Assessing the Business Ethics of Saudi Arabian Islamic Banking Sector: An Analysis of Banks’ Employees and Customers Perspectives

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Dedication

To the spirit of my Parents…

To my dearest wife “Fatmah” and children “Lauren, Rawad, and Yamen”.

To everyone who taught me a single word…

To my siblings who were lighting my way, encouraging me, and making sacrifices for me.
Acknowledgement

First and foremost, I am thankful to the ALMIGHTY GOD for the good health and welfare that were necessary to complete this research thesis. Secondly, I would like to take this opportunity to express my heartfelt gratitude to my distinguished supervisors Dr. Sabri Mohammad and Dr. Gill Green for their help, encouragement, critical commentaries, precious supervision, and supporting me during my critical health conditions. Many thanks again to Dr. Sabri who encouraged me when I was about to postpone my study due to my health condition, but his encouragement propelled me towards the final accomplishment of my thesis.

Thirdly, I would like to thank my wife, kids, and siblings especially my sister Dr. Darin for supporting and encouraging me through this venture. Without their support, I may not have found myself at this stage, nor had the courage to engage in this task and see it through. Through their emotional support, intellectual stimulation and many hours of identity-forming conversation, I was inspired to pursue a worthwhile dream in which I truly believe in. I wish to thank without any reservation my family for being the most supportive family one could hope for. I would like also to thank my sister "Dr. Noof" who left behind all her responsibilities in Riyadh to visit me in Bolton to check on me during my critical health conditions.

Lastly, I would like to dedicate this research thesis to my mom and dad who cheerfully gave unbound support, caring advice, and treasured information to all who crossed their path. I wish we had more time together, but I know in spirit you are still with me. May you continue to blissfully rest in peace until we meet again!
Published papers related to this research thesis:


Declaration

I hereby declare that this piece of work is original as well as my own work and has not been submitted previously for any academic purpose. All secondary sources are acknowledged. I confirm that none of the materials presented in this thesis has been submitted for a degree in this or any other institution.
Abstract

Islamic banking involves the conduct of banking and finance activities based on the values derived from the body of Islamic law known as Shari’ah. The infusion of ethical and social objectives into banking activities is a fundamental requirement and distinguishing hallmark of Islamic banking. Islamic banking is deeply entrenched in the socio-economic fabric of Saudi Arabia. Saudi Arabia holds a very important place in the history of Islam. It is in the area that is now Saudi Arabia that Prophet Mohammed (peace be upon him) received the revelation of the Holy Quran and largely gave the Sunnah teachings that form the body of the holy knowledge of Islam. The first disciples of Prophet Mohammed (peace be upon him) started preaching, turning converts, and making disciples in the area that is modern-day Saudi Arabia. Due to these happenings, Saudi Arabia is viewed as the cradle of Islam. As such, faith-based institutions that operate in Saudi Arabia are on the microscope of the public eye. Islamic banks operating in the Kingdom of Saudi Arabia are no exception. By virtue of being faith-based institutions, stakeholders have high expectations on matters to do with ethics when it comes to Saudi Arabian Islamic banks. This research aims to present an evaluation of the ethical performance of Islamic banks from the perspectives of customers and employees.

Given that there is limited research conducted on the business ethics of Islamic banks at the global level in general, and in Saudi Arabia in particular, this research will extensively use appropriate research tools and methods to study the Saudi Islamic banking situation with regards to the ethical performance of Islamic banks and generate crucial conclusions pertaining to the gaps, if any, between the ideal expectations of the ethical performance and what is practiced by the Islamic banks from the perceptions of employees and customers. Correspondingly, this research aims to make contributions that fill up information gaps in the extant body of literature with regards to the business ethics of Saudi based Islamic banks.

This research applies the mixed-method approach, where qualitative and quantitative tools are used. The research study collects data from both primary and secondary sources through literature review as well as from the questionnaires administered to the employees and customers of four Islamic banks in Saudi Arabia. The data are analysed statistically through descriptive statistics and inferential statistics by using the statistical software known as SPSS. The findings reveal that there is a chasm between the perceptions of customers and employees. Customers are majorly ambivalent about the ethical performance of Saudi-based Islamic banks. On the other hand, the employees of Islamic banks generally approve of the ethical performance of these banks. The findings also suggest that there is room for improvement for Islamic banks when it comes to ethical performance.
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Chapter One

Introduction
Chapter One

Introduction

1.1 Research Background

By and large, the banking sector plays a crucial role in the thriving of any economy. The banking sector of a country has an impact on the lives of people as it provides avenues for the safekeeping and mobilization of wealth. The banking sector helps the government, through the central bank, to control the flow of money within the economy. The banking system links the economic units of surplus and deficit through financial intermediation. A robust banking system supports the well-being of the national economy. However, weaknesses in the banking system can have dire ramifications as they can create negative multiplier effects that trickle down to various sectors of the economy and adversely affect individuals and institutions alike. It is unfortunate that many people in various parts of the world have suffered the consequences of crises that have their epicenter in the banking sector. The dire consequences of the crises emanating from the banking sector and spreading devastating shockwaves to other components of socio-economic fabrics have led to the promotion of ethical culture in the banking sector as a result of pressure on the government and regulatory bodies from stakeholders who are primarily interested in the assured safeguarding of their wealth and interests. The shortcomings of the banking sector have been laid bare in crises – such as the recent credit crunch of 2008 on the global banking sector. It can be stated that the conventional banking component of the global banking system was the worst hit by the recent credit crisis of 2008. There were various factors that were responsible for the occurrence of the credit crunch of 2008, however, most of the causes of the conventional banking crisis revolved around greed, malpractices, and heavy reliance on interest. Interest rates are either market forced or effected by the state central banks. These inherent limitations have led to the push for the increased adoption and enforcement of stringent ethical practices and codes of conduct.
Currently, the dominant banking systems in the world are based on conventional Western economic models and Islamic economics. The conventional Western economics and banking system is largely based on economic and financial principles that arose to facilitate trade after the collapse of the dominance of the barter trade system. The fundamental tenets of the conventional Western economics and banking system can be attributed to the maxims, conventions, bonds, and ways of life of ancient societies that gave rise to the current native European societies. The guiding principles of the conventional Western banking and finance emanate from the mental constructs of human beings. On the other hand, Islamic economics is based on the business ideals and practices that are deeply rooted in the body of the Islamic law that originates from the Holy Quran and the Sunnah (teachings of the Prophet peace be upon him). Pursuant to the fundamental tenets of Islam, Islamic economics forbids people from engaging in trading practices that involve dealing with unlawful items and immoral conduct. The overarching goals of Islamic economics revolve around the creation and distribution of wealth in just and fair means that are consistent with the body of Islamic law known as the Shari’ah. The Shari’ah acts as a reference point for right conduct for people as revealed to Prophet Mohammed (peace be upon him) in the Holy Quran. Religious practices, spiritual ideals, and ethics are the cornerstones of Islamic economics and it subset of Islamic banking and finance. Being guided by the moral of code of conduct enshrined in the Shari’ah, the entire Islamic economic ecosystem places a premium on adherence to ethical conduct in all the affected wealth creation, transactional, and wealth distribution affairs of people. Ethical conduct refers to demeanour and ways of interacting with other people that are deemed to be morally correct. Ethics are important in the furtherance of the reality of culture. The universal cornerstones of proper, stable, and enduring culture are politeness, civility, and uprightness. The essence of culture is to provide a framework for sustained fairness amongst the people who are living and sharing this world with fellow people as well as other creatures.
From an Islamic point of view, there are two categories of ethics: secular ethics and Islamic ethics. Secular ethics are founded on intellectual and moral guidelines developed by people. On the other hand, Islamic ethics are entirely based on the teachings of the Holy Quran and the Sunnah teachings of Prophet Mohammed (peace be upon him). The central underpinning theme of the Holy Quran and the Sunnah teachings of Prophet Mohammed is that Allah is the sole Creator of everything – including man – and that man is the vicegerent of Allah. In other words, man is under every obligation to obey, serve, and glorify his Creator. Since Prophet Mohammed acted as a messenger of Allah in creating awareness to people about the right conduct that pleases Allah and codified the message in the Holy Quran and the Sunnah teachings, every adherent of Islam is obliged to take the Holy Quran and the Sunnah teachings as the primary reference point for matters to do with ethical right conduct.

The concept of Maṣlaḥah, or social welfare or utility (common good), is at the heart of the fundamental decrees of Islam and acts as an important foundation for the basis of ethics in Islam. The idea of Maṣlaḥah encompasses all human affairs – including business – and defines the nature of the proper links and relationships between individuals and the society (Montgomery, 2010). It can be stated that Maṣlaḥah is the building block of all ethics – including the business ethics that are upheld in the context of Islamic economics, banking, and finance.

The above foregoing brings out stark differences between Islamic ethics and secular ethics. It can be deduced from the above discussion that the ethics in an Islamic banking system differ from that of the conventional system as ethical ideals, theories and practices in the former are shaped by reverence to God while in the latter ethics are based on transitory customs.
Unlike conventional banking, Islamic banking does not feature interest as charging of interest is forbidden by Islamic financial principles as one of the significant principles in Islamic banking is profit-and-loss sharing. Hence, Islamic banking places an emphasis on economic activities that make contributions to the real economy. The transactions carried out in Islamic banking can be likened to equity-based performance rewarding systems and activities. The Shari’ah emphasises on the offering of rewards based on effort instead of superficially rewarding based on the mere ownership of capital. In view of that, it can be argued that Islamic banking bases its revenue streams from real business activities as opposed to intangible and paper-based basis. Due to the numerous practical and proven merits of using real tangible assets as the basis of transactions, Islamic banking has been widely embraced by both Muslim and non-Muslim dominated countries worldwide. Islamic banking has been widely adopted in countries that are located in the Middle East, the Far East, Gulf Region as well as the United Kingdom, Luxembourg and other European countries, and African countries. Islamic banking is of special importance to the adherents of Islam since it provides such people with a wide variety of opportunities to participate in banking activities that do not involve dealing with the element of interest as well as other items and activities that are forbidden by Islamic law. There is a great room for improvement of Islamic banking as it is yet to reach is market saturation phase. For the Islamic banking system to sustain its robust growth momentum, it should restructure the financial institutions as well as the instruments, contracts, products and services offered by such commercial establishments in order to increase its market share.

Islamic banking and finance refers to conducting financial activities based on values derived from Islamic law. Besides being compliant with Islamic financial principles, such as prohibition of riba (interest), excessive gharar (uncertainty) maisir (gambling), dealing with products that harm human beings, such as alcohol and weapons, incorporating ethical, social and environmental objectives into their financial operations is considered as embedded ultimate goals of the Islamic financial
institutions. Islamic banks are governed by specially constituted independent boards known as Shari’ah Supervisory Boards. One of the key objectives of having Shari’ah Supervisory Board at an Islamic bank is to promote the ethical and socially responsible financial activities that will strongly promote the wellbeing of communities (Belal et al., 2014:2). Islamic banks are fundamentally different from conventional Western banks on various counts. The hallmarks of Islamic banking activities include adherence to the Shari’ah; the use of profit-rate; the social duty to benefit society through the facilitation of Zakah payments; prohibition of uncertainty or speculation; prohibition of financing of haram economic activities; discouragement of the accumulation of heavy debt and support of bad debt cancellation policies; profit-loss sharing; tangible asset-backing principle; and the concept of non-commodification of money.

Based on the foundations of Islamic economics, banking and finance, Islamic banks can be considered as a unique type of corporations, where ethical and social goals are maintained alongside their financial goals. Fundamental Islamic economics and banking principles oblige Islamic banks to optimise their ethical conducts by not making the profit maximisation on the top of their goals, but also make the social and ethical behaviour at the core of their operations (Ali et al., 2013). Hence, Islamic banks are considered to be ethics-and-society-oriented corporations (Gray and Balmer, 2001). Since the upholding of ethics lies at the heart of the fundamental teachings of the Shari’ah, Islamic banks that maintain ethical in their business operations, usually have better financial performance scores – other factors constant – as compared to their errant counterparts since wayward Islamic banks are punished economically by the oversight boards as well as by the members of the society through non-patronage and ostracization. According to Berrone et al., (2005) the higher disclosure of the ethical behaviour will not only boosts the shareholder value, but positively impact the profitability through the improvement of stakeholder satisfaction. “Since commonalities already exist between Islamic banks, as they are based on the Islamic ethical business framework drawn from the Shari’ah (Islamic
law, often referred to as ‘ethics in action’), it would be interesting to assess whether an ‘ethical-identity gap’ exists and its implications on corporate branding and corporate image and reputation” (Haniffa and Hudaib, 2007: 98). From their very foundation, Islamic banks are expected to be ethical since foundational processes observe strict adherence to Shari’ah principles. The Holy Quran states that, “‘It is no crime in you if ye seek of the bounty of your Lord (by trading)” (Al-Baqrah (2): 198). The Prophet Salla Allahu alai wa Sallam was a honest, successful, and ethical businessperson. Dignified business promotes the meritorious qualities of self-achievement, success, self-reliance, hard work, decency, and integrity. Accordingly, Islamic banking institutions are required to apply ethical and society-friendly criteria in the management and administration of their affairs in the market (Wilson, 1997). According to Islamic financial principles, only the morally upright are complete in faith (Alaro, 2009). Business activities that generate genuine profits are fully permissible in Islam. For every permissible act under the Shari’ah, there are appropriate rules to be followed. The rules take the form of mandatory conditions to be observed (Shurūt) or impediments (Mawāni) that have to be avoided (Alaro, 2009). The absence of the former and the presence of the latter could render an act null and void for being unethical under the Shari’ah (Alaro, 2009).

Considering the spiritual underpinnings of Islamic banking, it is important to develop and sustain strong interlinkages between Islamic banking and business ethics in order to increase the satisfaction of their stakeholders that will positively impact their performance. Therefore, the acknowledgment of the critical role of business ethics in safeguarding the integrity of Islamic banking has stimulated the increased calls for ensuring that Islamic banking remains pure and unadulterated from practices that are not permissible. The recent cases of failures in the conventional Western banking system put Islamic banking in a relatively favourable spotlight, as the melt down of the credit crunch in the conventional banking and finance that climaxed in 2008 was hugely driven by excessive risk-taking, excessive uncertainty and interest based transaction, which are forbidden in Islamic banking.
Business and ethics should go hand in hand. The separation of "business facts" and "moral values" is a misleading dichotomy as argued by Abdul Gafoor (2003). The fact-value dichotomy is false since business matters and moral values that govern business ethics are entangled. Something can be both a fact and a value. For instance, it is a highly virtuous value to maintain fair dealings with customers as well as observe the governmental regulations that govern business affairs. It is also a fact that maintaining fair and just dealings with customers as well as obliging with all the governmental regulations improve the financial performance of a business as it leads to increased customer patronage and avoidance of findings that are associated with cutting corners when it comes to matters of the law (Abdul Gafoor, 2003). Accordingly, based on philosophical values of Islamic economics, business enterprises such as Islamic banks should strive to meet their business objectives while at the same time observing the moral values that lead to the committal of increased good to all and sundry.

In light of the above discussion, examining the ethical performance of Islamic banks will lead to develop an in-depth understanding of Islamic banks in relation to their adherence to the Islamic ethical values that they are supposed to operate accordingly. Obtaining such understanding will assist in locating the existence of gaps, if any, between the ideal theoretical expectations and the actual practices of ethical conducts. Highlighting such issues will promote the role of banking sector in strengthening the ethical investments that will enhance the social wellbeing of the communities.

1.1.1 Banking Sector in the Kingdom of Saudi Arabia: Overview

This research settled on using the context of Saudi Arabia due to a myriad of reasons. Saudi Arabia is a Middle-East country that lies at the heart of Islam. The Islamic religion was founded by Prophet Mohammed (peace be upon) around the area that is modern day Saudi Arabia. Ever since the founding of the Islamic religion, the Kingdom of Saudi Arabia has maintained a closely-knit and elaborate Islamic
socioeconomic fabric. The Kingdom of Saudi Arabia cannot be said to be a secular state because of its cherished adherence and widespread application of Islamic law and principles. As such, the human activities – both individual and institutional – that take place in the Kingdom of Saudi Arabia are largely based on the foundations of Islamic law and principles. Nearly all the people that reside in the Kingdom of Saudi Arabia are adherents of the Islamic faith. Islamic law requires institutions that offer products and services to Muslim faithful to observe a certain code of regulations. The banking sector of the Kingdom of Saudi Arabia is governed by stipulations that are largely based on the Shari‘ah. There are numerous large-sized and hosts of medium-sized banks that operate in the Kingdom of Saudi Arabia. Globally, there has been an increased demand for ethics-based Islamic banking services due to the resilience of the global Islamic banking sector in the face of the global Financial Crash that was caused by the Credit Crunch that originated in the banking and finance sector of the United States of America and spread to other parts of the global economy that operate on the conventional Western interest-based banking and finance model. The increase in the demand for ethics-based banking services at the global level makes the case of Saudi Arabia a worthy study due to the presence of a highly sophisticated and well-developed national Islamic banking system. At the time of the global Credit Crunch Islamic banks operating in the Kingdom of Saudi Arabia – and other Muslim-dominated countries – recorded atypical growth while most of the conventional Western banks were recording sub-par performance and others closing shop (Nichita et al., 2015). The sheer magnitude of the size of the Islamic banking sector in the Kingdom of Saudi Arabia in terms of assets and trading volume is testament to the thriving, buoyancy, and robustness of the Islamic banking sector in the country. Since Prophet Mohammed founded the religion of Islam around the area that is currently the Kingdom of Saudi Arabia, the Kingdom of Saudi Arabia is regarded as the cradle of Islamic economics and Islamic banking. The Islamic banking system of the Kingdom of Saudi Arabia has over the years served as a reliable model for other countries. The Kingdom of Saudi Arabia enjoys relatively high level of political
stability, high capital market liberalization, and the implementation of conspicuous rules and regulations. The confluence of all these factors influenced the decision to base this research on the context of the Kingdom of Saudi Arabia. The motivation of this research comes from the willingness to elucidate within the actual context of business ethics the performance of a banking system that has strong roots and direct original establishment in the Kingdom of Saudi Arabia.

The entire banking sector of the Kingdom of Saudi Arabia operates under the watchful eye of the primordial regulatory body known as the Saudi Arabian Monetary Authority (Saudi Arabian Monetary Authority, 2019). The Saudi Arabian Monetary Authority is tasked with the responsibility of ensuring that the banking system of the Kingdom of Saudi Arabia is sound and effective in dispensing its functions for the service of the country in general and users of its services and stakeholders (Saudi Arabian Monetary Authority, 2019). To further the aforementioned duties and responsibilities, the Saudi Arabian Monetary Authority runs a dedicated Banking Control Department. The Banking Control Department is charged with the supervision and control of the banking sector in the Kingdom of Saudi Arabia under Royal Decree No. M/5 dated 22/2/1386H and Royal Decree No. 23 dated 23/5/1377H (Saudi Arabian Monetary Authority, 2019). The aforementioned decrees task the Saudi Arabian Monetary Authority with the responsibility of controlling banks and money exchangers and issuing instructions thereof (Saudi Arabian Monetary Authority, 2019). The Banking Control Department undertakes activities that lie at the core and periphery of its mandate, such as regulating the banking sector of the Kingdom of Saudi Arabia through the granting of licenses, issuing effective policies and regulations, carrying out regular inspection and supervision to ensure that the banking sector complies with regulations, taking deterrent actions, and establishing justice in cases of noncompliance therewith (Saudi Arabian Monetary Authority, 2019). According to the Saudi Arabian Monetary Authority (2019), the functions and responsibilities of the Banking Control Department are: developing the regulatory and supervisory framework and issuing guidelines on tasks of supervision and on
operations and procedures of inspection; developing and issuing policies pertaining to the banking sector and rules for granting licenses; exercising off-site supervision over domestic banks, money exchangers and branches of foreign banks in pursuance of procedural manuals and risk-based supervision; and exercising on-site inspection of domestic banks, money exchangers and branches of foreign banks.

As at the time of the publication of this research, there are a total of 24 banks that are licensed by the Saudi Arabian Monetary Authority to conduct operations in the Kingdom of Saudi Arabia. The licensed 24 banks include 12 homegrown banks and 12 branches of foreign banks. The 24 banks operating in the Kingdom of Saudi Arabia include commercial banks, industrial banks, agricultural banks, and real estate banks (Saudi Arabian Monetary Authority, 2019). The home-grown licensed banks operating in the Kingdom of Saudi Arabia are: the National Commercial Bank, Saudi Investment Bank, Banque Saudi Fransi, Samba Financial Group, the Saudi British Bank, Alinma Bank, Saudi Hollandi Bank, Al Rajhi Bank, Arab National Bank, Bal Al-Jazira, Asia Bank, and Bank Al-Bilad. The licensed branches of foreign banks operating in the Kingdom of Saudi Arabia are: Qatar National Bank, State Bank of India, Gulf International Bank, Industrial and Commercial Bank of China, T.C. Ziraat Bankası A.S., National Bank of Pakistan, J.P. Morgan Chase N.A., BNP Paribas, Deutsche Bank, Muscat Bank, National Bank of Kuwait, National Bank of Bahrain, and Emirates NBD.

Banking activities that are based on interest are forbidden in the Kingdom of Saudi Arabia pursuant to the principles of the Shari’ah. As such, banks that operate under the interest-based conventional Western banking model are prohibited from setting foot and carrying out operations in the Kingdom of Saudi Arabia. All the banks that operate in the Kingdom of Saudi Arabia are not allowed to deal with the receipt, accrual, and payment of interest. The receipt, accrual, and payment of interest are expressly forbidden in the Holy Quran and such activities are unequivocally classified as being Haram. The banks that operate in the Kingdom of Saudi Arabia are either
pure Islamic banks or Islamic branches and Islamic windows of conventional Western banks. The Islamic branches and Islamic windows of conventional Western banks are disallowed from mixing the funds sourced from Islamic economic activities with those obtained through the secular conventional Western interest-based activities. The Shari'ah assumes no different between interest and usury. Social justice is a fundamental tenet of Shari’ah. When interest is charged to one party there is not justice because the supplier of funds has the certainty that capital will be paid at a fixed rate of return while the recipient of the funds bears the entire risk (Nichita et al., 2015). According to the Holy Quran Surah 4, “they take interest although it is banned and grow their wealth at the expense of the property of others! They do not believe. Allah has prepared for them a terrible chastisement!” The above quotation of the Holy Quran provides the original basis for the prohibition of interest on grounds of lack of observance of social justice, unjust enrichment, and exploitation of others.

The entire banking sector of the Kingdom of Saudi Arabia operates under banking activities that feature the lack of interest, the desire to minimize uncertainty and speculation, and the contribution to achieving economic wellbeing. These features are characteristic of Islamic banking and shape up the novelty of Islamic banking as compared to conventional Western banking (Nichita et al., 2015). The aforementioned features put a mark on the risk and profitability of Islamic banks operating in the Kingdom of Saudi Arabia, especially the ones that bear a reflection of the transposition of extant religious Shari’ah principles and economic arrangements such as the sharing of profit and loss, Musharakah, Murabaha, Ijara, and Qard al-Hasan (Nichita et al., 2015). These notable features make Islamic banking system not only an intermediary but also a direct participant to economic development (Vulpoi, 2015).

Due to the absence of the element of usury in the banking activities carried out in the Kingdom of Saudi Arabia, banking deeds are largely based on the principle of sharing profits and losses between the banking institutions and customers. This implies that
all the parties to banking transactions acknowledge the present of a certain number of risks that must be minimized in order to attain a rate of return that is as superior as possible. The profit and loss model that governs Islamic economics and Islamic banking activities is expressly provided for in the Shari’ah as the Shari’ah compliant alternative to interest-based activity.

The Islamic banking sector features the absence of hedging (Maysir) that is present in the contemporary Western banking system. The lack of hedging in the Islamic banking sector of the Kingdom of Saudi Arabia is influenced the Shari’ahnic principles that prohibit Gharar in the operations, transactions, and contracts conducted by Islamic banks. For Gharar to be abated, the subject and price must be determined prior to the actual commencement of the fulfillment of contractual and transactional obligations.

Since the Islamic banking institutions operating in the Kingdom of Saudi Arabia are not allowed to deal with interest they operate under the trading arrangement that is known in Islamic parlance as Musharakah. Other trading arrangements include Ijarah, Mudarabah, Wakalah, Murabahah, and Qard al-Hasan. Musharakah denotes joint venture (Nichita et al., 2015). These trading arrangements further the observance of business ethics since they give excessive speculation, uncertainty, interest, and exploitation a wide berth. The Saudi-based Islamic banking institutions lend money to obtain income on the basis of joint venture. In the case of financing start-ups or nascent as well as well-established commercial enterprises, the respective lending Islamic banks become partners of the entrepreneurs by holding a percentage of the total number of shares. When the business establishment conducts business and obtains profits, a certain fixed pre-agreed fraction will be allocated to the Islamic banking institution. To reduce exposure to the systemic and unsystemic risks associated with the funded commercial establishments, Islamic banks diversify their client portfolio and lending activities.

Ijarah is another trading arrangement that the Islamic banks operating in the Kingdom
of Saudi Arabia utilize. *Ijarah* is the equivalent of leasing in conventional Western financing. For an *Ijarah* contract to be compliant with the *Shari’ah*, the contract must be signed in advance with specific restrictions concerning the non-alteration of rates addressed to the lessor. If a debtor delays to pay the relevant financial obligation, the concerned Islamic bank is prohibited from imposing levy penalties in the ethical spirit of preventing the exploitation of customers by Islamic banks. This stipulation is a stark contrast with that of a typical lease agreement in the conventional Western world where one of the fundamental clauses provides for punitive measures to be undertaken by the lessor. If a debtor delays in fulfilling the periodic financial obligations under Islamic banking arrangements, the debtor is required by Islamic law to donate a sum of money to a charitable fund run by the lending Islamic bank (Nichita et al., 2015).

Another form of trading arrangement espoused by the Islamic banks operating in the Kingdom of Saudi Arabia is *Mudarabah*. *Mudarabah* features the existence of a contract based on a partnership between the client (*rabb al-mal*) and the Bank (*mudarib*). In *Mudarabah* the client is not involved in the management of liquidity. Only the bank manages the liquidity associated with the property managed under the partnership arrangement. An Islamic bank can be forced to compensate a customer in a case where the customer can give evidence of neglect of the duty of care that an Islamic bank has over its customer. Savings products are largely based on the principle of *Mudarabah* (Nichita et al., 2015).

*Murabahah* is another working arrangement that Islamic banks use to further their operations with their customers. A *Murabahah* contract is used to provide financing for clients, natural persons, or legal entities, which are facing shortage of liquidity. Under a *Murabahah* trade arrangement, an Islamic bank purchases an asset in order to resell it to a client a higher price than that of the purchase, with the difference making the profit. Profit for the bank can either be presented as a fixed amount or as a percentage or the purchase price of the asset. So as to avoid uncertainty as per the
principles of the *Shari’ah*, the asset forming the basis of the transaction must be physically present at the time that the *Murabahah* transaction is initiated. Additionally, the Islamic bank must have rightful ownership of the asset under consideration at the time it wishes to transfer it to the customer. The customer makes periodic payments to clear the outstanding debt obligation at the pre-agreed dates commencing from the moment of the entering into the agreement. The value of the consideration under a *Murabahah* agreement cannot be changed even in a case where the customer is unable to repay the debt to the bank or makes delays in making payments to the bank. Such a fundamental stipulation of the *Murabahah* exposes Islamic banks to more credit risk (Nichita et al., 2015). To mitigate against this risk, an Islamic bank can ask the client to issue a mortgage to its favor.

*Qard al-Hasan* is a form of funding provided by the Islamic banks operating in the Kingdom of Saudi Arabia to their customers. *Qard al-Hasan* is unique to Islamic banking since it involves the provision of loans without the charging of interest or profit and without the forging of partnerships with the borrowers. The customers who are lent money under this form of funding are required to pay back the principle and the administrative costs associated with the management of the loan. *Qard al-Hasan* loans are usually extended to the under-privileged, those who wish to build houses, cooperatives, micro-enterprises as well as individual farmers and agricultural institutions (Nichita et al., 2015).

**1.2 Research Motivation**

Given that there is a limited research conducted on the ethical performance of Islamic banks at the global level in general and in Saudi Arabia in particular, this research will generate crucial conclusions related to highlighting the gaps, if any, between the ideal expectations of the business ethics and what is practiced by the Islamic banks. Reaching such outcomes will enrich the literature of Islamic banking by providing critical insights about the current situation of the business ethics practices and
highlight the needs for further promotion – where necessary – within the Saudi banking industry. This research will in addition assist the Islamic banks to observe their behaviour towards the ethics and will apprise the importance of business ethics in promoting Islamic banks within the communities. This study will further provide Islamic banks’ employees perceptions on business ethics that will aid to identify gaps, if any, in their practices. By delivering the outcomes of the data analysis, this research will further highlight the consumers’ perceptions towards the ethical performance of Islamic banks and whether such behaviour has any impact on their banking behaviour. Hypothesising a positive association between the embracing of fundamental Islamic principles and ethical performance, this research will bring into banks intention the significant role the business ethics play in boosting their performance. By drawing such conclusions, this research will make contributions that recommend solutions on how Islamic banks can address the challenges that they face as they observe their ethical duties.

1.3 Research Aims and Objectives:

This research aims to examine the business ethics of Islamic banks from the perception of employees as well as the customers of Islamic banks in Saudi Arabia.

In order to fulfill the research aims, the following research objectives are developed:

i) To critically review the socio-economic theories that promotes the business ethics.

ii) To develop a theoretical framework based on Islamic moral values to form the foundations of the business ethics of Islamic Banks.

iii) To critically review the nature of Islamic financial products and operations with the objective of establishing ethical aspects and CSR of Islamic banks.

iv) To explore the potential role that Islamic banks may play in promoting the business ethics.

v) To examine the ethical performance of Islamic banks from the perception of
banks’ customers in Saudi Arabia.

vi) To examine the ethical performance of Islamic banks from the perception of banks’ employees in Saudi Arabia.

1.4 Research Summary

Saudi Arabia is a Muslim dominated country that has one of the most developed in Islamic banking sectors in the whole world. Saudi Arabia holds a very important place in the history of Islam since it is within the area of Saudi Arabia that Prophet Mohammed (peace be upon him) got to the revelation of the holy Koran as well as gave the primordial teachings that form the basis of the Sunnahs. The confluence of these factors made Saudi Arabia to be selected as the contextual background of this research. Islamic banking institutions operating in the kingdom of Saudi Arabia are faith-based institutions that are required to uphold the teachings of the sharia in all their activities. The sharia places a premium on the observance of ethics. Ethics are the set of rules that provide guidance on what forms good conduct, acceptable behaviour, and right ways of thinking and doing things.

Due to the unique faith-based nature of Islamic banking institutions, there are high expectations that such commercial establishments observe a high level of ethical performance as compared to institutions that are not grounded in religion – in this case Islam. All stakeholders as well as members of the wider society hold high expectations for the Islamic banks operating in the kingdom of Saudi Arabia with regards to ethical performance. The goal of this research is to assess the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia. This research, like other works of research, narrows down the research study to specific groups of people so as to ensure that meticulous attention is paid to specific parameters. For purposes of study, customers and the employees of Islamic banks operating in the kingdom of Saudi Arabia form the primary focus groups for this research. This research studies the ethical performance of the Islamic banks
operating in the kingdom of Saudi Arabia from the perceptions of customers and employees. For purposes of using the perceptions of employees and customers, this research makes use of six key dimensions. Through the dilutions, as well as their branched subdimensions, provided guidance in the content support from respondents through the administration of questionnaires.

In order to get a fair view of the ethical performance of an institution, it is prudent to rely on external measures that are more objective as compared to internal assessment (Haniffa and Hudaib, 2007). Since Islamic banks are stewarded by manager-leaders, it is not judicious to rely on the assertions of management with regard to the ethical performance of Islamic banks. The use of external perception to evaluate performance is a time-honored practice that is widely applied in various areas and professions (Ali et al., 2012). For instance, the performance evaluation measures of employee performance of various organizations include the feedback of supervisors, fellow employees, and other people that interact with the employee whose performance is being assessed. In much the same way, the perceptions of customers and employees provide more impartial basis for evaluating the ethical performance of an Islamic bank as compared to management’s own evaluation since the management is largely responsible for the financial and ethical performance of the organization that it steers (Alani and Alani, 2012). This research places a premium on the use of the perceptions of customers and employees to evaluate the ethical performance of Islamic banks as such approach allows flexibility to reflect on the performance, astuteness, and shrewdness of the bank with regards to the observance of business ethics. Since customers are considered to be outside the governance structures of Islamic banks, their honest opinions and perception are more likely to provide a more reliable mirror image of the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia. Both customers and employees have numerous interactions with Islamic banks. Their perceptions can be considered to be reliable barometers of assessing the ethical performance of Islamic
banks since they reflect their own-lived experiences with the ethical conduct of Islamic banks. Strong and positive customer and employee perceptions about the ethical conduct of Islamic banks are more likely to increase the ethical performance and financial performance of Islamic banking institutions (Alani and Alani, 2012). Customers and employees who hold favorable perceptions about Islamic banks are more likely to hold the respective institutions in high esteem and rank them high on the ethical performance evaluation scales. Customers who hold positive perceptions about Islamic banks are more likely to have repeat patronage that bolsters the volume of business of their respective Islamic banks and such institutions, by consequence, record high levels of financial performance due to high uplines other things constant (el-Din, 2004). Employees who hold strongly positive perceptions about their employers are more likely to be more productive at the workplace and thus make significant contributions to the financial performance of their employers. Weak and negative perceptions held by customers and employees of the Islamic banks operating in the Kingdom of Saudi Arabia provide fodder for focusing improvement efforts (Green, 1989). Therefore, it can be stated that examining the perceptions of employees and customers of Islamic banks in Saudi Arabia would provide insights of their ethical behaviour that will highlight the gap, if any, between the ideal and their practices.

Questionnaires form the primary data collection method of this research. The sample size of this research was restricted to 210 participating respondents; 140 respondents were customers of the Islamic banks operating in the Kingdom Saudi Arabia while 70 of the respondents were employees of the four Islamic banks operating in the kingdom of Saudi Arabia. The data will be collected from the distributed questionnaires administered to the employees and customers of four Islamic banks, namely: Al-Rajhi Bank, National Commercial Bank (NCB) “Al Ahli bank”, Al-Bilad Bank and Alinma Bank. Statistics were largely used convert the collected data into meaningful information. Descriptive statistics are provided explain the distribution of
various characteristics of the respondents. Inferential statistics were used to test the waters as well as hypotheses used in this research study. The statistical software known as SPSS was used to facilitate computerized statistical analyses. An elaborate discussion of the findings of this research is presented with the purpose of providing insights about the ethical performance of the Islamic banks operating the kingdom of Saudi Arabia. This research makes appropriate recommendations to address the issues and by the findings of this study. The findings of this research pinpoint the fact that on average, based on their perceptions, customers are largely ambivalent about the ethical commitment and ethical performance of the Islamic banks operating in the kingdom of Saudi Arabia. On the other hand, the findings of this research revealed that employees mostly approve of the ethical performance of the Islamic banks operating in the kingdom of Saudi Arabia. Among the raft of recommendations that this research offers to the Islamic banks operating in the kingdom of Saudi Arabia to boost the perception of their ethical performance is massive creation of awareness about the ethical activities of Islamic banks. When customers, whose perceptions mainly sit on the fence with regards to the ethical performance of Islamic banks operating in the kingdom of Saudi Arabia, are made aware of the activities pursued by the Saudi-based Islamic banks with regards to business ethics they will most likely be inclined to understand the true nature of the ethical activities of Islamic banks and thus hold more appreciative perceptions about the ethical performance of Islamic banks operating in the kingdom of Saudi Arabia.

It is important to acknowledge that the limitations of using the perceptions of customers and employees of Islamic banks as a way of gauging the ethical performance of Islamic banks has some limitations. There are various factors that could skew the objectivity and honesty of the perceptions of customers and employees. For instance, if a customer or an employee holds grudge against a certain Islamic bank, then he or she is likely to give a biased assessment. Moreover, if a customer has business interests in another institution that delivers some of the
services offered by Islamic banks, then he or she might hold a biased opinion that might reflect in his or her perception. What is more, other factors such as access to information and awareness of the ethical practices of Islamic banks might hinder the reliability of the information collected through the evaluation of the perceptions of the customers of Islamic banks. Additionally, the influence of personal factors cannot be ruled out in skewing the perceptions of the customers and employees of Saudi-based Islamic banks. Personal shortcomings stemming from flaws of character might colour the judgments and perceptions of the customers and employees of the Islamic banks operating in the Kingdom of Saudi Arabia.

1.5 Research Contribution

The better part of the extant body of knowledge about the Islamic banking scene in the Kingdom of Saudi Arabia is largely theoretical in nature. What is more, the existing body of published research touching on the twin issues of Islamic banking and business ethics has a limited expanse. Only a few works of research embrace the dimensions utilized in this research and collect raw data from customers and employees when it comes to the study of the ethical performance of the Islamic banks that feature in the kingdom of Saudi Arabia. From the above foregoing, it can be gleaned that there are gaps in the existing body of literature that can only be filled with further research. This research is both theoretical and practical in nature. The practical underpinnings of this research influenced this study to collect actual raw data from people who have real life day-to-day and ongoing contact with Islamic banks operating in the kingdom of Saudi Arabia – who are the customers that patronize this Islamic banking institutions and the employees that offer their labor and other services to the Islamic banks operating in the kingdom of Saudi Arabia. This research utilizes questionnaires that contain questions that address various dimensions and subdimensions of business ethics – something that very few previous research works that form the extant body of knowledge about the ethical
performance of Saudi-based Islamic banks make use of.

1.6 Research Questions

The purpose of this research is to investigate the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from the perspective of customers and employees. This research is guided by the following questions:

- What is the impact of Shari’ah principles on the business ethics of Islamic banks operating in the Kingdom of Saudi Arabia?

- When observed from employees and customers perspectives, do the Islamic banks operating in the Kingdom of Saudi Arabia live up to their ethical billing?

- What are the ethics-centric goals, objectives, activities, and strategies that Islamic banks operating in the Kingdom of Saudi Arabia espouse in their operations?

- What roles to the ethics-centric goals, objectives, activities, and strategies of Islamic banks contribute towards the wellbeing of customers and employees?

- What are the effective measures of the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia?

- What are the theoretical attributes of Islamic banking and how has the application of such attributes influenced the observance of business ethics by the Islamic banks operating in the Kingdom of Saudi Arabia?

1.7 Thesis Outline:

**Chapter 1:** Introduction: In this chapter, an overview of banking sector in the kingdom of Saudi Arabia as well as the context of business ethics is elucidated.

**Chapter 2:** Theoretical Framework: In this chapter, the underlying principles and
forms of ethical theories are explored.

**Chapter 3: Literature Review**: In this chapter, secondary and tertiary sources that explicate the workings of business ethics as well as Corporate social responsibility of Islamic banks are reviewed.

**Chapter 4: Research Methodology**: In this chapter, the research work that tested the hypothesis is discussed.

**Chapter 5: Examining the Ethical Performance of Islamic Banks: A Customer Perception**: This chapter will assess the ethical performance of Islamic banks based on collected data from questionnaire distributed to customer. In this chapter, this research will examine the ethical performance of Islamic banks and the extent to which such ethical behaviour affect the banking activities from the perspectives of customers.

**Chapter 6: Examining the Ethical Performance of Islamic Banks: An Employees Perception**: This chapter will assess the ethical performance of Islamic banks based on collected data from questionnaire distributed to employees. In this chapter, this research will examine the ethical performance of Islamic banks and the extent to which such ethical behaviour affect the banking activities from the perspectives of employees.

**Chapter 7: A Comparison for the Dimensions of Ethical performance from the Perceptions of Islamic Banks’ Employees and Customers in Saudi Arabia: An Inferential Analysis**: This chapter will compare the ethical performance to highlighting the gaps, if any, between the ideal expectations of the ethical performance and what is practiced by the Islamic banks from the perceptions of employees and customers.

**Chapter 8: Critical Reflections on the Findings**: This chapter will provide an interpretive discussion on research finding meticulously.
Chapter 9: Conclusion: In this chapter, the key concepts, findings, implications, limitations, and recommendations of the thesis are summarized.
Chapter Two

Theoretical Framework of Business Ethics
Chapter Two

Theoretical Framework of Business Ethics

2.1 Introduction

Ethics provide a moral compass of what is right and what is wrong, therefore, ethics purpose to promote justice and fairness in the dealings that take place between various parties who may either be individuals or organisations (Ullah et al., 2014). Ethical principles impress upon people the importance of observing the universal tenet of doing unto others what a person would wish to be done upon them while at the same time promoting wholesome interactions (Musa, 2010). Ethics are largely rooted in norms and principles (Alani and Alani, 2012). Therefore, ethical principles give guidelines for resolving ethical dilemmas. In cases of ethical dilemmas, conventional ethics dictate that the most ethical course of action is that which leads to the greatest good happening to many people. Islamic ethics differ from the other types of ethics in the sense that they are based on the commandments issued to man by Allah as captured in the Holy Quran and the Sunnah (the teachings of the Prophet, peace be upon him). The overarching goal of many a business is to make profit. However, some pro-profit businesses seek to maximise profits without any religious scruples (Musa, 2010). Business ethics largely aim to improve honest and fair dealings amongst all the parties to a business undertaking (Ullah et al., 2014). In order to understand the concepts of business ethics, it is of imperative importance to have a theoretical framework that explains the workings of business ethics. According to Alani and Alani (2012), there are many schools of thought when it comes to business ethics nearly all-ethical theories share some basic characteristics. However, there are various features of the notions of the principles of ethics advanced by various schools of thought. Velasquez (2006: 48) states that “the best way to begin a discussion of business ethics is by looking at how real companies have incorporated ethics into their operations”. The theoretical background of business ethics will
provide a solid backdrop against which to compare the ethical behaviour of the companies that engage in Islamic banking with the context of the Saudi society.

2.2 The Concept of Ethics

Ethics is a measure of integrity that evaluates the principles that constitute the basis for social and individual relationships while placing a premium on morality (Ullah et al., 2014). Ethics are largely concerned with the determination of what is morally right and acceptable versus what is morally wrong (Al Rayan Bank, 2015). All human beings have the obligation of being useful by leaving this world a better place than they found it. Accordingly, the ethics promote such noble ideal by guiding and impressing upon people from all walks of life to commit those actions whose consequences ultimately lead to the triumph of good over evil (Musa, 2010). Ethics provide the 'right and wrong guidelines' when a choice that has a significant impact on others is involved (Alani and Alani, 2012). The concept of ethics takes into consideration the norms and principles that provide the basic guidelines for determining how conflicts in human interest to be settled by optimising the mutual benefit of people living in the society or who are in contractually binding situations (Ullah et al., 2014). Ethics can be viewed as a collection of values and norms, moral standards, and principles that form the basis of integrity. Ethics can be considered as a code of conduct that guides the taking of actions that are morally right (Islamic Financial Services Board, 2009). Ethics avail principles that provide a moral framework for acting. All ethics seek to promote certain values that can be viewed as the base of morality appetite principles and standards of behaviour (Islamic Financial Services Board, 2009). Norms dictate what is morally correct behaviour in a certain situation. In the context of ethics, values and norms give data on the terms of actual and provide justifications and evaluations of the moral aspects of actions (Alani and Alani, 2012). It this regard, a concept that is close to the heart of ethics is integrity. Integrity involves acting within the confines of the ethical framework of moral values and norms. In the context of business, business ethics seek to define and lead to the
actualization of the guiding values of a commercial establishment (Musa, 2010).

2.3 Business Ethics

In the corporate world, business ethics – or corporate ethics – are the moral principles that provide guidelines on how an enterprise can be a good corporate citizen by making clear, purposeful efforts that aid adherence to certain ethical values while trying to do the right thing to all the multitudinous stakeholders that include employees, customers, shareholders, suppliers, the government, and regulatory bodies (Pervez, 2011). In the context of a commercial establishment, business ethics means, “choosing the good over the bad, the right over the wrong, and the fair over the unfair” (Ahmad, 2014). Business ethics can be said to be the application of moral norms to business. Business ethics are to a body corporate what personal ethics are to an individual. However, business ethics are considered to be more intricate than personal ethics since businesses deal with many people and other businesses as well (Islamic Financial Services Board, 2009). Business ethics serve to ensure that a business does not just tether its focus to profit maximisation. Many pro-profit businesses that pursue excessive profitability at the expense of doing what is morally right are likely to violate the morally-correct business practices and find themselves in hot soup in the near future. History is replete with examples of businesses that have to pay hefty consequences – including the ultimate price of closing down shop – as a result of violating business ethics (Islamic Financial Services Board, 2009).

In the realm of business practice and scholarship, there is a school of thought that champions the ideals that hold that all business enterprises should only be concerned with profit maximisation (Norman, 2014). The supporters of such understanding advance the notion that the end justifies the means. Therefore, the making of profit through any means possible is justifiable. The proponents of the amoral business hold the view that businesses, as well as other people in business, should not be explicitly concerned with ethics as business activities cannot be categorized to be either ethical or immoral (Chonko, 2015). Those people who advocate this
understanding do not place a premium on the ideological and practical concepts of right and wrong. To this category of individuals, the principles of right and wrong are irrelevant to business (Garriga and Mele’, 2004).

The reality on the ground shows that the idea of an amoral business remains just to be a myth. Business and morality are compatible (Fontrodona et al., 2009). Embracing morality aids in the attainment of the fundamental goals and objectives of any law-abiding business (Garriga and Mele’, 2004). The proponents of the amoral business are largely secularists. Secularism goes do not comply with the principles of Islamic banking that are enshrined by the philosophical foundations of Islamic finance (Islamic Financial Services Board, 2009). The basis of Islamic economics either the Holy Koran and the Sunnah teachings of the Prophet (peace be upon him), therefore, it is impossible to subvert business from morality. And since morality and business ethics are enjoined, it goes without saying that businesses should embrace business ethics (Fontrodona, 2009).

Based on such understanding, a business is not something that is separate from the wider society and it is not imposed on the society (Fontrodona et al., 2009). Accordingly, it can be stated that a business is an integral part of the fabric of the society. Therefore, the nature of the conduct of business is decided by the people who live in the society that are business operates in (Garriga and Mele’, 2004). The demands, as well as the limits that are imposed on business enterprises by the people who live in the society, are largely moral in nature. Accordingly, it is impossible to separate business from morality or ethics since all businesses must carry out their operations in ways that are congruent with the rules and regulations formulated by governmental and regulatory bodies (Norman, 2014). Most of the laws that govern the conduct of business are conjoined with ethics at the hip. While a business is economical enterprise, it is also a social enterprise. Being social in nature, it means that all businesses should solve the limits that are placed upon them by the society in the form of business ethics that give moral guidelines on what is
right and what is wrong (Chonko, 2015). In cases where there are immoral business activities, business ethics should be in an able position to clearly demonstrate why these activities are impermissible from a morality point of view. Business ethics serve to protect as well as support the business activities that are noble and right while at the same time providing remedy and curbing the practices are not grounded on strong fundamental moral grounds (Garriga and Mele´, 2004). Upholding business ethics ensures that an enterprise is empowered to give back to the society that helped it develop. Every business should not merely exist to serve its profit-maximisation motive, rather a business should further the attainment of shared goals between it and the stakeholders in the surrounding environment (Fontrodona et al., 2009). Every business should at all times uphold responsibility to the environment and the society as business ethics extends beyond the donation of part of the surplus business profits. Furthermore, it is important to understand that based on Islamic values, a business that gives out to charity significant fractions of its business profits cannot be considered to be ethical if such business profits were generated from business activities that are illegal or immoral. Therefore, the mere act of giving to society in the above scenario cannot sanitize the unethical deeds of the business (Norman, 2014).

2.3.1 Components of Business Ethics

Business ethics can be divided into various parts that include the business ethics of human resource; ethics of sales; ethics of marketing; ethics of production; and ethics of competition (Fontrodona et al., 2009).

2.3.1.1 Ethics of Human Resource

Ethics of human resource serve to give moral guidelines about the treatment and the relationship of a business with its employees (Chonko, 2015). Ethics of human resource act to prevent the meting out of various immoral and social evils against the members of staff. For instance, discrimination takes place in various places of work.
According to Velentzas and Broni (2010), discrimination usually takes place on the basis of race, gender, age, religion, familial affiliations, and belief. Discrimination has dire ramifications that include losses in sales, a high rate of staff turnover, lawsuits, and bad publicity that can have numerous consequences due to the cascading effect. It can be stated that employees tend to be loyal to the organisations that treat them well. Accordingly, organisations that treat their employees with dignity are likely to record high rates of employee productivity due to the presence of high staff motivation of workers. Customers tend to find businesses that value their workforces to be more attractive and this results in increased customer patronage other factors being constant (Garriga and Mele´, 2004).

2.3.1.2 Ethics of Sales

According to the Islamic values and principles, companies are supposed to abstain from dealing with certain products and activities that are considered to be *haram* (not permissible) (Alaro, 2009). Engaging in *haram* business activities or dealing with businesses that participate in the trade of prohibited substances renders a business to become unethical (Ullah et al., 2014). In cases where a business deals with allowed substances that have adverse side effects, companies should at all time reveal all the possible harms that can result in certain individuals as a result of exposure to certain products (Velentazas and Broni, 2010).

2.3.1.3 Ethics of Marketing

Marketing serves to influence the spending and buying patterns and behaviours of current and potential customers. Businesses use marketing advantages in order to attract and retain customers. It can be stated that marketing activities are geared towards helping a business to improve its upline by increasing customer loyalty levels, bolstering customer retention, and winning over customers from rival enterprises. In some cases, businesses abuse their marketing processes by making exaggerated claims about their products and services (Velentazas and Broni, 2010).
It is unethical for a business to make distorted claims about its products and services if it knows very well that the attainment of the promoted benefits is highly unlikely in the real world (Fontrodona et al., 2009). Therefore, companies should give honest selling points to their products and services and steer clear from misleading marketing campaigns that are based on excessive greed (Garriga and Mele’, 2004). Companies should desist from other marketing activities such as price-fixing with competitors since such practices exploit customers. It is prudent for companies to spend their profits in other activities such as corporate social responsibility or research and development that are likely to lead to increased sales in the future instead of spending the better part of their business profits on highly manipulative and misleading marketing campaigns (Chonko, 2015).

2.3.1.4 Ethics of Production and Service Creation

The commercial establishments that are involved in the creation of goods should at all times ensure that their products are created in ethically-correct manufacturing processes. The outcomes of the manufacturing processes should not be harmful to the final consumers (Garriga and Mele’, 2004). The manufacturing processes should at all times comply with best practices. Businesses, for instance, involved in manufacturing should not use toxic substances in their manufacturing processes as a way of cutting down on production costs or making their products more endearing to their customers (Fontrodona et al., 2009). In addition, when it comes to manufacturing research, companies should not violate the rights of animals during testing. Accordingly, manufacturing companies should properly dispose off their wastes (Velentazas and Broni, 2010). All companies should at all times ensure that they take good care of their environment. Businesses involved in the creation of services should also ensure that their processes do not involve procedures that are unethical. Service businesses are also obligated to ensure that all the intermediary steps and by-products involved in the generation and provision of services do not harm the environment. In other words, service-based businesses should not promote
the furtherance of activities that are haram (Norman, 2014).

2.3.1.5 Ethics of Competition

Competition is a common feature of the contemporary business environment. In a competitive environment, there will be those that will outcompete their peers. Competition is supposed to follow rules (Garriga and Mele´, 2004). All the parties that are subject to competition should follow the same set of rules as the bending of competition rules is unethical (Norman, 2014). Therefore, it can be argued that cutting corners by violating the rules of competition leads to chaos and unfair wins. Those truly deserving of winning are deprived of their justice when competitors do not ascribe to upholding the rules governing fair competition (Velentazas and Broni, 2010). Accordingly, Islamic banks are prohibited from engaging in morally corrupt competitive practices such as price-fixing, unfair price discrimination, collusion, and retail price maintenance (Garriga and Mele´, 2004). Moreover, insider trading is considered to be a form of unethical and unfair competition. Insider trading takes place when a person who is within the organisational structure of an institution makes market-based decisions to buy or sell shares based on privileged information (Fontrodona et al., 2009). Insider trading can also be considered in cases where the people who work for an organisation offer tips that are based on privileged information to outsiders (Chonko, 2015).

2.4 Framework for the Analysis of Ethical Behaviour

Wotruba (1990) suggests a model that describes the process of decision making known as the Ethical Decision/Action Process. The Ethical Decision/Action Process builds upon the earlier ethical models. The Ethical Decision/Action Process uses a four- component moral decision structure at its core. The behaviours that happen within the moral decision structure influenced by the characteristics and decision outcomes of the decision-makers that vary from one situation to another. The Ethical Decision/Action Process has four parts with part A building upon Rest's (1986) Four-
Component Mortar of moral behaviour, part B explicating the characteristics of the decision-maker, part C elucidating the situational moderators that influence the ethical decisions being made, and part D, explaining the fact that are affected by the moral actions taken by the decision-maker (Wortuba, 1990).

Part A: Moral Decision Structure

Part A of the Ethical Decision/Action Process shows the processes through which decision-makers should go through in order to attain courses of action that are ethical in nature. Part A has a direct influence on the subsequence parts. Part A is divided into four stages which are:

i. Recognition of four possible actions, or parties that could be affected for each recognized action, and what the consequences are likely to be (A 1). This stage represents the initial analytical processes that should set in motion ethical decision-making.

ii. Determination of the morally upright option that is the best choice in the situation (A 2). According to Wortuba (1990), the overarching purpose of this stage is to show how an individual should arrive at an independent judgment using the criteria and standards that justify the moral choice.

iii. Prioritization of moral values and formulating the intention of acting ethically (A 3). The third stage of part A and the ethical decision-maker will be comparing and attaching weights to the different options that are available in order to give priority to the one that results in the most grooved gun to most people as part the dictates of the underlying ethical code of conduct. According to Wortuba (1990), the major intention of an individual at this stage should be conducted ethically as the pursuit of other intentions could result in the making of decisions that are not wholly ethical.

iv. Deciding to and/or behaving accordingly with the intention formulated (A 4). The fourth stage is the actual state. After this stage, the decision-maker places a premium
on converting his ethical intention into reality by implementing the course of action that results in the most work being done to the most number of people. At this stage, the decision-maker also keeps an eye on finding solutions to unexpected issues that may emerge (Wortuba, 1990).

Part B: Characteristics of the Decision Maker

According to Wortuba (1990), the personal characteristics of the decision-maker as well as of those in his position and superiors as well as influence the making of a decision. Part B is directly influenced by Part A. According to Wortuba (1990) there are three categories of the personal characteristics that influence the decision made by the decision-maker. These categories are:

i. Demographic:

These characteristics include such factors as the age and of the level of education that influences the perspectives of the decision-maker (Wortuba, 1990). Education influences the making of decisions in the sense that it did determines the perceptions and the level of knowledge, understanding, and purview of a person. There is a whole body of knowledge that is dedicated to ethics. The more ethical knowledge that an individual has, the more likely that he or she will make ethical decisions given that his primary intention is to make ethical decisions – other factors being constant. Some studies have found that gender and commitment to religion are additional factors that can have an influence on the making of ethical decisions (Wortuba, 1990).

ii. Behavioural (psychological and cultural):

According to Wortuba (1990), cognitive complexity, empathy, and personal values and behavioural characteristics that influence the ethical decision-making of an individual. Highly Machiavellian individuals are likely to make decisions that are not ethical as compared to people who have altruistic tendencies. Cultural factors have an influence on an individual's perception of ethics and ethical behaviour that
ultimately influence ethical decision-making. For instance, in some countries – such as the highly religious nations – bribery is frowned upon and is considered to be morally wrong. However, in other countries, bribery is openly accepted in some societies and even considered to be legal. Such cultural discrepancies may have a bearing on the courses of actions that a decision-maker chooses (Wortuba, 1990).

iii. Positional (type and level within the organisation):

According to Wortuba (1990), the functional area of responsibility of individuals within the organisation has an impact on the ethical decision-making analysis. According to Chonko and Hunt (1985), people are administrative echelon of the organisation are less likely to be sensitive to ethical problems as compared to those in the lower ranks. Chonko and Hunt (1985) offer that those in the higher levels of the organisational structure are more likely to place a premium on profits and as a result prefer to take actions that are likely to bolster profits in as much as such actions may have moral ramifications. Unethical actions taken by the top management may be hard to detect unless there is whistleblowing. The lower levels of the organisational structure, it becomes easy to support the unethical actions of an individual if the other workers at that level are purely involved in ethical practices and behaviours. Industry-wide practices influence the ethical analysis made by holders of certain positions within the organisation (Wortuba, 1990).

Part C: Situational Moderators

Situational moderators are the factors in the internal and external operating environments that influence the ethical analysis and decision-making processes of individuals (Wortuba, 1990).

i. Corporate culture and policies:

The existence, or lack thereof, of corporate policy on ethics, can influence an individual's ethical analysis and decision-making (Wortuba, 1990). In an organisation
where there is strict enforcement of ethical code of conduct, individual decision-makers are more likely to make ethical decisions as compared to individuals who work in organisations that do not have clear-cut organisational policies on ethics (Wortuba, 1990).

ii. Peers and referent others:

According to Wortuba (1990), the perceptions of what peers do in certain situations have an influence on an individual's ethical analyses in similar situations. Workers are likely to use peers behaviour as a benchmark in making decisions in certain situations (Wortuba, 1990).

iii. Superiors:

Workers are likely to take up the examples set by their superiors in making ethical analyses and decisions. Superiors who place a premium on ethics are likely to inspire their subordinates to take those courses of action that are strongly grounded on morality (Wortuba, 1990).

iv. Competitors:

Actions of competitors that promote intense competition are more likely to have a negative impact on ethical decision-making as they may attempt individuals to make decisions that are likely geared towards warding off competition, in as much as such decisions are morally upright (Wortuba, 1990). The temptation to make unethical decisions is usually high where competitors use underhand tactics to further cutthroat competition (Wortuba, 1990).

v. Customers

The workers of an organisation may tailor their interactions with customers to suit the needs of the customers. Sometimes the workers of an organisation have to make statements that are pleasing to customers or offer products and services that are not
fully compliant with the governing laws and morals in order to secure continue business with customers (Wortuba, 1990). In some cases, customers may demand that workers offer them services or products in certain ways that do not meet the regulatory and moral standards in order to obtain such products and services at low prices and do more business with the seller. The ethical standards of customers may have an influence on the ethical analysis and decision-making of workers in a certain organisation. Workers are more likely to make decisions that are ethical in nature when dealing with customers who attach significant weight on ethics (Wortuba, 1990).

vi. Legislation:

According to Wortuba (1990), many people consider their actions and decisions to be ethical insofar as they do not contravene the governing laws and regulations. Laws vary from one society to another and this may necessitate decision-makers to answer their decisions in order to make them more adaptable to different laws in different countries and societies (Wortuba, 1990). In the context of Islam, some of the monument laws are in contravention of the provisions of the Holy Koran and the Sunnah teachings of the Prophet (peace be upon him). The adherents of Islam, including all Islamic bankers, should at all times do what the Shari'ah dictates in cases of discrepancies between the Shari'ah and the man-made laws.

Part D: Outcomes

According to Wortuba (1990), decision-makers should always keep their eyes on the prize of the outcome of ethical decisions. Wortuba (1990), contends that workers should first and foremost evaluate positions based on ethical consequences instead of financial performance. The consideration of financial performance should be subjected to the ethical outcomes of a decision. While financial performance is important, ethics should always prominence in decision-making. According to Wortuba (1990), the following are the outcomes that may influence the making of
ethical decisions.

i. Job performance

Job performance is inextricably tied to the responsibility for the attainment of specific components of the of tracking goals and objectives of an organisation that is assigned to an individual worker (Wortuba, 1990). Some workers believe that partaking in unethical actions and behaviours may bolster the short-term job performance, as well as the performance of the organisation in whole. However, an extensive body of research shows that ethics bolsters the long-term performance of the organisation (Wortuba, 1990). The need to quickly fulfil short-term and long-term goals may tempt workers to engage in unethical actions that may boost the short-term performance against which they are evaluated. However, committing to unethical actions that are likely to yield fruit in the short-term is likely to jeopardize the long-term well-being of the organisation. Such discrepancies lead to what is commonly known in corporate quarters as agency conflict. Agency conflict usually arises when workers – usually managers – engage in actions and behaviours that do not promote the long-term interests of other stakeholders such as shareholders, trade creditors, financiers, the society, and of the government (Wortuba, 1990).

ii. Reward and punishment

Individuals are more likely to make unethical decisions when fear actions and analysis are motivated by extrinsic rewards and punishments. External rewards took the form of commissions, promotions, perks, allowances, bonuses, wage raises, and increased recognition (Wortuba, 1990). Extrinsic punishments are usually famous for noncompliance with certain rules and regulations. Some individuals opine that some unethical actions are acceptable due to the lack of the associated extrinsic punishments (Wortuba, 1990).

iii. Feedback and learning
According to Wortuba (1990), the availability of feedback mechanism and learning influences the ethical decisions made by individual workers in the future.

**Figure 2.1: The Ethical Decision Action/Process**
2.5 The Consequences of Violating Business Ethics

According to the basic natural laws, for every action, there is a reaction. Some businesses choose to place a premium on profit maximisation at the expense of morality. Therefore, it is crucial to highlight that there are unpleasant corollaries of not observing business ethics (Fontrodona et al., 2009).

2.5.1 The Consequences of Not Upholding Business Ethics on the Society

The actions of a business that does not observe business ethics have an adverse impact on many people who are outsiders to the enterprise (Fontrodona et al., 2009). It can be stated that unethical business practices victimise consumers that partake of the products and services offered to the market by an unethical business (Garriga and Mele’, 2004). Consuming harmful products and services can harm the physical, economic, emotional, and psychological wellbeing of customers (Fontrodona et al., 2009). Other categories in the society who could bear the unfair brunt of unethical business practices of an enterprise are those contracted to provide various items or items. Contractors may be left in the cold if a business refuses to pay them or gives them an unfair deal (Norman, 2014). The employees of an unethical business may also have their physical, economic, emotional, and psychological wellbeing jeopardized as a result of the impact of the unethical practices of their employers (Fontrodona et al., 2009). For instance, employees at places of work that overwork members of staff are likely to develop stress-related emotional and physical problems. The health of overworked members of staff is likely to nosedive as the unethical practices meted out to them by their employers take a toll on their nervous and cardiovascular systems (Chonko, 2015). For instance, employees who work in poor working conditions are likely to contract diseases that affect their skins and respiratory systems. Furthermore, the family members of the affected workers are likely to be affected financially and emotionally by the harm caused on their loved ones (Velentazas and Broni, 2010). The natural environment stands to bear the vagaries of the violation of business ethics. Businesses that do not observe business
ethics, therefore, are likely to improperly dispose of their industrial and operational wastes (Fontrodona et al., 2009). The wrongful disposal of such wastes disturbs the natural balance of flora and fauna and endangers the habitats of many species (Garriga and Mele´, 2004). What is more, environmental pollution by unethical businesses contributes to adverse occurrences like global warming and atmospheric pollution that are detrimental to the health of human beings and animals (Chonko, 2015). Unethical business practices lead to the spread of moral rot in society. The violation of business ethics desensitizes people in society on matters that have to do with moral uprightness. As a result of unethical business practices, corruption and other social ills like nepotism, cheating, discrimination, hatred, impunity, and chaos spread in the society (Fontrodona et al., 2009).

Failing to uphold business ethics can have an adverse multiplier effect that trickles down to various facets of society. Without any shred of doubt, when information about the non-observance of business ethics gets to the public domain, the unethical enterprise receives bad publicity which directly leads to reputation risk (Fontrodona et al., 2009). Bad publicity is detrimental to the overall well-being of a company as it increases the operating risk and jeopardizes the going concern of the company. Bad publicity can directly lead to losses in sales as ethically-conscious members of the public discontinue their business with the unethical commercial establishment (Chonko, 2015). Therefore, it can be argued that bad reputation erodes the level of trust that customers have on a business (Fontrodona et al., 2009). The quantum leaps in information communication technology fan the spread of news about unethical practices of business as wildfire. Exposure of information about scandals committed by international business in one part of the world leads to product boycotts in other parts of the world since the contemporary world is a highly networked global village (Velentazas and Broni, 2010). Once a business receives bad publicity as a result of exposure of unethical malpractices, it has to work hard to gain the trust and favour of members of the public (Garriga and Mele´, 2004). In some cases, the past glory is irredeemable. In worst scenario, bad publicity can also result in the closure of
a commercial establishment (Norman, 2014).

The commitment of illegal and unethical acts by any person or institution can occasion the happening of dire ramifications in society. Illegal and unethical acts are punishable by the laws of many countries. Businesses found culpable of violating business ethics are liable to class action suits, legal action being taken by affected individuals and enterprises, and legal actions being meted out by the governmental and regulatory bodies (Velentazas and Broni, 2010). Legal penalties can take the form of fines, compensation, indemnification, jailing of key members of the management and administration structure of the business, the lifting of the veil of incorporation, or even the closure of business.

2.6 Theories related to Business Ethics

The theories related to business ethics are majorly classified into four groups (Garriga and Mele´, 2004). The first group, the instrumental group of theories, assumes that a corporation is an instrument for the creation of wealth. This group of business ethics theories considers only the economic aspects of a business. The instrumental group of theories view business ethics as a means to the attainment of profits (Garriga and Mele´, 2004). The second group of theories, political group of theories, places a premium on the social power of an organisation (Garriga and Mele´, 2004). The political group of business ethics theories highlights the relationship of a business and its responsibility in the political arena as associated with power. The political group of social theories is of the view that participation in the political power scene leads a corporation to embrace social duties and participate in social cooperation (Garriga and Mele´, 2004). The third group of theories for business ethics, integrative group of theories, advances the notion that a business should integrate social demands in its operation since it depends on the society for its existence, continuity, and growth (Garriga and Mele´, 2004). The fourth group of ethical theories, the ethical theories, views a business as having a relationship with the society that is grounded on ethical values. According to the ethical theories
perspective, firms should value ethical responsibilities above anything else (Garriga and Mele´, 2004).

According to the instrumental group of theories for business ethics, ethics are viewed as tools that hold strategic importance when it comes to the achievement of the economic goals and objectives of an organisation (Garriga and Mele´, 2004). The instrumental theories of business ethics have their roots in the Friedman (1970) view of a business entity. According to Friedman (1970), the only responsibility of a business towards the society is the maximisation of profits to the shareholders within the legal framework and the ethical custom of the country. The instrumental group of business ethics theories encourage firms to not just stop at the maximisation of economic profits but also observe all the applicable laws and norms of business ethics in the countries of their operation. Friedman, as well as others in his school of thought, offer that the maximisation of profits is not incompatible with the observance of business ethics. According to the instrumental group of theories, a firm should carry out its operations in a manner that is just to all the stakeholders (Windsor, 2001). According to Odgen and Watson (1999), in many cases where an organisation meets the interests of various stakeholders in furtherance of business ethics, the said organisation has an increased likelihood of meeting its primordial goal of maximising the profits – and by consequence the wealth of shareholders. According to research carried out by Griffin and Mahon (1997), there is a strong positive correlation between business ethics and ethical activities of business entities. The philosophy and variants of instrumental theories include maximising the wealth of shareholders; strategies for maximising competitive advantages; and cause-related marketing (Garriga and Mele´, 2004).

The political group of theories attaches significant weight to the interactions and connections that exist between a business entity and the society as well as on the power and position of a business in the political arena (Garriga and Mele´, 2004). Political theories factor in political consideration and political analysis. The two major
political theories include corporate constitutionalism and corporate citizenship (Garriga and Mele´, 2004).

The integrative group of business theories considers how a corporation integrates social demands into its quotidian operations (Garriga and Mele´, 2004). According to integrative theories, a business ought to take into consideration multitudinous social demands since it depends on the society for its existence, continuity, and growth. Integrative theories consider social demands to be the way in which society interacts with a commercial establishment to give it legitimacy and prestige. The principles, philosophies, and variants of integrative theories include issues management; the principle of public responsibility; stakeholder management; and corporate social performance (Garriga and Mele´, 2004).

The ethical theories explore the ethical requirements that solidify interactions and interrelationships between a corporation and the society. The ethical theories deal with concepts that dictate the right conduct that achieves the greatest good to the greatest number of beneficiaries (Fontrodona et al., 2009). The ethical theories are further sub-divided into the following theories, principles, and philosophies, namely: normative stakeholder theory; universal rights; sustainable development; and the common good (Garriga and Mele´, 2004).

The normative stakeholder theory is grounded on the fact that managers owe a fiduciary duty of care to all stakeholders as opposed to having fiduciary obligations to shareholders only (Garriga and Mele´, 2004). The stakeholder that this theory refers to include suppliers, customers, employees, the local community, the regulatory bodies, workforces, and shareholders (Garriga and Mele´, 2004). Stakeholders are all those people that a business owes a duty of care to or those who have a claim to the business (Fontrodona et al., 2009). At the heart of the normative stakeholder theory lies a normative core that is based on two overarching principles: that stakeholders are persons with legitimate interests in procedural and/or substantive aspects of corporate activity; and that the interests of all stakeholders hold intrinsic value and
that each the interests of each category of stakeholders should be considered individually and not from a perspective that views how such interests are necessary in line with the goals of the shareholders (Garriga and Mele´, 2004). Thus, according to the normative stakeholder theory, a business entity should harmoniously take into consideration all the interests of all the different stakeholders despite conflicts or multiplicity of interests (Chonko, 2015). The normative stakeholder theory borrows a leaf from Kantian capitalism, modern theories of property and distributive justice, and libertarian theories (Garriga and Mele´, 2004).

Moreover, upholding human rights is considered to be a fundamental furtherance of business ethics. The most pronounced blueprint for human rights as applied to business ethics is the United Nations Global Compact that consists of nine aspects of human rights. Human rights are supported by moral philosophies and theories (Garriga and Mele´, 2004).

Furthermore, according to the concept of sustainable development, people and organisations should strive to meet the needs of the present without compromising the ability of the future generation to meet is needs. Sustainable development can be defined as “a process of achieving human development in an inclusive, connected, equiparable, prudent and secure manner” (Garriga and Mele´, 2004: 62). According to the tenets of sustainable development, a business entity should pursue those courses of action that are ethically correct and that take into consideration the social, environmental, and economic dimensions. A corporation that seeks to further its observance of business ethics should incorporate a triple bottom line aspect that considers economic, social, and environmental aspects (Garriga and Mele´, 2004).

The common good concept also has its roots in the Aristotelian school of thought (Garriga and Mele´, 2004). According to the common good approach, a business entity has an obligation to contribute to the society since it is an integral part of the society. A business can contribute to the common good in different ways such as through the creation of wealth, provision of goods and service in an efficient manner,
respecting the human dignity of all the people that it interacts with, and striving to create and sustain a harmonious and peaceful operating environment (Garriga and Mele´, 2004).

2.7 The Fundamental Principles of Ethical Theories

Ethical theories provide guidelines that inform decision-making in cases where reference has to be made to ethics. There are multitudinous ethical theories, which make references to the same guiding principles (Musa, 2010). The distinguishing feature of the ethical theories is that each theory places a premium on certain aspects of the guiding ethical principles (Garriga and Mele´, 2004). The four overarching fundamentals of ethical theories are beneficence, least harm, respect for autonomy, and justice (Usman and Malik, 2014), which are elaborated below.

The ethical principle of beneficence guides an ethical decision-maker towards right and good (Islamic Financial Services Board, 2009) as the right course of action in ethical dilemmas involves doing that which is both right and good. The ethical principle of beneficence is also related to the concept of utility which provides that a person should always attempt to generate the largest ratio of good over evil that is permissible in the circumstances that he or she finds him or herself in (Alaro, 2009). According to the principle of beneficence, and ethical theory should strive to promote the attainment of the greatest amount of as many people will benefit from the course of action. Therefore, it can be concluded the ethical principle of beneficence is largely linked to the utilitarian ethical theory (Fontrodona, 2009).

It is a fact of life that some situations such that there is no possible function that appears to be largely beneficial (Siddiqi, 1972). In such situations, and ethical decision-makers should seek to choose the least harm possible or choose the course of action that will harm the fewest people (Alani and Alani, 2012). For instance, if a business is aggrieved by a competitor, the enterprise can choose to make no reference to their rival instead of choosing to partake in those actions that will
generate more heat than light (Islamic Financial Services Board, 2009).

Furthermore, based on the moral values, the ethical principle of respect for autonomy provides that ethical decision-making should place a premium on allowing people to become autonomous – and be in a position to make decisions on their own that apply to their lives in a manner that promotes the overall well-being (Nathie, 2009). The ethical principle of respect for autonomy is highly meritorious when coupled with the other ethical principles, such as the ethical principle of beneficence (Alani, 2012).

In addition, the ethical principle of justice provides that ethical decision-makers should forecast on choosing those courses of actions that are fair to all the parties that are involved in a particular situation (Velentazas and Broni, 2010). To promote justice, an ethical decision-maker should observe all the other ethical principles (Alaro, 2009).

2.8 Forms of Ethical Theories

There are different forms of ethical theories that place a premium on certain aspects of ethical theories in order to lead individuals towards the most ethically correct choice. There are eight major categories of ethical theories. Ethical theories can either be classified according to universal fundamental philosophies that have their roots in classical philosophy giving rise to the deontology, utilitarianism, rights, and virtues categories or according to the observable workings and practices of the nature of ethical principles involved governing the conduct of business, thus giving rise to instrumental theories of business ethics, political theories of business ethics, integrative theories of business ethics, and other theories of business ethics.

According to the deontological category of ethical theories, people should adhere to their obligations and duties when engaged in decision making (Chonko, 2015). As a consequence, individuals should follow their obligations toward each other and society as upholding obligations is what is considered to be ethically correct (Velentazas and Broni, 2010). The major merit of the deontological category of ethical
theory is that all individual will be very consistent in making positions in various situations (Fontrodona et al., 2009).

While the deontological category of ethical theories has multitudinous benefits, it has its fair share of flaws (Chonko, 2015). One of the major disadvantages of the deontological class of ethical theories is that there is no objective rationale or logical basis for deciding the obligations and duties of an individual (Chonko, 2015). For the sake of illustration, it can be assumed that one businessman may decide that his major duty is to be timely in meetings. Although kindliness can be considered to be virtual, it is in possible to know why the businessperson places a premium on timeliness at the expense of other virtues. One shortcoming of the deontological school of ethical theories is that some duties may tend to be in conflict (Chonko, 2015). Expanding the above illustration of the businessperson who places a premium on timeliness, there is an ethical dilemma or how fast it is supposed to drive to the venue of the business meeting in order to avoid tardiness (Chonko, 2015).

Furthermore, utilitarianism is largely based on consequentialism (Chonko, 2015). According to the utilitarianism category of ethical theories, a person's ability to predict the consequences of an action should dictate the most ethical cause of action. Failure to do this can lead to an ethical dilemma (Garriga and Mele´, 2004). For the person who embraces utilitarianism, the truth is that the greatest benefits to the most people is the most ethical correct one (Fontrodona et al., 2009). There are two major types of utilitarianism: act utilitarianism; and rule utilitarianism (Velentazas and Broni, 2010). Act utilitarianism places a premium to the actions of a person to the society or diversity with articles a duty of care to. Act utilitarianism ports personal feelings in the backstage. Rule utilitarianism letter to significant weight low and is majorly concerned with fairness. A person who embraces the rule utilitarianism strives to benefit the most people through the fairest and just means possible. One of the major advantages of rule utilitarianism is that it results in increased justice, beneficence, and fairness (Garriga and Mele´, 2004).
While act and rule utilitarianism have multitudinous benefits, they also have various disadvantages. Utilitarianism incorporates predictions and no one's predictions can be accurate and correct at all times (Chonko, 2015). This is because of the uncertainty of the future. Uncertainty can result from unexpected results or results that the notes much the expected reality and this can be problematic that utilitarian decision-maker as these can make him or how to be unethical if the expected event does not happen (Fontrodona et al., 2009). Another inherent shortcoming of the utilitarianism categories of ethical theories is that there's a lot of subjectivity involved in comparing the consequences of different courses of action against each other on a uniform scale. Comparing material gains, like money, against intangible benefits, like observance of the guidelines of the Holy Quran can distort the ethical decisions are final utilitarian decision-maker since it is like comparing apples to oranges (Velentazas and Broni, 2010). Utilitarianism places a premium on achieving maximum good that highest number of people possible. Therefore, following this category of ethical theory may lead to the oppression of the minority. In some cases, act utilitarianism is not majorly concerned with the virtues of justice, beneficence, or autonomy for an individual under this may lead to the suppression of other virtues that are necessary for ethics to be observed (Chonko, 2015). A utilitarian may find himself in situations that have conflicting rules and regulations. For instance, in the example discussed above of the businessman who has to rush to a meeting in order to avoid being late, if he is the executive chairman then you must deal with conflicting rules: the rules that are based on the society by the governmental authorities; and the rules that he is contractually bound to observe by the organisation that he works for (Norman, 2014).

According to the rights category of ethical theories, the rights established and initiated by the society, are protected and given the highest priority in all ethical situations and dilemmas (Chonko, 2015). Rights are given significant weight and deemed to be ethically correct since the majority of the population embraces them (Norman, 2014). Some rights can be created by people who have the powers to do so. The major
disadvantage of the ethical class of ethical theories is that a person must discern what is right in the society (Chonko, 2015). What is deemed to be right and accepted in the society varies from one society to another (Fontrodona et al., 2009). In the context of Islamic ethics, a person who observes ethical theories that are based on the rights should make reference to their rights and obligations placed upon people by Islamic moral values.

In addition, according to the virtue class of ethical theories, a pattern is judged by his or her character instead of actions that may deviate from his or her normal behaviour. Virtue ethical theories take into consideration is the morals, reputation, and motivation of the person when creating an unusual action that deviates from the normal behaviour of an individual (Chonko, 2015). The major disadvantage of the virtue class of ethical theories is that it does not take into consideration that changes in the morals of an individual (Chonko, 2015).

2.9 Islamic Ethics

There is no word that can be construed to be the direct translation of ethics in Islam (Musa, 2010). However, there are various terms and concepts that come close to the word ethics. The term and ideal that is close to ethics in the Holy Quran is *khuluq* (Musa, 2010). *Khuluq* can be interpreted to mean ‘character’ or ‘way of life’ or ‘habitual behaviour’ (Mohammed, 2011). According to Mohammed (2011), the ethics from Islamic teachings perspectives can be delivered and presented the following concepts:

*Haqq* (truth): According to the concept of *haqq* all individuals and organisations should uphold truthfulness and righteousness at all times. *Haqq* is of paramount importance to Islamic ethics since at the basic level, all forms of ethics are largely concerned with behaviour and actions that are right and by extension truthful (Mohammed, 2011). Based on this concept forbids Islamic individuals and organisations from engaging in deceitful practices (Islamic Financial Services Board,
Furthermore, based on the concept of *khayr* (goodness) all individuals and organisations that adhere to the Islamic faith should ensure that all their deeds are strongly rooted in goodness (Mohammed, 2011). Pursuant to this axiom, Muslim individuals and organisations should be benevolent and kind to all those people that they deal with. The principle of *khayr* is of utmost importance to Islamic ethics since it urges all and sundry to embrace right deeds (Islamic Financial Services Board, 2009).

Furthermore, according to the concept of *Birr*, all individuals and organisations should embrace righteousness (Mohammed, 2011). *Birr* is a critical component of Islamic ethics since it admonishes Islamic individuals and organisation from partaking in wrongful and impermissible *haram* activities (Al Rayan Bank, 2015). Based on Islamic values, Qist is one of the most significant foundations of the relationship among all individuals. According to the ideal of Qist, individuals and organisations should place a premium on equity in all their dealings to prevent the oppression of other people (Mohammed, 2011). The principle of Qist is imperative in Islamic ethics since it serves to give guidelines that prevent the unfair downpression of people that Islamic faithful and organisations deal with (Al Rayan Bank, 2015).

*Al-Adl* (equilibrium and justice) is considered another key principle in Islamic moral values. The concept of al-adl encourages Islamic individuals and organisations to be instruments that further the delivery of justice (Mohammed, 2011). The concept of ‘adl is crucial for the upholding of Islamic ethics since it is practically impossible to be unjust and be ethical at the same time (Islamic Financial Services Board, 2009).

Moreover, according to *taqwa* individuals and organisations should be pious to all and sundry – especially the less privileged (Islamic Financial Services Board, 2009). Pursuant to this principle, it is unethical for Islamic businessmen and organisations to discriminate the less abled in the society (Mohammed, 2011). The underpinning
Islamic ethical values and theories are based on the Islamic maxims delivered through Islamic teachings. Hence, it can be said that Islamic ethics are grounded on the word of the Creator (Islamic Financial Services Board, 2009). As such, Islamic ethics are not bound by time nor human limitations. Based on such teaching it is expected that all the people on the face of the earth are obliged to distinguish between right and wrong and choose to righteousness by doing what is right, good and ethical (Al Rayan Bank, 2015).

Furthermore, *Ma’ruf* (known and permitted) has been identified as one of the most significant moral foundation of ethics from the Islamic point of view. The concept of *Ma’ruf* provides that individuals and organisations should only engage in activities whose nature is known to comply with the teachings of the Shari’ah as sourced from the Holy Quran and the Sunnah teachings of the Prophet (peace be upon him). *Ma’ruf* does not try to hinder the uptake of new ideas whose time has come but rather prevent participation in activities whose fundamental nature contradicts the provisions of Islamic law (Mohammed, 2011). Ma’ruf is of critical importance to Islamic ethics since it helps individuals and organisations alike to engage in the activities that are considered to be noble as per the Islamic teachings (Islamic Financial Services Board, 2009).

### 2.10 Fundamental Principles of Islamic Business Ethics

In the context of business ethics in Islamic banking, there are those ethical notions that are characteristically underpinned in religion while others generally bear semblance to the ethical values and practices espoused by the conventional system (Musa, 2010). The unique business ethics of Islamic finance touch on the absence of *Riba* in transactions; the avoidance of *haram* (impermissible) activities; non-participation in excessive risk-taking and speculative activities (*gharar*); prohibition in dealing with forbidden items such as alcohol, pork, and pornography (Islamic Financial Services Board, 2009). Montgomery (2010) pinpoints that the business ethics in Islamic finance are hinged on the promotion of trade and cooperation;
prohibition of Ribā and of profiting without risk; the prohibition of gharar and maysir; and the requirement of charity and altruistic acts.

Islamic business ethics hold that enterprises of any nature exist to create value to all the stakeholders (Islamic Financial Services Board, 2009). Based on Islamic moral economy, Allah (SWT) is a stakeholder in any business endeavor since God created people to carry out acts and hold ideas that seek God's pleasure (Islamic Financial Services Board, 2009). Prophet Mohammed (peace be upon him) impressed upon the importance of ethics to his followers in business. The Prophet (peace be upon him) was a businessman before becoming the prophet. Those who conduct business in a fair and ethical manner will share in the feast of the great saints in the Hereafter (QFinance, 2007).

The business ethics of Islamic financial institutions are based on the commandments (Ahkam) of the Shari'ah. The Ahkam are derived from the Quran; the prophetic traditions; Ijma, the consensus of Islamic scholars and (iv) Qiyas (analogy), that is solving emerging issues by finding their analogies in the first three sources (Ullah et al., 2014). The business ethics drawn from the above sources clearly highlight the obligatory (fardh and wajeb); the recommended (mandoob); the permitted (mubah); the disliked (makrooh); and the prohibited (haram) (Ullah et al., 2014). The fardh and wajeb are the decrees sourced from the Holy Quran and the prophetic traditions that permit the obligatory commission of specified acts. The performance of fardh and wajeb is rewarded while non-observance is punished. For instance, commitment to Zakah deductions is a fardh for the individuals participating in the Islamic finance transactions, the Muslim owners of the Islamic finance institutions, and the account-holders but not to the Islamic financial institutions themselves (Ullah et al., 2014). The mandoob are directives regarding the performance of recommended actions and behaviours (Hasan, 2012). Acting out on the Mandoob merits rewards while the non-performance of Mandoob is not punishable. An example of mandoob in the business ethics of Islamic finance is with regard to the payment of high wages that exceed the
maket rate; or the provision of good working conditions. While the payment of wages at rates that are higher than the market rate is not compulsory, it’s non-commission is not punishable (Islamic Financial Services Board, 2009). The mubah directives provide guidance on which actions and behaviours that Muslims can partake without any restrictions (Hasan, 2012). For instance, the beneficial harnessing of natural resources is permitted to all Muslims provided that they do not degrade the environment. Acts of abuse of natural resources would make such activities Haram (Hasan, 2012). The makrooh deals with the actions and behaviours that are strongly disliked, discouraged, and loathsome. For instance, smoking is a detestable act, but nevertheless it is not punishable. Issues that deal with whether it is ethical for Islamic finance institutions to fund the operations of companies that manufacture cigarettes and other tobacco products that are harmful to human health falls under the jurisdiction of makrooh. Haram denotes those actions, practices, and behaviours that are completely outlawed by the Shari’ah (QFinance, 2007). The consumption of intoxicants, participation in gambling, charging of Riba, divination, and speculation activities are haram (Ullah et al., 2014). In the matter of haram, the Holy Quran counsels, “O ye who believe! Intoxicants and gambling, (dedication of) stones, and (divination by) arrows, are an abomination, of Satan’s handiwork: Eschew such (abomination) that ye may prosper. Satan’s plan is (but) to excite enmity and hatred between you, with intoxicants and gambling, and hinder you from the remembrance of Allah, and from prayer: Will ye not then abstain?” (Al-Maida (5): 93-94). Haram activities and practices degrade the holistic development of a person and the society at large. All haram actions are unethical and participants in Islamic finance activities should give them a wide berth. According to Islamic finance, running conventional bank savings and investment deposits, purchasing interest-yielding bonds, and the financing of institutions involved in alcohol production or the distribution of pork products is haram (Wilson, 1997).

According to Islam, there is oneness, unity, and supremacy of the Almighty Allah (SWT) (Islamic Financial Services Board, 2009). Allah (SWT) is the sole creator of
heaven and the entire universe. Allah created the world and placed people in it as his vicegerents. Businesses that uphold the supremacy of God and more likely to uphold business ethics as compared to those secular businesses do not incorporate reverence of God in their operations (Islamic Financial Services Board, 2009).

It is impossible to comply with the Shari’ah and be unethical in any undertaking in life. Shari’ah and ethics are strongly entwined and it is practically impossible to separate the two (QFinance, 2007). Therefore, it goes without saying that, all the business ethics in Islamic finance have their roots in the Shari’ah (Islamic Financial Services Board, 2009). All Islamic financial institutions are supposed to comply with the Shari’ah from their formation as well as through their entire existence (Islamic Financial Services Board, 2009). In as much as there is no one single codified source of business ethics, all the implied ethical principles, and guidelines that govern the conduct of Islamic finance can be traced directly to the Holy Quran and the Sunnah teachings of the Prophet (peace be upon him). There is not one business ethics tenet of Islamic finance that emanates from secular sources.

In this regard, Al-Ghazali in his book ‘Ihya-ulum-al-Dīn’ (edit-2010) links economic performance within business arrangements to the promotion of the welfare of the society through the pursuit of the five-fold objectives of Shari’ah (Maqasid al-Shari’ah), namely, religion (dīn), life (nafs), progeny (nasl), property (māl), and reason (‘aql) (Montgomery, 2010). Therefore, all business ethics in Islamic finance should be geared towards safeguarding the above mainstays (QFinance, 2007). Based on such understanding the key principles of Islamic finance are elaborated below:

2.10.1 Avoidance of Riba

One of the remarkable distinguishing features of Islamic finance is the prohibition of *riba* (Islamic Financial Services Board, 2009). The Holy Quran provides that, “Those who devour usury will not stand except as stand one whom the Evil one by his touch Hath driven to madness. That is because they say, trade is like usury, but Allah hath
permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah [to judge]; but those who repeat [The offence] are companions of the Fire: They will abide therein [for ever]” (Al-Baqrah (2): 275). According to the Islamic view, money has no intrinsic value (Islamic Financial Services Board, 2009). It is simply a measure of wealth, a medium of exchange, and a store of value (Islamic Financial Services Board, 2009). Therefore, money is not a commodity and the making of profit through the charging of *riba* is forbidden (Islamic Financial Services Board, 2009). Due to the prohibition of usury, deposit-taking Islamic financial institutions and individuals are expected to invest the money in prudent as well as legitimate wealth generation and accumulation ventures (Hasan, 2012). The money collected through savings accounts or similar deposit-taking facilities offered by Islamic finance institutions do not earn interest but ‘expected profit’ (Islamic Financial Services Board, 2009). The ‘expected profit’ acts as a performance target set by the Islamic finance institution. Therefore, a committee of *Shari’ah* scholars appointed by the shareholders oversees that Islamic financial institutions do not set a low lackadaisical targeted rate of ‘expected profit’ (QFinance, 2007). The rates quoted to the depositors of funds by the Islamic finance institutions represent the expected rate of return on the investment of the funds in *Shari’ah*-compliant legitimate economic undertakings (Hasan, 2012). Due to the element of risk, the actual profit paid out to the depositor of the fund by the deposit-taking Islamic finance institutions may turn out to be higher or lower than the quoted ‘expected profit’. Where possible, Islamic finance institutions should try to maximise the returns that they offer to their clients – the depositors (Islamic Financial Services Board, 2009). It is not uncommon to find Islamic banks that often exceed the expectations of their clients and offer actual profits that exceed the expert-valued ‘expected profits’ due to sound investment decisions, policies, and activities (Al Rayan Bank, 2015).

According to such understanding, the element of usury promotes financial inequity and social injustice in financial dealings (Al Rayan Bank, 2015). Islamic financial principles forbid generating profits that are made without effort or risk to the lender as
such returns connote money being made from money and this is unethical given the correct purpose of money (Montgomery, 2010).

2.10.2 Integrity

According to the underpinning Shari’ah guidelines that govern the Shari’ah compliant business and Islamic finance activities, all the parties to economic and financial dealings are supposed to observe integrity by upholding truthfulness, honesty, virtue, and decency in their conduct (Islamic Financial Services Board, 2009). The Holy Quran asserts ““O ye who believe! Fulfil (all) obligations.” (Al-Mā’idah (4): 1)”. All the parties to Islamic finance transactions and dealings should keep their end of the bargain. On this matter, the Holy Quran counsels, “And fulfil (every) covenant, for (every) covenant will be enquired into [on the Day of Reckoning]”Al-Isrā’ (17): 34. The Holy Quran adds that “Those who faithfully observe their trusts and their covenants … These will be the heirs, who will inherit Paradise: they will dwell therein [for ever]” (Al-Mu’minūn (23): 8, 10-11).

Accordingly, it can be stated that an individual is at liberty as to whether to enter into a contract or not, but once he/she has expressed his/her words of commitment to a contractual arrangement, it becomes binding and must be fulfilled. The Prophet (peace be upon him) said, "Muslims are bound by their stipulations (Alaro, 2009)". Furthermore, concerning the successful Mu’minūn, Allah says, “(They are) those who faithfully observe their trusts and their covenants” (Al-Mu’minūn (23): 8).

2.10.3 Non-maleficence

All business surrounding Islamic finance affairs should be conducted in a manner that does not cause harm to other people (Hasan, 2012). In the context of Islamic finance, the funding of those activities that can jeopardize the well-being of austerity all the wider society should not be carried out. Avoidance of uncertainty (Gharar) and gambling (Maysir) is aimed at protecting the other parties with stakes in Islamic finance transactions (Islamic Financial Services Board, 2009). Excessive speculation,
uncertainty, and gambling are injurious to the best interests of the investors who put their hard-earned money in funding Islamic finance institutions (QFinance, 2007). Additionally, partaking of activities with uncertainty and gambling can bring harm to the individual perpetrating such acts through addiction to unwholesome habits and eventual financial ruin (Islamic Financial Services Board, 2009).

Based on this understanding, all legal and ethical Islamic finance activities are supposed to be asset-based and asset-backed to safeguard the interests of all the parties (Hasan, 2012). Conventional financial instruments like futures, derivatives, and options that are not backed by real assets, and therefore, are prohibited (QFinance, 2007). The barring of such instruments from the scene of Islamic finance is necessary since they do not promote the holistic growth and development of the parties involved and the society at large (Ullah et al., 2014). Additionally, due to the absence of backing by real assets, financial instruments contain elements of great speculation and excessive risk that are not permitted by the basic principles of Islam (Islamic Financial Services Board, 2009) as explained earlier.

2.10.4 Observance of the National Regulations and Local Operating Laws

Some Islamic finance institutions operate in regions that have dual banking national financial systems (Islamic Financial Services Board, 2009). A number of Islamic finance institutions operate in environments where the conventional banking and finance is the dominant segment of the financial system (Islamic Financial Services Board, 2009). In these environments, it is not uncommon to find interest rates being more pronounced by the players in the financial system as well as by regulatory authorities. In such cases, Islamic institutions may be required to express in percentage points the rates of their charges (Hasan, 2012). Such quotations facilitate customers to make informed comparisons between the charges of conventional banking and finance institutions and those charged by the Islamic finance institutions. While such kind of rules may appear to bend towards the conventional finance system, Islamic banks ought to comply with certain legal and regulatory provisions.
Islam is a religion of peace (QFinance, 2007), therefore, Islam finance institutions need to exist harmoniously with their conventional peers and strive to uphold tranquillity by complying with laws that do not fundamentally threaten compliance with the Shari’ah. In such regimes, Islamic finance institutions need to observe national laws and regulatory regulations (QFinance, 2007). They need to be transparent and impress upon the local Muslim population and the members of the investing public that expressing the rental rates as a percentage of the charge does not mean that it is converted into interest (Hasan, 2012). Rather, the quoted percentage rate indicates how much rental expenses the Islamic finance institution charges the clients as a proportion of the property purchase price (Al Rayan Bank, 2015). While the interest-free loans of Islamic finance institutions are Shari’ah compliant and the conventional mortgages and loans are not, the percentage rate offers the measuring and comparison tool (QFinance, 2007). Discrepancies between the ideal Islamic practices and the regulatory requirements should be solved in an amicable, peaceable, and cordial manner (Islamic Financial Services Board, 2009).

2.11 Business Ethics Matters Concerning the Various Participants and People Relationships in Islamic Banking

In relation to the relationship between employees and employers, the Hadith narrated by Imam Bukhari provides excellent guidelines on the defining characteristics and nature of the relationship between an employer and the employees. The Hadith goes as follows, "Al-Ma'rūr narrated saying, I met Abū Dharr" who was wearing a cloak, and his slave too wearing a similar one. I asked him about the reason for that, and he replied, I insulted someone by calling his mother with bad names, and then the Prophet (peace be upon him) said to me, O Abū Dharr! Did you insult him by calling his mother bad names? You have in you some characteristics of ignorance. Your servants are your brothers whom Allah has put under your command. So whoever has his brother (as servant, slave, employee etc.) under his command, he should feed him of what he himself eats, and cloth him of what he himself wears (Ullah, et
al., 2014). Do not order them (your servants, slaves, employees etc.) to do what is beyond their capacity, and if you must do, then assist them” (Alaro, 2009). Accordingly, it can be understood that based on Islamic teachings, all employees should be treated with decency and dignity by their employers and superiors.

Therefore, Islamic banks are obliged to place the best interest of their employees at the forefront of their operations (Ullah et al., 2014). When it comes to remuneration, Islamic financial institutions should go beyond paying the compulsory minimum wage and market wage levels. They should choose to voluntarily pay a ‘Living Wage’ that is substantially higher than the compulsory minimum wage and average market wage (Al Rayan Bank, 2015).

It is important to state that a number of Islamic banking and finance institutions are ‘Investors in People’ (Al Rayan Bank, 2015). As exemplary employers, they support the empowerment of employees in all possible ways as they discharge their mandate (Ullah et al., 2014).

In these regards, the Holy Quran guides that, "Allah commands you to render back the trusts to those to whom they are due" (Al-Nisā’ (4): 58). Employees should avoid defrauding their employers by robbing off the valuable time of the respective corporations that they work for. Employees should avoid tardiness and laziness at work at all time. Employees who do not work diligently get paid unearned income, which is tantamount to the earning of *riba* that is forbidden in the Holy Quran (Ullah et al., 2014). Therefore, employees should take the initiative to improve their capacity for service delivery by sharpening their skills through a commitment to lifelong learning of their craft. Furthermore, employees should avoid taking intoxicants or making poor lifestyle choices that diminish their productivity, effectiveness, and efficiency at work (Hasan, 2012).

With regards to the duties of the management towards the investors, the management owes a critical duty of care to the investors. The investors appoint the
board of directors and management as the stewards of their capital. The management should never engage in gharar and maysir (Ullah et al., 2014). While speculation and excessive risk-taking practices may pay off in the short-term, they are detrimental to the long-term interests of the investors since they pose going concern threats to the business of the investors (Hasan, 2012).

Furthermore, the relationship and duties among the lenders and borrowers is another significant matter that Islamic moral values have placed a special emphasis on it. Accordingly, the Holy Quran provides that “If the debtor is in a difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew” (Al-Baqarah (2): 280). The lenders should accommodate the exigencies of the borrowers in a compassionate manner. When the borrowers face genuine difficulties in repaying the loaned amounts, the lenders should reschedule the loan repayments without charging interest (Ullah et al., 2014).

Furthermore, Qur’an states: “To the Madyan People [We sent] Shu’aib, one of their own brethren: he said: "O my people! Worship Allah: Ye have no other god but Him. And give not short measure or weight: I see you in prosperity, but I fear for you the penalty of a day that will compass [you] all round. And O my people! give just measure and weight, nor withhold from the people the things that are their due: commit not evil in the land with intent to do mischief. That which is left you by Allah is best for you, if ye [but] believed! But I am not set over you to keep watch! ... When our decree issued, we saved Shu’aib and those who believed with him, by [special] mercy from ourselves: But the [mighty] blast did seize the wrongdoers, and they lay prostrate in their homes by the morning- As if they had never dwelt and flourished there! Ah! Behold! How the Madyan were removed [from sight] as were removed the Thamud!" (Hūd (11): 84-86, 94-95). The above extract from the Holy Quran teaches that the lenders have to avail to the lenders the services that they promise to deliver. Islamic finance institutions should offer products and services in the manner, terms and conditions posted in advertising and other product promotion activities. Islamic
finance institutions have an obligation to live up to their promises and satisfy the needs of their clients in the pledged manner. Therefore, the Islamic finance institutions should not under-deliver services as the Holy Quran asserts that, “Woe to those who deal in fraud. Those who, when they have to receive by measure from men, demand full measure. But when they have to give by measure or weight to men, give less than what is due” (Al-Mutaffifiin (83): 1-3). These stipulations prohibit the perpetration of pyramid schemes in Islamic finance.

Accordingly, it can be argued that the borrowers have an obligation to commit to the repayment of the loaned amount (Hasan, 2012). Reckless spending of the loan extended to them jeopardizes the best interests of the lender. Borrowers should not take up loans that they know that they cannot afford to repay since this poses moral hazard problems to the lending Islamic finance institution (Ullah et al., 2014). Therefore, borrowing a loan that one cannot pay in full according to the stipulated terms and conditions is unethical, however, it is ranked with the outlawed act of stealing.

2.12 Conclusion

Ethics are largely rooted in norms and principles (Alani and Alani, 2012). Therefore, ethical principles give guidelines for resolving ethical dilemmas. In cases of ethical dilemmas, conventional ethics dictate that the most ethical course of action is that which leads to the greatest good happening to many people. Islamic ethics differ from the other types of ethics in the sense that they are based on the commandments issued to man by Allah as captured in the Holy Quran and the Sunnah (the teachings of the Prophet, peace be upon him). The overarching goal of many a business is to make profit. As discussed earlier, according to this ethical tenet, all economic activities should be conducted in a fashion that benefits all the parties to the transaction, as well as the wider society in general (Hasan, 2012). This can be achieved by ensuring that all dealings are carried out in a way that ensures the realization of the Maqasid al-Shari’ah (Montgomery, 2010). Beneficence can be
maximised by always choosing the best option that avails maximum return to all the interested stakeholders while not violating the principles of Shari’ah (Ullah et al., 2014).
Chapter Three

Literature Review
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3.1 Introduction

Despite that the Islamic banks were not adversely affected by the global financial crisis of 2007-2009, their financial performance was negatively influenced, however, they were in a better position compared to their conventional counterparts (Chapra, 1985). Islamic financial industry has been growing rapidly over 40 years, where the total Islamic financial assets have reached USD1.8 trillion (Pollard and Samers, 2007). Over 800 Islamic financial institutions are now operating in over 75 countries in the world (E and Y, 2012). Furthermore, many conventional financial institutions around the world have been offering Islamic financial services in the global market, such as HSBC, Citi Group, Dow Jones, FTSE and S&P (Pollard and Samers, 2007).

The recent global financial crisis of 2007-2009 brought the debates on the ethical principles that need be taken into consideration within banking operations. This issue came as a consequence of the failure that faced many banks in the global market (Warde, 2013). “This was evident in the excessive lending and use of doubtful collateral to cover the risk of default, rather than appraising the business potential at the time of making financing decisions” (Chapra, 2009, cited in Belal et al., 2014:2). Therefore, afterwards there have been discussions on the values that composite the base of the financial operations of banking sector and whether the ethical values are taken into account when setting up banking policies and regulations and the search for alternative finance begun to take a place in the industry as well as in academia (Wilson, 2009).

However, some criticise the Islamic financial institutions, mainly Islamic banks, that they are just mimicking the conventional banks by focusing more on short-term financial products and operations that are mainly sale-based type, such as murabaha.
contract rather than long term products such as musharaka and mudaraba. The Malaysian market could be a good example of such a claim where 85 per cent of their banking operations are based on murabaha (Asutay, 2011). On the other hand, it has been argued that without conducting their financial operations in a such manner, Islamic banks could not survive in a highly competitive market (Belal et al., 2014:2). Therefore, Islamic banks “as value-oriented organisations need to assess their corporate ethical identity and corporate branding process, as their current state seems to be controversial. Since we are not aware of any studies that specifically attempt to assess the strength of Islamic banks’ communicated ethical identity against a benchmark of ideal ethical identity, a discussion of what constitutes the ideal ethical identity based on the Islamic precepts follows” (Haniffa and Hudaib, 2007: 99).

3.2 Islamic Banking: An Overview

The debate on corporate governance has recently been on top agenda of the industry as a consequence of the collapse of big corporations, such as Barings, Lehman Brothers and others. The magnitude of the severity of the potential undesirable effects of such failures of the governance on the whole economy can have ramifications that can possibly shake up the wellbeing of the socio-economic fabric. Therefore, the focus has been moved from the shareholder approach towards the stakeholder approach (Dusuki 2011: 6). “Such a shift, based on new model of good corporate governance, incorporates ethical considerations and values in the business strategy of corporations, including banks, making it necessary for corporations to be considerate of the wider environment within which the organisation operates” (Platonova et al., 2016: 1).

As a result, the focus has been on the Islamic financial principles as they are driven from the Shari’ah axioms and values. Accordingly, it can be stated that, “Islamic banking has emerged as a potential alternative ethical method of banking and finance, shaped by the ontological and epistemological sources of Islam. Similar to
other religions, Islam has at its heart ‘social good’, ‘good governance’, ‘environmental concern’ and ‘ethical individual and organisational behaviour’ (Platonova et al., 2016: 2). Therefore, the social practices by definition can be considered as an intentional outcome of Islamic ethical values as stakeholders’ paradigm strongly promoted by Islamic axioms. Therefore, ethical and social behaviour from an Islamic perspective, as part of the new paradigm, “is an endogenised concept and practice, which by definition is expected to be an existential part of any Islamic corporation, including Islamic banks and financial institutions. In other words, the ‘Islamicity’ of ‘Islamic banks’ necessitates social activities as part of its moral substance beyond mechanical operations being Shari‘ah or Islamic law compliant” (Platonova et al., 2016: 2).

It can be argued that Islamic banking refers to conducting financial activities based on Islamic financial law. Islamic law is the legal form that governs all and each aspect of life for Muslims, including worshipping, political, business and social activities. Moreover, the key concern of the Islamic law is achieving justice and promote wellbeing of society (al-adl and al-ihsan) and pursuing God’s blessings (barakah), with the ultimate goal of attaining prosperity in this world and hereafter (al-falah) (Haniffa and Hudaib, 2007: 99). Accordingly, the major distinguishing features of Islamic banking are the absence of interest (riba) in transactions. The payment and receipt of riba is banned in Islamic economic activities that include all Islamic banking practices. Riba is the premium that is paid by the borrower of funds to the lender alongside the principle amount as laid out in the debt servicing terms and conditions. The Shari‘ah contends that riba is an unjustified earning. Such view is based on the argument that the earning of riba is not backed by any real economic activity and is viewed by Islamic scholars as a form of unfair exploitation.

In Islamic banking, the element of business risk is equally borne by the primary parties to the lending contract. In contrast, in an interest-based riba arrangement, the risk is largely borne by the borrower. The Islamic banking system uses profit rate in
lieu of interest rate. The profit rate applied in Islamic banking is different from the interest rate since it is pegged on genuine business activities that are based on the exchange of real commodities and services. The profit rate is based on the taking of risks on either the assets sold by the seller or on the capital invested by an investor for the purposes of generating business profit. From an Islamic point of view, profit is post-determined since its exact amount is only and precisely known until the performance of the contracted activity is completed. On the other hand, *riba* is pre-fixed and guaranteed in advance and is usually positive. According to the Islamic point of view, profit is the recognized reward for capital in case where the capital is employed for the production and distribution of permissible activities, products, and services. Profit represents the effort and the risks borne by the supplier of capital to a business, and therefore, profit can only be claimed in cases where either the risk of loss has been assumed or where the effort to produce or distribute goods and services has already been expended. By contrast, *riba* generate returns for the mere use of money, which is effortless profit and as a result the charging of interest does not add any real value. Islamic scholars advance the view that all forms of interest are part and parcel of the prohibited *riba*.

As part of their compliance with *Shari’ah*, all Islamic banks are tasked with the responsibility of facilitating *zakah* obligations. *Zakah* is a form of religious tax that is to be deducted from the wealth of rich people for remittance to the poor. The levels of consideration of the plight of the poor are generally low in those socio-economic fabrics that tend to place a premium on excessive capitalism and materialism. *Zakah* helps Islam-based societies to overcome the adverse effects of excessive greed inherent in materialism and capitalism. *Zakah* denotes growth and purification of the business and earning intentions of a person. *Zakah* is widely perceived to be an effective wealth distribution mechanism that facilitates the transfer of income and wealth from surplus units to the needy and deserving people. Based on Islamic teachings, the payment of *zakah* is not optional as it is one of the five key pillars of Islam and its observance is mandatory for all people who profess the Islamic faith.
Zakah should be paid on all the wealth and income generated from genuinely owned and permissible assets that have been in the possession of a person or business for at least one full year. As a result of this stipulation, casual acquisitions and possession of highly perishable goods are exempted from Zakah. However, the business profit that may arise from trade in such goods is subject to zakah. For the purposes of zakah consideration, the permissible productive assets can be in the form of cash at hand, cash in bank, shares, bonds, inventories, financial instruments, inventories of finished goods intended for sale to final consumers, net receivables, and earnings generated by rented assets. Assets that are currently being consumed are exempted from zakah. Many Islamic scholars are of the view that zakah should be pegged to at least a minimum of 2.5 per cent of the annual wealth in cash or kind of a person from all sources of wealth or exceeding nisab (the minimum amount that is considered a person should possess as a requirement of zakah). If the cumulative total of the amount owed by a Muslim falls below nisab, then that person is exempted from the mandatory obligation of observing zakah. Through financial intermediation in the economy, Islamic banks facilitate the movement of zakah from wealthy individuals to the poor people that are in dire straits.

Islamic banks are tasked with the obligation of preventing the spread of excessive gharar and maysir. According to Islamic law and ethics, it is criminal and morally wrong for an Islamic bank to partake or promote activities that involve gharar and maysir. Excessive Gharar is considered to be a game of chance (gambling). Gharar involves the sale of probable items whose existence is not certain or whose characteristics have elements of excessive risk or moral hazards. The reason why Islamic banks are prohibited from either directly partaking or channelling of funds for businesses that are involved in the furtherance of gharar, is that gharar does not lead to the creation of any real wealth and also due to the fact that gharar makes a few speculators make unjustified passive wealth at the expense of the wider society. On other hand, maysir is the unjustified enrichment of a person or business by engaging in games of pure chance in order to amplify wealth without making any palpable
effort. *Maysir* features in contracts where the ownership of a certain item depends on the occurrence of a predetermined but uncertain future event. In a *Maysir* arrangement, there is a gain for one party and a loss for the other. However, from the outset, it is not certain who will gain or who will lose. As a result of the ban in *maysir and gharar*, it is unethical for Islamic banks to engage in the dealership of the paper-based speculative financial instruments known as derivatives. Therefore, based on such understanding, all conventional derivatives are banned in the Islamic banking system.

From Islamic financial perspectives, all financial transactions must be in one way or another connected to a tangible and identifiable asset. Such a principle may directly lead to the creation of real economic activities, as the subject of the contract in all transactions is assets and not just money. It is also highlighted that another key feature that governs the Islamic financial transaction is the concept of the profit-loss-sharing, where all parties involved in the transaction bear the outcome whether they lose or gain (Wilson, 2010). Having such understanding, it can be stated that such principles can lead to a more ethical business environment as all parties gain justice in the transaction (El Gamal, 2006).

Moreover, Islamic financial values do not allow financial transactions to be conducted if an extreme uncertainty (*gharar*) is involved as it is considered as injustice for all parties to be fully aware of the whole business that they are involved in. In this regard, it can be stated that the recent global financial crisis occurred as a result of the high uncertainty that has been caused by the asymmetry information among parties when better-informed investment banks sold toxic assets to less informed counterparts (Belal et al., 2014:2).

Accordingly, it can be argued that Islamic banks differ from conventional banks based on the following principles that composite their ethical behaviour, including: “(a) underlying philosophy and values; (b) provision of interest-free products and services; (c) restriction to Islamically acceptable deals; (d) focus on developmental and social
goals; and (e) subjection to additional reviews by the Shari’ah Supervisory Board (SSB)” (Haniffa and Hudaib, 2007: 99). Hence, Islamic banks are obliged to observe these distinct features in their financial operations and activities to be considered as ethically oriented institutions (Haniffa and Hudaib, 2007: 99).

Based on the existing literature, it can be stated that Islamic banking, which is a representation of the various principles of Islamic law, is increasingly becoming significant across the global financial sector over the last few decades. Within the global financial market, many Islamic banks have been established, whereby they have been instrumental in offering competitive alternatives through offering different products and services, just like other Non-Islamic banks (Wajdi Dusuki, 2008). It has been over forty years since the first Islamic bank was officially opened, and research has been unable to provide a significant estimate of the actual size of the fast-growing Islamic banking sector (Gheeraert, 2014). Ernst and Young (2014) published a study, and they valued the compound annual growth rate of Islamic banking assets from 2009 to 2013 at about 17.6 percent across the globe. By the end of 2018, the annual average growth rate is expected to increase by 2.1 percent, reaching record 19.7 percent. Apart from the purely Islamic banks that have been established in the financial sector, other Non-Islamic banks have also created their own Islamic banking branches in various countries. These banks have been offering banking products and services to the communities across the world. Furthermore, some of the conventional banks that have taken such initiative of offering Islamic banking include Bank of America, Citibank, as well as HSBC (Khan, 2010). It is interesting to note that Islamic banks were not affected by the financial crises and recessions that have been experienced in the recent past.

In addition, the Islamic banks have as well established their branches in Non-Islamic countries. However, these branches have their inherent differences from other conventional banks in different ways. The most outstanding distinction is the interest rate, which is prohibited in the Islamic financial system. This implies that Islamic
banks are not allowed to offer their customers a fixed interest rate from their deposits, neither are they charged interests on loans advanced to them (Chong and Liu, 2009). The Islamic law, however, advocates for system of financial transactions that is based on the principle of profit and loss sharing (Uppal and Mangla, 2014). Moreover, Islamic banking asserts the need for an economic transaction that involves a real asset that supports each financial transaction.

This general approach of Islamic banks triggers many discussions on the cost-effectiveness and risk profile that these banks are exposed to. The sharing of risk among such parties as the bank, investor, and borrower perpetrates to lesser speculation, and as such leads to the creation of financial instruments that are associated with low risk (M. E. Arouri et al., 2013). Before a borrower is granted a financial facility, a linkage between the involved parties is established and an asset is identified which by definition a real transaction is ascertained. As a result, credit growth in Islamic banking is directly proportional to the economic growth of the Islamic banking sector.

Different religions in the world often build the body for the understanding of what is considered right or wrong in society. The underlying values of religion are usually based on ethical behaviour (Parboteeeah et al., 2007). Since business model applied by Islamic banks is based on Islamic law, usually known as the Shari’ah, it is usually perceived to own an ethical identity. The Shari’ah law is basically considered as a depiction of religious ideals. The establishment of Shari’ah principles was not only done to primarily promote spirituality in the Islamic religion but also encourage justice and welfare in the society (Haniffa and Hudaib, 2007). For instance, Islamic banks have been integral in spearheading social goals through donating to charity organisations, as well as issuing benevolent loans to those individuals who are disadvantaged in the society (Haniffa and Hudaib, 2007).

The basis of Islamic concept as a religion relies on an entirely different perspective from the traditional economic perspective. In this regard, Islamic moral values
completely prioritize ethical and social concerns over the growth and maximisation of profit (Fang and Foucart, 2013). The traditional banking system presents the bank with the ability to execute various activities and speculative operations as a way of maximising their profitability. Due to the high risks associated with such endeavours, regulatory authorities have played a critical role in cushioning such risks through enhancing ethical behaviour and transparency in the banking and financial sector (Paulet, 2011).

Moreover, traditional banks have also realized on the importance of performance and reputation as key attributes of their business success. If organisations follow and respect ethical rules, there will be a tremendous increase in customer satisfaction, which results in further profit-making (Chowdhury, 2011). The most difficult challenge in the financial sector is for institutions to maintain the balance between the requirements of various stakeholders. However, Islamic banks aim at achieving a holistic integration of the social, ecological, and ethical concerns, not only between the general public and customers but also extended to other industries that are directly involved in financial transaction through Islamic banks (Mohamad, 2014). From a practical point of view, companies that interact with Islamic financial institutions as business partners are required to strictly observe the ecological, ethical, and social goals outlined by the Shari‘ah law (Mohamad, 2014). The entire financial sector is required to be responsible and strives to achieve sustainable development during the periods of persistent ecological upheavals (Richardson, 2008).

The global financial crisis that has been experienced in the recent past, as well as the associated need for sustainable alternatives relative to conventional banking are reasons behind the enormous growth rate in the financial sector. The moral and ethical rules, as well as the anticipated higher risk awareness has crowned Islamic banking an excellent financial alternative, not only in Muslim countries but also in the many Western countries (Jawadi et al., 2014). Despite the change in the demand
side of banking services, many Islamic banks have offered different products to facilitate solutions to majority of individuals who are in need of banking services (Rethel, 2011). However, not so many people have realized the background of such a rapidly growing Islamic banking industry. Islamic banking has, however, experienced tremendous challenges in the western world, which have compromised the desired success in the non-Islamic market. For instance, there has been continued scepticism towards the inclusion of the religious issues in the economy of such countries (Fang and Foucart, 2013).

According to the principles of Islamic banking, as spelt out in the *Shari’ah*, there is too much controversy in terms of the implementation and interpretation of the law by Islamic banks (Ghannadian and Goswami, 2004). Due to this contradiction and inconsistency in terms of theory and practice, there is need for more research regarding the extent of the compliance Islamic banks with *Shari’ah* and more specifically their compliance with the Islamic moral values is prioritized in this research.

Although there is adequate research regarding Islamic banking, this research area is still nascent and offers many opportunities for more research. This section performs a systematic literature review with an objective of defining the current research topics, which consequently perpetrate derivation of propositions for future research. The materials selected for reference purposes in this research are scientifically relevant in discussing Islamic banking. For purposes of structuring, this section devises five crucial topics that have great relevance to Islamic banking and finance, including Fundamentals, Ethics and Sustainability, Risks in Islamic Finance, Financial Instruments, Co-existence of Conventional and Islamic Banking, which are elaborated below.

### 3.3 Foundations of Islamic Banking

Understanding *Shari’ah* law provides a crucial background of the system that Islamic
banks operate based (Valeva, 2012). Therefore, understanding the teachings of the Quran is essential in allowing commercial transaction practised in Islamic banking. The theoretical framework of this literature review notes visible differences. For instance, not all Muslims subscribe to the idea that Quran explicitly forbids charge of interest (Malik et al., 2011). Most scholars in Muslim faith subscribe to the principle of avoiding interest while ensuring simultaneous reduction of risk. The riba aspect spelt out in Quran is equal to other forms of interest payment, and as such only charging excessive interest on deposits or loans seem to be forbidden. However, due to the fact that most individuals understand the whole aspect as a prohibition of interest in totality, Islamic banking only considers the principle of profit and loss sharing. Despite the general practice and conception that prohibits interest in Islamic banking, the banks are still capable of generating profits. The only difference is that an Islamic banking investor accepts a greater risk since they are not sure of the expected return on investment when compared to the conventional Western banking investors (Perry and Rehman, 2011).

Hamza (2013) and Khan (2010) argue that the sincerity of institutions of Islamic banking and their compliance with Shari’ah rules continues to be questioned by many scholars. Various publications have also reflected the same opinions, especially regarding the purity of banking products and services, as well as the aspect of honesty among involved parties. Accordingly, it can be argued that there is an interesting paradox when regulation issues in Islamic banking are closely examined. For instance, within the period of 11 years from 2000 to 2011, the research by Jawadi et al. (2014) investigate the financial performance of conventional and Islamic banks in United States, Europe, and the western world and found that Islamic banking is very highly regulated compared to conventional banking. On the other hand, Malik et al. (2011) obtained controversial results when their qualitative research analysis through undertaking a literature review questions on the lack of uniformity of rules as a result of the individual and decentralized Shari’ah boards. In general, not only both Islamic scholars and other researcher have greatly differed in their conceptions of
Islamic banking and finance. It should also be noted that Islamic banking is significantly isolated from conventional banking, and as a result progressive scholars have continuously recommended the reinvention of conventional products that possess only little or zero modifications.

Research surveys have indicated that compliance with Shari’ah laws plays a critical role for customers who subscribe to Islamic banking services. For instance, research indicates that customers of staunch Muslim faith may withdraw their deposits or leave a given bank if the Shari’ah rules are not observed correctly to the latter (Ginena, 2014). This is the basic reason for the existence of the Shari’ah boards, which play an important role in determining whether a given bank product or service is compliant to the Shari’ah or not. In the current literature, these Shari’ah boards have been strongly criticized in their endeavours. This is basically due to the fact that a given Islamic region has its own supervisory bodies to enforce the Shari’ah. However, these supervisory bodies are not standardized, thus eliciting multiple controversies in their enforcement (Perry and Rehman, 2011). Apart from the lack of standardization, the supervisory bodies are also criticized for receiving money in return when they provide professional opinion regarding the compliance to Shari’ah on a specific financial service or product. Many would expect that the act of receiving money would only apply to the rating agencies that evaluate companies, but not Shari’ah boards that prohibit much financial advancement such as interest. For this reason, financial institutions, therefore, contract different boards so that they can gain a more certain confirmation that they are compliant with the provisions of the Shari’ah. However, there is increased questioning of the objectivity of these individual boards, which have tremendously increased in the recent past. It is essentially important for the future of Islamic banking to establish an individual Shari’ah board, which is standard and does not gain receipt of any direct payments for advising Islamic banks (Hamza, 2013). As a result, the integrity, quality, and objectivity of this standard board regarding compliance with Shari’ah can be largely guaranteed.
Generally, the prohibition of interest is regarded as one of the highly-discussed aspects in present research in addition to the increased explanation of the fundamentals of Islamic banking. There have been controversial definitions of *riba*, for example, some scholars are not entirely convinced that interest should be prohibited; whereas there are other scholars who take for granted the principle of prohibiting interest (Malik et al., 2011). There is a need for further research that primarily focuses on the attribute of honesty and compliance with *Shari’ah* rules within Islamic banking institutions. As pointed out in the research by Perry and Rehman (2011), there is a need for unification of the regulatory framework across the globe regarding the compliance with *Shari’ah* rules on compliance of financial products. This is because various *Shari’ah* boards have posted non-uniform decisions on the compliance to *Shari’ah* rules. If the supervisory boards are anything to be objective and provide quality services, they should perform within the guidelines of the international independent supervisory board (Perry and Rehman, 2011). In discussion the future of Islamic banking, the legal differences portrayed in different countries are critical, although this aspect is sparsely handled in the current literature (Perry and Rehman, 2011).

### 3.4 Islamic Banking and Conventional Banking

The financial crisis that was experienced in recent years was a global issue that challenged the resilience of the banking sector as a whole in the world. Beck et al., (2013) who performed an empirical analysis of the business model, stability, and efficiency of the conventional and Islamic banks identified in their research study that as a result of higher asset quality and better capitalization, Islamic banks largely outperformed conventional banks during the crisis period. In addition, Chong and Liu, who performed a research on the system of Islamic banking in Malaysia supported the same view, and argued that the sharing of risk and profit and loss sharing instruments have greatly helped Islamic banks to absorb shocks due to economic crisis in a better manner than their conventional banks counterparts (Chong and Liu,
The upheaval with excess liquidity, which is regarded to be used as a result of financial instruments applied by Islamic banks, moreover due to the perspective of Islamic banks, enhanced the effectiveness and performance during the periods of crisis. Through this initially negative excess liquidity, Islamic banks are able to easily intercept shocks from financial crises (Khan and Bhatti, 2008). In the converse, a research study undertaken between 1998 and 2009 on the soundness of financials of Islamic banks, relative to the existing in conventional banks, the authors point out that the soundness of both Islamic and conventional banking does not differ in any significant manner in crisis period (Bourkhis and Nabi, 2013).

The business model present among the Islamic banks is primarily necessitated by the underlying principles inhibited in the Islamic religion. The implication of this aspect is that relative to conventional banks, the religious values held in high esteem starkly differ from those of competing conventional banks in the banking sector (Dusuki, 2008). Research indicates that the quality of asset in Islamic banks is higher compared to that in conventional banks, although the efficiency of Islamic banks is continuously being questioned in the current literature review (Beck et al., 2013). Doubtfully, Khan asserts in his research that the only difference between an Islamic and a conventional financial instrument is “Shari’ah arbitrage”, which implies that an individual need to find a suitable Arabic name for a particular product and also has to use it in relation to the Shari’ah principles (Khan, 2010).

The significance of Islamic finance has greatly increased in the recent past. This is partly perpetrated by the double-digit annual growth rate within the Islamic banking sector. In countries with most of the population being Non-Muslim, the growth is perceived to be even higher, as Fang and Foucart (2013) asserted that in 2012 to 2013, there was experienced a sensational growth rate of at least 37.5 percent when measured among the non-Muslim countries. The fast growth of Islamic banking has resulted in a dual system of banking across many countries in the globe, while both conventional banks and Islamic banks possess and own market shares, implying that
they harmoniously coexist, despite their different systems (Abedifar et al., 2014). On the same dimension of Islamic banks, the rapid growth, as well as the increasing need for more technological innovation in the banking and finance sector, has attracted the interest from the international conventional banks, which means that there will be more competition within the Islamic banking sector (Hassan et al., 2008). Currently, most of the international conventional banks are offering their individual Islamic products, and as a result, they have established their own Islamic banking branches, just like Citibank and HSBC did (Uppal and Mangla, 2014). The implication is that Islamic banks are nowadays required to compete with both conventional and Islamic competitors (Hassan et al., 2008). Newly established Islamic banks usually need to offer to their customers more competitive products and services, if they have to survive in the banking and finance sector in the foreseeable future (Malik et al., 2011).

There is no specific idea of the strength of the competition from Islamic windows of conventional banks in the industry. However, Islamic banks have been able to compete with each other internationally, whereas the Islamic windows and branches established by conventional banks have been unable to compete since they seek to serve a separate market share (Ariss, 2010). However, a research study performed by Mansour et al. in the United Kingdom that included the participation of Muslim as well as non-Muslim customers indicated that even for the Muslim customers, charging less for the products and services provided by banks is the most critical criterion for selection, and religion can only be ranked second as a reason for selection (Mansour et al., 2010). The implication of this aspect is that both Islamic and conventional banks are in serious competition with each other. In contrary, Chong and Liu (2009) performed a research on the dual banking system of Malaysia as a positive implication, whereby they managed to depose specific regulations that can be utilized by both sectors so that they can successfully exist side by side.

In his research, Gheeraert (2014) concluded that the existence of both Islamic and
conventional banks results in an ideal market situation, whereby both Islamic and conventional banking complement one another in their endeavours. Although customers subscribing to any banking system can maintain their business relationships, it is regarded as increasingly important that both types of banks are separated especially with regards to the underlying regulations (Ariss, 2010). In addition to the initial Sukuk issuance company first opened in 2004 in Germany, several milestones had already been realized such as commissioning of the first Islamic bank in Luxembourg in 1977 (Perry and Rehman, 2011). The United Kingdom was regarded as the most advanced market for Islamic banking and finance to emerge within European boundaries. This occurrence is not entirely attributed to the existence of London as a financial centre, but it should be appreciated that London stock exchange has become very prominent in listing Sukuk issuances. In addition, the British government has been also responsible for such rapid Islamic banking growth, since the government has offered unwavering support to the banking sector through ensuring provision of favorable environment where the business has thrived (Di Mauro et al., 2013). For instance, the British government undertook various actions that created ample atmosphere for the growth of Islamic banking in the United Kingdom. This was necessitated to satisfy the banking needs of the high number of Muslim population within the country’s borders (Mansour et al., 2010). For instance, abolition of double taxation such as the taxes on land transfer of land made it easier for the Islamic mortgage contract to be executed more effectively. This greatly lowered the cost for Islamic banks customers, which was integral in making offering of Islamic banking products more competitive (Khan and Bhatti, 2008).

From a holistic perspective, current research regarding the coexistence of conventional and Islamic banking is focused on the differences and similarities between the two banking sectors. The major issues that have been sought in the current literature are the stability and efficiency, notwithstanding the quality of conventional and Islamic banks in different economic test periods. Despite the higher liquidity and asset quality that has been confirmed within the Islamic banks,
research does not agree with that proposition on the basis of the more crisis-proof on the model (Beck et al., 2013). The stiff competition experienced within the Islamic banking sector and between conventional and Islamic banks is constantly increasing, and international banks have witnessed more profit due to their high growth rates per annum. On the same note, Mansour et al. note that Muslim customers may move to conventional banks since nowadays, “religion” is not regarded as the major criterion for selection, but rather the low charge on services provided (Mansour et al., 2010).

Although both conventional and Islamic banks are in constant competition with one another, Gheeraert (2014) is convinced that both complement one another, and this leads to the desired and ideal market situation. There is a great room for further research that needs to focus on the guidelines provided by the regulatory authorities so as to manage the increased competition and rapid growth. In many parts of the world, guidelines that are standardized such as Basel III are applied for the entire banking sector, an attribute that can be replicated in the Islamic banking and finance (Perry and Rehman, 2011). However, many researchers have questioned the effectiveness of the issue of establishing a uniform banking system that can efficiently regulate both the conventional and the Islamic banking sector as a unit (Ariss, 2010). Another approach of addressing the issue would be developing separate regulations that aim at focusing on the peculiarities such as the underlying principles of the Shari’ah, as well as the asset structure and the risk profile present in both Islamic and conventional banking systems (Perry and Rehman, 2011). In consideration of the rapid growth in the banking sector, this research examines the developments advanced in Islamic banking within Saudi Arabia. It is therefore important to observe the banking trends in the country and supplement the findings with the relevant adjustments in accordance with the regulatory authorities.

3.5 Islamic Financial Instruments

The importance of comprehensively discussing Islamic financial banking instruments as a topic is based on the underlying principles that prohibit interest (riba), as well as
gambling (*maisir*), and the forbiddance of risk (*gharar*) (Siddiqui, 2008). As a result of existence of a few financial instruments in Islamic banking and finance, this section discusses only a small but conclusive part of the subject matter.

The most relevant topics on financial instruments focus on the debt financing aspect of Islamic banking and finance. Due to the fact that Islamic banking is based on the principle of profit and loss sharing, the typical modes of financing in theory are, for instance, *Mudarabah* and *Musharakah* (Ching and Liu, 2009). While *Mudarabah* is only based on the sharing of profit, *Musharakah* integrates a complete sharing of profit and loss. Therefore, in *Mudarabah*, the bank is responsible for providing all the capital and takes an integral part in overseeing the success of the entire project in terms of providing the necessary finances (Ching and Liu, 2009). In a research study by Uppal and Mangla, who sought to examine the structure of asset in both Islamic and conventional banks from 2006 to 2010, they demonstrated that almost no profit and loss sharing financing has been practised in Islamic banks up to date (Uppal and Mangla, 2014). Research shows that the most widely applied form of financing in Islamic banking is called *Murabaha*. In this regard, the bank is entirely the owner of the financed product, which is then transferred to the customer when the terms and conditions of the project are fulfilled. This implies that the full risk of the project is borne by the bank, although in a short period of time (Rethel, 2011). Although both markup financing, as well as profit and loss sharing modes like *Murabaha*, are allowed by almost all scholars of Islamic banking, the element of mark up financing is an issue that is heavily criticized in the modern literature. Research shows that *Murabaha* financing goes against the principles of *Shari‘ah*, majorly because it is driven by the interest motive financing portrayed in conventional banks, and also contains a form of risk to the bank itself (Uppal and Mangla, 2014). In particular, which is an investment instrument, indicates that there are Islamic binds that are existing with similar configurations, and as such compliance with *Shari‘ah* principles is largely apparent on the investment side (Azmat et al., 2014).
The structure of Sukuk can be compared with conventional bonds, although the Sukuk need to be strictly applied with compliance to the principles of Shari‘ah. For Sukuk to be compliant with the principles of Shari‘ah, Godlewski et al., (2013) defined three criteria: (i) Representation of ownership in terms of tangible assets, (ii) Investors need to receive payments from profits calculated after-tax deductions, and (iii) The redemption value should be consistent with the actual market price and not the amount invested.

Based on these criteria, this research agrees that there is a significant lack of compliance with the principles of Shari‘ah since at least one of the underlying principles is violated at any given time (Godlewski et al., 2013). Studies carried out are basically pondering the issue of whether the performance of conventional bonds or Islamic bonds (Sukuk) is better (Malik et al., 2011). However, an empirical research investigation by Jawadi et al. (2014) regarding the performance of conventional and Islamic indexes in three regions namely Europe, the United States, and the world in the periods 200 to 2011, suggested that in turbulent periods Sukuk brings out better performance and results than conventional bonds. On the other hand, conventional bonds appear to perform way better and successful in calm periods (Jawadi et al., 2014). Furthermore, Godlewski et al. (2013) examine the issuance of conventional bonds and Sukuk in the years 2002 to 2009. From their research findings, they claimed that Sukuk issues are capable of triggering negative market reactions. In this regard, investors usually relate these issues to companies that are less healthy and unstable with low-profit expectations, while better companies are associated with high-profit expectations, and thus connected to issuance of conventional bonds.

Based on such arguments, it can be observed that compliance with Shari‘ah principles is a major concern considering the current research regarding financial instruments in Islamic banking. As already pointed out earlier, the instruments for profit and loss sharing are a representation of only a very minute but significant part
of both investment and financing side of Islamic banks. For instance, *Murabaha* financing has been continuously criticized by Shamsudin et al. (2014) for its basis on interest despite the *Shari’ah* principles forbidding *riba*, which implies that there are many operational costs that may also *occur* for Islamic banks. In the side of investment, Islamic bonds, also known as *Sukuk*, are criticized with regards to compliance with the *Shari’ah* principles and the usage of profit and loss sharing (Godlewski et al., 2013). Since most investors perceive *Sukuk* negatively due to its link with less healthy companies regarding the *Sukuk* issuance, and as it was revealed in the study by Godlewski et al., it is greatly important to undertake further research on the performance of *Sukuk* so as to shed more light regarding the uncertainties of potential customers for Islamic banking (Godlewski et al., 2013). However, the investment and financing instruments not only have to be revised so that they can comply with the standards of *Shari’ah*, but there is also the need to identify potential for further research in the Islamic banking derivatives are, since only a few research studies and articles regarding this topic have been published as of today.

For Islamic banking to be globally competitive and meet the required standards such as International Financial Reporting Standards (IFRS), it is very critical to consider the underlying costs and risks. In theoretical terms, as a result of the desired profit and loss sharing nature of Islamic finance contracts, Islamic banks can only make profits if there is shared risk among all the involved parties (Khan, 2010). In any business project, an entrepreneur and an investor share the risk involved, which implies that when the investment project is successful, the involved parties share the profit or loss in proportion to their ratio of investment. However, it is unfortunate to witness that there has been a steady decrease when it comes to sharing of profit and loss instruments of Islamic banks. Khan and Bhatti (2008) assert that policymakers in Islamic banks are able to make forecasts of over-optimistic profit predictions, high-risk potentials, and bad loans when they finance projects. This enables the make more informed decisions regarding the projects to finance and those to avoid. As a
result, Islamic banks are able to maintain and control their profits. In the Islamic banking system, it is also possible identify lack of adherence to standards, as well as high execution and monitoring of expenses (Khan and Bhatti, 2008).

Banks are supposed to comply with the regulatory authority requirements. However, Islamic banks are not exposed to the same extent of risk management and standardization tools as their counterpart conventional banks. The implication is that Islamic banks are indeed more bound to a system of risk transfer similar to conventional banks than to a risk-sharing system that is expressed in the Shari’ah compliance requirement. There is need for more empirical and theoretical research on the probabilities of usage of profit and loss sharing, which is proving to be increasingly important in the coming years. This will increase the depth of Islamic banking in terms of its competitiveness in the banking and finance sector (Azmat et al., 2015).

Although credit risk and bankruptcy risk can be diminished because of the appropriation of profit and loss sharing (PLS) instruments, there is an arrangement of specific risks that ought to likewise be considered (Uppal and Mangla, 2014). Identified with this, another intriguing paradox can be identified in the existing literature. Perry and Rehman (2011) unequivocally censure the terrible capitalization of Islamic banks when directing their review of literature on the globalist particle of Islamic banking and finance. Despite what might be termed as a quantitative report done by Beck et al. (2013), it is uncovered that Islamic banks have better capitalization and a superior resource quality than their traditional and conventional banking counterparts, which is stamped positive, while a noteworthy risk lies in coordinating distinctive developments and maturities (Beck et al., 2013)

Beck et al. (2013) analysed 510 Islamic and conventional banks crosswise over 22 nations from 1995 to 2009 regarding their business introduction, proficiency, resource and asset quality, as well as dependability and stability (Malik et al., 2011). Islamic resources and assets often have long-term maturity, while liabilities are for the most
part short-term, which makes a progressing liquidity risk to adapt with (Malik et al., 2011; Paldi, 2014). Ginena (2014) calls attention to the so-called Shari‘ah risk as it can vigorously compromise the proficiency of an Islamic bank. As the primary operational risk of an Islamic bank, risk of the Shari‘ah implies that a bank is not consistent with the fundamental Shari‘ah rules and thus has the issue, which partners and investors do not trust in the framework any longer and will in all likelihood withdraw their deposits and investments (Ginena, 2014). In any case, Shari‘ah risk can likewise be a sticking point, since the complexity of deciphering Islamic law may cover other imperative risks (Uppal and Mangla, 2014).

The utilization of supporting instruments in Islamic banking and finance speaks to a potential research area. Due to the fact that those instruments have risk components (gharar) included, they are generally illegal in Islamic banking (Siddiqui, 2008). Not at all like hedging in conventional banks, Islamic hedging instruments are utilized to moderate and mitigate actual risks and not for speculation purposes. Therefore, they are not tradable like conventional subordinates (Mohamad, et al., 2014). Mohamad et al. uncovered two noteworthy difficulties in Islamic hedging: As hypothesis is denied through the standards of the Shari‘ah and hedging instruments need to conform to these standards, there are undeniably limited opportunities of supporting in Islamic banking. Moreover, Islamic banking institutions must have the capacity to give elective hedging solutions and answers for their customers. The problem arises in the establishment of new hedging instruments (Mohamad et al., 2014).

Although the Shari‘ah law proposes profit and loss sharing (PLS) in Islamic banking and finance, the use of the instruments for the profit and loss sharing is decreasing significantly in most Islamic banking institutions. According to the findings of Khan and Bhatti (2014), this decrease of profit and loss sharing usage arises from the expenses and risks that are covered by the PLS usage. There is need for more comprehensive and intense research on this area in the future. It is increasingly important to take the Islamic banks away from the existing system of risk transfer,
and in return move to a more certain system of profit and loss sharing that is compliant to the *Shari’ah* rules.

In addition, there is need to undertake enhanced efforts as a way of improving the risk management and be more *Shari’ah* compliant, thus meeting the existing and developing requirements by regulatory authorities (Ginena, 2014). Specific attention needs to be paid with respect to matching maturity periods as well as *Shari’ah* risk as the major operational risk that Islamic banking institutions must face and effectively handle (Beck et al., 2013). As pointed out earlier, Islamic hedging presents a large and crucial research area in future, despite being a nascent area in the current era. Mohamad et al. believe that this research area is important especially owing to the fact that there are limited possibilities of hedging in Islamic banking since all types of speculation are prohibited (Mohamad et al., 2014). Therefore, it will be very essential to create and develop new ideas that are capable of offering alternative hedging solutions and effectiveness among Islamic banking customers.

### 3.6 Ethics and Sustainability

Religions are understood to define the body of human understanding regarding differentiating what is right from wrong, and also teach people the values that are usually responsible for a given behaviour that is deemed ethical in the society (Parboteeah et al., 2007). Each individual established their personal principles of morality, which are critical in differentiating what is right or wrong. However, there is always a general notion in society regarding how something needs to occur (Hossan Choudhury, 2011). In discussing ethical in business or financial sector in general, several keywords such as justice, fairness, and truth are often mentioned in the context with corporate behaviour, social responsibility, or even competition (Hossan Choudhury, 2011).

More and more investors are integrating environmental and social issues in their financial decisions making (Richardson, 2008). In general, many people are ignorant
of the intentions of organisations when they undertake social responsibility programs. In most cases, people believe that these organisations primarily initiate corporate social responsibility programs as part of their marketing strategy (Paulet et al., 2014). The global interest, therefore, seeks to focus and identify new and alternative ways of financing and investing that lead to creation of social justice and welfare (Mohamad, 2014). Some banks have embraced this development as an opportunity that enables them focus on the core business of their financial endeavours in the sector. These banks have been referred to as ethical banks, and they usually concentrate on distribution of credits and collection of savings (Paulet et al., 2014). In their article, Paulet et al., 2014) argue that ethical banks play an essential role in analysing the environmental and social goals of their business partners. The decisions of these banks are often made on the basis of whether or not to finance a given project by considering the underlying target based on its ecological and social structure (Paulet et al., 2014).

Islamic banking, which is basically grounded on moral and ethical values that are attributed to the lessons of the Quran, prioritizes the issues of ethics and the society and thus represents both Muslim and Non-Muslim people (Dusuki, 2008). This is because even individuals who do not subscribe to Islamic faith need to make investments that are socially responsible. In particular, Islamic business ethics is built on the pillars of balance, benevolence, trust, and justice (El Garah et al., 2012). Specifically, the crisis faced in the global financial market has forced many individuals across the globe to ask questions regarding the traditional banking and finance sector (Paulet et al., 2014). This may be used to explain the rationale behind the rapid growth of the Islamic banking sector around the world. As pointed out earlier, there are many incidences experienced in the recent past, particularly those closely related to the global financial crisis, have perpetrated an increase in critical attitudes towards the system of traditional banking. Although Markowitz' portfolio theory asserts that investors are attracted to the portfolios that minimise risks while maximising their returns on investment, religious and ethical issues have a significant impact on the
decisions of investors (Abdelsalam et al., 2014). For this reason, many investors have chosen Islamic banking as an alternative to conventional banking. Since Islamic banking has a critical goal of enhancing social and economic welfare, it is highly regarded as possessing its own ethical identity (Haniffa and Hudaib, 2007). This ethical identity arises from the underlying Shari’ah goals and objectives of social balance, fairness, and justice, which play a very critical role in the framework (Wajdi and Dusuki, 2008).

Although many Islamic banks are experiencing profits and boom as a result of their ethical guidelines, there is a need for the banks to focus on the needs of their customers if they have to remain competitive in the long-run. Several studies undertaken to examine Islamic banking customers in Malaysia, Pakistan, United Kingdom, and United Arab Emirates (UAE), revealed that the customers do not choose Islamic banks only for religious reasons, but the selection criteria are based on such attributes as service quality, brand, security issues, as well as the prices of the products offered (Ahmad et al., 2011). Therefore, the basic role played by Islamic banks is the maintenance of balance between satisfaction of customer needs in terms of reasonable prices and sufficient returns as well as meeting the social responsibilities of these customers. However, it should be understood that the application of the underlying rules of Shari’ah is not meant to screen the environmental, ethical, and social objectives of the business targets for Islamic banks (Mohamad, 2014).

Current literature, which is closely associated with the themes of Shari’ah compliance, examines the issue of whether or not justice and ethics have a significant impact on Islamic banking. It also seeks to examine whether or not profit maximisation and cost efficiency play an essential role within the Islamic banking sector (Khan, 2010). This assumption is formed on the basis of increasing competition within the sector of Islamic banking, as well as between Islamic banks and their conventional banking sector (Uppal and Mangla, 2014). Many banking
institutions are currently seeking to increase their profit margins by creating Islamic banks. These banking institutions have consulted the Shari’ah boards so that they can certify their products, even when some of them are not conforming to Shari’ah guidelines. As a result, it has been found that some of the products offered by Islamic banks are similar to conventional banking products, thus making them more expensive and termed to comply with Shari’ah requirements (Khan, 2010).

In general, the last few years have witnessed investors being forced to change their investment behaviour and think about sustainability and ethics when making their decisions on banking and finance. In the same context, Islamic banks offer general customers more attractive alternatives, which are not present in conventional banks. This implies that Islamic banks are able to attract customers even from Non-Muslim communities (Dusuki, 2008). Khan et al., (2014), indicated that there is increased questioning by general public regarding whether the increase in competition in the banking and financial sector is forcing Islamic banks to move away from complying from Shari’ah rules and focusing on maximising profits. Due to the fact that the teachings of Quran consider social welfare and justice as most critical, the opportunity for future research topics regarding sustainability and ethical need to be consistent with the fundamental research themes. Furthermore, Khan et al., (2014) assert that there is genuine compliance with the provisions of the Shari’ah rules, not only to attract new customers but also as the most vital objective of pursuing ethical goals of Islamic banking.

3.7 Social Responsibility of Islamic Banks: An Overview

Social responsibility has become an important activity of any modern organization. No corporation does all operations on its own without dealing with various stakeholders in its quotidian activities. Human beings are social in nature. They cannot live in solitude as some lower life forms do. For civilization to transcend the incumbent level, man needs to forge progressive cooperation with fellow men (Tyer,
A body corporate must propitiate the needs, hopes, and aspirations of the purlieus stakeholders who include employees, the government, its suppliers, its customers, the regulators, and the immediate and wider societies in which it is situated (Abdullah, et al., 2014). High degrees of corporate performance can be obtained by incorporating corporate social responsibility as a critical managerial duty (Hanzaee and Sadeghian, 2014). From an Islamic point of view, people and corporations should not conduct the economic, social, and other worldly activities as self-centred utility maximiser economic agents, as highly advocated for in the neoclassical economic theories, but they should strike a fair equilibrium between their respective rights and responsibilities and those of the wider society (Dusuki, 2005). According to the harm prevention tenets that are strongly entrenched into the Shari’ah, all economic activities are supposed to be conducted in a manner that does not inflict injury or cause grief to human beings. Harm prevention is two-pronged and is attained through the removal of hardship (raf’ al-haraj) and the actual prevention of harm (daf’ al-darar) (Dusuki, 2005). Social responsibility activities can be viewed as an ethical investment since they enhance the positive aspects of an entity (Hopkins, 2004). Lack of standardization in the field of social responsibility has given rise to a scenario where different measurement tools are used to gauge the extent and impact of social responsibility. Efforts to measure social responsibility started in the last two decades, most notably in the developed countries (Giannarakis, et al., 2009). For instance, the measurement of social responsibility activities is a sophisticated endeavour in the developed countries that has culminated in the establishment of the Dow Jones Sustainability Group Indexes (DJSGI) that provides a global assessment of CSR activities in the United States of America, Canada, Korea and the Asia Pacific region (Giannarakis, et al., 2009). Over the last few decades, there has been a meteoric rise in the number and scope of social responsibility activities by players in multitudinous industries. There is a notable absence of specialized social responsibility framework to back as a guideline for Islamic banks in the implementation of social responsibility activities (Jusoh and Ibrahim, 2015).
Consequently, not all Islamic banks disclose their social responsibility activities, and this does little to improve the corporate image of Islamic banks as compared to the Western conventional banks that are more outspoken in matters of initiating, promoting, implementing, and reporting their social responsibility goings-on (Idowu, 2009). Since Islamic banks offer faith-based banking and finance products and services that comply with the principles of Shari'ah, members of the public and stakeholders in the financial industry have huge levels of expectations with regard to the scope, intensity, pursuit, and disclosure of social responsibility activities carried the Islamic financial institutions. However, Islamic banks have not closed in on the expectations gap arising from discrepancies between the social responsibility activities that Islamic banks actually do and the high hopes attached to these entities. While there are huge levels of awareness of the importance of social responsibility activities in the policymakers of Islamic banks, this knowledge has not been put to practical application through the active commitment and pursuit of social responsibility endeavours on a large scale by most Islamic banking institutions (Jusoh and Ibrahim, 2015).

Corporate failures, executive greed, economic stagnation, globalization, privatization, and the internal awareness of the business operations are some of the factors responsible for the increased interest in practices aimed at enhancing the leadership and governance of corporations (Saidi, 2007). Corporate governance provides a structure to which the goals of a company are met, and the means of attaining the envisaged objectives through suitable performance monitoring tools (Saidi, 2007). One of the main aims of corporate governance is the resolution of the principal/agent conflict of interest. The principal/agent conflict of interest is one of the most long-running controversies in the field of business. It arises when the agent who is entrusted to run an enterprise through proper stewardship and to the best interests and objectives of the principal pursues courses of action that are contrary to the maximisation of the principals' interests. There are internal and external stakeholders in any Islamic bank. The stakeholders include the owners (shareholders), the board
of directors, senior management, depositors, government bodies, and the wider society. In steering an Islamic banking outfit, the board of directors and the senior management may pursue courses of actions that are contrary to the well being of their primary principals who are the shareholders, as well as the other auxiliary stakeholders resulting to corporate governance quandary. While the performance of Islamic banks regarding corporate governance has been generally impressive, these institutions have occasionally fallen into the trappings of weak corporate governance structures (Chapra and Ahmed, 2002).

3.7.1 Aspects of Social Responsibility of Islamic Banks

All the activities of Muslims and Islamic entities are supposed to follow the objectives of Shari’ah known as Maqasid al-Shari’ah. According to the prominent Muslim sage, scholar, philosopher, and prolific teacher of the days of ere known as Al-Ghazali, “The objective of the Shari’ah is to promote the well-being of all mankind, which lies in safeguarding their faith (din), their human self (nafs), their intellect (‘aql), their posterity (nasl) and their wealth (mal). Whatever ensures the safeguard of these five serves public interest and is desirable” (Chapra, 2000, p. 118). Individuals, businesses, and the society are equal partners that owe amongst themselves reciprocal responsibilities (Dusuki, 2005).

Social responsibility practices are not new to Islamic banks (Aribi, 2009). Social responsibilities are a vital component of the aggregate total of the cases of action carried out by any commercial undertaking. Social responsibilities of Islamic banks entail social, economic, ethical, and unrestricted responsibilities (Abbasi, et al., 2012). There is a lack of a universal modified body of standards and framework of social responsibility for Islamic banks (Jusoh and Ibrahim, 2015). The absence of guiding standards on Islamic social responsibility sways Islamic banks to adopt the social responsibility practices used by the conventional counterparts which are bedrocked on Western cultures, beliefs, principles, and ideals (Hamdan, 2014). Most Islamic banks do not observe their social responsibilities fully. The only meet part of the
expected social duties. Various Islamic banks observe minimal social obligations that revolve around, avoidance of negative actions and the non-engagement with the activities traditionally prohibited by the Shari’ah. Most of the social responsibility activities of the majority of Islamic banks centre around religious and philanthropic undertakings. A survey of social responsibility activities of Islamic banks in Malaysia revealed that strategic motives like promotion of corporate image; qualification for tax deductions; increased employee satisfaction; and moral inspiration stemming from top management awareness; genuine philanthropy; and accountability were the critical factors that influenced the top management’s decision to pursue social responsibility activities (Jusoh and Ibrahim, 2015). In the case of Islamic banks operating in Malaysia, coercive measures such as legal requirements; pressure from the public and government quarters do not influence the Islamic banking institutions to commit to social responsibility courses (Jusoh and Ibrahim, 2015). Globally, a number of Islamic banks observe social responsibility activities that exclude the advancement of human rights, environmental issues, and human resource development (Jusoh and Ibrahim, 2015). Social responsibility activities endeavours can be categorized into obligatory and recommended programs. The critical areas for the effective assessment social responsibility activities for Islamic banks involve the parameters of economic development; zakah deductions; social justice and accounting policies; new channels of investment; and social disclosure (Abbasi, et al., 2012).

3.7.1.1 Social justice

The Shari’ah – on which Islamic banking is predicated – attaches imperative importance to the promotion of fairness and justice all the activities and relationships that take place in the world. The Shari’ah provides enduring and stable mechanisms for adapting to change in all manner of situations in a morally correct manner that pleases Allah (SWT) and upholds the social good of all humanity. The Shari’ah provides a value system that tends to all aspects of the human life, including
personal, social, economic, and political facets while providing guidelines for responding to changing exigencies (Sardar, 2003). According to the Shari’ah, all dealings should be aimed at attaining the perfect and blissful Hereafter referred to in the Quran while addressing the immediate and future worldly needs. According to the underpinning teachings of Islam, justice is a pivotal ingredient of holistic socio-economic advancement. The heights of a model Muslim society cannot be attained in the absence of justice.

One of the fundamental goals of Islamic banking is the attainment of financial inclusion for all and sundry. Those who conduct business activities owe a duty of care to humanity (Haniffa and Cooke, 2001). The creation and accumulation of wealth through the exploitation of the dire exigencies of the economically deprived by the wealthy is forbidden in Islam. Islam advocates for charity. There is more joy in giving than in receiving. Shari’ah encourages all to rise above the deprivation so that they can share in the joy of giving. Islamic banks fund social causes aimed at uplifting the needy from the shackles of penury through the provision of socio-economic empowerment opportunities. Social responsibility activities of any entity should aim to promote socio-economic justice. Islamic banks carry out social responsibility activities aimed at creating income-generating opportunities for the economically deprived in lieu of charitable donations (Ayyash, 2010)

Islamic banks are expected to uphold righteousness and moral responsibility in all their undertakings. They should not provide financing for activities that pose severe health risk problems and environmental degradation. Islamic banks should not at any time fund ventures aimed at perpetuating activities that are forbidden by the Shari’ah. The prejudicial dealings that are detrimental to the morals of the public include gambling, pornography, prostitution, money laundering, and the production and trafficking of drugs and drug paraphernalia.
3.7.1.2 Ethical values

Islam promotes a deep sense of humanity in all dealings between people. In the perpetuation of the Islamic spirit, Islamic banks are expected to observe ethical principles that create value for customers and other stakeholders through the provision of fair products and services (Jusoh, et al., 2014). The observance of ethics in Islamic banking serves to impede exploitation of customers and the stakeholders in the wider society. Total compliance with the Shari’ah guarantees the upholding of ethical values since it forbids participation morally corrupt and destructive activities. The ethical ideals enshrined in Islamic law facilitate Islamic banks to empower people from various cadres of the society with the provision of equal opportunity and empowerment for all. Islamic banks are expected to treat their employees – who are the internal customers – in a dignified fashion that promotes the overall advancement of their members of staff. The holistic development of the workers of Islamic banks has a multiplier effect since a happy workforce is more productive, effective and efficient. Islamic banks are compelled by the Shari’ah to provide career advancement opportunities, like training, development, and employee benefits, in a fair manner to their staff. The Islamic law forbids prejudice, nepotism, and other forms of discriminative favouritism at the workplace. According to the fundamental concepts of Islam, everyone is accountable to Allah (SWT) for his or her actions. Positive actions merit blessings and good favour from God. Undignified and unwholesome actions beget punishment from Allah (SWT). Being participants in a faith-based and responsible financial system, Islamic banks are expected to pursue courses of actions that are to the good of all stakeholders while serving the greater social interests of the current generation as well as posterity. Islamic banks observe ethical ideals to minimise the risks forced by the activities to all groups of people that have a stake in their existence.

The teachings of Islam forbid the payment and receipt of interest since money is not a commodity, but a store of value and a measure of wealth. The absence of the
element of interest is one of the most conspicuous differences between the Islamic banking system and the Western conventional banking system. Since the carrying out of economic activities that result in profit is allowed, Islamic banks are permitted by the Shari’ah to undertake profit/loss arrangements with their clients. Islamic banks are expected to pursue those courses of action that reduce the incurrence of huge losses and maximise profits without contravening the teachings of Prophet Mohammed (peace be upon him) and the Holy Quran. Islamic banks owe a duty of care to the investors and depositors of funds.

The Shari’ah prohibits speculation and excessive risk-taking. All Islamic financial institutions are expected to comply with these pronouncements. The taking of colossal risks and the indulgence in highly speculative activities was one of the primary causes of the global credit crunch that led to a severe financial crisis that nearly paralyzed the Western conventional banking system. The Islamic law provides a definitive framework for upholding stability in business activities that all Islamic banks are supposed to oblige to. The thrill of making quick gains through underhand methods is a constant temptation to most business ventures. Most get-quick-gains schemes have concealed nefarious activities that exploit the other party to a deal. Islamic banks are expected to uphold the tenets of the Islamic faith that forbid profiting through dishonest means. The surefire way of achieving this ideal is through the effective perpetuation of the moral and ethical values espoused in the Holy Quran and the teachings of Prophet Mohammed. Islamic banks stand to improve their ethical identity by aligning their mission, vision, and activities to the service of God and all humanity.

3.7.1.3 Social disclosure

In the perfect world, all Islamic banks ought to disclose their social responsibility activities, even in cases where they might be reporting to overriding national secular jurisprudence in non-Muslim dominated countries since they are accountable to the wider Islamic society (Maali et al., 2003). However, the number of Islamic banks that
make full disclosure of their social responsibility activities is dismally small (Abbasi, et al., 2012). Many Islamic banks fail to make the most out of the multifarious fecund opportunities available for making the comprehensive revelation on the extensive details of their social responsibility activities, and this denies them a chance to improve their brand image to members of the society and led the Western conventional counterparts will capitalize on such openings. Social disclosure promotes accountability of Islamic banks. Adequate reporting on the social responsibility activities conducted by Islamic banks that comply with the Shari’ah increases public confidence in Islamic banks. Adequate disclosure of social courses advanced by Islamic banks assures members of the public that Islamic banking institutions are not led by excessive avarice in the pursuit of profit. Social disclosure creates and enhances the perception that Islamic banks share in the social values espoused by members of the wider society in general and Muslims in specific. In order to survive by gaining a competitive edge, it is of imperative importance for Islamic banks to make comprehensive revelations about their social responsibility endeavours. Adequate social disclosure has the potential of netting in new partners and donors who may fund the future social responsibility activities of Islamic banks. While in the past with the social disclosure of Islamic banks has been heavily influenced by the immediate political environment as well as the proportion of Muslims in their country of domicile, it is the high time that Islamic banks placed a premium on making full social disclosures of their social responsibility activities since the modern world is a global village and the Muslim Brotherhood in other countries may be interested in their external financial reports.

3.7.1.4 Economic development

There exists a strong positive correlation between the carrying out of corporate social responsibility activities by Islamic banks and the promotion of economic development in the society (Abbasi, et al., 2012). There are several measures used in engaging the level of economic development in a given country. One of the most reliable
parameters of economic development is the minuscule occurrence of cases of poverty. Palpable economic advancement in the society can be achieved through the salvation of people from the imprisoning and debilitating shackles of poverty.

Economic development is stimulated by improving the well-being of the providers of the primary factors of production. Those who contribute land, labour, capital, and entrepreneurship to the economic system should be handsomely recompensed for their efforts. Social responsibility practices of Islamic banks and other commercial entities are strong in those countries that have strong laws safeguarding the best interests of the providers of the factors of production (Ward, 2008).

The salaried staff and wage earners are the providers of labour to an institution. Islamic banks are expected to reward the manual and intellectual sweat of their workers by providing fair and competitive remuneration.

Social responsibility activities encourage economic development by restraining the expansion of unemployment, unequal distribution of wealth, economic injustices, socio-economic exclusion, and corruption (Abbasi, et al., 2012).

3.7.1.5 Zakah deductions

Zakah and donations were introduced to the Islamic faith to facilitate the distribution between the rich and the have-nots (Lewis, 2001). Zakah creates a balance between the wealth creation and wealth distribution mechanisms in a given socio-economic order. Zakah is one of the five primary pillars of Islam. Zakah avails a voluntary system of making charitable contributions to the noble causes aimed at addressing the distress of those at the lowest cadres of the society. Zakah facilitates the emancipation of the needy from the retarding influence of dire penury. Muslims are expected to make Zakah offerings to the poor. Islamic banks facilitate the observance of the spiritual publication by making Zakah deductions and depositing the funds into Zakah institutions according to the directions given by their account holders.
3.7.1.6 Maslahah (Consideration of public interest)

*Maslahah* is a fundamental tenet of Islam. There exists a clear nexus between *Maslahah* and the virtues espoused by the teachings of Prophet Muhammad and the Holy Quran. Speaking of *Maslahah*, Al-Ghazali is quoted as saying, “As for *Maslahah*, it is essentially an expression for the acquisition of benefit or the repulsion of injury or harm, but that is not what we mean by it, because acquisition of benefits and the repulsion of harm represent human goals, that is, the welfare of humans through the attainment of these goals. What we mean by *Maslahah*, however, is the preservation of the ends of Shari’ah” (Nyazee, 2000, p. 180). *Maslahah* is broadly categorized into the essentials (*daruriyyat*), the complementary (*hajiyyat*), and the embellishments (*tahsiniyyat*) (Dusuki, 2005).

The essentials (*daruriyyat*) are the critical interests upon which the lives of people primarily depend on as envisaged by the *Maqasid al-Shari’ah* i.e. faith (din), human self (*nafs*), intellect (*‘aql*), posterity (*nasl*) and wealth (mal) (Dusuki, 2005). Failure to uphold *daruriyyat* leads to chaos and the destruction of the proper order and the regular functioning of the society. The perpetration on actions that threaten *daruriyyat* should be met with chastisement. For instance, to deal with the possible threat of harm on intellect (*‘aql*), alcohol and drugs should be prohibited. Those engaging in the manufacture and peddling of narcotics should meet the full force of the Islamic law. Environmental degradation is a grave risk to the human self (*nafs*) and posterity (*nasl*). Islamic banks should conduct due diligence and resist from finding the activities of companies that pollute the environment by way of dumping toxic wastes.

The complementary (*hajiyyat*) are those interests that supplement essential interests. The inevitable corollary of overlooking *hajiyyat* is hardship (Dusuki, 2005). *Shari’ah* legalizes various innovations of Islamic banks out of the necessity of alleviating distress and deprivation from the lives of people.
The embellishments (*tahsiniyyat*) are those interests whose attainment leads to refinement, perfection, and high levels of fulfilment in the conduct of people (Dusuki, 2005). Islamic financial institutions are expected by the *Shari’ah* to go beyond making and facilitating the collection of the mandatory *Zakah* obligation. Islamic banks have the social responsibility of engaging in philanthropic activities, as well as observing gentleness, pleasant speech and uphold fair dealings with all the people constituting their socio-economic ecosystem.

### 3.8 The Impact of Islamic Economics in Improving Community Services and Social Responsibility in Saudi Arabia

The religion of Islam provides a faith-based economic system in the name of Islamic economics. Islamic economics involves the carrying out of commercial activities in a manner that complies with the *Shari’ah* and the Holy Quran. The distinct characteristics of Islamic economics are risk-sharing; the earning of rewards for engaging in trade in the form of profits; the absence of usury in transactions; the avoidance of trade in the items forbidden by the *Shari’ah* such as pork; the non-engagement in morally-destructive activities that are forbidden by the *Shari’ah* such as gambling, the consumption of drugs and alcohol, and prostitution. The branches of Islamic economics can be broadly classified into the analytical-based branch and the moral values-oriented branch (Shams, 2004). In the overarching discipline of modern economics, Islamic economics is a nascent field that is growing in leaps and bounds.

Islamic economics is strongly rooted in religion. Religion attaches imperative importance to the relationship between an individual and the Supreme Almighty Being as well as the fair and moral conduct of affairs between the individual and fellow men. That Islamic economics can improve the well being of an individual in specific and the socio-economic good of the society at large cannot be put to question. Islamic economics has many offshoots that include Islamic banking and finance; Islamic microfinance; and Takaful (Islamic insurance). Islamic banking and finance and the Islamic microfinance subset of Islamic economics have recorded
impressive growth in the last few decades. They have developed take their rightful place at the global arena. They have proved effective at providing a suitable alternative to conventional banking and micro-finance systems. Interest in the derivatives of Islamic economics has grown exponentially especially since the latest global credit crunch and finance crisis of 2008 that was primarily caused by the fundamental weaknesses that are intrinsic to the conventional banking and finance system. The offshoots of Islamic economics such as Takaful and Islamic microfinance stimulate socio-economic development in the social fabric by encouraging financial inclusion for all and sundry without discrimination. Islamic microfinance has achieved great strides with regard to empowering the people most hard hit by the vagaries of penury.

Saudi Arabia is a nation that is deeply anchored in the map of the Islamic faith. The geophysical location roots of Islam can be traced to the Makkah “Mecca” city of Saudi Arabia. By virtue of being the first country where Islam was revealed and practised, it is in the area in which Saudi Arabia lies that Islamic economics was first practised. Prophet Mohammed (peace be upon him) and his pristine followers were the first to undertake commercial activities that complied with the Holy Quran. After receiving the revolutions of the Holy Quran, the Prophet (peace be upon him) preached to all on the importance of maintaining fair dealings in trade that dignified fellow human beings and had reverence to the purpose of Allah on mankind. The economic activities that were carried out by the Prophet, his disciples, and early followers laid the basis for Islamic economics. Since then the realm of Islamic economics has grown geometrically to become a force to reckon with in the world economics.

The core ideals of Islamic economics are culled from religion and economics. According to Draz (1970), religion provides norms and standards of behaviour to human beings in all aspects of life, spiritual, personal, social, material, and otherwise. The religious underpinnings of Islamic economics provide a blueprint for the ethical conduct of all the parties to Islamic commercial transactions. The stakeholders with
vested interest in Islamic commercial transactions include the actively participating first and second parties actively pursuing business activities, the third parties to the transactions, the government, the regulatory bodies, and the society at large. Economics looks into a part of human behaviour that deals with material matters related to resources, goods, and services (Kahf, 1998). As a proper discipline of economics, Islamic economics is a field that deals with the allocation of scarce resources production, distribution, and consumption of goods and services. The term Islamic economics was first used by Islamic writers in the 1940s (Kahf, 1998). The Islamic writers of the mid-20th century expended huge efforts to discovering an Islamic body of knowledge based on the prohibition of Riba. Since then Islamic economics has grown into a fully-fledged discipline. According to Kahf (1998) Islamic economics, “Islamic economics is a branch of economics that studies the units and variables within the Islamic legal and ideological framework, actual or assumed”.

In as much as some of the goals and objectives of Islamic economics and conventional economics may match to each other, the means used to achieve the envisaged end-goals by the two economic systems are dissimilar. The field of Islamic economics is underpinned to the moral and ethical guidelines of the holy Quran and the Sunnis that specify the possible permissible courses of actions that can be used to realize the goals and objectives of the underlying trading activities (Sairally, 2005). Islamic economics promotes the welfare of society by advancing social justice, equity, poverty alleviation, and human well-being (Sairally, 2006). The objectives that have so far been realized by Islamic economics in the kingdom of Saudi Arabia are the eradication of fear and anger in the society; the fulfillment of spiritual necessities; advancement of universal Muslim brotherhood; equitable distribution of income; the advancement of the freedoms of the individual in the realm of social welfare; the effective harnessing of natural resources; the upholding of the rule of law and peace; the advancement of economic well-being of individuals within the Saudi social fabric; the curbing of environmental pollution; improvements in the standard of living in the population of the Saudi society; the attainment of higher levels of convenience in life;
the advancement of economic well-being; and increased provision of equal opportunity for all through economic co-operation and social justice (Siddiqi, 1980). The socio-economic goals of Islamic economics facilitate the attainment of maqasid al-Shari’ah (objectives of Islamic law) that provide a clear and reliable blueprint for promoting the holistic development and well-being of all human beings.

Services offered to the community and social responsibilities are enhanced when the self-interest of an individual is aligned with a greater social interests of the wider society. In the spirit of the Shari’ah, the parties to Islamic economic activities are expected to incorporate the element of social good in all their commercial dealings. In Islamic economics individuals are expected to pursue altruism, humanity, and social responsibility in addition to the elemental business motive of profit (Sairally, 2007). The corporate entities and individuals carrying out activities under Islamic economics have obligations that they have to observe and promote within the society in which they operate. The participants in Islamic economic activities are supposed to be other-centred. Each party in an Islamic economic transaction owes a duty of care and responsibility to other stakeholders, the society, and ultimately to Allah (SWT). Islamic economics places a premium on accountability. The participants of Islamic economics transactions should be responsible to fellow men and Allah since ultimately, all human beings are accountable to Allah (SWT) for all their actions, thoughts, and conduct.

The Islamic economic activities in the kingdom of Saudi Arabia involve the conduct of asset-backed and asset-based transactions that promote the growth and development of the real economy and entrepreneurship within the country. The Shari’ah-guided practices of Islamic economics promote the avoidance of interest, the non-engagement with the morally corrupting ills of speculation gambling; the partaking of drugs and alcohol; and the taking of excessive risks. The above restrictions go a long way in the prevention and curbing of possible moral decadence in the Saudi society. The strict observance of the Shari’ah in Islamic economics
serves to ensure that all transactions are carried with the ultimate goal of improving the general well-being of individuals as well as society. The *Ummah* of the Kingdom of Saudi Arabia has the predominant perception that the institutions and individuals that partake in Islamic economics have greatly advanced social responsibility in the country. For instance, a number of Islamic financial institutions facilitate the mobilization of savings to facilitate the observance of spiritual obligations. This institutions, help the *Ummah* to not only achieve the exigent material needs by offering them equal opportunities to participate in highly profitable investment venture is indifferent sectors of the Saudi economy, but also attain their higher spiritual goals (El-Din, 2004). The *Shari’ah* provides redress mechanism for the violation of the sound ethical practices that the participants in Islamic economic transactions are expected to observe.

The concept of social banking is highly espoused in the field of Islamic economics. Social banking is the, “the provision of banking and financial services that consequently pursue, as their main objective, a positive contribution to the potential of all human beings to develop, today and in the future” (The Institute for Social Banking Education and Research, 2016). Profit represents the reward for engaging in entrepreneurship. To do away with profit, would be an injustice to the providers of entrepreneurship opportunities. As such, Islamic economics permits the earnings of profits since all the contributors of the factors of production should be handsomely recompensed. The ideal of social banking offers a model for the satisfaction of the needs of the society and economy in a manner that promotes the welfare of the current as well as the future generations. Islamic economics through social banking couples profits with morals. Microfinance practices in the Kingdom of Saudi Arabia have promoted the financial inclusion of all the country (Ahmand, 1992). The activities of Islamic microfinance institutions in Saudi Arabia have uplifted many people who were facing or on the verge of socio-economic deprivation. The participation by all and sundry in the economy of the Kingdom of Saudi Arabia serves to improve the quality and standard of living for the entire population. The greater the
number of empowered participants in an economic system, the greater the overall net benefits that arise to the businessmen, the labourers, the providers of capital, the investors, the government, and the society. Microfinance activities at the grassroots level in Saudi Arabia have stimulated economic advancement at the fundamental level of the social fabric of the Saudi nation (Ahmand, 1992). The twin pursuit of social interests along the pure economic goals of profit maximisation through Islamic economics has promoted virtues of fairness, hard work, ethics, respect, and inclusion of all. Islamic economics been effective in the fight against socio-economic ailments that are associated with penury.

The fundamental basis of Islamic economics is *Shari’ah*. The *Shari’ah* embodies the Islamic law that all Muslims and Islamic entities are expected to follow. The *Shari’ah* places a premium on the promotion of fairness and justice to all. It provides a means of adapting to change in the operating environment while still maintaining conduct that is fair to all humankind and pleases Allah (SWT). The *Shari’ah* provides a value system that caters to all the aspects of human life including personal, social, economic, and political components (Sardar, 2003). Pursuant to the guiding principles of the *Shari’ah*, parties undertaking Islamic economics in Saudi Arabia strive to respond to the immediate worldly socio-economic needs while keeping the eye on the price of the Hereafter. According to the fundamental tenets of the *Shari’ah*, justice is a critical ingredient of holistic socio-economic progress. The *Shari’ah* holds that no society can advance in the absence of justice. At the heart of justice, is the notion of giving the rightful dues to people and Allah (SWT). Islamic economics maintains that parties to dinner transaction must uphold and encourage a sense of justice by observing the germane duty of care to the surrounding society and humanity at large (Chapra, 2000). Islamic economics forbids the exploitation of the poor. Instead, Islamic economics aims to uplift all and sundry including those facing economic deprivation. Since according to Islamic is more joy in giving than in receiving, Islamic economics borrows from this pivotal teaching of Islam and strives to empower the poor so that they can climb up the social ladder by breaking free of
the shackles of penury and ultimately becoming givers who can cause improvement in the living conditions of others. Institutions perpetuating Islamic economics in Saudi Arabia such as Islamic banks, Takaful entities, Islamic microfinance institutions, as well as the Waqf institutions that engage in trade, conduct corporate social responsibility activities that seek to empower those at the nadir of the socio-economic order of the Saudi society by instituting income-generating opportunities. These institutions also empower the poor by providing real-world training that will broaden the purview of their lives so as to be at a better position to take advantage of the current openings as well as the opportunities that bound to arise in the future (Ayyash, 2010).

The religion of Islam promotes all the human virtues that promote the holistic development of an individual; the welfare of the society; and the attainment of the purpose of Allah (SWT) on humanity and an individual. Institutions and individuals carrying out Islamic economic activities in Saudi Arabia are bound by the ethical ideals found in Islamic law. The observance of ethics by Islamic institutions when conducting business affairs serves to attend the exploitation of customers as well as members of the public. The mandatory requirement to observe the tenets of Shari’ah imposed upon all parties undertaking Islamic economic activities enhances the provision of community services as well as social responsibility since that it checks on the participation in the morally destructive activities that are forbidden in the Holy Quran. The guiding ethical code of conduct enshrined in the Shari’ah facilitates the provision of equal opportunity and empowerment of all and sundry in the Saudi society. Discrimination on the lines of race and background is forbidden in Islamic economics. The Islamic institutions that are Islamic economics are bound by the Shari’ah to undertake constant staff empowerment activities. These activities range from the provision of relevant training to improve the intellect (aql) of the members of their staff. Increased motivation levels of the staff have a multiplier effect since a happy workforce is more productive and efficient. Islamic economic institutions facilitate the training of their staff abroad. The training and development of staff in the
overseas, as well as locally by renowned experts improves service delivery, sense of responsibility, and the knowledge levels of the staff. The staff trained abroad return to Saudi Arabia after successfully acquiring the latest cutting-edge knowledge on the leading international best practices in their respective fields of expertise and this prevents the socio-economic costs with brain drain. As part of their normal operations, Islamic economic institutions are required to provide fair remuneration to their workers. The competitive rates of pay awarded to the providers of labour within the Islamic economic system empower workers to be better placed to provide for their families. Families are the basic social unit in the Kingdom of Saudi Arabia. The Prophet (peace be upon him) taught in one of his Sunnas that looking after one’s family bears the same merit as engaging in philanthropic activities. Charity begins at home. By way of poising their staff members to be at a sound economic standing, Islamic economics stimulates social advancement at the fundamental level of the family. According to the Shari’ah, the observance of virtues that inspire positive behaviour and actions begets good favour from Allah. The fate of and dignified actions is punishment. The Shari’ah serves to promote the observance of virtues within the Saudi society by providing mechanisms for meting out punishment for violations of wholesome actions that promote the holistic advancement of the society and an individual. Being a strong faith-based economic system, Islamic economics strives to promote the pursuit of all those courses of actions that benefit all the interested stakeholders while at the same time serving the social interests of the current generation as well as posterity. Dubious get-rich-quick schemes that corrupt the morals of the perpetrators and defraud members of the public are forbidden in the Islamic economics of Saudi Arabia. Islamic economics seeks to promote the virtues of hard work by rewarding effort and punishing sins surrounding laziness and deceit. The element of interest in forbidden in all Islamic economic transactions carried out within the Kingdom of Saudi Arabia. The payment and receipt of usury is barred by the Shari’ah, the Holy Quran since money is a measure of wealth, and when left on its own, no value is added. Islamic economics rewards the addition of value on a real
asset. The earning of interest on stagnant money would encourage sloth. Dignified wealth creation activities that espouse hard work should be rewarded with profit. For these reasons, interest is banned in the Islamic economics of Saudi Arabia. The prohibition of speculation and excessive risk-taking within the realm of Islamic economics has served to shield the socio-economic system of Saudi Arabia from the shocks attributed to such behaviour. It is the taking of huge risks and the agreed inherent in speculation that primarily caused the global credit crunch of 2008. At the time of the credit crisis, the economy of Saudi Arabia remained relatively stable as compared to the economies of the countries of the world that have the conventional Western economics as the backbone of their national economic systems. Gambling and speculation are banned in the framework of Islamic economics within the Kingdom of Saudi Arabia since these activities and behavioural tendencies are counter-intuitive to the observance of the virtues of hard work, pious, and patience.

The nature of community services and social responsibility activities is such that the flow from areas of higher economic concentration and development to regions with lowers levels of economic development. Islamic economics in Saudi Arabia facilitates the dissemination of community services and the provision of social responsibility activities by catalysing the process of wealth creation and generation. Since according to the Holy Quran all the actions of a man come to an end apart from the prayers of a pious offspring that pray for him and a social endowment mechanism that promotes the welfare of the society through the provision of knowledge and charity to the needy, Islamic economics in Saudi Arabia provides mechanisms for the channeling of excess wealth in the lifetime of the economically endowed as well as after the death of the rich by partnering with the distinctively Islamic Waqf institutions. Most of the community services and social responsibility activities carried out in the kingdom of Saudi Arabia are funded from the profits retained from Islamic economics. The observance of the principle of hard work that is espoused by Islamic economics benefits the current generations as well as posterity as Islamic economics provides straightforward mechanisms for the channelling of philanthropic commitments by
providing linkages with Waqf (Pirasteh and Abdolmaleki, 2007). The proceeds emanating from the diverse array of activities carried out under Islamic economics in Saudi Arabia have been used to fund Waqf and charity institutions that have furthered noble causes such as the provision of interest free loans to all including those facing financial, social, and economic deprivation; debt relief; the bailing out of prisoners; the provision of shelter and care to orphans; the distribution of food products; the disbursement of marriage loans; the provision of veterinary services; the creation and dispensation of knowledge in the Saudi society by facilitating the establishment, operating and maintenance of learning institutions, research institutions, libraries, and student hostels; the provision of healthcare services through hospitals and mobile caravans for mobile clinics; accommodation of strangers in guesthouses; the lending of jewelry; the provision of shelter for stray animals; the commissioning, running, operating, and maintenance of public infrastructure such as bridges, and roads; and the provision of shelter for abused housewives (Islamic Development Bank, 2014).

According to the Shari’ah, all are bound to observe the Maslahah. Maslahah denotes having consideration for the public interest. The prolific Islamic sage of days of ere Al-Ghazal taught that, “As for Maslahah, it is essentially an expression for the acquisition of benefit or the repulsion of injury or harm, but that is not what we mean by it, because acquisition of benefits and the repulsion of harm represent human goals, that is, the welfare of humans through the attainment of these goals. What we mean by Maslahah, however, is the preservation of the ends of Shari’ah” (Nyazee, 2000, p. 180). Maslahah is broadly categorized into the essentials (daruriyyat), the complementary (hajiyyat), and the embellishments (tahsiniyyat) (Dusuki, 2005). The essentials (daruriyyat) denote the pivotal interests upon which the lives of people primarily depend on as envisaged by the Maqasid al-Shari’ah i.e. faith (din), human self (nafs), intellect (‘aql), posterity (nasl) and wealth (mal) (Dusuki, 2005). Disregard for the daruriyyat leads to chaos and the destruction of the proper orderly functioning of the society. Activities that have the potential of causing possible harm daruriyyat
should be met with chastisement. For example, while dealing with the possible threat of harm on intellect ('aql), alcohol and drugs should be prohibited. Islamic economics forbids engaging with substances like intoxicants and those engaging in the peddling of narcotics should meet the full force of Islamic law. The pollution of the environment is a grave risk to the human self (nafs) and posterity (nasl). Islamic economic institutions in Saudi Arabia are obliged to conduct due diligence and resist from supporting and financing the activities of companies that degrade the environment by way of dumping toxic wastes. The complementary (hajiyyat) are those interests that supplement essential interests. The natural eventuality of failing to uphold hajiyyat is hardship (Dusuki, 2005). The Islamic law that governs all the activities in the Kingdom of Saudi Arabia has legalized a myriad of innovations of Islamic economic entities out of the pressing necessity of alleviating socio-economic deprivation from the populace. The embellishments (tahsiniyyat) are those interests whose attainment leads to refinement, perfection, and high levels of fulfillment in the conduct of people (Dusuki, 2005). Islamic economic entities in the Kingdom of Saudi Arabia are expected by the Shari‘ah to go beyond the making and facilitation of the collection of the mandatory Zakah obligation. Saudi Islamic entities have the social responsibility of engaging in philanthropic activities, as well as observing gentleness, pleasant speech and uphold fair dealings with all the people constituting their socio-economic ecosystem. Given the preceding facts, Islamic economics leads to the enhancement of a responsible Saudi society.

3.9 Business Ethics From Employees and Customers Perceptions

Embracing business ethics provides a holistic approach of helping Islamic banks to be just to their stakeholders. According to A. Green, and R.M. Green (1989), a banks responsibility for justice extends to the government, customers, shareholders, staff, and the community. The concept of justice is hinged on the premise of giving people their dues (Siddiqi, 1980). The employees and patrons of an Islamic bank have a legitimate stake in the affairs of the bank. Islamic banks owe a duty of care to all their
stakeholders who include bank employees and customers (Waemusor, 2010). The universal principle of action and reaction applies to the activities of Islamic banks. The Shari’ah provides that there are many merits of engaging in good deeds and asserts that bad, corrupt, and evil actions are displeasing to Allah and have detrimental effects on the doer of such deeds. Upholding business ethics is not a luxury but a necessity to any Islamic bank. From an Islamic perspective, business ethics are meant to further the Maq asid Al-Shariah (objectives of Shari’ah) that are centred on glorifying Allah by embracing Halal actions and giving a wide berth Haram activities (Waemusor, 2010). Every decision and action that an Islamic bank makes with regards to its employees and customers is a test of its resolve and commitment to upholding ethical behaviour (A. Green, and R.M. Green, 1989). The welfare of working employees and borrowing customers in good and bad times should be a major concern in an Islamic bank’s business proposition. Business ethics deal with the moral uprightness and acceptability of actions in the realm of commerce. Since business ethics vouch for morally acceptable actions, upholding business ethics is expected to have positive outcomes on the wellbeing of employees and customers.

Employees are regarded as the internal customers of a business (Waemusor, 2010). It is said that charity begins at home. Therefore, it is imperative for Islamic banks to uphold the acceptable levels of justice and fairness to their employees. Islamic banks are expected to deal justly with their employees as per the universal tenet of social justice laid out in the Shari’ah. The principle of justice entails giving people their dues. As such, other ethical of Islamic banks to their employees stems from the universal principle of social justice. Islamic banks are expected provide ample opportunities that facilitate the intellectual and career growth and development of their workers. Thus, Islamic banks are expected to provide adequate training opportunities to all the qualifying members of their staff (Montgomery, 2010). Islamic banks should make accommodations and encourage their members of staff to pursue further academic and professional training so as to bolster the value that they add to their respective Islamic bank employers as well as the society at large. Islamic banks moral
responsibility for facilitating the growth and development of their workers is rooted in the tazkiyah and rububiyyah axioms of the Islamic moral economy. Al Shari’ah forbids exploitation. As such, Islamic banks are expected to refrain from exploiting their employees. Islamic banks, being faith-based institutions, are at least expected to provide human working conditions for all their members of staff. Discrimination along any lines is prohibited to Islamic banks (Montgomery, 2010). Consequently, Islamic banks are expected to respect the rights of both the minority and the majority. Islamic banks should be at the forefront of those who champion for justice for the disenfranchised. Islamic banks should ensure that people from all backgrounds stand an equal chance of securing job and career progression opportunities in so far as they are qualified (Montgomery, 2010).

The observance of business ethics by Islamic banks has resulted in numerous benefits to employees. Employees in Islamic banks receive fair, competitive, and attractive remuneration packages in general (Montgomery, 2010). Cases of bank employees downing their tools on grounds of non-payment of salaries and wages are uncommon. Employees of Islamic banks enjoy a higher standard of living and quality of life due to the competitive salaries and wages that are offered to them by their employers. A high standard of living as a result of earning a decent wage on the part of many an employee improves the decency and dignity of the workers of Islamic banks. Many Islamic banks offer their employees access to training and development programs in observance of the tazkiyah and rububiyyah axioms of the Islamic moral economy. What is more, a sizeable number of Islamic banks actively encourage or sponsor their workers to pursue further education in order to improve their career growth prospects. The employees who benefit from further education as well as the training and development programs offered by Islamic banks scale up the upper echelons of the management and administration of Islamic banks and thus get within the reach of self-actualization (Waemusor, 2010). Another benefit that the Islamic banks commonly enjoy as a result of the observance of business ethics by their employers is increased productivity, efficiency, and effectiveness at the workplace.
These merits flow to employees due to a myriad of factors that include humane working conditions, just working policies, and the extension of training and development opportunities. The employees of Islamic banks are in a better position to provide for their families and also observe the payment of charity taxes such as zakah as a result of receiving decent salaries and wages (Nyazee, 2000). The workers of Islamic banks have access to equitable career growth opportunities due to the observance of non-exploitation and non-discrimination policies that Islamic banks commit to upholding in line with the ethical guidelines laid out in the Shari’ah (Nyazee, 2000). The non-exploitation and non-discrimination of workers inspires workers to strive for higher levels of attainment since their employers – the Islamic banks – are expected to maintain a life-time commitment to these ideals. The employees of Islamic are entitled to numerous rewards packages. Such rewards packages might include promotion, higher wages and salaries, and paid vacation – to mention but a few. The employees of Islamic banks have higher levels of tranquillity and satisfaction as Islamic banks are at all times expected to play spiritual and social roles alongside their primordial economic roles. Islamic banks commit to upholding the staff welfare. As such, workers get round-the-circle benefits as a result of Islamic banks commitment to upholding and bettering the welfare of the members of their staff (Waemusor, 2010). The inner satisfaction that the employees enjoy as a result of ethical actions of their employers enable the workers to be more productive members of the society who are virtuous and strive to meet their social and spiritual obligations.

Islamic banks are forbidden from exploiting their customers. As per the provisions of Islamic law, lenders are expected to be lenient to their debtors (Rethel, 2011). As such, Islamic banks are obliged to provide loans that are devoid of exploitative terms and conditions. Islamic banks are expected to lend money on a profit-sharing basis and not on interest basis. Interest is expressly forbidden in the Holy Quran. No Islamic bank is permitted to break this provision of the Holy Quran.
The customers of Islamic banks enjoy various merits as a result of Islamic bank’s commitment to upholding business ethics. The customers of Islamic banks enjoy loans that are devoid of exploitative interest (Nyazee, 2000). The customers of Islamic banks obtain credit on a profit-sharing basis that provides non-exploitative rates of return to the lenders. The customers of Islamic banks that are on the lower strata of the economy get to benefit from loans whose terms are such that only the principal amount is payable to the Islamic banks (Metawa and Almossawi, 1998). Such loans serve to ensure that those who are not economically endowed are not disenfranchised from the activities of Islamic banks as well as from active participation in the economy (Rethel, 2011). The customers of Islamic banks have more ataraxis as they know that in so far as they keep their end of the bargain, they are free from harassment of any form by their lenders. What is more, the customers of Islamic banks are safe in the knowledge that in case an event that is beyond their control happens and poses challenges to the payment of loan amount as per the pre-agreed schedule, the customers can approach their lenders for special consideration and have the schedule adjusted or have some top-up amount lent to them in order to help them get out of the current predicament (Metawa and Almossawi, 1998). The customers of Islamic banks benefit from the transparency of the lending activities of Islamic banks. All Islamic banks are expected to observe fundamental ethical activities that vouch for the disclosure of the terms, repayment plan, and charges associated with loans. As such, customers are safe in the knowledge that Islamic banks cannot start asking them to make payments for hidden charges (Metawa and Almossawi, 1998). The imposition of hidden charges amounts to exploitation and customer exploitation is forbidden by Shari‘ah. Islamic banks are supposed to help customers to meet their zakah obligations (Waemusor, 2010). Customers of Islamic banks get stress-free reliable services that help them to meet their zakah and other spiritual obligations (Opoku, 2013). Islamic banks facilitate customers to get specialized loan products that help customers to observe various spiritual obligations such as the visit to Mecca “Makkah” (Nyazee, 2000). Islamic banks extend loans that
facilitate the pilgrimage to Mecca as well as the observance of other spiritual obligations on terms that are friendly and supportive to the spiritual growth of their customers (Montgomery, 2010).

Islamic banks are expected to maintain fair dealings with all people at all times by the virtue of being faith-based institutions (Gilani, 2014). The perceptions of customers and employees about Islamic banks reflect the extent to which customers and employees feel that Islamic banks truly empower them. If customers and employees feel that their needs are disenfranchised by Islamic banks, then they are likely to hold negative and weak perceptions about Islamic banks. On the other hand, if customers and employees are of the opinion that Islamic banks truly meet, or even exceed their expectations, then they are likely to hold positive and strong perceptions about Islamic banks (Shah et al. 2016). The perceptions of customers and employees serve as a mirror image of the performance of Islamic banks on numerous fronts – including ethical aspects. Any action, be it ethical or unethical, is usually carried out by the doer well-being aimed at the person or entity targeted to be affected by the action (Etzel et al., 2007). Therefore, it is important to take into consideration the perceptions of customers and employees since they are the targeted recipients of various actions of Islamic banks (Mohammad et al., 2015). Evaluating the perceptions of customers and employees of Islamic banks not only reflects information about the ethical performance of Islamic banks but also on other issues that matter in the conduct of business activities such as service quality. If an Islamic bank fails to meet customers’ expectations with regards to business ethics, then there is likely to be a discrepancy between customers’ expectations and customers’ perceptions (Akanda and Dzeko, 2016). In the same breath, if an Islamic bank fails to meet the expectations that employees have on the employer, then its employees are more likely to hold poor and unfavourable perceptions about their employer. In evaluating the perceptions of customers and employees with regards to Islamic banks, it is important to consider whether the individuals participating in the research have first-hand lived experience with the activities of Islamic banks (Maina, 2011). It is important to discard
perceptions that are based on hearsay and not shaped by real-life experience as such perceptions are likely to be biased and distort the integrity and outcomes of research. Etzel et al. (2007) argue that the 4 elements of the marketing mix, namely product, place, distribution, and promotion are likely to influence customers’ perception of a business and therefore their selection. Maina (2011) offers that it is important to separate the influence of marketing activities in shaping up the perception of customers in order to truly base the evaluation of a banking institution on real-life interactions as numerous marketing activities purpose to put an organization in the best light possible. Pursuant to the fundamental tenet of *Maslahah*, both individuals and organizations are expected to have the best interest of other people, institutions, and society at heart. Therefore, when customers and employees give honest judgments that inform their perceptions about Islamic banks, they are acting in a charitable manner since their expressed perceptions give feedback about possible ways of improving Islamic banking institutions (Riaz et al., 2017). The use of customers and employees perceptions to assess the ethical performance of Islamic banking institutions addresses the inherent limitations associated with the use of management’s own perceptions and evaluations about the ethical performance of Islamic banks. Therefore, It can be stated that the use of the perceptions of customers and employees to evaluate the ethical performance of Islamic banks would increase the awareness among Islamic banks of their ethical activates in the view of stakeholders.

### 3.10 Systematic Literature Review Discussion

The primary inquiry about the condition of the current academic research regarding Islamic banking as well as an assortment of themes among the subject of Islamic banking basics came up. It is perceptible that a great deal of research has as of now been completed and the theoretical structure is erroneously taken for granted, in spite of the fact that there are as yet numerous irregularities and logical inconsistencies inside the literature. For example, the interpretation of the Quran regarding the
prohibition of interest fluctuates broadly (Ghannadian and Goswami, 2004). This research concedes that considering the prospect of profit and loss sharing, a general preclusion of interest would be needed. However, in the feeling of the authors, different interpretations are still being pursued in light of the quest for profit maximisation of Islamic banking institutions. Not all analysts are of an equivalent assessment while analyzing the beforehand pertinent regulations; exchanges are predominantly focused on the interpretation side of certain prohibitions and also the usage of the existing standards (Hamza, 2013).

Authors are at present concentrating their examination on direction issues. The fundamental subjects investigated are consistence with Shari’ah provisions and in their assessment (Jawadi et al., 2014). The opinion of this research is that the usage of uniform principles specifically agreeing to the Shari’ah and also the generation of the authority, which is in charge of checking consistence with these principles, must be given sufficient focus in future research. In addition, Basel III criteria ought to be incorporated to a specific degree, including for Islamic banking institutions (Lahrech et al., 2014).

Another crucial consideration put on current research is the explanations behind the tremendous development rates over recent years. The effect of the worldwide financial crisis and the resulting changing client conduct and behaviour is researched (Wajdi Dusuki and Irwani Abdullah, 2007). In addition, religious issues, as well as moral and ethical preferences, are considered. Decision-making criteria today as well incorporate reasons such as wellbeing, quality of service, item costs, and brand awareness (Wajdi Dusuki and Irwani Abdullah, 2007). Keeping this in mind, the ultimate goal is to stay focused and increment of share in the overall industry in the future, the authors consider these components as progressively imperative to fulfil the needs of the customers. This research likewise observes the genuineness of Islamic banking institutions as an essential factor for customer loyalty (Masood et al., 2012). The coexistence of both Islamic banks and their conventional partners prompts
higher rivalry and competition, and thus in this way various banks will battle for higher share of the overall industry in the future (Hassan et al., 2008).

Modern researchers are really concentrating on discovering the similarities that the two contending models have and to what degree Islamic banks are more crisis-proof relative to their conventional banking partners (Beck et al., 2013). Besides, researchers are considering whether a dual banking framework would prompt a perfect market situation (Gheeraert, 2014). In this specific circumstance, the development of Islamic banking in Saudi Arabia is to be specified that is not yet best in terms of desired advancements. A few nations, for example, the United Kingdom go about as founders, which is enhanced through their legislative amendments that enhance the Islamic Banking in Europe (Mansour et al., 2010). This research argues that it is largely important to embrace and perceive these founders as a model to uphold legal changes in different nations and in this way make Islamic banking prosper not only in Europe but also other parts of the world. Moreover, the focus needs to be able to determine to level of reducing the scepticism against Islamic banking in the western world through particularly telling individuals about Islamic banking.

Religion is largely considered to be consistent with morals. The attitude towards religion among individuals is perceived in a manner that characterizes what somebody sees as right or wrong. The religion in this manner impacts the ethical and moral standards of a person, which in turn define the moral conduct to a specific extent (Hossan Chowdhury, 2011). In this paragraph, the research talks about some major paradoxes, synergetic discoveries, and the pertinence of all of it just for ethical findings. As an option, ethical banks that focus on the accumulation of investment funds and the arrangement of credits, were at that point existing since in the 1980s (Paulet et al., 2014). Since the start of the worldwide financial crisis, investors have been paying even higher consideration regarding morals and ethics inside the financial sector. Notwithstanding organising their core business, ethical banks rather
than Islamic banks seriously centre on the plan of action of their accomplices. For instance, a project task might be financed if the fundamental target was regarded tenable as to environmental and social concerns, that is, appears to be ethically right (Paulet, 2011). The research is of the opinion that Islamic banking is still far from an all-encompassing implementation of ethical and moral guidelines. Environmental concerns are really not engaged in the financing and investment and financing options. Therefore, this research implies that, apart from the strict determination of the basic underlying asset where there should is an occurrence of financing and investing, no consideration is paid to the business region of the underlying target. Therefore, regardless of whether or not the objective proves to be ecologically sustainable, it is not effectively controlled (Abdul Gafoor, 2003).

In any case, by constraining social issues, for example, donation or offering the benevolent loans, Islamic banks demonstrate that moral and ethical objectives are highly prioritized because they largely originate from the Quran (Haniffa and Hudaib, 2007). Even on the side of typical investors Islamic banking is getting to be more appealing due to ongoing financial downturns. These days' investors not only make monetary choices to maximise their profits or have minimum risk, they also think about moral and ethical issues (San-Jos et al., 2011). This reality expands the benefit potential of Islamic banks. This research questions the genuine motivation behind Islamic banking with respect to moral and ethical topics. Are Islamic banks extremely focused on moral and ethical principles not just in light of their fundamental standards yet additionally due to the significance of these points today, or then again is this a procedure to maximise profit and draw in the consideration of potential clients?

As indicated in this research, within the banking sector, ethical and religious themes are moving towards the realization of maximum profits and client satisfaction. An impact is, for instance, conceivable by an inexorably higher control of the sector by regulatory bodies. Controllers like Basel III lessen chance and are ready to impact the ethical actions of the sector in general (Paulet, 2011). In the opinion of this research,
a general re-examination in the business can only occur on the off chance that clients
give careful consideration to moral and social issues while picking their bank. As
consumer loyalty also contributes to profit maximisation, banks will therefore shift
their priorities automatically (Paulet, 2011). Future research as identified in this
research needs to prioritize such topics as listed below:

i) Westernisation of Islamic banking
ii) Conformity with the provisions of the Shari’ah
iii) Holistic implementation of moral and ethical guidelines
iv) Improvement and implementation of the regulatory framework provided by
   the authorities
v) Profit and loss sharing usage on both investment and financing sides

3.11 Conclusion

Considering the inconsistencies and gaps identified in the literature review, it is clear
that there is a need for heightened activity especially on the side of regulatory
authorities. The rapid growth of banking industry, as well as lack of a standard
Shari’ah board, has perpetrated to the distinct interpretations of the underlying
Shari’ah guidelines. The implication is that compliance with the guidelines of the
Shari’ah principles cannot be guaranteed, and thus many customers have lost faith in
the Islamic banking institutions. Revision of the existing regulations should be such
that it is possible to establish standard rules regarding prohibiting interest and the use
of profit and loss sharing instruments (Mohamad, 2014). Structural considerations on
the existing issue on matching maturities in Islamic banking need to be consistent
with the development of the standard rules. Researchers are therefore posed with a
challenge to create new financial instruments that enhance the matching of maturities
and cater to the satisfaction of customers’ needs while complying with the Shari’ah
guidelines.

On the side of Shari’ah principles, Islamic banking together with the underlying ethical
and social goals is capable of serving as an alternative to ethical behaviour in the banking sector. Therefore, this research considers it essential to develop a strict set of principles that prohibit circumvention of the principles of Shari’ah. An independent board needs to be mandated with the responsibility of imposing sanctions and monitoring rules to avoid violations. In addition to the existing moral and ethical principles present within the Islamic banking sector, there needs more encouragement for compliance in this area. During the selection of business partners as investment and financing targets, transactions that do not comply to the Shari’ah guidelines need to be rejected, for instance, when environmental implications are not considered (Mohamad, 2014). Therefore, Islamic banks and the financial sector in general, with great consideration of their ethical and religious ideals, need to strive for more sustainable development in the banking and finance sector (Richardson, 2008).
Chapter Four

Research Methodology
Chapter Four

Research Methodology

4.1 Introduction

Given that this research aims to assess the ethical performance of Islamic banks in Saudi Arabia and examine the ethical performance of Islamic banks from employees and customer perspectives in Saudi Arabia, and in order to be able to answer the research questions, qualitative and quantitative type of data are required be collected and analysed. Therefore, this research will take pragmatism as a research philosophical stance. According to Saunders et al., (2009), the pragmatist researcher may question the appropriateness of the applied research philosophy based on the developed research questions. Therefore, this research will apply mixed-method approach, where qualitative and quantitative tools are used (Ghauri and Gronhaug, 2010: 196). The qualitative methods are usually used when the researcher focuses on the quality of the data and examines the relationship between participants and the social phenomenon that could suggest the exploratory nature of research (Denzin and Lincoln, 2005: 10). While on the other hand, the quantitative approach focuses on the association between variables and does not pay attention to the process, which leads to a method with an explanatory nature where the research tests the developed hypothesis by assessing the quantitative data (Bryman, 2012).

For the fulfilment of research aims, the following hypotheses are developed and tested:

H1: Due to the Islamic financial principles that Islamic banks operate based on, a high level of ethical performance is expected to be achieved in their banking activities from costumers perspectives.

H2: Due to the Islamic financial principles that Islamic banks operate based on, a high level of ethical performance is expected to be achieved in their banking activities
from employees perspectives.

In order to investigate the attitudes of Islamic banks towards the business ethics from employees and customer perspectives, the questionnaires will be utilised to obtain the banks’ employees perspective (Abdul Gafoor, 2003) as well as will be distributed among the customers. Applying such a method will provide the investigator with a sufficient degree of flexibility to obtain insight into the social events and sustain the consistency on the other hand (Robson, 1993). In order to obtain the insights of the collected data, thematic analysis will be used in this study that is considered the most suitable approach in analysing this type of qualitative data (Glaser and Strauss 1967). The statistical tools (mean, standard deviation), the Mann-Whitney U-test, or T-test will be used to analyse the data in a comparative manner. The data will be collected from the distributed questionnaires for Islamic banks’ employees and customers in Kingdom of Saudi Arabia, namely: Al-Rajhi Bank, National Commercial Bank (NCB) “Al Ahli bank”, Al-Bilad Bank and Alinma Bank.

4.2 Research Philosophy

It is of imperative importance to understand the philosophical issues that are related to research. Philosophy-Centric research demonstrates an intricate understanding of the research topic. Knowledge of philosophy can help a researcher in choosing the apposite research design and identify as well as avoid the pitfalls associated with a certain methodology (Easterby-Smith, 2002). What is more, the knowledge and application of philosophy can help researchers to create innovative research designs that can be very handy in unique works of research.

According to Saunders et al. (2009), the phrase research philosophy refers to the development of research background, research knowledge, and its nature. Multitudinous aspects of research methodology are related to philosophical assumptions, ontology, human nature, and epistemology (Burrell and Morgan, 1979). The research philosophy utilized by a work of research is based on the researcher’s
judgment about various philosophical assumptions as well as the researcher’s perspectives about reality. Research philosophy implies the researcher’s assumptions that provide a window through which the work of research sees and deciphers the world (Saunders et al., 2012).

Islamic banking is a field that has developed to become a highly substantial segment in the global financial market. In this regard, it has been considered as a competitive and viable form of financial intermediation in both Muslim and non-Muslim countries and offers a wide array of products and services in the financial sector (Abdul Gafoor, 2003). The Islamic banking that began on a modest scale since it was incepted in mid-1970s has portrayed a rapid evolution and expansion over the last 30 years. As a matter of fact, Islamic banking is one of the fastest-growing industries, and as a result has posted double-digit growth rates per year for almost three decades now (Iqbal and Molyneux, 2005). With regard to the information provided by the Council for Islamic Banks and Financial Institutions (CIBAFI), over 284 financial institutions offering Islamic banking products and services have been established, operating in 38 countries and managing over USD 250 billion across the world. This information excludes conventional banks that have been offering Islamic financial products and services via their window operations. These conventional banks, according to the Council for Islamic Banks and Financial Institutions (CIBAFI), are estimated to manager over $200 billion. In addition, this information does not consider non-banking Islamic financial services and capital market activities (CIBAFI, 2005).

The fundamental distinctions between conventional banking and Islamic banking are not only entangled in the manner in which their businesses are conducted, but also in the set values that guide the individual banking system. The outlook, operations, values, and practices of Islamic banking are distinct from those in the conventional banking sector (Paulet, 2011). The values that are enshrined within the principles of Shari‘ah (Islamic law) are not only expressed in the breadth of its role in the society, but also in the minutiae of its transactions. For this to be effectively actualized, it
requires thorough internalization of the principles of Islamic banking transactions in its substance, spirit, and form. As a consequence, it will epitomise the goals and objectives of Shari’ah with regard to the promotion of both social and economic welfare. Put differently, Islamic banks, as firms based of Shari’ah principles, need to accomplish the social responsibilities and obligations that extend beyond the general perception of conventional capitalist that solely aim at the objective of profit maximisation (Paulet, 2011).

However, there are sufficient reasons and evidence that indicate the increased demand for Islamic banking products and services to account for social goals and objectives may actually be a mere mirage. This can be explained by the fact that there is too much literature on Islamic banking that has entirely focused on the economic and commercial attributes of Islamic banking while giving little or no priority on the social issues regarding the practices of Islamic banking (Božović, 2007). In particular, this is undeniably true, owing to the fact that some literature has even gone further to argue that Islamic banks are indifferent from other commercial banks such as conventional banks, only that the Islamic banks comply with the legal prescriptions of the Shari’ah with regard to their product and service offering (El-Gamal, 2006). This proposition implies that an Islamic bank should be regarded as a normal commercial entity that has a core obligation of undertaking its business activities in a way that is consistent with legal provisions of the Islamic law, while the objectives regarding social welfare are to be accomplished by other agencies such as the government (Lewis and Algaud, 2001).

An effective understanding of Islamic banking in its entirety needs maximum comprehension of its underlying philosophy and objectives. As a business entity that subscribes to Shari’ah principles, an Islamic bank is vigorously expected to follow the guidelines outlined in the philosophy of Islamic business (Abdul Gafoor, 2003). There are two reasons for a great need for creating the appropriate philosophies for Islamic banking institutions (Haron, 1995). Firstly, these philosophies are integral as they are
used by policymakers or the Islamic bank management to successfully formulate corporate policies and objectives that positively impact the institutions. Secondly, the philosophies are used as indicators as to whether the Islamic banking institutions adhere and uphold true Islamic principles spelt out in the Islamic law (Haron, 1995).

In essence, the Islamic banking philosophy can be well understood on the basis of the general goals and objectives of the Islamic economic system. Most of the prominent Islamic scholars and economists such as Ahmad (2000), Suddiqui (2001), and Naqvi (2003) argue that Islamic banking is a part and parcel of the overall Islamic economic system, which has an ultimate objective of building a balanced, fair, and just society as enshrined and deeply inscribed within the objectives of Islamic law, the *Shari’ah*. As a result, the many prohibitions by *Shari’ah* such as excessive risks, gambling, and interest, are meant to establish a level playing field through protecting the benefits and interests of all the involved parties in market transactions, which ultimately promotes social harmony (Siddiqui, 2000). In addition, since the system is based on the foundations of the moral and ethical framework of the Islamic law of *Shari’ah*, the Islamic banking system is also associated with compliance with the social commitments and ethical norms (Mirakhor, 2000). Thus, Islamic banking should be regarded to be more than a mere refraining from charging interest as well as complying with the legal requirements and technicalities on providing Islamic financial products, services, and solutions. Islamic banking needs to be perceived as a system that has an objective of contributing to the fulfilment of the economic and social objectives, as well as establishment of a just society (Haron and Hisham, 2003). In the process of business operations, Islamic banks endeavour to yield a long-lasting balance between spending and earning as a way of achieving betterment for the whole society (Al-Omar and Abdel-Haq, 1996).

The primary duty of Islamic banks towards positive contribution to the society whereby they operate is clearly provided in a clear expression outlined in the public statement by the International Association of Islamic Banks (IAIB). According to the
IAIB statement, 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 (Carrasco, 2006). In exercising all its banking or development activities, the Islamic bank takes into prime consideration the social implications that may be brought about a decision or action taken by the bank (Al-Omar and Abdel-Haq, 1996: 27). Profitability—despite its importance and priority—is not therefore the 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 (Al-Omar and Abdel-Haq, 1996: 27).

The IAIB’s proposition represents the centre of supporters of Islamic banking need to see from Islamic banking institutions in terms of realizing social obligations. Clearly, Islamic banks that usually operate within the Shari’ah-based philosophy and principles need to significantly differentiate themselves from conventional banks that deeply rooted in the philosophy of capitalistic profit maximisation (Ahmed, 1995). In the case of Islamic banks, the significantly intense commitment of Islam to justice and brotherhood justifies the principle objective of Islam of realizing the wellbeing of all human beings (Carrasco, 2006). This human wellbeing and welfare involves both spiritual and physical satisfaction of the human personality and encompasses the happiness in the present world and beyond. For this reason, maximisation of outputs is not regarded as a sufficient objective of a Muslim society, and instead has to be associated with the efforts geared towards ensuring the spiritual health at the centre of human consciousness, and fair play and justice at various levels of human interaction (Al-Omar and Abdel-Haq, 1996). Therefore, whereas ordinary and conventional business institutions are usually bound the aspect of profit as their priority epitome and objective, Islamic banks are bound to incorporate both social
obligation and profit into their primary goals (Ahmad, 2000). The endeavours that are consistent with social responsibility and profit-making are automatically pronounced to conform to the principles of Shari’ah (Ahmed, 1995).

However, there is a wide ill conception among many people that Islamic banks are welfare or charitable organisations that provide monetary assistance or are concerned for the unprivileged individuals in the society (Rosly and Bakar, 2003). On the same point, it is absurd for the management of Islamic banking institutions to focus on the objective of establishing policies that maximise profit only, while ignoring other essential obligations, as prescribed by the Shari’ah principles (Haron, 1995). Instead, Islamic banks are mandated to achieve a balance between social objectives and profit realization. It is largely considered unjust and unfair for Islamic banks when they are unable to provide sufficient returns to shareholders and depositors who have entrusted the institutions with their money and other forms of investments (Ahmed, 1995). At the same time, Islamic banking institutions are not mandated to earn excessive profits at the expense of their customers or neglecting or undermining their social commitments and responsibilities to their individual stakeholders (Ahmad, 2000).

In order to investigate any event in social sciences, researchers need to examine certain assumptions. The assumptions are developed through the experience that a researcher accumulated either through his/her own life-based or based on the existing literature related to field of the study under investigation. Through the developed research assumptions, researchers underpin their research philosophy that they apply to answer their research questions (Saunders et al., 2009). Given that this research aims to assess the ethical performance of Islamic banks in Saudi Arabia and examine the ethical performance of Islamic banks from employees and customer perspectives in Saudi Arabia, and in order to be able to answer the research questions, qualitative and quantitative type of data are required be collected and analysed. Therefore, this research will take pragmatism as a research philosophical
stance. According to Saunders et al., (2009), the pragmatist researcher may question the appropriateness of the applied research philosophy based on the developed research questions. In social sciences, the pragmatism is applied to meet the research aims as such research philosophy facilitate a wider room for the researchers to carry out their investigation without limiting themselves to certain limited type of approaches. Having said that this research will conduct the investigation using qualitative as well as quantitative, following positivism or interpretivism will hinder the researcher from adopting the appropriate research approaches that will, as a result, challenge the accuracy of the research outcomes (Bryman, 2012). Therefore, given that nature of the Islamic financial system, Islamic financial products and operations, and given the complex nature of the examined topic where ethical activities are aimed to be examined from management as well as the customer as argued earlier, this study identified the pragmatism to be the most suitable to follow to answer the research questions that will lead to fulfillment of the research aims and objectives.

4.3 Research Approach

There are three major types of research types. These are qualitative, quantitative, and triangulation/mixed methods. Each research method employs tools and techniques that are unique to it and that makes it a suitable research method of choice under certain circumstances. According to Van Maanen, (1979), qualitative research methodology can be described as “an umbrella term covering an array of interpretative techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not frequency, of certain more or less naturally occurring phenomena in the social world” (p. 520). Qualitative research method places a premium on the opinions, perceptions, and behaviour of the participants. The qualitative research method is appropriate for use case studies since these scenarios deal with smaller numbers. Triangulation is a hybrid research design that represents a combination of both qualitative and quantitative research methods.
According to Zait and Zait, (2009), quantitative research method is an “an objective approach of the reality, with precise techniques and instruments, through appeal to general logical judgments in order to obtain explanations or testable predictions”. In contrast to qualitative research method that uses soft and primary data, quantitative research method uses fixed data to explore a specific relationship between the independent and dependent variables.

As it was mentioned before in the triangulation/mixed method explanation, qualitative and quantitative research methods are not mutually exclusive. Both methods can be employed to the same work of research in order to enrich the depth of the study. This research utilizes the triangulation research method. The mixed-method research approach will help the researcher to collect fastidious and comprehensive data that will give multiple perspectives about various aspects that are necessary for consideration so as to confirm or reject the hypothesis.

4.4 Research Design

In general, the design of a research study refers to the structure that aims at planning and executing a given research. Research design is the art and science of planning procedures for conducting studies so as to get the most valid findings (Vogt, 1993). The research design represents a crucial part of the research since it involves all the four essential considerations of a given research (Hassan and Musa, 2003). These considerations include the strategy, the conceptual framework, the identification of whom and what the study focuses on, as well as the procedures and tools, which are required to be applied during the collection and analysis of the research data (Carrasco, 2006). The design of a research is basically divided into various types such as qualitative research and quantitative research. In this research study, the researcher uses qualitative research method. Basically, qualitative research method was created in the field of social sciences so that it can enable researchers to study cultural and social phenomena, which includes observation of behaviours, thoughts, feelings, as well as the belief of the masses or society (Haron and Hisham, 2003).
social sciences, qualitative research methods including grounded theory, case study research, as well as action research. Common sources of qualitative data are observation, questionnaires, fieldwork (participation observation), the reactions and impressions of the researcher, as well as documents and texts (Hassan and Musa, 2003).

This research adopted the use of questionnaires method to collect the required data. The idea was to gain the ethical perceptions as well as the acceptance of individuals from the Kingdom of Saudi Arabia towards the ethical performance of Islamic banks through their services and products offered by the Islamic banks in Saudi Arabia.

In addition, in order to explore whether the customers in the Kingdom of Saudi Arabia accept the readily available Islamic banking products and services in the Kingdom, this research study considered some of the factors that perpetrate customers to choose a specific banking product or service. From the feedback given on the questionnaires by the respondents, it will be easier and possible to establish the clear findings regarding the perceptions of customers and the general public on the ethical activities of Islamic banks, as well as the various factors that may encourage them to choose Islamic banking as opposed to conventional banking system. Since this research is highly concerned with human interaction and perspectives, it is therefore of great importance to encourage use of mixed research method. The finding for the research will be perceivably more accurate since the responses provided represent more honest and true opinions as the individuals make their responses without any interference or disturbance of any kind. The fact that the autonomy and confidentiality of the responses is prioritized, it makes the responses more reliable and accurate, and thus they are regarded as representative of the general perceptions of the entire population.

Given that this research study seeks to investigate Islamic banking philosophy and objectives from an ethical point of view. To conduct the questionnaires, this study utilizes various stakeholders’ perceptions regarding the subject matter of the
research, including bank’s customers as well as *employees* with the examined banks (Beekun, 2001).

In this research study, an initial set of items was developed as a way of gauging the evaluations of various stakeholders on the commercial and social objectives. In accordance with the recommendations provided by Huck and Cormier (1996), a pilot test will be utilized to gain an effective assessment of the quality, content validity, and face validity of the items used in structuring the questionnaire. As a result, these items will be given to five scholars, who have adverse experience and expertise in the field of Islamic banking, finance, and economics. These scholars will be required to pinpoint any ambiguous item(s). The scholars are also expected to rate individual items on the basis of their consistent and representativeness. In terms of the feedback provided by the scholar, various modifications, if any, will be developed especially on the wordings and some less significant items were either rephrased or deleted (Božovi´c, 2007). At the end, the resulting items will be distributed to the respondents of the four banks under study, including banks’ managers and *employees* (questionnaire). Based on the provided arguments, this research exploratory where the research attempts to identify the clarity of the research problems and the features that allows him/her in responding the research questions in a proper academic approach (Saunders et al., 2009).

The research question influences the nature of the research design employed by a researcher. Research studies can be categorized according to the purposes they are conducted. The three major types of research design descriptive research, explanatory research, and exploratory research.

- *Exploratory Research*

Exploratory research is largely used in cases where the research problem cannot be clearly identified or where there are limitations on the availability of material that is necessary to address a certain research question (Ghauri and Grønhaug, 2010). The
major pronounced aspects of exploratory research are flexibility and adaptability. Exploratory research places a premium on acquiring insights that can be useful in future investigations (Ghauri and Grønhaug, 2010).

- **Descriptive Research**

Descriptive research is suitable for studies where the research question and problems are clear before the commencement of work on the ground (Ghauri and Grønhaug, 2010). The major purpose of descriptive research is to create an accurate portrayal of persons, events, and situations (Ghauri and Grønhaug, 2010). The most pronounced features of descriptive research are clarity of structure and precision of rules and procedures (Pallant, 2010).

- **Explanatory Research**

It is said that the question is the answer. This is so true when it comes to explanatory research. Explanatory research purposes to explicate the causal relationship that exists between the variables. It strives to answer the question, “Why?” Explanatory research aims to study a given scenario and find out the real reasons behind a certain occurrence (Ghauri and Grønhaug, 2005). By explaining the phenomena studied, explanatory research goes beyond descriptive research which by contrast describes certain phenomena.

- **Case Study Research**

Case study research refers to an empirical enquiry about a contemporary phenomenon i.e. a case, that is set within its real-world context – especially when the boundaries between phenomenon and context are not clearly evident (Ghauri and Grønhaug, 2010). In case study research, the point of focus is a process or a population of cases and not on an individual case. According to Denzin and Lincoln (2005), a researcher conducting case study research is expected to consistently provide sufficient information on “the nature of the case, its historical background,
and its relation to its contexts and other cases, as well providing information to the informants who have provided information” (p. 380).

4.5 Research Strategy

Research in social sciences attempts to answer the research questions through making an appropriate choice of research approach including research philosophy and theories, through a process which is identified as the research strategy (Kelly, 1995). In social sciences, the researchers are in position to undertake their investigation through either deductive or inductive strategy. This research will apply the deductive strategy, as it will build its assumption based on the existing theories and literature related to business ethics and its implication to Islamic banks. Furthermore, it will utilize the theories related to perceptions of the banks' customers and public opinions as well as the insights from the banks' employees. Based on this, the researcher will start with conceptual understanding of the subject under investigation that required to be examined through the sampled data to answer the research questions. Having said that this research aims to explore the ethical performance of Islamic banks based on understanding of Islamic moral values and Islamic financial principles through examining customer as well as employee’s perceptions, the researcher will be able to respond to the research questions. Accordingly, it can be concluded that the deductive strategy is more suitable to conduct this research that the inductive one, which is basically applied when the research attempts to develop theories (Denzin and Lincoln, 2005). In other words, having an understanding that this research does not aim to develop theory through empirical data, this research does not fit with inductive strategy.

4.6 Research Methods

Research method refers to the systemic approach used to collect and analyse data so as to make a meaningful conclusion out of the findings. Worthy of note is the difference between data and information. Data are the raw facts that are collected
from the field. When data is processed and analysed, it becomes information. Meaningful conclusions are usually drawn from information and not data. This section of this body of research explicates the data collection and data analysis methods that this research makes use of.

Given the above foregoing, this study is designed as an exploratory research that chiefly purposes to explore the extent of the application of business ethics by Saudi Arabian Islamic banks. This research is also an explanatory case study given that one of its purposes is to measure the impact of business ethics on the activities of Islamic banks operating in Saudi Arabia. This study is also framed as a case study since it covers a battery of Islamic banks operating in the Kingdom of Saudi Arabia. Thus, this research is a mixed-method research where each research design tackles a specific dimension of the study.

The resulting research design instrument involved items of commercial and social objectives. The identified respondents will rate based a Five-point Likert scale which had a list of dimensions of the ethical performance that are listed below:

i) Dimensions One: Mission and Vision Statement - Customers
ii) Dimensions Two: Products and Services - Customers & Employees
iii) Dimensions Three: Zakah, Charity and Benevolent Funds - customers & employees
iv) Dimensions four: Commitment Towards - Employees
v) Dimensions Five: Commitment Towards Debtors - Employees
vi) Dimensions Six: Commitment Towards Community - Customers & Employees

4.6.1 Defining Dimensions and Sub-dimensions of Ethical Performance

This research utilizes the dimensions and sub-dimensions of ethical behaviour put forth by Platonova (2019). The dimensions are highlighted in the table that appears below:

Table 4.1 Dimensions And Sub-dimensions of Ethical Performance
<table>
<thead>
<tr>
<th>No</th>
<th>Dimensions 01: Mission and Vision Statement - customers</th>
<th>No</th>
<th>Dimension 04: Commitment Towards Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Commitments in operating within Shari’ah principles/ideals</td>
<td>1</td>
<td>Employees appreciation</td>
</tr>
<tr>
<td>2</td>
<td>Commitments in providing returns within Shari’ah principles</td>
<td>2</td>
<td>Number of employees</td>
</tr>
<tr>
<td>3</td>
<td>Focus on maximising shareholders returns profits</td>
<td>3</td>
<td>Equal opportunities policy</td>
</tr>
<tr>
<td>4</td>
<td>Current directions in serving the needs of the Muslim community</td>
<td>4</td>
<td>Competitive salary</td>
</tr>
<tr>
<td>5</td>
<td>Commitments to fulfill contractual relationships with various stakeholders via contract (uqud) statements.</td>
<td>5</td>
<td>Employee welfare</td>
</tr>
<tr>
<td>6</td>
<td>Future directions in serving the needs of the Muslim community.</td>
<td>6</td>
<td>Training: Shari’ah awareness</td>
</tr>
<tr>
<td>7</td>
<td>Commitments to engage only in permissible financing activities</td>
<td>7</td>
<td>Training: monetary</td>
</tr>
<tr>
<td>8</td>
<td>Commitments to fulfill contracts via contract (uqud) statement</td>
<td>8</td>
<td>Reward for employees.</td>
</tr>
<tr>
<td>9</td>
<td>Appreciation to shareholders and customers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No</th>
<th>Dimensions 02: Products and Services - Customers &amp; Employees</th>
<th>No</th>
<th>Dimension 05: Commitment Towards Debtors - Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No involvement in non-permissible activities</td>
<td>1</td>
<td>Debt policy</td>
</tr>
<tr>
<td>2</td>
<td>Involvement in non-permissible activities- % of profit</td>
<td>2</td>
<td>Attitude towards debt products</td>
</tr>
<tr>
<td>3</td>
<td>Introduced new product</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Basis of Shari’ah concept in approving new product</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Glossary/definition of products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Investment activities–general</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Financing projects–general</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>Dimensions 03: Zakah, Charity and Benevolent Funds - customers &amp; employees</td>
<td>No</td>
<td>Dimensions 06: Commitment Towards Community - customers &amp; employees</td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------------------------------------------</td>
<td>----</td>
<td>-------------------------------------------------------------------</td>
</tr>
<tr>
<td>1</td>
<td>Bank liable for zakah</td>
<td>1</td>
<td>Creating job opportunities</td>
</tr>
<tr>
<td>2</td>
<td>Amount paid for zakah</td>
<td>2</td>
<td>Support for organisations that provide benefits to society</td>
</tr>
<tr>
<td>3</td>
<td>Sources of zakah</td>
<td>3</td>
<td>Participation in government social activities</td>
</tr>
<tr>
<td>4</td>
<td>Zakah to be paid by individuals-amount</td>
<td>4</td>
<td>Sponsored community activities</td>
</tr>
<tr>
<td>5</td>
<td>Sources of charity (sadaqa)</td>
<td>5</td>
<td>Conferences on Islamic economics and other educational areas</td>
</tr>
<tr>
<td>6</td>
<td>Sources of qard al-hassan</td>
<td>6</td>
<td>Commitment to social role</td>
</tr>
</tbody>
</table>

Source: Platonova, (2014)

Ethical performance consists of four primordial dimensions which are: responsibility to social and non-social stakeholders, employees, customers, and government (Turker, 2009). On account of the fact that this research purposes to evaluate the ethical performance on the employees and customers of Islamic banks, it is imperative to categorize and itemize the dimensions and sub-dimensions of ethical performance from a perspective of Islamic banking based on the extant body of literature on Islamic banking and business ethics. In developing a dimensional framework, it is particularly important to utilize the guidelines of the standard-setting body in Islamic finance known as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The Accounting and Auditing Organisation for Islamic Financial Institutions suggests multitudinous categories that should be taken into account while assessing commitment to business ethics by Islamic banks. These considerations include zakah and waqf management, employee welfare, client management, charitable activities, social development and environment-based
quotas. This work of research utilizes the dimensions and sub-dimensions for business ethics based on Islamic perspectives suggested by the study conducted by Haniffa and Hudaib (2007) that took into considerations the guidelines of the Shari’ah as well as the pronouncements of the Accounting and Auditing Organisation for Islamic Financial Institutions. Consequently, six dimensions are explicated in this research. The six major dimensions include mission and vision statement; products and services; zakah, charity, and benevolent funds; commitment towards employees; commitment towards debtors; and commitment towards community. The dimensions and sub-dimensions that form the content analysis of this study are illustrated in the table that appears above.

4.6.1.1 Mission and Vision Statement

Islamic banks are formed and operated under the guidelines that govern the wider realm of Islamic economics. The fundamentals of Islamic banking and finance that are bedrocked on the Shari’ah place a premium on the furtherance of an ethical banking and finance system. Consequently, Islamic banks are obliged to observe not just their economic roles but also their social duties. Thus, Islamic banks are obliged to maintain fair dealings with their shareholders and other stakeholders. Accordingly, Islamic banks are expected to apply the rules and regulations of the Shari’ah at all times. As such, Islamic banks are expected to disclose in their annual reports their:

- Commitment to operate within the ideals and principles of Shari’ah;
- Commitment to provide returns within the principles and ideals of Shari’ah;
- Commitment to engage in investment activities that comply with the principles of Shari’ah;
- Commitment to engage in financing activities that comply with the principles of Shari’ah;
- Commitment to fulfill contractual relationships with various stakeholders via contract (uqud) statements;
- Current directions in serving the needs of Muslim communities;
- Future directions in serving the needs of Muslim communities;
- Statements of appreciation to shareholders and customers;
- Focus on maximizing shareholders returns;
- Focus on maximizing stakeholders’ returns.

The aforementioned sub-dimensions relate to the vision that Islamic banks have with regards to their community facilities. The mission and vision dimension includes the plans that Islamic banks have with regards to funding the community facilities as well as the developments and strategies that Islamic banks commit to set in motion in the near future as well as over the long-term (Platonova, 2019). An example that falls within this dimension is plans to serve the unique needs of the Muslim fraternity by launching and expanding Islamic financial products for the extant and future branches (Platonova, 2019).

4.6.1.2 Products and Services

Usury (riba) is expressly prohibited in the Holy Quran. As a result, it is Haram for Islamic banking institutions to offer products that feature the element of interest. What is more, Islamic law – Al Shari’ah – prohibits all forms of exploitation and unjust enrichment. As such, Islamic banks are obliged by Islamic law to provide responsible products and services that do not injure the economic, social, and spiritual wellbeing of their stakeholders. Islamic banks have to offer innovative products and services that satisfy the multitudinous needs of their clientele without resulting to interest-based products. Islamic banks are expected to embrace profit-sharing and ownership models that are Islamic-compliant alternatives to the interest-based ones offered by conventional Western banking and financial institutions. Islamic banks are expected to uphold transparency and fairness in all their dealings (Platonova, 2019). The requirement to offer Halal products that Islamic banks are not expected to hide their dealings. Good dealings should shine forth and are not meant to be hidden. Only bad and prohibited activities are usually hidden and obscured from scrutiny. Since the profit-sharing model is the cornerstone of the trading activities of Islamic banks,
Islamic banks should be transparent and provide full disclosure to the appropriate stakeholders with regards to the nature, form, and workings of their investment activities.

4.6.1.3 Zakah, Charity, and Benevolent Funds

According to Dusuki (2011), Shari‘ah obliges Islamic banks to embed ethical norms and social commitments into their operations. Zakah is the obligatory transfer of alms by the rich to the poor. Disclosure of Zakah is an obligation to all Islamic banks. Zakah is imposed on the core capital of Islamic banks as well as on the reserves and profits made by Islamic banks.

Islamic banks need to be transparent and ensure that they disclose:

(i) bank liable for zakah;

(ii) amount paid for zakah;

(iii) sources of zakah;

(iv) uses/beneficiaries of zakah;

(v) balance of zakah not distributed-amount;

(vi) reasons for balance of zakah;

(vii) Shari‘ah supervisory board attestation that sources and uses of zakah according to Shari‘ah;

(viii) Shari‘ah supervisory board attestation that zakah has been computed according to Shari‘ah;

(ix) Zakah to be paid by individuals-amount;

(x) sources of charity (sadaqa);
(xi) uses of charity (sadaqa).

4.6.1.4 Commitment towards Employees

Islamic banks are expected to maintain just and fair dealings with their employees. Islamic banks are prohibited by Islamic law from oppressing their workers (Platonova, 2019). Islamic banks should provide the following to their employees.

(i) appreciation of employees;

(ii) number of employees;

(iii) equal opportunity policy;

(iv) competitive salary;

(v) employees welfare;

(vi) training: Shari‘ah awareness;

(vii) training: other

(viii) training: student/recruitment schemes;

(ix) training: monetary;

(x) reward for employees.

4.6.1.5 Commitment towards Debtors

Islamic banks are supposed to uphold ethical behaviour that manifests leniency towards their debtors (Dusuki, 2011). Islamic banks are expected to have clear debt policies that allow for the humane collection of debt; disclose the type of lending activities, and the amounts lent to debtors. Islamic banks are supposed to act ethically and ensure that they provide interest-free loans to their debtors.
4.6.1.6 Commitment towards Community

Islamic banks are expected to uphold commitment to addressing various challenges facing the immediate and wider societies in which they operate in (Platonova, 2019). Islamic banks should respect the rights of the minorities and the oppressed. They should abhor from joining the bandwagon of parties whose actions further the dejection and unjust treatment of people in the community. Islamic banks should have female branches; create job opportunities; be equal employment opportunity providers; support organisations that benefit the society; sponsor community activities; and hold educational conferences (Dusuki, 2011).

4.6.2 Data collection, procedures and research sample

4.6.2.1 Data Collection Methods

According to Bryman and Bell (2011), there are two primordial sources of research data viz. primary sources and secondary sources (Questionnaires, and direct observation). This research collects data from both primary and secondary sources. Questionnaires form the primary data sources of this research. Literature review of compliance reports by regulatory bodies as well as the statements issued by Islamic banks form the secondary sources of data for this study.

This research will collect the data through questionnaires. The rationale behind the selection of questionnaire as a method of collecting data was that this research aims to investigate the perceptions of the respondent groups regarding the subject matter (Siddiqui, 2001). This research critically focuses on gathering pieces of information from the respondent groups, which include customers of the Islamic banks in the Kingdom of Saudi Arabia. Through responding to the questionnaires, the respondents gave their views regarding their perceptions towards the various products and services offered by the Islamic banks, and the extent to which these products and services are consistent and compliant with the moral values of Islamic law (Beekun, 2001). In addition, this research applies the questionnaires approach as it facilitates
in-depth information and insights from the examined banks through direct sources including managers and employees.

There are multitudinous ways of administering questionnaires to participants. Some of these ways include postal, person-to-person, and telephone. Advances in technology are making it possible to administer questionnaires through web forms, email, and research portals. The primary channel of the administration of questionnaires used in this research is the use of Google web forms. Customers and employees of Islamic banks in Islamic banks were called upon to participate in this research by giving their assent to have questionnaires administered to them. After getting the willful consent, the customers and employees of banks to fill out the questions in the questionnaires to the best of their knowledge.

This research uses the data provided by different patrons and employees of Islamic banks in the Kingdom of Saudi Arabia. The respondents are selected on the basis of random selection method from among the different customers as well as banks’ employees. These stakeholders visited the various sampling locations during the chosen time intervals so as to eliminate errors that can be attributed to the sampling frame, as also ensured that there was representation of the population under the study within the selected sample units. In accordance with the procedures of data collection as outlined by similar studies such as (Parahoo, and Kader 1993), the questionnaires were all distributed on a random sample of customers as a way of avoiding or lowering any potential bias owing to the high concentration of bank customers (Metawa and Almossawi, 1998).

4.6.2.2 Research Procedure

About 140 customers and 70 employees will be approached and requested to participate in the research. The customers are selected based on one condition that they must have successfully completed a financial transaction with the bank they visited (Owusu, and Frimpong, 1999). As for the participating employees, they are
supposed to be workers in active service to their respective Islamic bank employers.

The participants will be approached in a very polite manner, and the purpose of undertaking study will be clearly and concisely explained to them and they will be asked to whether they are willing to respond through filling the questionnaire (Haron and Hisham, 2003).

The researcher will communicate to the customers and employees where they will locate the web resources that contain the Google Web Docs that contain the questionnaires. Google Web Docs will be used for this research because of the convenience and reliability of the platform when it comes to capturing and retrieving data. The questions written in the questionnaire are to be answered in English. The respondents are left to complete questionnaires to devoid any form of interference. And also to avoid any kind of bias that can be perpetrated by the feelings of the respondent in front of the researcher.

With regards to the questionnaires of employees, this research applies the semi-structured approach. The questionnaires will accordingly be notified of the nature of the research and research aims and objectives. Furthermore, the researcher will reassure the questionnaires of the anonymous nature of the data obtained from the participants (Hassan and Musa, 2003).

As proposed by Fielding and Gilbert (2000), the selected research sample needs to be a representative of the relevant population so as to obtain sound findings and conclusions after data analysis. In this research, the selected sample was identified clearly on the basis of knowledge and size of the respondents of the topic of the research. The amount of data collected was sufficient to obtain good quality secondary data (Miles and Huberman, 1994). The sample population was composed of individuals who had good knowledge of Islamic banking and finance. The questionnaires questions are formulated in such a manner that they ensured a good reliability and validity of the information from the collected data. For instance, the
questions are closely related to the products and services provided by the Islamic banks, and sought to address the issues related social and ethical responsibility among the Islamic banks (Miles and Huberman, 1994).

With regards to the questionnaires of employees, the relationships between the themes are established and mapped out so as to obtain an implicit conceptual framework. Data integration and display is used as an instrument for assembling and compressing the collected information so that the complexity of the collected data is considerably reduced. The aspect of drawing conclusions involves the verification of the scope of the collected data regarding the four banks in the Kingdom of Saudi Arabia.

4.6.2.3 Coding Process

The questionnaires were meticulously analysed by identifying the attributes referring to each dimension and sub-dimension of business ethics. Thus, this study adopts a dichotomous approach in the development of a scoring scheme that evaluates the extent of the presence of business ethics in the Islamic banks operating in the Kingdom of Saudi Arabia (Haniffa and Hudaib, 2007). The scores are populated from one to five. If a respondent strongly disagrees with a certain question that relates to a given sub-dimension, then the respondent gives a score of one. On the other hand, if a respondent strongly agrees with a certain question that relates to a given sub-dimension, then the respondent allocates a score of 5. In between one and five are scores that capture the neutrality or the extent of disagreement or agreement. Summed together, these scores give the total scores of the manifestation of business ethics of the Islamic banks operating in the Kingdom of Saudi Arabia.

The scores allocated through the dichotomous approach are unweighted and assume that each sub-dimension item is equally significant. The choice of the unweighted indices is apt for this study since they do not focus on a particular group of people but rather on all the patrons and employees of the Islamic banks operating in the
Kingdom of Saudi Arabia. According to Hossain and Hammami (1989), an unweighted index permits an analysis that is independent of the perception of a particular user group. Settling on unweighted indices helps the study to avoid the pitfalls associated with weighted indices. One of the major shortcomings of weighted indices is that they are subjective as the allocation of weights might vary from one researcher to another (Hossain and Hammami, 2009).

4.6.2.4 Questionnaires Administration

The questionnaire for the research study was originally developed in English language, but it was later translated into Arabic language through the use of backward translation method, which was accomplished through the assistance of a third party who had expertise and fluency in both languages as a way of avoiding bias and error that is usually perpetrated by the translation issues (Božovi´c, 2007). However, there were only little discrepancies that were observed between the original questionnaire and its back-translated version. Therefore, that discrepancy was easily resolved by the translator.

As a result of the exploratory nature of this research study, and due to the fact that it involved an in-depth theoretical analysis, a qualitative research method was utilized so as to explore the details of ethical implications on the Islamic banking sector (Easterby-Smith et al, 2002). The objective of this research was to undertake an exploration of the ethical options that Islamic banks are exposed to.

The questionnaires are developed based on sub-dimensions highlighted in the following questions for the costumers and employees:

1- Do you believe that Islamic Banks make the profit maximisation on the top of their goals?

Man is a vicegerent of Allah (Khan, 2010). Work was man’s original calling. As such, it is imperative for all people to fulfil the obligations of their honest work undertakings.
Islamic banks should strive to ensure that they maximize profits in the most honest and ethical ways in order to preserve their going concerns. Maximizing on the profits is very likely to provide a kind of insurance that the employees will still be in service for a long time to come – that is depending on the nature of their employment contracts. Unethical banks are likely to go under once legal proceedings are instituted against them by customers, workers, and regulatory bodies. Profit maximization and business ethics are not mutually exclusive. Profit maximization and business ethics are not strange bedfellows since the application of business ethics can ensure that an Islamic bank does not jeopardize the long-term sustainability of its profit maximization goal (Khan, 2010).

Islamic banks are supposed to fulfil their obligations to all stakeholders as per the fundamental principles of Shari’ah that govern their operations. The manager-leaders entrusted with the running of Islamic banks are expected to run the affairs of the Islamic banks in ways that provide a return to shareholders and owners of the business in the form of profit. The manager-leaders running the business are prohibited from engaging in activities that increase their earnings to the detriment of the welfare of shareholders and owners of the business (Mirakhor (2000). As such, the management teams of Islamic banks are not expected to neglect their duties of ensuring that Islamic banks remain profitable while at the same time refraining from engaging in activities that exploit other stakeholders such as customers. In the same breath, the management of an Islamic bank is not expected to offer the members of the management team unsustainable high perks that adversely eat into the profits attributable to shareholders. While it is important for an Islamic bank to observe its profit maximization goal, it should ensure that it does not neglect observing its spiritual and social goals (Metawa and Almossawi, 1998).

2- Do you believe that the current directions of Islamic Banks are serving the need of the community?

The Shari’ah calls upon people from all walks of life to strive to make this world a
better place (Khan, 2010). Commercial establishments operating under the broader realm of Islamic economics are expected to do the same. An Islamic bank is expected to serve its internal and external stakeholders. One of the external stakeholders of an Islamic bank is the *Ummah*. Members of the wider community form the *Ummah*. An Islamic bank should ensure that it serves the interests of the *Ummah* in all its dealings as not doing so is unethical and forbidden by the *Shari’ah* (Khan, 2010).

3- Do you believe that Islamic banks are committed operating within the *Shari’ah* principles/ideals?

Islamic banks are formed under the guiding principles of the *Shari’ah*. What is more, Islamic banks are expected to observe all the guidelines of the *Shari’ah* that govern on the operation of such entities (Khan, 2010). The *Shari’ah* is the central source of ethical guidelines in the wider realm of Islamic economics under which Islamic banking and finance fall. Violation of the ideals of the *Shari’ah* evidences the presence of unethical activities (Nyazee, 2000).

4- Do you believe that Islamic banks are committed to provide returns within *Shari’ah* principles?

The *Shari’ah* provides guidelines that Islamic banks are expected to observe in the normal conduct of their activities (Khan, 2010). *Shari’ah* principles provide ethical guidelines that prohibit engagement in Haram activities and exploitation. To fulfill their ethical obligations, Islamic banks are expected to observe the principles of the *Shari’ah* (Khan, 2010)

5- Do you believe that Islamic banks are committed to fulfill contractual relationships with various stakeholders via contract (*uqud*) statements?

The activities that generate money for Islamic banks are largely contractual in nature (Lahrech, and Boulaksil, 2014). Islamic banks enter into contracts with customers to
provide them with certain services that meet their spiritual and economic needs. Reneging on the promises made when entering into a contract amounts to dishonesty and this is downright unethical and forbidden by the Shari’ah. Islamic banks are expected to live up to their contractual promises at all times (Lahrech, and Boulaksil, 2014).

6- Do you believe that the future directions of Islamic Banks are serving the need of the community?

The quintessential Islamic bank is expected to leave this world a better place than it found it. To do that, an Islamic bank needs to aim beyond fulfilling its primordial economic responsibilities. An Islamic bank needs to continually invest in making the future of this world brighter. An Islamic bank needs to have plans that are meant to guide it in serving the community in the future (Luqman, 2015)

7- Do you believe that Islamic banks are committed to engage only in permissible financing activities?

Islamic law forbids Islamic banks in engaging in those financing activities that involve excessive risk taking, speculation, and uncertainty (Mohamad and Ahmad, 2015). The Shari’ah forbids Islamic commercial entities, such as Islamic banks, from engaging in activities that involve the charging or accrual of interest. What is more, the Shari’ah forbids Islamic banks from funding dangerous courses that are harmful to the well being of the society.

8- Do you believe that Islamic banks are committed to fulfill contracts via contract (uqud) statement?

The Islamic law expects Islamic banks to uphold honesty in all their dealings. Consequently, an Islamic bank is expected to keep its end of the bargain always. An Islamic bank should not short-change its customers (Lahrech, and Boulaksil, 2014).
9- Do you believe that Islamic Banks have positively appreciated Shareholders/customers?

Islam appreciates the sacred value placed on the life of each person by Allah. The Shari’ah impresses upon Islamic banks to treat all their stakeholders – including customers – with dignity and courtesy at all times (Lahrech, and Boulaksil, 2014).

10- Do you believe that Islamic banks are not involving in non-permissible activities?

The Shari’ah expressly defines what constitutes Halal and Haram activities for every person or Islamic entity. Halal activities are those that are permissible (Lahrech, and Boulaksil, 2014). Engaging in Halal activities is not injurious to the spiritual and holistic well being of a person. There is merit in engaging in Halal activities. On the other hand, Haram activities are those activities that are prohibited by the Shari’ah. Haram activities are corrupt and are regarded as being injurious to the holistic well being of a person and the wider society. The Shari’ah places an obligation on Islamic banks to give Haram activities a wide berth. Islamic law does not permit Islamic banks to charge, accrue, receive or pay out usury. Islamic banks are forbidden from funding businesses that further the production and distribution of alcohol, intoxicants, pornography, and pork (Khan, 2010). Moreover, the body of Islamic law forbids Islamic banks from engaging in activities that further excessive risk taking, uncertainty, and speculation. Furthermore, misappropriation of customers’ funds by Islamic banks is not permissible (Lahrech, and Boulaksil, 2014).

11- Do you believe that it is important for Islamic Banks to introduce new products?

For many years, Islamic banks were harangued for offering products that were considered to be offshoots of those offered by the conventional Western banks. To shed off that image and perception, it became clearly evident that Islamic banks need to commit to innovating products that serve the unique needs of Muslim faithful.
Islamic banks of this day and age are expected to keep up the spirit of innovation very much alive. Islamic banks are expected to offer innovative product that are Halal and that make it easy for customers and other stakeholders to comply with the provisions of the Shari’ah (Lahrech, and Boulaksil, 2014). It is important for Islamic banks to commit to the development of new Shari’ah-compliant products and services that endear Islamic banking to Muslims and non-Muslims alike.

12- Do you believe that Islamic banks are relying on the principles of Shari’ah when approving new products and services?

The Shari’ah is meant to be the basis of everything that a Muslim or an Islamic entity does. As such, the development and approval of new products is supposed to be carried out under the reliance of the Shari’ah. The Shari’ah should be used as a yardstick of measuring which products and services are meant to be offered to customers and which ones are not meant to see the light of the day (Lahrech, and Boulaksil, 2014). All products and services approved for offer to the market should be compliant with all the principles of the Shari’ah (Khan, 2010).

13- Do you believe that Islamic banks are defining products clearly?

Islamic banks are supposed to be transparent and offer proper communication about their products, services, and activities to customers. Islamic banks should define their products in unambiguous terms that make it easy for customers to understand the true nature and type of products being offered to them by a particular Islamic bank (Khan, 2010).

14- Do you believe that Islamic banks are providing a clear explanation of their investment activities in general?

The Shari’ah obliges Islamic banks to be transparent to their stakeholders (Khan, 2010). As such, Islamic banks are expected to disclose all material facts about their investment activities to their respective stakeholders on a need to know basis.
15- Do you believe that Islamic banks are providing a clear explanation of their financing projects in general?

Islamic banks are expected to be accountable to stakeholders as well as the Ummah (Khan, 2010). As such, Islamic banks are obligated to provide clear explanations about their financing projects in general. Proper communication enhances transparency and accountability on the part of Islamic banks (Khan, 2010).

16- Do you believe that Islamic banks are fully responsible for Zakah payment?

Islamic banks are obligated by the Shari’ah to facilitate their customers observe their Zakah spiritual obligations (Lahrech, and Boulaksil, 2014). Islamic banks are expected to observe the authorizations of their customers that provide for periodic deductions of Zakah payments. Islamic banks should not be late or fail to deduct Zakah payments under the terms specified by customers. What is more, an Islamic bank is expected to make Zakah payments from its business profits.

17- Do you believe that Islamic banks make direct payment of Zakah?

It is gravely unethical for an Islamic bank to misappropriate a customer’s Zakah deduction. An Islamic bank is obligated to make a direct payment of Zakah and not channel it to any other means (Lahrech, and Boulaksil, 2014). Moreover, an Islamic bank is responsible for paying Zakah from the profits that it makes from operations (Khan, 2010).

18- Do you believe that Islamic banks are diversifying the sources of Zakah?

To make the Zakah programme sustainable, it is incumbent upon an Islamic bank to diversify the sources of Zakah. Diversifying the sources of Zakah makes it more convenient and sustainable to collect and remit Zakah.

19- Do you believe that Islamic banks are responsible for Zakah to be paid by individuals?
Islamic banks should be responsible for the **Zakah** paid by individuals. Islamic banks should ensure that they make timely remissions of **Zakah** payments (Lahrech, and Boulaksil, 2014).

20- Do you believe that Islamic banks are paying attention to the sources of charity (sadaqa)?

Benevolence to the less abled in the society is a key cornerstone of Islam. Contributions to charitable courses can either be in the form of money or kind. The **Shari’ah** prohibits the making of charitable donations from Haram sources of income. It is incumbent upon Islamic banks to conduct background checks on the sources of funds in order to ensure that the charitable courses that are funded through offshoots of Islamic economics are devoid of the elements of Haram when traced backwards.

21- Do you believe that Islamic banks are paying attention to the sources of **qard al-hassan**?

**Qard al-Hassan** is a kind of benevolent loan that is lent on the basis of nil returns to the borrower. It is lent on the premises of benevolence (ijhsan). In a **Qard al-Hasan** loan, the borrower is obliged to repay only the principle amount. The borrower is not required to pay back any mark-up on the loan. The overriding concept of offering **Qard al-Hasan** is to assist the poor and needy by offering a loan without any interest (Lahrech, and Boulaksil, 2014). The Quran implies that such a loan is beautiful and admirable since the borrower is God and not the person actually being lent the money. As such, the sources of money for **Qard al-Hasan** need to be clean as Allah loathes what is spiritually unclean. It is imperative that Islamic banks ensure that the sources of money for lending **Qard al-Hasan** loans are pure and Halal. Impermissible sources of income and prohibited financial activities are not supposed to fund **Qard al-Hasan** loans (Khan, 2010).

22- Do you believe that Islamic Banks have positively contributed in promoting jobs opportunities?
Social justice is one of the fundamental tenets of the *Shari’ah* (Khan, 2010). Social justice implies giving all people their dues in a rightful and fair manner. Islamic banks are responsible for creating job opportunities to the qualified members of the *Ummah* (Khan, 2010).

23- Do you believe that Islamic Banks have positively contributed in supporting non-profit organisations that provide benefits to the society?

Every person or entity that undertakes activities that are aimed at improving the welfare of the society deserves to be supported by others (Lahrech, and Boulaksil, 2014). Islamic banks should show their support to the non-profit organizations that conduct activities that provide benefits to the society by donating resources such as time and money.

24- Do you believe that Islamic Banks have positively contributed in participating in government social activities?

The private sector should support the government of the day in making the society a better place. As such, Islamic banks – by virtue of being active members of the private sector – are expected to bolster government’s efforts in the promotion of social activities (Khan, 2010). The government has only so many resources. Islamic banks should take up public-private partnerships initiated by the government that are aimed at improving the society.

25- Do you believe that Islamic Banks have positively contributed in sponsoring community activities?

Commitment to improving the social welfare is an ideal that is highly vouched for by the *Shari’ah* (Lahrech, and Boulaksil, 2014). Islamic entities and individuals should initiate and promote community activities that are aimed at improving the plight of the society.
26- Do you believe that Islamic Banks have positively contributed in organising and sponsoring conferences on Islamic economics and other educational areas?

The gift of intellect is one of the greatest gifts that Allah, in his infinite benevolence, has given human beings. Human beings are the only creatures in this world that are capable of creating intellectual models and constructs. To make the world a better place, human beings need to continually innovate and introduce progressive changes to the extant body of knowledge. Islamic banks are obligated to improve the plight of workers and other stakeholders by organizing and sponsoring conferences on Islamic economics, banking, finance and other areas of education (Khan, 2010). By operating a learning culture, Islamic banks bolster the development of the knowledge and skills of workers to levels that augment the productivity, effectiveness, and efficiency of the labor that is provided by workers (Lahrech, and Boulaksil, 2014).

27- Do you believe that Islamic Banks have positively contributed to the improvement of your life situation and/or the well being of those who are close to you as well as the society at large?

Exploitation and oppression are some of the hallmarks of indignity that characterizes self-destructive and community-destructive selfishness that ruins the lives of people. Both are forbidden by the Shari’ah. Pursuant to the provisions of the Shari’ah Islamic banks are expected to be sensitive to the needs of those who have a stake in their operations – including employees. Islamic banks should give heartsease to their employees by providing workers with humane and amiable working environments. Islamic banks are expected to adopt policies that actively support the holistic improvement of the lives of employees. For instance, Islamic banks should provide opportunities for career growth as well as facilitate workers to observe their spiritual, family, and social obligations (Khan, 2010).
4.6.2.5 Sampling

In the realms of research and statistics, oftentimes it becomes practically impossible to obtain information from each member of the population. This is usually the case when the population is large and there are limited resources, such as time and money, for facilitating the collection of data from each member of the population.

Since this study investigates the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia, the sample is drawn from the Islamic banks operating under the regulations of the Saudi Arabian Monetary Authority in the Kingdom of Saudi Arabia. Due to practical limitations of this research, it is not possible to sample the employees and customers of all the Islamic banks operating in the Kingdom of Saudi Arabia. The data will be collected from the distributed questionnaires administered to the employees and customers of four Islamic banks, namely: Al-Rajhi Bank, National Commercial Bank (NCB) “Al Ahli bank”, Al-Bilad Bank and Alinma Bank. The objective of this research is not to compare ethical performance amongst the aforementioned Islamic banks. Rather, the main objective of this research is to compare the ethical performance of the Islamic banks operating in the Kingdom of Saudi Arabia from the perceptions of employees and customers based on the sampled Islamic banks.

One of the reasons for selecting the Kingdom of Saudi Arabia is that the country is a dominant leader in the realm of Islamic banking and finance. The Saudi economy controls approximately 24 percent of the assets of region’s banking sector. The sample of this research consist the all-Islamic banks in Saudi Arabia (Saudi Arabian Monetary Authority, 2019).

4.6.3 Data Analysis

In order to analyse the data obtained through questionnaires, this research will apply factor analysis conducted through the use of SPSS regarding the responses provided by the respondent groups on the objectives of Islamic banking. The factor analysis,
by definition, is a technique or mechanism that is utilized to decrease or reduce a large number of variables to obtain a smaller number through determining the variables that belong together and those that are perceived to imply a similar thing (Emory and Cooper, 1994). The factor analysis technique is often considered to be appropriate and effective for the analysis of this research since the factors that are related to “commercial objectives” and “social objectives” encompassed in Islamic banking system have many connotations. As pointed out by De Vaus (2002), these factors cannot be considered to be single measurable entities; however, they can be regarded as constructs of a number of other variables that are directly observable. Through the factor analysis technique, the said observable variables are able to be clustered into specific factors, whereby each of them reflects a given underlying property that is common or shared by a given group of variables (De Vaus, 2002). In addition, factor analysis also helps in the validation that respondent groups are capable of distinguishing between various variables regardless of the similarities exhibited by the items in question (Anderson et al., 1998). The responses provided on the basis of various factor groups for this research will be tested for reliability and consistency by use of Cronbach alpha tests.

For the purposes of comparing the perceptions of the diverse respondent groups involved in the study, SPSS was also utilized to run the Kruskall-Wallis test. The Kruskall-Wallis test is a non-parametric test that is usually referred to as a distribution free test, and which requires a less strict assumption regarding the underlying population as well as the type of data that is supposed to be analysed. As a non-parametric test, Kruskall-Wallis test does not require the specification of the shape of the underlying distribution despite the need for the samples to be selected using a random method. In contrast, the parametric tests such as F-Test require data to be measured on the basis of interval levels, and that the samples for the analysis need to be collected from normal distribution populations. For this reason, it becomes increasingly suitable to treat the samples made up of observations drawn from distinct populations, and the measurement of the variables needs to be in the form of
an ordinal scale. Although the non-parametric tests of Kruskall-Wallis test is not as effective as the F-Test of parametric tests, the large sample size of this research may increase its power and significance so that it nears the equivalents obtained if the parametric tests were used (De Vaus, 2002).

For purposes of conducting and authenticating the factor analysis, the research used both Kaiser-Meye-Olkin (KMO) and Bartlett’s Test of Sphericity measures. For purposes of interpreting these two measures, two methods for the rotation of factors will be adopted. These are the orthogonal and oblique rotation. Orthogonal rotation is critical in ensuring that the factors produced are not related to one another, whole the oblique rotation implies that factors that are correlated are produced (Anderson et al., 1998). However, there is no specific rule that the researcher used in the selection of a particular oblique or orthogonal rotational technique. This study, however, chooses Varimax orthogonal rotation since the research seeks to ensure that the factors obtained are independent and not related to one another. The variables that are highly correlated with the first factor are clustered and arranged in a descending manner in accordance with the size of correlations. The subsequent clustering and arrangement is done for the preceding variables.

Under the business ethics-related objectives, the researcher identified mission and vision statement, products and services, zakah and charity and benevolent funds, commitment towards employees, commitment towards debtors, and commitment towards the community. The literature reveals that the stakeholders and respondents asserted that Islamic banking institutions need to promote Islamic values and the general way of live of their customers, staff, as well as the general public. They also pointed out that Islamic banks can play a critical role in promoting business ethics, sustainable development projects, contributing to the social welfare of the society, as well as alleviating poverty and promoting sustainable development projects (Emory and Cooper, 1994).

That said, it should not be concluded that Islamic banks must only concentrate on
realizing the objective of social welfare. Instead, the respondents cite the commercial factor such as the enhancement of product and service quality as well as the provision of viable and quality financial products is perceived as vital important objectives that need to be pursued. This proposition is a substantiation of what Satkunasegaran (2003) claimed that Islamic banks need not to take the expectations of their customers for granted through an assumption that they are forced to deal with Islamic banks solely on the basis of their religious consciousness (Satkunasegaran, 2003). Instead, Islamic banking institutions should focus on the promotion of quality services that can satisfy the needs of their clients.

Furthermore, the collected data through the questionnaires of employees will be analysed through a thematic content analysis based on the existing theory that will assist the research can properly interpret the outcomes. This approach is applied to ensure that the research findings would effectively contribute to the existing knowledge regarding the subject area related to the ethical perspectives in Islamic banking (Silverman, 2000).

This section of research also explicates the statistical tests used in the empirical research models employed to test the two hypothesis of the study. Data analysis is an important component of any research study. The purpose of conducting data analysis in research is to facilitate the conversion of data into meaningful information. Raw facts are rarely useful in helping a researcher form meaningful conclusions. Data analysis facilitates the testing of the research hypothesis. SPSS is the statistical package that was used to perform statistical analyses in this research (Pallant, 2002). The statistical analyses included descriptive statistics, Kruskall-Wallis test, the Mann-Whitney U-test, T-test, and Kaiser-Meye-Olkin. In addition to the above tests, this research employs descriptive statistics and inferential statistics.

4.6.3.1 Descriptive Statistics

The use of descriptive statistics makes it possible for a work of research to describe
the characteristics of its sample (Pallant, 2010). Descriptive statistics helps to analyse and summaries the dependent and independent variables using quantitative techniques. To drive this agenda, descriptive statistics makes use of concepts like central tendency and dispersion. Central tendency consists of the mean, mode, and median. The dispersion aspect of descriptive statistics is concerned with assessing how the items of data are close or far away from the central tendency.

4.6.3.2 Inferential Statistics

Inferential statistics provide analysis, testing, and comparison of the statistical significance of variables. The two major types of tests are parametric and non-parametric tests (Field, 2009). Since the data that this research deals with is normally distributed, this study uses a non-parametric Mann-Whitney U test that serves as an alternative to the parametric t-test. The tests for normality of data are done with the Kolmogorov-Smirnov and Shapiro-Wilk test using SPSS.

The Mann-Whitney U test compares the mean values of two variables and tests the statistical significance of the variances between the two variables. The Mann-Whitney U test ranks the values based on the scale of differences that exist between the two variables. A variable with the low mean rank has a great number of low mean scores (Field, 2009).

4.6.3.3 Pilot Testing

It is imperative to conduct pilot testing to ensure that the instruments of research operate in the desired manner (Bryman and Bell, 2011). Pilot testing serves to increase the reliability, validity, and pragmatism of the questionnaire. Pilot testing increases the tweaks and suits the questionnaire to obtain the necessary and accurate data that is to be subjected to further analysis in order to test the hypothesis and draw meaningful conclusions. Pilot testing should not be carried out on people who form the sample. Rather, it should be administered to people who have the same characteristics as those who are to be sampled but will eventually not end up in the
sample. This is because giving the questions to people in the sample beforehand is tantamount to leaking an exam. It distorts the reliability of the research.

In the current research, the researcher piloted the questionnaire on 20 people after having a discussion with the research supervisor. The questionnaire was piloted on 10 employees and 10 customers. The pilot testing was carried out through a convenience sampling procedure.

4.6.3.4 Validity and Reliability of Content Analysis

It is imperative for any research work to address reliability and validity. According to Bryman and Bell (2011), validity lies at the heart of research and is “concerned with the integrity of the conclusions that are generated from a piece of research” (p. 42). Validity privileges the instruments of research that are designed to take measurements (Field, 2005). For research purposes, validity is divided into construct validity, internal validity, and external validity. Construct validity deals with the measures that the research intended to evaluate. It is augmented with other subjects of content validity, face validity, and criterion-related validity (Saunders et al., 2012). Internal validity evaluates the sustainability of explanations made by a work of research. It focuses on the consistency, accuracy, practicability, neutrality, and dependability of the interpretations, perceptions, and conclusions of a particular work of research (Saunders et al., 2012). External validity privileges the generality of research findings (Saunders et al., 2012).

In the context of quantitative analysis, it is impossible to attain a validity level of 100 percent. The validity can be augmented through meticulous sampling, fastidious research design, and comprehensive statistical analysis (Cohen et al., 2013).

To assess the reliability of the content analysis conducted in this work of research, the following measures were undertaken. First, a pilot study was carried out using questionnaires that were administered to 20 participants. Then, after two weeks, to vouch for the veracity of the score, content analysis of the scores used in the pilot
study took place. Thirdly, the questionnaires used in this study were availed to three independent coders who assessed the content and responses in the questionnaires. Finally, decision rules were crafted and revised appropriately to facilitate the codifying of data collected from the content analysis of the questionnaires.

4.7 Limitations

There were various hindrances that stood in the way of this research. The most pronounced challenge was time constraint. It was not possible to collect data from customers and employees over a long period of time. What is more, while the research used a mixed-method approach in order to bolster the reliability of the data that was collected, the inherent shortcoming of the fundamental research methods spilled over into the practical aspects of research work. For instance, since the research used qualitative research approach to collect data on some aspects, it meant that the researcher had to use small numbers of participants. For the quantitative aspect, it was cumbersome to obtain fully disclosed quantitative data.

It was practically impossible for the researcher to obtain permission from all the Islamic banks operating in the Kingdom of Saudi Arabia given the short time frame that confined this study. Consequently, the official emails of employees are not disclosed because it was hard to obtain permission to do so from the authorities of the banks whose employees were sampled.

It is the intention of the sequel of this research to conduct meetings with managers and members of the Shari’ah boards. Meeting with the members of the Shari’ah oversight boards will help to vouch for the veracity of the ethical practices of Islamic banks. The members of Shari’ah boards are expected to ensure that Islamic banks comply with the obligations that include business ethics, imposed upon such commercial entities by the Shari’ah.
4.8 Conclusion

This chapter elucidates the research methodology utilized by the research based on the overarching aims and objectives of the research. This research embraces an objective methodological position of philosophical assumptions in furtherance of the primordial aims and objectives. With regards to research methodology, this research utilizes a blend of qualitative and quantitative research methodologies. Fundamentally, this research is designed as an explanatory case study that has multitudinous aspects of an exploratory study. This study exclusively makes use of a positive paradigm. As such, it is not the intention of this study to develop a theory since the deductive approach is deemed to be apt for this research.

This chapter has presented the methodology embraced by the research extensively. The chapter commenced with the research philosophy to identify and make the case for the philosophical stance of the researcher. The philosophical stance of the researcher is pragmatism. When it comes to the research methodology, the research adopts a triangulation approach. The research adopts multitudinous research designs that seamlessly build upon each other. The research designs adopted by the research are explanatory and exploratory research designs. The research utilizes a deductive approach that helps to create and develop the research questions, objectives, design, methods, and hypotheses. When it comes to the data collection methods, this research solely uses questionnaires as the basis of capturing raw and primary data from the respondents – who are customers and employees of Islamic banks operating in the Kingdom of Saudi Arabia. To present, analyse, and summarize the data, the research uses descriptive statistics. The research uses SPSS—widely used statistical analysis software— to conduct inferential statistics and tests on the data obtained through questionnaires in a bid to either confirm or deny the null and alternative hypotheses. The methodology used in this research is appropriate since it is in line with the guidelines postulated in various methodological books as well as the extant body of knowledge that tackles topical research in the
same lane as this research.

To conclude, this research seeks to investigate an essential issue relating to what the objectives of Islamic banks operating in a dual banking environment like the Kingdom of Saudi Arabia from the perspectives of the perspectives. The most important aspect revealed in this research is that various stakeholder of Islamic banks perceive the industry more favourably through the ethical and social goals where they operate, as opposed to the mechanisms for the operations. One of the very critical reflections of their attitude is that the factors related to business ethics are perceived to be more crucial objectives than commercial factors towards their perceptions of Islamic banking. The implication of this assertion is that Islamic banks are supposed to ensure that all their transactions comply with the Shari’ah principles not only in their forms and legal technicalities but more importantly is the social and economic substance that is provided on the objectives spelt out in the Shari’ah law. There is need for Islamic banking institutions to not only focus on the maximisation of profit, but they also need to play a key role in addressing the social and economic issues such as reduction of poverty and improvement of vital attributes of social welfare. Examples of these attributes include improvement of education, restlessness, youth insecurity, illiteracy, as well as reduction of child mortality (Miles and Huberman, 1994).

This research uses a mixed-method research approach. The research uses multiple research designs so as to avoid the inherent limitations associated with individual research design methods from adversely distorting the accuracy of the research process. What is more, the use of multiple research designs facilitates this study to take advantages of the strengths associated with individual research designs.

Given that Islamic finance is derived from Islamic axioms and values, Islamic banks are expected to be ethically oriented in their business operations. In this regards, it can be argued that through focusing on ethical aspects, Islamic banks will not only attract Muslim customers but non-Muslim customers as well who are interested in
investing in ethical finance. Therefore, it is important to investigate the ethical practices that Islamic banks conduct to highlight any gaps between the expected ideal ethics and the practice and examine the impact of such behaviour on their business growth from the perspective of bank management as well as customers.
Chapter Five

Examining the Ethical Performance of Islamic Banks in Saudi Arabia: A Customers Perceptions
Chapter Five

Examining the Ethical Performance of Islamic Banks in Saudi Arabia: Customers’ Perceptions

5.1 Introduction

This chapter explicates the collected raw data in a bid to make sense of it through descriptive statistics. As it can be inferred from the previous chapters, this research assesses the ethical performance of Islamic banks from the perspective of customers through the lenses of four dimensions, which are Mission and Vision Statement, Products and Services, Zakah, Charity and Benevolent Funds, and Commitment Towards Community. The analysis of the ethical performance of Islamic banking institutions requires the acknowledgement of multitudinous religious teachings sourced from the Shari’ah since the Shari’ah is the supreme authority on matters of ethics in the context of Islamic institutions (Mansour, et al, 2015). This chapter utilizes a mixed research methodology. The mixed research methodology is appropriate in cases where there it is necessary to complement the strengths of multiple research methodologies with each other in order to gain multiple research insights (McNabb, 2008).

This chapter is arranged in the following manner. Proceeding the introductory section is the second section that evaluates the individual profiles of the respondents. The third section briefs and highlights the raw data collected about customers’ perceptions of Islamic banks operating in the Kingdom of Saudi Arabia through the four major dimensions and their respective sub-dimensions. The fourth segment gives a conclusion of the chapter.

Descriptive statistics have been used to describe the characteristics of the customers in terms of age, gender, marital status, and occupation. Charts, graphs, and tables
have been used to give a graphical presentation of the data about the characteristics of the customers of the Islamic banks operating in the kingdom of Saudi Arabia (Mirakhor, 2000). A Five-point Likert-scale was used to assign scores to the responses of the customers of Islamic banks operating in the Kingdom of Saudi Arabia with regards to various sub-dimensional questions. The average mean scores of each dimension were investigated and summed up in order to give the average mean score assignable to customer’s perceptions.

5.2 Profile of Respondents

This part of the fifth chapter gives a description of various characteristics – such as age, gender, marital status, and occupation – of the respondents. These characteristics are explicated through the use of frequency distribution tables that are fundamental components of descriptive statistics.

5.2.1 Profiling of Customers

Table 5.1 Gender of the Sampled Customers of Islamic Banks in Saudi Arabia Participating in this Research

<table>
<thead>
<tr>
<th>Gender of the Customers</th>
<th>Number of Customers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>103</td>
<td>73.6%</td>
</tr>
<tr>
<td>Female</td>
<td>37</td>
<td>26.4%</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100%</td>
</tr>
</tbody>
</table>

According to Table 5.1 and Figure 5.1 the majority of the respondents are male customers of the Islamic banks in Saudi Arabia. 103 respondents are male who represent 73.7 percent of the total respondents. 37 respondents that form 26.4 percent of the total of respondents are female.
Figure 5.1 The gender distribution of the sampled customers of Islamic banks in Saudi Arabia that participated in this study

Table 5.2 Age group distribution of the sampled customers of Islamic banks in Saudi Arabia that participated in this research

<table>
<thead>
<tr>
<th>Age of Customers</th>
<th>Number of Customers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 18 years</td>
<td>1</td>
<td>0.7%</td>
</tr>
<tr>
<td>From 18 to 21 years</td>
<td>14</td>
<td>10%</td>
</tr>
<tr>
<td>From 22 to 30 years</td>
<td>42</td>
<td>30%</td>
</tr>
<tr>
<td>From 31 to 40 years</td>
<td>69</td>
<td>49.3%</td>
</tr>
<tr>
<td>Above 40 years</td>
<td>14</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
It is evident from Table 5.2 and Figure 5.2 that there is one respondent aged below 18 years who represents 0.7 percent of the total respondents of customers. There are 14 respondents aged above 40 years who represent 10 percent of the total respondents of customers of Islamic banks in Saudi Arabia.

The second majority of the respondents are in the aged group of 22 to 30 years, that is 42 respondents, who represent 30 percent of the total respondents of customers in Islamic banks in Saudi Arabia.

The majority of the respondents are in the age group of 31 to 40 years, that is 69 respondents, who represent 49.3 percent of the total respondents of customers in Islamic banks in Saudi Arabia. It can be gleaned from Table 5.2 and Figure 5.2 that the majority of the total respondents are between the ages of 18 to 40 – that is 126 respondents who represent 90 percent of the total of respondents, so this figure is in line with the recent census of the population of Saudi Arabia in 2019, where the median age in Saudi Arabia is 30.2 years (Saudi Arabia Population, 2019).

**Figure 5.2 Distribution of the age of sampled customers of Islamic banks that participated in this Research**
Table 5.3 Employment status of sampled customers of Islamic banks in Saudi Arabia that participated in this research

<table>
<thead>
<tr>
<th>Employment Status of Customers</th>
<th>Number of Customers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployed</td>
<td>10</td>
<td>7.1%</td>
</tr>
<tr>
<td>Self-employed</td>
<td>6</td>
<td>4.3%</td>
</tr>
<tr>
<td>Employed</td>
<td>85</td>
<td>60.7%</td>
</tr>
<tr>
<td>Student</td>
<td>29</td>
<td>20.7%</td>
</tr>
<tr>
<td>Businessperson</td>
<td>8</td>
<td>5.7%</td>
</tr>
<tr>
<td>Another</td>
<td>2</td>
<td>1.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table 5.3 and Figure 5.3 show that the employment status of the majority of respondents is employed. 85 of the total respondents, who represent 60.7 percent of the total respondents, are employed at various organisations. On the other hand, 10 respondents are unemployed who represent 7.1 percent of the total respondents whereas 6 respondents being 4.3 percent of the total respondents are found to be self-employed from the customers of Islamic banks in Saudi Arabia.

The second majority of the respondents are students. 29 respondents were students. They represent 20.7 percent of the total respondents from the customers of Islamic banks in Saudi Arabia. On the other hand, the least number of respondents are “Another”. The “Another” cluster of respondents represents 2 respondents (1.4 percent) of the total respondents whereas 8 respondents being 5.7 percent of the total respondents are found to be businessperson from the customers of Islamic banks in Saudi Arabia.
It can be noticed from Table 5.3 and Figure 5.3 that the number of the unemployed of the total respondents are 10 respondents who represent 7.1 percent of the total of respondents, so this figure is in line with the last unemployment rate for Saudi males in 2019, where the unemployment rate for Saudi males it decreased to 7.5 percent compared to 7.6 percent in the second quarter of 2018 (Arab News, 2019).

Figure 5.3 Distribution of the employment status of sampled customers of Islamic banks in Saudi Arabia that participated in the study

Table 5.4 Marital status of the customers of Islamic banks in Saudi Arabia sampled for this research

<table>
<thead>
<tr>
<th>Marital Status of Customers</th>
<th>Number of Customers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>50</td>
<td>35.7%</td>
</tr>
<tr>
<td>Married</td>
<td>84</td>
<td>60%</td>
</tr>
<tr>
<td>Divorced or Widow</td>
<td>6</td>
<td>4.3%</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table 5.4 and Figure 5.4 indicate that the majority of the respondents are married from the customers of Islamic banks in Saudi Arabia. There are 84 respondents who are married. These represent 60 percent of the total respondents. On the other hand, 50 respondents are the single who represent 35.7 percent of the total respondents. 6 respondents who represent 4.3 percent of the total respondents are divorced or widowed.

Figure 5.4 Distribution of the marital status of the surveyed customers of Islamic banks operating in the Kingdom of Saudi Arabia
Table 5.5 Level of education of the customers of Islamic banks in Saudi Arabia surveyed in the course of this research

<table>
<thead>
<tr>
<th>Level of Education of Customers</th>
<th>Number of Customers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School</td>
<td>7</td>
<td>5%</td>
</tr>
<tr>
<td>Diploma</td>
<td>12</td>
<td>8.6%</td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>47</td>
<td>33.6%</td>
</tr>
<tr>
<td>Master’s Degree</td>
<td>53</td>
<td>37.8%</td>
</tr>
<tr>
<td>PhD</td>
<td>21</td>
<td>15%</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

It is evident from Table 5.5 that there is no respondent educated below high school level. The majority of the respondents have a masters-level degree. There are 53 respondents – who represent 37.9 percent of the total respondents – that have a master’s degree. The second majority of the respondents have bachelor’s degree. There are 47 respondents who represent 33.6 percent of the total respondents have bachelor’s degree whereas 21 respondents, being 15 percent of the total respondents, have PhD degree. On the other hand, the least number of respondents hold a high school certificate. This represents 7 respondents (5 percent) of the total respondents. 12 respondents being 8.6 percent of the total of respondents have diploma degree from the customer of Islamic bank in Saudi Arabia. It can be noted from Table 5.5 and Figure 5.5 that a significant number of respondents possess a high level of education, so this figure is in line with the aims of the King Abdullah Scholarship Program, where there are currently about 89,833 students who have scholarships for postgraduate studies worldwide in 2019 (Ministry of Education, 2019).
5.3 Business ethics of Islamic banks in Saudi Arabia: customers' perceptions

The measurement of the business ethics is usually premised on four elemental dimensions which are: responsibility to social and non-social stakeholders, employees, customers, and government (Turker, 2009). Consequently, six dimensions are explicated in this research. The six dimensions include mission and vision statement; products and services; zakah, charity, and benevolent funds; commitment towards employees; commitment towards debtors; and commitment towards the community. The selected dimensions for customers are mission and vision statement; products and services; zakah, charity, and benevolent funds; and
commitment towards community. Each dimension has more than one sub-dimensions and each question is related directly to one of the sub-dimension. The two questionnaires of Islamic banks' customers and employees are sharing three primordial dimensions which are: products and services; zakah, charity, and benevolent funds; and commitments towards community.

The response of the respondents on each question was ranked on Five-point Likert Scale where 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree. The mean scores of the respondents under each dimension are analysed. The researcher uses the Five-point Likert scale which ranged from (0) up to (5) as the following Table 5.6

**Table 5.6 Five-point Likert scale**

<table>
<thead>
<tr>
<th>Likert Scale</th>
<th>Interval-level (Distance)</th>
<th>Difference</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.00 – 1.80</td>
<td>0.80</td>
<td>Strongly Disagree</td>
</tr>
<tr>
<td>2</td>
<td>1.81 – 2.60</td>
<td>0.80</td>
<td>Disagree</td>
</tr>
<tr>
<td>3</td>
<td>2.61 – 3.40</td>
<td>0.80</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>3.41 – 4.20</td>
<td>0.80</td>
<td>Agree</td>
</tr>
<tr>
<td>5</td>
<td>4.21 – 5.00</td>
<td>0.80</td>
<td>Strongly Agree</td>
</tr>
</tbody>
</table>
The five response options of the Five-point Likert scale are usually believed to represent the distance of measurement. The mean in a Likert scale can’t be found because we don’t know the distance between the data items (Reips and Funke, 2008). Now, to calculate the distance between the data items, we have first to find the range, where it equals 5–1=4, then the distance can be calculated by dividing the range by the number of options (categories) as follow:

\[ \frac{4}{5} = 0.80, \text{ so the difference between each distance is 0.80. For example, the first distance is for “Strongly Disagree” will be } 1 + 0.80 = 1.80, \text{ so the distance for the “Strongly Disagree” is between 1.00 to 1.80 as mentioned in the above table.} \]

Before doing the analysing, the researcher tests the reliability statistics of the employees questionnaire as the following Table 6.7

**Table 5.7 Reliability of the Statistical test for Customers Perceptions**

<table>
<thead>
<tr>
<th>Cronbach’s Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.948</td>
<td>28</td>
</tr>
</tbody>
</table>

The Cronbach’s Alpha reliability number for the customers’ questions is .948 and this score is very strong to give the green light to proceed with the analysis for this chapter (Reips and Funke, 2008).
Table 5.8 Mean Analysis for Dimension 1: Mission and Vision Statement

<table>
<thead>
<tr>
<th>Questions</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3 Do you believe that Islamic Banks make the profit maximisation on the top of their goals?</td>
<td>140</td>
<td>3.68</td>
<td>1.183</td>
</tr>
<tr>
<td>1.4 Do you believe that the current directions of Islamic Banks are serving the needs of the community?</td>
<td>140</td>
<td>2.88</td>
<td>1.208</td>
</tr>
<tr>
<td>1.1 Do you believe that Islamic banks are committed operating within the Shari’ah principles/ideals?</td>
<td>140</td>
<td>3.63</td>
<td>1.159</td>
</tr>
<tr>
<td>1.2 Do you believe that Islamic banks are committed to providing returns within Shari’ah principles?</td>
<td>140</td>
<td>3.61</td>
<td>1.154</td>
</tr>
<tr>
<td>1.5 Do you believe that Islamic banks are committed to fulfilling contractual relationships with various stakeholders via contract (uqad) statements?</td>
<td>140</td>
<td>3.44</td>
<td>0.947</td>
</tr>
<tr>
<td>1.6 Do you believe that the future directions of Islamic Banks are serving the need of the community?</td>
<td>140</td>
<td>3.15</td>
<td>1.217</td>
</tr>
<tr>
<td>1.7 Do you believe that Islamic banks are committed to engaging only in permissible financing activities?</td>
<td>140</td>
<td>3.15</td>
<td>1.118</td>
</tr>
<tr>
<td>1.8 Do you believe that Islamic banks are committed to fulfilling contracts via contract (uqad) statement?</td>
<td>140</td>
<td>3.42</td>
<td>1.032</td>
</tr>
<tr>
<td>1.9 Do you believe that Islamic Banks have positively appreciated Shareholders/customers?</td>
<td>140</td>
<td>3.28</td>
<td>1.100</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>140</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average Mean</strong></td>
<td></td>
<td>3.36</td>
<td></td>
</tr>
</tbody>
</table>

Table 5.7 lists the sub-dimensions of the major dimension of mission and vision statement of Islamic banks that pertain to customer's perspectives. The mission and vision statement dimension consists of 9 sub-dimensions. The highest mean is 3.68
for the sub-dimension that touches on the aspect of profit maximization of Islamic banks. The lowest mean is 2.88 which evaluates the sub-dimension captured by the question, “Do you believe that the current directions of Islamic banks are serving the needs of the community?”. The average mean is 3.36. This suggests that on average, the participants responded just above the neutral point identified by the Five-point Likert Scale presented in table 5.6. From the above foregoing, it can be seen that there is great room for improvement on the mission and vision statement dimension on the part of Islamic banks by bolstering their service to the needs of the community.

**Figure 5.6 Mean Analyses for Dimension 1: Mission and Vision Statement**

![Sub-dimensions of Mission and Vision Statement](image)
Table 5.9 Mean Analysis for Dimension 2: Products and Services of Islamic Banks in Saudi Arabia

<table>
<thead>
<tr>
<th>Questions</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Do you believe that Islamic banks are not involving in non-permissible activities?</td>
<td>140</td>
<td>3.19</td>
<td>1.029</td>
</tr>
<tr>
<td>2.2 Do you believe that Islamic banks are not involving in non-permissible activities- % of the profit?</td>
<td>140</td>
<td>3.10</td>
<td>1.068</td>
</tr>
<tr>
<td>2.3 Do you believe that it is important for Islamic Banks to introduce new products?</td>
<td>140</td>
<td>3.88</td>
<td>1.014</td>
</tr>
<tr>
<td>2.4 Do you believe that Islamic banks are relying on the approval of a new product based on Sharia’h principles?</td>
<td>140</td>
<td>3.51</td>
<td>1.122</td>
</tr>
<tr>
<td>2.5 Do you believe that Islamic banks are defining products clearly?</td>
<td>140</td>
<td>3.20</td>
<td>1.114</td>
</tr>
<tr>
<td>2.6 Do you believe that Islamic banks are providing a clear explanation of their investment activities in general?</td>
<td>140</td>
<td>3.06</td>
<td>1.158</td>
</tr>
<tr>
<td>2.7 Do you believe that Islamic banks are providing a clear explanation of their financing projects in general?</td>
<td>140</td>
<td>3.06</td>
<td>1.143</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>140</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average Mean</strong></td>
<td></td>
<td>3.28</td>
<td></td>
</tr>
</tbody>
</table>
Table 5.8 presents questions with regards to the sub-dimensions that rest on the products and services of Islamic banks dimension. The highest mean score is 3.88 and is with regards to the sub-dimension that is served by the question “Do you believe that it is important for Islamic banks to introduce new products?” This denotes that the majority of customers feel that it is imperative for the Islamic banks operating in the Kingdom of Saudi Arabia to introduce new products and services. The majority of customers are of the opinion that it is the high time that Saudi-based Islamic banks became more innovative. There is a tie when it comes to the lowest mean score. The lowest mean score is 3.06. The two sub-dimensional questions having an individual mean score of 3.06 are “Do you believe that Islamic banks are providing a clear explanation of their investment activities in general?” and “Do you believe that Islamic banks are providing a clear explanation of their financing projects in general?” Consequently, a large number of customers feels that Islamic banks need to be more communicative and transparent with regards to their investment and financial activities. To improve their products and services with a large extent, Islamic banks operating in the Kingdom of Saudi Arabia need to bolster their transparency and communication. The average mean is 3.28. Hence, the perceptions of customers with regards to products and services are just above the neutral point identified by the 5-point Likert Scale presented in Table 5.6.
Figure 5.7 Mean Analysis for Dimension 1: Products and Services of Islamic Banks in Saudi Arabia

Sub-dimensions of Products and Services

- No involvement in non-permissible activities.
- Involvement in non-permissible activities.
- Basis of Shari'ah concept.
- % of profit.
- Introduced new product.
- Approving new product.
- Glossary/definition of products.
- Investment activities general.
- Financing activities general.

Mean
Std.Deviation
Table 5.10 Mean Analysis for Dimension 3: Zakah, Charity and Benevolent Funds of Islamic Banks in Saudi Arabia

<table>
<thead>
<tr>
<th>Questions</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 Do you believe that Islamic banks are fully responsible for Zakah payment?</td>
<td>140</td>
<td>2.99</td>
<td>1.187</td>
</tr>
<tr>
<td>3.2 Do you believe that Islamic banks make direct payment of Zakah?</td>
<td>140</td>
<td>3.02</td>
<td>1.141</td>
</tr>
<tr>
<td>3.3 Do you believe that Islamic banks are diversifying the sources of Zakah?</td>
<td>140</td>
<td>2.94</td>
<td>1.098</td>
</tr>
<tr>
<td>3.4 Do you believe that Islamic banks are responsible for Zakah to be paid by individuals?</td>
<td>140</td>
<td>2.86</td>
<td>1.265</td>
</tr>
<tr>
<td>3.5 Do you believe that Islamic banks are paying attention to the sources of charity (sadaqa)?</td>
<td>140</td>
<td>2.76</td>
<td>1.228</td>
</tr>
<tr>
<td>3.6 Do you believe that Islamic banks are paying attention to the sources of qard al-hassan?</td>
<td>140</td>
<td>2.61</td>
<td>1.221</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average Mean</strong></td>
<td></td>
<td>2.86</td>
<td></td>
</tr>
</tbody>
</table>

Table 5.9 provides a mean score analysis of the third dimension that touches on Zakah, charity, and benevolent funds of Islamic banks operating in the Kingdom of Saudi Arabia. The highest mean value is with regards to sub-dimension 3.2 that is served by the question “Do you believe that Islamic banks make direct payments of Zakah?” As a result, most customers are neutral to the fact that Islamic banks make direct payments of Zakah. This could be something worrying to Islamic banks since
the indifference of customers shows that the Islamic banks might not be fulfilling one of the key obligations imposed upon them by the Shari’ah. The lowest score, 2.61, is with regards to the sub-dimensional question that asks, “Do you believe that Islamic banks are paying attention to the sources of qard al-hassan?”. Thus, a majority of customers are not of the opinion that Islamic banks due their due diligence when it comes to identifying the sources of qard al-hassan. The average mean score is 2.86. Due to this, many customers are of the opinion that Islamic banks do not meet their zakah, charity and benevolent funds obligations. A disagree score of 2.86 that is clearly below the neutral point indicates that as generally seen from customer’s perceptions, Islamic banks are failing in their Zakah, charity, and benevolent funds mandate.

Figure 5.8 Mean Analysis for Dimension 3: Zakah, Charity and Benevolent Funds of Islamic Banks in Saudi Arabia
Table 5.11 Mean analysis for dimension 6: Commitment Towards Community

<table>
<thead>
<tr>
<th>Questions</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.6 Do you believe that Islamic Banks have positively contributed to the</td>
<td>140</td>
<td>2.87</td>
<td>1.162</td>
</tr>
<tr>
<td>improvement of your life situation and/or the well-being of those who</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>are close to you as well as the society at large?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.1 Do you believe that Islamic Banks have positively contributed to</td>
<td>140</td>
<td>3.31</td>
<td>1.139</td>
</tr>
<tr>
<td>promoting jobs opportunities?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.2 Do you believe that Islamic Banks have positively contributed to</td>
<td>140</td>
<td>2.78</td>
<td>1.218</td>
</tr>
<tr>
<td>supporting non-profit organisations that provide benefits to the society?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.3 Do you believe that Islamic Banks have positively contributed to</td>
<td>140</td>
<td>3.04</td>
<td>1.184</td>
</tr>
<tr>
<td>participating in government social activities?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.4 Do you believe that Islamic Banks have positively contributed to</td>
<td>140</td>
<td>2.87</td>
<td>1.187</td>
</tr>
<tr>
<td>sponsoring community activities?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.5 Do you believe that Islamic Banks have positively contributed to</td>
<td>140</td>
<td>2.75</td>
<td>1.132</td>
</tr>
<tr>
<td>organising and sponsoring conferences on Islamic economics and other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>educational areas?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>140</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Mean</td>
<td></td>
<td>2.94</td>
<td></td>
</tr>
</tbody>
</table>
Table 5.10 presents the mean analysis of the sub-dimensions associated with the sixth dimension that deals with the commitment of Islamic banks towards the community. The highest means score is 3.04 with regards to the sub-dimensional question that asks, “Do you believe that Islamic banks have positively contributed to participating in government social activities?” This is not a very strong score so it means that most customers are sitting on the fence with regards to their perception about the contributions made by their respective Islamic banker with regards to participation in government social activities. The lowest score is 2.75 which means that many customers do not agree and also disapprove of the performance of Islamic banks when it comes to making positive contributions with regards to organizing and sponsoring conferences on Islamic economics and other educational areas. The mean score for the dimension that deals with the commitment of Islamic banks towards the community is 2.94 and this suggests that Islamic banks are out of favour with customers when it comes to the deliverance of their mandates to the community.
Figure 5.9 Mean Analysis for Dimension 6: Commitment Towards Community
Table 5.12 Classification of Business Ethics According to Mean analysis for Dimensions of Ethical Performance for Customers Perspectives.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dimension 1: Mission and Vision Statement</td>
<td>140</td>
<td>3.3603</td>
<td>.75617</td>
</tr>
<tr>
<td>Dimension 2: Products and Services</td>
<td>140</td>
<td>3.2857</td>
<td>.79567</td>
</tr>
<tr>
<td>Dimension 3: Zakah, Charity, and Benevolent Funds</td>
<td>140</td>
<td>2.8631</td>
<td>.88672</td>
</tr>
<tr>
<td>Dimension 6: Commitment Towards Community</td>
<td>140</td>
<td>2.9369</td>
<td>.91188</td>
</tr>
<tr>
<td><strong>Total of Mean</strong></td>
<td></td>
<td>3.1115</td>
<td></td>
</tr>
</tbody>
</table>

Table 5.11 shows the average means of each dimension as well as the average mean score of the ethical performance of Islamic banks from the perspective of customers. The highest mean score is 3.36. The dimension that scores highly is the first dimension that deals with the mission and vision statement. The dimension that has the lowest performance and mean score is the third dimension that deals with matters of Zakah, charity, and benevolent funds. Accordingly, the ethical performance of Islamic banks with regards to Zakah, charity, and benevolent funds is not getting a strong validation from customers.
5.4. Reflection on the Profile of Sampled Customers

The composition of the profiles of customers can influence the outcome of the aggregate perceptions of customers. For instance, customers who have high educational attainments are more likely to use many and refined evaluation criteria as compared to their less educated counterparts. Therefore, the varying of the profile of customers to lean on one side of educational attainment is likely to skew the aggregate perceptions of customers. The gender constitution of the sample can alter the aggregate perceptions of customers as evaluated through the lenses of various sub-dimensions. Women have special financial needs as compared to men.
Therefore, if the gender make-up had more men as compared to women, then there might be an under-representation of the sentiments expressing the viewpoints heartily regarded by women with regard to various sub-dimensions. The employment status of the individual customers influences the needs and chief concerns that customers expect Islamic banks to address ethically. For instance, the banking needs of business people that might influence the perceptions of customers might be starkly different from the banking needs of employed people and students. Therefore, to safeguard the integrity of the research, random sampling was carried out as such approach increases the likelihood of having a sample that generally reflects the characteristics of the entire population of the customers of Islamic banks.

5.5 Conclusion

This chapter made a fastidious explication of the raw data collected through the administration of questionnaires to customers. The research methodology this chapter is mixed method; both quantitative and qualitative research methodologies were applied in the study work conducted for this chapter. The research design of this chapter falls under the category of exploratory research. This chapter commenced with a brief introduction about the content of the chapter that largely focuses on the examination of the ethical performance of the Islamic banks operating in the Kingdom of Saudi Arabia from the perspectives of customers. The chapter carried on by highlighting the descriptions and analyses of the profiles of customers. It proceeded to present the Five-point Likert Scale that formed the basis of the analysis of the mean scores of customers. The average mean score of 3.1 shows that many customers do not approve of Islamic banks' ethical performance. It means that the expectations of customers with regards to the ethical performance of Islamic banks are not fulfilled. Being faith-based institutions, Islamic banks should intensify their adherence to the ethical principles premised on the Shari’ah than they are currently doing in order to improve their ethical performance.
Chapter Six

Examining the Ethical Performance of Islamic Banks in Saudi Arabia: Employees’ Perceptions
Chapter Six

Examining the Ethical Performance of Islamic Banks in Saudi Arabia: Employees’ Perceptions

6.1 Introduction

This chapter commences with a brief introduction. The analysis of the ethical performance of Islamic banking institutions requires reference to numerous religious teachings sourced from the *Shari’ah* since the *Shari’ah* is the last word on matters of business ethics in the context of Islamic institutions (Mansour et al, 2015). This chapter utilizes a mixed research methodology. The mixed research methodology is appropriate in the research work carried out in this chapter since it complements the strengths of multiple research methodologies with each other in order to gain multiple research insights (McNabb, 2008). This chapter assesses the ethical performance of Islamic banks from the perspective of employees through the lenses of five dimensions, which are commitment towards employees; commitment towards debtors; products and services; *zakah*, charity, and benevolent funds; and commitment towards the community. The next section after the introduction deals with the profiling of employees. The next section after that deals with the analysis of the mean scores of various sub-dimensions and dimensions based on the questions asked in the questionnaires. Lastly, this chapter ends with a conclusion.

This chapter explicates the collected raw data in a bid to make sense of it through descriptive statistics. As it can be inferred from the previous chapters, this research assesses the ethical performance of Islamic banks from the perspective of customers through the lenses of four dimensions, which are Mission and Vision Statement, Products and Services, *Zakah*, Charity and Benevolent Funds, and Commitment Towards Community. The analysis of the ethical performance of Islamic banking institutions requires the acknowledgement of multitudinous religious teachings
sourced from the Shari’ah since the Shari’ah is the supreme authority on matters of ethics in the context of Islamic institutions (Mirakhor, 2000). This chapter utilizes a mixed research methodology. The mixed research methodology is appropriate in cases where it is necessary to complement the strengths of multiple research methodologies with each other in order to gain multiple research insights (McNabb, 2008).

Descriptive statistics have been used to describe the characteristics of the participating employees of the Islamic banks operating in the kingdom of Saudi Arabia in terms of age, gender, marital status, and occupation (Mirakhor, 2000). Charts, graphs, and tables have been used to give a graphical presentation of the data about the characteristics of the sampled employees of the Islamic banks operating in the kingdom of Saudi Arabia. A Five-point Likert-scale was used to assign scores to the responses of the employees of Islamic banks operating in the kingdom of Saudi Arabia with regards to various sub dimensional questions. The average mean scores of each dimension were investigated and summed up in order to give the average mean score assignable to employee’s perceptions. The revelations and that in this chapter from the input basis of the upcoming chapters where relevant.

6.2 Profiles of Respondents

This section makes use of descriptive statistics to describe the profiles of the employees that participated in this research with regards to their gender, age, and level of education.

6.2.1 Profile of Employees
Table 6.1 Gender of the Participating Employees of Islamic Banks in Saudi Arabia

<table>
<thead>
<tr>
<th>Gender of Employees</th>
<th>Number of Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>47</td>
<td>67.1%</td>
</tr>
<tr>
<td>Female</td>
<td>23</td>
<td>32.9%</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100%</td>
</tr>
</tbody>
</table>

According to Table 6.1 and Figure 6.1, the majority of the respondents of the Islamic banks’ employees are male. 47 of the respondents are male and they represent 67.1 percent of the total respondents whereas 23 respondents, who form 32.9 percent of the total of respondents, of the Islamic banks’ employees are female.

Figure 6.1 Gender Distribution of the Sampled Employees of Islamic Banks in Saudi Arabia
Table 6.2 Age Group Distribution of the Sampled Employees of Islamic Banks in Saudi Arabia

<table>
<thead>
<tr>
<th>Age of Employees</th>
<th>Number of Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 18 years</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>From 18 to 21 years</td>
<td>5</td>
<td>7.1%</td>
</tr>
<tr>
<td>From 22 to 30 years</td>
<td>25</td>
<td>35.7%</td>
</tr>
<tr>
<td>From 31 to 40 years</td>
<td>30</td>
<td>42.9%</td>
</tr>
<tr>
<td>Above 40 years</td>
<td>10</td>
<td>14.3%</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100%</td>
</tr>
</tbody>
</table>

It is evident from Table 6.2 and Figure 6.2 that out of the total respondents, there is no respondent aged below 18 years. There are five respondents aged between 18 to 21 years. These represent 10 percent of the total respondents of Islamic banks’ employees. There are 10 respondents aged above 40 years who represent 14.3 percent of the total respondents of Islamic banks’ employees in Saudi Arabia.

The second majority of the respondents are in the age group of 22 to 30 years. There are 25 respondents in this age group who represent 35.7 percent of the total respondents of Islamic banks’ employees in Saudi Arabia.

The majority of the respondents of Islamic banks’ employees are in the age group of 31 to 40 years. Within this age bracket, there are 30 respondents who represent 42.9 percent of the total respondents. It can be gleaned from Table 6.2 and Figure 6.2 that the majority of the total respondents are aged between 18 to 40 years. This age bracket has 60 out of 70 respondents. The 18 to 40 years age bracket contains 90
percent of the total of respondents. These demographic figures are in line with the recent census of the population of Saudi Arabia conducted in 2019, which revealed that the median age in Saudi Arabia is 30.2 years (Saudi Arabia Population, 2019).

**Figure 6.2 Age Distribution of the Employees of Islamic Banks in Saudi Arabia who participated in this research**

![Age Distribution of Participating Employees](image)

<table>
<thead>
<tr>
<th>Age Distribution</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 18 years</td>
<td>1%</td>
</tr>
<tr>
<td>From 18 to 21 years</td>
<td>14.3%</td>
</tr>
<tr>
<td>From 22 to 30 years</td>
<td>7.1%</td>
</tr>
<tr>
<td>From 31 to 40 years</td>
<td>35.7%</td>
</tr>
<tr>
<td>Above 40 years</td>
<td>42.9%</td>
</tr>
</tbody>
</table>

70 responses
Table 6.3 Salary Averages of the Sampled Employees of Islamic Banks in Saudi Arabia

<table>
<thead>
<tr>
<th>Average Salary of Employees</th>
<th>Number of Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5000 SR</td>
<td>3</td>
<td>4.4%</td>
</tr>
<tr>
<td>From 5000 to 10000 SR</td>
<td>36</td>
<td>52.9%</td>
</tr>
<tr>
<td>From 10000 to 15000 SR</td>
<td>20</td>
<td>29.4%</td>
</tr>
<tr>
<td>More than 15000 SR</td>
<td>9</td>
<td>13.2%</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 6.3 and Figure 6.3 indicate that the majority of the respondents are in the salary average bracket of 5000 to 10000 SR. 36 respondents are in the salary bracket of 5000 to 10000 SR. These represent 60 percent of the total respondents. On the other hand, very few – that is 3 respondents – are in the salary average of less than 5000 SR and they represent 4.4 percent of the total respondents. The second majority of the respondents are in the salary average of 10000 to 15000 SR. In the salary average bracket of 10000 to 15000 SR, there are 20 respondents who represent 29.4 percent of the total of respondents of Islamic banks employees in Saudi Arabia. Moreover, 9 respondents of Islamic banks employees earn more than 15000 SR. These 9 respondents represent 13.2 percent of the total respondents. Also, the average salaries of two respondents are missing.
Figure 6.3 Distribution of the Salary Averages of Participating Employees of Islamic Banks in Saudi Arabia

Table 6.4 Marital Status of the Sampled Employees of Islamic Banks in Saudi Arabia

<table>
<thead>
<tr>
<th>Marital Status of Employees</th>
<th>Number of Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>19</td>
<td>27.9%</td>
</tr>
<tr>
<td>Married</td>
<td>39</td>
<td>57.4%</td>
</tr>
<tr>
<td>Divorced or Widow</td>
<td>10</td>
<td>14.7%</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table 6.4 and Figure 6.4 indicate that the majority of the participating employees of Islamic banks of Saudi Arabia – who were 39 respondents – are married. These represent 57.4 percent of the total respondents. On the other hand, 19 respondents are single. The respondents that are single represent 27.9 percent of the total respondents. 10 respondents – who represent 14.7 percent of the total respondents – are divorced or widowed. The marital status of two respondents is missing from the collected data.

**Figure 6.4 Distribution of the marital status of the employees of Islamic banks operating in Saudi Arabia who partipated in this research**

<table>
<thead>
<tr>
<th>Marital Status</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>14.7%</td>
</tr>
<tr>
<td>Married</td>
<td>57.4%</td>
</tr>
<tr>
<td>Divorced or Widow</td>
<td>14.7%</td>
</tr>
</tbody>
</table>

68 responses
Table 6.5 The Level of Education of the Sampled Employees of Islamic Banks in Saudi Arabia

<table>
<thead>
<tr>
<th>Level of Education of Employees</th>
<th>Number of Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School</td>
<td>3</td>
<td>4.3%</td>
</tr>
<tr>
<td>Diploma</td>
<td>24</td>
<td>34.3%</td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>32</td>
<td>45.7%</td>
</tr>
<tr>
<td>Master Degree</td>
<td>11</td>
<td>15.7%</td>
</tr>
<tr>
<td>PhD</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

It can be seen from Table 5.5 that there is no respondent educated below high school education. Also, none of the respondents has a PhD degree from the total respondents of Islamic banks’ employees in Saudi Arabia. The majority of the respondents of the level of education have a bachelor’s degree. There are 32 respondents have a bachelor’s degree. Those who represent 45.7 percent of the total respondents. The second majority of the respondents has diploma degree. There are 24 respondents – 34.3 percent of the total respondents – have bachelor’s degree whereas 3 respondents being 4.3 percent of the total respondents have high school education.
6.3 Business Ethics of Islamic Banks in Saudi Arabia: Employees Perceptions

Business ethics deals with the social responsibility of an organization to stakeholders such as employees, customers, society, and government (Turker, 2009). Six dimensions are used in this research to assess business ethics. The six dimensions include mission and vision statement; products and services; *zakah*, charity, and benevolent funds; commitment towards employees; commitment towards debtors; and commitment towards the community. The selected dimensions for employees are commitment towards employees; commitment towards debtors; products and services; *zakah*, charity, and benevolent funds; and commitment towards community.
Each dimension has more than one sub-dimensions and each question is related directly to one of the sub-dimension. The two questionnaires of Islamic banks' customers and employees share three dimensions which include: products and services; *zakah*, charity, and benevolent funds; and commitments towards community. The response of the respondents on each question is ranked by the Five-point Likert Scale where 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree. The mean scores of the respondents under each dimension are analysed. The Five-point Likert Scale is presented in Table 5.6.

**Table 6.6 Five-point Likert scale**

<table>
<thead>
<tr>
<th>Likert Scale</th>
<th>Interval-level (Distance)</th>
<th>Difference</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.00 – 1.80</td>
<td>0.80</td>
<td>Strongly Disagree</td>
</tr>
<tr>
<td>2</td>
<td>1.81 – 2.60</td>
<td>0.80</td>
<td>Disagree</td>
</tr>
<tr>
<td>3</td>
<td>2.61 – 3.40</td>
<td>0.80</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>3.41 – 4.20</td>
<td>0.80</td>
<td>Agree</td>
</tr>
<tr>
<td>5</td>
<td>4.21 – 5.00</td>
<td>0.80</td>
<td>Strongly Agree</td>
</tr>
</tbody>
</table>
The five response options in the Five-point Likert Scale represent the distance of measurement (Reips and Funke, 2008). Drawing up the Five-point Likert Scale involves the calculation of the distance between the data items. To find the distance between the data items, the range must be calculated first. In this case, the range is 4 – which is calculated as 5–1=4. After the range has been calculated, then the distance is calculated by dividing the range by the number of options (categories) as follows:

\[ \frac{4}{5} = 0.80 \]

From the above results, it can be inferred that the difference between each distance is 0.80. For example, the first distance is for “Strongly Disagree” is 1+0.80 = 1.80 – just as it is mentioned in the above table.

Before doing the analysis, the reliability of the statistics was tested using Cronbach’s Alpha.

**Table 6.7 Reliability Statistics Test for Employees Perceptions**

<table>
<thead>
<tr>
<th>Cronbach’s Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.983</td>
<td>29</td>
</tr>
</tbody>
</table>

The Cronbach’s Alpha reliability number for the customers’ questions is .948. This score is strong enough to give the green light to proceed with the analysis for this chapter (Reips and Funke, 2008).
Table 6.8 Mean analysis of Dimension 4: Commitment Towards Employees of Islamic banks in Saudi Arabia

<table>
<thead>
<tr>
<th>Questions</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 Do you believe that Islamic Banks positively appreciate employees?</td>
<td>70</td>
<td>3.83</td>
<td>0.868</td>
</tr>
<tr>
<td>4.2 Do you believe that Islamic banks are committed to hiring enough and expert staff?</td>
<td>70</td>
<td>3.70</td>
<td>0.874</td>
</tr>
<tr>
<td>4.3 Do you believe that Islamic banks are committed to implementing the equal opportunities policy?</td>
<td>70</td>
<td>3.86</td>
<td>0.856</td>
</tr>
<tr>
<td>4.4 Do you believe that Islamic banks are providing competitive salaries?</td>
<td>70</td>
<td>3.84</td>
<td>0.895</td>
</tr>
<tr>
<td>4.5 Do you believe that Islamic banks are committed to promoting employee welfare?</td>
<td>70</td>
<td>3.74</td>
<td>0.879</td>
</tr>
<tr>
<td>4.6 Do you believe that Islamic banks are committed to providing training: <em>Shari’ah</em> awareness?</td>
<td>70</td>
<td>4.01</td>
<td>0.940</td>
</tr>
<tr>
<td>4.7 Do you believe that Islamic banks are committed to providing training: monetary?</td>
<td>70</td>
<td>3.81</td>
<td>0.921</td>
</tr>
<tr>
<td>4.8 Do you believe that Islamic banks are committed to providing rewards for employees?</td>
<td>70</td>
<td>3.80</td>
<td>0.861</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>70</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Average Mean**

3.82
Table 6.7 presents the mean analysis for the sub-dimensional questions of the larger fourth dimension that deals with the commitment of Islamic banks operating in the Kingdom of Saudi Arabia towards employees. The highest mean score, 4.01, is with regards to the sub-dimensional question, “Do you believe that Islamic banks are committed to providing training that increases Shari’ah awareness?” Put simply, the majority of employees agree with Islamic banks' commitment to creating more awareness of the Shari’ah to their employees. As such, it can be inferred that employees agree with the assertion that Islamic banks are committed to ensuring that their employees gain more knowledge of the Shari’ah. The lowest mean score, 3.70, is with the sub-dimensional question, “Do you believe that Islamic banks are committed to hiring enough and expert staff?” Hence the majority of the employees agree with the claims that Islamic banks are committed to hiring adequate and capable members of staff. The average mean score for ‘Dimension 4: Commitment towards Community’ is 3.82. The score of 3.82 falls on the ‘Agree’ interval of the Five-point Likert Scale. This indicates that the majority of the employees generally approve of the activities and policies of Islamic banks with regards to staff management and development.
Figure 6.6 Mean Analysis for Dimension 4: Commitment Towards Employees of Islamic banks in Saudi Arabia

Sub-dimensions of Commitment Towards Employees
<table>
<thead>
<tr>
<th>Questions</th>
<th>N</th>
<th>Mean</th>
<th>Std.Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Do you believe that Islamic banks are committed to an appropriate debt policy?</td>
<td>70</td>
<td>3.79</td>
<td>0.899</td>
</tr>
<tr>
<td>5.2 Do you believe that Islamic banks have a positive attitude towards debt products?</td>
<td>70</td>
<td>3.80</td>
<td>0.957</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>70</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average Mean</strong></td>
<td></td>
<td><strong>3.79</strong></td>
<td></td>
</tr>
</tbody>
</table>

The dimensional mean scores presented in Table 6.8 are close to each other. They are nearly clustered together. The highest mean score is 3.80. In view of that, employees agree that Islamic banks have appropriate debt policies in place. The lowest mean score is 3.79. This represents the fact that employees agree to the stance of Islamic banks on debt policy. The average mean score is 3.79. For that reason, to a large extent, the majority of the employees working for the Islamic banks operating in the Kingdom of Saudi Arabia agree to and approve of the policies of their employers towards their debtors.
Figure 6.7 - Mean Analysis for Dimension 5: Commitment Towards Debtors of Islamic Banks in Saudi Arabia

Sub-dimensions of Commitment Towards Debtors

- Debt policy
- Attitude towards debt products
Table 6.10 Mean analysis of Dimension 2: Products and Services of Islamic Banks in Saudi Arabia

<table>
<thead>
<tr>
<th>Questions</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Do you believe that Islamic banks are not involving in non-permissible activities?</td>
<td>70</td>
<td>3.91</td>
<td>0.880</td>
</tr>
<tr>
<td>2.2 Do you believe that Islamic banks are not involved in non-permissible activities- % of profit?</td>
<td>70</td>
<td>3.96</td>
<td>0.842</td>
</tr>
<tr>
<td>2.3 Do you believe that it is important for Islamic Banks to introduce new products?</td>
<td>70</td>
<td>3.90</td>
<td>0.935</td>
</tr>
<tr>
<td>2.4 Do you believe that Islamic banks are relying on the approval of a new product based on Shari’ah principles?</td>
<td>70</td>
<td>4.17</td>
<td>0.932</td>
</tr>
<tr>
<td>2.5 Do you believe that Islamic banks are defining products clearly?</td>
<td>70</td>
<td>3.93</td>
<td>0.906</td>
</tr>
<tr>
<td>2.6 Do you believe that Islamic banks are providing a clear explanation of their investment activities in general?</td>
<td>70</td>
<td>3.94</td>
<td>0.899</td>
</tr>
<tr>
<td>2.7 Do you believe that Islamic banks are providing a clear explanation of their financing projects in general?</td>
<td>70</td>
<td>3.97</td>
<td>0.963</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>70</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average Mean</strong></td>
<td></td>
<td><strong>3.97</strong></td>
<td></td>
</tr>
</tbody>
</table>
Table 6.9 presents the mean analysis and standard deviation with regards to the sub-dimensional questions that are pertinent to the second dimension that deals with the products and services offered by Islamic banks from the perspectives of employees. The highest score, 4.17, is with regards to the sub-dimensional question, “Do you believe that Islamic banks are relying on the approval of a new product based on the Shari’ah principles?” Consequently, the majority of the employees perceive Islamic banks as having an agreeable level of compliance when it comes to the reliance on the fundamental principles of Shari’ah with regards to the approval of new products. As such, it is very likely that the products and services introduced to the market or offered to customers comply with the fundamental principles of the Shari’ah. From the above foregoing, it can also be inferred that the Islamic banks operating in the Kingdom of Saudi Arabia are observing the directions of their respective Shari’ah Advisory Boards and governing councils. The lowest score of 3.90 is with regards to the sub-dimensional question that asks, “Do you believe that it is important for Islamic banks to introduce new products?”. Hence the majority of the employees are of the view that it is important for Islamic banks to introduce new products to the market. To bolster this score, it is imperative for Islamic banks to commit to research and development and invest in activities and projects that purpose to pique the interests of employees towards the creation of new products and services. The average dimensional mean score is 3.97. Therefore, on average, employees agree with the various stances taken by their respective Islamic bank employers with regards to products and services.
Figure 6.8 Mean Analysis for Dimension 1: Products and Services of Islamic Banks in Saudi Arabia

Sub-dimensions of Products and Services

- No involvement in non-permissible activities.
- Involvement in non-permissible activities (20% of profit).
- Introduced new product.
- Glossary/definition of products.
- Investment activities (general).
- Financing activities (general).

Mean

Std. Deviation
Table 6.11 Mean Analysis of Dimension 3: Zakah, Charity and Benevolent Funds of Islamic banks in Saudi Arabia

<table>
<thead>
<tr>
<th>Questions</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 Do you believe that Islamic banks are fully responsible for Zakah payment?</td>
<td>70</td>
<td>3.76</td>
<td>0.824</td>
</tr>
<tr>
<td>3.2 Do you believe that Islamic banks make direct payment of Zakah?</td>
<td>70</td>
<td>3.74</td>
<td>0.879</td>
</tr>
<tr>
<td>3.3 Do you believe that Islamic banks are diversifying the sources of Zakah?</td>
<td>70</td>
<td>3.74</td>
<td>0.879</td>
</tr>
<tr>
<td>3.4 Do you believe that Islamic banks are responsible for Zakah to be paid by individuals?</td>
<td>70</td>
<td>3.57</td>
<td>0.926</td>
</tr>
<tr>
<td>3.5 Do you believe that Islamic banks are paying attention to the sources of charity (sadaqa)?</td>
<td>70</td>
<td>3.49</td>
<td>0.959</td>
</tr>
<tr>
<td>3.6 Do you believe that Islamic banks are paying attention to the sources of qard al-hassan?</td>
<td>70</td>
<td>3.11</td>
<td>1.043</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>70</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average Mean</strong></td>
<td></td>
<td>3.57</td>
<td></td>
</tr>
</tbody>
</table>

Table 6.10 presents the sub-dimensional questions as well as their associated scores with regards to the third dimension that deals with Zakah, charity, and benevolent funds of Islamic banks. As it can be seen from the mean scores, most of the employees do not strongly approve of the standing of Islamic banks with regards to Zakah, charity, and benevolent funds. As a result, the Islamic banks operating in the Kingdom of Saudi Arabia could be having a lacklustre performance with regards to fulfilling the obligations imposed upon them chiefly by the Shari’ah. The highest mean score is with regards to the sub-dimensional question, “Do you believe that Islamic banks are fully responsible for Zakah payment?” For that reason, the general opinion
of the majority of employees is that employees find satisfaction in the current standing of Islamic banks with respect to the payment of Zakah. The lowest mean score of 3.11 is with regards to the sub-dimensional question, “Do you believe that Islamic banks are paying attention to the sources of qard al-hassan?”. In other terms, the majority of workers are equivocal about Islamic banks attention to the sources of qard al-hassan. The average mean score for the third dimension is 3.57. Put another way, from an employees perspective, the actions and directions taken by Islamic banks with regards to Zakah, charity, and benevolent funds are sufficient. According to the Saudi Arabian Monetary Authority’s (SAMA) governor, Saudi Arabian based Islamic banks pay taxes at the rate of between 12 – 14% of their net profits (Mubasher, 2019).

**Figure 6.9 Mean Analysis for Dimension 3: Zakah, Charity and Benevolent Fundsof Islamic Banks in Saudi Arabia**
Table 6.12 Mean Analysis of Dimension 6: Commitment Towards Community of Islamic Banks in Saudi Arabia

<table>
<thead>
<tr>
<th>Questions</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.6 Do you believe that Islamic Banks have positively contributed to the</td>
<td>70</td>
<td>3.79</td>
<td>0.931</td>
</tr>
<tr>
<td>improvement of your life situation and/or the well-being of those who</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>are close to you as well as the society at large?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.1 Do you believe that Islamic Banks have positively contributed to</td>
<td>70</td>
<td>3.87</td>
<td>0.900</td>
</tr>
<tr>
<td>promoting jobs opportunities?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.2 Do you believe that Islamic Banks have positively contributed to</td>
<td>70</td>
<td>3.71</td>
<td>0.995</td>
</tr>
<tr>
<td>supporting non-profit organisations that provide benefits to the society?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.3 Do you believe that Islamic Banks have positively contributed to</td>
<td>70</td>
<td>3.79</td>
<td>0.946</td>
</tr>
<tr>
<td>participating in government social activities?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.4 Do you believe that Islamic Banks have positively contributed to</td>
<td>70</td>
<td>3.56</td>
<td>1.099</td>
</tr>
<tr>
<td>sponsoring community activities?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.5 Do you believe that Islamic Banks have positively contributed to</td>
<td>70</td>
<td>3.57</td>
<td>1.03</td>
</tr>
<tr>
<td>organising and sponsoring conferences on Islamic economics and other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>educational areas?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>70</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Average Mean 3.71
Table 6.11 shows the performance of Islamic banks with regards to the sixth dimension that deals with the commitment of Islamic banks towards the community. All the mean scores for this dimension are in line with a clear point of agreement. The highest mean score of 3.87, is with regards to the sub-dimensional question, “Do you believe that Islamic banks have positively contributed to promoting job opportunities”. In other terms, the general employee perception is in agreement with the fact that Islamic banks have made palpable positive contributions when it comes to promoting job opportunities. Some employees could agree with the contributions of Islamic banks towards the promotion of job opportunities through the extension of scholarships. The lowest score is 3.56. It is with regards to the sub-dimensional question, “Do you believe that Islamic banks have positively contributed towards sponsoring community activities?” This indicates that most employees agree that Islamic banks made contributions towards the improvement of the plight of the community. A score of 3.71 indicates that Islamic banks operating in the Kingdom of Saudi Arabia have a fair performance when it comes to fulfilling their contributions towards the society.
Figure 6.10 Mean Analysis for Dimension 6: Commitment Towards Community of Islamic Banks in Saudi Arabia
Table 6.13 Classification of Business Ethics According to Mean analysis of Ethical Performance Dimensions for Employees Perspectives.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>N</th>
<th>Mean</th>
<th>Std.Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dimension 4: Commitment Towards Employees</td>
<td>70</td>
<td>3.8250</td>
<td>.80234</td>
</tr>
<tr>
<td>Dimension 5: Commitment Towards Debtors</td>
<td>70</td>
<td>3.7929</td>
<td>.89074</td>
</tr>
<tr>
<td>Dimension 2: Products and Services</td>
<td>70</td>
<td>3.9694</td>
<td>.83932</td>
</tr>
<tr>
<td>Dimension 3: Zakah, Charity, and Benevolent Funds</td>
<td>70</td>
<td>3.5690</td>
<td>.81575</td>
</tr>
<tr>
<td>Dimension 6: Commitment Towards Community</td>
<td>70</td>
<td>3.7143</td>
<td>.91733</td>
</tr>
<tr>
<td><strong>Total of Mean</strong></td>
<td></td>
<td><strong>3.7741</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 6.12 gives a summary of the mean scores of Islamic banks with regards to their ethical performance from the perspectives of employees. All scores fall short of the agreeable mean score of at least for. The mean score of the ethical performance of Islamic banks from the perspectives of employees is 3.77. This is indicative of the fact that that on average, most employees approve of the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia.
6.4 Reflection on the Profile of Sampled Employees

Islamic banking institutions are expected to be equal opportunity employers pursuant to the principles of the Shari’ah. As such, they are expected to take into consideration the various needs of their employees. Islamic banks are not expected to discriminate on any basis. Therefore, if Islamic banks fully lived up to the guiding Shari’ah principles, then varying the constitution of the profile of employees would not result in significant shifts in the aggregate dimensional scores of the perceptions of employees. However, at a personal level, there are factors that might influence the perception of Islamic banks. It can be stated that one of the key influential factors of the sampled employees is education as the level of education can positively influence
the needs and views of individual employees. Thus, it may have an impact on their expectations, which may influence their perceptions with regards to the ethical performance of their employers.

6.5 Conclusion

This chapter made fastidious presentation and analysis of the raw data collected from employees with regards to their perceptions about the ethical behaviour of their employers – the Islamic banks operating in the Kingdom of Saudi Arabia. This chapter made a fastidious explication of the raw data collected through the administration of questionnaires to customers. The research methodology employed in the actual real-world study work for this chapter is mixed-method; both quantitative and qualitative research methodologies were applied in the study work conducted for this chapter. The research design of this chapter falls under the category of exploratory research. The chapter commences with an introduction that briefly pinpoints the area of focus of this chapter which zeroes in on the assessment of the ethical performance of Islamic banks from the perspectives of employees. Next after the introductory section is the profiling of employees. It was necessary to profile employees in lines of gender and level of education in order to analyze the response patterns. After describing the profiles of employees, this chapter proceeded to present the mean scores of the various sub-dimensional questions. The overall mean score of the ethical performance of Islamic banks is 3.77 and this conveys the message that a lot of employees give a clean bill of health with regards to the ethical performance of their employers. The majority of the employees feel that Islamic banks are doing a good job when it comes to meeting their ethical obligations. The findings of this chapter form the input basis of the forthcoming chapters where relevant.
Chapter Seven

A Comparative Analysis of the Ethical Performance Dimensions from the Perceptions of Islamic Banks’ Employees and Customers in Saudi Arabia: An Inferential Analysis
Chapter Seven

A Comparative Analysis of the Ethical Performance Dimensions from the Perceptions of Islamic Banks’ Employees and Customers in Saudi Arabia: An Inferential Analysis

7.1 Introduction

This chapter is a build-up of the previous chapters. It purposes to compare the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from the perceptions of Islamic banks’ employees and customers. This chapter presents the mean value for each dimension shared by employees and customers of Islamic banks in Saudi Arabia in a comparative manner that enables the study to compare the dimensions. It also elucidates test the statistical significance of the variances between the dimensions by adopting the Mann-Whitney U test.

This chapter consists of three sections. Section 7.2 that immediately follows this introduction presents a comparison of the mean for dimension two: products and services from the perceptions of Islamic banks’ employees and customers. Section 7.3 shows comparisons of the mean scores for dimension three: zakah, charity, and benevolent funds from the perception of Islamic banks’ employees and customers in Saudi Arabia. Section 7.4 provides a comparison of the mean for dimension 6: commitment towards community from the perceptions of Islamic banks’ employees and customers in Saudi Arabia.

7.2 A Comparative Analysis of Dimension Two: Products and Services

This section compares the mean value of all sub-dimensions associated with the dimension of products and services between customers and employees in Islamic banks in Saudi Arabia. The information that forms the basis for this section was obtained by summarizing, ordering, and analyzing the sub-dimensional and overall mean scores for ‘Dimension two: Products and Services’ from the perspectives of
Islamic banks’ customers and employees through descriptive statistics that were presented earlier on in chapter five Table 5.8 and chapter 6 Table 6.9,

Before comparing the mean values and testing the level of significance of the variances among the sub-dimensions of products and services, the normality of the data distribution was tested by using Kolmogorov-Smirnov test and Shapiro-Wilk as shown in as the following Table 7.1.

**Table 7.1 Test of Normality (The Mean for Dimension Two: Products and Services)**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Kolmogorov-Smirnov</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>df</td>
</tr>
<tr>
<td>Mean for Dimension 2: Products and Services</td>
<td>.064</td>
<td>210</td>
</tr>
</tbody>
</table>

Table 7.1 and Figures 7.1, 7.2, and 7.3 show that the (sig.) values in both Kolmogorov-Smirnov and Shapiro-Wilk tests are less than .05. This forms the ground for the rejection of the null hypothesis. It also means that the data for ‘Dimension two: Products and Services’ are not normally distributed. As the data are not normally distributed, a nonparametric test (Mann-Whitney Test) has been deployed to test the level of significance of the variances among the sub-dimensional mean scores of the ‘Dimension two: Products and Services’. This is presented in Table 7.2.
Figure 7.1 Test of Normality (The Mean for Dimension Two: Products and Services)

Normal Q-Q Plot of Mean for Dimension 2: Products and Services

Table 7.2 Mann-Whitney U Test (Comparison of the Mean for Dimension Two: Products and Services from the perceptions of Islamic banks’ employees and customers in Saudi Arabia)

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Types of Respondents</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean for Dimension 2: Products and Services</td>
<td>Customers</td>
<td>140</td>
<td>88.75</td>
<td>12425.50</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
<td>70</td>
<td>138.99</td>
<td>9729.50</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>210</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
It can be observed from Table 7.2 that the mean rank of the mean for ‘Dimension two: Products and Services’ for customers is 88.75 with the Sum of Ranks value of 12425.50. These scores are lower than those of ‘Dimension two: Products and Services’ valuation from employees’ perspectives. The Mean Rank value for employees on ‘Dimension two: Products and Services’ is 138.99 and the Sum of Rank is 9729.50. Thus, the perception of employees of Saudi Arabian banks with regards to ‘Dimension two: Products and Services’ is higher than that of customers who patronize the Islamic banks operating in the Kingdom of Saudi Arabia.

7.3 A Comparative Analysis of Dimension Three: Zakah, Charity and Benevolent Funds

This section compares the mean value of all sub-dimensions associated with ‘Dimension three: Zakah, charity, and benevolent funds’ with respect to the perceptions of customers and employees of Islamic banks in Saudi Arabia.

Prior to comparing the mean values and testing the level of significance of the variances among the sub-dimensions of ‘Dimension three: Zakah, charity, and benevolent funds’, the normality of the data distribution has been tested by using Kolmogorov-Smirnov test and Shapiro-Wilk as presented in Table 7.3.
Table 7.3 Test of Normality (The Mean for Dimension Three: Zakah, Charity and Benevolent Funds)

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Kolmogorov-Smirnov</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>df</td>
</tr>
<tr>
<td>Mean for Dimension 3: Zakah, Charity and Benevolent Funds</td>
<td>.058</td>
<td>210</td>
</tr>
</tbody>
</table>

Table 7.3 and Figures 7.4, 7.5, and 7.6 show that the (Sig.) values in the Kolmogorov-Smirnov test and Shapiro-Wilk test are less than .05. Consequently, the null hypothesis is rejected. Therefore, the data sourced for the ‘Dimension three: Zakah, charity, and benevolent funds’ are not normally distributed. As the data are not normally distributed, a nonparametric test (Mann-Whitney Test) has been deployed to test the level of significance of the variances among the mean scores of ‘Dimension three: Zakah, charity, and benevolent funds’. This is presented in Table 7.4.

Figure 7.2 Test of Normality (The Mean for Dimension Three: Zakah, Charity and Benevolent Funds)
Table 7.4 Mann-Whitney U Test (Comparison of the Mean for Dimension Three: Zakah, Charity and Benevolent Funds from the Perceptions of Islamic Banks’ Employees and Customers in Saudi Arabia)

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Types of Respondents</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean for Dimension 3: Zakah, Charity, and Benevolent Funds</td>
<td>Customers</td>
<td>140</td>
<td>88.85</td>
<td>12438.50</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
<td>70</td>
<td>138.81</td>
<td>9716.50</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>210</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
As it can be gleaned from Table 7.4, the mean rank score for customers with regards to ‘Dimension three: Zakah, charity, and benevolent funds’ for customers is 88.85 with a Sum of Ranks value 12438.50. These scores are lower than the ones for employee’s perception. The mean rank of employees for ‘Dimension three: Zakah, charity, and benevolent funds’ is 138.81 with sum of rank 9716.50. Thus, with regards to ‘Dimension three: Zakah, charity, and benevolent funds’ the perception of employees is higher than that of customers.

7.4 A Comparative Analysis of Dimension Six: Commitment Towards Community

This section compares the mean values of all sub-dimensions associated with ‘Dimension six: commitment towards community’ of Islamic banks operating in the Kingdom of Saudi Arabia.

Prior to comparing the mean values testing the level of significance of the variances among the sub-dimension of commitment towards the community, the normality of the data distribution has been tested by using Kolmogorov-Smirnov test and Shapiro-Wilk is shown as in Table 7.5.

**Table 7.5 Test of Normality (The Mean for Dimension Six: Commitment Towards Community)**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Kolmogorov-Smirnov</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>df</td>
</tr>
<tr>
<td>Mean for Dimension 6: Commitment Towards Community</td>
<td>.095</td>
<td>210</td>
</tr>
</tbody>
</table>
Table 7.5 and Figures 7.7, 7.8, and 7.9 suggest that the (Sig.) value in both tests Kolmogorov-Smirnov and Shapiro-Wilk is less than .05, and this makes the case for the rejection of the null hypothesis. Therefore, the data that relates to the means of the ‘Dimension six: commitment towards community’ are not normally distributed. As the data are not normally distributed, a nonparametric test (Mann-Whitney Test) has been deployed to test the level of significance of the variances among the mean of the dimension of commitment towards the community which is shown in Table 7.6.

Figure 7.3 Test of Normality (The Mean for Dimension Six: Commitment Towards Community)

Table 7.6 Mann-Whitney U Test (Comparison of the Mean for Dimension Six:
Commitment Towards Community from the Perceptions of Islamic Banks’ Employees and Customers in Saudi Arabia)

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Types of Respondents</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean for Dimension 6: Commitment Towards Community</td>
<td>Customers</td>
<td>140</td>
<td>85.19</td>
<td>11926.00</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
<td>70</td>
<td>146.13</td>
<td>10229.00</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>210</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As it can be seen from Table 7.6, the sub-dimensional mean rank score for customers for ‘Dimension six: commitment towards community’ for customers is 85.19 with the sum of ranks 11926.00. These scores are lower than those for employees. The mean rank of the mean rank value for employees for ‘Dimension six: commitment towards community’ is 146.13 while the value for the sum of rank is 10229.00. Thus, employees have a higher perception as compared customers when it comes to ‘Dimension six: commitment towards community’.
Table 7.7 Test Statistics (The Mean for Dimension Two, Dimension Three, and Dimension Six)

<table>
<thead>
<tr>
<th></th>
<th>Mean for Dimension 2: Products and Services</th>
<th>Mean for Dimension 3: Zakah, Charity, and Benevolent Funds</th>
<th>Mean for Dimension 6: Commitment Towards Community</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mann-Whitney U</td>
<td>2555.500</td>
<td>2568.500</td>
<td>2056.000</td>
</tr>
<tr>
<td>Wilcoxon W</td>
<td>12425.500</td>
<td>12438.500</td>
<td>11926.000</td>
</tr>
<tr>
<td>Z</td>
<td>-5.657</td>
<td>-5.626</td>
<td>-6.865</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
</tbody>
</table>

The Mann-Whitney U-test is conducted to assess the statistical significance of the variances in the dimensions of ethical performance between customers and employees perspectives of Islamic banks in Saudi Arabia. As seen in Tables 7.2, 7.4, and 7.6, Dimension three: Zakah, charity, and benevolent funds has the highest mean rank (88.85) compared to dimension 2 (88.75) and dimension 6 (85.19) which is commitment towards the community. However, there is evidence has been found to support a significant statistical difference between the three dimensions from the perceptions of Islamic banks’ employees and customers in term of mean value. The differences among these dimensions are significant statistically different because the Mann-Whitney U-test produced $u = 2555.500$, $z = -5.657$, $p = .000$ (2-tailed) for dimension two which is products and services. The result indicates that there is a significant statistical difference between the perceptions of employees and customers.
of Islamic banks regarding to Dimension two: products and services because the p-value is less than .05, \(u = 2568.500, z = -5.626, p = .000\) (2-tailed) for Dimension three: Zakah, charity, and benevolent funds. The result indicates that there is a significant statistical difference between the perceptions of employees and customers of Islamic banks regarding to the Dimension 3: Zakah, charity, and benevolent funds because the p-value is less than .05, \(u = 2056.000, z = -6.865, p = .000\) (2-tailed) for Dimension six: commitment towards community, where the p-value of the U test for these dimensions are less than the confidence level 0.05, so there is significant statistical difference between the perceptions of employees and customers of Islamic banks regarding to the dimension six which is commitment towards community because the p-value is less than .05.

Consequently, given the above foregoing, there is a positive association between ethical performance and Islamic banks’ employee’s perspectives. Hence, the higher positive perception of ethical performance of Islamic banks based of in term of employee's perspectives due to the Islamic financial principles that Islamic banks operate based on.

7.5 Conclusion

This chapter presented a comparison of the shared dimensions between Islamic banks’ customers and employees from their perceptions. The statistical analysis carried out in this chapter supports the notion that Islamic banks perform superior of all aspects of ethical performance based on their employees and customers perspectives.

Section 7.2 compared the mean values of all the sub-dimensions associated with Dimension two: products and services from the perceptions of Islamic banks’ employees and customers in Saudi Arabia. The statistical analysis carried out in this section shows that mean rank and sum of rank values of employees perception are higher than those of customers s based on their perceptions regards to Dimension
two: products and services. There is a significant statistical difference between the perceptions of employees and customers of Islamic banks regarding to dimension two which is products and services because the p-value is less than .05. However, the p-value is .000 and if p-value < .01 that means “highly significant”. Given the above foregoing, the null hypothesis has been rejected.

Section 7.3 compared the mean values of all sub-dimensions associated with dimension of zakah, charity, and benevolent funds from the perceptions of Islamic banks’ employees and customers in Saudi Arabia. This section has revealed that mean rank with the sum rank of employees is higher than customers based on their perceptions regard to the dimension of zakah, charity, and benevolent funds although there is significant statistical difference between the perceptions of employees and customers of Islamic banks regarding to the dimension two which is products and services because the p-value is less than .05. However, the p-value is .000 and if p-value < .01 that means “highly significant”. Therefore, the null hypothesis has been rejected.

Section 7.4 has compared the mean value of all sub-dimensions associated with dimension of commitment towards community from the perceptions of Islamic banks’ employees and customers in Saudi Arabia. This section also has revealed that mean rank with the sum rank of employees is higher than customers based on their perceptions regard to the dimension of products and services although there is significant statistical difference between the perceptions of employees and customers of Islamic banks regarding to the dimension two which is commitment towards community because the p-value is less than .05. However, the p-value is .000 and if p-value < .01 that means “Highly significant”. Therefore, the null hypothesis has been rejected.

This study has unearthed that the mean values of the employee’s perspectives about the ethical performance of Islamic banks in Saudi Arabia are higher than the average mean values of customers’ perspectives. Thus, the Islamic banks’ employees agreed
that there is a high level of ethical performance in their banking activities due to the Islamic financial principles that Islamic banks base their operations on. On the other hand, the average mean values of customers’ perspectives are in the neutral point as identified by the Five-point Likert Scale. Based on the above discussion, it is evident that there is a positive correlation between Islamic financial principles and business ethics from employees' and customers' perspectives. Overall, due to the value of p being equal to .000, the null hypotheses have been rejected for customers and employees.
Chapter Eight

Critical Reflections on the Findings
Chapter Eight

Critical Reflections on the Findings

8.1 Introduction

This chapter is a buildup of chapters five, six, and seven. The chapter blends the findings of the previous chapters to form the basis of appropriate reflections. The reflections of this chapter combine the reality of the findings unearthed in this research together with the theoretical knowledge obtained through the literature review to form an appropriate basis of the recommendations made in the next chapter. It is important to ground findings on theoretical blueprints so as to understand the connections that underlie real-world occurrences (De Vaus, 2002). This research purposes to study the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from the perspectives of customers and employees. The study evaluates numerous sources of literature and data that are reviewed in previous chapters. The purpose of this chapter is to interpret the research findings unearthed in the previous chapters. The section proceeding this introduction presents a discussion of the aspects of business ethics and hypothesis testing tackled by this research. Section 8.3 concludes the chapter with a summary of the content covered in this chapter.

8.2 A Discussion of the Aspects of Business Ethics and Hypothesis Testing

As indicated in the previous sections, this study primordially purposes to assess the ethical performance of the Islamic banks operating in the Kingdom of Saudi Arabia from the perspectives of customers and employees. The conduct of Islamic banking activities cannot be divorced from ethics. According to Parboteeah, Hoegl, and Cullen (2007) religion is an important source of ethics. Islamic banks are faith-based institutions. As such, they are supposed to conduct their affairs in ways that are compliant with the body of Islamic law known as the Shari‘ah (McNabb, 2008). The
Shari’ah is sourced from the Holy Quran and the Sunnah teachings of Prophet Mohammed (peace be upon him). According to Nyazee (2000), Shari’ah forms the overarching jurisprudence on all matters Islamic. The Shari’ah is the primary source of ethics that Islamic banks are supposed to apply in their activities. It is impossible for an Islamic bank to fully comply with the Shari’ah and be unethical.

This research purposes to evaluate the business ethics of Islamic banks operating in the Kingdom of Saudi Arabia. Islamic banks are faith-based institutions and as such, the evaluation of their ethical performance must be carried out by making references to the body of Islamic law known as the Al-Shari’ah. The roots of Islamic faith of Islamic banks not only regulate the operations of Islamic banks but also influence the ethical performance and bearing of Islamic banks. The sub-dimensions of business ethics discussed in the previous chapters formed the basis of questions that enabled the collection of information from customers and employees through questionnaires.

8.2.1 Reflection on the Findings with Respect to the Hypothesis Testing on the Business Ethics of Islamic Banks in Saudi Arabia from Customer’s Perspectives

This study purposed to evaluate the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from customers’ and employees’ perspectives. This section reflects the findings of this research with respect to the hypothesis postulated for evaluating the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia in the eyes of the patrons of these banks. Based on the findings unearthed in this research, Islamic banks are not meeting the expectations of their customers with regards to ethical performance. The majority of the customers are ambivalent about the commitment of Islamic banks to furthering business ethics. As such, Islamic banks are registering lacklustre performance with regards to their ethical obligations from the perspectives of customers. Being faith-based institutions that are firmly established in the religion of Islam, it would not be far-farfetched to expect Islamic banks to score highly and either meet or exceed the expectations of
customers with regards to the furtherance of business ethics (Sairally, 2005). The ensuing segment of this section presents findings with regards to the findings of data collected through the administration of questionnaires that contained questions that touched on various sub-dimensions of business ethics. The first hypothesis is stated below and explications of the findings follow suit.

**Hypothesis 1: Due to the Islamic principles that Islamic banks operate on, a high level of ethical performance is expected to be achieved from customers’ perspectives.**

The empirical data relevant to hypothesis 1 were expressed in chapter 5 through descriptive statistics. The analysis of that data was fastidiously presented in chapter 7 – from Section 7.2 to Section 7.4 – through the use of inferential statistics. To measure the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from the perspective of customers, questionnaires were administered. The questionnaires contained questions that touched on the following four dimensions: 'Dimension one: Mission and Vision Statement'; 'Dimension two: Products and Services'; 'Dimension three: Zakah, Charity, and Benevolent Funds'; and 'Dimension six: Commitment towards the Community'. Discussions about these dimensions and their respective sub-dimensions features in Chapters 5.

The null hypothesis relevant to the evaluation of the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from customer’s perspective ($H0$) is: Due to the Islamic principles that Islamic banks operate on, a high level of ethical performance is not expected to be achieved from customers’ perspectives. The Sig. values for the Kolmogorov-Smirnov and Shapiro-Wilk tests that appear in Table 7.1 and Figures 7.1, 7.2, and 7.3 are less than 0.05 and this gives a strong ground for the rejection of the null hypothesis and acceptance of the thesis of this study. The Sig. values for the Kolmogorov-Smirnov and Shapiro-Wilk tests assess the existence of statistical discrepancies between the variables under consideration in a specific study (De Vaus, 2002). It is worth noting that there was a significant difference in the scores
of customers and employees. This suggests that there is a discrepancy between the assessment of the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from the perspectives of both customers and employees. Section 8.2.2 provides a reflection on the findings with relation to the hypotheses.

While the null hypothesis was rejected paving the way for the acceptance of the thesis, the raw data collected, presented, and analyzed in Tables 5.6 to 5.11 and Figures 5.7 to 5.10 provide a lacklustre ethical performance of Islamic banks that leaves a lot to be desired from the standpoint of customers. All the sub-dimensional scores for the Islamic banks operating in the Kingdom of Saudi Arabia were in the range of ‘Neutral’ on the 5-point Likert Scale. Therefore, many customers did not agree nor strongly agree with the questions that sought to evaluate the sub-dimensions associated with the ethical performance of the Islamic banks operating in the Kingdom of Saudi Arabia. Many customers were neutral. The majority of the patrons of the Saudi-Arabian based Islamic banks did not respond in the positive with regards to various aspects of ethical performance of their respective banking institutions. The aggregate score of customers’ perspectives as expressed and captured in the questionnaires was 3.1. This was a neutral score.

The above discussion shows paints a picture of the sub-par performance of Islamic banks when it comes to the observance of business ethics from the standpoint of customers. Saudi Arabia is a state where every resident and citizen is supposed to ascribe to the Islamic faith. As such, nearly all the patrons of Saudi-based Islamic banks are Muslims. The customers place a high premium on the application of the principles of Islam expressed in the Shari’ah that is sourced from the Holy Quran and the Sunnah teachings of Prophet Mohammed (peace be upon him). Being religious people that follow strong pious requirements, the customers of Islamic banks are more likely to expect faith-based institutions like Islamic banks to maintain high standards when it comes to the observance of ethics (Dusuki, 2005). The scores of
Islamic banks unearthed by this research strongly suggest that customers are not satisfied with regards to the observance of ethics by Islamic banks. The sentiments of customers show that the Islamic banks have not gone the extra mile beyond observing the mandatory requirements placed upon them by Al Shari’ah. For instance, the Islamic banks performed dismally when it comes to the sub-dimensions and dimension that deals with products and services. The majority of the customers opined that Islamic banks are resting on their laurels when it comes to the introduction of innovative products and services. Many customers are waiting with gleeful anticipation the introduction of new products and services by Islamic banks. However, the Islamic banks have not been meeting such expectations of customers. Some customers perceive most of the products and services offered by Islamic banks to be mere sanitized versions of the products and services offered by the conventional Western banks. For Islamic banks to improve on this score, it is important for them to commit to expending more on the research and development endeavours that are likely to materialize with the introduction of innovative products and services that meet the unique needs of Islamic customers. The contemporary world is highly dynamic. Islamic banks need to change with the times and offer products and services that comply with the Shari’ah. The average scores hint that the Islamic banks are not doing enough to meet the needs of the Ummah. Prophet Muhammed (peace be upon him) asserted that the two major things that every Muslim should strive to do are to serve Allah and cater to the holistic needs of the Ummah. By not registering strong ethical performance from the assessment of customers, it means that Islamic banks might not be doing more than meeting the bare minimums imposed upon them by the Shari’ah (Farook, 2007).

This research evaluated the performance of banks by asking customers – from different age groups, both genders, three marital statuses, different levels of education, and across the employment divide – sub-dimensional questions drawn from these four primordial dimensions: ‘Dimension one: Mission and Vision
Statement'; ‘Dimension two: Products and Services'; ‘Dimension three: Zakah, Charity, and Benevolent Funds'; and ‘Dimension six: Commitment towards the Community’.

When it comes to ‘Dimension one: Mission and Vision Statement’, the sub-dimensional question that asked, “Do you believe that Islamic banks make profit maximization the top of their goals?” had the highest sub-dimensional score of 3.68. On the Five-point Likert Scale it is represented by “Agree”. Hence, the majority of the customers are of the opinion that Islamic banks place a premium on profit maximization at the expense of other mandates such as fulfilling social mandates. Islamic banks need to undertake branding and marketing campaigns that will help them shed this image since it will boost their standing in the eyes of customers and as a result get them more patronage. Islamic banks – by virtue of their being faith-based institutions – should be perceived to be fulfilling other duties on top of their profit maximization goals (Abbasi et. al, 2012). When customers feel that Islamic banks mostly care about meeting their profit goals, they are more likely to rank the Islamic banks as scoring lower on other dimensions – especially those that have to do with matters that deal with the furtherance of the welfare of the general Ummah. The lowest mean is 2.88 which evaluates the sub-dimension captured by the question, “Do you believe that the current directions of Islamic banks are serving the needs of the community?”. The score of 2.88 corresponds to ‘Neutral’ on the Five-point Likert Scale. Because of this, the majority of customers are of the opinion that Islamic banks are not fairing well when it comes to meeting the needs of the society from the eyes of customers. Islamic banks need to increase their level of conduct and visibility of their corporate social responsibility activities so that customers can become aware of the courses of action that they commit to improving the wellbeing of the society. When customers were asked whether they believe that Islamic banks appreciate shareholders and customers, their scores were neutral. It means that Islamic banks in the Kingdom of Saudi Arabia need to get out of their heads and
satisfy the needs of other stakeholders and the society. They need to expend sufficient resources to cater to the needs of the public. One way they can do this is to allocate a certain percentage of their profits to champion causes that positively influence the society on top of their Zakah contributions.

8.2.2 Reflection on the Findings in Relation to the Hypothesis Formulated For Assessing the Ethical Performance of Islamic Banks from the Perspective of Employees.

Due to the Islamic principles that Islamic banks operate on, a high level of ethical performance is expected to be achieved from employees' perspectives. This research shows that on average, employees ranked the ethical performance of Islamic banks marginally higher as compared to customers. However, being faith-based institutions, it can be inferred that there is room for improvement when it comes to the observance of ethics from the perspectives of employees since the majority of employees did not strongly agree, but just agreed, with the sub-dimensional operating standing of their employers. The majority of the employees are in agreement with the commitment of Islamic banks to furthering business ethics. As such, Islamic banks are registering acceptable performance with regards to their ethical obligations from the perspectives of employees. Being faith-based institutions that are firmly established in the religion of Islam, it would not be far-farfetched to expect Islamic banks to score highly and either meet or exceed the expectations of employees with regards to the furtherance of business ethics (Musa, 2011). The ensuing segment of this section presents findings with regards to the findings of data collected through the administration of questionnaires that contained questions that touched on various sub-dimensions of business ethics. The second hypothesis is stated below and explications of the findings follow suit.

Hypothesis 2: Due to the Islamic principles that Islamic banks operate on, a high level of ethical performance is expected to be achieved from employees' perspectives.
The empirical data relevant to hypothesis 2 were presented in Chapter six through descriptive statistics. The analysis of the data was extensively presented in Chapter seven by way of inferential statistics. To assess the ethical performance Islamic banks operating in the Kingdom of Saudi Arabia from the perspective of employees, questionnaires were administered. The questionnaires contained questions that touched on ‘Dimension four: Commitment Towards Employees of Islamic Banks in Saudi Arabia’, ‘Dimension two: Products and Services of Islamic Banks’, ‘Dimension three: Zakah, Charity, and Benevolent Funds’, and ‘Dimension six: Commitment Towards Community’. A discussion about the aforementioned dimensions and their respective sub-dimensions appears in Chapter six.

The null hypothesis relevant to the evaluation of the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from employees’ perspective ($H_0$) is: Due to the Islamic principles that Islamic banks operate on, a high level of ethical performance is not expected to be achieved from employees’ perspectives. The Sig. values for the Kolmogorov-Smirnov and Shapiro-Wilk tests that appear in Table 7.5 are less than 0.05 and this gives a strong ground for the rejection of the null hypothesis and acceptance of the thesis of this study. It is worth noting that there was a significant difference in the scores of customers and employees and this suggests that there is a discrepancy between the assessment of the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from the perspectives of both customers and employees (McNabb, 2008).

While the null hypothesis was rejected paving the way for the acceptance of the thesis, the raw data collected, presented, and analyzed in Tables 6.6 to 6.11 and Figures 6.7 to 6.10 provide a brilliant ethical performance of Islamic banks from the standpoint of employees. All the sub-dimensional scores for the Islamic banks operating in the Kingdom of Saudi Arabia were in the range of ‘Agree’ on the 5-point Likert Scale. Therefore, many employees did agree with the questions that sought to
evaluate the sub-dimensions associated with the ethical performance of the Islamic banks operating in the Kingdom of Saudi Arabia. The aggregate score of employees’ perspectives as expressed and captured in the questionnaires was 3.77. This was an ‘agree’ score.

However, the Islamic banks have been meeting such expectations of employees. Chapter six shows that the composition of the employees in terms of gender and level of education is quite an eclectic mix. Workers from both genders and different levels of education as well as different pay grades participated in the research. The employees agreed to many evaluations assessed by the sub-dimensional questions.

When it comes to ‘Dimension four: Commitment Towards Employees of Islamic Banks in Saudi Arabia’, the highest sub-dimensional score was with regards to the question, “Do you believe that Islamic banks are committed to providing training: Shari’ah awareness?”. The sub-dimensional score for this question was 4.01. This score lies between ‘Agree’ and ‘Strongly Agree’ on the Five-point Likert Scale’. Consequently, Islamic banks heart the wellbeing of their employees by providing an enabling room of career growth through the provision of education and training to their employees. The importance of learning and helping others acquire knowledge cannot be gainsaid. Prophet Mohammed (peace be upon him) impressed upon people of means to contribute chunks of their wealth to the creation of waqf (Dusuki, 2011). Waqf make significant contributions towards the betterment of society. Some of the waqf institutions create and run trusts that are used to enable those facing the vagaries of economic deprivation to acquire education. Based on the relatively strong feedback provided by those who directly impacted by the training facilitated by Islamic banks – i.e. the employees – Islamic banks can be lauded for their commitment to bettering the knowledge and skillsets of their workers by helping their employees to gain access to training opportunities. The mean score for ‘Dimension four: Commitment Towards Employees of Islamic Banks in Saudi Arabia’ lies on the ‘Agree’ zone of the Five-point Likert Scale. However, Islamic banks need not rest on
their laurels. To improve the plight of their workers, Islamic banks need to offer more competitive salaries, deeply entrench equal opportunity policies, develop reward schemes, and hire more unskilled, skilled, and expert staff. It is said that a happy cow produces more milk. In the same vein a happy workforce is more efficient and productive – other factors constant.

On matters pertaining to ‘Dimension two: Products and Services of Islamic Banks’, most employees agreed in the positive with regards to the sub-dimensional evaluations. The sub-dimensional question, “Do you believe that Islamic banks are relying on the approval of a new product based on the Shari’ah Principles?” had the highest score of 4.17. On the Five-point Likert Scale, this lies almost next to the zone of ‘Strongly Agree’. Accordingly, employees approve of the steps that Islamic banks go through before the introduction of new products and services to the market. However, It is important for Islamic banks to commit to expending more on the research and development endeavours that are likely to materialize with the introduction of innovative products and services that meet the unique needs of Islamic customers. It is crucial for Islamic banks to wait clearance from Shari’ah Advisory Boards that occupy the upper corporate governance echelons since these boards are tasks with ensuring that Islamic banks fully comply with the provisions of the Shari’ah (Casper, 2012). The relatively strong score means that Islamic banks operating in the Kingdom of Saudi Arabia are going to great pains when it comes to ensuring that their primordial commitment of observing the provisions of the Shari’ah is not compromised. Employees felt that Islamic banks provide clear explanations about their financing project in general. Therefore, Islamic banks are most likely embracing transparency in most of their activities due to their strong Islamic roots and this provides additional support to the thesis of this study.

‘Dimension three: Zakah, Charity, and Benevolent Funds’ received the lowest dimensional score from employees. The lowest score was with regards to the essence of the information captured by the sub-dimensional question, “Do you
believe that Islamic banks are paying attention to the sources of qard al-hassan?” Employees were ambivalent and the mean score of their perception was 3.11. This paints a worrying picture of the activities of Islamic banks on matters to do with the verification of the sources of qard al-hassan. It is important for Islamic banks to vouch and verify the sources of qard al-hassan so as to ensure that the Islamic banking system is not used to sanitize money that has been obtained from Haram sources. Islamic banks need to augment their compliance efforts so as that they can be safe from the dire ramifications that result from having Haram money pass through the banking system. If grave scandals were to be unearthed by outsiders, then the picture of Islamic banking would be damaged in the eyes of potential customers (Bedoui and Mansour, 2015). Possibly, Islamic banking institutions could draw suspicious glances and this would be detrimental to the growth of Islamic banking. The ambivalent score means that Islamic banks might be negligent when it comes to verifying the sources of qard al-hassan. Negligence is unprofessional and unethical by any standards as it involves failing to fulfill the responsibility that a person or an institution has to other people or institutions. According to the Saudi Arabian Monetary Authority’s (SAMA) governor, Saudi Arabian based Islamic banks pay taxes at the rate of between 12 – 14% of their net profits (Mubasher, 2019).

‘Dimension six: Commitment towards the Community’, most employees agreed in the positive with regards to the sixth dimension that deals with the commitment of Islamic banks towards the community. All the mean scores for this dimension are within the range of agreement. The sub-dimensional question, “Do you believe that Islamic banks have positively contributed to promoting job opportunities?” had the highest mean score of 3.87. On the Five-point Likert Scale, this lies almost next to the zone of ‘Agree’. Hence, the general employee perception is agreement with the fact that Islamic banks have made palpable positive contributions when it comes to promoting job opportunities. Many employees agree that Islamic banks have made contributions towards the promotion of job opportunities through the extension of scholarships. The lowest score is 3.56. It is with regards to the sub-dimensional question, “Do you
believe that Islamic banks have positively contributed towards sponsoring community activities?” Consequently, most employees agree that Islamic banks made contributions towards the improvement of the plight of the community. A score of 3.71 indicates that Islamic banks operating in the Kingdom of Saudi Arabia have a fair performance when it comes to fulfilling their contributions towards the society.

Table 8.1 Hypotheses and Decision

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>H1</strong>: Due to the Islamic financial principles that Islamic banks operate based on, a high level of ethical performance is expected to be achieved in their banking activities from customers perspectives.</td>
<td>Null Hypothesis Rejected</td>
</tr>
<tr>
<td><strong>H2</strong>: Due to the Islamic financial principles that Islamic banks operate based on, a high level of ethical performance is expected to be achieved in their banking activities from employees perspectives.</td>
<td>Null Hypothesis Rejected</td>
</tr>
</tbody>
</table>

8.2.3 Reflection on the discrepancies between the perceptions of customers and employees

That both null hypotheses were rejected shows that there are notes that the stickers significant differences between the aggregates statistical scores of the aggregate dimensional scores of the perceptions of customers and employees. Nevertheless, this study shows that there are differences amongst the scores for the shared sub-dimensions. The major factor that is responsible for this occurrence is that customers
are more likely to give their own raw judgments about the perceptions of Islamic banks operating in the Kingdom of Saudi Arabia based on their lived experiences. In other words, there is more likelihood that customers spoke for themselves when they expressed their perceptions since they are independent of Islamic banks on various counts that do not count towards the direct satisfaction of their banking needs by Islamic banks. On the other hand, there is the probability that employees gave perceptions that were coloured by their presence in the administrative structures of Islamic banks. Employees are fundamental representatives of Islamic banks. There is the possibility that some employees could be influenced to express perceptions that are not fully independent. What is more, some Islamic banks expect their employees to be their customers. Some Islamic banks encourage their employees to engage in banking activities with them and this could influence the perceptions of employees.

8.3 Conclusion

The statistical tests administered in this research rejected the null hypotheses and this made the case for the acceptance of both hypotheses. Therefore, there is a positive correlation between the embracing of fundamental Islamic principles and ethical performance (McNabb, 2008). It can be inferred from the findings that there is a discrepancy between the perceptions of customers and employees with regards to the ethical performance of the Islamic banks that operate in the Kingdom of Saudi Arabia (De Vaus, 2002). Many customers are ambivalent about the performance of Saudi Arabia based Islamic banks. On the other hand, the employees of Saudi Arabia based Islamic banks generally approve of the ethical performance of these banks. The chasm between the perceptions of customers and employees can be attributed to various factors. Employees are more likely to have more knowledge about the workings of Islamic banks as compared to customers. As a result, employees are more likely to perceive the performance of Islamic banks as being more than wanting since they are better inclined to understand the challenges that Islamic banks – their employers – undergo through as compared to customers who walk into the banks to
receive service. To improve the performance of the Islamic banks, it is imperative for Islamic banks to increase more awareness about the nature and type of their activities to customers. If the Islamic banks do that, the customers are most likely to understand the ethical activities of Islamic banks. If in light of new knowledge and information customers perceive that the Islamic banks are doing a better job at observing their ethical obligations, then the Islamic banks are more likely to gain increased patronage from customers. All in all, Islamic banks need not rest on their laurels when it comes to fulfilling their ethical obligations as per the principles of the Shari’ah. Islamic banks should do more than they are currently doing. The jury is out. This research has identified gaps with regards to ethical performance that need to be closed by action.
Chapter Nine

Conclusion and Recommendation
Chapter Nine

Conclusion and Recommendation

9.1 Introduction

This research purposes to assess the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from the perspectives of customers and employees. To fulfil the purpose of this research, customers’ and employees’ sentiments were measured through the lenses of various dimensions. The empirical dimensional and sub-dimensional data collected was analysed and discussed in chapters five, six, and seven. This chapter presents a conclusion of the research by presenting an overview of the major tenets of the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia as presented in this research (McNabb, 2008). To see the complete picture of this research, it is imperative to combine knowledge obtained through literature review, data obtained from the real world, inferences drawn from the processing of data into information, as well as insights obtained from critical and objective reflection about various occurrences (De Vaus, 2002). What is more, this chapter seeks to provide recommendations for improving the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia based on the gaps and weaknesses that have been identified by this research. Additionally, this chapter presents a discussion of the limitations of the study and provides suggestions that can form the basis of future research.

9.2 Reflection on the Findings of this Research

Business ethics is an important component of the operations of any commercial establishments that seek to avoid the pitfalls associated with engaging in immoral acts. While immoral acts can appear to be shortcuts to making profits, they turn to shortcuts for business closure, bad publicity, loss of customers, poor image, and ostracisation. Many firms are increasingly appreciating the importance of embracing business ethics. Assessing the ethical performance of an institution requires
procedures and methods that are quite different from those used to measure other forms of performance such as financial performance. This study measures the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from the perspectives of customers and employees.

In this study, the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from the perspectives of both customers and employees was measured through the administration of questionnaires that had all questions based on the appropriate sub-dimensions. The categories of dimensions of business ethics as identified by Haniffa and Hudaib (2007) provided the basis of the dimensions and sub-dimensions used in this research. The relevant dimensions utilized in this research are: Dimensions one: Mission and Vision Statement – customers; Dimensions two: Products and Services - Customers & Employees; Dimensions three: Zakah, Charity and Benevolent Funds-customers & employees; Dimensions four: Commitment Towards Employees; Dimensions five: Commitment Towards Debtors – Employees; and Dimensions six: Commitment Towards Community - customers & employees.

The findings of this research as presented by the inferential statistics based on the Five-point Likert Scale for the ethical performance of Islamic banks from the perspective of customers are as follows: ‘Dimension one: Mission and Vision Statement’ m= 3.36; ‘Dimension two: Products and Services’ m = 3.28; ‘Dimension three: Zakah, Charity, and Benevolent Funds’ m = 2.86; and ‘Dimension six: Commitment towards Community’ m = 2.93. The average mean score for customers’ perception of the ethical performance of Islamic banks is 3.1. The average mean score of 3.1 shows that many customers do not approve of Islamic banks' ethical performance. It means that the expectations of customers with regards to the ethical performance of Islamic banks are not fulfilled.
The findings of this research as presented by the inferential statistics based on the Five-point Likert Scale for the ethical performance of Islamic banks from the perspective of employees are as follows: 'Dimension 2: Products and Services' $m = 3.96$; 'Dimension three: Zakah, Charity, and Benevolent Funds' $m = 3.56$; and 'Dimension four: Commitment towards Employees' $m = 3.82$; 'Dimension five: Commitment towards Debtors' $m = 3.79$. The mean score of the ethical performance of Islamic banks from the perspectives of employees is 3.77. Subsequently, on average, most employees approve of the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia. The mean score of 3.77 can be interpreted as a lot of employees give a clean bill of health with regards to the ethical performance of their employers. The majority of the employees feel that Islamic banks are doing a good job when it comes to meeting their ethical obligations.

The findings reveal that there is a chasm between the perceptions of customers and employees with regards to the ethical performance of the Islamic banks that operate in the Kingdom of Saudi Arabia. Customers are majorly ambivalent about the performance of Saudi Arabia-based Islamic banks. On the contrary, the employees of the Saudi-based Islamic banks generally approve of the ethical performance of these banks. The chasm between the perceptions of customers and employees can be ascribed to a number of factors. One of the reasons for the existence of the chasm is that employees are more likely to have more knowledge about the workings of Islamic banks as compared to customers. Therefore, to close the chasm, Islamic banks need to create more awareness about their policies, responsibilities, and activities with regards to ethics.

Apart from the Five-point Likert Scale, there was a host of other inferential statistics used in this research. Such statistical tests include the Mann-Whitney U-Test and the Wilcoxon W Test. For both tests, the Mann-Whitney U-test $p$ values were .000. A $p < .01$ that means "Highly significant". Therefore, the two null hypotheses were rejected. It means that based on statistical tests, the thesis of this research was validated.
Because of this, the Islamic financial principles that Islamic banks operate on contribute to a high level of ethical performance for Islamic banks operating in the Kingdom of Saudi Arabia.

9.3 Limitations of the Research

This research undertaking encountered certain limitations – just like many other things that take place in the realm of time and space. One limitation was that the timeframe for the administration of research and collection of data was short. A short timeframe prevented the collection of big data that would have most probably presented a more accurate portrayal of the reality on the ground as per the dictates of statistics. The second limitation is that it was not feasible to interview the managers of the Islamic banks that operate in the Kingdom of Saudi Arabia. Managers are senior employees of an organization. The information that would have been obtained by interviewing managers would have provided important pointers and possibly new insights about multitudinous factors that influence the ethical performance of the Islamic banks operating in the Kingdom of Saudi Arabia.

This research was confined to the employees of Islamic banks. The participants chose to be counted in this research out of their own free volition. The research does not make mention of the names of Islamic banks since mentioning names would require prior and express permission of Islamic banks through official channels that are time-consuming and filled with red tape. The employees were contacted in non-official ways – just like the customers – and this motivated the participating employees to give their opinions honestly safe in the knowledge that their identities were being preserved. There are numerous Islamic banks operating in the Kingdom of Saudi Arabia and obtaining prior written consent of the management to undertake the research would have compromised the reliability of the study due to the fact that the research study had other confinements, such as time. Since the researcher did not obtain the written consent of Islamic banks, it was not possible to administer questionnaires to the members of the management team. Manager-leaders are the
top-ranking employees in the administration and management echelons of many institutions – including Islamic banks.

### 9.4 Research Implications and Recommendations

This research has revealed that there were significant discrepancies between the perceptions of customers and those of employees with regards to the ethical performance of Islamic banks. The information contained in the previous chapters shows that one of the reasons that might have made customers to rank the ethical performance of Islamic banks poorly is because of customers’ lack of knowledge about the ethical activities of Islamic banks. Therefore, it is imperative for Islamic banks operating in the Kingdom of Saudi Arabia to invest in activities that aim to increase the level of customer awareness about the ethical activities of Islamic banks. Creating the level of awareness will also help to close the expectations gap since customers will have proper knowledge about what the obligations of Islamic banks are and what they are not in matters pertaining to the observance of ethics. Creating awareness to customers should not be a luxury but something that Islamic banks should do out of necessity. Creating awareness to customers will increase the perceived and actual transparency of Islamic banks. The Shari’ah admonishes all Islamic institutions to be transparent in their activities. Creating awareness about ethical activities and responsibilities will help Islamic banks to bolster the level of communication about their financial activities. Creating awareness will be a win-win situation for Islamic banks since they are most likely to win the favour and support of their customers. Favour and support are crucial ingredients in making sure that Islamic banks perform better on the ethical front.

Employees are regarded as the internal customers of a commercial establishment. According to the tenets of positive psychology, the greatest potential for growth lies in the strong points of an individual or organization. Employees gave far more positively and favourably stronger evaluations about the ethical performance of Islamic banks. Borrowing the wisdom of positive psychology, it goes without saying that Islamic
banks should invest and expend more resources towards the improvement of the holistic wellbeing of the members of their staff. Islamic banks should empower their employees with more working knowledge about products and services as well as issues pertaining to the ethical obligations and activities of Islamic banks. Employees are regarded as ambassadors of their employers. Therefore, if customers see profound knowledge and deep insights about the dimensions of ethics shining through the work of employees, the customers are more likely to have a more favourable perception about Islamic banks. Training and educating employees will help employees to make notable contributions towards the innovation of products and services of Islamic banks to help the Islamic banks be in a better position to meet their ethical obligations to different stakeholders and the wider society at large. Running improved reward programmes will help Islamic banks increase the sense of identification that employees have with regards to the products and services offered by their employers. Tying bonuses and rewards to different aspects of ethics will sufficiently increase the enthusiasm of many employees towards the observance of ethics and this will augment the ethical standing of Islamic banks in the eyes of different stakeholders.

This research revealed that both customers and employees need that there is a pressing need for Islamic banks to introduce more innovative products and services that help Islamic banks observe all their mandates – including ethical obligations – to all and sundry. Islamic banks should channel more resources into research and development endeavours. The regulatory bodies should introduce rules and regulations that see to it that Islamic banks commit a certain fixed percentage – which should serve as the bare minimum – towards research and development endeavours. If the regulatory bodies do not introduce such regulations, then it is incumbent upon Islamic banks that are worth their salt to ensure that they invest sufficient resources towards the creation and development of innovative products and services. Islamic banks do not necessarily have to re-invent the wheel when it comes to the innovation of products and services. They should use a two-pronged approach that strikes the
right balance between the betterment of extant products and services and the creation and development of new products and services.

*Shari’ah* Supervisory Boards serve at the apex of corporate governance of Islamic banks. *Shari’ah* Supervisory Boards are independent boards that play the oversight role that ensures that Islamic banks are in full compliance with the *Shari’ah*. One of the major tenets of *Shari’ah* is social justice. Justice implies giving people their dues. This research shows that customers and employees have not been receiving their full dues from Islamic banks. Being faith-based institutions, the dues of Islamic banks to customers and employees are not confined to monetary transactions. The dues of Islamic banks to customers and employees also include ethics. *Shari’ah* Supervisory Boards should ensure that Islamic banks pay the dues of ethics to customers and employees more diligently. *Shari’ah* Supervisory Boards should play a more active role when it comes to ensuring that Islamic banks fully satisfy the ethical obligations that they have to different stakeholders. The intervention of *Shari’ah* Supervisory Boards can go a long way in motivating the top administration and manager-leaders of Islamic banks towards improving the operations of Islamic banks to make ethical activities more pronounced.

**9.5 Recommendations for Future Research**

This research examined to study the ethical performance of the Islamic banks operating in the Kingdom of Saudi Arabia. As such, this research was confined to one nation. Future research can be conducted to evaluate the performance of Islamic banks in other countries so as to evaluate whether there are significant differences between the perceptions of customers and employees of Islamic banks in other countries versus the perceptions of customers and employees of Islamic banks in the Kingdom of Saudi Arabia. In case there are significant discrepancies, then notes should be compared and one study could be used to provide recommendations to the other study carried out in a different country. Comparing primary and secondary to investigate the key factors that affect the ethical performance of Islamic banks is
likely to identify any expectation and performance gaps that are not being addressed.

This research was carried out in the Kingdom of Saudi Arabia. Saudi Arabia is a Muslim-dominant country. It would be helpful for the industry to have another research study carried out in a non-Muslim dominant country to assess the ethical performance of Islamic banks from the perspectives of customers and employees. Undertaking a research study in a non-Muslim dominant country would be beneficial for the wider realm of global Islamic banking and finance since the Islamic banking and finance is growing beyond borders in leaps and bounds.

9.6 Epilogue

This research purposes to measure the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia based on the perceptions of customers and employees. The research uses six dimensions that are segmented into sub-dimensions. The sub-dimensions form the basis of the questions that were presented to customers and employees in the questionnaires. To fulfil the requirements of the research, data was primarily collected through questionnaires. The collected data was presented and analysed through descriptive and inferential statistics. The findings of the research suggest that there is room for improvement for Islamic banks when it comes to ethical performance.

The findings of this research provide fodder for improving the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia. The contributions of this research are valid and relevant since it is among few of its kind to use primary empirical data obtained through questionnaires administered to customers and employees to assess the real-world ethical performance of the Islamic banks operating in the Kingdom of Saudi Arabia. This research uses dimensions and sub-dimensions that have limited application to the extant works of research to collect information about the ethical performance of Islamic banks operating in the Kingdom of Saudi Arabia from the perspective of employees and customers.
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Appendices

Appendix 1: Questionnaire for bank’s customers on Business Ethics of Islamic banks in Saudi Arabia

Center for Islamic Finance
University of Bolton, United Kingdom

Email: nm1res@bolton.ac.uk

Questionnaire for banks customers on Business Ethics of Islamic banks in Saudi Arabia

Bank Name (Mostly visited): ________________________________

Dear Respondent,

My name is Naif Mathkur. I kindly request you to take a moment to answer this short questionnaire. The purpose of this questionnaire is to capture your perception and awareness of the ethical performance of Islamic Banks in Saudi Arabia. Your response will help me complete my Ph.D. thesis entitled “Assessing the Business Ethics of Saudi Arabian Islamic Banking Sector: An Analysis of Banks’ Employees and Customers Perspectives”. I thank you in advance for your participation.

General Instructions and Information:

1) Please tick/circle on the most appropriate box.

2) All the information you provide are the academic purpose only and will be dealt with strict confidentiality.

3) If you don’t have the exact answer to the question, please provide your best judgment.
Section 1: Personal Information: (Please tick (√) on appropriate box)

2. Gender:

☐ Male ☐ Female

3. Age:

☐ Below 18 years ☐ From 18 to 21 years ☐ From 22 to 30 years ☐ From 31 to 40 years

☐ Above 40 years

4. Employment status:

☐ Unemployed ☐ Self-employed ☐ Employed ☐ Student ☐ Businessperson ☐ Another

5. Marital Status:

☐ Single ☐ Married ☐ Divorced or widow/widower

6. Level of Education:

☐ High School ☐ Diploma ☐ Bachelors Degree ☐ Master Degree ☐ Ph. D ☐ Other
Section 2: The following statements are related to your opinion of the ethical performance of bank’s customer. For each statement, please circle the number, which most accurately reflects your opinion level experienced from your current bank.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3 Do you believe that Islamic Banks make the profit maximisation on the top of their goals?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1.4 Do you believe that the current directions of Islamic Banks are serving the need of the community?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1.1 Do you believe that Islamic banks are committed operating within the Shari'ah principles/ideals?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1.2 Do you believe that Islamic banks are committed to provide returns within Shari'ah principles?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1.5 Do you believe that Islamic banks are committed to fulfill contractual relationships with various stakeholders via contract (uqud) statements?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1.6 Do you believe that the future directions of Islamic Banks are serving the need of the community?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1.7 Do you believe that Islamic banks are committed to engage only in permissible financing activities?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1.8 Do you believe that Islamic banks are committed to fulfill contracts via contract (uqud) statement?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1.9 Do you believe that Islamic Banks have positively appreciated Shareholders/customers?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2.1 Do you believe that Islamic banks are not involving in non-permissible activities?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2 Do you believe that Islamic banks are not involving in non-permissible activities- % of profit?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2.3 Do you believe that it is important for Islamic Banks to introduce new products?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2.4 Do you believe that Islamic banks are relying on the approval of a new product based on the Shari'ah principles?</td>
<td>1</td>
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Appendices

Appendix 2: Questionnaire for bank’s customers on Business Ethics of Islamic banks in Saudi Arabia

Center for Islamic Finance

University of Bolton, United Kingdom

Email: nm1res@bolton.ac.uk

Questionnaire for banks’ employees on Business Ethics of Islamic banks in Saudi Arabia

Bank Name: _______________________________

Dear Respondent,

My name is Naif Mathkur. I kindly request you to take a moment to answer this short questionnaire. The purpose of this questionnaire is to capture your perception and awareness of the ethical performance of Islamic Banks in Saudi Arabia. Your response will help me complete my Ph.D. thesis entitled “Assessing the Business Ethics of Saudi Arabian Islamic Banking Sector: An Analysis of Banks’ Employees and Customers Perspectives”. I thank you in advance for your participation.

General Instructions and Information:

1) Please tick/circle on the most appropriate box.

2) All the information you provide are the academic purpose only and will be dealt with strict confidentiality.

3) If you don’t have the exact answer to the question, please provide your best judgment.
Section 1: Personal Information: (Please tick \(\checkmark\) on appropriate box)

2. Gender:

☐ Male  ☐ Female

3. Age:

☐ Below 18 years  ☐ From 18 to 21 years  ☐ From 22 to 30 years  ☐ From 31 to 40 years

☐ Above 40 years

4. Salary average:

☐ Less than 5000  ☐ From 5000 to 10000  ☐ From 10000 to 15000  ☐ More than 15000

5. Marital Status:

☐ Single  ☐ Married  ☐ Divorced or widow/widower

6. Level of Education:

☐ High School  ☐ Diploma  ☐ Bachelors Degree  ☐ Master Degree  ☐ Ph. D  ☐ Other
Section 2: The following statements are related to your opinion of the ethical performance of bank’s employees. For each statement, please circle the number, which most accurately reflects your opinion level experienced from your current bank.

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<th>Statements</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
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<tr>
<td>4.1 Do you believe that Islamic Banks have positively appreciated employees?</td>
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<td>4.2 Do you believe that Islamic banks are committed to hire enough and expert staff?</td>
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<td>4.3 Do you believe that Islamic banks are committed to implement the equal opportunities policy?</td>
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<td>4.4 Do you believe that Islamic banks are providing competitive salaries?</td>
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<td>4.5 Do you believe that Islamic banks are committed to promote employee welfare?</td>
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<td>4.6 Do you believe that Islamic banks are committed to provide training: Shari’ah awareness?</td>
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<td>4.7 Do you believe that Islamic banks are committed to provide training: monetary?</td>
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<td>4.8 Do you believe that Islamic banks are committed to provide reward for employees?</td>
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<td>5.1 Do you believe that Islamic banks are committed to an appropriate debt policy?</td>
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<td>5.2 Do you believe that Islamic banks have positive attitude towards debt products?</td>
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<td>2.3 Do you believe that it is important for Islamic Banks to introduce new products?</td>
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