Significance of Musharaka in Islamic Banking

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Musharaka is a truly profit and loss sharing Islamic finance technique is fully in accordance with the principles and guidelines of Shariah. Being an equity-based and participatory mode of Islamic finance, Musharaka mechanism conforms to Shariah in letter and spirit. But on the contrary, the use of Murabaha and other Islamic finance modes is prevalent in Islamic banking industries around the world, and these modes being non-equity-based involve the element of debt which creates negative perceptions regarding overall Islamic banking and finance paradigm. The study discusses the Musharaka structure in the viewpoint of one of the major stakeholders, i.e., the Islamic bankers, to promote this mode and to improve the general outlook regarding Islamic finance. The study is conducted to critically analyze the perceptions and opinions of Islamic bankers regarding Musharaka as an important mode of Islamic finance and to derive conclusions about the vitality of Musharaka by evaluating the views of Islamic banking executives. The research is aimed at assessing the viewpoint of Islamic bankers regarding the different matters that are ancillary to Musharaka and to identify the important factors pertinent to this concept. The research findings are based on survey data collected chiefly through questionnaires and interviews.

Keywords: Musharaka, Islamic banking, Islamic finance, Pakistan, bankers, Islamic perspective

Introduction

Islamic economic and financial paradigm is founded on the principle of mutual and collective welfare as opposed to the interest-based conventional economic setup which entails individual welfare and satisfaction of individual's wants and desires, ignoring the concept of cooperative welfare. The idea of Islamic economic structure is truly in contrast to the modern interest based economic structure which is based on the pillars of capitalism that entails unbridled resource production and consumption while ignoring the distribution aspect of these resources and the materialistic interests of individuals precede all other considerations. Islamic system of finance emphasizes risk sharing by offering Islamic financial tools like Musharakah, murabaha, mudaraba, ijarah, salam, and istisna—based on the Islamic guidelines derived from Holy Quran and the Sunnah (sayings and acts) of the Holy Prophet (SAW) to eventually facilitate trade and business in the society and to consequently bring economic well-being and prosperity (Aqib Ali, 2014). This is an amazing fact that Islamic sacred texts from the times when paper money did not even exist, offered guidance on complex and intricate economic/financial matters. Besides this, Islamic principles also provide guidance on the architecture of a

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system that is economically just and fair and is based on the schema of socio-economic welfare of all and not just certain wealthy individuals or groups (Zaman, 2013). The Islamic modes of finance are broadly grouped into two main classes: first are the equity or participatory based modes like mudaraba, Musharakah, and sukuk and the second group includes trade based or sale based mechanisms and modes like salam, istisna, and murabaha. Although the trade-based modes like murabaha, istasna, and ijarah etc. are not loans in real terms, yet these create debts on the basis of deferred sales (M. T. Usmani, 1999).

Any venture or business undertaken by two or more people can be termed as a Musharaka. To be more specific, Musharaka refers to a form of business partnership where two or more than two parties/persons share profits at a mutually agreed ratio and share losses in proportion to their investment. Musharaka is derived from the root word Shirka/Sharika which means being a partner. The term Musharaka should not be confused with terms like Mudaraba or Murabaha. Mudaraba is also an equity-based mode of Islamic finance but very different from Musharaka while Murabaha is a kind of sale in which the original cost is also known to the client along with the final price of the product (M. I. A. Usmani, 2002).

Musharaka is an equity-based and participatory technique in Islamic financial framework. But unfortunately the product assortment of Islamic banks which represent the majority of Islamic Financial Institutions (IFIs) (Sarea & Hanefah, 2013), is dominated by debt-based financing mechanisms, i.e., financing modes that involve debt-repayment like Murabaha and Ijarah etc. By employing equity-based financing tools like Musharaka, Islamic banks may enhance the goodwill of Islamic banking paradigm and improve the overall level of Shariah compliance in their offerings. Musharaka is a structure that is fully in line with the principles of Shariah and follows the Shariah guidelines in true spirit, which makes Musharaka, a truly Shariah compliant financial tool. Shariah conformity is not the only benefit of Musharaka, but it is the versatility and diverse nature of the concept that makes Musharaka suitable for any kind of banking and finance transactions, from long-term financing to short-term funding, from project finance to working-capital finance, and from corporate to consumer finance transactions. Musharaka offers solutions for almost all the contemporary finance dealings.

Review of Related Literature

Musharaka is a form of business partnership in which the partners contribute capital and jointly work to earning profits. The profits are shared based on mutually decided ratios while the loss is always shared in proportion to the contribution of capital. Musharaka is broadly classified into two main categories that are further divided into sub-categories. These two chief categories are Shrikat-ul-Milk and Shirkat-ul-Aqd. Milk means ownership while Aqd means a contract so we can also term these as partnership through ownership and partnership through contract. The Shirkat-ul-Aqd is a more vital category which is more relevant in the context of Islamic banking and financial framework. The Shirkat-ul-Aqd is further divided into three kinds: i) Shirkat-ul-amwal in which all the partners contribute some capital to a business enterprise; ii) Shirkat-ul-amaal in which all the partners jointly undertake to render some services for their customers, and the consideration or fee charged from them is distributed among the partners based on a pre-agreed ratio, and iii) Shirkat-ul-wujooh where the partners have no capital contribution but they buy the commodities on a deferred price and sell them at spot. In this case of Shirkat-ul-wujooh, the profit earned by the partners is distributed between them at an agreed ratio (Arshad & Ismail, 2010). In Musharaka, every partner has a right to take part in the management, and to work for the enterprise jointly formed (Gafoor, 1996). There is also an option to the partners where they can choose any or more partners from among themselves to act on other's behalf and run the business. In this

case the working partners run the business while the non-working partners who only act as investors and never participate in business can share profits not exceeding their capital contribution ratio. This means that ratios of profit sharing of the sleeping partners would not be higher than their capital contribution ratio. The partners may contribute capital in cash or kind of, i.e., in shape of physical assets like building, machinery, and equipment, etc. but subject to the condition that the value of these must be clearly and mutually agreed by the partners beforehand, so as to avoid any future disputes and to determine the capital contribution ratios in an unambiguous manner.

According to Rammal (2004), Musharaka is not as popular as other Islamic financial instruments, Musharaka is still deemed to be one of the most authentic forms of Shariah compliant financing. As discussed earlier Musharaka is originally a Shariah-complaint contract but to make sure this contract does not exceed the boundary of the Shariah and does not get assimilated with the interest based contracts. Some conditions set by the scholar of Islamic commercial law need to be followed (Al-Kawamelah, 2008; International Fiqh Academy, 2004). These conditions relate to various aspects like capital, profit sharing mechanism, business operations, rights and obligations of partners, and termination. Now we will discuss the significance of Musharaka by looking at its contemporary application in the Islamic banking and financial entities globally..

Application of Musharaka

Musharaka can be used quite easily to facilitate financing requirements of trade and industry both in the Short term and Long term:

Working Capital—Working capital such as purchase of raw material for manufacturing concerns can be facilitated through Musharaka. Musharaka can also be used to finance imports & exports for the benefit of the industry.

Project Finance—Musharaka can be used for project finance based on equity participation by the fund-giver and sharing the returns once the project starts generating revenue.

Long Term Finance—Medium to long-term requirements for purchase of land, building, machinery, and equipments can also be facilitated through Musharaka.

Consumer Finance—Financing for consumer durables can be offered on the basis of Musharaka. It can also be used for financing purchase of house or construction material for building a house. Usually in cases like these banks use a Musharaka variant called Diminishing Musharaka.

Unfortunately Musharaka being such a vibrant structure fails to find its due share in the product mix of Islamic banking around the world. The reason is the utilization of modes like Ijarah and murabaha by the Islamic banks. Tarik (2004) mentioned in his work regarding domination of murabaha in Islamic finance and examined that the "murabaha syndrome" has dominated Islamic banks' product assortment almost everywhere. Islamic banking is in operation and notes that because of this factor divergence exists between the theory of equity-based financing and the common practices of Islamic banks. The inability to develop a uniform and homogeneous knowledge base to accommodate the beliefs and value systems of various Muslim sects and schools have also posed a great difficulty in conceiving and implementing a system of Islamic banking and finance which conforms to the standards of general banking consumers. The procedure of improvement demands the renewal of Fiqh in the direction of Ijtihad to design new rules that have not been pondered upon by early Islamic scholars, or to modify these rules in line with the contemporary financial and economic issues triggered by globalization (Tajdeed). The requirement is to craft a sense of harmonization of economic and

Fiqh schools of thoughts keeping in view the outlook of recent socio-economic facts and circumstances. To be precise, we must be relatively more accommodating and supple to deal with the current economic development and financial trends which in fact call for new researches in Islamic finance along with the re-invigorating of Islamic thinking and taking into account the Islamic scholars' viewpoint on global developments (Ibrahim, 2006). All this would not only help lift the overall Islamic banking industry in the global context but would also contribute to and facilitate the new-product development process especially in the area of equity-finance in which domain, the Musharaka structure falls.

Another reason of not employing and utilizing Musharaka-based financing is that the Islamic banks, in a mixed banking system, as well as investment companies need to offer relatively less risky modes of financing as compared to Mudaraba or Musharaka in the wake of severe competition from conventional banks and other financial institutions (Ibrahim & Khalifa, 2011). Most Islamic banks employ murabaha as their most preferred financing option/product which is in fact one of the least preferable alternatives of Islamic financing modes according to the majority of Islamic finance scholars around the world. In countries where Islamic banking is setting standards and benchmarks like Malaysia and some of the Middle eastern countries, Islamic modes of finance including murabaha and tawarruq, etc. are most utilized, which shows the lack of compliance levels in accordance with pure Shariah guidelines. As a matter of fact if we profoundly look into the products and offer structures of Islamic finance institutions and banks, we can clearly witness murabaha as the most dominant choice. According to the Islamic Banking Bulletin of SBP (March 2013), murabaha leads the financing share mix of Islamic banks which is 36% just after diminishing Musharakah which is 35.7%. The financing through murabaha by the IFIs (Islamic financial institutions) up to March 2013 was 90.4 billion rupees and 89.7 billion rupees from dimisnhing Musharakah was financed. Almost the same or mostly the similar is the scenario, in other countries where Islamic banking is thriving. For instance, share of murabaha in financing mix of IBIs (Islamic banking institutions) and IFIs in Malaysia and Bahrain are more than 54% (Samad, Gardner, Cook, & Bradley, 2005), and in Sudan it is over 43%. These statistics clearly portray Islamic banks hesitation in adopting equity-finance models like Musharaka and hence the issue needs urgent attention on the part of all the concerned stakeholders to move ahead in this positive direction.

In Shariah point of view equity-based and participatory modes of investment and finance are preferred and are more acceptable as compared to other mechanisms and transactions, e.g., salam, ijarah, murabaha etc. The fact of the matter is that any truly co-operative and well-coordinated enterprise must be extensively participatory in nature (Choudhury, 2001) and the Islamic banks and IFIs (Islamic finance institutions) need to operate on these lines, in order to be truly "Islamic" and "Shariah-complaint" in their dealings and transactions. Islamic banking lags behind in the process of research and new-product development when it comes to the area of equity-financing tools and techniques like sukuk, Mudaraba, and most importantly Musharaka. This perception is held by the critics of Islamic banking that the views of Islamic bankers are most relevant to facilitate and promote Musharaka because their views are the opinions of insiders of the industry and this study aims to determine the viewpoint of these important stakeholders regarding Musharaka.

Research Methodology

Research Questions

The approach used in the research study is both quantitative and qualitative in nature. Initially the descriptive analysis is done by use of various statistical measures and afterwards, the inferential statistical tools

like the regression analysis are utilized to analyze the data. The research is actually a review of the Musharaka as a vital Islamic finance mode. The research questions are therefore designed accordingly, keeping in view of the nature of the study. The following are the research questions:

Research question 1: Whether the generally held views and opinions of Islamic bankers regarding Musharaka are adverse or favorable.

Research question 2: To identify the important factors that contribute to the favorable opinion of Musharaka by looking at the perceived variables like Shariah compliance, Musharaka operations transparency, Musharaka business support value, knowledge, and awareness of Musharaka.

Research question 3: In order to promote Musharaka mode of finance, what options could be explored and what measures should be taken keeping in view, the soundness of Musharaka in terms of Shariah compliance and its risk-sharing nature.

In every research study, research questions form a vital organ of the study by endeavoring to quest for answers to some important phenomena or issues to help solve problems and to enhance the present body of knowledge by providing directions for future pertinent and similar research studies. Keeping in view the vitality of research questions, the above research questions were chalked out after careful analysis and consideration of previous research relevant to the research study and subsequently after a review of the literature, the answers to the above discussed research questions will be sought in the following sections of the study. The study will proceed in a logical manner by explaining the research methodology first, and then the instrument utilized for the conduct of research study will be discussed along with the sample details. Later, the analysis will be performed on the collected data. Afterwards, the sections of results and conclusions will follow to sum up the research investigation.

Research Design

The study is designed in such a way to effectively gauge and evaluate the attitudes and perceptions towards Musharaka to assess the perspectives of Islamic bankers. The research design comprises of a structured and well-organized questionnaire mostly administered/delivered personally and at few instances through mail, in cases where there were time and cost constraints. Apart from getting the questionnaires filled directly by the target audience, i.e., the Islamic bankers, several informal and casual interview sessions also took place. The interviews were conducted to feed the answers in the questionnaire in cases where the bankers were not willing to write the answers or otherwise preferred viva/oral method over written research-technique. This proved quite vital for the research study because this helped the researcher gain the subjective feedback simultaneously with the quantitative approach. Besides the blend of quantitative and qualitative data collection, the random interview sessions helped confirm the responses given by the participants through filled questionnaires, in an effective way. The reasons for selecting the mentioned research design are many. The main reason is the nature of data to be collected. Questionnaires are considered as one of the best ways to fetch primary data and in this case, the data are primary—collected directly from the research participants. Apart from primary data, the nature of the research study has a rather qualitative inclination and in such cases, survey method of research is most preferable. As for the qualitative nature of the data, because of the fact that the study entails an evaluation of perceptions of Islamic bankers towards Musharaka financing and in view of Collis and Hussey (1997), questionnaire is a best method to know the perceptions and attitudes of research participants. The assessment of attitudes and behavior of respondents is actually done by seeking their opinions pertaining to the particular

research issue/topic and questionnaire is an important instrument in this regard (Ghauri & Gronhaug, 2002). The research study is conducted by performing a field survey across all five pure Islamic banks. According to Attwergy (1998), the questionnaires not only facilitate the data collection procedure but also improve the overall validity and reliability of the collected data which are actually a positive consequence of a standardized questioning approach that is based upon previous similar research responses. The questionnaire was devised keeping in view the similar studies like that of Gerrard and Cunningham (1997), Dusuki (2008), and Akbar, Ali Shah, and Kalmadi (2012). The detailed anatomy and precise features of the questionnaire will be discussed in the later section of research methodology.

The Sample

The survey encompasses all the pure Islamic banks that include Meezan Bank, Dubai Islamic Bank, Al-Barakah Bank, Bank Islami Pakistan, and Burj Bank in the order of maximum branches in the country. The sample size comprises 100 Islamic bankers belonging to these five full-fledged Islamic banks. The actual number of questionnaires distributed is not 100 but the researcher kept on getting the questionnaires filled irrespective of the actual number of questionnaires distributed until the sample size of 100 was reached and it was made sure that all the 100 questionnaires were complete, valid, and suitable to be considered for their inclusion in the data collection process in the course of the research study. The samples were randomly selected from the customers by visiting different bank branches during business hours. To avoid sampling errors and any sort of sampling biases, the researcher varied visit timings, contacted both genders subject to their availability at the time of the visit to the banks, and avoided any kind of prejudices while collecting data like considering any characters of participants like ethnicity, social status, and any type of attributes, for the judgment which could hinder the objective collection of data from the target participants. The bank branches were randomly visited in the four major cities of Pakistan including Islamabad, Karachi, Lahore, and Faisalabad. In all these cities there are branches of almost all the mentioned Islamic and conventional banks which are selected for the survey study. The reason behind the selection of Islamabad is that it is the capital city of the country and hence it makes sense to choose this city and it is indeed one of the obvious choices for such kind of research study. Karachi on the other hand, is termed as the heart of Pakistan, and it is the largest city in Pakistan and is the economic hub of the country having most head offices of the banks selected for the survey study. Lahore is the biggest city of the largest province of the country and has maximum number of Islamic banking branches after Karachi (State Bank of Pakistan, 2013); this was the logic for choosing this city in the sample frame. The raison d'être of Faisalabad being in the survey is that it comes at number five in terms of Islamic banking branch count, after Karachi, Lahore, Islamabad, and Rawalpindi respectively. Another aspect to select the city of Faisalabad in the survey is the fact that it is called the Manchester of Pakistan because it is the industrial hub of the country with a powerful textile sector and a very broad Islamic banking base.

The Instrument Employed

As described earlier, a structured questionnaire was employed to collect the data from the respondents. The intention was to keep the questionnaire as simple as possible for the respondents and hence this was kept in mind while designing the questionnaire. The structured questionnaire used in the study is dissected into two broad sections. There were single line brief instructions as how to answer the entries with ease and convenience by the participants and most importantly without mistakes and errors. The questionnaire contained a total of 20 questions/items asked from the respondents. The questions were designed to keep in view of the literature

review and previously conducted relevant studies especially the ones conducted by Gerrard and Cunningham (1997) and Akbar, Ali Shah, and Kalmadi (2012). The number of questions was planned very carefully as the length and layout of the questionnaire have a close relationship with the data accuracy and reliable data collection. The same point was highlighted by Iarossi (2006), that the length of questionnaire has a considerable effect on accuracy of data. Before the first section in the questionnaire starts, there is a brief introduction to the survey conducted, along with an assurance that the principles and ethics of research would be followed by ensuring the anonymity and confidentiality of the respondents. The first section aims at grasping the social and demographic attributes of the participants. In this initial division of the questionnaire, respondents are requested to give answers to questions about their gender, age, and education, etc. The second more elaborate and vital segment in the context of the research problems investigated in this study focused on having an insight of the perspectives and opinions of participants regarding Islamic financing method under consideration i.e. Musharaka. This section comprises 14-Likert scale statements. The Likert scale was laid on a scale of one to five where one denotes strongly disagree and five indicates strongly agree on the scale where the questions are positively worded. Most of the statements were positively worded but there were a couple of statements that were negatively worded to assess the varying attitude and participation level of the respondents. The scale is thus reversed in case of negatively worded statements which suggest that one implies strong agreement whereas five signals strong disagreement with the given statement.

Analysis and Results

In the initial part of this section, the demographic information of the respondents, contained in the first section of the questionnaire, is presented. In the later parts the second section of questionnaire is analyzed through various statistical measures including the measures of variation and inferential statistics like regression analysis.

Demographic Analysis

The findings of the first section showed the details of personal attributes of participants like their age, gender, and religion. From the total of 100 respondents, 82% of the respondents were male and 18% of them were female, 61% of the respondents have age less than 36 years which shows that most of the respondents are in the mid or start of their banking careers. This fact is also verified when we analyze the rank or grade of bankers involved in the study. The analysis shows that 60% of the respondents were middle level employees while 25% of the respondents had rank of managerial or upper level and the rest were junior level Islamic bankers. With respect to the respondents educational profile, 22% of the respondents have professional qualification while only a small percentage of 2% of participants hold a PhD degree. Most of the research participants were the holders of a Bachelors degree; they account for 42% of total respondents. When we consider the income level of respondents, we can see that majority of them, 36% to be precise, earn more than 25,000 PKR per month. Out of the total 100 participants, 30 had income level of more than 50,000 PKR per month. There were also a small proportion of the respondents having extremely low earning of less than 10,000 PKR (8%) and on the other hand there are also respondents having a very high level of earnings of more than 100,000 PKR (9%) per month. Lastly in the section of demographics, respondents were asked about their religion, the result was anticipated as Pakistan is a Muslim majority population, so this was expected there was only one Non-Muslim among the total 100 respondents who took part in the research study. Now we will

discuss the analysis in the context of our research questions in the following section which deals with the percepts of respondents regarding Musharaka.

Regression Analysis

In order to assess the perception of Musharaka based products and services, from the viewpoint of Islamic banks' employees, the second section of the questionnaire was developed. As discussed 100 employees of five full-fledged Islamic banks were randomly selected for survey. Personally administered questionnaire was distributed to Islamic banks' employees. There were 14 items in the second section of the questionnaire to fetch data about the Musharaka financing mode. The distribution of these 14 items and their respective variables is given in Table 1. These items were commuted into five variables for further analysis. Out of the total 14-Likert statements, the five key variables were chalked out. These were extracted keeping in view the previous similar research studies and based on the researcher experience and knowledge on the given subject, i.e., Musharaka finance.

Table 1

The Distribution of These 14 Items and Their Respective Variables

Sr. No	Variable	Type of variable	Items and questions
1	Shariah compliance	Independent variable	Question 1, 7, 11, 12
2	Operations and transparency	Independent variable	Question 5, 9, 10
3	Business support and value	Independent variable	Question 4, 6
4	Knowledge and awareness	Independent variable	Question 2, 3, 13, 14
5	Perception of Musharaka	Dependent variable	Question 8

Descriptive Statistics for Variables

Table 2 shows the descriptive statistics results for five variables of the study. Shariah compliance, operations and transparency, business support and value have mean value more than three, which means majority of the respondents have neutral attitude in respect of these above variables. Knowledge and awareness and perception of Musharaka have mean value near to four, which means respondents agree with the researcher. Normality of all these variables can be evidenced from histogram with normal curve, value of skewness, and kurtosis. Table 2 indicates that assumption of normality is fulfilled in all variables as all of these variables have skewness value ranging from +1 to -1.

Table 2

Descriptive Statistics of Variables

	Shariah compliance	Operations & transparency	Business support and value	Knowledge & awareness	Perception of Musharaka
Mean	3.0525	3.1667	3.3300	3.9125	3.74
Median	3.2500	3.3333	3.5000	4.0000	4.00
Std. deviation	0.79717	0.78639	0.91624	0.67828	1.307
Skewness	-0.556	-0.186	-0.367	-0.841	-0.803
Std. error of skewness	0.241	0.241	0.241	0.241	0.241
Kurtosis	-0.064	-0.532	-0.506	1.430	-0.678
Std. error of kurtosis	0.478	0.478	0.478	0.478	0.478

In order to generalize the above results of descriptive statistics multiple ordinary least square regression is performed by taking one dependent variable and four independent variables.

The general model of regression analysis is as follows:

$$PM_i = b_0 + b_1 SC_i + b_2 OT_i + b_3 BS_i + b_4 KA_i + u_i$$

where

PM = Perception about Musharaka

SC = Shariah compliance

OT = Operations and transparency

BS = Business support & value

KA = Knowledge and awareness

Table 3

Analysis of Variance (ANVOA)

Model		Sum of squares	df	Mean square	F	Sig.
	Regression	91.711	4	22.928	28.095	0.000[a]
1	Residual	77.529	95	0.816		
	Total	169.240	99			

Table header: ANOVA[b]

a. Predictors: (constant) knowledge and awareness, Shariah compliance, business support and value, operations and transparency.

b. Dependent variable: perception of Musharaka.

In order to proceed to the regression estimates first we have to check whether going through the process of estimation is worthwhile as compared to checking means only or not. From Table 3, it can be evidenced that at 5% level of significance, model is highly significant so model estimation is more appropriate than mean. In order to assess explanatory power of the model, coefficient of determination (R-square) can be observed from Table 4 which is 0.736. It means 73.6% variation is dependent variable which can be explained by independent variables in the model. This is very strong but can be misleading and that is why adjusted R-square is verified. Overall model is good and can be used for estimation of coefficients.

Table 4

Model Summary

Model	R	R-square	Adjusted R-square	Std. error of the estimate
1	0.736[a]	0.542	0.523	0.903

a. Predictors: (constant) knowledge and awareness, Shariah compliance, business support and value, operations and transparency.

Table 5

Coefficients

Model		Sig.	Correlations			Collinearity statistics	
			Zero-order	Partial	Part	Tolerance	VIF
	(Constant)	0.005					
	Shariah compliance	0.000	0.600	0.370	0.269	0.697	1.435
1	Operations and transparency	0.001	0.596	0.337	0.243	0.666	1.501
	Business support and value	0.743	0.317	-0.034	-0.023	0.750	1.332
	Knowledge and awareness	0.001	0.595	0.322	0.230	0.581	1.722

In Table 5, at 5% level of significance, only business and support value is statistically insignificant variable and all other variables are statistically significant. Zero-order correlation to part correlation of all the

variables is declining. From this we can assume that there might be the problem of multicollinearity existing among the independent variables. In order to verify the problem of multicollinearity, collinearity diagnostics are estimated in Table 6. If eigenvalue falls near to zero and condition index is more than 15 then the problem of multicollinearity may exist. In Table 6, using Eigenvalue all dimensions have problem of multicollinearity and using condition index dimension 5 may have the severe problem of multicollinearity and dimension 2 to 4 have minor problem of multicollinearity.

Table 6

Collinearity Diagnostics

Model	Dimension	Eigenvalue	Condition index
	1	4.877	1.000
	2	0.049	9.976
1	3	0.033	12.248
	4	0.029	12.949
	5	0.013	19.667

After identification of multicollinearity, there may be more than one solution. Now we will perform stepwise regression, and initially variables with high correlation are dropped and included one by one in order to explore the model with high statistical significance and explanatory power. In order to remove problem of multicollinearity, stepwise regression is performed and results are displayed in Table 7. The entire three models are statistically significant, which means bank employees have favorable perception of Musharaka. Although all models are significant but model 3 is preferred because it considers majority of the variables and excludes only one variable that is business support and value.

Table 7

Analysis of Variance After Stepwise Regression

ANOVA[d]						
Model		Sum of squares	df	Mean square	F	Sig.
	Regression	60.836	1	60.836	54.997	0.000[a]
1	Residual	108.404	98	1.106		
	Total	169.240	99			
	Regression	82.021	2	41.011	45.610	0.000[b]
2	Residual	87.219	97	0.899		
	Total	169.240	99			
	Regression	91.623	3	30.541	37.774	0.000[c]
3	Residual	77.617	96	0.809		
	Total	169.240	99			

a. Predictors: (constant) Shariah compliance.
b. Predictors: (constant) Shariah compliance, operations and transparency.
c. Predictors: (constant) Shariah compliance, operations and transparency, knowledge and awareness.
d. Dependent variable: perception of Musharaka.

As far as explanatory power of models is concerned, R-square is increased as compared to initial regression with problems of multicollinearity. But after removal of multicollinearity problem in Table 8, model 3 has more explanatory power as compared to model 1 and model 2. It means model 3 has good fit.

Table 8

Final Model Summary

Model summary[d]				
Model	R	R-square	Adjusted R-square	Std. error of the estimate
1	0.600[a]	0.359	0.353	1.052
2	0.696[b]	0.485	0.474	0.948
3	0.736[c]	0.541	0.527	0.899

a. Predictors: (constant) Shariah compliance.

b. Predictors: (constant) Shariah compliance, operations and transparency.

c. Predictors: (constant) Shariah compliance, operations and transparency, knowledge and awareness.

d. Dependent variable: perception of Musharaka.

Table 9

Coefficients

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	0.738	0.418		1.765	0.081
	Shariah compliance	0.983	0.133	0.600	7.416	0.000
2	(Constant)	-0.423	0.447		-0.947	0.346
	Shariah compliance	0.670	0.136	0.409	4.936	0.000
	Operations and transparency	0.668	0.138	0.402	4.854	0.000
3	(Constant)	-1.616	0.547		-2.954	0.004
	Shariah compliance	0.526	0.135	0.321	3.881	0.000
	Operations and transparency	0.491	0.140	0.295	3.495	0.001
	Knowledge and awareness	0.562	0.163	0.291	3.446	0.001

So on the basis of Table 9, our final regression model with three independent variables is as follows:

$$PM_i = b_0 + b_1 SC_i + b_2 OT_i + b_3 KA_i$$

$$PM = -1.62 + 0.53 SC_i + 0.49 OT_i + 0.56 KA_i$$

From the above regression equation, we can interpret that Shariah compliance has positive impact on the perception of bank employees. It means if extent of Shariah compliance will increase by one unit then perception about Musharaka will improve by 52.6%. Similarly if transparency in operations of Islamic banks and knowledge levels about Musharaka improve by one unit, it will also improve the impression of Musharaka perceptions by 49% and 56% respectively.

Conclusion and Limitation

From the analysis and perusal of results of the research study, this can be concluded that Musharaka opinions and viewpoints of Islamic bankers are generally very favorable. This is also the answer of our first research question. The answer is further validated by the relevant statistics like a very high mean of 3.74 to entry No. 8 in the second section of the questionnaire which was directly focused on research question one. And apart from this, the informal interviews along with filling up questionnaires also ratify this favorable view of Islamic bankers, who participated in the study. The answer to research question two is found through the inferential statistical method of regression, in which three key variables emerged with their positive impact on the favorability of Musharaka, namely, the Musharaka Shariah compliance, transparency in Musharaka operations, and knowledge and awareness level regarding Musharaka. The last two entries in the questionnaire

were pointed at the discovery of answer to the last research question which was regarding the options to promote Musharaka technique in Islamic banking. The responses of the participants clearly gave an answer for our last research question stating that improving and modifying the operations and mechanisms involved in Musharaka and enhancing the knowledge and awareness levels of stakeholders would have a positive bearing on the views and perceptions regarding Musharaka. Enhancing the knowledge levels would also facilitate the process of new product development to deliver more innovative products and services based on the models and structure of Musharaka. The descriptive statistics also corroborate the responses of the participants. The extremely high means to both the questionnaire entries (both above 4.40) and lower standard deviations suggest that the Islamic banking executives have no doubts that both the mentioned options are best suited to enhance and promote various products and services based on the structure and model of Musharaka.

The limitation of the study is that the sample of the study only focuses on one major industry stakeholder i.e. Islamic bankers, so the results may not be generalized for other stakeholders like customers, regulators, and others. Further research studies may be conducted by incorporating other stakeholders as well to have more significant research findings on this important mode of Islamic financing.

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