

## Deriving Priorities on the Economic Objectives and Social Objectives of Islamic Banking: The Analytic Hierarchy Process (AHP) Approach

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**Abstract:** Based on the Islamic economic philosophy, ethical considerations should play a vital role in shaping Islamic banking business conduct and priorities. While the pursuance of economic objectives such as profit maximization are also encouraged, it should be treated as an incentive in fostering the vital activities and moral obligations necessary to enhance the welfare of the public interests. Thus, the objectives of Islamic banking should be featured by the social welfare dimension that matched to the shari'ah concern on promoting the concept of justice ('al-adl') and welfare ('al-ihsan') in society. This study contributes a new approach in deriving the priorities on the economic and social objectives of Islamic banking from the point of views of practitioners and experts with particular attention to financial resource allocation. The findings of this study have shown differing judgements and opinions between the consideration of economic and social objectives in Islamic banking operations. This indicates that further consideration is needed by the decision makers in Islamic banking to minimize the gap between both objectives in the Islamic banking operations towards achieving the main purpose of the establishment of this holy business.

**Key words:** Analytic Hierarchy Process (AHP), Islamic banking objectives, justice, financial resource allocation, welfare

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### INTRODUCTION

Theoretically Islamic banking should be viewed as shariah-oriented business entities that embraces Islamic economic philosophy which lies on the principles of equity and justice to create a balanced and just environment for the welfare of the society. Adherence to the Islamic economic philosophy can help elevate the direction and objectives of Islamic banking where ethical considerations takes on a broader domain of influence in shaping their business conduct and priorities.

Ali *et al.* (2013), referred ethic as the specified rules that act to insure generosity, openness and accountability in the individual's and organization behavior and actions while safeguarding societal interests. It is therefore, essential that the ethical context should become the focal direction in determining business conduct of Islamic banking by creating value through its contribution to the

general welfare of the society. Although, economic considerations are desirable, it should not be a goal in itself.

Naqvi (1981) highlighted that economic considerations should be subordinate to ethical priorities. Islamic teachings also recognize the fact that the owners or financiers of an organization have the right to pursue its economic objective in making profit or creating wealth. Nevertheless, the profits earned should be treated as an incentive in fostering the vital activities necessary to enhance the welfare of the public interests rather than individual or group interests. This reflects the moral dimensions of business conduct in Islam which does not hinder organization to regard profit maximization for their economic goal but not at the expense of its moral obligations towards other various stakeholders which includes employees, management, customers as well as society or community as a whole. Accordingly, fulfilling

economic objective of profit maximization alone is not sanctioned and should not be the main goal of an ethically guided organization like Islamic banking, since the ambit of Maqasid al-Shari'ah (objectives of shari'ah) is feared to be overlooked in their operations as a whole (Ali *et al.*, 2013; Ismail, 2011; Beekun and Badawi, 2005; Chapra, 1985).

**Literature review:** The issue of Islamic banking objectives can be considered as an under researched area. To date, there are lack of published literature from the Islamic perspective discussing specifically on the objectives and goals applicable to the Islamic banking system. Moreover, many of the existing studies are more focused towards the theoretical based understanding with qualitative or descriptive in nature (Bashir, 1984; Asutay, 2007; Elmelki and Ben Arab, 2009; Ismail, 2011). This study is designed to fill in the gap where its main objective is to empirically investigate the salient objectives of Islamic banking from the point of views of practitioners and experts in the Islamic banking industry. Despite the significant importance of this area, documented studies that address on the objectives of Islamic banking from the perspectives of industry players itself are still limited with exception to the studies done by Dusuki (2007) and Mohammed (2007).

This study is also embarked to further contribute to the quantitative side on the strand of Islamic banking literature by utilizing numeric approach which is the Analytic Hierarchy Process (AHP) in measuring the weight on choice of priorities with respect to the economic and social objectives of Islamic banking. The findings from this study would be beneficial to discover any discrepancies on the objectives of Islamic banking from the theoretical aspects as inscribed in Islamic economic philosophy to the reality of practical situations.

**Islamic banking objectives:** The ultimate objective or goal of IBI is to satisfy the will of God, since the foundation of the business philosophy is closely tied to religion. As stated by Janahi (1995), "Islamic banks have a major responsibility to shoulder all the staff of such banks and customers dealing with them must be reformed Islamically and act within the framework of an Islamic formula, so that any person approaching an Islamic bank should be given the impression that he is entering a sacred place to perform a religious ritual." Along with the religious notion, IBI is integrated with the ethical identity and moral values which becomes the social dimension objectives intended for the benefit and interest (maslahah) of society. In view of that many Islamic economics scholars such as Chapra (1982, 1992), Ahmad (1984), Haron (1995), Siddiqi (2002), Haron and Hisham (2003), Naqvi (2003), Rosly and Bakar (2003) and Ismail (2010) have of opinion that religious

commitments as well as social welfare dimension to be placed higher priority for the objectives Islamic banking.

In terms of religious commitments objective, it can be clearly notified from the governing principles of Islamic banking operations which include the prohibition of interest (riba') transactions, the avoidance of uncertainties (gharar), the prohibition on transactions involving gambling (maysir) and the prohibition to involve in financing forbidden (haram) projects in Islam such as investments in businesses dealing with alcohol, tobacco, gambling industries, pork meat and any other sinful or socially harmful activities. All the above governing principles of Islamic banking are in accordance with the rules of shari'ah, known as Fiqh al-Muamalat (Islamic rules on transactions) where the primary source of the shari'ah is from the Holy Qur'an and Hadith.

Followings are the examples of the prohibitions that can be verified and evidenced in the verses of the Al-Qur'an as well as sayings of the Prophet Muhammad (PBUH). The prohibition of riba' can be found in Surah Al-Baqarah, verse 275 where Allah says:

Those who charge usury (riba') are in the same position as those controlled by the devil's influence. This is because they claim that usury is the same as commerce. But Allah has permitted commerce and forbidden usury. Thus whoever heeds this commandment from Allah and refrains from usury, he may keep his past earnings and his judgement rests with Allah. As for those who persist in usury, they will incur Hell where in they abide forever" (Al-Qur'an 2:275)

There is also clear prohibitory commandment by the Prophet (PBUH) with regard to gharar in the daily business transactions:

The Prophet passed by a man who was selling grain. He asked him, "How are you selling it?" The man then informed him. The Prophet then put his hand in the heap of grain and found it was wet inside. Then he said, "He who deceives other people is not one of us". The Prophet said, "When you enter into a transaction, say: There should be no attempt to deceive"

Prohibition of maysir also is mentioned in the Holy Qur'an from Surah Al -Maaidah, verse 90:

O you who believe! Intoxicants and gambling, (dedication of) stones and arrows are abomination of syaitan's handiwork, abstain from it so that you may prosper (Al-Qur'an 5:90)

Finally, the forbidden on trading involving prohibited commodities such as alcohol, pork and any non-halal products is evidently stated in Surah Al-Maaidah, verse 3:

Forbidden unto you (for food) are carrion and blood and swine-flesh and that which hath been dedicated unto any other than Allah and the strangled and the dead through beating and the dead through falling from a height and that which hath been killed by (the goring of) horns and the devoured of wild beasts, saving that which ye make lawful (by the death-stroke) and that which hath been immolated unto idols. And (forbidden is it) that ye swear by the divining arrows. This is an abomination (Al-Qur'an 5:3)

The evidences in the Qur'an and Hadith with regards to the religious commitment objective have shape the nature and outlook of Islamic banking and become the guidelines in their day to day operations and activities. Activities which includes mobilize funds from the public, utilize the acquired funds in profitable and beneficial activities and render chargeable products and services, therefore should be operated within the realms of shari'ah teachings (Chapra, 2000). Nevertheless, Khan (2003) raised his concern on other objectives of Islamic banking that also makes the distinction from conventional banking without reducing the importance of all the major injunctions of Allah that has been described above. He opined that if the only difference between Islamic banking and conventional banking is in terms of whether the business is interest-based (riba' based) or not then the conventional banking probably can deliver Islamic services in much a better way than Islamic banking. This view is also embraced by other scholars who are asserting that Islamic banking is much more than providing shari'ah-compliant products (Haniffa and Hudaib, 2007; Mohammed and Shahwan, 2013; Ariff, 1988; Chapra, 1985; Ismail, 2011). It should be directed in such a way that its principal objective is to achieve assenting contribution for the realization of the socio-economic objectives of the society at large (Mohammed, 2007).

Based on the above remarks, this suggests that another important principle to the objectives of Islamic banking is enunciating the social welfare dimension that matched to the shari'ah concern on promoting the concept of justice ('al-adl') and welfare ('al-ihsan') in society. These values are related to the accountability of human being to Allah SWT and thus have different implications from those of the norms of mainstream business ethics (Ayub, 2007).

Justice and welfare are hallmarks of the Islamic socio-economic order. The word justice is described as 'adl' and 'qist' in the Qur'an. Beekun and Badawi (2005) describe that the term 'adl' is apply to the concept of equity and balance which means doing things in a proportionate manner while avoiding extremes. The term 'qist' brings the meaning of share, portion or allotment. Further, clarify the meaning by describing that 'qist' means to give everyone and everything their proper due. The concept of justice have been proved essential when it becomes the third most repeated word after the words 'Allah' and 'knowledge' in the Qur'an (Kahf *et al.*, 1998). This symbolizes that the concept of justice also applies as the essential principle in the Islamic economic system that are supposed to be the guidelines to the objective of Islamic banking.

The concept of welfare or 'ihsan' on the other hand, constitutes the main factor that shapes and supports each individual or organization to act generously and ethically by giving more than what is required to do (Ali *et al.*, 2013). The Holy Qur'an states in Surah Al-An'aam, "He who does a good deed will receive ten times its worth; and he who does evil will be recompensed according to his vice" (Al-Qur'an 6:160). This verse of Qur'an implies that any act which bring good and beneficial for the society will be rewarded. Similarly, the Prophet (PBUH) proclaims, "The best of people are those that bring most benefit to the rest of mankind". Therefore, it can be inferred that welfare or 'ihsan' is another essential aspect in Islamic teaching where the worth of any human being is determined by his or her ethical relation and service to others. Indeed islamic bank as an organization also is bounded to aim their operations and activities to be in line with the concept of 'ihsan' which require caring for others in order to create value to the society.

According to Hasan and Dridi (2010), the ethical foundations of Islamic banking as inspired by the vital concept of justice and welfare are centered on fulfilling the basic needs of human beings, promotes mutual help and cooperation, provides professional skills and enterprise and upholds justice in all aspects of operation, especially in the distribution of wealth and incomes. Thus, it is understood that the central intermediation functions of Islamic banking at large are far beyond merely on materialistic concern. The main aim or objective is essentially to contribute to the reaching of the major socio-economic goal with the emphasis on the ethical, social as well as moral elements in the wealth creation process. This will subsequently leads to the enhancement of equality and fairness for the welfare of the society at large as envisioned in the Maqasid al-Shari'ah.

Chapra (1985) also highlighted that social welfare is an essential duty of Islamic bank, since they handle public funds. As they take deposits mostly from the middle class, they need to be highly responsible while utilizing their funds in order to safeguard the interests of various stakeholders (Ayub, 2007). This implies that the wide range of their activities and responsibilities should be mobilized within the justice and welfare outlook to optimally serving the public interest and not merely serving for individual or group interests. With the goal to achieve social and economic justice within the teachings of Islam, Mirakhor (1987) asserted that Islamic banking could be a viable proposition that can lead to the efficient allocation of resources to all members of society.

Researchers such as Siddiqi (2002) and Naqvi (2003) supported the underlying Islamic teachings which suggest the objective of Islamic banking are to be centred towards the objectives of social welfare orientation whereby, eradicating all elements of inequity, injustice, exploitation and oppression in society is practiced. Although, profit and growth objectives are imperative for Islamic banking too as for any other business is concerned but it can not be the sole criterion in evaluating their performance (Ayub, 2007). What is more crucial is the motivation of Islamic bank to counterbalance a conception of society needs and social collaboration as to seek value maximization within the ethical parameters of Islam (Beekun and Badawi, 2005; Saeed *et al.*, 2001). This reveals the heart of Islamic principles where the objectives of any business venture or activities must be guided by the purpose to further contribute to the welfare of the community. Hence, the ultimate measure of the worth of any business activity handled by Islamic banking is the value it creates that may contributes to the effectiveness of wealth circulation and resources allocation for the benefits of everyone in the society.

Ayub (2007) had made a lengthy discussion on the issue of profit and growth which is not alone a reliable indicator of socio-economic development from the macro and micro economic levels. He argued that although, growth has been the major objective of economic policy around the globe for about half a century ago but the rising issue on the inequalities of asset distribution is also growing at even a faster rate. This problem arises due to the fact that wealth and assets are only concentrated among the powerful and better-endowed groups which subsequently result in increasingly desperate circumstances such as poverty and unemployment in the society, since the system has failed to serve as the welfare function. Islam therefore, discourages concentration of

wealth in few rich hands but rather it should be circulated among all the sections of society to enable the unfortunate and destitute among the population to also have the opportunity to take benefit from it. It is paramount for Islamic banking to become one of the important channel to bridge the gap between the rich and the less fortunate by expanding the social nets to the deserving segments of society. By doing this, the inequalities of wealth and asset distribution could be reduced whereby the weaker groups could also get their due share at the stage of production among various factors of production. As such, it will drives the Islamic banking systems to the different platform from conventional system that would create balance between the material and social objectives in an effort to provide justice and welfare (Ismail, 2010).

Now that the foundations have been laid for the Islamic banking objectives that differentiate to the conventional counterpart. However, the question arises whether it could be implemented to achieve those objectives. Of late, serious concerned have been raised by a number of scholars on Islamic banking whereby they observe a situation in which they regards as the failure of Islamic banking to counterbalance between economic objectives and social objectives in their operations (Ayub, 2007; Naqvi, 2003; Siddiqi, 2000; Chapra, 2000; 1985). In other words, Asutay (2007) described that Islamic banking system is essentially seen moving towards a neo-classical paradigm while distancing away from an Islamic economic value system which caused a divergence between Islamic finance philosophy and their practice. Asutay (2012) also found that many of Islamic banks worldwide have aimed at becoming part of the international financial market. Despite the social expectation is highly demanded in Islam islamic banks claim that they do not operate as a charity and they need to work under difficult competitive conditions. Clearly, this indicates that profit maximization has always be the aim or objective to those Islamic banks which will eventually negates the importance of societal responsibility.

Based on the above scenario, it seems that Islamic banking operations are not contributing much to the social goals which have social implications related to economic development, especially for the fulfilment of basic needs and achieving distributional equity (Hasan and Dridi, 2010). As to realign the needs of Islamic finance theory, Naqvi (2003), Chapra (2000) and Hassan (2002) asserted that Islamic banking are assumed to further societal interests at large because the concept of

profit maximization alone may not be consistent with the overriding objective of optimally serving society and avoiding exploitation in their business operations.

Despite remaining responsive in fulfilling the economic objectives Islamic banking should have taken a measure for the reorientations of their business operations by playing a major role on social objectives which ponder upon diverse society needs particularly on the matter of welfare and justice. Islamic economists are of opinion that although competitions in the market do exist, there should not be any conflict between these two objectives. They argue that social objectives coexist alongside economic oriented profit maximizing objectives (Chapra, 2000). Within a framework of harmonized social and economic objectives Islamic banking could fulfil the needs of various stakeholders (shareholders, depositors, employees, customers and the community at large) for access to financial resources in an economically and socially efficient manner based on the teachings of Islam.

Undoubtedly, to implement according to the theoretical objectives of Islamic banking in practice requires the dedication of a large number of market participants. There is therefore frequently a wide gap between philosophy and practice were found concerning the objectives of the establishment and the role of Islamic banking in the economy. Predominantly, countries like Malaysia with a dual banking system where both the Islamic and conventional banks operate in parallel to deliver innovative and competitive financial products and services has produce several issues and challenges particularly in prioritizing the objectives of business conduct in order to grow as a viable form of financial intermediation that is competitive and resilient. Against this backdrop, the next study examines this issue to the Malaysian setting by investigating the priority or relative importance on the objectives of Islamic banks which take into consideration both social and economic objectives with particular reference to the management of financial resources or Asset and Liability Management (ALM). This study utilizes the Analytic Hierarchy Process (AHP) approach in deriving priorities on the objectives of Islamic banks for the above matter. Ultimately, the findings of this study would provide some indications to the decision makers in Islamic banks to ponder upon in managing the assets and liabilities within limited bank's financial resources based on the priority on the multiple objectives of Islamic bank.

**The multiple objectives model of Islamic bank:** Based on the preceding discussion Islamic bank should be viewed as a particular type of bank that operates to maximize a

**Table 1: Multiple objectives and sub-objectives of Islamic bank**

Main objectives	Sub-objectives
Justice and equity	Providing fair return to shareholders Providing fair return to depositors Providing justifiable benefits to employees
Welfare	Redistribution of income and wealth Investment in public interest
Profit and growth	Maximizing profitability
Liquidity	Maintaining sufficient amount of cash flows
Solvency	Managing risks

blend of social and economic objectives. Accordingly, this study proposes two main social objectives as envisioned and deeply inscribed in the Islamic teachings as the hallmark of the Islamic socio-economic order and three main economic objectives that seem to be the most important in any commercial IBI (mainly regarding the ALM function). The social objectives are further divided into five sub-objectives while the three other sub-objectives are for economic objectives. Taken together, there are eight specific objectives of Islamic bank that served for diverse interest including shareholders, depositors, employees, customers and communities as shown in Table 1. The selection of the main and sub-objectives of Islamic banks was based on various literature related to Islamic banking objectives as well as the opinion of experts.

## MATERIALS AND METHODS

**The Analytic Hierarchy Process (AHP) approach:** AHP approach can be traced back to the early 1970s in response to the scarce resources allocation and planning needs for the military (Saaty, 1980). Over the years, it has received a wider attention in various fields as one of the decision-making techniques for researchers and decision makers due to its comprehensive framework. AHP considers both qualitative and quantitative aspects to research and combines them into a single empirical analysis. It uses qualitative way to decompose an unstructured problem into a systematic decision hierarchy based on the process of reviewing the related literature and interviewing experts. In the quantitative sense, it employs a pair-wise comparison to execute the consistency test to validate the consistency of responses towards the questionnaire.

The basic AHP process includes five stages, namely: (1) establish a hierarchy; (2) design the pairwise comparison questionnaire; (3) calculate the criteria weighting; (4) calculate eigenvector and (5) consistency test. In stage 3 and 4, AHP uses prioritization methods as the methods to derive priorities vector or weights from pairwise comparison matrices (Saaty, 1990a). The most common and well-known prioritization method in AHP is eigenvector method which was proposed by Saaty (1977)

and therefore utilized in this study. There are other methods as well such as Modified Eigenvectors, Additive Normalization, Direct Least Squares, Weighted Least Squares, Logarithmic Least Squares (Geometric Means), Logarithmic Goal Programming and Fuzzy Preferences Programming. In stage 5, lies one of the significance in AHP Method where Consistency Ratio (CR) is used to verify the credibility and reasonability of evaluation and to check whether there is inconsistent causality or conflicts in subjective judgements. The CR is acceptable if it does not exceed 0.1 (Saaty, 1980). The definition of consistency index showed as follows:

$$CI = \frac{(\lambda_{max} - n)}{(n-1)} \text{ and } CR = \left( \frac{CI}{RI_n} \right) \quad (1)$$

The positive reciprocal matrix generated by valuation yields different Consistency Index (CI) values at each level. These CI values are called random indexes. The  $\lambda_{max}$  is the maximized eigenvector of a pair-wise comparison matrix. The n is an attribute of the matrix and  $RI_n$  is a random index as shown in Table 2 (Saaty, 1980).

**Data collection process:** The data collection process was carried out through structured survey questionnaires administered totwelve identified relevant practitioners and industry experts at Islamic banking institutions in Malaysia. Respondents were from the manager level and above, occupied positions such as Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO), head of Islamic banking department and head of department that are relevant which has diverse experience and sat as part of the decision making team at their institutions. Apart from that eight other respondents were identified among shari’ah committees who were appointed as the shari’ah advisor at the individual Islamic banks in Malaysia. The underlying rationale for the selection of shari’ah committee as part of the respondents in this study is due to the further expansion on their role and responsibility in the implementation of decisions and opinions pertaining to shari’ah matters throughout the Islamic banks. This has been outlined by the Central Bank of Malaysia in the ‘New Shari’ah Governance Framework’ which take effect starting 1st January, 2011. Although, the sample size looks small, the AHP Method does not require the input of a large number of experts to generate reliable and useful results. The most important thing is that the respondent involved must have expertise and diversity in terms of their experience with the subject matter (Saaty, 1990b).

Pair-wise comparison is the cornerstone of the AHP principle which allows the respondents to systematically

Table 2: Random index

N	RI
2	0.00
3	0.58
4	0.90
5	1.12
6	1.25
7	1.32
8	1.41
9	1.45
10	1.49
11	1.54
12	1.48
13	1.56
14	1.57
15	1.59

Table 3: The fundamental 1-9 measurement scale for pairwise comparison of two elements

Intensity of importance	Definition	Explanation
1	Equally important	When two objectives are equally important
3	Moderately important	Experience and judgement slightly favour one objective over another
5	Strongly important	Experience and judgement strongly favour one objective over another
7	Very strongly important	An objective is favoured very strongly over another and its dominance demonstrated in practice
9	Extremely important affirmation	The evidence favouring one objective another over is of the highest possible order of
2, 4, 6, 8	Intermediates values	Used to represent a compromise judgement between the preferences listed above

determine the intensities of interrelationships of a great number of decision factors. For this particular matter, almost each respondent was given a detailed explanation of pair-wise comparison preceding the filling of the questionnaire. Basically, respondents are required to indicate their choice of priorities with respect to the multiple objectives of Islamic banking and the management of assets and liabilities based on their experience and judgement. This was done by indicating which one of the two objectives are relatively more important than the other and subsequently decides the intensity of that importance. The fundamental 1-9 measurement scale proposed by Saaty (1990b) for the pairwise comparison of two elements was adapted in the study questionnaire for the assessment of intensity as shown in Table 3.

## RESULTS AND DISCUSSION

After determining the weights of the objectives within each hierarchy, the Consistency Ratio (CR) are then computed to verify the credibility and reasonability of evaluation and to check whether there are inconsistent or variability of judgement by respondents. Generally, the

CR of <0.1 indicates that the result is acceptable where the assessment by the respondent is logically sound and not based on a random prioritization (Saaty, 1980). In other words, CR provides a very good estimation on the consistency of the respondents in answering the questionnaires regarding the multiple objectives of Islamic banking for this particular study. Out of 20 sets of responses in this study, 17 had an acceptable level of consistency.

The 17 questionnaires with an acceptable level of consistency were then aggregated to obtain the combined judgements on the weight of the objectives at each hierarchy level by using geometric mean aggregation method. As suggested by Saaty (2001), the use of geometric means provides an effective way to aggregate group decision weights. In this study, the CR was assessed according to the two different groups of judgements and opinions provided by respondents where one group was seen to incline towards the economic objectives while the other group was more concerned with social objectives.

In the first level of hierarchy, the relative importance of the five main objectives is shown in Table 4. When examining Table 4, it clearly shows that two different directions of objectives where profit and growth versus justice and equity get the highest priority from the two different groups that have been split up. However, the group of respondents that inclined to social objectives display a more evenly distributed spread of relative importance among the five main objectives identified. It is obvious that the group which is more concerned on economic objectives places more weight on the objectives which relates to profit and growth, solvency and liquidity while the group which is inclined towards social objectives places their priority more on justice and equity as well as welfare matters.

In examining the sub-objectives of Islamic banks which are more specific to the management of assets and liabilities, we discovered a larger degree of variance in terms of the relative importance on the more specific objectives placed by these two groups of opinion (Table 5). With further sub-divided objectives, the result

shows the consistency with the main objectives on the priority choices by the group that inclined to economic objectives and social objectives, respectively.

For the group inclined to economic objectives, several constraining factors had a bearing on some of their importance ratings. One such factor shared by one of the respondents was with respect to the shareholding structure of the Islamic banking entity itself. An Islamic bank that has no controlling or major shareholder influencing its strategic direction may have more discretion to balance between economic and social objectives as compared to a fully owned subsidiary of a conventional financial group which has to demonstrate profitability first in order to garner support for more capital investments to grow the bank. Concern about the lack of real profitability and high risk factors are important impediment preventing some Islamic banks from prioritizing their business objectives in favour of investment in the public interest. This can be clearly seen in Table 5 where this particular objective was the least weighted by the group of respondents that inclined to economic objectives.

In comparison to the latter group in which their opinions tilting more towards social objectives, they have placed higher priority on both the investment in public interest and redistribution of income and wealth. The importance of the first objective has to do with the channeling of funds to the real economic sectors that the bank invested in which have direct implications to the wider population, especially for those in the rural areas. Such sectors might include Small and Medium

Table 4: Aggregated weights of the main objectives of Islamic banks from two different groups of judgements and opinions

Groups	Aggregated weights from the group that inclined to economic objectives	Aggregated weights from the group that inclined to social objectives
Justice and equity	0.1481	0.3700
Welfare	0.0733	0.2634
Profit and growth	0.4161	0.1010
Liquidity	0.1669	0.0878
Solvency	0.1953	0.1776
Consistency Ratios (CR)	0.0465	0.0512

Table 5: Comparison of the sub-objectives of Islamic banks from two different groups of judgements and opinions

Ranks	Aggregated weights from the group that inclined to economic objectives	Values	Aggregated weights from the group that inclined to social objectives	Values
1	Maximizing profitability	0.2337	Investment in public interest	0.3418
2	Managing risks	0.1876	Redistribution of income and wealth	0.2599
3	Providing fair return to shareholders	0.1846	Providing justifiable benefits to employees	0.1033
4	Maintaining sufficient amount of cash flows	0.1416	Providing fair return to depositors	0.0969
5	Providing fair return to depositors	0.0972	Providing fair return to shareholders	0.0628
6	Redistribution of income and wealth	0.0600	Maximizing profitability	0.0523
7	Providing justifiable benefits to employees	0.0564	Maintaining sufficient amount of cash flows	0.0434
8	Investment in public interest	0.0389	Managing risks	0.0397

Enterprises (SME), agriculture, fisheries and small manufacturing and construction businesses. One of the examples for such socially responsible investment in public interest is through the microfinance or microcredit scheme program. Rahman (2007) argued that there is a nexus between Islamic banking and microfinance because many moral and ethical attributes of microfinance could be considered parallel with the broader objectives of Islamic banking that should place greater social welfare responsibilities as well as religious commitment. The involvement of Islamic banking in microfinance program could provide obvious benefits for the micro entrepreneurs and the poor who usually fall outside the formal credit market (Dusuki, 2007). This includes creating the sense of independence, dignity and self-respect among the entrepreneurs and the poor as the credit benefits will assist them to become economically independent to satisfy the basic human rights for food, shelter, health and education (Gibbons and Kassim, 1990; Chapra, 1992). It is therefore argued that when Islamic banking has not prioritized their investment for public interest, especially by not providing easy access to financing for the poor and micro entrepreneurs Islamic microfinance is considered as one of the important missing component in Islamic banking (Rahman, 2007).

Similarly to the second objective which was given a much higher weighting by the group that advocates to social objectives where the major concern to them is the importance on the transfer of income and wealth adequately by the Islamic banks to the poor and the needy, thereby helping to bridge the inequality gap between the rich and the unfortunate. Islam has outlined several mechanisms such as zakat, sadaqah, hibah and waqf for the process of redistribution of income and wealth, so that every muslim has the right for a fair standard of living. However, zakat is a muslim's obligatory religious levy on the excess wealth from financially stable people which could act as one important mechanism to solve social economic problems such as illiteracy, moral bankruptcy as well as increase in crime rate, resulting from weak economic conditions from the poor and the destitute people. As highlighted by Abdullah and Suhaib (2011), it is clear that zakat is considered a portion of a charity system in Islam that could ensure social justice by bringing financial balance among various strata of society. Thus, the empowerment of zakat mechanism in Islamic banks could provide significant impact for the realization of public welfare in general as well as the economy as a whole through the efficient disbursement of the funds to those considered economically underprivileged as prescribed by shari'ah (Ismail and Possumah, 2013).

With regards to the degree of importance of providing relevant benefits to employees, the group concerned with social objectives apparently outweighed this by approximately, 5% as compared to the other group. On the other hand, providing a fair return to shareholders was given much higher priority by the group that inclined to economic objectives compared to the group inclined to social objectives where there was more than a 12% difference in weighting between the two groups. These results indicate that the group favouring social objectives perceived human resources as one of the critical contributing factors for Islamic banking success. Thus, they believe that by providing their employees fair wages, sufficient exposure through training, seminars and workshops as part of the benefits provided by the employer, the employees will be well equipped with knowledge to handle their customers and perform their duties in a proactive way to meet the objectives of the Islamic bank. This finding supports the study by Zairani *et al.* (2008) on the analysis of bankers' perceptions regarding the issue of the training and experience gained at Islamic banking institutions.

A further observation is noted from one of the sub-objectives which is providing fair return to depositors which falls under the main objective of justice and equity. Both two groups weight the objective more or less the same in each group. This implies that both groups are similarly concerned with the accountability of their institutions on the management of financial resources to secure reasonable returns to depositors. This may be a concern because low depositor returns will cause the withdrawal of funds and possibly lead to the failure of the bank.

Meanwhile, providing fair return to shareholders has been weighted much higher by the group which inclined to economic objectives. This is parallel with their main concern on profit making objective. In an effort to provide high returns to shareholders, they would normally prefer profitable investments to diversify their portfolio as compared to investment in public interest by supplying credits to low-income clients especially in rural areas. Granting credits to these clients are usually perceived by the banks as high risk exposure due to several factors which might include the uncertainty regarding the ability of these clients to meet future loan obligations, inability to monitor the use of funds and demand for small amount of loans or financing by these group of clients is considered expensive because it leads to high overhead costs (Braverman and Guasch, 1986; Zeller and Meyer, 2002).



## CONCLUSION

In response to the need for further research and discussion about the objectives of Islamic banking as an Ethical Business Model, this study had proposed the use of the AHP Method to derive priorities on the multiple objectives of Islamic banks towards the management of financial resources to achieve both economic and social objectives. By examining the weightings for each of the objectives provided by practitioners and experts at Islamic banks, this study identified several important findings.

First, the variance in the opinions of the experts may have influenced the result of the AHP weightings. Thus, two groups of judgements and opinions regarding the subject matter were aggregated separately to clearly show the discrepancies that existed among opinions of the experts. One group was more inclined towards achieving economic objectives while the other group was more concerned with the achievement of social objectives.

Second, the findings of this study show that further consideration is needed by the decision makers at Islamic banks (at least in Malaysian setting) in an effort to reduce the gap between these two objectives in Islamic banking operations as a whole. While there are some discrepancies between philosophy and practice that was found in this study, it should be remembered that the Islamic banking and finance industry has an enduring and strong footing in Malaysian market. Though, some of the opinions from practitioners has the objective of making realistic profits and ensuring optimal corporate growth Islamic banking in Malaysia should continuously expand their operations by actively engaging in positive social welfare projects for the benefits of the society at large. This is because their corporate objectives and the social welfare activities that they undertake are used as an indicator of their commitment to moral obligations and to be known as institutions that truly uphold Islamic business principles. The specific Malaysian case of course has limited generalizability as the commitment of Malaysian Islamic banks may varies. Nevertheless, the analytical framework that has been utilized in this study can be applicable in any countries for the purpose to investigate reasons for differences in the objectives of Islamic banking between philosophy and practice.

Finally, the findings are also essential for further research to explore the potential optimal composition of assets and liabilities in Islamic banking operation based on the priority weights derived in this study which seeks to maximize the objective function that comprises both the elements of social welfare and justice as well as economic objectives for the process financial resource allocation. Since, AHP is a flexible decision making tool, the priority

weights could be later integrated with other tool such as goal programming to maximize the multiple objective functions of Islamic banking.

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