Editorial

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Biographical notes: Walid Mansour is a research affiliate at the Islamic Economics Institute at King Abdulaziz University. He was a research and teaching fellow at the University of Kansas, Lawrence (USA). His research interests are mainly corporate finance, information asymmetries and Islamic finance. He is the recipient of the Fulbright Scholarship and the Occasional Lecturing Fund (OLF) from the US Department of State (Washington DC), a research grant at University of Cergy-Pontoise (France) and a research grant from SABIC Chair for Islamic Finance Market Studies (Riyadh, KSA).

Religions have always been vital for people seeing the direct impact they have on their daily lives. Alongside with the cultural, social and institutional factors, religions constitute an interesting determinant of decisions in finance. The interest of academicians and practitioners in the fields of economics and finance in religions is not a new issue. Indeed, Iannaccone (1998) maintains that the interest in religions goes back to Adam Smith who first stressed their significance to economic variables. Weber (1905) initiated a large body of literature on the extent to which religions impact macroeconomic variables as well as firm-level indicators. The Weberian approach concludes that Protestantism has a positive impact on economic growth inasmuch as the Protestant work is much ethical relative to Catholicism. Arrunada (2010) claims that the behaviour of Protestants matches better the social ethics hypothesis inasmuch as they are more oriented towards social control and ethics. McCleary and Barro (2006) argue that the Weberian framework is related to the religious beliefs that matter for economic outcomes. Weber's (1905) framework contrasts with the social–capital/cultural perspective in which the networking associated with attendance at formal religious events positively affects growth.

McCleary and Barro (2006) explain the interplay between religions and economic outcomes. From a religious perspective, some factors or 'motivators' influence human behaviour such as salvation, damnation and nirvana. These compensators spur individuals to behave in a given manner and take specific individual and corporate decisions. The authors claim further that "successful explanations of economic performance must go beyond narrow measures of economic variables to encompass political social forces" (p.760).

The literature swarms with rich empirical studies that deal with the interaction between religions and economic variables. For instance, Guiso et al. (2006) use an empirical design showing that religious beliefs positively affect income. Furthermore,

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they show that Christianity is typically more positively correlated with economic growth than other religions. Kogut and Singh (1988) study the relationship between economies' religious distance and their foreign direct investment (FDI). They show that large distances are an obstacle to the growth of FDI. Guiso et al. (2008) find a positive correlation between religions similarity and trading volumes across economies located in Europe. In contrast, Guo (2004) documents that religious dissimilarity plays an important role in delaying foreign trade and as a strong barrier impeding the trade between the USA and China. Rupasingha and Chilton (2009) use data about religious adherence from the American Religious Data Archive to examine the effect of church adherence rates on US economic growth. Three religious groups are used, namely Evangelical Protestants, Mainline Protestants and Catholics. The results show that religious adherent rates affect US economic growth.

The traditional financial literature ignored the fact that spiritual and religious norms affect decision-making behaviour. Although it asserts that fundamental variables such as stock prices, profitability and volatility affect financial decisions, recent studies embodied religions' role as a key determinant of investor emotions and behavioural preferences by focusing on human psychology and emotional influences on investment choices. Mansour and Jlassi (2014) study various aspects of the interdependence between religions and finance such as the religious roots of individual and personal traits (i.e., gender, age and educational level), the impact of religions on investors' decisions in terms of honesty, loyalty, risk taking and ethical attitude. Furthermore, the authors emphasise the relevant role of religions on social investment.

A number of papers in this special issue contribute to all the lines of research discussed above. Luke N. Onuoha's paper, 'Investment principles of the Bible: how Christian businesses cultivate wealth and attain relevance in the 21st century', discusses the investment principles espoused by the Bible and link them to modern business activities. Indeed, the paper sheds some light on the investment principles of the Bible considering the origin of wealth, the source of power to acquire wealth and the methods to grow and sustain it. Wealth creation in the Bible is explained in terms of sowing a seed season, giving back to God's cause, saving some money for a rainy day, investing with a responsible mindset and sharing surpluses with other poor people. While the Christian investor is basically guided by faith, the modern entrepreneur is more interested by statistical methods and quantitative measures. The conclusion of the paper is that Christian entrepreneurs operate with the principle of applied faith in the power of God to bring about increases in correspondence with the level of obedience of the investor.

In 'The influence of cultural and religion on trust in the emerging financial market in Libya', Zainab Abdussalam examines the impact of culture, religion and trust on the Libyan financial market. The author uses a qualitative dataset and show that culture and religion improve trust, which can itself lead to successful financial market development in Libya. Specifically, the study shows that the products that are compliant with *Shari'ah* (i.e., Islamic law) exhibit a higher ability to build trust in the Muslim countries' financial markets. This may explain the failure of western companies to improve the trust of their products. Indeed, such companies traded their products in Muslim economies without being compliant to *Shari'ah*. Although the products were traded, their ability to build a strong trust can be reached only over the long term. The paper concludes that the culture and religion are fundamental drivers of people's actions and investment decisions. Although this conclusion may hold true for many

MENA countries, it might not be the case for other emerging economies where religion has no dominating role in investment and financial decisions.

Leila Gharbi and Khamoussi Halioui explore some comparative aspects between Islamic and conventional banks in their paper 'Fair value and financial instability: Comparative study between Islamic and conventional banks'. The study investigates the impact of fair value accounting on banks' financial instability. Specifically, the impact of fair value changes on capital adequacy ratio and risk-taking behaviour is tackled. The author uses data from Islamic and conventional banks from the GCC region over the period 2003–2011. The major empirical results show that Islamic banks are more stable since their regulatory capital is less affected by fair value changes. However, the fair value is more suitable to the Islamic concept of justice than the principles of historical cost and prudence. The latter principle would lead to the understatement of payable Zakat and a deterioration of the transparency of financial reporting.

Kubiszewska and Komorowski's paper, 'The UK's banking system as financial hub for Islamic banking', examines the attractiveness of London as a hub for Islamic banking. As the authors argue, Islamic banking is not only important for the markets of Muslim countries, but also looking for niches in western economies turns out to be attractive. The best known example is the UK where London, as an international financial centre, has attracted a new segment of banking. There are a few reasons according to which London can be considered as a financial hub for Islamic banking and its further growth in Europe. Although with a relatively small minority of Muslims compared with other communities, London is distinguished by its stable and flexible regulatory framework which spurs the expansion of Islamic banking. Furthermore, factors such as the remarkable excess of liquidity of the oil-rich GCC economies and the global expansion of Islamic finance have been combined to render London as a hub for Islamic banking.

Although London could be considered successful in the field of Islamic finance, there are various obstacles that could stop its international leadership. The authors enumerate two main obstacles. The first is related to the confidence crisis that consists in the inability of the industry to endorse new Islamic financial products such that market participants and investors accept them. The creation of special guarantee funds is one of the solutions to alleviate the confidence crisis. The second obstacle is related to the development and continuity of the new Islamic financial products. Indeed, the vision of Islam is of a social order that provides justice, fairness and economic prosperity. The Islamic banking industry should fulfil *Maqasid al-Shari'ah* (i.e., objectives of Islamic law) inasmuch as the traded products should not only be attractive from the financial perspective to the investors alone but must be relevant to the social and economic equitability of the society.

The last paper in the special issue is by Munawar Iqbal. It is entitled 'Development of theory of Islamic economics: problems and proposals'. The paper discusses the reasons for which the paradigm of Islamic economics remained unrecognised internationally and suggests the methods with which it could gain the qualifier of Islamic economics theory. Although the first writings dealing with Islamic economics go back to 60 years ago, the discipline remained very confined within a limited number of Muslim economists and *Shari'ah* scholars in the Muslim world. Munawar Iqbal develops a critical approach to analyse the failure of the discipline to be a recognised theory. He cites the following reasons:

- undue emphasis on the use of mathematics and empiricism
- overemphasis on *fiqh*
- failure to incorporate an Islamic incentive system to achieve ideal behaviour.

The author suggests that the need of a multidisciplinary approach and a better interference with the tremendous developments of conventional economics.

The interaction of religions and finance is still in its embryonic stage. A large number of studies are needed to generate lots of proactive conjectures and findings. A natural next step is two-fold. On the one hand, theoreticians should revisit the theoretical foundation of finance from a religious perspective. For instance, the three Abrahamic religions, namely Judaism, Christianity and Islam, prohibit the trading of interest-bearing financial instruments. A natural question in this regard is the study of the implications of this prohibition on the financial theory. On the other hand, empiricists should explore various aspects of the interplay between religions and finance such as asset pricing, overconfidence, risk and capital allocations.

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