guba and Lincoln (1994) note that in their ontological belief transfer from positivism position of naive realism and can join to postpositivism critical realism, which assumes an objective reality can converge to critical theory realism assuming an appreciable reality of historical situated structures that are in the absence of insight as limiting as if they were real. This critical realism can converge to constructivism relativism, which assumes multiple and sometimes conflicting social realities, but many change as their constructors become more informed. The epistemology move from positivism’s dualist assumption that enable the researcher to determine ‘how things really are and how do they really work’ can converge to postpositivism’s dualist assumption, which can join to critical theory’s subjectivist assumptions that knowledge is value dependent to constructivism’s subjectivist assumption that sees knowledge interaction among investigator and respondents. Their methodology belief move from positivism’s experimental methodology that focuses on verification of hypothesis to meet postpositivism’s modified experimental methodology which is invested in critical multiplism focusing on falsification of hypotheses. This postpositivism can converge to critical theory’s dialogic methodology which is aimed at the reconstruction of previously held constructions.

In addition, authors such as Alvesson and Deetz’s (1996) have also identified four research approaches. They have proposed normative, interpretive, critical and postmodern approaches in research methodology. Normative approach maintains a

consensual relationship with the existing social order and seeks to establish relations between matters based on nomothetic science in order to address issues of order, control and efficiency (Alvesson and Deetz 1996). From an Interpretivist position, Deetz (1996) maintain that the organisation is a social site, a special type of community which shares important characteristics. Critical theory sees organisations as “social historical creations accomplished in conditions of struggle and domination, a domination that often hides and suppresses meaningful conflict” (Deetz 1996, p. 202). Whereas, postmodernism has “gone beyond this idea of domination and provoked the investigation of aspects of organisational life previously deemed wholly inappropriate for serious scientific consideration” (Hancock and Tyler 2001, p. 63).

Chua (1986) has also documented problems with Burrell and Morgan’s use of mutually exclusive paradigms¹⁸³; she attributes this to a misreading of Khun when discussing irrational paradigm choice¹⁸⁴. Chua argued that the assumptions behind Burrell and Morgan’s framework do not involve mutually exclusive dichotomous paradigms; she suggests that researchers can use more than one paradigm at any one time. Furthermore, Chua (1986) criticised by arguing that the Burrell and Morgan’s (1979) framework “either assumes that human beings are determined by their societal environment or they are completely autonomous and free-willed” (p. 626), thus, creating confusion for researchers. Hopper and Powell (1985) argued that the separation of the Radical Humanist and Radical Structuralist is artificial and it is not properly supported in the sociology literature. Moreover, the relativism of Burrell and Morgan has been criticised by several philosophers including, Lakatos and Musgrave, (1970), Hollis and Lukes,

¹⁸³ This assumes that human beings are free-willed or the social environment influences human beings. Bhaskar (1979, p. 31) maintains that societies are transformed by human action. Hence, Burrell and Morgan fail to overcome unsatisfactory dichotomies.

¹⁸⁴ This implies that the choice and evaluation of paradigms cannot be based on scientific grounds.

(1982) and Gutting (1980). These critics argue that Burrell and Morgan's typology is 'self-referential' in its claims about truth.

Additionally, the assumptions of Burrell and Morgan about whether human beings are 'determined by their environment' or are 'free willed' have been criticised by Bhaskar (1979). He argued that although societies are different from individuals, they are continuously going through transformations as a result of human actions. Habermas (1978) also maintained that Burrell and Morgan fail to overcome the notion that while individuals do act and shape meanings, they may still live in structure of controlled society. Furthermore, there is a fundamental tension between Burrell and Morgan's paradigms. On one hand, they accept the Kuhnian argument (Kuhn, 1970) that there is no set criteria for evaluating scientific theories, while on the other hand, claiming to give each paradigm an opportunity to speak for itself while mutually excluding the others. On this notion, Chua (1986) argues that researchers can use more than one paradigm at any one time. Therefore, Chua (1986) claims to provide a different approach for distinguishing between paradigmatic positions in the accounting research (see Figure 5.5); the Mainstream, the Interpretive and the Critical approaches. Those Mainstream accounting researchers believe that the societal institutions evolve as natural organisms, instead of depending on human beings (Chua, 1986). Chua (1986) notes that Mainstream accounting researchers tend to use quantitative methods in the process of analysing data; they usually commence with a greater level of theorising prior to their investigations. The dominant assumptions of the mainstream accounting paradigm state that theory is separate from observation and human beings are categorised as passive subjects. By contrast, Interpretive accounting researchers believe that social reality emerges from human behaviour and individual consciousness. These

researchers tend to employ qualitative techniques in their investigations. The assumptions of this Interpretative accounting perspective suggest that social reality is created through human interaction, and scientific explanations of human intention are sought through case studies and observations (Chua, 1986).

Figure 5.5: Chua's Classification of Philosophical Assumptions

A. *Beliefs about Knowledge*

Epistemological
Methodological

B. *Beliefs about Physics and Social Reality*

Ontological
Human Intention and Rationality
Social Order/conflict

C. *Relationship between Theory and Practice*

Source: Chua (1986, p. 605).

Chua (1986) noted that the dominant assumptions of the critical perspective relate to situations where human intentions are accepted but critically analysed through subjective interpretations. Theory helps in removing ideological practices from society. Like the interpretive researchers, critical researchers gain knowledge through the use of qualitative methods. However, critical researchers attempt to change existing order in society, whereas their interpretive counterparts accept the *status quo*. According to Chua (1986), these classifications appraise the strengths and weakness of different aspects of accounting as compared to the framework of Burrell and Morgan (1979).

Boland (1989) criticises the objectivism of Burrell & Morgan's (1979) framework, and that dichotomy between the subjective and objective realms. He stresses that, although both the subjective and objective are legitimate apprehensions, it would be a mistake to

suggest that there are two different kinds of researchers. Boland argues that Burrell and Morgan have laid a 'trap' for subjectivist researchers by exhibiting the objective-subjective continuum as a kind of essential distinction that gives a new limit to the accounting discourse. Thus, Boland (1989) proposed a need to appreciate the nature of their subjective-objective approach in the experience of both accounting users and researchers. In addition, Tinker *et al.* (1982) proposed a use of critical perspective in favour of radical Humanist paradigm to view accounting as discourse of the dominating forces in disseminating the *status quo*.

Laughlin (1995) argues that the 'middle-point' position between the mainstream and critical extremes is more realistic characterisation of the nature of theory within accounting and social systems. A researcher should make a choice in respect of theory, methodology and change, before undertaking any research. Laughlin (1995) notes that

“The 'theory' dimension refers to high to low levels of usage of prior theorising before undertaking any investigation. The “methodology” dimension ranges from high to low levels of theoretical closure on the methods of investigation. The 'change' dimension relates to high to low levels of critique with regard to the *status quo* and the need for change in the phenomena being investigated”.

(p. 68)

The 'middle-range' theorising keeps open the possibility that change may occur and recognises that critique is more important in certain situations. Furthermore, Laughlin (1995) states that this middle-range approach to methodology takes a more nuanced perspective on change by recognising that there are certain situations where the mainstream view of the world may be appropriate

“It recognises a material reality distinct from our interpretations while at the same time does not dismiss the inevitable perceptive bias in models of understanding. It also recognises that generalisations about

reality are possible, even though not guaranteed to exist, yet maintains that these will always be ‘skeletal’ requiring empirical detail to make them meaningful to the Comteans, variety in the empirical detail is irrelevant and can be encompassed in and through the theoretical terms of the emerging general theory. However, to the ‘middle-range’ thinkers the empirical detail is of vital importance. It complements and completes the “skeletal” theory. It may, on occasions, enrich the ‘skeleton’ since it is from empirical investigation that the ‘skeletal theory’ is derived. However, expansion of the ‘skeleton’, once discovered, is not guaranteed. In fact, it is assumed that the empirical detail will always be of importance to make the ‘skeleton’ complete in particular contexts”.

(p. 81)

In addition, Chaudhry (1987) have noted that he recognises that a combination of research paradigms may be more appropriate for research questions being addressed. Roslender (1990) concurs by noting that by combining philosophical approaches, the different strands (interactionist, labour process, critical and foucauldian) of a researcher’s work can complement each other. Laughlin (1995) further noted that a moderate position between two extremes is more desirable for any researcher studying change:

“With regard to the ‘change’ continuum the argument for the ‘medium’ position is because of its greater balance in its attitude to the *status quo*. The argument for ‘high’ levels of change assumes that everything is basically in need of change. Nothing is satisfactory or acceptable or worthy of preservation. At the ‘low’ end of the change continuum everything is satisfactory and in need of preservation. There is nothing wrong with anything. Both positions are arguably untenable and very extreme. Again the ‘medium’ position holds open the possibility that the *status quo* should continue while also keeping open that change is required. This more balanced perspective, which neither argues that everything is right nor that it is wrong, calls for a rather more sophisticated model of change to make this judgement. It is this change model which is central to this ‘medium’ position on the change dimension”.

(p. 84)

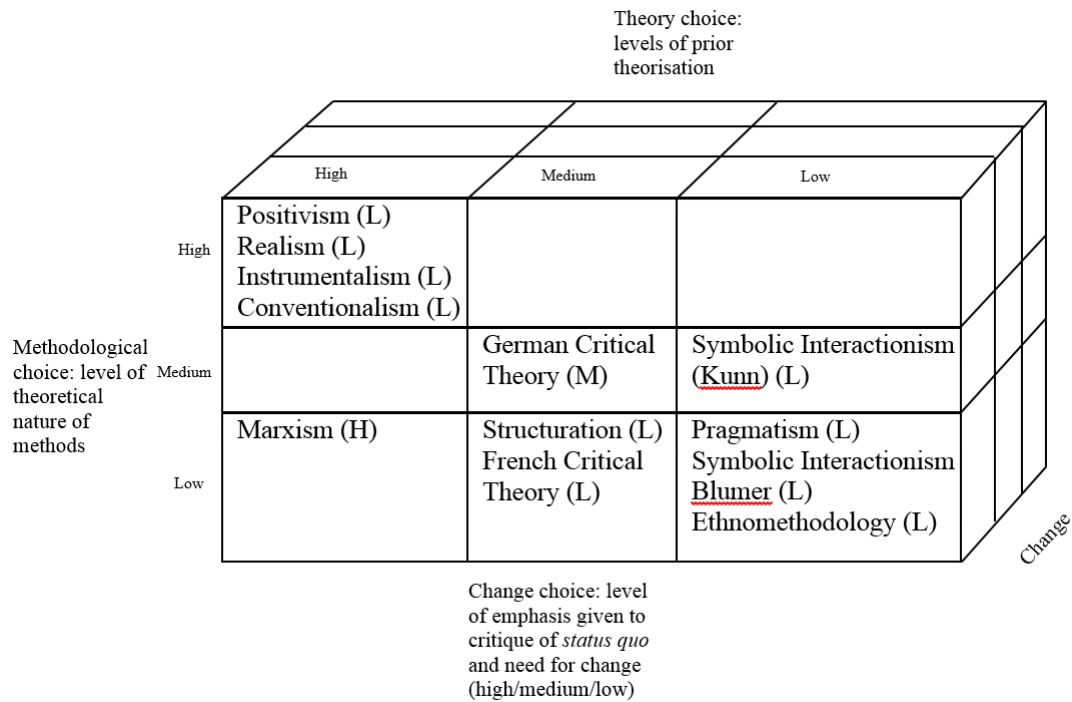
Thus, Laughlin (2007) maintains that there are “multiple ways of exploring accounting reality and the proponents of a single approach often limit their horizons” (p. 285).

From an accounting perspective, the critical view can be seen to be akin to taking the middle ground as far as research methods are concerned. Furthermore, Laughlin (1995, p. 70, 77-85) argued that critical accounting researchers establish the middle-position on a high, medium and low continuum as shown in Figure: 5.6, with regards to the dimensions of theory, methodology and change¹⁸⁵. The figure depicts each approach in the cell referring to its theoretical and methodological chosen position with the change component marked as L, M or H, referring to low, medium and high. The empty cells are theoretical possibilities but they do not currently appear to be occupied (Laughlin, 1995)¹⁸⁶. The theory and methodology dimensions are connected in a simple linear way. Those researchers who consider in high levels of prior theorising will also see great value in high levels of theoretically defining the methods of investigation. Similarly researchers who want to reduce to a minimum prior theorising will select a similar “minimal theoretical definition in the investigatory methods” (Laughlin, 1995, p. 69). Laughlin further suggest that those choosing to follow high levels of “change in current configurations of the phenomena under investigation are likely to be those who have chosen to bring high levels of prior theorisation to the research site”. However he points out that while these are likely standards, it is not certain that these connections follow in all cases.

¹⁸⁵ For Laughlin (1995), “those in the “middle” on this continuum are more strategic in their attitude to change – open to maintaining certain aspects of current functioning but also open to challenging the *status quo*” (p. 68).

¹⁸⁶ The positioning for each approach, which is only indicative, could be justified individually (Laughlin, 1995, p. 70)

Figure 5.6: Theory Choice: Levels of Prior Theorisation



Source: Reproduced from Laughlin (1995, p. 70).

In addition, Laughlin maintains that all approaches provide partial interpretations of reality and there is no absolute truth; therefore, “knowledge generated by particular research approaches is contestable” (p. 285). Although critical theory is at the heart of the approach, he does not advocate that researchers must adopt the exact position ‘*per se*’. Instead, he justifies the significance of critical theory because of its approach to discourse and argument which, combined with the ability of humans to communicate opens the prospect for researchers to make known “what we are doing and why we are doing it” (Laughlin, 1995, p. 78).

Laughlin (1995, p. 79) argues that the middle-range approach connects the boundaries of the schools of thought that occupy the top left and bottom right squares of Figure: 5.6, and these square are not a combination of these paradigms, but borrowing from the corners of these schools of thought, it develops a way of thinking that derives its

characteristics from the dimensions of theory, methodology and change (Laughlin, 1995, p. 80). From the theory dimension the end result is a broad 'skeletal' theory model from which it is possible to develop generalisations. From the 'methods used' element the researcher is perceived to be a central part of the discovery process, while the nature of the method based on actual circumstances. Lastly, from the 'change' dimension the findings can propose change anywhere along the continuum of radical change to the preservation of the *status quo*.

5.6 Research Assumptions Underpinning this Study

Since the main objective of this study is to explore perceptions and experiences of UK Muslims on Islamic banking, the Interpretive and Radical Humanist approaches of Burrell and Morgan (1979) are well-suited. There are a number of reasons for this selection: (i) the present study undertakes interviews with UK Muslims and distributes questionnaires to Islamic scholars and employees of Islamic Banks. The Interpretive approach is therefore appropriate in that views and perceptions are recognised as knowledge from an epistemological perspective. The interaction with the Radical Humanist approach recognises that a change in society may be desirable to engage with different stakeholders (Muslims, Islamic scholars and Islamic banking employees) in order to free some UK Muslims from the poverty and financial exclusion that they may be experiencing. This notion of change is supported by the critical theoretical foundation laid by Chapter 4. *Shariah* has its own central views on Banking and Finance; however, the perceptions of Muslims living in this the society are confronted with different social realities. As a result, people are emerging into a postmodern way of thinking and society which is becoming more complex because multiple realities may exist (Giddens, 2001). Consequently, the present study tends to adopt an

intermediate position between the extremes of realism and nominalism. With respect to the epistemological assumptions the present study adopts anti-positivist dimension when attempting to gather meaningful information about the knowledge and beliefs of Muslims on Islamic Finance in the UK. With respect to human nature assumptions, this study is concerned with exploring the perceptions of British-based Muslims on Islamic banking and finance. These individuals include ordinary Muslims, Islamic scholars and Islamic banking employees, that are part of the Islamic banking environment both influencing it and undoubtedly being influenced by it. Thus, they are not completely deterministic and are not completely free-willed and autonomous. Therefore, the present study adopts a moderate standpoint between both extremes at either end of the continuum of determinism and voluntarism; this is consistent with Burrell and Morgan (1979) themselves referring to the possibility of using an “intermediate standpoint which allows for the influence of situational and voluntary factors in accounting for the activities of human beings” (p. 6). With regards to the methodological assumptions, the study adopts ideographic methodology, since the main focus is on investigating the perceptions and experiences of those involved in Islamic banking and finance.

The study is located mainly in the Radical Humanist paradigm, but incline towards its interpretive end of the continuum of Burrell and Morgan’s (1979) research paradigms. As a result, it can be argued that a ‘middle-point’ position between the two extremes of Interpretative and Radical Humanist approach is considered more appropriate for undertaking the present study. The research focus of present study is on the ‘status quo’ in its investigation of the perceptions and experiences of British-based Muslims on

Islamic banking and finance¹⁸⁷. However, the research may provide some insights and emancipation strategy which could have implications for changing the current practices of Islamic banking industry in the UK. For that reason, I believe that Laughlin's (1995) 'middle-range' approach is better suited to answer the research questions, thus, unequivocally placing the study in the 'middle-range' research perspective. According to Laughlin (1995), this medium of change "holds open the possibility that the *status quo* should continue while also keeping open that change is required" (p. 84). The importance of using the middle-range research perspective is that it is possible to diverge from this central position and still remain in the critical mode of thought (Laughlin, 1995). He notes that choices have to be made by researchers as to which approach to adopt in the hope to discover the truth. The limiting of these choices at an early stage of the research approach may restrict the notion of truth, which is uncovered. Maxwell (2013) highlights two reasons why qualitative researchers often fail to make good use of existing theory: (i) by not using it enough; and (ii) by remaining un-critical on it. Consistent with social constructionism, neither any attempt is made to raise one perspective or approach over others, nor is there any intention to recommend that there is one way of conducting research. Karatas-Ozkan and Murphy (2010) state that capturing of different perspectives allows us a "social construction or critical theorist researchers to provide an account to the readers who can then construct their own understanding" (p. 462). The final report is therefore, described as a story which carries the message that multiple voices need to be heard and honoured (Patton 2002).

¹⁸⁷ In support of this, Puuronen (1995) stated that a "researcher should reflect his/her assumptions, but she/he should be critical towards the different paradigms and schools of thought" (p. 147).

To answer the research questions, I adopted critical theoretical foundations with a special attention to postmodern approach with an intention of employing interview surveys with all three stakeholders (ordinary Muslims, Islamic scholars and employees within Islamic banks). After conducting interviews with British-based Muslims around the UK, I approached Islamic scholars for the purpose of conducting interviews. However, due to lack of access to these Islamic scholars for interviews, I faced a setback for not being able to collect the data and consort to this particular method that is consistent with the theoretical foundation of the present study. After reflection on this issue, I decided to employ and distribute structured questionnaires for a number of reasons: (i) the study attempts to gain perceptions of Islamic scholars working in mosques around the UK. Therefore, a larger sample of data regarding the perceptions was practical for data testing and getting better results, as well as achievable; (ii) I found the main reason for Islamic scholars not participating in interview was that they did not want to discuss the issues related to Islamic finance as they were not equipped to reply to the questions on spot and they asked if they could fill a questionnaire instead. Moreover, pilot interviews with two *Imams* reported that these *Imams* were reluctant to speak and get their voices recorded when talking about Islam and Islamic banking issues. Throughout the interviews, the respondents kept opening some books related to Islamic banking in order to answer the questions; and (iii) due to time constraints and high travel costs in interviewing Islamic scholars, I decided to design a questionnaire survey to be distributed to as many mosques around the UK.

With regards to employees within Islamic banks, I faced similar obstructions. I visited Islamic Bank of Britain to arrange an interview to collect their perceptions. I faced disappointment when I was advised that employees would not be able to participate in

such surveys without the permission of head office. I then attempted several times to approach head office to gain access to these individuals. In the meantime, I contacted a *Shariah* scholar involved in Islamic banking operations and compliance of products and services. The respondent showed a lack of adherence for interviewing purpose and instead requested, “If there was a questionnaire, I could fill it in”. After receiving no reply from head office of Islamic bank of Britain, I contacted some employees working within Lloyds Islamic *Shariah* services and several other Islamic banks in different cities. Many employees suggested that they were willing to help if there was a questionnaire available instead of an interview. Meanwhile, it was imperative to get their thoughts one way or another for the present study, two separate questionnaires were designed for Islamic scholars (see Appendix 7.1) and Islamic banking employees (see Appendix 7.2). This method was considered, as the best alternative to collect the data whilst remains consistent with research approach and theoretical framework¹⁸⁸.

In terms of collecting qualitative data, a slightly different approach was adopted in designing and collecting questionnaire surveys for the present study: (i) all the questions designed were similar to the ones from interview survey; (ii) although, a Likert scale was used, the statements concerning each questions were designed by taking responses from interview surveys with Muslims to assert whether the views of Islamic scholars and Islamic banking employees counterpart with the perceptions of Muslims collected from interviews surveys; and (iii) whilst questionnaires were analysed using statistical tool, it was intended to write the responses in a qualitative manner. On this thought,

¹⁸⁸ Giddens (1984) advocates that “there is no obvious point where the division can be made but the decision to choose a research method from the approaches depends on the number of ‘cases’ being investigated: a large number of ‘cases’ advocates the use of quantitative methods and a low number of ‘cases’ advocates the use of qualitative methods” (p. 333).

Giddens (1984) has concurred, “What we classify as ‘quantitative data’ is, when examined closely, in reality a derivative of ‘qualitative data’. This is because qualitative measures are defined by actors as an ordered grouping of context-specific composite measures” (p. 333). Thus, I am contended that critical theory with its postmodern angle is most suitable to answer the proposed research questions in context of present study. Kekale (2006) similarly maintains that “some postmodern researcher have preferred to remain ‘nomads’, on the move, as far as their philosophical positions are concerned” (p. 61). Buchanan *et al.* (1998) have also argued that doing research is different kind of enterprise from thinking and writing about research:

“The fieldwork is permeated with the conflict between what is theoretically desirable on the one hand and what is practically possible on the other... whatever carefully considered constructed views the researcher has of the nature of social research, of the process of theory development, of the data collection methods, or of the different types of data, those views are constantly compromised by the practical realities, opportunities and constraints presented by organisations research”

(p. 53-4)

5.7 The Interview Surveys

5.7.1 Semi-Structured Interviews

Guba and Lincoln (1998) argue that “questions of methods are secondary to questions of paradigm” (p. 195). Thus, consistent with the theoretical approach identified in the previous sections as being most appropriate for the present study, the first method adopted was face-to-face semi-structured interviews. This section therefore, outlines the interview survey method employed. Saunders *et al.* (2009) have stressed that “the use of interviews can help to gather valid and reliable data that are relevant to the research questions and objectives” (p. 318). They suggest that interviews can be used on their own or as a part of a mixed method approach. Indeed, Creswell (2003) suggests

that a mixed-method approach is preferable and can be applied to gain different perceptions on the research questions being studied. In emphasising the importance of interviews either on their own or in conjunction with other methods, May (2011) notes that “interviews yield rich insights into people’s biographies, experiences, opinions, values, attitudes, aspirations and feelings” (p. 131); therefore, interviews enable the researcher to explore people’s perceptions. Patton (2002) stresses the interviewer should have the ability to bring their interviewee to his or her own world of ideas and beliefs to gain the perceptions of interviewee so that the participant can answer questions in as much detail as they want. An informal atmosphere can encourage the participant to be honest and open (Saunders *et al.*, 2009).

5.7.2 Categories of Interviews

Depending on the level of formality involved, interviews are usually grouped into three categories: structured interviews, semi-structured interviews and unstructured interviews, mostly known as in-depth interviews. Structured interviews are based on a fixed set of standardised questions, where an interviewer reads out each question and the respondent’s reply is recorded with the pre-coded, or sometimes even the fixed answer (May, 2011). As structured interviews tend to collect quantifiable data they are usually referred as quantitative research interviews (Saunders *et al.*, 2009). Unstructured interviews, on the other hand, aim to understand the behaviour of individuals without any prior categorisation. This allows the interviewer to change the questions in response to the respondent’s replies; an interviewee is given the chance to speak openly about the surveyed topic by simply responding to those issues that needs addressing (Bryman, 2008). Unstructured and face-to-face semi-structured interviews do have some limitations, however. For instance, a researcher may encounter

difficulties in comparing one interview with another due to the flexibility offered by these types of interview (Judd *et al.*, 1991). The transcription of such interviews can be prohibitively time consuming and their analysis more difficult. Furthermore, any rapport between the interviewer and interviewee in a face-to-face interview could result in biased answers; the responses given could result in those responses desired by the interviewer and may not be a true reflection of interviewee's own beliefs (Judd *et al.*, 1991).

In the middle of these two extreme positions, semi-structured interviews take an intermediate position and are often referred to as qualitative research interviews (King, 2004). In semi-structured interviews, the interviewer usually has a list of questions and themes that need to be covered; however, they have the flexibility to add, omit and change the order of the questions as appropriate; they may vary from interview to interview depending on the answers supplied (Saunders *et al.*, 2009). Such interviews are conducted with a relatively open framework to allow effective two-way communication. In addition, Sawin *et al.* (1998) note that semi-structured interviews are significant methods in terms of "illuminating, empowering and disseminating the meaning that participant's give to their lives" (p. 21). Bryman (2004) concurs with this view; he maintains that in semi-structured interviews:

"The researcher has a list of questions or fairly specific topics to be covered, often referred to as an interview guide, but the interviewee has a great deal of leeway in how to reply. Questions may not follow on exactly in the way outlined on schedule. Questions that are not included in the guide may be asked as the interviewer picks up on things said by interviewees. But, by and large, all of the questions will be asked and a similar wording will be used from interviewee to interviewee".

(p. 321)

Similarly, May (2011) states that in semi-structured interviews “Questions are specified, but the interviewer can freely probe beyond the answers in a manner which would appear prejudicial to the aims of standardisation and comparability” (p. 134). Most academics suggest that semi-structured interviews should be transcribed. Saunders *et al.* (2009) highlight some of the advantages associated with the audio recording of interviews. They note that the use of audio recording equipment allows the interviewer to concentrate on listening to the answers and ask sensible follow-up questions; the ability to re-listen to the interview recordings allows direct quotes to be used in the analysis; the most important advantage is that a recording provides a permanent record for others to use. Patton (2002) stresses that taking notes alongside the recording eliminates the chance of any technical problems ruining the information capture and further facilitate the transcription process. The recordings need to be transcribed, but full transcriptions are not always necessary (Dunne, 2003).

There are a number of benefits associated with semi-structured interviews: (i) they are less intrusive to respondents being interviewed as the semi-structured interview encourages two-way communication and encourage participation from both parties allowing issues to be clarified and ensuring that questions are properly understood (Sekran, 2003); (ii) semi-structured interviews not only elicit answers to complex questions, but also help ascertain the reasons for any position held in follow-up questions (Hussey and Hussey, 1997), thus, allowing the researcher to obtain richer and deeper insights about the issues being considered; (iii) it has been found that, in semi-structured interview settings individuals are more comfortable discussing sensitive issues such as those, for example, relating to religion (Saunders *et al.*, 2009); (iv) in semi-structured interviews, while questions on a specific topic are predetermined, the

interviewer has the freedom to change the ordering of what is asked, or to insert new questions in response to replies received (Berg, 2007)¹⁸⁹; and (v) questions that are inappropriate to a particular interviewee can be omitted when the semi-structured interview approach is used (Robson, 2007).

However, using interviews as a data collection method involves some disadvantages: (i) conducting interviews is a costly and very time-consuming task, especially, if the interviewer is targeting participants who are spread across a wide geographical area (Sekran, 2003 and May, 2011); (ii) the flexibility afforded to interviewees in this process can lead to possible bias affecting the reliability of the data collected (Ibrahim, 2000); for example, the ordering of questions may influence the responses received; if this ordering changes from one interview to another responses from individuals with similar perspectives may be different. However, in some cases the examination of any such outcome could become part of the analysis and could make a valuable contribution; (iii) the use of semi-structured interviews requires comprehensive piloting and testing skills needed in the areas of sampling and judgement. Also, the use of a pilot may limit the pool of potential respondents to the actual interviews if the population is not large to begin with (Saunders *et al.*, 2009); (iv) lack of anonymity may force participants to hesitate or not to speak honestly (Sekran, 2003); and (v) interviewees' perceptions may be influenced by the events taken place prior to the interview (Collis and Hussey, 2003).

¹⁸⁹ Bryman (2004) argued that semi-structured are comparable and flexible and does not lead to a loss of concentration on the main theme and furthermore, these interviews are popular for getting rich and detailed answer.

In the context of present study, semi-structured interviews have been employed; I asked certain number of key questions at each interview, but altered their sequence and probed for more information on a specific area of interest depending upon the replies received. For instance, I asked a question one of the interviewee on his understanding of Islamic banking, and the respondent replied by explaining his understanding of the banking as well as his experience of dealing with Islamic bank. For that reason, I had to skip one of the questions asking about his personal experience with Islamic banking. Personal face-to-face-interviews were chosen because they yield the highest response rate of any survey technique enabling the respondent to answer accurately and in detail, resulting in an improved data quality (Judd *et al.*, 1991). The details of the data sample, transcription and transcribing, and the analysis of interviews are explained in Chapter 6. Having highlighted one of the methods for collecting the primary data in the section, the next section explores the questionnaire as the second method employed to gather the perceptions of Islamic scholars and Islamic banking officials.

5.8 The Questionnaire Survey

5.8.1 Self-administered Questionnaires

Sekaran (2003) defines questionnaires as being “a performed written set of questions to which respondents record their answers, usually within rather closely defined alternatives” (p. 236)¹⁹⁰. Similarly, May (2011) maintains that questionnaire surveys are common practice in social science research, as they assist in exploring the attitudes of a large number of respondents in an inexpensive and quick manner. Hussey and Hussey (1997) highlight that questionnaires are designed to uncover the perceptions of

¹⁹⁰ Details of procedures are sample data are provided in Chapter 7. However, this section provides broad overviews of the method in general.

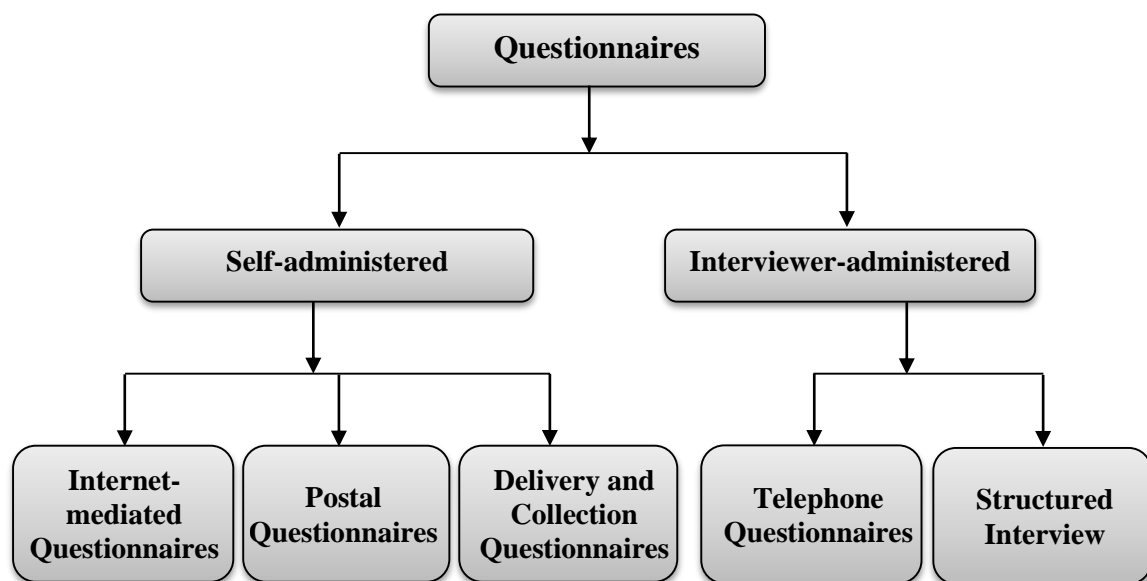
participants. Attwergy (1998) indicates that a structured questionnaire develops a standard line of questioning building upon previous research responses and also enhances the data collection process and reliability. Similarly, Saunders *et al.* (2009) note that properly designed survey questionnaires can be accurate and an efficient means of determining information about a given population. The results achieved from questionnaires provide reliability and comparability of data quickly and in an inexpensive way. Similarly, May (2011) suggests that self-administered questionnaires offer a cheap method of collecting data. Moreover, Robson (2007) states that survey questionnaires provide simple approach to the study of perceptions, attitudes and beliefs. Furthermore, they can be adapted to collect generalisable information from any human population. However, in some cases respondents may shy away from important information, as a result of respondents being forced to choose between alternate answers, thus, making a detrimental effect on the result. Further, Robson (2007) proceeds to mention that survey questionnaires may become time consuming if delivered by post. Saunders *et al.* (2009) note that questionnaires have to be short and the questions must be simple as there is no opportunity to probe or clarify misunderstandings.

5.8.2 Categories of Questionnaires

Saunders *et al.* (2009) distinguish between two types of questionnaires that can be employed to gather data, depending on the amount of contact the researcher is willing to have with the respondents; these are interviewer-administered questionnaires and self-administered questionnaires (see figure 5.7). Saunders *et al.* (2009) note that interviewer-structured questionnaires are of two types: telephone questionnaires and structured interviews where the researcher meets the participants' in-person and asks

the questions directly before marking up the response on the schedule. On the other hand, self-administered questionnaires are divided into three groups: first, internet mediated questionnaires are those administered over the internet, for example, surveymonkey.com; second, postal questionnaires which are mailed to the participants who are asked to return them upon completion; and third, delivery of questionnaires requiring the researcher to hand deliver the questionnaires to the participants.

Figure 5.7: Types of Questionnaires



Source: Reproduced from Saunders *et al.* (2009, p. 363).

Sekran (2003) distinguishes two types of questions posed in questionnaires: open- and closed-ended questions. In open-ended questions, participants are given a full opportunity to state their responses freely in way that reflects their interpretation (May, 2011). The responses of these questions are useful but very time consuming (Saunders *et al.*, 2009). Similarly, Oppenheim (1992) asserts that although open-ended questions are easy to ask, they can be relatively difficult to answer. Additionally, Gorard (2003) maintains that open-ended questions are more suitable in situations where the responses

will be used to explain a statistical pattern and when the researcher is confident about how to analyse the responses.

On the other hand, in closed-ended questions, participants are given a set of alternative responses from a list (Sekran, 2003). These types of responses limit the number of possible answers and makes the analysis quicker. Furthermore, these types of questions help participants to make their choice quickly rather than thinking of their own answers, and also help the researcher to analyse them easily by their given codes. However, Saunders *et al.* (2009) argue that care should be taken in a sense that questions posed must be mutually exclusive, all the possible answers are given and the list of responses is delineated clearly to the participants. Oppenheim (1992) notes a disadvantage of closed-ended questions that they lose “spontaneity and expressiveness” of participants (p. 114). However, the use of the ‘Other please specify’ category may help with this problem.

There are several reasons a research may adopt questionnaire surveys as a means for data collection: (i) questionnaires might be regarded more suitable for respondents who require more time to think about their choices and answers (Newman, 2003; Sekran, 2003; May, 2011); (ii) questionnaires are cheaper than other data collection methods (Sekran, 2003; May, 2011); (iii) in questionnaire surveys the anonymity of response is relatively higher than interviews where a groups of respondents may be influenced by each other’s replies, which might encourages the respondents to reply, consequently increasing the response rate (Sekran, 2003); (iv) as Neuman (2003) notes, since there is no face-to-face contact between the participant and the researcher, questionnaires usually reduces the bias problem; and (v) the most obvious advantage and benefit is

that questionnaires are used as efficient collection methods covering a wide geographical area, especially, electronic questionnaires (May, 2011).

With regard to the shortcomings, questionnaire surveys produce low return rates, especially from mail questionnaires (Sekran, 2003). In this regard, Saunders *et al.* (2009) have suggested a number of effective techniques to improve the response rates. First, to design individual questions carefully; second, careful planned and executed administration; third, clear and effective layout of the questionnaires and; fourth, a very clear purpose of the questionnaire along pilot testing. Similarly, Sekran (2003) suggested that follow-up letters with self-addressed stamped return envelopes, keeping questions brief and clear and pilot testing can help to increase the response rates.

5.9 Conclusion

This chapter has highlighted and discussed different philosophical approaches about the nature of social science research as suggested by Burrell and Morgan (1979), perspectives providing different approach to the researchers in the accounting research by Chua (1986) and theoretical perspectives of Laughlin (1995). The four research paradigms of Burrell and Morgan's framework were outlined also providing some critiques. Moreover, the philosophical assumptions underpinning the study were also identified along with the research methods employed in the thesis to fulfil the objectives of the study. Having explained the UK context, literature review, theoretical framework and the methodological context, the next two chapters present findings of interviews and questionnaires surveys, beginning with the data sampling and then moving towards the analysis.

CHAPTER 6

INTERVIEW FINDINGS

6.1 Introduction

This chapter presents the results and an in-depth analysis of twenty-five interviews conducted with the UK Muslims. The interviews focused on four important issues that are highlighted later in the chapter. The main purpose of conducting these interviews was to explore the perceptions and experiences of UK Muslims (as mentioned in Chapter 5). This chapter is primarily concerned with documenting the perceptions of ordinary Muslims in the UK, whereas Chapter 7 will focus on gathering views of Islamic scholars and Islamic banks' employees in the UK. Hussey and Hussey (1997) suggest the importance of using a dual approach in empirical research noting that "to take a mixture of approaches particularly in the methods of collecting and analysing data allows you to take a broader, and often complementary, view of research problem or issue" (p. 72).

The remainder of this chapter is organised as follows: Section 6.2 outlines the data sample selected for the interviews. The process used to conduct the interviews is outlined in Section 6.3. Section 6.4 highlights the findings of the interview surveys on the perceptions of the Muslims on Islamic banking and finance in the UK, with Section 6.5 providing a conclusion of the chapter.

6.2 Data Sampling Selection

6.2.1 Data Sample

The semi-structured interviews seek to collate the perceptions and opinions of UK Muslims towards Islamic banking in the UK. Twenty-five participants were selected from various parts of the country on the basis of on their availability following the

desire to include individuals from a diverse set of backgrounds. The targeted people were all professionals, including accountants, investment bankers, entrepreneurs, academics, lawyers and doctors. Of the twenty-five interviewees, six of the participants were women¹⁹¹. Most participants were either currently dealing with Islamic Banks in the UK, or have been customers of such an institution in the past. Seven participants had no personal experience of dealing with Islamic banks in the UK, but were considering becoming customers of Islamic banks/Islamic-windows in the near future. The sample in the present study covers a wide geographical area of UK. This aspect of the study allowed me to gain in-depth knowledge of Muslims from England, Scotland, Ireland and Wales to gain better understating of their perception on Islamic finance and expectations from Islamic banking. However, a higher proportion of interviewees resided in London, Manchester, Birmingham and Luton, as these cities have a thriving Muslim population and culture.

Table 6.1 below provides biographical data on the participants, indicating their occupation, age, gender, ethnicity, qualification and whether they have been dealing with Islamic banks and over what time period. Splitting the sample on the basis of gender revealed that of the participants, nineteen out of twenty-five (76 per cent) were male and six (24 per cent) were female. The majority of the participants, i.e. 40 per cent, were from the age group 31-40 years; 36 per cent were from age group 20-30 years; 16 per cent were from the age group 41-50 years; and 8 per cent were from the age group over 50 years, revealing that most of the participants where in the working

¹⁹¹ Although it is difficult to find Muslim women to who were willing to be interviewed. However considering the importance of including women in the current sample of this study especially that they are underprivileged, I endeavoured to find 6 women who were interested to be interviewed in the presence of their partner/family members. While having only 6 women may seem a small sample, this did allow me to remain consistent with the theoretical approach of my study.

class. In terms of the educational qualifications; 8 per cent had a PhD; 20 per cent held a Master's degree; 60 per cent had Bachelor's degree with professional qualifications; and the remaining 12 per cent had an Islamic scholar degree. Splitting the sample on the basis of profession revealed a mixed sample of Muslims ranging from professionally employed to self-employed. As the anonymity of the participants was guaranteed, each participant was represented by a unique code: (*Resp* 1, 2, 3, etc.). All of the participants were well educated however, technical knowledge of the matter was not a prerequisite for choosing interviewees, as what is sought in the study are interviewees' opinions, attitudes and perceptions of the issue in concern. Also, having participants from diverse backgrounds reflect a wide range of opinions and knowledge on this matter¹⁹². In addition, 6 of the respondents have not been customers of Islamic banks in the UK. However, the remaining nineteen participants have been customers of Islamic banks for a number of years¹⁹³.

While splitting the sample in terms of how long they have been dealing with Islamic banks or Islamic-windows, it revealed that 28 per cent of participants did not have dealing with Islamic banks but all wished to do so very soon in the future; 20 per cent of the participants were dealing in Islamic banking for more than 5 years; 24 per cent were dealing between 1-5 years; and 16 per cent were dealing for at least a year. While splitting the sample on the basis of ethnicity revealed that 20 per cent of the participants were of Pakistani origin; 16 per cent identified themselves as British Indians; 44 per

¹⁹² One of the participants was studying for his PhD in Islamic finance and another female participant was studying towards the Islamic qualification (an academic degree in Islamic law and jurisprudence, the *Hadiths*, the explanation and interpretations of the *Quran*).

¹⁹³ In terms of diversity between across education levels and the extent of financial exclusion, participants were selected based on their likely knowledge of the banking industry in general.

cent identified themselves as of British Pakistani; 12 per cent were British; 4 per cent were European and the remaining 4 per cent were of Arab origin.

Table 6.1: Demographic Characteristics of the Interviewees

Respondents	Code	Occupation	Qualification	Age	Ethnicity	Gender	I.B Customer	No of Years
Interviewee 1	<i>Resp 1</i>	Islamic Scholar	Islamic Qualification ¹⁹⁴	31-40	British Indian	Male	No	NA
Interviewee 2	<i>Resp 2</i>	Treasury Manager	Master's Degree/ Professional	31-40	Pakistani	Male	No	NA
Interviewee 3	<i>Resp 3</i>	<i>Molana/</i> Islamic Scholar	Islamic Degree	41-50	British Indian	Male	No	NA
Interviewee 4	<i>Resp 4</i>	Lecturer	BA Degree/ ACCA	31-40	Pakistani	Female	Yes	1 year
Interviewee 5	<i>Resp 5</i>	Solicitor	BA Degree/ Professional	20-30	Pakistani	Female	Yes	1 year
Interviewee 6	<i>Resp 6</i>	Chartered Accountant	BA Degree/ ACCA	20-30	Pakistani	Male	Yes	1-5 years
Interviewee 7	<i>Resp 7</i>	Wedding Coach	BA Degree	31-41	British Pakistani	Female	Yes	1-5 years
Interviewee 8	<i>Resp 8</i>	Financial Adviser	BA Degree	41-50	British Pakistani	Male	Yes	5+ years
Interviewee 9	<i>Resp 9</i>	Accountant	BA Degree/ ACCA	50	British Pakistani	Male	No	NA
Interviewee 10	<i>Resp 10</i>	Entrepreneur	BA Degree	31-40	British Indian	Male	Yes	5+ years
Interviewee 11	<i>Resp 11</i>	Network Engineer	BA Degree	31-40	British Pakistani	Male	Yes	1-5 years
Interviewee 12	<i>Resp 12</i>	Planning Manager	BA Degree	20-30	British Pakistani	Male	Yes	1-5 years

¹⁹⁴ Refers to Islamic degree needed to become an Islamic scholar.

Respondents	Code	Occupation	Qualification	Age	Ethnicity	Gender	I.B Customer	No of years
Interviewee 13	<i>Resp 13</i>	School Teacher	BA Degree/ Teaching course	20-30	British Pakistani	Male	Yes	1 year
Interviewee 14	<i>Resp 14</i>	House Wife	Alimah ¹⁹⁵	20-30	British Pakistani	Female	Yes	5+ years
Interviewee 15	<i>Resp 15</i>	Engineer	BA Degree/ Professional	31-40	British	Male	Yes	5+ years
Interviewee 16	<i>Resp 16</i>	University Lecturer	PhD	31-40	Arab	Male	Yes	1-5 years
Interviewee 17	<i>Resp 17</i>	Student at the University	PhD	20-30	Pakistani	Male	No	NA
Interviewee 18	<i>Resp 18</i>	Islamic Scholar/ <i>Imam</i>	Master's Degree	31-40	British Indian	Male	Yes	1-5 years
Interviewee 19	<i>Resp 19</i>	Property Manager	Bachelor Degree	41-50	British Pakistani	Male	No	NA
Interviewee 20	<i>Resp 20</i>	Entrepreneur	Bachelor Degree	41-50	British Pakistani	Male	Yes	5+ years
Interviewee 21	<i>Resp 21</i>	Administrator	Master's Degree	20-30	British	Female	Yes	1-5 years
Interviewee 22	<i>Resp 22</i>	Driving Instructor	Bachelor Degree	20-30	British Pakistani	Male	Yes	1-5 years
Interviewee 23	<i>Resp 23</i>	Property Manager	Bachelor Degree	50	British Pakistani	Male	Yes	1-5 years
Interviewee 24	<i>Resp 24</i>	House Wife	Master's Degree	20-30	European	Female	Yes	1 year
Interviewee 25	<i>Resp 25</i>	Dentist	Master's Degree	31-40	British	Male	No	NA

Note: This table provides summary details regarding the 25 interviewees, including codes used, and demographics information.

¹⁹⁵ Islamic scholar degree for women.

For the selection of interviewees, snowball-sampling technique was used in terms of collecting samples. Saunders *et al.* (2009) note that in snowball sampling the likelihood of sample being representative is where cases have characteristics desired. Taking this approach, I contacted some friends who were customers of Islamic banks residing in the London area. Many other people were contacted through the help of these friends and family members for the interviews. In addition, I sought help from the *Imams* of few mosques to find people who were willing to be interviewed. Out of all these recommended people, I selected people on the following criteria: (i) at least fifty per cent of the selected people must be or have been customer of Islamic banks; (ii) the remaining fifty per cent were interested to join Islamic banks in near future; (iii) at least twenty per cent of the selected sample were females; (iv) all of the respondents were educated to a minimum of school or university level; and (v) the sample covered all four regions of the UK. This selection criterion ensured that the participants were Muslims and from diverse backgrounds to enable me to gain insight into a variety of experiences and expectations; however, no in-depth technical knowledge of Islamic banking was necessary. Interviewees' names and details were collected during the interviews on a separate sheet. All participants were assured of anonymity, that their names or any other personal details would not be mentioned. This privacy was needed to secure their openness and agreement for the interviews. As a result, all of the twenty-five interviewees agreed to the use of a recorder during the interview and they showed a great deal of interest and enthusiasm for the topic by giving detailed answers. However, a few respondents' requested for their recordings to be deleted once they were transcribed. I promised to keep the recordings only until the completion of the research and assured them of deletion once it is finished.

6.2.2 Pre-interview Preparation and Pilot Interviews

As mentioned in the previous section, face-to-face semi-structured interviews were undertaken in the UK between October 2012 and February 2013. Before these interviews were conducted, however, I prepared a list of questions for a pilot interview to gain an impression of likely responses. This technique enabled me to rephrase some questions to avoid any potential misunderstanding and generally to enhance the clarity of the questions. The pilot interviews were conducted in Dundee with two Muslims, who were currently customers of Islamic Banks in the UK. One of the interviewees was an Islamic scholar with an academic qualification in Islamic banking and finance in the UK; the other interviewee was a PhD student who was a customer of an Islamic bank (Lloyds TSB, Islamic-window). I ensured that each question was designed to be open-ended which required a secondary list of extended prompts and probes to help the interview flow (Gillham, 2000). These two pilot interviews allowed me to practice and rehearse the questions and themes for the future interviews and to reflect back on each response to the literature.

6.2.3 Conducting the Interviews

Twenty-five UK Muslims were interviewed with each interview lasting between 27-45 minutes. All interviews took place in the UK in areas with a large Muslim population such as: Manchester, Birmingham, Leeds, Luton, London, Glasgow and Dundee. Along with the recordings, detailed notes were taken with each interview. A few interviewees requested to see the questions a day before so they could prepare themselves. I agreed to acquiesce knowing that it would allow them to think about the responses and give them confidence to speak on this topic. At the beginning of each interview, I greeted

the interviewees and explained to them the purpose of the research and the role of the interviews within it. Further, I showed them a declaration from my supervisors to verify that the information collected was only to be used for academic research purpose and would be treated with utmost confidentiality. I then asked for their permission for conversation to be digitally recorded and explained the usefulness of this method. After all of the above explanations were given; I asked the interviewees if they had any concerns about speaking English. Of these twenty-five interviewees, only one participant requested to be interviewed in Urdu language- since he was not a native English speaker. Once the interviews started, digital recording and notes were taken throughout the entire conversation¹⁹⁶. I asked questions in a sequence however, on various occasions the sequence varied and the wordings of the questions were modified according to participants' understanding and the flow of the conversation. On a few occasions some participants, especially the investment bankers who had, a broader knowledge of the industry, took the conversation on to different theme. Regardless of the interviewees' status, sex, education and experience, I kept the environment friendly and relaxed to ensure that responses remained unbiased. At the end of each interview, I asked the interviewees if they had any further comments, for example, whether they would like to say anything else regarding Islamic banking or did they wish to share any specific experience on Islamic banking, which has not been covered in the interview.

¹⁹⁶ These notes provide a backup in case the recorder does not work. In addition, notes provide useful early insights that will facilitate transcriptions and provide useful input later in the analysis phase (Patton, 2002).

6.3 Analysing Responses

O'Donovan (1999) recognises that the use of semi-structured open-ended questions leads to massive amount of data. He further notes that to analyse massive amount of quality data, proper themes should be identified and sought so the data can be categorised in to those themes. This section explains the process of categorising and analysing interviews' data. The first stage of analysing data is the transcription of the interview data.

6.3.1 Data Transcription and Transcribing

As discussed in Chapter 5 (Methods and Methodology) regarding the analysis of interviews, Saunders *et al.* (2009) suggest a three-step method of investigation for the analysis as follows: (i) summarising; (ii) categorisation; and (iii) structuring of meanings, while pointing out that the process is “demanding and should not be an easy option” (p. 490). For this study, only one participant was interviewed in Urdu language. Along with this respondent, all other interviews were digital recorded. I transcribed all the interviews word for word using a tape recorder and Microsoft Word. This process allowed me to make complete sense of this work and to fully understand the responses of each interviewee. I translated the Urdu recording language into English myself as Urdu is my native language. I listened to all of the recordings twice to keep the accuracy of the data and to avoid any discrepancies at a later stage. After transcription of the data from the recordings into Microsoft Word documents, I started categorising and structuring the data.

6.3.2 Analysing Data into Category

After the full transcription of interview data, I took the responses of each individual question and placed them in Microsoft Excel spread sheet. This enabled me to collate the responses of all participants to each question in one place, and to highlight similar responses in order to identify how many responses and statements matched together. For example, interviewees were asked about their perception on the main objectives of Islamic Banks in the UK. All the Twenty-five responses to that question were copied in corresponding columns in Excel. After reading the responses in detail, I identified four emergent themes for the analysis. These four themes were then linked to the literature (see Chapter 3) and theoretical framework (see Chapter 4).

6.4 Findings of the Interviews

This section therefore, analyses the findings of the interviews. As noted above four themes were developed for the discussion of the findings which were: (i) perceptions of Islamic banking practices; (ii) accessibility of Islamic banks in the UK; (iii) the role of Islamic scholars in establishing Islamic banking; and (iv) the growth of Islamic banking in the UK. The issues explored from the themes emerging from interviews are usually derived from the theoretical analysis and orientation of the study (Flick, 2009). The review of the literature for the present study indicated a number of issues and actions that Islamic banks are expected to contribute to its practices and success. For example, do they help disadvantaged Muslims in the community?; do they hear the diverse voices of poorer Muslims living in the UK?; do they play an important role in attaining social justice and contributing to the development of society? In addition, the exploration of the social role of Islamic banks included the extent to which Islamic

banks attempt to extend their *Mudarabah* products to small enterprises, small entrepreneurs, women, and specialised products for children.

6.4.1 Perceptions of Islamic Banking Practices

6.4.1.1 Understanding and Awareness of Islamic Banking

The participants were asked about their general perceptions and knowledge of Islamic banking practices and principles. In particular, I asked them “What is your understanding of Islamic banking?” to get more insight into their understanding and awareness of Islamic banking concepts, and how they relate Islamic banking principles and practices to different aspects of religion. Since Islamic banks promote themselves on the grounds that they operate according to the *Shariah* teachings (Kuran, 2006; El-Gamal, 2006; Visser, 2009), the responses to this question should show to what extent to this aim is being achieved. Of twenty-five participants, twenty-one replied that Islamic banking is closely related to Islamic principles of avoiding *Riba* in transactions.¹⁹⁷ According to them, the ultimate goal of Islamic banking should be to promote equality and fairness among people in the society. A number of the participants spoke enthusiastically about the unique features of Islamic banks’ products and services, and their availability to tackle financial exclusion among UK Muslims. For example, *Resp 1* explained his understanding:

“Islamic banking’s main principle is that it should not contain *Riba* and the Holy *Quran* and *Hadiths* of Prophet Muhammad PBUH has also confirmed this fact on several places. Also many punishments have been pointed out for someone involved in *Riba* transactions. Therefore, the underlying principle should be that Islamic banks should be free of *Riba*. In order to achieve this, there are many other alternative available for example, “*Shirkat*” (partnership) joint

¹⁹⁷ Dorrien (2010) elucidates that global capitalism reduces the ability of institutions to pursue objectives other than profit maximisation.

ownership, which has several categories, explained in the books *Fiqh* and the other is *Mudarabah*. By using these alternatives methods, a proper *Shariah* Islamic banking can be established”.

The avoidance of *Riba* and PLS principle is necessary for Islamic banks to reduce the debt burden and establish a strong bond between the lender and the borrower (Dar and Presley, 1999; Ahmed and Karim, 2001; Maali *et al.*, 2006; Zaionl *et al.*, 2008). It seems that these concepts in Islamic banking and finance find empathy with UK Muslims. This finding also shows that Muslims in the UK have a considerable awareness and understanding of Islamic banking. This however, contradicts with the earlier findings of Omer (1992), who surveyed a larger number of Muslims in the UK with more quantitative approach on their awareness of Islamic banking. At the time, *Shariah*-compliant products were available primarily through Islamic-windows at conventional banks. Omer revealed in his findings that there was a high level of ignorance of Islamic banking prevailed among Muslims in the UK, a finding consistent with previous findings that people from Muslim countries have a greater awareness and knowledge of Islamic banking than those living in a non-Muslim country. The findings of the present study would indicate that with the support of government and FSA streamlining, the regulation of Islamic banking and the introduction of stand-alone Islamic banks and Islamic-windows¹⁹⁸.

However, in evaluating the notion of *Riba*, Kuran (2006) argues that many in the Islamic banking industry understand the impossibility of carrying out business without interest. Promoting Islamic banking products under the false impression that they are interest-free is against Islamic principles and ethics (Saeed *et al.*, 2001). In Zainol *et*

¹⁹⁸ These findings contradict the ones revealed by Karbhari *et al.* (2004), who maintain that UK Muslims were generally unaware of Islamic banking products and services. Most of the respondents in their sample suggested that UK government did not support the establishment of Islamic banks.

al.'s study (2008), the authors found that Muslim customers tended to avoid Islamic banks, since Islamic banks were perceived to be selling interest-based transactions under the name of profit-loss sharing. A similar view was expressed by one of the participants *Resp 22*, who maintained that "Islamic banking system as it is today is not a pure Islamic banking it is just another name for normal banking". In support of this view, *Resp 9* stated that:

"In Islam there is no banking. In traditional, contemporary and historic use of the term "banking", is a phenomena, which comes from primarily Western European-rooted capitalist-centric money lending and trading of money in money markets. So the word Islamic banking in itself if one looks at it and enquires about its correctness, in itself it is a paradox to a degree. This hailes to the fact that in Islam money is not a commodity, hence, banking being a phenomenon revolving around the trading of money, money being a commodity at a price, is completely out of place and at war with the whole concept of Islamic economic system, Islamic business and the whole repulsion that Islam has with *Riba*".

In a brief summary, according to participants, Islamic finance is based on the concept of PLS sharing and the avoidance of *Riba*, the basis of that avoidance being so that social justice can be promoted through its products and services.

6.4.1.2 Islamic Banking Objectives and Practices

In responding to questions about the objectives of Islamic banks in the UK, there were generally positive remarks made regarding the ability and the objectives of Islamic banks. The majority of the participants however, were more positive in their responses and agreed that the objectives of Islamic banks are to provide: halal investments, maximise profits, and avoid *Riba* in their contracts. For instance, according to the view of *Resp 3*, Islamic banks' objectives are:

“To give new products, which can tackle the need of the Muslims and non-Muslims in the UK, because a lot of non-Muslims also feel that it is very good to go for interest free banking, especially, anti-capitalists who are against the charging of interest”.

Generally, participants also believed that Islamic banks should play a role in establishing social justice in society with the use of Islamic injunctions and teachings.

To support this, *Resp 21* stated that:

“The main objective in the UK specifically is to be able to provide the financial services to Muslims who believe in the teachings of Islam. To fulfil the basic requirement, Muslims should do in accordance with Islam in order to be able to provide this to those who believe and follow the teachings of Islam”.

The overall results show that all participants perceived that Islamic banking practices should be ethical and aligned with *Shariah* principles. This finding supports the assertions made by several studies such as Obaidullah (1999), Chapra and Khan (2000), Dar Presley (2001), Lewis and Algaud (2001) and Siddiqui (2002), who strongly argue on the lack of usage of PLS system and call for more a more ethical approach within the Islamic banking industry¹⁹⁹. According to Wilson (1997) and Housby (2013), ethical banking (which is about avoiding investments in alcohol and music) has gained vast popularity within the West. Ethical initiatives have emerged in the 1970s mainly to accommodate environmentally concerned customers (Wilson, 1997; Burnside, 2011). In the current financial climate, where conventional banks are perceived as corrupt and prove to be solely capitalist (Vaknin, 2009) Islamic banking might be perceived as an ethical alternative system (Sairally, 2007; Khan and Bhatti, 2008)²⁰⁰. Sairally (2007) maintains that many ethically conscious banking customers, Muslim

¹⁹⁹ All of the studies found that a lack of implementation of PLS in the Islamic banks' operations, suggesting for better integration of PLS system and more ethical investments.

²⁰⁰ Beekun and Badwai (2005) note major areas of agreement in business ethics between Islam and other religions; for them, these commonalities can open the way for new business ethics.

and non-Muslim alike, have no problem dealing with Islamic banks if they are able to prove themselves to be more ethical and transparent in their activities than the conventional ones²⁰¹. The industry needs to demonstrate a genuine concern with ethical dimension and offer more friendly services to people (Erol and El-Bdour, 1989). This is in line with the views of *Resp* 21, who stated that Islamic banking is “an ethical banking which is for everybody who wishes to carry out transactions without interest”.

However, Housby (2013) raises a potential concern by suggesting that Islamic finance may be damaging its own reputation by encouraging this positioning of ‘Islamic’ as a ‘sub-set of ethical’ categories in the UK, especially when dealing with secular and non-religious ethical customers (p. 182). The secular ethical customer often perceives the behaviour of religious individuals who are following divine laws that cannot be challenged, to be a form of rebellion against the prevailing society. Although non-Muslim ethical consumers may have respect for other religions in general, they might be troubled by the way that “Islamic financial service providers are dependent on the approval of a very handful of very powerful and very well paid scholars” (Housby, 2011, p. 182), therefore, Islamic banks should be more transparent in order to attract Muslims, as these people may then object to the religious governance of the bank. *Resp* 24 acquiesce with the above and stated that:

I think Islamic banks should become transparent, if they want to earn the trust of people. They need to bring fresh Islamic scholars who have knowledge of modern Islamic economics. They scholars can also teach public about Islamic banking through workshops and conferences. I think Islamic banks should fund these conferences, otherwise we will Islamic banking industry failing to provide for Muslims if not completely disappear in near future.

²⁰¹ In the UK, banks like the Cooperative and Credit Unions emerged as a possible ethical alternative (Iqbal, 1997).

On the other hand, a number of participants have maintained that it is not only about avoidance of *Riba*; Islamic banking has a wider social role in society which is still being neglected. Khan and Bhatti (2008) similarly claim that Islamic banks are formed to provide support to the poor and unprivileged groups in the society. The authors argue that Islamic banks do or should encourage equal opportunities for low-income groups and for those financially disadvantaged individuals who are unable to access mainstream banks. Furthermore, Islamic banks' role entails them to provide financial assistance through *Qard Hassan* and Islamic injunctions such as *Zakat* (Kuran, 2006).

On this notion, *Resp 22* states that:

“Islamic banks should be able to provide short-term loans when you run out of funds, and you need access to them quickly and pay them back within a month time without any interest. Or they also collect money from people by implementing *Zakat* to be deducted every year out of their accounts and use this money to help extremely poor people in the society”.

These views are in line with Chapra's (1985) model, which suggest that Islamic banks have a wider implication of social responsibility in society. However, seven participants argued that these institutions are there to purely make money, as they are not a charity to satisfy everyone's needs. Islamic banks, along with conventional banks with Islamic-windows, have spotted the gap in the market and have seen an opportunity to make money. However, my view on Islamic banking is that, although there are ambiguities in the processes of Islamic banks, it is a new industry which is in a race to catch up with the high street banks. Although, most of their products are expensive, yet it is providing Muslims an alternative way to conduct their financial transactions without engaging in interest, which I strongly believe is a great attainment. However in this context, *Resp 8* epitomised the former view:

“In my opinion, Islamic banks in the UK have realised that there is a niche, because there are a lot of Muslims, and a lot of Muslim wealth is now accumulated in this country, there is a niche in the market to target Muslim individuals. So their primary objectives are to collect money from them, and offer their services and make a profit out of it”.

Some participants have argued that Islamic banks target segment that care more deeply about *Shariah* in their financial dealing. These banks are exploiting this weakness of religious consciousness of Muslims. On this view, *Resp 9* stated that Islamic banks are there:

“To exploit the weakness and the fear of the Muslim community in the much muted understanding of the rules of Islam, when it comes to personal finance, because you are talking about the community, not the business sector. To exploit financially and to really milk the community, in terms of the profitability that they can provide the traditional banks that exist. So it is there to make more money than the most extreme bent banker that you can find”.

Another potential issue was raised by Karbhari *et al.* (2004), who argue that the diverse systems, models and theories of Islamic finance have made it challenging and difficult to understand the true essence and significance of Islamic banking for both Muslims and non-Muslims, which has resulted in doubts regarding the validity of Islamic banking. This problem is compounded because the notion of Islamic banking in non-Muslim countries is relatively new and is in its early stages of development; not everyone fully understands the true and deeper meaning of the terminology. Since people living in the UK are mostly familiar with the conventional banking system, they perceive Islamic banking to be either similar in terms of their practices or they think it risky to switch to an alternate that they do not fully understand (Karbhari *et al.*, 2004). Similarly, Warsame (2009) maintains that instruments employed by the Islamic banks are increasingly regarded with suspicion by public that they do not fully reflect *Shariah*

principles; even some Muslims scholars, such as Siddiqui (2002) working in Islamic finance, have publicly admitted that the debt-based modes of Islamic finance are becoming almost identical to conventional methods and that the Islamic banking industry is no different than its Western counterpart. On this notion, *Resp 22* stated:

“I feel that Islamic banks are using the same products as conventional banks by just manipulating the words like- by calling mortgage as rent and profit as interest. I have heard many Muslim scholars on TV and conference and mosques that they admit that Islamic banking activities are becoming suspicious. They must rework on their products to gain confidence of people and need to genuinely show to people how they are different and what are the religious benefits of having these products”.

In addition, the role and standards of the SSBs (*Shariah* Supervisory Boards) also escaped critical analysis in the past (Kamla, 2009). Three participants indicated their views that SBBs operate very secretively; it is extremely hard for daily consumers to find any contact information about them. All they are able to see is the names of SSB’s members on Islamic banks’ websites. Another three participants, who have a deeper knowledge of Islamic banking industry have argued that the accounting standards of AAOIFI that have been allegedly developed for Islamic accounting and auditing are in fact modified versions of Western accounting standards which means that the standards are insufficient for the governance of Islamic banks. This finding is in line with Maurer, (2002), who holds that the standards of AAOIFI²⁰² are same as any other standards issued by accounting bodies in capital markets. For that reason, participants have expressed a need for a proper disclosure and transparency from Islamic banks in order to gain their trust. For instance, *Resp 25* mentioned that:

²⁰² The Accounting and Auditing Organisation for Islamic Financial Institutions, a corporate body that prepares accounting, auditing, governance, ethics and *Shariah* standards for Islamic financial institutions and the industry.

“...SSB and AAOIFI are very silent bodies, who are just copying and implementing accounting standards from conventional accounting bodies. So far I have found them to be very weak in governance of Islamic accounting. They need to make their own codes and standards under *Shariah* principles and should make them more transparent”.

6.4.1.3 Socio-economic Role in Society

In addressing phenomena inherent to the notion of social justice; whether Islamic banks promote social justice and equality in society, 13 interviewees responded to the concept of social justice by linking to notions of equality; four regarded it as fairness; two viewed it as giving/receiving ‘no preferential treatment’; four associated it with equal distribution of income and wealth; and two interpreted it as harmony and tranquillity among human beings. In terms of promoting social justice, the participants were overwhelmingly critical of Islamic banking seeing it as capitalistic in its stance, with a primary objective of making money. This they argued was in direct contravention with *Shariah* principles that advance arguments for establishing brotherhood and providing benevolent loans (*Qard Hassan*) to the poor in society (Kuran, 2004). Housby (2011) maintains that products provided by Islamic banks lack acknowledgement of wider social dimensions and concentrate only on technical aspects of *Shariah* compliance such as avoiding interest in their transactions. The significance of the social role of Islamic banks has much to do with its operations and opportunities in terms of providing cash to poor entrepreneurs (Kuran, 2006). These financial disadvantaged ones should not only be Muslims, it should take in account all individuals in the society. Kuran (2006), Ahmed and Iqbal (2005), El-Gamal (2006) and Kamla (2009) maintain that Islam advances social justice within society while *Shariah* law encourages Muslims to create harmony by establishing equality. In this context, *Resp 9* expressed his views on how social justice can be achieved:

“Islamic finance is just like enlightened moderation. It has many contradictions and many issues within it; because social justice for one man could be different from social justice for another man. So if we leave the human mind to judge what do you think the social justice is you will not have uniformity, whereas if you leave it to the Creator as is correctly the One who can advise us as to how to have justice in social systems in communities and in societies, then social justice can be established”.

Islamic banks seem to continuously miss the opportunity to act as a true provider of micro finance to the cash-poor, women and small entrepreneurs (Kamla and Rammal, 2010). As a result of this lack of provision of financial services to poor ones, Islamic banks are repeatedly failing to follow *Shariah's* main principle of providing social justice and establishing equality in the society. PLS sharing contracts such as *Mudarabah* and micro-finance have very little significance in Islamic banks operations (Dar and Presley, 2000; El-Gamal, 2006; Kuran, 2006 and Obaidullah, 2008). Also, Ahmad (2000), Siddiqui (2002), and Rosly and Bakar (2003a) maintain that unless issues relating to the proper implementation of PLS financing are resolved, the socio-economic justice ostensibly envisioned by the Islamic banking system would never occur. According to Housby (2013) Islamic finance in the UK has neither put anything significant efforts in improving the housing situation for poor Muslims in the community or those wishing to follow *Shariah*; nor they have bridged the gap between the rich and poor by totally according *Riba* and supporting the PLS system. Thus, for Housby (2013) the tenderest aspect of the present state of the Islamic industry is that:

“The poorest Muslims may face not only economic and social exclusion, but a form of religious exclusion, if they continue to face a situation where Islamic products are more difficult to access and remain more expensive than the conventional ones”.

(p. 179)

In this regard, Kuran (2006) notes that the majority of Muslim countries are still under-developed. The following, from *Resp 3* is indicative of that view while also demonstrating the lack of clarity on how Islamic finance is providing justice and contributing to the improvement of these societies:

“I think that Islamic banking is really in its infancy. It is growing itself. It probably has not achieved its full potential, so a lot of things within the Islamic banking are not up to the mark. It does not even meet the criteria of the Islamic banking. They find it difficult to apply the fundamental tenant of Islamic banking in the modern economy, where the conventional finance is dominating the whole economy”.

In addition, there are only a small number of *Shariah* scholars serving on boards of Islamic banks across the world (Ainley *et al.*, 2007). At present the same names recur on the advisory committees of a number of banks. This raises concerns both over the effectiveness of their workload, and on the lack of a fresh perspective that could delay the introduction of new products (Housby, 2013). On this notion *Resp 24* expressed that: “the new generation of scholars is widely ignored, especially, it relates to British-born *Ullama*, who are at the moment much more aware of the contemporary issues of Muslim lifestyles in the UK”. Globally little evidence exists regarding Islamic banking contribution in creating employment opportunities for all social groups, reducing poverty, providing assistance to the under-privileged and in establishing social justice (Kuran, 2006; Kamla 2009). Only a handful number of scholars are working in the industry to boost Islamic banking. For instance, *Resp 24* expressed her views by stating:

“Nowadays, Islamic industry is dominated by few scholars, who have been practicing for decades and have gained influence in the industry... So, by not hearing the voices of young generation of scholars, Islamic banks are hindering their chance of contributing towards establishment of social justice”.

Socio-economic justice and redistribution of wealth are considered to be important principles in Islam on the basis of accountability to God (Esposito and Voll, 2001). Rahman (1982) notes that the message of Prophet Muhammad (PBUH) was not only about the demolishing of the plurality of Gods and belief in one God, but a continued and determined effort to establish and achieve socio-economic justice based on the teachings of the *Quran*. Belief in one God also includes the establishment of an ethical socio-political order that enables the development of a moral and just society (Rahman, 1982). *Quranic* emphasis on socio-economic justice implies that any legislation from *Quran* should aim to promote mutual help, mercy and social justice as its end result (Rahman, 1982, p. 20). Thus, for Islamic products to be competitive and successful in the long-term in the UK, the providers must start looking from a wider perspective of socio-economic dimensions, whereas currently they are more concerned with the financial competence (Sairally, 2007; Housby, 2013). In support of these views *Resp* 13 argued: “I don’t think that Islamic banks can bring the equality”. However there have been some positive comments being made and one the participants *Resp* 15 stated in response to whether Islamic banks can provide social justice, “not perfectly, I don’t think so, but I think there are some areas where they need improvements”.

6.4.1.4 Islamic Banking Presence in Community

The popularity of Islamic products and services has attracted several conventional banks to offer Islamic-windows (Karbhari *et al.*, 2004). However, participants have mentioned a concern that conventional banks with Islamic-windows are not sincerely taking part in promoting Islamic banking services among the broader groups of society. Wilson (2000) recognises a high level of reluctance of conventional banks and its employees in offering Islamic banking facilities to Muslims and an ethical alternative

to non-Muslims. Participants were unsure whether the conventional banks are actively undermining the Islamic products in order to remain competitive or that the employees of conventional banks are genuinely confused with the process and application of Islamic banking products. Most of the participants feel that Islamic banks do not play a crucial role in encouraging Muslims and non-Muslims to search for *Shariah*-compliant products.

“What I believe is that they are not encouraging. It is actually the people who want to use Islamic banking, even though they do have other options, but because of their religion or because of their inner consciousness, they want to use Islamic banking. So, it is not Islamic banking that are helping people, it is the persons, who know that they have to use it, they are just complying if it, they just trying to do whatever they are saying” (*Resp 6*).

In general, the male participants showed more positive attitudes towards the presence and role of educating Muslims by Islamic banks, although the disadvantaged (i.e females) still have some concerns. The female participants felt that there was very little sustenance from Islamic banks in terms of receiving any sort of encouragement for them to use Islamic banks. This evidence is consistent with some of the findings of Haque (2010), who indicated that men tend to show a greater positive attitude towards Islamic banking, relative to women. The participants (male and female alike) felt that, in general, Islamic banks do not seek to engage with wider public through any advertisement or any other means; rather it would appear that the banks are waiting for religious conscious individuals to approach them, so they can sell their products. Moreover, respondents reported that Islamic banks are manipulating the Islamic financial system to make it look ‘Islamic’ rather than actually engaging with the underlying principles. Some of the respondents also showed concerns that Islamic

banks are not available on the price comparison website to offer competitive deals and packages to new customers. One participant commented specifically on this,

“You know how all these people selling hajj packages²⁰³, all these kinds of Islamic package stuffs. You can go out and you see halal shops butchers and Islamic bookshops but you don’t see Islamic banking more prominently on the high street in the Muslim communities. I think if they did hajj packages and did properly; a lot of people would turn to them” (*Resp 13*).

In terms of whether Islamic banks are active in the community in educating Muslims about their products and practices, most of the respondents have shown a similar concern that Islamic banks are very weak in their advertisement and establishing their presence in the community. In general, they have never heard of or attended any workshops held by Islamic banks. The respondents also reported a weak marketing strategy through the Internet, television and door-to-door leaflets. All participants mentioned, Islamic banks need to actively attend mosques for workshops and setup successful educational and marketing campaigns to make Muslims aware of their efforts and products and services:

“...They need to approach people; they need to make sure that people hear the message. It is not that you just sit down, you just open your shop on the high street, or online or in conferences you tell people that we are selling these products. That is not going to help. You got to go to the people and you got to compete with the conventional financial products” (*Resp 3*).

This is consistent with the some of the findings of Metawa and Almosawi (1989) and Akbar *et al.* (2012), which show a lack of marketing by Islamic banks and suggest that Islamic banks need to implement successful marketing campaigns for promoting

²⁰³ Hajj is an Islamic pilgrimage considered being a pillar of Islam, requiring every Muslim to perform once in his/her lifetime if he/she has the means for it.

Islamic products and services. This affirmation also validates Chapra's (1985) model, which proposes that Islamic banking should not only be about PLS but should also concentrate on achieving socio-economic justice. The perceptions of Islamic scholars and Islamic banks in terms of educating Muslims and non-Muslims over Islamic finance are discussed in Chapter 7. With respect to directing consumers/potential consumers towards *Shariah*-compliant products, a few participants have criticised some of the Islamic banks, including the Islamic Bank of Britain, for charging a £10 fee for making withdrawals from current accounts; this is perceived by some of the participants as discouraging, if not extortion. For them Islamic banking is for the rich people, thus it has in essence failed. For instance, *Resp* 14 mentioned "every time I have to pay £10 to take out money... so if I need to take money out, I do it online (by transferring from Islamic account to conventional one), then it is free".

Big industry players like HSBC and Lloyds have been providing *Shariah*-compliant products and services under the banner of Islamic-windows. They have been able to outperform standalone Islamic banks due to their large volume, low cost banking and better banking facilities. Many participants recognised the competitiveness and effectiveness of quality and services of these Islamic-windows thus preferring to use Islamic-windows rather than the stand-alone Islamic banks themselves. However, on the other hand, they have also mentioned a concern that most of these 'Islamic-windows' have never presented them an opportunity to inform, educate and persuade them towards Islamic financial products. Whenever customers contact the banks to open new accounts or approach for a mortgage, the bank staff usually pitches the conventional products first, and recommend them having conventional products over Islamic ones. The staff at Islamic-windows do not mention Islamic banking products

unless consumers enquired about them. These banks' websites and advertising materials are always flooded with conventional interest-bearing products, which some participants find unethical and 'un-Islamic'. In addition, a few participants have mentioned that these Islamic-windows have a very strict criteria, similar to conventional counterparts, in terms of opening current, saving and business accounts and getting mortgages. Commenting on the strict criteria of Islamic banks, *Resp 25* stated his views:

“...When I approached HSBC in order to open the *Amanah* account – just a simple current account for my day to day expenses, the amount of information and documentation they needed from me, in my mind, was very inappropriate. They asked me such questions of whether I own any property abroad, what is the value of my property. First of all, I don't think they need such information. But on top of that, as I refused to answer such personal questions, they refused to complete the process of opening of the account. Only after fighting with them, they agreed to overwrite the system and open my account with them. Also, I want to add that I have been looking to get Islamic mortgage with HSBC, however, their criteria for mortgages are very strict and not designed for simple laymen or cash-poor people. So, all in all, I did not have a great experience with HSBC Islamic window, and had a lot of difficulties dealing with them”.

On the above notion, it is can be argued that these inappropriate questions²⁰⁴ can be a deliberate tactic to discourage the use of the Islamic (and presumably less profitable) products, by Islamic-windows. Kuran (2004) suggests that Islamic banks employ mainly financial criteria in decision making rather than looking at the social dimensions in providing loans. Kamla (2009) maintains that “contemporary Islamic banks scarcely prioritise long-term development projects” (p. 926); instead, they aim for quick profits.

²⁰⁴ I would like to point out that these inappropriate questions might not be actually inappropriate as these questions always have some purpose behind. The bank usually has a rationale for the questions. It is not only the Islamic banks and Islamic-windows that ask questions, it applied to conventional banks as well. Therefore, I think that the service quality and standard of Islamic-windows should not be undermined on this criterion.

They do not provide the cash-poor investors with investment opportunities. Thus, the participants concur that Islamic banks and Islamic-windows do not encourage people to consume *Shariah*-compliant products and have failed to some extent in promoting their products to middle-class consumer. Wilson (2000) notes that for the long-term viability of Islamic banking products offered through Islamic-windows, education and training of conventional bank staff is vital to sustain their growth. The above findings also support postmodernist critical theory, which argues a need for alternative and new insights that can challenge the dominant practices and understanding of accounting in its organisational and socio-economic context (Chua, 1986; McPhail *et al.*, 2004; Tinker, 2004).

6.4.2 Accessibility of Islamic Banks

Participants were asked if they had a freedom to practice Islam in the UK. With regards to this, all the participants agreed that they had no concerns or restrictions on practising Islam in the UK. Moreover, they showed a good amount of appreciation with regards to the government allowing freedom and diversity among different faith groups. A few of the participants felt they had experienced some degree of racism at some point in their lives. However, the ones from abroad mentioned that they have much more freedom of practising religion here as opposed to their home country. For instance, *Resp* 9 mentioned that:

“I think the UK is one of the finer places for Muslims to live in 2012, even over and above Muslim countries”.

For all of the respondents, the UK has been identified as one of the best places to live and practice their religion. As previously mentioned (Chapter 2), the UK government

actively promotes the growth of Islamic banking and wants the UK to be the gateway of Islamic banks in the Europe. As a result, several Islamic institutions across the country have been established (Ahmad, 2008). A recent speech by David Cameron on the introduction of Islamic index shows a pronounced support from the government towards Islamic banking, something that was recognised among the participant group:

“I have no problems- absolutely no problem at all in anything. I attended a conference to talk about Islam, which was open to non-Muslims as well. We have freedom to practice Islam in the West. The government is doing to encourage Islamic banking is not enough. *Sic* (the government is not doing enough to encourage Islamic banking) But on the other hand, the UK is the best Western country to live in but still need to do a bit more” (*Resp* 16).

In addition, to the growth of Islamic banking, the UK is known to have promoted a multicultural and multi-faith society (Gilliat-Ray, 2010). Practising Islam and keeping the Islamic culture has been as viewed a very favourable point by Muslims, especially, while living in the UK- which is a non-Muslim and Christian dominated society.

“I think it is very easy. I came from Pakistan; my basic origin is from there. In true sense I came to know what Islam says and why it says; I understood when I came to the UK” (*Resp* 4).

Whilst the previous literature states that the UK government is encouraging Islamic finance, the participants agree with this and they argue that the dearth of accessibility to Islamic financial services is due to inadequate efforts mainly from the Islamic banking side not from government. *Resp* 18 remarked the efforts of the UK government by stating that “as far as I know the UK government is pro-Islamic finance... English laws are supportive of Islamic finance”. Most of the previous issues related to legal and regulatory aspects of Islamic finance have been streamlined to make Islamic banking

compatible with current regulatory framework. To complement this notion, *Resp 17* stated that:

I believe that the government is helping Islamic banks at the moment. I think there could be some legal issues. But from what I understand the government has got sort of extra different rules for Islamic banks in certain things just to help them operate in the UK. But I don't think there is any such obstacle, apart from competition.

6.4.2.1 Bank Selection Criteria

In the UK, 23 Islamic banks are providing *Shariah*-compliant products and services²⁰⁵. Most of these banks are based in England. Only the Islamic Bank of Britain provides Islamic mortgages to customers in Scotland, with no branches or retail and corporate banking facilities in Scotland. In Ireland, only Amine Advisors Limited is currently providing investment banking to Islamic customers. Bank selection criteria have been examined in a number of studies (such as Erol and El-Bdour, 1989; Haron *et al.* 1994; Gerrard and Cunningham, 1997; Metawa and Almosawi, 1998; Kayank and Whiteley, 1999; Devlin and Gerrard, 2005; Hamid and Masood, 2011; Abdul-Rehman and Masood, 2012). Most of these studies find a variety of factors that have an impact on customers' decision-making and selection process (Levesque and McDougall, 1996). These factors include: location, service quality, bank's reputation, profitability, low service charges, availability of credit, adequate banking hours, staff friendliness, fast and efficient services, feeling secure, and recommendation by friends, bank location, parking facilities, and high rate of return on investments. The relative importance of these factors varies from one person to another depending upon their gender, age, income, occupation, cultural backgrounds, religious beliefs and marital status. For

²⁰⁵ A list of Islamic banks and Islamic-windows in the UK is presented in Chapter 2.

example, efficient service quality is regarded to be the most important factor in bank selection criteria in Islamic banks (Amin and Isa, 2008). However, the *Shariah* principle is the most important component that has been identified as a critical factor influencing choice of a bank for Muslims (Hamid and Masood, 2011).

Ahmed (2008) maintains that Islamic banking is weaker in terms of competition and growth as compared to Western banking in the UK. This could be due to the fact that Islamic banking is not well regulated. It neither has an effective branch network nor sufficient dedicated Islamic institutions that are actively promoting Islamic banking in conventional banks (Ahmed, 2008). For instance, Islamic Bank of Britain has only eight branches all over the UK, and as of 2013 HSBC has withdrawn Islamic retail banking from, UK leaving Lloyds TSB as the only conventional bank operating Islamic-window in conventional retail banking. The main reasons participants indicated for choosing Islamic banking were to follow *Shariah* law and the viability of an alternative ethical system. However, lack of branches was identified by four respondents; five expressed their concerns regarding ease of access and lack of internet facilities; two reported lack of flexibility; three expressed their concerns on the higher rates; two stated that they would invest in banks with much more protection of their funds; and nine indicated that *Shariah*-compliance would be the most important factor in the selection criteria. For instance, one of the participants, *Resp* 19 mentioned that:

“Honestly speaking *Shariah* compliance comes first, than the rest of others. Because from majority of the product, there are three main products you use: current account, credit card and a home loan. Some might give you extra, good or less service. But end of the day they are just same thing; they have to be halal and *Shariah*-compliant. No cup of tea! I can live with that”.

With *Shariah*-compliance being the most important factor in selection criteria in choosing Islamic bank, the next most important factor is accessibility. Nine participants showed concerns over the lack of a country-wide branch network and all those other facilities that conventional banks are offering such as internet banking, free withdrawals from 24/7 cash machines throughout the country and the lack of Islamic banks' participation on comparison websites. For instance, *Resp 3* stated that:

“I think a very important factor not only for Islamic bank, but may be for whenever you are looking for banking services in the current economic climate, would be the protection and the security of the money you are keeping within the bank. That is the primary objective and also the level of ease that you get in the access to that capital. What I mean by the level of understanding is whether the online banking is available or not, how many ATM machines would be available for me to use that particular card so I can withdraw money, whether they give visa card or master card, and what is the acceptability of the card. When it comes to the online banking, and then further is that how easy is to operate the online banking, what sort of charges they apply to the account, whether there are statement charges. It is probably the cost associated with running the account – that would be another factor as well”.

Customers in Scotland and Northern Ireland in particular are disadvantaged in terms of Islamic banking facilities; they claim that Islamic banks have neglected them. Only Islamic-windows have been able to suffice the basic financial needs of Muslims. Islamic banks have also failed to provide financial assistance to the disadvantaged and financial excluded Muslims in the society. Loo (2010) further claims that non-Muslims perceive Islamic banking only for Muslims and not accessible for people from different beliefs (Loo, 2010). One of the reasons that lead non-Muslims to believe that Islamic banking is not for them is the lack of marketing of the concept of Islamic banking (Karbhari *et al.*, 2004; Zainol *et al.*, 2008). This failing is recognised by Muslims, including participants to my study, who commented that Islamic banks lack in marketing and advertisement presence. Since they only seem to advertise on Asian and

Muslim TV channels and newspapers that are either in Urdu or other languages, such marketing and advertisement effectively excludes other faith groups. This behaviour of Islamic banks' marketing strategy also contradicts with the notions of social justice by only targeting Muslims and not the other groups of society. Moreover, the scarcity of Islamic banks' branches contributes to Muslim perceptions that Islamic banking is not for them. One of the respondents stressed that both Muslims and non-Muslims find that there is a lack of accessibility to Islamic banks and when they do access such banks most of the people are unsatisfied by their service levels:

“I think now if I were to choose a bank account, because I have two already, I would definitely look at one where it is easy to access, and it has got more branches, because there are no branches of Islamic banks anywhere I live” (*Resp 7*).

For that reason, it could be argued that Islamic banks have failed in establishing social justice in terms of satisfying the needs of disadvantaged community; since, in essence, they have only focused at the handful of rich people living in bigger cities. In terms of educating the community over their products, *Resp 20* stated that:

We only get to know about them from friends and other people. I don't think they play an important role in educating in different ways and making sure that people are understanding.

According to critical-postmodernist views Islamic banks should cater needs of everyone in society and not only Muslims, if it is to follow the Islamic principles of fairness and equality. However, the above discussion indicates that Islamic banks are dealing with rich people as their target customers while withdrawing their presence from certain neighbourhoods; they have refused to deal with poorer customers (Pollard and Samers, 2007). Consequently, Islamic banks could be seen as departing from their

fundamental principles of encouraging and working towards securing social justice and the eradication of poverty (Kuran, 2006).

6.4.2.2 Barriers to Growth of Islamic Banking

Further to the issues of convenience and lack of accessibility of Islamic banks, the majority of interviewees viewed Islamic banking as a growing phenomenon, which has a capability to expand. However, the interviewees suggested a significant amount of re-work is needed to achieve this growth. Some mentioned that the legal issues identified earlier in Chapter 3 have to be streamlined to enable Islamic banking more viable to Muslims and non-Muslims. Ali and Syed (2010) maintain that the event of 9/11 created false and unfavourable impressions and misunderstanding among the non-Muslims about the Islamic banking system. Large segments of UK population regard Islam as a religion of terror and violence. The London bombing in 2007 also linked Islam with terrorism and exacerbated notions of wariness and suspicion in the West. Ali and Syed (2010) argue that misconceptions of Islam and its association with terrorism in the UK may discourage many secular customers from choosing Islamic banks as an ethical alternative to conventional banking. Interviewees mentioned that as long as there is a misconception that links Islam to terrorism, non-Muslims would be unlikely to support/bank with Islamic banks for a fear that their money would then be used to support terrorist activities, thus, the industry will not be able to progress despite its best efforts.

Many non-Muslims are reluctant to deal with Islamic banks since the names of Islamic financial products are in Arabic; the name of these products could be off-putting to secular customers (Bley and Kuehn, 2004). Khan and Bhatti (2008) identify another

barrier to Islamic banking is the concept of Islamic ethical banking, which does not resonate with ethical perceptions within Western societies. This could be another downside for Muslims and non-Muslims not considering investing in Islamic banks.

Therefore, *Resp 3* pointed out that:

“If the Muslims cannot understand the mechanics of the Islamic banking, I think it is probably, more difficult for non-Muslim to understand and get attracted by the Islamic products”.

In terms of critical postmodernist views, suggesting a strategy of Islamic banks listening to both groups, Kamla and Memon (2011) argue that if Islamic finance is to play the dominant role of ethical banking in the industry, it must drop its Islamic side and must concentrate on promoting ethical investments on universal the ethical grounds. By doing this, according to Kamla and Memon (2011), Islamic banks would become attracted to customers from different faiths and beliefs. In contrast to those views, Beekun and Badwai (2005) stated that Western business ethics have many similarities to religious business ethics. However, more critical engagement and debates, religious and secular, are needed to recognise where cohesion exists and develop a universal business ethical framework to serve everyone (Beekun and Badwai, 2005). On this notion, *Resp 15* stated that:

“These so-called Islamic banks operating in the UK should not only focus one group of Muslims, but should also attempt to include non-Muslims, not looking whether they are Christians or Jews. They should listen to every group at least, if they are to follow the true essence of Islam and its core principles of social justice and equality”.

A small number of respondents argued that Islamic banks have a lack of products and services such as credit and charge cards, and other specialised products to attract a wide variety of customers; the following epitomises that view:

“They should introduce credit card facilities to cater everybody’s need. I have been to UAE, and there every person has a credit card. Just by only doing it by credit cards, and offering good incentives, they will invite hundreds of thousands of people and there must be some who are already using, and this would give them a chance to transfer some amount without doing anything, especially for goods, products, they can get so much of business that it would be unbelievable. They would then earn much for their credit cards as well” (*Resp 19*).

The above-mentioned obstacles are not the only ones hindering the growth and success of Islamic banking in the UK; many have expressed concerns regarding lack of access and knowledge (see Bley and Kuehn, 2004; Ahmad and Haron, 2002; Gerrard and Cunningham, 1997). A few of them have mentioned that most of the Muslims especially the elderly population who came to the UK in the early and mid-twentieth century are reluctant to use banks and rather keep their money in cash. They have already bought and paid for their houses through conventional mortgages a while ago. Most of them do not even know how to open a bank account. *Resp 22* presented his views on this notion by saying:

I would expect Islamic banks to make their products and literature more easy to understand and more accessible. Because the moment I feel that Islamic banks are only targeting rich people rather than taking care the need of elderly, women and other groups in society.

A number of participants have earlier mentioned concerns over the service quality of Islamic banks, where they have not received the services quality as expected. Participants argued that they anticipate the same level of customer service as one would get from conventional banks on the high street. These ‘service quality-conscious’ customers see no reason why Islamic banks should compromise on the level of customer service. With respect to low experiences with Islamic banks, *Resp 7* mentioned that:

“...It is customer service. My experience with Islamic Bank of Britain is as always that whenever I went, there were only one or two people, the bank is are very understaffed.... Once I have spoken to somebody on the phone, they said that they couldn't help me and then they said that I had to go to the branch. For me it is very difficult”.

Participants also demonstrated their perceptions that Islamic banking and finance have a real potential in the UK to meet their theoretical and normative claims of their commitment to the values of social justice and equality (Dusuki and Darr, 2007; Rashid and Hassan, 2009). The participants maintain that if Islamic banking can distance itself from the obsession with financial performance, shareholder wealth maximisation and focusing only on the rich customers, the industry would have a great potential to dominate the market. This agrees with Kuran (2006) who maintains that “Islamic banking is its own worst enemy by fostering trickery and duplicity, it hinders the task of imbuing businessmen with norms of truthfulness and trustworthy” (p. 16).

6.4.3 Role of Islamic Scholars in Islamic Finance

The most important factor determining the current and future success of Islamic finance in the UK is the development of *Shariah* committees as well as building the knowledge and promoting education of Muslims by local *Imams* and Islamic scholars. As mentioned in Chapter 2, more than 250 British Muslim organisations represent Muslims in the UK and over 1600 mosques are sited in the UK. In order to gain the understanding and popularity of Islamic finance among Muslims, it is important for Islamic scholars to educate Muslims in regard to Islamic finance. According to Housby (2013), to date, much of the development of the Islamic finance is supply led. Most of the British Muslims do not know how Islamic finance works, who supplies it, how *Murahabha*, *Musharakah* and *Ijara* work, and how these Islamic contracts are structured and more

specifically, why they are *Shariah*-compliant. There seems to be an obvious conflict between the marketing and educational functions of such materials, and so far government regulatory bodies have done more to point out these terms and principals than the scholars (Housby, 2013). The lack of support from Islamic scholars is crucial in this regard as Muslims see Islamic scholars to have key roles in the development of Islamic banking, a view expressed particularly well by one of the participants:

“I think Islamic scholars play a very crucial role. They can be the backbone to make Islamic finance successful. They are really good point to start with because our people still, to an extent, listen and learn from these *Imams* one or the other. Everybody got some ideal person to whom they are listening to or believe on like *Imam* Qasim etc. and going on the internet is like a silent knowledge, but does not have the same power as the *Imams* got. If there are these *Imams* then these people would come forward and talk about their needs and problems” (*Resp* 20).

In addition, interviewees have shown a concern that although there is a considerable number of mosques in the UK employing *Imams*, they are still not familiar with the issues and problems related to Muslims in the UK. For instance, *Resp* 6 stated that:

“...There are many mosques around me. I am not sure who is the attending *Mufti* over there, and whether there is an attending *Mufti* or not, whether he is literate himself, or whether he has some education or he is just a *Mufti* by experience or by approach”²⁰⁶.

Since most of these *Imams* and scholars have been brought up abroad, it could be argued that they lack in understanding of the needs of young British-born Muslims. These British-born Muslims are often hesitant to consult the *Imams* believing that *Imams* and scholars are not fully equipped with the knowledge of life in the UK. These young Muslims also believe that their way of dressing and by not having a beard will upset

²⁰⁶ It could be that he is uninformed because he doesn't attend the mosque regularly.

the scholars from the start of the conversation. For that reason, Muslims strongly believe that local *Imams* and scholars are not able to fully understand the needs of Muslims in the context of British lifestyle; these *Imams* may also not be able to assist them with Islamic finance. Consequently, Muslims have started to consult the Internet to find answers for their questions, reading well-known scholars such as Tariq Ramadan who has adopted an optimistic position in Europe in engaging in religious activity free from poverty and political repression. One participant expressed these views eloquently:

“So then talking to them about these sorts of things doesn’t always work, because they say that normal mortgages are fine. So I think where are traditional typical *Imams* in the *masjids*, I don’t find them reliable. Even though they are amazing people, I don’t turn to them for *Fiqh*. So I would either go online, choose my own, I got my own sources, my own scholars, I would be able to contact them, and ask them about what is ok” (*Resp 7*).

Additionally, a concern mentioned by most of the participants is that since these *Imams* and scholars are from abroad, primarily from Indian-sub continent, most of their lectures, workshops and sermons are delivered in a language other than English, for that reason, many young British Muslims find themselves isolated from these groups (Housby, 2013). With regards to this problem, *Resp 15* stated that:

“I think, firstly, in respect to the *Imams*, if they start delivering the sermons, it has to be in English language. A lot of the youth are fed up of listening in Urdu or Punjabi and English is the language in this country so; things have to be done in English. Also, the reasons for that are, if you want people to come to religion, they can’t say for example, if somebody wants to understand, say a non-Muslim, the Islamic way of banking, and the scholars are giving advices and are speaking in other languages, how are they going to understand that? So yes, needs to be in English”.

An interesting fact has been stated by participants during the interviews is that most of the local *Imams* and Islamic scholars are often appeared to be frightened and reluctant to bring forward the issues and discussions of Islamic finance and prohibition of *Riba*, as it may cause disagreements and conflicts among the *Imams* and the local community members who are already dealing in interest bearing transactions. Also these *Imams* may not be actively speaking about these issues in order to keep their job security. The following view of *Resp 15* demonstrates this point:

“Some Muslims take the banking systems too lightly and don’t realise the seriousness of falling into *Riba*... An *Imam* from a local masjid with good knowledge spoke about *Riba* issues and he speaks in good English which we need these days because the conversations in these language. In one of his sermons he mentioned that the punishment in taking interest from the banking system etc. It was seriously offended by the brothers in the mosque who actually stood up and spoke out against him. Everybody was shocked as this *Imam* was delivering the truth and whether he likes it or not, it was not to be criticised because Islam is our religion and you are in no way should question what *Allah*’s ruling says”.

On the other hand, it could be that *Imams* and scholars (*Molanas* and *Muftis*) are decisively avoiding the topics of *Riba* and Islamic finance in their discussion, since they are themselves engaged in conventional mortgages and other interest-bearing products. However, some interviewees have mentioned that this might be the case of those *Imams* who came in the late-nineteenth century, where Islamic banking was not an option and these *Imams* had no other choice but to engage with conventional banks. With the growing success of Islamic banking many new British born Muslims and Islamic scholars are now seeking either Islamic finance for mortgages for themselves or finding alternative methods of not paying interest such as renting properties:

“People, who are in the privileged position of knowing what is right and what is wrong, have more of a choice, as they can decide for themselves... I have done mortgages for *Imams*” (*Resp 8*).

With regards to *Shariah* scholars, concerns have been raised regarding relying on the same scholars as do other banks, this implies that no one criticises the ability of Islamic scholars because if endorsements of a particular bank's products are ever subject to critical questioning then all other competitors will face the same criticism (Housby, 2013). For that reason, there is a need for creativity in thinking, perhaps from a new generation of scholars, especially from Britain, who could perform this task of bringing together the voices of the disadvantaged in the society to address those issues and bring newer and more appropriate products tailored to the UK market.

In terms of the issue with Islamic schools of thought, as the present literature suggests that Islamic products are built on the validity of different schools of thought; because of that, decisions of *Shariah* scholars can occasionally lead to variability in opinions on certain products (Zaher and Hassan, 2001; Karbhari *et al.*, 2004). This inconsistency in opinions has the least effect on the Muslims, as the participants indicated that they do not consult a specific *Imam* or Islamic scholar for advice regarding religious and financial matters. For them, it is very important to consult a scholar who has the knowledge of all four schools of thoughts and capable of engaging in discussions with a critical mind. Those scholars who have studied the literature and interpretation of hadiths from all schools of thoughts are seen to more critical since they tend to apply *Ijtihad* (innovative judgement) *Shura* (consultation) and *Ijma* (consensus) to several matters before making a judgement. Furthermore, they seem to have the ability to assess the problems and issues within their geographical and material contexts, rather than passing rulings based on specific or concrete principals. Saeed (1994) argues that there is a need within Islamic societies to produce Islamic scholars of the highest quality, who are capable of presenting and interpreting Islam. In return, this supply of scholars

will not only enhance the viability of Islamic banking for Muslims, but also non-Muslims will benefit from them. *Resp 16* supported this view by stating that:

“I prefer someone who knows about every *madhab* (school of thought). Because in Islamic finance there is something called ‘*muamlat*’ (the general rule in transaction). You need one who knows about every prohibition and allowed things. So it is better to consult a *Shariah* committee member rather than one ordinary scholar. So I prefer to ask to scholars from committee so they discuss among themselves because in committee you have scholars from different school of thoughts so they can discuss from different spectrums”.

Critical debates are needed to overcome the problems mentioned above in order to engage with the masses and give them a voice. The responsibility of Islamic scholars is to educate Muslims about Islamic finance without any fear from public. At the same time, these scholars should listen to needs of public and address them through proper reasoning using *Quran* and *Sunnah*. For instance, *Resp 19* expressing his views on validating on four different schools of thought, argued:

“...they provide different interpretations of *Hadiths*, but eventually they *Sic* (Islamic scholars) lead to the same path of *Quran* and *Sunnah*”.

6.4.4 Growth of Islamic Finance

6.4.4.1 Revising Islamic Banking Practices

While addressing the barriers for Muslims to engage with Islamic banking, a majority of the participants expressed positive notions towards the Islamic banking and financial services in the UK. For them, Islamic banking needs to revise current banking practices in order to meet the needs of Muslims in the UK. Participants argued that Islamic banks should introduce unique products that are easier to understand, fully *Shariah*-compliant and specialised products for women and children. These banks should innovate and

implement products that are genuinely based on profit and loss sharing in both retail and corporate banking as previously argued by Kuran (2006). They should also introduce microfinance initiatives for setting up new businesses. Some participants mentioned that Islamic banks need to bring their rates and profit margins down. For instance, *Resp 19* stated that:

“They need to bring their rates down, profit margin down, and they need to do advertising for other products as well. It is like opening a shop, sitting in it and waiting for the customers to come. And saying that nobody is coming and I am very quiet. Those days gone, you need to go to people’s territories and ask them for them, educate them, like other companies or banks are doing”.

Cizakca (1989) believes that a major factor in Islamic financial backwardness has been due to the inadequacy of credit opportunities for entrepreneurs. He argues that the development of Islamic banking requires the establishment of large numbers of venture capital firms that are able to provide funds to companies in return for some of their shares. He further maintains that Islamic banks are supposed to participate in the risks of the firms they finance. Instead of trying to differentiate themselves from conventional banks through symbolism, Cizakca notes, Islamic banks should be at the frontline of genuine venture capitalism. Siddiqui points out:

“The craving for a de novo discipline of Islamic economics is ill-conceived. No such thing is possible. The key to Islamic economics lies in positioning the Islamic vision in place of the Anglo-Saxon economic vision. But the Islamic economics vision has to be universal and contemporary, not chauvinistic and medieval”.

(Cited by Kuran, 2006, p. 54)

Agreeing with the above notion, *Resp 23* stated that “Since Islamic banks claim to be ethical and socially-orientated, they should not act like conventional banks nor follow them. It should follow its unique path that Islam guides it to follow. I think if these

banks will sincerely follow *Shariah* rules, then they won't have to worry about risk and loss. This is where I think they should sincerely revise their thinking and take a turn point". Chapra (2008) states that a different approach is required where individual country analysis is drawn for problem-solving technique. The intensity of problem is different in various countries, due to different institutional framework, historical backgrounds and prevailing social mores. Chapra (2008) therefore suggest that a blanket approach of considering all countries is not suitable for the discussion and implementation of Islamic banking, each country have to follow a specifically tailored reform programme. This programme should start by providing basic education on Islamic finance and its principles. On the notion of revising current Islamic banking practices *Resp 16* stated that:

"I think they need to change the education system even in '*Madrasha*' (Islamic school) or in schools to teach children's about *Riba*, *Gharar* and what is *halal* and *haram* and about financial transaction. This is very important because people are dealing with them in the West. They may easily take an interest on a loan and they may not know that *Riba* is strictly prohibited in Islamic and insurance. Especially there is no insurance company and I think it is a big problem for Muslims where they have to indulge in *Gharar* and they have no other option".

Kamla and Memon (2011) note that addressing business ethics in academia can help focus on linking secular and religious perspectives and provide a framework for better universal standards of ethics. They maintain that in the UK, academia is diverse and vibrant. Academic efforts to integrate business between religious and secular groups could be a beginning to replace *Shariah* scholars dominating the industry with younger British Muslim scholars who are critical and more contemporaneously engaged, to open a dialogue (Housby, 2013). Such efforts could help in developing products more suitable for the UK market as whole (Housby, 2013). The ability of Muslims focusing on critical and interdisciplinary research and education should render it possible for

them to envision new roles for accounting that more concerned with social justice, resolving social conflicts (between banks, Muslims and scholars) and improve human conditions (Chua, 1986; Tinker and Neimark, 1988; Dillard, 1991). For instance, interdisciplinary and critical research expands on the areas of research covered in mainstream and conventional accounting. Such research will offer new insights into the role of accounting in different contexts as well as raise a concern for reflection and critical theory (Hopwood, 1983; Cooper, 1983, Chua, 1986).

Another participant, *Resp 2* maintained that it would be good to revise Islamic banking practices with a rigid effort of *Ijtihad*, however without questioning the core principles of Islamic law as prescribed in the *Quran* and *Hadiths*. As *Allah* mentions in the *Quran* (Chapter 5, Verse. 3) “This day, I have perfected your religion for you, completed My Favour upon you, and have chosen for you Islam as your religion” thus, “there is no addition required in the religion”. However, there is always a need for newer interpretations of Islamic text to meet the challenge impose by contemporary problems (Saeed, 1994). Esposito and Voll (2001) maintain that *Ijtihad* should not be bound to the responsibility of *Ullama*, but the community should devote themselves to reinterpretation. Furthermore, Islamic studies have long ignored the ‘discourse of oral culture’ (Arkoun, 2002). The exclusion of the public from Islamic religious studies and history is not only an issue in present-day religious studies, but even in mediaeval times the leaders taught openly and masses were kept away from the scholarly debates (Kamla, 2012). For Arkoun (2002) this practice is mainly a result of the arrogance of scientific reasoning, which does not give believers the opportunity to speak and ignores the importance of human beliefs. Therefore, increased integration of Islamic scholars and Islamic industry is needed to overcome the issues and help Muslims understand

that what true essence of Islamic banking is. But this is not only the task for *Ullamas*; I believe that Islamic banks should see themselves more socially responsible than profit-orientated. Unless these institutions start to fully understand Islamic banking and its main purpose, the chances may not look great for its growth. Agreeing with notion, *Resp 11* mentioned his views:

“...I think the issue is around how they should revise it. I think what can be done that there needs to be more educations to the banks. But it can't be done from a banking system where basically they need to detach themselves from the business minds and go out and promote the ideology rather than the actual product. So they need to get into or start portraying the marks and providing more literature and structured to the *Imams* and the scholars etc. to help the Muslims to understand what the roots of those products are because even now there is a lot of suspicion around Islamic products. ... I don't even think that the banks understand the products themselves so until we get this understanding and we say look from the root here is what you should be doing and here is what we can offer and be honest about things and you may be able to get something. ...when you have an Islamic bank who says that is very good for your religion and you are doing the right thing for you but we are making a lot of money from you as well, that becomes very complicated and the problem right now is that the banks when you look at the Islamic products, it looks a lot more expensive and it is more expensive”.

6.4.4.2 Islamic Banking with a Postmodern Approach

In finding whether Muslims see postmodern approach of giving space in which everybody's voices can be heard to solve the existing problems of Islamic banking in the UK, the participants replied very positively to the notion of rethinking of problems in the light of contemporary society with the exception of one participant, *Resp 9* who rejected the idea of postmodernism and argued that postmodernism could not exist without a proper Islamic political system. He further affirmed that:

“When you are talking about postmodernism and Islamic banking in the West, in the East, in Makkah, near the Kaaba, it is a non-starter in the absence of a correct unifying political system for the Muslims that has throne of the shackles, of sovereign states, which is a model that has been forced down our throat by Colonialism”.

The remaining participants argued that although Islam is a complete religion, and it does not require any further questioning of the universal laws, but newer interpretations of *Quranic* texts and *Hadiths* are necessary in order to solve contemporary problems. Many participants claimed that to an extent Islam itself proposes postmodernist approach to consult on matters and finding solutions, while pointing out this notion, *Resp 24* stated that:

“Islam itself is a projection of postmodernism as its teachings and understanding comes from the interpretation of four different schools of thoughts. If you read the Islamic literature, you will find that it is filled from different narrators throughout the history. *Allah* tells us to listen to people’s problems and find solution from *Quran*, *Hadiths* and do *Ijtihad* if necessary”.

Participants argued that Islamic banks should start looking to provide for everybody’s needs in society, as there are people from diverse backgrounds and religious beliefs. However participants argued same time that these banks cannot satisfy the financial needs of everyone at this very early stage. People have to be patient for the industry to prosper as expressed by one of the participants *Resp 2* that “they are growing in their business and helping Muslims to stay away from interest bearing transactions and illegal activities” or people have to compromise on some aspects such as service levels or accessibility, if they have to live in the UK and choose to become and remain customers of Islamic banks for *Shariah*-compliant products. For instance, those Muslims who have chosen to stay in Britain have already made their choice to leave their homeland and settle here and the generations after have decided to remain settled

here; they will have to compromise on many things. However, the practices of *Qiyas* and *Ijtihad* can be a way forward for Islamic banks towards achieving success²⁰⁷. These Islamic banks should become more socially-orientated rather than being called as profit-hungry. They need to bridge the gap between Islamic industry and Islamic scholars to overcome the problem of lack of awareness and understandability among the people. On this notion, *Resp 11* expressed his views

“What can be done is that there needs to be more educations to the banks, but it can’t be done from a banking system where basically as a business they need to detach them from the business minds and go out and promote the Islamic ideology rather than the actual product. They need to start providing more literature and structured material to the *Imams* and the scholars to help the Muslims to understand what the roots of those products are”.

Islamic scholars and the Muslims, especially those living in the West, should revise and find better solutions for tackling problems, so British Muslims can be better integrated in the society. It would also seem more practical for Islamic banks to adapt and implement new methods and products for Muslims, rather than let public suffer in a dilemma of whether to choose Islamic banking and whether their products and services are *Shariah*-compliant and ethical.

In terms of gaining opportunities, Islamic banks need to start concentrating on the existing problem of Muslims and propose remedies which are ‘Islamically preferable and economically viable’. Both Islamic scholars and *Shariah* scholars need to engage themselves in the practice of ‘*Ijtihad*’ so they can overcome the confusions in understanding Islamic industry and in the minds of consumers. They can do this by streamlining products and making them easier and simpler. For instance, the principles

²⁰⁷ *Qiyas* is a process of applying a known injunction to a new circumstance and create a new injunction.

of *Riba* and profit and loss sharing (PLS) have been examined and written about extensively, however, to turn it in to a full-fledged theory and develop working models.

Resp 25 supported the above and stated that:

“The issue many other Muslims and I are facing or need to face is the Islamic products being too expensive. Due to this a lot of people choose conventional mortgages as they can’t afford an Islamic one. Also when I approach any Islamic scholar to get advice on Islamic banking or mortgages, they don’t have a clue of what is Islamic mortgage and how it works. I think first these scholars need to integrate themselves in to the industry and work together on making affordable products that are also easier to understand”.

Sardar (2003) states that first “we need to operationalise and develop a contemporary understanding of the relevant concepts from the conceptual matrix” (p. 40). For example, scholars need to have a comprehensive and analytical understanding of such concepts as ‘*Shura*’ (co-operating for the good) and ‘*Ijtihad*’. All of these and many other concepts outlined in *Shariah* need to be elaborated so that it becomes a proper developed form of knowledge from which further theoretical understanding can derive and practical models could be developed (Sardar, 2003). On this notion, Shah (2000) stresses “no explanation is final but each contributes to the development of theory, pointing to further possibilities and venues” (p. 106). Accordingly, Islamic banks and their *Shariah* board committees should and (must) design such products and practices that should serve the needs of Muslims and non-Muslims in order to increase integration in society and increased competitiveness. *Resp 23* agrees with Sardar and stated “Islamic banks should design products for both Muslims and non-Muslims if they really want to adopt postmodernist approach. Because, postmodern approach suggest that you listen to everyone in the society (male, females, other cultures and religions)”.

Sardar (2003) states that Muslims need to go beyond the traditional *Ullamas* and scholars who are content with classical and traditional positions as if old scholars has solved the problems of humanity for all time and there nothing more can be done to resolve the contemporary issues. Sardar calls a need for producing array of pragmatic alternatives and demonstrating these alternatives practically. It is such rational theoretical structure that gives “contemporary meaning to the eternal guidelines laid by *Quran* and *Sunnah*” (p. 38). Moreover, it is a form of a concept or theory that can be rendered into policy and produce practical models that can guide Muslims societies. Therefore, Sardar (2003) states that:

“The reconstruction of Muslim civilisation is both a theoretical and a practical process, each feeding on the other; theory shaping practice and behaviour and practice polishing the theory. But even before we take the initial steps towards reconstruction of our civilisation; we must begin to think, individually and collectively, like a civilisation”.
(p. 38)

6.5 Conclusion

In summary, the Interviewees expressed very critical views of the Islamic banking system. For them, if Islamic banks are truly committed to justice and equity, then these institutions must presents real potential for positive social change in the UK (Dusuki and Dar, 2007). Expensive products, lack of advertising and focus on the rich ones in society and rebranding the names of the products to make them *Shariah*-compliant were amongst the several concerns that were expressed by the participants. However, the positive attitudes towards the Islamic banking were also highlighted. It was stressed that Islamic banking is relatively a new concept, which began to emerge in late-nineteenth century and has been developing constantly around the world. Its activities are based on *Shariah* law; supervised by SSBs and regulated by AAOIFI. For all interviewees, the most satisfying part in dealing with Islamic finance is that their

investment is not used in unethical investment projects. However, the interviewees have shown apprehensions over the authenticity of the products and services of Islamic banks. They argued that Islamic banks in the UK seem to employ the same *Shariah* scholars between their boards, which consequently reduced opportunities for newer and young scholars creating a lack of effort for innovative ideas and the development for new products in Islamic finance. According to Housby (2013), the popularity of Islamic financial products is declining due to the authenticity of Islamic products. This notion however, will be explored in more detail in the next chapter by examining the perceptions of Islamic banks and Islamic scholars.

In terms of providing equality and maintaining social justice, participants argued that Islamic banks lack in following these concepts through their services. Since their products are more expensive than those of the conventional banks, people have to pay more to satisfy their religious obligations. This failure in delivering fairness and equality is therefore being identified as a barrier behind the betterment of society. Additionally, concerns have been raised that Islamic banks have both limited activities and insufficient amount of branches throughout the country and limited staff. For that reason, Kuran (2006) and Kamla (2009) maintain that Islamic finance globally needs to engage more critically with the dominating practices of the industry and they highlight the gaps between the normative claims and the actual practices. Table 6.2 lists a summary of findings attained in this chapter.

This chapter has provided an analysis of the interviews conducted with Muslims in the UK, highlighting some major issues and gaps. In order to explore these issues further

from the banking perspective, the next chapter outlines the findings of the questionnaire survey with Islamic scholars and Islamic banking employees to fill the gaps.

Table 6.2: Summary of Main Findings

Subject	Findings
1. Perceptions of Islamic Banking Practices	
Understanding and Awareness	<ul style="list-style-type: none"> • Islamic banking is a <i>Riba</i>-free banking based on PLS sharing concept • Islamic banking is an ethical banking • In Islam, there is no concept of banking
Islamic banking Objectives	<ul style="list-style-type: none"> • IBs have spotted a gap in the market • IBs are exploiting the weakness of religious conscious consumers • Should pay more attention to social responsibility and help poor ones • Be more transparent to earn the trust of people especially non-Muslims • Help the underprivileged by providing loans such as <i>Qard Hassan</i> • Make SSBs' members more transparent
Socio-economic Role	<ul style="list-style-type: none"> • IBs' products do not reflect social justice and equality • Lack of opportunities for young British Muslims scholars • Repeatedly employ same <i>Shariah</i> scholars in their <i>Shariah</i> boards • Wider perspectives of betterment of society
Islamic Banking Presence	<ul style="list-style-type: none"> • IBs do not encourage people to consume <i>Shariah</i>-compliant products • Weak advertisement and lack of presence on price comparison websites. • Islamic-windows more efficient than the stand-alone IBs • These windows do not proactively promote Islamic products
2. Accessibility of Islamic Banks	
Bank Selection Criteria	<ul style="list-style-type: none"> • Lack of branches in the UK, especially in Scotland and Northern Ireland • Low service levels • Marketing only on Asian news channels and newspapers
Barriers to Growth	<ul style="list-style-type: none"> • Terminology of Islamic banking in Arabic • Lack of advertising and marketing material • Complex literature • Focus is only on Muslims
3. Role of Islamic Scholars	
Role of Islamic Scholars	<ul style="list-style-type: none"> • Islamic scholars working in British mosques are typically from abroad • <i>Imams</i> are not familiar with British youth issues. • Sermons are lectures are delivered in languages other than English • <i>Imams</i> and scholars avoiding the topics of mortgages and <i>Riba</i> • Difference in advices of scholars due to four schools of thought
4. Growth of Islamic Finance	
Revising Islamic Banking Practices	<ul style="list-style-type: none"> • Revising current products to match the demand and desire • Bring rates and profit margins down to make affordable for poor ones • Educate people over Islamic banking • Introduce courses at academic levels • Engage in practices of <i>Ijtihad</i> and <i>Qiyas</i>
Islamic Banking with a Postmodern Approach	<ul style="list-style-type: none"> • Bridge the gap between the industry and Islamic scholars • Integrate Islamic scholars within banks' boards. • Include non-Muslims in the targeted audience • Work on new product methodology

Note: This table provides a summary of main findings gathered from the interviews with Muslims.

CHAPTER 7

QUESTIONNAIRE ANALYSIS

7.1 Introduction

As mentioned in Chapter 5, the second research method employed in this thesis is a questionnaire. The main purpose of conducting this survey is to explore the perceptions and experiences of Islamic Scholars and Islamic bank employees as these groups were not available for interviews. Questionnaire surveys have long been regarded as an important tool to examine the perceptions of individuals and thereby collect primary research data (Hussey and Hussey, 1997). According to Attwergy (1998), structured questionnaires enhance data collection, quality, validity and reliability, whilst helping to develop a standard line of enquiry built on prior research responses.²⁰⁸ The design of the questionnaire surveys and the number of questions employed here were specifically designed to address the thesis's central research questions.

The chapter provides descriptive statistics regarding the general characteristics of the sample respondents before presenting and discussing the substantive findings. The remainder of this chapter is organised as follows: Section 7.2 details the sample selected and the process used to distribute, collect and analyse the questionnaire. Section 7.3 presents and explores the results while Section 7.4 provides a summary and concludes the chapter.

7.2 Designing, Distributing and Analysing the Questionnaires

Two versions of the document survey were developed before being distributed between May and July 2013 to two stakeholder groups: (i) Islamic scholars (including *Molanas Imams, Mufti* and others); and (ii) Islamic bank employees (including managers,

²⁰⁸ May (2011) suggests that self-administered questionnaires offer cheap method of data collection.

directors and advisors). According to Hussey and Hussey (1997), the piloting of questionnaires is useful in refining the questions in terms of consistency, clarity and relevance. Thus, the development of the questionnaire survey for this study involved various stages of refining, modification and pre-testing—including piloting. The questionnaires targeting Islamic scholars were distributed in major mosques in the UK with websites and contact details.²⁰⁹ Almost 200 British mosques were contacted in this way, with the questionnaires distributed online using the ‘surveymonkey’ website.²¹⁰ However, in many cases, I delivered the questionnaires to respondents at the mosques, waiting for their immediate completion and collection. The distribution of questionnaires to Islamic banking officials was carried out by visiting Islamic banks and institution’s in three cities: Birmingham, Manchester and London. These cities are the location of the most of the UK’s Islamic banks branches and headquarters.

In terms of ease of collecting data, the questionnaires aimed at Islamic scholars took less time and effort, since most of them were distributed online using the ‘surveymoneky’ website. For Islamic banking questionnaires, I contacted several Islamic banks based in UK by personal visits and sending emails to collect the completed surveys. Overall, around half of the surveys were collected online and the other half via hard copies. Both questionnaire surveys were designed in the English language before being piloted using local scholars and *Imams* from the Dundee area for the Islamic scholar survey and academic post-graduate researchers and employees of Islamic banks for the bank-based document. The participating respondents’ feedback was then incorporated into the questionnaire and amended versions were sent to my

²⁰⁹ These mosques were contacted using (www.mosquedirectory.co.uk) website.

²¹⁰ www.surveymoneky.com

supervisors before being finalising for distribution. Although the two versions of the questionnaire surveys were similar, the Islamic banking version was longer as it had two more questions than the Islamic scholar's version. The final versions are shown in Appendices 7.1 and 7.2 respectively.

The Islamic scholar version of the survey consisted of five sections: (i) general information, i.e. demographic profile of the respondents; (ii) Islamic banking practices, i.e. the objectives and responsibilities of Islamic banks including their presence and role in educating Muslims about Islamic finance; (iii) accessibility of Islamic banks, covering bank selection criteria and the advertising of Islamic banks; (iv) role of *Shariah* scholars, exploring the extent of their participation and engagement in educating Muslims regarding their Islamic finance; (v) growth of Islamic banks, exploring the need to revise Islamic banking practices by adopting a postmodern approach. The Islamic banking version of the document was similar to the Islamic scholars' version, with the addition of one section, (vi) *Shariah* compliance, this final section aimed to gather the insights of Islamic banking officials about their products and services and the level of their *Shariah* compliance. Copies of both questionnaire surveys are provided in Appendices 7.1 and 7.2.

The questionnaire surveys employed structured questions including an "other (please specify)" option where applicable. In addition, at the end of each survey, respondents were given the opportunity to add comments related to their personal perception or experience. All the questions were designed on a five-point Likert Scale, where 5 equate

to “strongly agree” and 1 point to “strongly disagree”, to reflect the respondent’s opinions²¹¹.

As mentioned in Chapter 2, there are around 1600 mosques in the UK. Out of these around 600 have websites and of these 300 contain contact details including email address. Emails were sent to all of these however, 100 undelivered notifications were received. A total of 200 questionnaires were therefore distributed, 84 of which were returned, although 24 of these proved to be unusable due to incompleteness. With respect to the bank questionnaire, banking employees working for Islamic banks and in Islamic-windows were contacted. 23 questionnaire surveys were sent to these employees, all of which all were completed and returned. A further 20 surveys were personally handed out to employees and directors of Islamic banks, 15 of which were returned, giving a total of 38 useable responses for the Islamic bank employee group. Table 7.1 shows the numbers of questionnaires distributed to each group, the number of returned questionnaires and the response rate. The rates shown in the table are based on the usable number of questionnaires.

²¹¹ Nachmias and Nachmias (1992) suggest that Likert scaling measures respondents’ attitudes in an objective way.

Table 7.1: Questionnaire Response Rates

Respondent Groups		<i>Distributed Questionnaires</i>	<i>Returned Questionnaires</i>	<i>Useful Questionnaires</i>	<i>Response Rate</i>
Islamic Scholars (SC)	Molanas (ML)	200	84	60	30%
	Imams (IM)				
	Muftis (MT)				
Islamic Banks (BK)	Management (MG)	43	43	38	88.4%
	Advisors (AD)				
	Directors (DR)				
Total		243	127	98	40.3%

Note: This table reports the number of distributed and collected questionnaires, plus the response rate across respondent groups.

The next stage of the questionnaires process involved an in-depth analysis of the data in order to understand the perceptions of all respondents. In this regard, Hussey and Hussey (1997) highlight that the use of different methods to study the same phenomenon leads to greater validity and reliability. For that purpose, the data was manually entered into Microsoft Excel spreadsheets. Questions were listed in columns along with their response codes. The data was then transferred to the Statistical Package for Social Science (SPSS) software. Descriptive statistics were calculated using to find means and standard deviations to see if a common consensus was evident. According to Rosly and Seman (2003), a high mean with low standard deviation would suggest a common consensus has been reached by the respondents on a particular statement, as the mean identifies the centre of the data and standard deviation measures the degree of disagreement among the respondents. However, one cannot conclude that respondents have a common understanding of the philosophy of Islamic banks by merely looking at the mean while disregarding the dispersion around it. Since almost all of the questions were based on Likert Scale, non-parametric (Mann-Whitney (M-W) and Kruskal-Wallis (W-S)) tests were employed. Oppenheim (1992) states that these two criteria are

essential prerequisites for high quality analysis. The Mann-Whitney test is a test of the null hypothesis used to determine whether a difference exists between the averages of two independent group; the logic behind the test is to rank data for each condition and then see how different the two ranks are. The Kruskal-Wallis test is used to determine whether a difference exists between three or more populations (Anderson *et al.*, 2009). Before running these non-parametric tests, the data was checked against for reliability and validity. According to Bryman (2008), three aspects should be considered when testing for reliability: (i) stability, referring to consistency over time; (ii) internal reliability, examining whether scores on one indicator tend to be related to score on other indicators; (iii) inter-observer consistency. The most common test for reliability of data is Cronbach's Alpha test. An acceptable level of internal reliability is often cited as 0.6 or above (Sekran, 2003). The Cronbach's Alpha test for Islamic scholars' survey generated scores of 0.89 and 0.75 for Islamic bank's survey implying an acceptable level of internal consistency in the survey results.

7.3 Results

7.3.1 Respondents' Background

The first section of the questionnaire survey asked for information regarding individual's backgrounds; the responses are summarised in Table 7.2. Inspection of Table 7.2 reveals that 57 (95%) of the Islamic Scholar questionnaire respondents were male and 3 (5%) were female. For the Islamic banking survey, 33 (84%) were male and 5 (13%) female. The table also highlights that respondents' ages varied from less than 30 to more than 60 years for the Islamic banking survey, suggesting a wide range of experience among the respondents. In addition, these respondents were well-educated, as only 11 held education less than Bachelor degree level; 21 had Bachelor degrees; 20

held Master's degrees; 1 had a PhD; and the remaining 7 had gained other professional qualifications. In the Islamic Banking survey, 2 respondents had education less than bachelor degree level; 6 had Bachelor degree; 16 held Master's degree; 5 had PhDs and the remaining 8 had gained other professional qualifications. This evidence suggests that all participants were well educated and qualified to understand questions about Islamic banking in the UK. With the Islamic scholar survey, 6 respondents had been in their current role for less than a year; 24 had worked for between 1-5 years; 15 had spent more than 5 years in position; and 15 of them more than 10 years. In the Islamic banking survey, 4 had experience of less than 1 year; 11 had between 1-5 years; 15 had worked for 6-10 years; and 8 had been employed for more than 10 years.

Table 7.2: Demographic Characteristic of the Participants

Variables	Categories	Respondent Numbers							Total
		Islamic Scholars			Total	Islamic Banks			
		ML	IM	MU		MG	AD	DR	
Gender	Male	23	23	11	57	15	11	7	33
	Female	3	0	0	3	3	1	1	5
Age	Less than 30 years					0	0	0	0
	From 31 to 40 years					2	5	0	7
	From 41 to 50 years	N/A	N/A	N/A	N/A	3	2	3	8
	From 51 to 60 years					0	0	1	1
	More than 60 years					0	0	0	0
Level of Education	Less than Bachelors	7	4	0	11	1	1	0	2
	Bachelors	10	7	4	21	5	0	1	6
	Masters	6	11	3	20	9	3	4	16
	PhD	1	0	0	1	0	4	1	5
	Professional Qualification	2	1	4	7	3	3	2	8
Years of Experience in Current Role	Less than 1 year	0	5	1	6	4	0	0	4
	From 1 to 5 years	10	10	4	24	8	3	0	11
	From 6 to 10 years	10	4	1	15	6	5	4	15
	More than 10 years	6	4	5	15	0	4	4	8
Islamic Bank Dealt with	Al-Buraq					4	2	1	7
	HSBC Amanah					3	5	1	9
	Islamic Bank of Britain	N/A	N/A	N/A	N/A	5	2	4	11
	Lloyds TSB <i>Shariah</i>					2	1	2	5
	Al-Ansar Muslim					4	2	0	6
Dealing with Islamic Banks	Less than 1 year	3	5	0	8				
	From 1 to 5 years	10	6	5	21				
	From 6 to 10 years	1	1	2	4	N/A	N/A	N/A	N/A
	More than 10 years	0	1	1	2				
	Not Dealing	11	10	3	25				

Note: This table depicts demographic information about the respondent groups. The Islamic Scholar survey has three groups: ML = *Molanas*, IM = *Imams*, MU = *Muftis*. Islamic bank survey also has three groups: MG = Management, AD = Advisors and DR = Directors.

Amongst the Islamic scholars, 8 had dealt with Islamic banks for less than 1 year, 21 had dealt with them for 1-5 years; 4 for between 6-10 years; 2 for more than 10 years whilst 25 had not dealt with Islamic banks at all. With the Islamic Banking survey, 7 respondents had dealt and worked with the Al-Buraq Islamic Bank, 9 had dealings with HSBC (via its Islamic-window), 11 with the Islamic Bank of Britain, 5 with Lloyds

TSB (via its Islamic-window) and 6 with the Ansar Muslim finance group, demonstrating a rich diverse mix of backgrounds. Finally, Table 7.2 indicates that of the Islamic Scholar survey respondents, 26 were fully qualified to be regarded as *Molana* who had studied for at least six years, 23 identified themselves as *Imams* and 11 as *Muftis*. However, in the Islamic Banking survey, 18 were managers, 12 were involved in advisory roles and 8 were directors.

7.3.2 Objectives of Islamic Banks

This section of the questionnaire aimed at gathering information on Islamic scholars' and Islamic banking employees' views about the objectives pursued by UK Islamic banks namely: (i) to provide *Riba* free products; (ii) to provide ethical banking; (iii) to play a role in establishing social justice; (iv) to provide *Shariah*-compliant products; (v) to meet the needs of UK Muslims; (vi) to encourage overseas investment in the UK; and (vii) profit maximisation. The results of this enquiry for the scholar survey are revealed in Panel A of Table 7.3, while Panel B reveals the results for banking survey and Panel C compares the two sets of results.

Inspection of Panel A reveals that all three scholar groups: *Molanas*, *Imams* and *Muftis* (and bankers in Panel B) strongly believe that Islamic banks should provide *Riba*-free products; the highest overall mean of 4.816 (sub-groups 4.692, 4.956 and 4.818 respectively). This was followed by “establishing social justice in society” with a mean of 4.733 and strong support in all three sub-groups. These findings regarding Islamic scholars' views are consistent with the views of UK Muslims reported in Chapter 6, where many respondents argued that Islamic banks currently provide products that are falsely termed ‘*Riba*-free’ products and do not play any role in enhancing social justice.

For both Islamic scholars and bankers, the least important objective of Islamic banks was “to encourage overseas investment in the UK”, which achieved the lowest overall mean score in each case. Table 7.3 also reports the results of a test examining the significance of differences in participants’ opinions. Notably, the p-value for the Kruskal-Wallis test is significant for questions 5(f), suggesting that there is a difference of opinion among the groups. However, the Mann-Whitney test reveals no significant difference between individual sub-group pairs. In contrast, *Imams* and *Muftis* had significantly different views regarding meeting the needs of Muslims in the UK, with the *Muftis* seeing this as relatively unimportant. To explore this issue further, I discussed the findings with a number of *Muftis* who suggested that the evidence may reflect *Muftis* typically not considering Islamic banking as a necessity for Muslims. Some argued believe that Muslims can live in the UK without taking mortgages and engaging in interest-bearing activities, suggesting that they can live in rented properties and choose not to put their saving in accounts to earn interest.

Table 7.3: Objectives of Islamic Banks in the UK

Panel A: Scholars										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				ML	IM	MU		ML-IM	IS-MU	IM-MU
Q5a. Provide <i>Riba</i> free products	60	4.816	0.596	4.692	4.956	4.818	0.368	0.195	0.917	0.190
Q5b. Provide ethical banking	60	4.066	1.039	4.269	3.869	4.000	0.266	0.100	0.443	0.686
Q5c. Play a role in establishing social justice	60	4.733	0.482	4.730	4.695	4.818	0.837	0.979	0.576	0.583
Q5d. Provide <i>Shariah</i> -compliant products	60	4.466	0.853	4.538	4.434	4.363	0.797	0.498	0.798	0.812
Q5e. Meet the needs of UK Muslims	60	3.416	1.211	3.423	3.782	2.636	0.797	0.344	0.065	0.012*
Q5f. To encourage overseas investment funds in to the UK	60	3.283	1.106	3.423	3.130	3.272	0.040*	0.304	0.603	0.745
Q5g. Profit maximisation	60	4.383	0.804	4.346	4.521	4.181	0.400	0.594	0.352	0.176
Panel B: Bankers										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				MG	AD	DR		MG-AD	MG-DR	AD-DR
Q5a. Provide <i>Riba</i> free products	38	4.605	0.495	4.555	4.750	4.500	0.515	0.442	1.000	0.356
Q5b. Provide ethical banking	38	4.289	0.731	4.055	4.500	4.500	0.131	0.80	0.114	1.000
Q5c. Play a role in establishing social justice	38	3.921	0.881	3.888	4.083	3.750	0.637	0.486	0.797	0.411
Q5d. Provide <i>Shariah</i> -compliant products	38	4.684	0.471	4.611	4.750	4.750	0.733	0.694	0.667	1.000
Q5e. Fill the gap in the industry for ethnic minority Muslims	38	4.315	0.701	4.388	4.250	4.250	0.890	0.721	0.778	1.000
Q5f. Meet the needs of UK Muslims	38	3.421	0.948	3.333	3.666	3.520	0.642	0.395	0.931	0.525
Q5g. To encourage overseas investment funds in to the UK	38	3.368	1.050	3.388	3.583	3.000	0.494	0.665	0.405	0.262
Q5h. Profit maximisation	38	3.947	0.868	3.888	3.916	4.125	0.866	0.962	0.599	0.640

Note: Panels A and B of the table show the mean and standard deviation (StDv) for all respondents regarding questions about the objectives of Islamic banking in the UK. It also provides the mean for each group and p-values for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. SC = Scholars (ML = *Molanas*, IM = *Imams*, MU = *Muftis*). BK = Islamic Banks (MG = Management, AD = Advisors and DR = Directors). Responses are based on a five-point Likert Scale where 5 = very important, 4 = important, 3 = neutral, 2 = of little importance and 1 = not important at all.

Panel C: Scholars-Bankers				
Questions	Mean SC	Mean BK	Group Means SC-BK	M-W P-values
				SC/BK
a. Provide <i>Riba</i> free products	4.816	4.605	0.211	0.002*
b. Provide ethical banking	4.066	4.289	-0.233	0.516
c. Play a role in establishing social justice	4.733	3.921	0.812	0.000*
d. Provide <i>Shariah</i> -compliant products	4.466	4.684	-0.218	0.516
e. Meet the needs of UK Muslims	3.416	3.421	-0.005	0.970
f. To encourage overseas investment funds in to the UK	3.283	3.368	-0.085	0.682
g. Profit maximisation	4.383	3.947	0.436	0.007*

Note: Panel C of the table shows the mean for scholars and Bankers' questionnaire responses regarding questions about the objectives of Islamic banking in the UK. It provides the group means for both surveys and p-values for the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. Responses are based on a five-point Likert Scale 5 = very important, 4 = important, 3 = neutral, 2 = of little importance and 1 = not important at all.

The views of scholars and bank workers are compared in Panel C of Table 7.3, and in three of the seven cases they differ significantly. The lowest p-value of 0.000 was observed for the notion of Islamic banks playing a role in establishing social justice with a mean of 4.733 for scholars and 3.921 for banks. As noted earlier, the views of scholars are in line with results in Chapter 6 whereas bankers appear to be less concerned with the justice issue, suggesting less concern with the issue in the industry than is consistent with the theory of Islamic banking. The significant difference in participants' views concerning the provision of *Riba* free products may reflect that Islamic products and services in the UK are not fully *Riba*-free, and scholars see this as a bigger issue than do the bankers. There is also a significant difference reported regarding the profit maximisation motive. The p-value of 0.007 could be seen as a somewhat surprising result, that scholars view Islamic banks to be driven more for profit maximisation than do bankers.

The findings in Table 7.3 as a whole suggest scholars and bankers see Islamic banking as having many important roles, both ethical and practical, in meeting the needs of UK Muslims. These opinions are similar to those of everyday Muslims documented in Chapter 6, whereby Islamic banks were desired to go beyond traditional capitalism and find ways to provide more *Riba*-free products and services and put more emphasis on social responsibility. This evidence is in line with the argument of Dusuki and Abdullah (2007) who contend that Islamic banking customers prioritise social responsibility and with Chapra's (1985) model of Islamic banks having a socio-economic purpose.

In addition, the results suggest that Islamic banks' objectives are not only to meet the needs of British Muslims, but also to cater for the needs of non-Muslims. These ethical

conscious Muslims and non-Muslims have no problem dealing with Islamic banks if they are able to prove to be more ethical and transparent in their activities (Sairally, 2007). For instance, one of the participants from the scholars' survey has stated that: "Whilst Islamic Banks provide a *Shariah*-compliant option to Muslims, they do so in accordance to the letter of the law, often ignoring the spirit of the law. More transparency and honesty is incumbent upon the Banks to shift this paradigm" (Scholar, 61)²¹².

7.3.3 Responsibilities of Islamic Banks

The next section of the questionnaire sought to shed light on views about the responsibilities of Islamic banks in the UK. Table 7.4 summarises the responses regarding each of the seven suggestions. The overall mean values shown in Panel A of the table suggest that Islamic scholars view serving the needs of the Muslim community to be the most important responsibility of Islamic banks in the UK, with an overall mean of 4.111. Similarly, the overall mean values shown in Panel B reveal that bankers also see serving of these as most important, with an overall mean of 4.289, although following *Shariah* law yielded the same mean. This evidence might be seen as expected as it is consistent with previous literature which has suggested that Islamic finance has become more widely recognised by both Muslims and non-Muslims (Venardos, 2010). The result is also consistent with the views of Muslims in the UK highlighted in Chapter 6, including the opinions that: "Islamic banks' responsibilities are to give new products, which can tackle the need of the Muslims and non-Muslims in the UK" (*Resp 3*). In this

²¹² In addition, more respondents have stated that: "Islamic Banks need to be more transparent about their products and provide the consumer with comparison of cost with conventional banking. I am sure as Muslims we don't mind to pay a small premium for *Shariah* compliance products, but this needs to be transparent".

regard, Beekun and Badwai (2005) have argued that the societal responsibility of Islamic financial systems should not be limited to approaching, educating and serving Muslims and Non-Muslims; everyone should also have the right to equal employment and shareholding opportunities within financial institutions. Additionally, (Housby, 2013) states that Islamic banking is perceived by non-Muslims as a form of ethical banking and its chances of growth are high if it can convince this demographic about its potential. However, the above findings suggest that Islamic scholars and Islamic banks are at this stage still heavily focused on the Muslim community.

The results for the Mann-Whitney tests comparing groups of responses shown in Panel A of Table 7.4 reveal a difference in opinion between *Imams* and *Muftis* as to whether Islamic banks should help people make comparisons with conventional products. The results of the Mann-Whitney test reveals that *Muftis* (mean =2.636) were less supportive of this statement than *Imams* (3.956). Additionally, the Mann-Whitney results reveal disagreement over the importance of publishing accurate annual reports; again the *Muftis* generated a significantly lower mean than one of the other groups, in this case the *Molanas*²¹³. Taken together these results suggest that *Muftis* place relatively little importance on the conventional role of financial institutions, instead seeing ethical and spiritual factors as more fundamental. To explore this notion, I spoke to a *Mufti* about the issue. He agreed that, as a *Mufti*, he is likely to put more emphasis on religious matters than issues of transparency.

²¹³ For instance, one of the scholars argued that: “Islamic Banks need to be more transparent about their products and provide the consumer with a comparison of conventional banking costs. I am sure as Muslims we don't mind paying a small premium for Sharia compliance products, but this needs to be transparent” (*Molana* 59).

Table 7.4: Responsibilities of Islamic Banks

Panel A: Scholars										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				ML	IM	MU		ML-IM	IS-MU	IM-MU
Q6a. Serve the needs of the Muslim community	60	4.111	1.043	4.153	4.347	3.545	0.251	0.241	0.419	0.134
Q6b. Encourage people to consume <i>Shariah</i> -compliant products	60	3.883	1.043	3.884	4.043	3.545	0.595	0.432	0.697	0.380
Q6c. Follow <i>Shariah</i> law	60	3.983	1.185	4.230	4.000	3.363	0.339	0.813	0.146	0.236
Q6d. Help people make comparisons with conventional products	60	3.400	1.187	3.461	3.695	2.636	0.072	0.454	0.066	0.031*
Q6e. Publish accurate annual reports	60	3.383	1.945	3.692	3.347	2.727	0.091	0.255	0.035*	0.191
Q6f. Provide detailed information about their <i>Shariah</i> board members	60	3.516	1.228	3.615	3.695	2.909	0.182	0.605	0.110	0.092
Q6g. Be active in the community to educate Muslims about Islamic banking	60	3.683	1.308	3.653	4.000	3.090	0.125	0.144	0.340	0.069
Panel B: Bankers										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				MG	AD	DR		MG-AD	MG-DR	AD-DR
Q6a. Encourage people to consume <i>Shariah</i> -compliant products	38	4.210	0.528	4.277	4.250	4.000	0.469	1.000	0.385	0.395
Q6b. Follow <i>Shariah</i> law	38	4.289	0.611	4.388	4.166	4.250	0.736	0.431	0.708	0.962
Q6c. Help people make comparisons with conventional products	38	3.552	0.978	3.333	4.083	3.250	0.086	0.050	0.763	0.092
Q6d. Serve the needs of the Muslim community	38	4.289	0.611	4.166	4.416	4.375	0.510	0.342	0.422	1.000
Q6e. Be active in the community to educate Muslims about Islamic banking	38	4.000	0.735	3.833	4.083	4.250	0.327	0.342	0.207	1.000
Q6f. Publish accurate annual reports	38	4.052	0.803	4.111	3.916	4.125	0.817	0.570	1.000	0.640
Q6g. Provide detailed information about their <i>Shariah</i> board members	38	4.131	1.017	4.333	4.000	3.875	0.457	0.562	0.215	0.559

Note: Panel A and B of the table shows the mean and standard deviation (StDv) for all respondents regarding questions about the responsibilities of Islamic banks in the UK. It also provides the mean for each group and p-values for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. SC = Scholars (ML = *Molanas*, IM = *Imams* and MU = *Muftis*). BK = Islamic Banks (MG = Management, AD = Advisors and DR = Directors). Responses are based on a five-point Likert Scale where 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree.

Panel C: Scholars-Bankers				
Questions	Mean SC	Mean BK	Group Mean SC-BK	M-W P-values
				SC/BK
a. Serve the needs of the Muslim community	4.111	4.289	-0.178	0.868
b. Encourage people to consume <i>Shariah</i> -compliant products	3.883	4.210	-0.327	0.192
c. Follow <i>Shariah</i> law	3.983	4.289	-0.306	0.544
d. Help people make comparisons with conventional products	3.400	3.552	-0.152	0.664
e. Publish accurate annual reports	3.383	4.052	-0.669	0.005*
f. Provide detailed information about their <i>Shariah</i> board members	3.516	4.131	-0.615	0.011*
g. Be active in the community to educate Muslims about Islamic banking	3.683	4.000	-0.317	0.601

Note: Panel C of the table shows the mean for scholars and Banks questionnaire responses regarding questions about the responsibilities of Islamic Banks in the UK. It provides the group means for both surveys and p-values for the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. Responses are based on a five-point Likert Scale where, 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree.

The results for both scholars and bankers shown in Panel C of Table 7.4 reveal some difference in opinions regarding the responsibility of Islamic banks in the UK. Bankers generated higher mean values than did the scholars in all seven cases. In two cases the differences are significant: first, scholars placed less importance on publishing accurate annual reports and providing detailed information about their *Shariah* board members than did the bankers. This pattern in the findings may reflect the fact that Islamic scholars place less importance on disclosure and transparency requirements, and may not fully understand the importance of providing detailed information about their activities to the public. This evidence suggests that a gap exists between the Islamic banking industry and Islamic scholars regarding the need for disclosure and transparency. The views of bankers are however consistent with the views of Muslims reported in Chapter 6 who documented that they prefer Islamic banks to be more transparent about their *Shariah* board members and their activities.

7.3.4 Bank Selection Criteria

The next section of the questionnaire survey focused on the criteria used to choose particular Islamic banks. A list of ten potential factors were identified and listed in Table 7.5 as questions Q7a-Q7j. Inspection of Panel A of the Table 7.5 reveals that “presence of a *Shariah* board with high-profile Islamic scholars” achieved the strongest support among all three groups of Islamic scholars, with an overall mean of 4.583. However, the table also reports significant differences in scholars’ views over this issue with a p-value of 0.045 from the Kruskal-Wallis test and a Mann-Whitney result indicating stronger support from *Molanas* than from *Muftis*. A significant difference is also evident regarding the “inclusion of high-profile Islamic scholars” between *Imams* and *Muftis*. This indicates that *Muftis* are less supportive of the need to include high-

profile Islamic scholars in Islamic banks' *Shariah* boards than are *Imams*. Table 7.5 also reports the results of tests examining the significance of differences in participants' views concerning the factors used in bank selection criteria. Most notably, the p-values for the Kruskal-Wallis test are highly significant in Panel A for the provision of Internet banking facilities, with a significant p-value of 0.041. Examination of the p-values from the Mann-Whitney test results reveal disagreement between *Molanas* and *Muftis* and also between *Imams* and *Muftis*, which suggests *Muftis* are less concerned about the provision of internet facilities than are other scholars. The results in Panel A also reveal a significant difference between *Molanas* and *Muftis* over "advice from friends and relatives" in bank selection criteria, indicating once again lower support from *Muftis*. For the factor "country-wide branch network", the Kruskal-Wallis test results reveal a significant difference across the three groups, with the Mann-Whitney test revealing a disagreement between *Molanas* and *Muftis* and between *Imams* and *Muftis*; again, the *Muftis* generated the low average figures. Lastly, for the factor "inclusion *Qard Hassan* in products", the Kruskal-Wallis test revealed a significant difference amongst the groups; the Mann-Whitney results reveal that once more it is the *Muftis*' low averages that are driving the significant findings. This is particularly surprising here, as *Muftis* have deeper knowledge of *Shariah* and pass on Islamic rulings on a daily basis; the inclusion of *Qard Hassan* is a core concept in Islamic finance and has been so since the time of Prophet Muhammad (PBUH)²¹⁴.

²¹⁴ In a follow-up discussion with a *Mufti*, he revealed that those in his position prefer Islamic banks to design products that already have grace periods and other help in the event of payment default, rather than just giving people interest-free loans. He further argued that in present day society such loans will not help people engage in productive activity, whereas re-working *Mudarabah* and *Murabahah* products and making them more accessible will help people to engage with the industry.

Inspection of Panel B reveals that bankers also viewed high-profile scholars' presence as the most important although in this case with no significant sub-group differences. The views of scholars and bankers are, therefore, in contrast with those of everyday Muslims evident from Chapter 6, as it has documented that they prefer to use a diverse range of highly qualified scholars rather than 'celebrity-type' names, which are typically used by every other Islamic bank. For the everyday Muslims, Chapter 6 revealed that the important factors in bank selection criteria are: competitive package and rates²¹⁵, country-wide branch network²¹⁶, provision of internet banking facilities²¹⁷ and *Qard Hassan*²¹⁸. With the exception of advice from friends and family, all mean responses were above the mid-point of 3, suggesting a broad degree of satisfaction with all the factors suggested when making a choice between Islamic banks.

The next strongest support amongst scholars regarded the statement concerning the "knowledge of employees about the products", with an overall mean of 4.466 shown in Panel A. This suggests that scholars agree with the views of Muslims that knowledge of Islamic banks and Islamic-windows is essential and Islamic banking staff should be trained to attract a wide-range of customers; "quality of service" had the third strongest level of support among the scholars, with an overall mean of 4.416. Bankers, in contrast, ranked quality of services as second most important, followed by employee knowledge.

²¹⁵ "If they make the product more accessible, make the product cheaper, and I think that is really it. If the product is cheaper most of us will go for it (*Resp* 13, Interviews with Muslims).

²¹⁶ "I would also benefit from having more branches around" (*Resp* 7, Interviews with Muslims).

²¹⁷ "I have never seen a single Islamic bank in the list of price comparison websites (*Resp* 3, Interviews with Muslims).

²¹⁸ Kuran (2007) maintains that Islamic banks' main strengths in attracting Muslims are their ability to include *Qard Hassan* in the products.

Table 7.5: Choice between Islamic Banks

Panel A: Scholars										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				ML	IM	MU		ML-IM	ML-MU	IM-MU
Q7a. Presence of a <i>Shariah</i> board of high-profile Islamic scholars	60	4.583	0.907	4.576	4.826	4.090	0.045*	0.733	0.056	0.019*
Q7b. Bank Reputation	60	4.083	1.124	4.192	4.304	3.363	0.316	0.939	0.173	0.164
Q7c. Provision of internet banking facilities	60	4.050	1.064	4.153	4.374	3.181	0.041*	0.313	0.047*	0.019*
Q7d. Quality of service	60	4.416	0.743	4.500	4.565	3.909	0.193	0.549	0.149	0.089
Q7e. Knowledge of employees about the products	60	4.466	0.724	4.500	4.478	4.363	0.903	0.900	0.718	0.660
Q7f. Advice from friends and relatives	60	3.556	0.980	3.769	3.652	2.909	0.075	0.703	0.021*	0.079
Q7g. Country-wide branch network	60	4.083	0.961	4.384	4.130	3.272	0.018*	0.474	0.004*	0.044
Q7h. Competitive packages and rates	60	4.300	0.829	4.423	4.347	3.909	0.544	0.602	0.282	0.491
Q7i. Inclusion of <i>Qard Hassan</i> in products	60	4.066	1.071	4.115	4.391	3.272	0.024*	0.475	0.038*	0.006*
Q7j. The amount of funds available	60	4.266	0.860	4.076	4.521	4.181	0.348	0.169	0.915	0.305
Panel B: Bankers										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				MG	AD	DR		MG-AD	MG-DR	AD-DR
Q7a. Presence of a <i>Shariah</i> board of high-profile Islamic scholars	36	4.578	0.500	4.500	4.750	4.500	0.364	0.260	1.000	0.356
Q7b. Bank Reputation	36	4.368	0.785	4.444	4.000	4.750	0.115	0.357	0.216	0.091
Q7c. Provision of internet banking facilities	36	3.842	1.103	3.833	3.750	4.000	0.675	0.682	0.612	0.370
Q7d. Quality of service	36	4.526	0.556	4.555	4.333	4.750	0.285	0.368	0.420	0.167
Q7e. Knowledge of employees about the products	36	4.421	0.598	4.333	4.500	4.500	0.670	0.454	0.712	1.000
Q7f. Advice from friends and relatives	36	3.342	1.279	3.333	3.583	3.000	0.589	0.585	0.589	0.299
Q7g. Country-wide branch network	36	3.657	1.145	3.500	3.833	3.750	0.679	0.399	0.576	1.000
Q7h. Competitive packages and rates	36	4.000	1.039	3.888	4.166	4.000	0.820	0.573	1.000	0.608
Q7i. Inclusion of <i>Qard Hassan</i> in products	36	3.684	0.933	3.833	3.666	3.375	0.604	0.700	0.345	0.611
Q7j. The amount of funds available	36	3.710	1.037	3.722	3.750	3.625	0.934	0.998	0.793	0.788

Note: Panel A and B of the table shows the mean and standard deviation (StDv) for all respondents regarding questions about the factors in making a choice between Islamic banks in the UK. It also provides the mean for each group and p-values for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. SC = Scholars (ML = *Molanas*, IM = *Imams* and MU = *Muftis*). BK = Islamic Banks (MG = Management, AD = Advisors and DR = Directors). Responses are based on a 5-point Likert Scale where 5 = Most important, 4 = important, 3 = neutral, 2 = of little importance and 1 = not important at all.

Panel C: Scholars-Bankers				
Questions	Mean SC	Mean BK	Group Means SC-BK	M-W P-values
				SC/BK
a. Presence of a <i>Shariah</i> board of high-profile Islamic scholars	4.583	4.578	0.005	0.165
b. Bank Reputation	4.083	4.368	-0.285	0.333
c. Provision of internet banking facilities	4.050	3.842	0.208	0.307
d. Quality of service	4.416	4.526	-0.11	0.614
e. Knowledge of employees about the products	4.466	4.421	0.045	0.493
f. Advice from friends and relatives	3.556	3.342	0.124	0.437
g. Country-wide branch network	4.083	3.657	0.426	0.070
h. Competitive packages and rates	4.300	4.000	0.30	0.163
i. Inclusion of <i>Qard Hassan</i> in products	4.066	3.684	0.382	0.033*
j. The amount of funds available	4.266	3.710	0.556	0.005*

Note: Panel C of the table shows the mean for scholars and Bankers questionnaire surveys regarding questions about the factors used in making choice between Islamic banks in the UK. It also provides the group means for both surveys and p-values for the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. Responses are based on a 5-point Likert Scale where 5 = Most important, 4 = important, 3 = neutral, 2 = of little importance and 1 = not important at all.

The views of scholars and bankers are compared in Panel C of Table 7.5, which reveals that Mann-Whitney tests found a significant difference between scholars and bankers' (p-value of 0.033), indicating that Islamic scholars are more supportive of *Qard Hassan* in Islamic banks' products. This finding is consistent with the views of Muslims reported in Chapter 6 who stated that they strongly wish Islamic banks to offer products that include *Qard Hassan* (or something similar) to help the poor. Another significant difference between scholars and bankers is evidenced in the case of "the amount of funds available", where Islamic scholars generated the higher mean. This result suggests that scholars' views are once again consistent with the views of everyday Muslims who expressed a desire for Islamic banks to provide extensive loans and mortgages. For instance, one of the banking employees stated that: "While it has been encouraging to observe the growth of Islamic banking in the UK, many Muslims including myself may find it difficult to reconcile the fact that we live in a secular country where some products offered are not as competitive as the ones in the high street. If we are given an option to take the non-Islamic product which is cheaper, then why wouldn't we given the financial constraints we live in" (*Director 4*). On the other hand, one of the participants in the scholars survey stated that Islamic banks should "join the government schemes in which they help to lower the deposit from 20 to 5 per cent, like conventional banks are doing, and offering high lending amounts" (*Imam 40*).

In summary, there is broad agreement that a range of factors are important in the selection of Islamic banks, although the *Muftis* were more circumspect in most cases.

In general, the views of scholars are more consistent with the views of everyday Muslims outlined in the previous chapter than were those of bankers. If the Islamic banking industry is to achieve long term success in the UK, it must listen (and respond)

to the voices of UK Muslims, and note their need for provision of internet banking facilities, qualified scholars, inclusion of *Qard Hassan* and country-wide branch networks (including Scotland and Ireland), rather than focusing solely on quality of service.

7.3.5 Spreading Knowledge about Islamic Banking and Finance

This section of the questionnaire survey investigated ways in which knowledge of Islamic banking can be spread. Table 7.6 shows a list of eight possible ways suggested in the extant literature. Inspection of Panel A in Table 7.6 reveals that mosque visits achieved the highest support among scholars with an overall mean rank of 6.516. The next highest level of support among scholars was reached for “conferences and workshops” with an overall mean rank of 5.983, and “Internet advertisement” (5.833)²¹⁹. These results indicate that scholars’ views are in line with those reported in Chapter 6, where every day Muslims were shown to believe that Islamic banks should market their products rigorously through mosque visits, conferences and workshops²²⁰.

Inspection of Panel B of the Table 7.6 reveals that mosque visits also reached the highest level of agreement among bankers with an overall mean of 6.578. The second highest level of agreement was reached for “TV ads” with an overall mean of 5.552 followed by Internet advertisement with an overall mean of 3.973. These results indicate that Islamic bankers’ see potential for advertising and marketing to promote their products. Nevertheless the views, as with scholars, prioritise mosque visits.

²¹⁹ Inspection of Mann-Whitney and Kruskal-Wallis tests revealed no significant difference across the three user groups.

²²⁰ For instance, an interviewee from Chapter 6 stated that: “I think that the problem with the Islamic Bank of Britain is, they don’t market their product very well and they leave it up to individuals to go away and find out” (*Resp* 13).

Despite this perception, Chapter 6 revealed that practice does not yet reflect this, with Muslims claiming to have seen very few Islamic banking employees visiting their local mosques to educate them about Islamic banking or to market their presence in the community. For instance, an interviewee, *Resp* 18 stated that: “I think, they are not encouraging people, because you have to go to the community, and to reach to the community is through the mosques, so their advertisement is not using the correct venue”.²²¹

Inspection of Panel B of Table 7.6 reveals some significant differences in the bankers’ views. “Direct mailing” generated significant difference among all three groups with a Kruskal-Wallis p-value of 0.019. A closer look at the results from the Mann-Whitney tests reveal that the difference is driven by advisors being much supportive of direct mailing and mosque visits as means of spreading knowledge of Islamic banking. For advisors, the preferred methods are TV ads and conferences and workshops. There was a significant disagreement between management and advisors over conferences and workshops, where management were less concerned about conferences and workshops and instead strongly preferred Mosque visits. This could be due to the high costs involved in travelling and organising conferences across the country and management’s greater awareness of these. A significant disagreement was also evident between directors and management with the former being less positive about the role of door-to-door advertising.

The views of scholars and bankers are compared in Panel C of Table 7.6, and in five of the eight cases, the average rank differed significantly. The significant p-values

²²¹ As the researcher being Muslim himself and visiting mosques around the UK, I have not seen any Islamic banking workshops or literature being supplied.

included the cases of direct mailing, newspaper and magazines and radio indicating that scholars viewed these methods as less valuable than did bankers. These views of scholars' are however consistent with the opinions of Muslims evidenced in the last Chapter, who also seemed to be less concerned with these ways of advertising. In contrast, internet advertisement and door to door visits saw significantly higher average ranks generated by scholars. Overall, therefore, there appears to be a clear difference in perception about the ways in which education about Islamic banking can best be spread and grown. Perhaps most importantly in the modern world, scholars appear to be more appreciative of the potential of the internet.

Table 7.6: Spreading Knowledge about Islamic Banking and Finance

Panel A: Scholars										
Method	No	Mean Rank	StDv	Group Means			K-W P-values	M-W P-values		
				ML	IM	MU		ML-IM	ML-MU	IM-MU
Q8a. Internet Advertisement	60	5.883	1.795	6.000	5.73	5.909	0.745	0.548	0.825	0.500
Q8b. Door to door visits and leaflets	60	4.183	2.404	3.800	4.434	4.545	0.615	0.348	0.521	0.985
Q8c. Conferences and workshops	60	5.983	1.556	6.307	5.869	5.454	0.243	0.266	0.117	0.475
Q8d. TV ads	60	5.083	1.670	5.038	5.173	5.000	0.899	0.674	0.748	0.896
Q8e. Mosque visits	60	6.516	1.761	6.500	6.869	5.818	0.213	0.448	0.258	0.076
Q8f. Direct mailing	60	3.366	1.437	3.615	3.130	3.272	0.309	0.137	0.342	0.876
Q8g. Newspapers and Magazines	60	3.033	1.517	3.153	2.826	3.181	0.464	0.227	0.918	0.442
Q8h. Radio	60	2.066	1.466	1.576	2.260	2.818	0.164	0.225	0.078	0.332
Panel B: Bankers										
Method	No	Mean Rank	StDv	Group Means			K-W P-values	M-W P-values		
				MG	AD	DR		MG-AD	MG-DR	AD-DR
Q8a. Internet Advertisement	38	3.973	2.541	3.166	4.500	5.000	0.168	0.227	0.072	0.645
Q8b. Door to door visits and leaflets	38	4.447	2.423	5.222	4.250	3.000	0.081	0.263	0.030*	0.302
Q8c. Conferences and workshops	38	3.578	2.261	2.888	4.583	3.625	0.132	0.037*	0.587	0.418
Q8d. TV ads	38	5.552	2.036	5.722	5.583	5.125	0.723	0.959	0.450	0.514
Q8e. Mosque visits	38	6.578	1.793	7.227	5.333	6.875	0.064	0.023*	0.437	0.197
Q8f. Direct mailing	38	4.263	1.926	4.166	3.333	5.875	0.019*	0.251	0.040*	0.009*
Q8g. Newspapers and Magazines	38	4.258	1.753	4.227	4.416	4.125	0.942	0.824	0.899	0.772
Q8h. Radio	38	3.421	1.810	3.277	4.000	2.875	0.497	0.388	0.450	0.364

Note: Panel A and B of the table shows the mean and standard deviation (StDv) for all respondents regarding questions about ways in which knowledge of Islamic banking can be spread in the UK. It also provides the mean for each group and p-values for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. SC = Scholars (ML = *Molanas*, IM = *Imams* and MU = *Muftis*). BK= Islamic Banks (MG = Management, AD = Advisors and DR = Directors). Responses are based on an eight-point ranking where 8 = most popular and 1 = most unpopular.

Panel C: Scholars-Bankers				
Method	Mean SC	Mean BK	Group Means	M-W P-values
	Rank	Rank	SC-BK	SC/BK
a. Internet Advertisement	5.883	3.973	5.142	0.000*
b. Door to door visits and leaflets	4.183	4.447	4.285	0.562
c. Conferences and workshops	5.983	3.578	5.051	0.000*
d. TV ads	5.083	5.552	5.265	0.191
e. Mosque visits	6.516	6.578	6.540	0.911
f. Direct mailing	3.366	4.263	3.714	0.014*
g. Newspapers and Magazines	3.033	4.258	3.520	0.000*
h. Radio	2.066	3.421	2.591	0.000*

Note: Panel C of the table shows the mean for scholars and Bankers questionnaire surveys regarding questions about the methods by which knowledge of Islamic banking can be spread in the UK. It provides the group means for both surveys and p-values for the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. Responses are based on an eight-point ranking where, 8 = most popular and 1 = most unpopular.

7.3.6 Role of Islamic Scholars

Having explored the objectives and responsibilities and selection criteria of Islamic banks in the UK, the survey proceeded to examine the role of Islamic scholars' in contributing towards the establishment and growth of Islamic banks in the UK. A list of potential issues was identified from the previous literature on the role and advice of Islamic scholars, questions Q9a-Q9e as listed in Table 7.7. Inspection of Panel A of the table reveals that the statement "there is a lack of understanding among Muslims in the UK of the nature of Islamic banking" endured the strongest level of agreement among the scholars, with an overall mean of 4.633, followed by "there is a lack of awareness among the Muslims relating to the availability of Islamic banking and finance in the UK", with a mean of 3.766. Panel B of the table reveals that bankers viewed the lack of awareness issue as in most relevant, with an overall mean of 3.868. This finding is in line with previous literature, which suggests that Islamic banks do not actively promote Islamic banking through advertisement²²². Instead, these banks and institutions wait for the religious and ethically-conscious people to come to them for their needs, meaning that they are competing for same the customers (Housby, 2013)²²³.

This finding is also consistent with the results of Akbar *et al.* (2012), who reported a need for increased awareness among Muslims- through marketing- of Islamic banking products and services. In terms of whether the advice of Islamic scholars differs when making decisions on Islamic financial issues regarding the four schools of thought²²⁴,

²²² Islamic-windows have also been criticised for not actively taking part in promoting Islamic products among society (Karbhari *et al.*, 2004).

²²³ For instance, a participant from Chapter 6 stated that: "... they need to do advertising for other products as well. It is like opening a shop, sitting in it and waiting for the customers to come" (*Resp* 19).

²²⁴ The four schools of thought in Islam are built upon the teachings and understanding of four *Imams*: *Hanfi* (699-767 CE), *Shafi* (767-820 CE), *Malaki* (711-795 CE) and *Hanabli* (780-855 CE), see Chapter 2 for details.

the means shown in Table 7.7 reflect 65 per cent of the respondents agreeing and 58 per cent of the respondents in the banking survey. These findings are in line with the views of Iqbal and Mirakhor (1999), who noted that the opinions of *Shariah* advisors differ on the basis of following different schools of religious thought while examining and evaluating products, causing confusion among both Muslims and non-Muslims. With regards to the issues of a lack of understanding among Muslims, it can be argued that any lack of understanding among Muslims might reflect a lack of education by Islamic scholars on the issues relating to Islamic finance²²⁵. The mean of 2.336 generated by the scholars in this regard is one of the lowest reported in any of five-point Likert scale tables in this chapter. Also in this context a respondent from Chapter 6 maintained that “Islamic scholars actively avoid debates concerning Islamic finance”, further suggesting a disconnect.

²²⁵ For example, a scholar stated that: “the banks need to communicate with the scholars and bridge the gap” (*Mufti* 68).

Table 7.7: Role of Islamic Scholars

Panel A: Scholars										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				ML	IM	MU		ML-IM	ML-MU	IM-MU
Q9a. There is a lack of understanding among Muslims in the UK of the nature of Islamic banking	60	4.633	0.519	4.615	4.652	4.636	0.995	0.933	0.984	0.929
Q9b. Muslims in the UK seek advice from Islamic scholars over their financial matters	60	3.000	1.235	3.115	3.043	2.636	0.536	0.773	0.268	0.391
Q9c. There is a lack of awareness among Muslims regarding the availability of Islamic banking in the UK	60	3.766	0.980	3.692	3.869	3.727	0.728	0.461	0.958	0.555
Q9d. Do Islamic scholars communicate with Islamic banks to educate Muslims regarding the availability of Islamic finance	60	2.336	0.990	2.346	2.304	2.545	0.757	0.726	0.611	0.475
Q9e. Does the advice of Islamic scholars differ when making a decision regarding the four schools of thought	60	3.716	1.059	3.576	3.695	4.090	0.234	0.578	0.096	0.203
Panel B: Bankers										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				MG	AD	DR		MG-AD	MG-DR	AD-DR
Q9a. Do you consider that Islamic scholars in the UK play an important role in educating Muslims on financial matters?	38	3.236	1.125	3.277	3.500	2.750	0.344	0.633	0.239	0.154
Q9b. Muslims in the UK seek Islamic banks for advice on <i>Shariah</i> -compliant products	38	3.236	0.852	3.277	2.916	3.625	0.178	0.325	0.238	0.111
Q9c. There is a lack of awareness among Muslims regarding the availability of Islamic banking in the UK	38	3.868	0.905	3.888	4.000	3.625	0.430	0.647	0.435	0.292
Q9d. There is a lack of understanding among Muslims in the UK of the nature of Islamic banking	38	3.763	0.942	3.666	4.000	3.625	0.622	0.369	0.925	0.437
Q9e. Do individual <i>Shariah</i> board members differ when making a decision in regards to following four schools of thought	38	2.894	1.007	2.722	2.916	3.250	0.600	0.617	0.311	0.641

Note: Panel A and B of the table shows the mean and standard deviation (StDv) for all respondents regarding questions about the role of Islamic scholars in Islamic banking in the UK. It also provides the mean for each group and p-values for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. SC = Scholars (ML= *Molanas*, IM = *Imams*, MU = *Muftis*). BK = Islamic Banks (MG = Management, AD = Advisors and DR = Directors). Responses are based on a five-point Likert Scale where 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree.

Panel C: Scholars-Bankers				
Questions	Mean SC	Mean BK	Group Means SC-BK	M-W P-values
				SC/BK
a. There is a lack of understanding among Muslims in the UK of the nature of Islamic banking	4.633	3.868	4.295	0.000*
b. Muslims in the UK seek advice from Islamic scholars over their financial matters	3.000	3.236	3.091	0.301
c. There is a lack of awareness among Muslims regarding the availability of Islamic banking in the UK	3.766	3.236	3.806	0.572

Note: Panel C of the table shows the mean for scholars and bankers' questionnaire responses regarding questions about the role of Islamic scholars in Islamic Banking in the UK. It provides the group means for both surveys and p-values the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. Responses are based on a five-point Likert Scale where, 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree.

The statistical tests presented in Panels A and B of Table 7.7 show no differences in the views of sub-groups of scholars and bankers' in regards to role of Islamic scholars in the development of Islamic banking in the UK. However, when the comparing the responses of scholars and bankers as a whole in Panel C, the results reveal a highly significant difference in the case of "lack of understanding among the Muslims in the UK of the nature of Islamic banking", the scholars in this case expressing the strongest support. Clearly Islamic scholars will have relatively closer interactions with Muslims in so far as the teachings and issues of Islamic finance principals are concerned, so this evidence suggests that bankers may be underestimating the importance of gaps in understanding. However, from the analysis presented in Chapter 6, everyday Muslims reported that Islamic scholars (*Molanas, Imams and Muftis*) lack the understanding of contemporary implications of Islam, including the modern financial context, as their focus of religious education is more towards fundamental theological issues, leaving Muslims with an incomplete understanding of the former.

7.3.7 Growth of Islamic Banking

The next section of the questionnaire sought to shed light on the growth of Islamic banking in the UK. Table 7.8 summarises the responses regarding each of potential six reasons for the growth of Islamic banking in the UK. Inspection of Panel A of the Table 7.8 reveals that Islamic banking providing a *Shariah*-compliant alternative to conventional banking was seen as the most important factor by the scholars, with an overall mean of 4.050, followed by the notions that Muslims have gained more knowledge of the presence of Islamic banking in the UK (mean = 3.126). This evidence is consistent with the earlier analysis which showed that Islamic banking's as *Shariah*-compliance is one of the important reasons for its popularity. Scholars, however,

generated the lowest mean (2.850) for the statement suggesting that the “British government to promote Islamic banking for Muslims and non-Muslims”. This finding is new and is in contrast with the evidence of previous literature which has suggested that the British Government is active in promoting Islamic finance and its services in the UK, including proposing an Islamic index for the London Stock Exchange; removal of double stamp-duty (Hamzah, 2010); simplifying the tax relief on mortgages and allowing Muslims to practice their financial beliefs without any restrictions (Ainley *et al.*, 2007). The results in Panel B reveal that bankers see the initiatives and support of the British government to be the one of the most important factors behind the growth of Islamic banking in the UK, with an overall mean of 3.868. This indicates that bankers are aware of the changes and initiatives offered by British government, and presumably, have a sound understanding and knowledge of their impacts. However, for bankers, the key motivation behind the growth of Islamic banks in the UK reported in Panel B appears to be the increase in knowledge among Muslims of the presence of Islamic banks in the UK, with overall mean of 4.000. These views of Islamic banking employees are the highest different from of everyday Muslims documented in Chapter 6, who argued that Islamic banking still has not made itself sufficiently available to the full geographical area of the UK. In particular, it was argued that the institutions only have branches in Muslim populated areas and therefore target Muslim customers only. Islamic financial banks have very low presence in Scotland and Northern Ireland where many Muslims remain financially disadvantaged.

Table 7.8: Growth of Islamic Banks

Panel A: Scholars										
Factors	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				ML	IM	MU		ML-IM	ML-MU	IM-MU
Q10a. Islamic banking provides a <i>Shariah</i> -compliant alternative to conventional banking	60	4.050	0.928	4.192	4.087	3.636	0.369	0.708	0.171	0.268
Q10b. Investments of surplus funds in Western countries to earn large profits	60	2.900	0.915	3.115	2.913	2.363	0.075	0.323	0.028*	0.122
Q10c. Conventional banks have maintained Islamic-windows to boost Islamic banking	60	3.116	1.090	3.230	3.043	3.000	0.649	0.507	0.373	0.847
Q10d. Muslims have gained more knowledge of presence of the Islamic banks in the UK	60	3.216	0.884	3.192	3.130	3.454	0.401	0.725	0.324	0.157
Q10e. The British government has taken several initiatives to promote Islamic banking for both Muslims and non-Muslims	60	2.850	1.132	3.076	2.695	2.636	0.382	0.246	0.257	0.834
Q10f. Changes in attitudes after the 9/11 events	60	3.183	1.065	3.115	3.260	3.181	0.909	0.748	0.677	0.939
Panel B: Bankers										
Factors	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				MG	AD	DR		MG-AD	MG-DR	AD-DR
Q10a. Islamic banking provides a <i>Shariah</i> -compliant alternative to conventional banking	38	3.947	1.137	3.666	4.000	4.500	0.143	0.225	0.083	0.535
Q10b. Investments of surplus funds in Western countries to earn large profits	38	3.631	0.970	3.611	3.583	3.750	0.950	0.859	0.856	0.793
Q10c. Conventional banks have maintained Islamic-windows to boost Islamic banking	38	3.684	0.873	3.777	3.833	3.250	0.298	0.939	0.200	0.186
Q10d. Muslims have gained more knowledge of presence of the Islamic banks in the UK	38	4.000	0.735	4.277	3.750	3.750	0.094	0.053	0.141	0.986
Q10e. The British government has taken several initiatives to promote Islamic banking for both Muslims and non-Muslims	38	3.868	0.905	3.777	3.916	4.000	0.877	0.640	0.858	0.875
Q10f. Changes in attitudes after the 9/11 events	38	3.052	0.898	2.833	3.000	3.625	0.077	0.649	0.043*	0.088

Note: Panels A and B of the table shows the mean and standard deviation (StDv) for all respondents regarding questions about the growth of Islamic banks in the UK. It also provides the mean for each group and p-values for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. SC = Scholars (ML=*Molanas*, IM = *Imams* and MU = *Muftis*). BK = Islamic Banks (MG = Management, AD = Advisors and DR = Directors). Responses are based on a five-point Likert Scale where 5 = strongly, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree.

Panel C: Scholars-Bankers				
Factors	Mean SC	Mean BK	Group Means SC-BK	M-W P-values
				SC/BK
a. Islamic banking provides a <i>Shariah</i> -compliant alternative to conventional banking	4.050	3.947	4.010	0.893
b. Investments of surplus funds in Western countries to earn large profits	2.900	3.631	3.183	0.001*
c. Conventional banks have maintained Islamic-windows to boost Islamic banking	3.116	3.684	3.336	0.011*
d. Muslims have gained more knowledge of presence of the Islamic banks in the UK	3.216	4.000	3.520	0.000*
e. The British government has taken several initiatives to promote Islamic banking for both Muslims and non-Muslims	2.850	3.868	3.244	0.000*
f. Changes in attitudes after the 9/11 events	3.183	3.052	3.123	0.491

Note: Panel C of the table shows the mean for scholars and bankers' questionnaire responses regarding questions about the growth of Islamic Banking in the UK. It also provides the group means for both surveys and p-values the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. Responses are based on a six-point Likert Scale where, where 5 = strongly, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree.

The Mann-Whitney tests in Panel A of Table 7.8 reveal that *Molanas* see “investment of surplus funds in Western countries to earn large profits” to be more important than do the *Muftis*. Once again, this could be due to *Muftis*’ having more knowledge about religious issues than of “conventional” banking and its processes. However, when I spoke to a *Mufti* with regards to this difference in the views the latter himself could not think of an obvious reason for this, suggesting this might be a useful issue for future exploration. Inspection of Panel B reveals a difference in the views of bank managers and bank directors over changes in attitudes after the 9/11 events; a mean of 2.833 was generated by managers and 3.625 by Directors. This result suggests that directors, further removed from day-to-day business than managers, were more concerned about the events’ impacts than was warranted in practice.

In terms of comparing the scholar survey with banker reported in Panel C of Table 7.8, the results reveal four significant differences out of six in the views of scholars and bankers’. The notion that Muslims have gained more awareness and knowledge of the presence of Islamic banks in the UK generated a p-value of 0.000 with bankers expressing the stronger degree of support. This finding is unexpected and as previous studies of (e.g. Omer, 1992; Karbhari *et al.*, 2004) found Muslims to have poor knowledge of Islamic in the UK. However, the views of bankers are in line with the views of everyday Muslims outlined in Chapter 6, where awareness of Islamic banking in the UK was revealed to be relatively stronger.

A second significant difference was in found over the notion that the “British government has taken several initiatives to promote Islamic banking for both Muslims and non-Muslims”. The Mann-Whitney p-value of 0.000 indicates that bankers see

much more active in promoting Islamic banking in the UK than do scholars. This finding could reflect, as suggested, earlier, that bankers as part of the industry simply have more knowledge of the changes and initiatives offered by the government, but these developments have not been made sufficiently well-known to ensure scholarly awareness. With regards to the statement relating to the provision of Islamic-windows, a highly significant p-value of 0.011 resulted, indicating that bankers see these facilities playing a role in the industry's growth to a greater extent than do Islamic scholars. These views of bankers' are similar to earlier findings of Pollard and Samers (2007), who found the Islamic banking industry to very optimistic about conventional banks introduction of Islamic-windows into market. The views of ordinary Muslims documented in Chapter 6 reveals that they find Islamic-windows to be more accessible than stand-alone Islamic banks²²⁶, since they provide a range of services, from current accounts to Islamic mortgages with high standards of customer services. Consistent with the latter perception, Akbar *et al.* (2012) report that in the UK the operations and running of conventional banks are more user-friendly than Islamic banks. In addition, the authors document that the operations and products of Islamic banks in the UK are complex in understanding, as compared to the "smoothly run, user friendly conventional banking practices" (Akbar *et al.*, 2012), leading Muslims to prefer Islamic-windows. Although the scholars here were more equivocal about the roles of windows, reflecting their theoretical background, one noted that: "the Islamic banking system is too complex for the normal people to fully grasp its understanding and the products offered" (*Molana* 1). In support of greater accessibility and educating Muslims, another scholar acknowledged that: "the growth of Islamic banking is dependent on the education of the masses about its products, competitive pricing and

²²⁶ "Islamic banking needs to be more accessible and more Islamically inclined" (*Imam* 76).

easy accessibility to financing” (*Molana* 69).²²⁷ The notion that investments of surplus funds in Western countries could be used to generate growth amongst Islamic banks also generated a significant p-value, in this case of 0.001. Again it was the bankers that were most supportive, possibly reflecting a greater awareness of the industry than that possessed by the scholars. It is clear from examining Panel C as a whole that bankers’ proximity to the Islamic finance industry on a day-to-day basis leads them to have greater understanding and awareness of a wide range of growth methods.

7.3.8 Scholars’ views of Factors Hindering the Growth of Islamic Banking in the UK

This section of the questionnaire was intended to shed light on perceptions of scholars²²⁸ regarding the factors that could hinder the growth of Islamic banking in the UK. A list of possible factors, identified from the extant literature on Islamic banking from scholar’s perspective, is provided in Table 7.9. Inspection of the table reveals that all factors have a mean above mid-point of 3, indicating concern that a wide range of factors could hinder the growth of Islamic banking in the UK. However, A detailed analysis of Table 7.9 reveals that “misconceptions about Islamic among non-Muslims” gained the highest agreement among the scholars with an overall mean of 4.150. This evidence is in line with the evidence of *Ainley et al.* (2007) who indicated that the opportunities for Islamic banking’s expansion are significant, particularly if it can convince the UK population about its ethical dimension and its suitability for non-

²²⁷ In similar context, a scholar stated that Islamic banks should join the government schemes in which they help to lower the deposit from 20% to 5% like what conventional banks are doing” (*Imam* 40).

²²⁸ This set of questions was solely deigned for scholars so as to gather their perceptions regarding the industry and factors behind its growth. Originally, this set of questions was sent to five bankers but when completing the questionnaire survey they all ignored this section. It could be argued that they did not know want to highlight negative issue pertaining to Islamic banking; in any case, the initial lack of banker engagement meant that a decision was made to only send the main survey document to the scholars.

Muslims who prioritise this issue. Similarly, Kamla and Memon (2011) maintain that if Islamic finance is to play a dominant role, it must concentrate on promoting investments on universal ethical grounds. This evidence here is also consistent with the results of Ahmad (2000) and Rosly and Bakar (2003) who report that, by using Islamic banking products and services, Muslims have become more ethically conscious, developing a sense of responsibility regarding the impact of their actions on society. The factor that gained the next highest levels of agreement was the issue of a “lack of trust regarding Islamic banks’ compliance with *Shariah* principles”, with the overall mean of 4.016 indicating that *Shariah* compliance is seen as a key priority by the scholars. In this careful context, the assessment of products by *Shariah*-compliance committees is likely to be important if the trust issue is not to represent long-term problem.

The p-value for the Kruskal-Wallis test is highly significant for “misconceptions about Islam among non-Muslims”. Inspection of the results of Mann-Whitney tests reveals that *Molanas* are in disagreement with *Muftis* over this issue, with the latter more supportive. This could be due to the fact that *Molanas* are more closely involved with the community via religious and inter-faith talks and conferences etc. These scholars have more interaction with non-Muslims and therefore have greater knowledge of the perceptions of non-Muslims about Islam than do *Muftis*, whose main duties are primarily leading prayers and issuing *fatwas*.

Table 7.9: Scholars' views of Factors Hindering the Growth of Islamic Banking in the UK

Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				ML	IM	MU		ML-IM	ML-MU	IM-MU
Q11a. Misconceptions about Islam among non-Muslims	60	4.150	0.879	3.846	4.260	4.636	0.021*	0.093	0.007*	0.196
Q11b. Islamic banking regulations	60	3.616	0.940	3.576	3.608	3.727	0.916	0.825	0.688	0.802
Q11c. Legal issues with UK law	60	3.616	0.845	3.500	3.739	3.636	0.623	0.346	0.681	0.666
Q11d. Lack of trust regarding Islamic banks' compliance with <i>Shariah</i> principles	60	4.016	0.999	3.884	4.043	4.272	0.596	0.535	0.319	0.680
Q11e. Inconsistency in scholarly advice	60	3.583	1.183	3.384	3.782	3.636	0.431	0.200	0.483	0.818
Q11f. Cultural issues	60	3.255	0.950	3.115	3.478	3.090	0.401	0.222	0.986	0.307
Q11g. Competition with conventional banking in the UK	60	3.666	1.002	3.461	4.000	3.454	0.115	0.073	1.000	0.077

Note: This table shows the mean and standard deviation (StDv) for all respondents regarding questions about the factors that may hinder the growth of Islamic banking in the UK. It also provides the mean for each groups and p-value for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. SC = Scholars (ML = *Molanas*, IM = *Imams*, MU = *Muftis*). BK = Islamic Banks (MG = Management, AD = Advisors and DR = Directors). Responses are based on a five-point Likert Scale where 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree.

The findings in Table 7.9 as a whole suggest that scholars see many factors as potentially hindering the growth of the Islamic banking industry in the UK, especially the misconceptions of the non-Muslims. In order to overcome this hurdle, Islamic banks could usefully organise workshops and other events to allow Muslims and non-Muslims to interact, and thereby educate the latter about their products and services. Islamic banks might also use TV advertisements to promote their services on non-Asian channels. In this context Housby (2013) argues that the future of Islamic banking lies in its willingness to converge with the wider ethical finance movement and satisfy its promises of wealth redistribution that are shared with other religions and secular ethical movements. By proper advertising, many of the misconceptions among non-Muslims over Islam and its financial activities, might be overcome. For Housby (2013), Islamic finance is finding itself increasingly isolated from the socio-economic needs of Muslims and non-Muslims in the UK, while Kuran (2006) has argued that “the complexities and silences of Islamic economics have contributed to its many contradictions and inconsistencies” (p .xv), i.e. making it incoherent and suspicious to many in the UK. Islamic banks can however, using a postmodern approach, of the sort discussed in Chapter 4 to overcome the issues of misconceptions and cultural differences by listening to disadvantaged and financially excluded ones (Giroux, 1991; McLaren, 1994b).

7.3.9 Bankers’ views on Islamic Products in the UK

While the previous section looked at the factors that could hinder the growth of Islamic banks in UK from the scholars’ perspective, the next section of the questionnaire survey cast light on the popularity of Islamic products and services in the UK in the eyes of the

bankers²²⁹. Panel A of Table 7.10 provides a list the main items of this sort identified in the previous literature. The lowest mean value of 2.078 occurred for *Musharakah* followed by 2.315 for *Murabahah* and 2.500 for *Mudarabah* indicating a perception of significant popularity for these products. This evidence is consistent with the previous literature, which suggests that the *Musharakah* contract is suitable for long-term financing (Hassan and Zaher, 2001), is the widely used by Islamic banks in the UK²³⁰. However, by observing the results of tests examining the significance of differences in the views of three sub-groups of bankers', the p-value for the Kruskal-Wallis test was highly significant for "*Ijara*". The pairwise analysis in the table reveals that management workers see *Ijara* to be significantly less popular than do advisors. This finding is interesting, given that many Islamic banks (including the Islamic Bank of Britain, the Ahli United Bank, Al-Buraq and the United National Bank) use *Ijara* for Islamic financing in the UK. This might explain the evidence in that, advisors closer to the process of selling products to the public, have a perception of product popularity that reflects market realities more, concerning, than that of managers of the banks concerned. The popularity of *Sukuk* bonds also shows a significant difference between the two groups, although in this case it is advisors that see less popularity for the product in UK markets. In late 2010, International Innovative Technologies (IIT) raised \$10 million from the first commercial *Sukuk* issue in Britain. At that point it was made clear that the motivation for issuing *Sukuk* was a dual one: to attract investment from overseas and to improve religiously acceptable financial products available to British Muslims with the help of the Treasury and the FSA's continued efforts. Once again, the observed

²²⁹ This set of questions was originally also sent to a group of four scholars, but it was evident that they had no knowledge regarding the popularity of Islamic products in the UK and so this part of the analysis proceeded to focus solely on bankers' opinions.

²³⁰ Islamic Bank of Britain, Al-Buraq, HSBC, Lloyds TSB.

inter-group difference in perceptions might reflect advisor proximity to the process of selling products to the public. However, with the introduction to the London market of an Islamic index in 2014 (as discussed in Chapter 2) views may change in the future.

Panel B of the Table 7.10 summarises the yes/no responses from bankers regarding whether the eight products investigated: (i) have been modified according to UK laws; (ii) are ethical, and (iii) are fully *Shariah*-compliant. Inspection of the data reveals that *Salam* and *Sukuk* are only products believed to have been modified according to UK laws. The other six products were all viewed widely as being both ethical and *Shariah*-compliant. This evidence again suggests that the industry believes its products to have major attractions and market potential.

Table 7.10: Bankers' views on Islamic Products in the UK

Panel A: Popularity of Islamic Products in the UK										
Products	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				MG	AD	DR		MG-AD	MG-DR	AD-DR
Q12a. Mudarabah	38	2.500	1.084	2.555	2.666	2.125	0.645	0.750	0.519	0.403
Q12b. Musharakah	38	2.078	1.216	1.888	2.500	1.875	0.967	0.832	1.000	0.887
Q12c. Murabahah	38	2.315	1.397	2.222	2.666	2.000	0.767	0.838	0.576	0.491
Q12d. Ijara	38	3.868	1.359	4.222	3.000	4.375	0.019*	0.017*	1.000	0.008
Q12e. Salam	38	4.763	1.364	4.7222	4.666	5.000	0.874	0.935	0.690	0.655
Q12f. Istisna	38	4.815	1.674	4.555	4.916	5.250	0.564	0.536	0.333	0.624
Q12g. Sukuk	38	3.000	2.000	2.1667	4.083	3.250	0.063	0.020*	0.239	0.459
Panel B: Islamic Banking Products										
Products	Modified according to UK laws		Ethical	Fully Shariah-compliant		Both (Ethical & Shariah-compliant)				
Q13a. Mudarabah	-		8	12		14				
Q13b. Musharakah	-		4	21		9				
Q13c. Murabahah	-		7	15		12				
Q13d. Ijara	-		5	10		19				
Q13e. Salam	9		12	9		4				
Q13f. Istisna	-		11	13		10				
Q13g. Sukuk	13		14	3		3				

Note: This table shows the mean and standard deviation (StDv) for all respondents regarding questions about which of their products are the most popular in the UK. It also provides the mean for each group and p-value for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. MG = Management, AD = Advisors and DR = Directors. Responses in Panel A are based on a seven-point rating scale where 1 = most popular, 2 = popular, 3 = somewhat popular, 4 = neutral, 5 = somewhat unpopular, 6 = unpopular, 7 = most unpopular.

7.3.10 Bankers' Views on Difficulty in *Shariah*-compliance

This set of questions was designed to gain the perceptions of Islamic banks' employees about issues that are currently being faced by Islamic banks while making products and services *Shariah*-compliant. Inspection of Panel A of table 7.11 provides a list of statements relating to difficulties faced by Islamic banks. The results reveal that the average mean values range from 3.973 to 3.342, indicating concerns, although the lack of means of 4 or above is consistent with the impression given in panel B of the previous tests, i.e. that *Shariah*-compliance is being achieved across in wide range of products. Lack of understandability of Islamic products among Muslims generated the highest overall mean of 3.973 (sub-groups 4.000, 3.833 and 4.125 for MG, AD and DR respectively). This could be due to the fact that Islamic banking uses Arabic names and terms rather than English, which might be an issue for those Muslims not of Arabic origin. In addition, the complex procedures of Islamic banks such as the calculations and implementation of PLS through complex formulas (Zaher and Hassan, 2001) could also be a significant factor here.

The next highest average response related to the contributing towards the difficulties, which has achieved the most of participants' agreement is the "lack of qualified *Shariah* scholars", with an overall mean of 3.842. This finding is consistent with previous literature (Karbhari *et al.*, 2004), which reports that the Islamic banking industry suffers from the scarcity of individuals, who are experts in banking principles as well as Islamic jurisprudence. The views of everyday Muslims reported in Chapter 6 evidenced concern over the lack of qualified *Shariah* scholars. In fact, several Islamic banks in the UK employ the same scholars for their operations and the "same half dozen names recur repeatedly on their advisory committees" (Housby, 2013), raising concerns over

excessive workload and the lack of fresh perspectives. Muslims themselves have expressed their concern in Chapter 6, over the same names appearing over and over, making them suspicious and distrustful. Muslims have indicated in Chapter 6 that by not allowing new scholars to participate, the Islamic banking industry is actively harming attempts to achieve social justice.

Another concern evident in the bankers' responses reflects to difference in the four schools of thought,²³¹ where an overall mean of 3.710 resulted. This finding is consistent with previous literature which has highlighted the lack of uniformity in religious principles applied in Islamic countries and the absence of a universally-accepted Islamic centre with responsibility for guidance and advice (Zaher and Hasaan, 2001). Islamic banks instead consult their own religious boards and advisors to seek approval for new products on an ad-hoc basis (Zaher and Hasaan, 2001). Iqbal and Mirakhor (1999) note that the opinions of *Shariah* advisors differ in examining and evaluating new products precisely because of the existence of the different schools of thought. This causes confusion among Muslims as well as non-Muslims over the uniformity of Islamic banking practices and their services. Having examined bankers' views about religious compliance, the focus now returns to the scholars and their opinions on how Islamic financial services can be improved in the UK (Iqbal and Mirakhor, 1999).

²³¹ The four schools of thoughts in Islam are built upon the teachings and understanding of four *Imams*: *Hanfi* (699-767 CE), *Shafi* (767-820 CE), *Malaki* (711-795 CE) and *Hanabli* (780-855 CE).

Table 7.11: Bankers' views on Difficulty in *Shariah*-compliance

Panel A: Bankers										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				MG	AD	DR		MG-AD	MG-DR	AD-DR
Q14a. Difficulty in obtaining capital	38	3.342	1.145	3.166	3.750	3.125	0.278	0.159	1.000	0.198
Q14b. Delay in publishing annual reports	38	3.552	1.057	3.555	3.583	3.500	0.842	0.719	0.667	0.678
Q14c. Lack of qualified <i>Shariah</i> scholars	38	3.842	0.789	3.611	4.000	4.125	0.292	0.345	0.168	0.722
Q14d. Lack of reliability of the information	38	3.342	0.908	3.277	3.333	3.500	0.894	0.952	0.746	0.734
Q14e. Difficulty of comparability of products	38	3.447	0.828	3.333	3.583	3.500	0.736	0.466	0.673	0.975
Q14f. Opinions differ across the four different schools of thought	38	3.710	0.767	3.666	3.583	4.000	0.532	0.862	0.368	0.341
Q14g. Islamic banks operating in the UK face difficulties due to operating in a non-Islamic environment	38	3.552	1.107	3.555	3.583	3.500	0.969	1.000	0.836	0.917
Q14h. Lack of understandability of Islamic products among Muslims	38	3.973	0.884	4.000	3.833	4.125	0.871	0.756	0.880	0.598

Note: This table shows the mean and standard deviation (StDv) for all respondents regarding questions about the difficulties faced while making products *Shariah*-compliant. It also provides the mean for each groups and p-value for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. BK= Islamic Banks (MG = Management, AD = Advisors and DR = Directors). Responses are based on a five-point Likert Scale where 5 = strongly difficult and 1 = very less difficult.

7.3.11 Scholars' views on Improving Islamic Finance in the UK

The next set of questions was designed to explore the perceptions of Islamic scholars concerning ways, in which the Islamic Finance industry can improve in the future. Table 7.8 provides a list of six statements relating to ways to improve Islamic banking and finance suggested in the literature. The strongest level agreement generated by the scholars was for the statement “there is a need for cooperation between Islamic banking industry and Islamic banking scholars in order to educate Muslims”, with an overall mean of 4.633. This indicates that there is a strong agreement. All three groups of scholars generated means of more than 4.5 suggesting widespread acknowledgement of the need for closer links with Islamic financial institutions²³². This is a new finding, as previous studies of Islamic finance have not focused on scholarly perceptions on the regard before. However, if Islamic scholars are to become more integrated into the industry they should be able to know the names and specification of all Islamic *Shariah*-compliant products being sold. If this is achieved, their involvement in *Shariah*-compliance could bring new ideas and in this way they can better teach Muslims about the roles of religious teaching in contemporary Islamic banking in the UK. As mentioned in Chapter 4, the postmodern thinking has advanced to a point where theoretical debates and themes intersect (Ruccio, 1991). Thus, by combining the views and knowledge of Islamic scholars (*Molanas, Imams and Muftis*) with *Shariah* scholars (scholars working within Islamic banks), Islamic banking can be open to new ideas that could better serve both Muslims and non-Muslims via Islamic and ethical dimensions.

²³² Again, the evidence is consistent views of scholars; for example, scholar 68 argued that: “The banks need to communicate with the scholars and bridge the gap”.

Table 7.12: Scholars' views on Improving Islamic Finance in the UK

Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				ML	IM	MU		ML-IM	ML-MU	IM-MU
Q15a. There is a need for qualified <i>Shariah</i> scholars that understand the needs of UK Muslims living in Western society	60	4.600	0.806	4.769	4.739	3.901	0.082	0.809	0.039*	0.065
Q15b. Islamic scholars need special training on Islamic economics to deal with current Islamic banking issues	60	4.300	1.030	4.192	4.652	3.818	0.023*	0.049*	0.308	0.007*
Q15c. There is a need for Muslims to consult Islamic scholars on financial matters	60	4.566	0.592	4.653	4.608	4.272	0.317	0.904	0.149	0.206
Q15d. There is a need for cooperation between the Islamic banking industry and Islamic scholars in order to educate Muslims	60	4.633	0.609	4.615	4.659	4.545	0.804	0.685	0.747	0.518
Q15e. Islamic banks should develop products that are easier to understand	60	4.383	0.666	4.384	4.521	4.090	0.296	0.443	0.309	0.132
Q15f. Islamic banks should develop more competitive products	60	4.183	0.892	4.038	4.391	4.090	0.286	0.182	0.859	0.172

Note: This table shows the mean and standard deviation (StDv) regarding questions about how Islamic banking can be improved in the UK. It provides the mean for each group and p-values for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. SC = Scholars (ML = *Molanas*, IM = *Imams*, MU = *Muftis*). BK = Islamic Banks (MG = Management, AD = Advisors and DR = Directors). Responses are based on a five point Likert scale where 5 = strongly agree and 1 = strongly disagree.

The statement with the next strongest level of agreement among the scholars was the “need for qualified *Shariah* scholars that understand the needs of UK Muslims living in Western society”, with an overall mean of 4.600. Housby (2011) suggests that most of the Islamic scholars working in Britain have not adapted fully to British life, with the majority of them having been born abroad before coming to the UK to serve British-born Muslims; therefore it still remains a particular challenge for them to communicate with the youth and relate to issues such as unemployment. Consequently, there is a need for British-born scholars, who are very familiar with British culture and values and can deliver speeches and sermons in English²³³. Muslims outlined related concerns in Chapter 6, regarding the ability (and shortage) of qualified scholars. For instance, *Resp* 15 mentioned that: “In respect to the *Imams*, if they start delivering the sermons, it has to be in English language. A lot of the youth are fed up of listening in Urdu or Punjabi and English is the language in this country; so things have to be done in English”. Here, Kersten (2011) has argued that Islam is timeless and recognises socio-political principles, but must be understood in a dynamic way and constantly transform to retain relevance. This transformation within Islamic boundaries could help the Islamic banking industry develop a larger role in Western societies, by offering new ways of integrating the opinions of all scholars into the development and marketing of ‘fully *Shariah*-compliant’ products and services.

Table 7.12 also reveals some difference between sub-groups of scholars. The inspection of Mann-Whitney test results reveal that *Imams* believe significantly more strongly in the need for scholarly training in Islamic economics than did the *Molanas* and *Muftis*.

²³³ In this context, a scholar has claimed that Muslims are not allowed to work for banks that sell interest-based products and services. If this is the case, then Muslims societies all over Europe could face high levels of unemployment.

This difference might reflect the fact that *Imams* themselves have less education on Islamic terminology and their duty is simply to lead prayers (see Chapter 2 for details). For that reason, they see a need for special training to deal with issues relating specifically to Islamic banking and finance. In addition, the *Muftis* appear to have significantly less concern about the need for qualified *Shariah* scholars that understand the needs of Western Muslims than do the other groups, *Molanas* in particular. A *Mufti* was again contacted to seek out his views in this area. He argued that there is certainly a need for *Shariah* scholars, however it is not the duty of these scholars to identify, design and implement the products according to people's needs. *Shariah* scholars only authenticate the products and check their validity according to Islamic laws; they have no involvement in understanding the needs of UK Muslims. Therefore, that *Muftis* generated a low average for this statement is not inconsistent with extant religious systems and processes.

The findings in Table 7.12 as a whole suggest that scholars see a strong need for cooperation between the Islamic banking industry and Islamic scholars. This evidence is in line with the views of everyday Muslims from Chapter 6. Such cooperation and integration should help allay any doubts among scholars and Muslims regarding the authenticity of Islamic banking products and more generally, enable Islamic scholars to better educate Muslims on Islamic finance. This suggestion is also underpinned by the evidence in the table suggesting Islamic scholars believe that by consulting them over the issues of Islamic finance, Muslims can gain better knowledge and understanding.

7.3.12 Empowering Disadvantaged Muslims Communities

According to Penna and O' Brien (1996), in postmodernists' investigation of change many differences, blunders and ambivalences are brought into the centre of theoretical analysis and policy formulation rather than attempting to interpolate varied political agenda into universal, normative programmes of social action. As discussed earlier in Chapter 4, the *Shariah* is a collection of *Fiqh* and jurisprudence of Islamic scholars; this needs to be extended and turned into a dynamic problem-solving methodology. Even at the time of Prophet Muhammad, *Ijma* (consensus of opinions), *Qiyas* (judgement upon juristic) and *Ijtihad* (independent reasoning by jurists) were as methods of solving practical problems. If these people would have abandoned these methods and remained to actual juristic rulings, the societies would not have developed. Eldridge (2007) notes in twenty first century, many contemporary Islamic scholars are calling for a renewed determination and effort to re-examine and translate the *Shariah* laws which are timeless in their application, and are related to the specific historical context in which they appeared. Sardar (2003) holds similar views and calls for increased effort to understand the *Quran* and *Sunnah* in order to improve people's lives, otherwise, he notes that it is not very far that Muslims may very soon see *Shariah* turning in to "a fossilised canon but now threatens to suffocate the very civilisation of Islam" (p. 43). In terms of Islamic banking and finance in the UK, Islamic scholars and *Shariah* scholars can bring their relations and notions together to implement a system that has less confusion and works in much more refined and transparent way. This reconstruction of can begin by setting *Shariah* free from suffocating hold and giving it the status it truly deserves, a status which earlier jurists gave when making decisions over their problems (Sardar 2003). Similar to those *Imams* of four schools of thought, who examined the problems and gave their true judgements without being bias, their

rulings were never meant to be the final word or ultimate decision for problem solving, neither these *Imams* claimed divine authority in their rulings (Sardar, 2003). They always highlighted their rulings were their own opinions derived from sources of *Quran, Hadiths* and *Sunnah* (Sardar, 2003). Rattansi (1994) argues that the strength of postmodernism is in the sphere where boundaries cannot be drawn, as the argument informing this frame is “exposing the relative arbitrariness of boundary formation in social and intellectual configurations, and an interrogation of the policing of these borders by the disciplinary apparatus of power and knowledge” (p. 22). From Sardar’s (2003) point of view, modernity oppresses non-Western voices, postmodernity strives to represent ‘Other’ cultures, endeavors so their voices to be heard and celebrate their differences.

This section of the questionnaire cast light on perceptions concerning the empowerment of disadvantaged Muslims communities in the UK. Table 7.13 is based on five statements considered important as ways of enabling poorer Muslims communities to benefits more fully from the existence of Islamic financial products and services. Panel A of the table summarises the responses from scholars and reveals that the highest level of agreement was achieved with the notion that “there is a need to revise current Islamic banking practices to hear the diverse voices of Muslims”. In this case the overall mean was 4.283 with (sub-group averages of 4.192, 4.217 and 4.636), followed by the statement: “Islamic banks can help poor Muslims by offering *Qard Hassan* loans to improve their life conditions”. The third highest level of agreement was generated by the statement: “Islamic scholars from all four schools of thought should undertake

Ijtihad and *Qiyas*²³⁴ before making products *Shariah*-compliant”. These findings are consistent with the views of regular Muslims, explored in the previous chapter where, concern was expressed over the uniformity amongst Islamic scholars, leading to confusion and calls for change in the practices of Islamic banks to meet for the needs of disadvantaged members of the community. In terms of the Kruskal-Wallis test results, disagreement existed among scholars’ sub-groups over the need for Islamic banks to offer specialised products for women and young children. The results of the associated Mann-Whitney tests indicate that this result was driven by *Imams* providing significantly more support than the *Molanas* and *Muftis*. In further post-analysis discussions with a *Mufti*, he advised that the low averages from *Molanas* and *Muftis* could be due to the practicalities in determining the type of products that can be designed and the process of decision-making itself. However in theoretical terms, he argued that it would be a very good way to empower the disadvantaged ones. The equivocal evidence from *Muftis* (mean = 3.090) in particular is in contrast with the views of everyday Muslims reported in Chapter 6 who suggested that they specifically want Islamic banks to offer accounts for children where they can start saving money from early ages without the policies of interest²³⁵. Some interviewees in fact have argued that specialised accounts for widows and young women entrepreneur are needed, if Islamic banking is truly to help achieve its goals of providing social justice.

²³⁴ *Ijtihad* refers to further elaboration of the rules of the *Quran* and *Sunnah* to provide independent reasoning and analogy. This is developed by Islamic scholars to make rulings on situations where there is no clear or exact answer available. *Qiyas* refers to process of applying a known injunction to a new circumstance and create a new injunction in Islamic jurisprudence. It is a method, used by jurists to resolve problems of religious law not clarified in the texts.

²³⁵ For example, “my children have got a bank, an HSBC bank account, so I wanted for them to open Amanah bank accounts, but I was told that they cannot open them until they are a certain age, so they just got normal HSBC accounts. So now my son is getting older, and he asked me how come money is going into his account; he has a point here, and I said that it was interest, and I told him that you need to give this money to charity. It would be nice if they don’t get exposed to that, so they that they have an Islamic bank account and from the day they first open a bank account” (*Resp*, 7).

Table 7.13: Empowering Disadvantaged Muslim Communities

Panel A: Scholars										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				ML	IM	MU		ML-IM	ML-MU	IM-MU
Q16a. There is a need to revise current Islamic banking practices to hear the diverse voice of Muslims	60	4.283	0.761	4.192	4.217	4.636	0.254	0.957	0.140	0.114
Q16b. Islamic banks can provide training and education for young and/or women entrepreneurs	60	3.950	0.909	3.961	4.043	3.727	0.786	0.693	0.685	0.509
Q16c. There is a need for Islamic banks to offer specialised products for women and young children	60	3.750	1.002	3.615	4.217	3.090	0.007*	0.011*	0.265	0.008*
Q16d. Islamic banks can help poor Muslims by offering <i>Qard Hassan</i> loans to improve their life conditions	60	4.050	0.964	4.038	4.173	3.818	0.407	0.646	0.345	0.172
Q16e. Islamic scholars from all four schools of thought should undertake <i>Ijtihad</i> and <i>Qiyas</i> before making products <i>Shariah</i> -compliant	60	4.000	1.164	4.000	4.080	3.818	0.995	0.974	0.902	0.969
Panel B: Bankers										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				MG	AD	DR		MG-AD	MG-DR	AD-DR
Q16a. There is a need to revise current Islamic banking practices to hear the diverse voice of Muslims	38	3.289	1.136	3.111	3.250	3.750	0.415	0.860	0.196	0.387
Q16b. Islamic banks can provide training and education for young and/or women entrepreneurs	38	2.979	1.102	2.722	3.166	3.250	0.486	0.356	0.352	0.982
Q16c. There is a need for Islamic banks to offer specialised products for women and young children	38	3.815	0.896	3.666	3.833	4.125	0.620	0.847	0.397	0.443
Q16d. Islamic banks can help poor Muslims by offering <i>Qard Hassan</i> loans to improve their life conditions	38	3.394	1.151	3.444	3.500	3.125	0.747	0.799	0.529	0.565
Q16e. Islamic scholars from all four schools of thought should undertake <i>Ijtihad</i> and <i>Qiyas</i> before making products <i>Shariah</i> -compliant	38	3.947	0.803	4.000	3.833	4.000	0.751	0.538	0.920	0.588

Note: This table shows the mean and standard deviation (StDv) regarding questions about how Islamic banking can empower the disadvantaged communities in the UK. It provides the mean for each group and p-values for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. SC = Scholars (ML = *Molanas*, IM = *Imams*, MU = *Muftis*). BK = Islamic Banks (MG = Management, AD = Advisors and DR = Directors). Responses are based on a five-point Likert Scale where 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree.

Panel C: Scholars-Bankers				
Questions	Mean SC	Mean BK	Group Means SC-BK	M-W P-values
				SC/BK
a. There is a need to revise current Islamic banking practices to hear the diverse voice of Muslims	4.283	3.289	3.898	0.000*
b. Islamic banks can provide training and education for young and/or women entrepreneurs	3.950	2.979	3.571	0.000*
c. There is a need for Islamic banks to offer specialised products for women and young children	3.750	3.815	3.775	0.753
d. Islamic banks can help poor Muslims by offering <i>Qard Hassan</i> loans to improve their life conditions	4.050	3.394	3.795	0.005*
e. Islamic scholars from all four school of thoughts should undertake <i>Ijtihad</i> and <i>Qiyas</i> before making products <i>Shariah</i> -compliant	4.000	3.947	3.979	0.281

Note: Panel C of the table shows the mean for scholars and Bankers questionnaire surveys regarding questions about how Islamic banking can empower the disadvantaged communities in the UK. It provides the group means for both surveys and p-values for the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. Responses are based on a five-point Liker Scale where 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree.

Inspection of Panel B of Table 7.13 reveals that the highest mean of 3.947 (sub-group means 3.833-4.000) was found for the notion that Islamic scholars from all four schools of thought should undertake *Ijtihad* and *Qiyas*. This is a novel finding which indicates that Islamic banking employees are in favour of practices that might remove any confusion among Muslims following different schools; Islamic products might then become more suitable for those Muslims people living in the UK. Such a move could also help in the design products that would be suitable for other religious and secular groups. The approach of *Ijtihad* is an example of a postmodern approach, whereby a space can be provided in which people's otherwise silent voices can be heard over specific issues.

Panel C compares the view of scholars and bankers; the results from the associated Mann-Whitney tests reveal significant difference for three out of the five statements. The need to revise Islamic banking practices with a view to hearing diverse Muslims voices yielded a significant difference between scholars (mean = 4.283) and bankers (mean = 3.289). As noted earlier, the views of scholars are in line with results in Chapter 6 whereas bankers appear to be less concerned with revising their practices and products. This is potentially an important finding given the theoretical underpinning of this thesis, suggesting that the importance of tailoring Islamic banking to cater for the unheard 'other' is grasped by spiritual leaders but less so by industrialists. A significant difference has also occurred with the statement that Islamic banks can provide specialised products for children and women. The p-value of 0.000 indicates arguably, surprisingly, that scholars see a stronger role for Islamic banks in this regard than do the bankers themselves. Finally there was a significant difference regarding the provision of *Qard Hassan* loans to poor Muslims. The p-value of 0.005 indicates that

scholars view social justice notion as more important than do the bankers. Taking these three findings together, it is evident that there is a significant disconnect between the potential role for Islamic banking in supporting the ‘other’, in this case marginalised Muslims (and groups thereof) than do the bankers. This pattern suggests that industry potential might not be fully achieved without this gap being dealt with. As a first step, enhanced communication between religious and industry leaders could usefully deepen.

7.3.13 Evaluation of *Shariah*-compliance in Islamic Banking in the UK

Several previous studies, including Warsame (2009) and Akbar *et al.* (2012), have explored the extent of *Shariah* compliance of Islamic banking in the UK from user a perspective, while ignoring the two key stakeholder groups examined here- Islamic scholars and Islamic banking employees. The next question therefore sought the perceptions of these two groups on this issue. Table 7.14 reports the results, Panel A for scholars, Panel B for Islamic banking employees and Panel C comparing the two.

Inspection of Panel C reveals a significant difference between the mean responses from scholars (3.050) and bankers (3.894) regarding *Shariah*-compliance, with the scholars taking a less positive view. This evidence is consistent with the evidence reported earlier in the thesis. Scholars concerns about misconceptions among non-Muslims as well as a lack of availability of *Qard-Hassan* loans, limited training for women, a shortage of qualified *Shariah* scholars and a lack of cooperation between Islamic banking industry and the scholars. In addition, to questionnaire finding of this nature presented in the present chapter, one of the scholars (*Mufti 17*) argued that: “present ‘Islamic’ banking is a sham. It is the same old wine in a new bottle, i.e. conventional

banking candy coated with a few Islamic terms. The core problem is the corruption of the scholars who are paid for their '*fatwas*' (an Islamic ruling)".

Table 7.14: Evaluation of Shariah-compliance in Islamic Banking in the UK

Panel A: SC										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				ML	IM	MU		ML-IM	IS-MU	IM-MU
Q17. Evaluation of <i>Shariah</i> -compliance	60	3.050	1.370	3.076	3.260	2.545	0.402	0.739	0.284	0.182
Panel B: BK										
Questions	No	Mean	StDv	Group Means			K-W P-values	M-W P-values		
				MG	AD	DR		MG-AD	MG-DR	AD-DR
Q17. Evaluation of <i>Shariah</i> -compliance	38	3.894	1.736	3.888	4.000	3.750	0.683	0.693	0.735	0.427
Panel C: SC-BK										
Questions	Mean SC		Mean BK	Group Means SC/BK			M-W P-values SC-BK			
a. Evaluation of <i>Shariah</i> -compliance	3.050		3.894	0.157			0.001*			

Note: This table shows the mean and standard deviation (StDv) for all respondents regarding questions about the evaluation of Performance of Islamic banking in the UK. It also provides the mean for each groups and p-value for the Kruskal-Wallis (K-W) and the Mann-Whitney (M-W) tests. A * indicates significance at the 5% level. BK= Islamic Banks (MG = Management, AD = Advisors and DR = Directors).

7.4 Conclusion

This chapter employed structured-questionnaires to examine the perceptions and experiences of Islamic scholars and Islamic banking employees regarding Islamic banking and finance in the UK. A total of 98 surveys were collected using the ‘surveymonkey’ website throughout the UK. After collecting the data, the responses were analysed to see where common consensuses and identifiable patterns existed. With respect to the objectives of Islamic banks, the results indicate that Islamic banking is widely seen as providing a *Riba*-free alternative to conventional offerings and has an important role to play in establishing social justice. In terms of participants’ views about the responsibilities of Islamic banks, the results suggest broad agreement between scholars and bankers over serving the needs of the Muslim community and following *Shariah* law. The findings did, however, reveal significant disagreement between scholars and bankers over the transparency of Islamic banking operations, in terms of publishing accurate annual reports and providing detailed information about *Shariah* board members. More specifically it has also found that *Muftis* disagree with *Imams* and *Molanas* on issues that are not directly related to *Shariah*.

With respect to selection criteria, the results show that scholars and bankers agree on the need for a *Shariah* board comprised of high profile Islamic scholars. In contrast to most of the other issues examined in this case the expressed views differed from those of the smaller sample of everyday Muslims explored in Chapter 6. In this case, the latter revealed a desire for a fresh talent pool of scholars from the UK, familiar with British lifestyle and thereby avoiding reliance on the small groups of ‘celebrity-names’ used by most Islamic banks. With respect to educating Muslims, all groups of bankers pointed to the possible benefits of mosque visits and Internet advertisement although

scholars saw the latter as being of much less importance. On the other hand, scholars have indicated that there is lack of understanding among Muslims in the UK of the nature of Islamic banking. In terms of the future growth of Islamic banks and the factors hindering this growth, both Islamic scholars and bankers maintained that *Shariah*-compliant activities have played a role, although some concerns were expressed regarding a lack of trust in bank compliance as well as misconceptions among non-Muslims. Islamic banking employees' views revealed that for them, lack of understandability of Islamic products among Muslims, lack of qualified *Shariah* scholars and opinions diverging across the four different schools of Islamic thought are impediments to *Shariah*-compliance in practice.

In terms of improving Islamic banking practices and empowering disadvantaged Muslims in the UK, there is a perceived need for qualified scholars that understand the specific needs of UK Muslims to become more involved in this regards, facilitate cooperation between Islamic bankers and scholars in order to educate Muslims. With respect to empowering a Muslims demographic that remains marginalised in the UK, scholars maintained that there is a need for revision of current Islamic banking practices to integrate loans such as *Qard-Hassan* into their sales portfolio and for education for women and young entrepreneurs, who may be particularly disadvantaged. While the banking employees agreed with the above, they also call for increased *Ijtihad* in making products *Shariah*-compliant, in order to avoid confusions among both Muslims and non-Muslims. Undertaking *Ijtihad* will not only help in removing doubt, but will also create products that are specifically designed for the needs of people living in the UK, whilst potentially being relevant to wider-public. Table 7.15 list a summary of findings attained in this chapter.

Having completed the presentation of empirical results, the final chapter of the thesis attempts to combine the evidence, highlighting the main findings as well as setting out the limitations of the present study and making suggestions for future work in this area.

Table 7.15: Summary of Questionnaires Findings

Subject	Findings	
	Islamic Scholars	Islamic Banks
Objectives of Islamic Banks	Should be <i>Riba</i> -free products as the highest mean followed by establishing social justice and to provide <i>Shariah</i> -compliant products	To provide <i>Shariah</i> -compliant products as the highest mean followed by providing <i>Riba</i> free products and to provide ethical banking
Responsibilities of Islamic Banks in the UK	Serve the needs of Muslim community followed by <i>Shariah</i> law and to encourage people to consume <i>Shariah</i> -compliant products	Follow <i>Shariah</i> law and serving the needs of Muslim community yield highest means followed by encouraging people to consume <i>Shariah</i> -compliant products
Bank Selection Criteria	Presence of <i>Shariah</i> board of high-profile scholars followed by knowledge of employees about products and quality of service	Presence of <i>Shariah</i> board of high-profile scholars followed by quality of service and knowledge of employees about products
Spreading Knowledge about Islamic Finance	Mosque visits, conference and workshops and Internet advertisement	Mosque visits, TV ads and door to door visits and leaflets
Role of Islamic Scholars	Lack of understanding among Muslims in the UK followed by lack of awareness and advice of Islamic scholars differs when making decision regarding the four schools of thought	Lack of awareness among Muslims followed by lack of understanding and advice of Islamic scholars differs when making decision regarding the four schools of thought
Growth of Islamic Banking	Islamic banking provides a <i>Shariah</i> -compliant alternative followed by Muslims have gained more knowledge of presence of Islamic banks and changes in attitudes after 9/11 events	Muslims have gained more knowledge of presence of Islamic banks followed by Islamic banking provides a <i>Shariah</i> -compliant alternative and the British government has taken several initiatives to promote Islamic banking
Scholars' views on Factors Hindering the Growth	Misconceptions about Islam among non-Muslims followed by lack of trust regarding Islamic banks' compliance and competition with conventional banking	-
Bankers' views on Islamic Products in the UK	-	<i>Mudarabah</i> to be the most popular followed by <i>Musharakah</i> and <i>Ijara</i>
Banker's views on Difficulty in <i>Shariah</i> -compliance	-	Lack of understandability of Islamic products among Muslims followed by lack of qualified <i>Shariah</i> scholars and opinions differ across the four schools of thought
Scholars' views on Improving Islamic Finance in the UK	Need for cooperation between the Islamic industry and Islamic scholars followed by Need for qualified <i>Shariah</i> scholars and Muslims to consult Islamic scholars	-
Empowering Disadvantaged Muslims Communities	Need to revise current Islamic banking practices followed by helping poor Muslims by offering <i>Qard Hassan</i> loans and Islamic scholars from all schools of thoughts to undertake <i>Ijtihad</i> and <i>Qiyas</i>	Islamic scholars from all schools of thoughts to undertake <i>Ijtihad</i> and <i>Qiyas</i> followed by need for specialised products for women and children and helping poor Muslims by offering <i>Qard Hassan</i> loans
Evaluation of <i>Shariah</i> -compliance	Scholars take a less positive view on <i>Shariah</i> compliance of Islamic banks than do the bankers	

Note: This table provides a summary of main findings gathered from questionnaire surveys with Islamic scholars and Islamic banking employees within the UK. Responses are recorded with highest mean followed by second highest and third highest level of agreement between the groups.

CHAPTER 8

MAIN FINDINGS, IMPLICATIONS, LIMITATIONS, AND FUTURE RESEARCH

8.1 Introduction

The main objectives of the present thesis were to explore the experiences and perceptions of everyday Muslims, Islamic scholars and employees of Islamic banking in the UK, via critical-postmodern approach. Very little work of this sort has been undertaken in this area. The small number of investigations that have been conducted based on UK data have focused on the areas of banking selection and performance measurements of Islamic banks; such investigations have typically employed a smaller sample of questionnaires, while ignoring other stakeholders such as religious scholars and everyday Muslims' perceptions such as (Kaynak *et al.*, 1991; Boyd *et al.*, 1994; Kennington *et al.*, 1996; Gerrard and Cunningham, 1997; Al-Fadhli, 1998; Jalaluddin, 1999; Almosawi, 2001; Ford & Jones, 2001; Bley and Kuehn, 2004; Karbhari *et al.*, 2004; Haron, 2005; Lymperopoulos *et al.*, 2006; Mylonakis, 2007; Ahmad, 2008; Amin and Isa, 2008; Zainol *et al.*, 2008; Amin *et al.*, 2009; Leo, 2009; Warsame, 2009; Loo, 2010; Hamid and Masood, 2011; Lee and Ullah, 2011); Abdul-Rehman and Masood, 2012). Those studies that did employ interview surveys used a relatively smaller sample. This thesis sought answers to the following research questions: (i) To what extent do Islamic banks promote social justice via the current practices and products provided by them?; (ii) Whether accessibility of Islamic products for Muslims has improved and have Muslims been able to fulfil their financial needs with the products and services provided by the Islamic banks in UK?; (iii) To investigate the perceptions of Islamic scholars (*Ullamas*) on Islamic finance, their knowledge and experience of the *Shariah*-compliant products offered by the banks and the extent to which they are active in the community in educating Muslims about Islamic finance? and; (iv) Have the practices of Islamic banks improved over time; if not, how can the practices of

Islamic banks be improved by the effecting the postmodern approach so that the financial needs of Muslims can be better served?

To answer these questions, two research methods were employed: (i) face-to-face semi-structured interviews and (ii) a questionnaire survey. Interviews were conducted with ordinary twenty-five British-based Muslims to gather their perceptions and experiences about the growth and opportunities of Islamic banking and Finance in the UK. No previous research in this area had sought the views of Muslims whilst employing interview surveys when exploring Islamic Banking; the current study fills this gap in the literature. The study further explored the opinions and of Islamic scholars around the UK and Islamic banking employees within British Islamic banks.

Following the introduction, this chapter proceeds as follows: Section 8.2 summarises the results of the two empirical chapters, while the implications of the findings are highlighted in Section 8.3. Section 8.4 then outlines the main limitations of the current study, before Section 8.5 suggests some avenues for future research in the area.

8.2 Main Findings

The present study places itself in the sociology of radical change. This approach seeks emancipation from the *status quo* in order to overcome all barriers and allow individuals to reach their potential. Interviews were conducted with ordinary Muslims along the questionnaires which were distributed among the Islamic scholars and Islamic bank employees in the British Islamic banks and Islamic-windows, to explore their perceptions about the practices of Islamic banks to gain a better understanding of this

phenomenon. The results of findings and analysis are presented in Chapter 6 and Chapter 7.

From the findings of interviews with ordinary Muslims, several concerns have been identified regarding the provision of Islamic financial products in the UK. These participants stated that Islamic banks' products and services do not reflect the true essence of principle of social justice and equality. These findings are similar to those of Dusuki and Abdullah (2007) who state that Islamic banking customers prefer social responsibility, evidence which itself is in line with Chapra's (1985) notion of Islamic banks having a socio-economic purpose. Muslims have also stated that Islamic banks' products are much more expensive than of those available in high streets. The higher fees associated with Islamic mortgages are doing nothing more substantial than mimicking conventional banking products. Once again these views are consistent with the findings of Khan (2010) who reports that Islamic banks' products are not only expensive, but also exploitative of pious Muslims following all the religion's tenets. Despite the efforts and money spent on establishing these institutions overtime, they still do not have the specialised products that can satisfy the needs of poor/underprivileged in the society. These banks are targeting either the rich ones or competing for the same customers. In terms of their *Shariah* board members, these institutions' boards lack in transparency over their boards members. These banks repeatedly employ the same handful 'high-prolific' scholars to boost their image. Most of these scholars are from the Muslims countries, who lack in the understanding of the financial needs of people living in the Western countries. In addition, these banks lack in offering opportunities for young scholars to be a part of their *Shariah* committees,

causing dearth of trust from public and increased unemployment for fresh talented scholars.

Some of the participants who perceived Islamic banking more positively, regarded Islamic banking as an ethical alternate investment, as in Housby (2013). They are generally satisfied with the Islamic banking since these activities are based on *Shariah* law which is supervised by *Shariah* scholars. In broader dimensions, highlighted attitudes towards the Islamic banking exhibited that this is relatively a new phenomenon, which has emerged in late-nineteenth century and has been developing and improving constantly around the world. Its activities are based on *Shariah* law; supervised by SSBs and regulated by AAOIFI. For these participants the most satisfying part in dealing with Islamic banks is that their investment is not used in any unethical investment projects.

With regards to the role of Islamic scholars in educating Muslims over Islamic finance, participants argued that Islamic scholars do play a very crucial role and call these scholars a “backbone” to the success of contemporary Islamic banking and finance. Most of the participants expressed their concerns that these scholars deliver most of their lectures, workshops and sermons in a language other than English, and for that reason many young British Muslims find themselves isolated from religious groups. Concerns have also been raised that Islamic scholars are occasionally being reluctant to bring forward the issues and discussions of Islamic finance and prohibition of *Riba*, to avoid any disagreements and conflicts among the *Imams* and the member of local community, who are already engaged in interest bearing accounts and mortgages. Muslims have also stated their concern over the inconsistency due to the validity of

Islamic products that are built on the wisdom of different schools of thought. This as a results, have caused confusions among Muslims in deciding whether to purchase Islamic products whilst following one particular school of thought, which may not be in favour of that product. Subsequently, these Muslims have shown a strong desire for a unified Islamic centre that can work on eradicating these differences.

In terms of accessibility, Muslims stated that while the British government had taken several initiatives to promote the growth of Islamic banking, these institutions have not made their way to appeal a vast variety of customers. Islamic banks have made their presence in most-Muslims populated areas, while ignoring other regions such as Scotland and Northern Ireland. However, the introduction of Islamic-windows in recent years has enabled groups like Lloyds, to provide Islamic *Shariah*-compliant accounts and mortgages in the UK. Since, these Islamic-windows are supported by these established banks, these windows are able to provide much better services, such as more branches throughout the country, low service charges and service quality. These everyday Muslims argued that they have not seen Islamic banks' advertising their products and services through and conferences or mosque visits. Most of these Muslims reported their unawareness and lack of understanding of Islamic financial terminology due to the lack of efforts from Islamic banks.

To overcome the issues of lack of accessibility, lack of awareness and to improve Islamic finance, the everyday Muslims have mentioned that Islamic banks should detach themselves from business minds and rather help the poor people. This can for instance, be done by designing products which are more competitive and accessible for a wider public. They should also introduce some courses at the school level to educate

the young ones on Islamic financial terminology. To improve, these Islamic banks can employ young and more prominent scholars from their own societies that are being born and educated here so they can better understand the needs of Muslims. The most important aspect of improving and empowering the disadvantaged would be to engage in the practises of *Ijtihad* and *Qiyas* to overcome the misperceptions in understanding Islamic banking. This will help in streamlining products and making them easier and simpler for the general public. Last but not least, these Muslims have shown a strong desire for specialised products for children so from the young age, these children can save their money in “Islamic way”.

From the questionnaire analysis of Islamic scholars and Islamic bank employees, the results revealed that Islamic scholars agree with the views of Muslims and strongly believe that Islamic banks currently do not play any role in enhancing social justice. *Muftis* argued that Islamic banking might not be a necessity for Muslims, since Muslims can live in the UK without engaging in interest-bearing activities. In terms of responsibilities of Islamic banks, there is a broad agreement between scholars and bankers over serving the needs of the Muslim community and following *Shariah* law. An interesting finding emerged from the analysis, indicating that *Muftis* put more emphasis on religious issues than the issues of transparency and other operation of banks such as publishing accurate annual reports.

In terms of accessibility, there is a broad agreement among scholars and bankers over the need for a *Shariah* board comprised of high profile Islamic scholars. This view, however, in contrast with the views of Muslims, who showed a strong desire for fresh talent of scholars, especially, from the Western societies, who are more integrated in to

British lifestyle instead of relying on popular names. In terms of educating Muslims, all groups of banking employees pointed to the possible benefits of mosque visits, which was also strongly desired by the Muslims. Scholars also indicated that there is lack of understanding among Muslims in the UK about the nature of Islamic banking. For that reason, Islamic banking industry may continue to experience reduced growth levels. Scholars were also contended that there is a lack of trust in Islamic banks' *Shariah* compliance and misconceptions still existed among non-Muslims about Islam. Bankers on the other hand, stated that issues regarding the lack of compliance was due to the misperceptions in advice over four different Islamic schools of thought. A combination of these factors have been contributing toward the hindrance of accessibility and growth of Islamic banks in the UK.

In terms of improving Islamic finance, Islamic scholars have shown a strong desire for cooperation between the industry and Islamic scholars. By doing this, Islamic scholars can become better integrated into the industry, and as a result scholars should be able to know the names and specifications of all Islamic *Shariah*-compliant products being sold. Their involvement in *Shariah*-compliance could also bring new ideas and in this way they can teach Muslims better about on the topics of contemporary Islamic banking. These views of scholars are consistent with the view of Muslims, who have also expressed that Islamic banks should integrate Islamic scholars to bridge the gap of misconceptions and understanding of their operations. In addition, *Imams* have shown a strong desire for special training on Islamic economics to deal with the issues of Islamic banking and help people understand its fundamentals. In terms of improving the practices of Islamic banks in an attempt to empower the disadvantaged community and for education for women and young entrepreneurs, who may be particularly

disadvantaged, scholars maintained that there is a need for revising current Islamic banking practices. This can be done for instance, by integrating loans such as *Qard-Hassan* into their sales portfolio.

8.3 Research Implications

Choudhury (2007) notes that “Islamic financial institutions are evolving along a line of activities based on a mechanistic understanding of the *Shariah*. It is, accordingly, not fulfilling its real purpose which is to mobilise the resources of the community in *Shariah*-compliant ways and by *Shariah*-compliant instruments to attain the desired levels of well-being for the community” (p. 31). Correcting this requires a sincere urge for commitment from Islamic financial institutions to consult and collaborate with Islamic scholars (*Molanas, Imams, Muftis* and other religious standing people) on Islamic products and services. So in return, these scholars can educate the Muslim population about the availability of *Shariah*-compliant services. One way of educating Muslims would be to design courses related to Islamic finance which would help people understand and remove any doubts from public about the negativity on Islamic finance and would also help them gain a broader understating of Islamic concepts related to banking. Moreover, these institutions should consult local community groups from other religious faith groups and ethical conscious secular groups to educate them about their presence and the availability of ethical alternatives.

While the bankers agreed with the above, they also called for increased *Ijtihad* in making products *Shariah*-compliant, in order to avoid confusions among both Muslims and non-Muslims. Undertaking *Ijtihad* will not only help in removing doubt, but will also create products that are specifically designed for the needs of people living in the

UK, whilst potentially being relevant to wider-public. Several respondents have argued that Islamic finance is on the way of losing its appeal due to the strong scepticism about its authenticity of products and use of the same *Shariah* scholars in several Islamic institutions to pass these products. Amending this would require the providers of Islamic services to invest in research and product development to sustain the growth. Especially, for Muslims living in the UK, these Islamic institutions should build products, specialised for Muslims and non-Muslims. They should and ‘must’ engage in the practice of *Qiyas* and *Ijtihad* so these Islamic and *Shariah* scholars could exert together on distinct issues. In this context, Sardar (2003) notes that “the fact that Muslims today give the rulings of the classical *Imams* eternal validity, and seek answers to modern problems in their judgements and thought, rather than looking to the sources of the *Shariah*, is a sign of Muslim intellectual lethargy” (p. 66). Therefore, Rahman (1982) insists on ‘*Ijtihad*’ and highlights its importance. In the process of *Ijtihad*, the scholars must listen to all voices from the society and give them equal importance. This for instance, can be achieved by following a postmodern approach, which challenges the modernist tradition and emphasises the interplay of a plurality of discursive practices, where theoretical debates, concrete investigations, questions and themes can interconnect. Housby (2013) notes that branding a product in some way as ‘Abrahamic’ can boost the popularity of Islamic banking in the UK among Muslims, Christians and Jews.

It is imperative that Muslim world recognises its failings and address the following suggested by Ebrahim *et al.* (2013), that Muslims states must (i) establish the institutions to fund the welfare of the underprivileged; (ii) uphold the protection of property and enforce prohibition of *Riba*; and (iii) push the practices of *Ijtihad* (legal

reasoning) in momentum with contemporary financial system. Ijtihad must be between financial consultants and religious scholars working in the industry and in religious places to reconfigure instruments, products and practices of Islamic financial institutions. Chapra (2000) argues that Islamic economics must also develop further to show how Islamic values are reflected in legal, economic, social and political institutions. Islamic economics should also be able to devise instrument that can collect key economic variables to prepare a well-conceived programme for social, economic and political reforms (Chapra, 2000). This collected data would be able to provide transparency, in particular, the data on the distribution of income and wealth. “Without such data, it is not possible to know the degree of equity prevailing in the allocation and distribution of resources” (Chapra 2000, p. 34).

In the light of current thesis and its results from both chapters, it is recommended to bring a transformation not only to Islamic banking practices, but also to the views of scholars and Muslims. If Islamic banking see itself as being successful while operating in Western country with its Islamic laws of (equality, fair dealing and cultural authenticity), it must understand that the current environment i.e. 20th century brings the mankind to the closing chapter of modernity and opens the doors for diversity, hybridity, interreligious/intercultural dialogue. It is a milieu, which is diverse and represents environment of civilisation(s) – Western, Islamic and others. It has a lot of potential ahead if it can convince the public of its real goals. Islamic scholars must work critically on the issues related to Islamic banking and finance, rather than following traditional mentality in an attempt to give intellectual coherence to Muslims living in West. As suggested earlier, mosques and Islamic organisations should employ more critical scholars, who are willing to take active participation in critical debates not only

on religious issues but also on issues related to Islamic finance. They must appreciate and come to terms in recognising the initiatives offered by British government that are far more valuable, than those offered by Muslim governments, who have not been able to establish such system. Not only this, these scholars must provide education envisaging living in Western country while maintaining and practicing religious beliefs. Unal and Williams (2000) note that, “education through learning and a commendable way of life is a sublime duty that manifests the Divine Name ‘*Rabb*’ (Up-bringer and Sustainer). By fulfilling it, we attain the rank of true humanity and become a beneficial element of society” (p. 308). Nevertheless, Muslims must (also) learn to understand and appreciate the efforts of Islamic banking industry, which has taken initiatives to start and establish themselves as conventional alternatives, which initially started with very little support to have put on a path toward becoming a global and successful phenomenon, and continues to offer products and services to religious conscious Muslims as well as ethical consumers. The discipline will mature over time after passing through an evolutionary process. It has, fortunately, the advantage of benefiting from the tools of analysis developed by conventional and institutional economics as well as other social sciences.

8.4 Limitations of the Study

Although the present study has used a wide-ranging sample of participants from Muslims, scholars and Islamic banking employees, it is nevertheless remains subject to a number of limitations. For instance, due to time constraints and cost associated with collecting interview data, 25 interviews were conducted with the ordinary British-based Muslims to explore their perception about the practices of Islamic banks in the UK. Out of these recorded interviews, one was recorded in Urdu language, which was transcribed

in English at a later date. This may have introduced an element of subjectivity or bias in the analysis. Indeed I am aware and do agree that perhaps, more interviews from Muslims from Scotland, Wales and Northern Ireland or a larger extent of participants may have expressed different opinions and diverse issues about the questions explored which could have given us an extended picture and a view on the issues explored. Moreover, almost all interviews were conducted in participants' homes rather than in an office, where most of them were distracted by their partners and children, which could have led to the participants not speaking deeply and thoughtfully about the issues.

In investigating the research questions laid out in the present thesis, I intended to conduct the interviews with Muslims, Islamic scholars and Islamic banking employees. However, due to lack of access to Islamic scholars and Islamic banks, a questionnaire survey was designed and distributed to these two groups. Thus, to fulfil the objectives of the study, I adapted a middle-point approach of Laughlin (1995) to remain consistent with the methods used. The results gained from this method do not allow any systematic generalisations. The use of the questionnaire survey could have also contributed to the possibility of misunderstanding the questions. However, these limitations were reduced through the use of the various methods outlined in Chapter 5 to deliver the questionnaires and conduct the pilot work.

As argued earlier in the literature chapter that Islamic finance is not only for Muslims, but a system, which could also provide ethical products to non-Muslims in the UK. The present study did not take into the account the opinions and insights of non-Muslims. I recognise this as one of the key limitation of the present study on perceptions of Islamic

banking in the UK. This was due to the limited amount of time and a cost factor in interviewing non-Muslims participants.

Nevertheless, despite these limitations, the present study remains one of the first comprehensive examinations of a very important and growing area of Islamic finance where very little investigations have been previously undertaken. This research examines the perceptions of Muslims, Islamic scholars and Islamic banking employees, at the same time it explore the potential of Islamic banking in the UK and the issues faced by its consumers.

8.5 Future Research

While acknowledging the limitations of the study, this thesis represents one of the most comprehensive studies regarding Islamic banking and, therefore, should provide a springboard for future research in this area.

Indeed, future research could achieve better understanding of insights into Islamic banking by including a larger sample for the interviews with Muslims as well as Islamic scholars and Islamic banking employees. In addition, such research should be conducted by including non-Muslims living in the UK to get a closer perception of British people on Islamic banking and finance. Of course, including non-Muslims should bring different views and opinions and would not only improve reliability of any conclusions but it will also help to gain a deeper knowledge on Islamic banking industry in the UK. Overall, while the present study has made a significant contribution for our understanding and availability of the Islamic banking and finance in the UK, further work needs to be undertaken to comprehend the phenomena using different approaches.

Furthermore, the present study mainly focuses on the retail side of Islamic banking activities and addresses questions to people involved in retail Islamic banking while ignoring corporate banking. Further work is suggested to include the commercial products and services to get a bigger picture of the industry.

Of course, disagreement between *Muftis* and other scholars' groups were found in Chapter 7, with *Muftis* mostly in disagreement. Interesting discoveries were made while speaking to these *Muftis* however, some areas still require deeper explanation from *Muftis*, which is also suggested as a future work to explore these important aspects in detail.

Future work may also require to explore the perceptions of Muslims living in the UK with those living in other Western countries to compare the extent and success of Islamic banking and the involvement of scholars in the industry. Not only the comparison of Western countries could help, but a close comparison with Muslims living in a Muslim country could also help us discover greater insights. This aspect could itself be worthy of doctoral thesis on its own.

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APPENDIX 6.1: Interviews Authorising Letter



School of Accounting & Finance

30th November 2012

To Whom It May Concern:

Re: Mr Umair Riaz

I am writing on behalf of Mr Umair Riaz, a PhD student in the School of Business at the University of Dundee, Scotland, UK. As part of the research for his thesis on Muslim Perspectives on Islamic Banking in the UK, Mr Riaz is hoping to conduct interviews with various individuals to examine their views about the topic. I would therefore be extremely grateful if you would allow Mr Riaz to interview you for his work and help facilitate what we believe to be an important study in the area.

I can personally attest to Mr Riaz's professionalism and trustworthiness.

If you require any further information please do not hesitate to contact me.

A handwritten signature in black ink, appearing to read 'Bruce Burton'.

Dr. Bruce Burton,
Head of Accounting & Finance,
Reader in Finance,
School of Business,
University of Dundee,
Dundee,
Scotland, UK.
E-mail: b.m.burton@dundee.ac.uk

APPENDIX 6.2: Semi-structured Interview Survey for Muslims



**Perceptions and Experiences of British-based Muslims on Islamic
Banking and Finance in the UK**

Semi-Structured Interview Survey

**Umair A. Riaz
University of Dundee, UK**

Supervisors: Lissa Monk, Bruce Burton and Anne Fearfull

School of Business, University of Dundee, Nethergate, Dundee, DD1 4HN, UK

A. Background Information

1. Name:
2. Job description:
3. Age:
- | | | |
|---------------|-------|--------------------------|
| 20-30 years | | <input type="checkbox"/> |
| 31-40 years | | <input type="checkbox"/> |
| 41-50 years | | <input type="checkbox"/> |
| Over 50 years | | <input type="checkbox"/> |
4. Gender:
- | | | |
|--------|-------|--------------------------|
| | | <input type="checkbox"/> |
| Male | | <input type="checkbox"/> |
| Female | | |
5. Ethnicity:
6. Educational qualification:
- | | | |
|----------------------------|-------|--------------------------|
| Less than Bachelor Degree | | <input type="checkbox"/> |
| Bachelor Degree | | <input type="checkbox"/> |
| Masters | | <input type="checkbox"/> |
| PhD | | <input type="checkbox"/> |
| Professional qualification | | <input type="checkbox"/> |
| Others | | <input type="checkbox"/> |
7. Do you have or had any dealings with *Shariah*-compliant Banks in the UK?
- | | | |
|-----|-------|--------------------------|
| Yes | | <input type="checkbox"/> |
| No | | <input type="checkbox"/> |
8. If yes, how many years have you been dealing with Islamic Banks?
- | | | |
|-------------------|-------|--------------------------|
| Less than 1 year | | <input type="checkbox"/> |
| 1-5 years | | <input type="checkbox"/> |
| More than 5 years | | <input type="checkbox"/> |

9. Which Islamic Banks/windows you are or have been dealing with?

.....
.....
.....

10. Which Islamic school of thought do you follow? Does it affect your decision over choosing between several Islamic Banks?

.....
.....
.....
.....

B: Islamic Banking Practices

1. Understanding and Awareness of Islamic Banking in the UK

1.1 What is your understanding of Islamic banking?

1.2 What do you think Islamic banking is closely related to?

1.3 What is perceived to be the primary objective of Islamic Banks in the UK?

2. Socio-economic Objectives of Islamic Banks

2.1 What is your understanding of the concept of social justice? Do you think that Islamic Banks are promoting social justice and equality? If so, how?

2.1 Do you think profit maximisation contradicts with social responsibility?

3. Role and Functions of Islamic Banks' in Community

3.1 Do you consider Islamic banks to be serving the needs of the Muslim community according the *Shariah* laws?

3.2 Do Islamic Banks play a crucial role in encouraging people to consume *Shariah*-compliant products? If so, how?

3.3 Are Islamic Banks active in the community to educate Muslims about their products or about their role in their community?

C: Accessibility of Islamic Banks

4. Ethics and Bank Selection

4.1 What made you consider Islamic Banking?

4.2 What is the most important factor to you while making a choice between several Islamic Banks?

5. Opportunities and Barriers

5.1 Do you think some Islamic Banks in the UK are more helpful than others?

5.2 What are your needs that you feel Islamic Banks can/cannot satisfy?

5.3 What are your experiences or expectations with Islamic Banks?

D: Role of Islamic Scholars

6. Role of Islamic Scholars in Islamic Banking

6.1 Do you feel it is easy for you to practice Islamic in the UK?

6.2 Where do you get your knowledge about Islam and issues related to Islamic finance?

6.3 Do you consider that *Imams* and Islamic scholars in the UK play an important role in educating Muslims on financial matters? If so, how?

6.4 Do you consult a specific *Imam* on getting an advice regarding your religious and financial matters? For instance, consulting an *Imam* or a scholar from one specific school of thought. Why so?

E: Growth of Islamic Banking

7. Issues Related to Growth

7.1 Do you think that there is a need for revising the current Islamic banking practices that could meet the needs of UK Muslims?

7.2 Do you think misconception related to Islam can negatively impact Islamic banking in the UK?

7.3 Do you perceive that Islamic Banking should be thought in the light of new contemporary society by adapting postmodern views i.e. hearing the diverse voices of Muslims and non-Muslims?

7.4 What do you think can be the major obstacles that may hinder the growth of Islamic banking and finance in the UK?

F: Comments

Do you have any comments or concerns, or anything would you like share on experience with Islamic banks?

.....
.....
.....
.....

Thank you for helping

APPENDIX 7.1: Questionnaire Survey for Islamic Scholars



**Perceptions and Experiences of British-based Muslims on Islamic
Banking and Finance in the UK**

Islamic Scholars Questionnaire

**Umair A. Riaz
University of Dundee, UK**

Supervisors: Lissa Monk, Bruce Burton and Anne Fearfull

School of Business, University of Dundee, Nethergate, Dundee, DD1 4HN, UK

A. Background Information

1. Which role best describes your position? Please tick (✓) the appropriate box.

- Islamic Scholar Imam Mufti Other (please specify)
.....

2. How many years have you been in your current role? Please tick (✓) the appropriate box.

- Less than 1 year 1 to 5 years 6 to 10 years More than 10 years

3. How many years have you been dealing with Islamic Banks? Please tick (✓) the appropriate box.

- Less than 1 year 1 to 5 years 6 to 10 years More than 10 years

 Not dealing

4. Please indicate your most recent educational qualification by picking tick (✓) the appropriate box.

- Less than Bachelor Bachelor Masters PhD Professional qualification

 Other (please specify).....

B: Islamic Banking Practices

5. Please indicate the importance of each of the following objectives of Islamic Banks in the UK.

Objectives	<i>Very Important</i>	<i>Important</i>	<i>Neutral</i>	<i>Of little Importance</i>	<i>Not Important at all</i>
(a) Provide <i>Riba</i> free products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Provide ethical banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Play a role in establishing social justice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Provide <i>Shariah</i> -compliant products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Meet the needs of UK Muslims	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) To encourage overseas investment funds in to the UK	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h) Profit maximisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. Please indicate the extent to which you agree or disagree with each of the following statements describing the responsibilities of Islamic banks.

Statements	<i>Strongly Agree</i>	<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
(a) Serve the needs of the Muslim community	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Encourage people to consume <i>Shariah</i> -compliant products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Follow <i>Shariah</i> law	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Help people make comparisons with conventional products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Publish accurate annual reports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Provide detailed information about their <i>Shariah</i> board members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) Be active in the community to educate Muslims about Islamic banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7. How important are these factors to you while making a choice between Islamic banks?

Factors	<i>Very Important</i>	<i>Important</i>	<i>Neutral</i>	<i>Of little Importance</i>	<i>Not Important at all</i>
(a) Presence of a <i>Shariah</i> board of high-profile Islamic scholars	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Bank Reputation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Provision of internet banking facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Quality of service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Knowledge of employees about the products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Advice from friends and relatives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) Country-wide branch network	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h) Competitive packages and rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(i) Inclusion of <i>Qard Hassan</i> in products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(j) The amount of funds available	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. Please rank which of these methods of Islamic Banks in the UK would be the most effective in terms of educating Muslims on Islamic Banking.

Products	<i>Effective Ranking</i> (8=most popular, 1=least popular)
(a) Internet Advertisement	<input type="checkbox"/>
(b) Door to door visits and leaflets	<input type="checkbox"/>
(c) Conferences and workshops	<input type="checkbox"/>
(d) TV ads	<input type="checkbox"/>
(e) Mosque visits	<input type="checkbox"/>
(f) Direct mailing	<input type="checkbox"/>
(g) Newspapers and Magazines	<input type="checkbox"/>
(h) Radio	<input type="checkbox"/>

C. Role of Islamic Scholars

9. Please indicate the extent to which you agree or disagree with each of the following statements.

Statements	<i>Strongly Agree</i>	<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
(a) There is a lack of understanding among Muslims in the UK of the nature of Islamic banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Muslims in the UK seek advice from Islamic scholars over their financial matters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) There is a lack of awareness among Muslims regarding the availability of Islamic banking in the UK	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Do Islamic scholars communicate with Islamic banks to educate Muslims regarding the availability of Islamic finance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Does the advice of Islamic scholars differ when making a decision regarding the four schools of thought	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

D: Growth of Islamic Banking

10. Please indicate the extent to which you agree or disagree with each of the following statements describing the reason for the growth of Islamic banking in the UK

Statements	<i>Strongly Agree</i>	<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
(a) Islamic banking provides a <i>Shariah</i> -compliant alternative to conventional banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Investments of surplus funds in western countries to earn large profits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Conventional banks have maintained Islamic-windows to boost Islamic banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Muslims have gained more knowledge of presence of the Islamic banks in the UK	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) The British government has taken several initiatives to promote Islamic banking for both Muslims and non-Muslims	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Changes in attitudes after the 9/11 events	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. Please indicate the extent to which you agree or disagree with each of the following statements describing the factors that may hinder the growth of Islamic banking and Finance in the UK?

Statements	<i>Strongly Agree</i>	<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
(a) Misconceptions about Islam among non-Muslims	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Islamic banking regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Legal issues with UK law	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Lack of trust regarding Islamic banks' compliance with <i>Shariah</i> principles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Inconsistency in scholarly advice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Cultural issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) Competition with conventional banking in the UK	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

12. Please indicate the extent to which you agree or disagree with each of the following statements describing how Islamic banking and finance can be improved in the UK?

Statements	<i>Strongly Agree</i>	<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
(a) There is a need for qualified <i>Shariah</i> scholars that understand the needs of UK Muslims living in Western society	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Islamic scholars need special training on Islamic economics to deal with current Islamic banking issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) There is a need for Muslims to consult Islamic scholars on financial matters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) There is a need for cooperation between the Islamic banking industry and Islamic scholars in order to educate Muslims	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Islamic banks should develop products that are easier to understand	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Islamic banks should develop more competitive products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. Please indicate the extent to which you agree or disagree with each of the following statements describing how Islamic Banks can help empower disadvantaged Muslim Communities

Statements	<i>Strongly Agree</i>	<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
(a) There is a need to revise current Islamic banking practices to hear the diverse voice of Muslims	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Islamic banks can provide training and education for young and/or women entrepreneurs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) There is a need for Islamic banks to offer specialised products for women and young children	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Islamic banks can help poor Muslims by offering <i>Qard Hassan</i> loans to improve their life conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Scholars from all four schools of thought should undertake <i>Ijtihad</i> and <i>Qiyas</i> before making products <i>Shariah</i> -compliant	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

E: Performance of Islamic Banking

14. How do you evaluate the performance of Islamic banks in the UK in terms of *Shariah*-compliance?

- Very high
 High
 Neutral
 Low
 Very low

APPENDIX 7.2: Questionnaire Survey for Islamic Bank Employees



**Perceptions and Experiences of British-based Muslims on Islamic
Banking and Finance in the UK**

Islamic Banking Employees Questionnaire

**Umair A. Riaz
University of Dundee, UK**

Supervisors: Lissa Monk, Bruce Burton and Anne Fearfull

School of Business, University of Dundee, Nethergate, Dundee, DD1 4HN, UK

B: Islamic Banking Practices

5. Please indicate the importance of each of the following objectives of Islamic Banks in the UK

Objectives	<i>Very Important</i>	<i>Important</i>	<i>Neutral</i>	<i>Of little Importance</i>	<i>Not important at all</i>
(a) Provide <i>Riba</i> free products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Provide ethical banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Play a role in establishing social justice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Provide <i>Shariah</i> -compliant products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Meet the needs of UK Muslims	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Fill the gap in the industry for ethnic minority Muslims	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) To encourage investment outside the UK	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h) Profit maximisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. Please indicate the extent to which you agree or disagree with each of the following statements describing the responsibilities of Islamic banks

Statements	<i>Strongly Agree</i>	<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
(a) Encourage people to consume <i>Shariah</i> -compliant products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Follow <i>Shariah</i> law	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Help people make comparisons with conventional products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Serve the needs of the Muslim community	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Be active in the community to educate Muslims about Islamic banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Publish accurate annual reports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) Provide detailed information about their <i>Shariah</i> board members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7. How important are the following factors to Muslims while making a choice between Islamic banks?

Factors	<i>Very Important</i>	<i>Important</i>	<i>Neutral</i>	<i>Of little Importance</i>	<i>Not Important at all</i>
(a) Presence of a <i>Shariah</i> board of high-profile Islamic scholars	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Bank reputation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Provision of internet banking facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Quality of service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Knowledge of employees about the products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Advice from friends and relatives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) Country-wide branch network	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h) Competitive packages and rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(i) Inclusion of <i>Qard Hassan</i> in products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(j) The amount of funds available	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. Please rank which of these methods of Islamic Banks in the UK are the most effective in terms of educating Muslims on Islamic Banking

Products	Effective Ranking (8=most popular, 1=least popular)
(a) Internet Advertisement	<input type="checkbox"/>
(b) Door to door visits and leaflets	<input type="checkbox"/>
(c) Conferences and workshops	<input type="checkbox"/>
(d) TV ads	<input type="checkbox"/>
(e) Mosque visits	<input type="checkbox"/>
(f) Direct mailing	<input type="checkbox"/>
(g) Newspapers and Magazines	<input type="checkbox"/>
(h) Radio	<input type="checkbox"/>

C: Role of Islamic Scholars

9. Please indicate the extent to which you agree or disagree with each of the following statements

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
(a) Do you consider that Islamic scholars in the UK play an important role in educating Muslims on financial matters?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Muslims in the UK seek Islamic banks for advice on <i>Shariah</i> -compliant products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) There is a lack of awareness among Muslims regarding the availability of Islamic banking in the UK	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) There is a lack of understanding among Muslims in the UK of the nature of Islamic banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Do individual <i>Shariah</i> board members differ when making a decision in regards to following four schools of thought	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

D: Growth of Islamic Banking

10. Please indicate the extent to which you agree or disagree with each of the following statements describing the reason for the growth of Islamic Banking in the UK

Statements	<i>Strongly Agree</i>	<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
(a) Islamic banking provides a <i>Shariah</i> -compliant alternative to conventional banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Investments of surplus funds in Western countries to earn large profits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Conventional banks have maintained Islamic-windows to boost Islamic banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Muslims have gained more knowledge of presence of the Islamic banks in the UK	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) The British government has taken several initiatives to promote Islamic banking for both Muslims and non-Muslims	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Changes in attitudes after 9/11 events	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. Please indicate the extent to which you agree or disagree with each of the following statements describing how Islamic Banks can help empower disadvantaged community of Muslims in the UK

Statements	<i>Strongly Agree</i>	<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
(a) There is a need to revise current Islamic banking practices to hear the diverse voice of Muslims	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Islamic banks can provide training and education for young and/or women entrepreneurs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) There is a need for Islamic banks to offer specialised products for women and young children	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Islamic banks can help poor Muslims by offering <i>Qard Hassan</i> loans to improve their life conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Islamic scholars from all four schools of thought should undertake <i>Ijtihad</i> and <i>Qiyas</i> before making products <i>Shariah</i> -compliant	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

E: Islamic Banking Products

12. Please rank these products of Islamic Banks in the UK in terms of how popular you think they are?

Products	<i>Popularity Ranking</i> (1=most popular, 7=least popular)
(a) Mudarabah	<input type="checkbox"/>
(b) Musharakah	<input type="checkbox"/>
(c) Murabahah	<input type="checkbox"/>
(d) Ijara	<input type="checkbox"/>
(e) Salam	<input type="checkbox"/>
(f) Istisna	<input type="checkbox"/>
(g) Skuk	<input type="checkbox"/>

13. Please indicate which Islamic Bank products do you consider to be fully *Shariah*-compliant, ethical or both. Please also specify, whether you think that their application has been modified to incorporate UK Banking regulations?

Products	<i>Fully Shariah-compliant</i>	<i>Ethical</i>	<i>Modified According to the UK Laws</i>
(a) Mudarabah	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Musharakah	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Murabahah	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Ijara	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Salam	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Istisna	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) Sukuk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

14. Please indicate how important you think the following difficulties are when Islamic banks attempt to make products *Shariah*-compliant?

Problems	<i>Very Important</i>	<i>Important</i>	<i>Neutral</i>	<i>Of little Importance</i>	<i>Not Important at all</i>
(a) Difficulty in obtaining capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Delay in publishing annual reports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Lack of qualified <i>Shariah</i> scholars	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Lack of reliability of the information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Difficulty of comparability of products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Opinions differ across the four different schools of thought	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) Islamic banks operating in the UK face difficulties due to operating in a non-Islamic environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h) Lack of understandability of Islamic products among Muslims	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

F: Performance of Islamic Banking

15. How do you evaluate the performance of Islamic banks in the UK in terms of *Shariah*-compliance?

- Very high High Neutral Low Very low

G: Comments

16. If you have any comments or concerns regarding Islamic banking in the UK, please use the space below to provide them.

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Thank you for helping