

INTRODUCTION

Guest Editors

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Placed in an environment characterized by uncertainty of future values whereas productive enterprise must be done in the present drawing upon resources inherited from the past, man finds himself in a challenging situation. As resources must be attracted by the allure of recompense, issues of justice and fairness co-mingle with those of growth and development and personal gain. Human ingenuity as well as morality both are put to test, the society's interest served by a balanced approach to both. But in history it has not always been a success story as evidenced by the recent economic and financial crisis. In the aftermath of widespread suffering caused by the crisis lot of rethinking is taking place, the query being: What went wrong?

The five papers that follow respond to the query by focusing on the financial markets. Under the microscope is the Islamic approach distinguished by prohibition of interest, gambling like speculation and avoidable ambiguity in contracts (*gharar*). Each paper, in its own way, seeks to demonstrate the ability of the Islamic approach to handle the situation in a better way than the conventional way.

Amir Kia discusses the features of Islamic financial markets in terms of the prohibition of predetermined interest rates, excess of speculative activities, and information asymmetries. He shows that debt financing and economic waste through excess speculative activities cause a reduction in stock price and returns. In addition, interest rate, outstanding government debt and deficits result in a reduction of stock price for the sample period.

Sherif al Halaby and Khaled Hussainy discuss the determination of social accountability disclosure using evidence from Islamic banks around the world. In an exhaustive study covering vast literature they pay special attention to AAOIFI standard #7 as a benchmark. Islamic banks' contribution in corporate social responsibility tends to support its Shariah auditing department inside the bank.

Omrana Siham, Aboulaich Rajae and Alami Idrissi Ali model *bay'al arboun* (using a binomial pricing approach) as an option for call model. Both call options and *bay'al arboun* offer suitable strategies for hedging risks. *Bay'al arboun* as an alternative to call options has the added advantage of not being vulnerable to speculation.

Amine Ben Amar, Nejib Hachicha and Ridha Saadallah discuss the effectiveness of monetary policy transmission channels in the presence of Islamic banks in Saudi Arabia. The focus is on the relatively small non-oil private output. Bank lending is

relatively effective in influencing non-oil private output but less effective in influencing consumer prices.

Rim Ben Salma Mokni and Abdelghani Echchabi discuss the risk management tools practiced in the MENA region comparing Islamic and conventional banks. Credit risks matter most for both conventional and Islamic banks and there is no significant difference in their risk perception. Both continue to rely on traditional risk mitigating measures.

It is clear that the authors of this collection of papers conscious of the larger space covered by conventional banks as compared to Islamic banks. This makes them assert the advantages of an Islamic approach to financial markets (no interest, no speculation, asset based financial instruments...). With Islamic banking and finance you can do all that the other fellow is doing and be safer. This preoccupation with the idea of superiority limits our horizon, prevents us from reaching out to higher goals, encapsulated in *maqasid al-Shariah* (objectives of Islam) like universal need fulfilment, growth and development that takes the interests of future generations into consideration and, in general, is characterized by humility and compassion rather than by arrogance and brutality evidenced by our current attitudes towards environment.

All papers published in this special issue discuss the benefits of Islamic financial principles in different ways. However, the screening committee of this special issue decided that the first paper by Amir Kia would be awarded the 500 USD cash award as the best paper.

We earnestly hope this specially focused issue of *International Journal of Business* will contribute to a better understanding of the challenges faced by humanity.