

1. Editorial note on the role of Islamic finance in mainstream finance

1.1 Introduction

This special issue begins with the aims to attract both theoretical and empirical works to explore the debates on the controversial issue whether Islamic Finance (IF) is a separate new emerging discipline and/or it is the contributions to mainstream area of banking and finance with added advantages of *Shariah* compliances ethical build-in into the existing discipline. Some scholars argue that IF is the financial shock observer when the mainstream finance is in crises others disagree with this arguments. They give examples of Asian financial crises and recent global financial crises when IF bring economic stability in some selected Asian economies. However, there is no doubt that the growth of IF have been observed double digit during the recent economic meltdown due to global demand created by 1.7 bn Muslims living all around the world. According to World Bank, the Islamic financial industry has expanded rapidly over the past decade at 10–12 percent annually. For details refer (www.worldbank.org/en/topic/financialsector/brief/islamic-finance#4).

Major financial markets are discovering solid evidence that IF has already been mainstreamed within the global financial system and that it has the potential to help address the challenges of ending extreme poverty and boosting shared prosperity. The objective of this issue is to start this discussion in recognizing IF as an emerging research discipline within the mainstream of finance discipline. The issue begins with addressing some of the issues related to corporate social responsibility (CSR) and then goes through some of the very important topics like, Islamic financial products: Sukuk, Waqf, Zakat and Islamic Gold Dinar, home financing model and end with Islamic equities.

2. Structure of the special issue

Noting the importance of CSR and its huge impact on businesses' performance. This issue begins by a first paper on this topic authored by Al-Malkawi who examined how corporations' CSR activities impact on their financial performance in Saudi Arabia. It provides empirical evidence from one of the five pillars of Islam *Zakat*. Unlike previous studies, the authors employed the generalized method of moments (GMM model) to explore the role of Zakat in Saudi Arabian financial performance by using panel data for a ten-year period.

In the second paper, Alam, Bhatti and Wong investigated the default characteristics of *Sukuk* using Value-at-Risk techniques over a 16-year period and across nine economic sectors in Malaysia. Furthermore, this research also found evidence supporting the claim that *Sukuk* is not riskier than conventional bonds rather support investors to invest in *Sukuk* due to its assets based structure and hence providing better risk pitch.

Ben Salah and Boujellène studied the impact of cognitive bias on risk-taking and inefficiency under both Islamic and conventional banking systems in the MENA region. After examining two overconfidence proxies, namely, loan growth rate and net interest margin by using the GMM model, the authors have come to important conclusions

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regarding the effect of these two variables to risk exposure and efficacy of both Islamic and conventional banking systems.

In order to add more value to current literature with reference to the differences between Islamic and conventional banking systems, Bougatef and Korbi aimed to study the factors that explain intermediation margins under both Islamic and conventional banks operating in the Middle East and North Africa. By using the dynamic panel modeling approach, they revealed different determinants of net profit margins under these two systems.

Utilizing various methodologies including Markowitz's (1952) portfolio optimization, visual data representations and the classic Fama–MacBeth (1973) two-pass procedure regressions, Cheong investigated the ability of the Islamic Gold Dinar to hedge against foreign exchange market volatility. His findings documented a new hedging instrument to diversify investors' currency portfolios.

In the later article, Chowdhury, Akbar and Mohammad examined the relationship between Islamic financing principles and economic growth in Bangladesh using autoregressive distributive lags. Having considered all annual reports of Islamic banks in Bangladesh, this group of authors shed light on how the economic growth responds to the risk sharing and non-risk sharing instruments.

In the wake of the GFC, predicting financial distress in banking systems has been increasingly more critical in order to prevent future economic downturns. In their paper, Halteh and his co-authors; Kumar and Gepp aimed to forecast the failure by using cutting-edge stochastic models including decision trees, stochastic gradient boosting and random forests to study 101 international publicly listed Islamic banks. Their findings add value to the literature on the issue of Islamic banking and predicting financial distress.

To examine the differences in investors' perceptions concerning the response to the issuance of *Sukuk* and conventional bonds, Hassan, Ahmed and Rayfield observed significantly negative abnormal returns before and after the announcement date of *Sukuk* issuance. By utilizing linear and logistic regression models, they found an interesting connection: first, between firms' characteristics and these abnormal returns; and second, issuers' preferences between issuing *Sukuk* and conventional bonds.

Mahmood, Gan and Nguyen, by utilizing the two-step system GMM estimation technique on 55 full-fledged Islamic banks from 11 different countries, have analyzed various factors at both firm-specific and macroeconomic levels, in order to explore their impacts on maturity transformation risk. This paper makes an important contribution to studying maturity transformation risk which is considered one of the major causes of the global financial crisis.

Md Zabri and Mohammed examined the acceptability of the Cash Waqf-financial cooperative-Musharakah Mutanaqisah (MM) home financing model among homeowners in Malaysia by gauging their intention to participate in this model using the theory of planned behavior. The authors also thoroughly evaluated the two important financing instruments in Malaysian banking system, specifically the Islamic home financing and equity-based MM.

Finally, Sakti and co-authors; Masih, Saiti and Tareq focused on how to minimize unsystematic risks by portfolio diversification. However, they focused on investors who comply with Indonesian *Shariah* regulations. Their findings play a role as an investment manual for investors with an exposure to Indonesian *Shariah*-compliant indices, where the aim is to obtain more diversification benefits.

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