Thought leadership: the neglected essence of Islamic Finance

Have Islamic Financial Institutions (IFIs) around the world, including the Gulf region, been so busy structuring products and services that they have overlooked the importance of communicating the essence of Islamic Finance? This brief analysis suggests that investing in thought leadership programs, a hitherto neglected asset class, is an essential tool for the continuity, practice synergy and improved business performance of IFIs. However, past experience of IFI practice differences, regulatory discrepancies and market divergences show that practice harmonisation has a challenging path ahead.
Regulatory inconsistencies within some practice areas of Islamic finance has inhibited industry growth and created performance gaps. More importantly, they have slowed its expansion and integration into the world financial market. It is evident that IFIs, largely driven by commercial goals, have not done enough to converse the fundamental nature of educating and communicating Islamic Finance’s social and economic value propositions.

This is an issue that is high on the agenda of several Gulf IFIs (GIFI) and comes at a critical time of their history for three reasons: since the early twenty first century, GIFIs have expanded by leaps and bounds both in market capitalization and cross-border investments. Secondly, they have developed important institutional regulatory and industry frameworks designed to improve services and standardize practice. Thirdly, concerns about their structures, operations and practices pose special challenges for long-term sustainability.

Leverage on practice synergies

Undoubtedly, thought leadership in Islamic Finance is playing an increasingly important role in many individual organizations. What is missing is a more holistic and strategic approach to identify and align industry leaders to develop, adapt and enforce a harmonized and standardized set of best practices. The opposite chart draws the features of an Islamic Finance thought leadership initiative. It highlights the importance of a strategic practice benchmarking approach. The process can be used to identify performance gaps within the industry practices in different aspects of organizations and operations. The crux of this process is the ongoing performance improvement to sustain best practices in Islamic Finance.

For this approach to work, industry stakeholders have to endorse, support and commit to the strategic long-term development of thought leadership initiatives. The following factors are largely desirable for a meaningful thought leadership initiative:

- Identify thought leadership objectives and strategic direction.
• Communicate objectives to stakeholders and solicit management and board support.
• Engage cross-border expertise support.
• Fund the publication and dissemination of thought leadership activities.
• Nurture thought leadership programs.
• Measure long-term success.
• Review and improve strategy planning and implementation.

Conclusion
Successful thought leadership initiatives should undertake to address the issues discussed in this analysis. The approach suggested should help GIFIs maintain authenticity in their services and business performance, which they require to grow and integrate into the mainstream global financial market. For this to happen, GIFIs need to reach out to industry stakeholders and push the “start button” for practice synergies. GIFIs can benefit from the expertise of Islamic Finance thought leaders to drive an industry-wide strategic benchmarking process, implying the consideration of high-level aspects of core competitive advantages, developing new products and services and improving capabilities for dealing with challenges. GIFIs should therefore invest in the neglected asset class that is thought leadership and demonstrate efficiency and commitment to its long-term development.

Islamic Finance thought leadership initiatives
Practice benchmarking process

What constitutes thought leadership in Islamic Finance?
There are several definitions and interpretations as to what forms thought leadership in general and no known definition for its merit in Islamic Finance. Yet, a general consensus on the definition and its traits is required in the interest of all parties involved i.e. the industry stakeholders. Hypothetically, we may define thought leadership in Islamic Finance as:
“Develop a specialist think-tank to provide innovative intellectual programs in Islamic Finance practice and foster authentic practice synergy through knowledge transfer across industry stakeholders globally.”

Key industry stakeholders in Islamic Finance
• Islamic Financial Institutions (IFIs)
• Investors and issuers (clients)
• Regulators and Self-Regulating Organizations (SROs)
• Professional service providers
• Community or society at large

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