

**SUSTAINABLE BUSINESS MODEL
COMPONENTS FOR THE ISLAMIC BANKING
INDUSTRY**

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UNIVERSITI SAINS MALAYSIA

2022

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by

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**Thesis submitted in fulfilment of the requirements
for the degree of
Master Of Arts**

October 2022

ACKNOWLEDGEMENT

Alhamdulillah, I praise and thank Allah SWT for His greatness and giving me the strength and courage to complete this thesis. First, I would like to express my gratitude to the Ministry of Higher Education for providing the grant (203/PMGT/6711648) to fund this research.

My sincere thank you to my supervisor, Dr Nurhafiza Abdul Kader Malim, for your patience, guidance, and support. I have benefited greatly from your wealth of knowledge and meticulous editing. I am extremely grateful that you took me on as a student and continued to have faith in me over the years.

Thank you to my co-supervisors, Dr Normalini Md Kassim and Dr Zubir Azhar. Your encouraging words and thoughtful, detailed feedback and commentation on my thesis have been very important to me.

Thank you to the interviewees, who so generously took time out of their schedules to participate in my research and make this project possible.

Special Thanks to my mom, Rosnani Said, for your endless support. You have always stood behind me, and this was no exception. Thank you for fielding a ridiculous number of phone calls, for calming me down, and for proofreading anytime, anywhere.

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KOMPONEN MODEL PERNIAGAAN MAMPAN BAGI INDUSTRI PERBANKAN ISLAM

ABSTRAK

Isu kelestarian kewangan telah menarik perhatian banyak ahli akademik, pengamal dan pembuat dasar dalam beberapa tahun terakhir. Krisis kewangan global telah memacu untuk memikirkan semula model perniagaan 'tidak lestari' yang diterima pakai oleh bank. Lebih jauh lagi, pada masa ini, perbankan Islam nampaknya tidak jauh berbeza dengan perkhidmatan perbankan konvensional di Malaysia dan model perniagaan yang ada dalam industri perbankan Islam kurang kompetitif dan tidak mencapai agenda perbankan yang mampan. Oleh itu, kajian ini menyelidiki model perniagaan semasa yang menyokong kelestarian di perbankan Islam, mengembangkan komponen model perniagaan lestari yang dapat menyumbang kepada kelestarian bank Islam dan menguji niat pembelian pelanggan untuk komponen model perniagaan lestari. Industri perbankan Islam di Malaysia menjadi fokus kajian ini. Metodologi kajian yang dicadangkan adalah teknik kaedah campuran melalui temu bual separa berstruktur dan soalan kaji selidik. Kajian ini menguji hubungan antara komponen model perniagaan yang mampan dengan niat pembelian oleh pelanggan melalui Smart PLS. Dapatan menunjukkan bahawa komponen kecekapan tenaga, budaya organisasi, kesedaran, *Maqasid* Shari'ah dan fungsi adalah komponen model perniagaan mampan yang terbaik untuk niat pembelian pelanggan. Hasil kajian ini dapat menyumbang kepada pembangunan model holistik yang meningkatkan kelestarian bank Islam melalui penerapan model perniagaan lestari.

SUSTAINABLE BUSINESS MODEL COMPONENTS FOR THE ISLAMIC BANKING INDUSTRY

ABSTRACT

The issue of financial sustainability has attracted considerable attention from academics, practitioners and policy makers in recent years. The global financial crisis has triggered to rethink on 'unsustainable' business models adopted by banks. Furthermore, nowadays, Islamic banking seems not to be very different from conventional banking services in Malaysia and the existing business model in Islamic banking industries lacks being competitive and not achieving a sustainable banking agenda. Therefore, this study investigates the current business models supporting sustainability in Islamic banks, develop the sustainable business model components that could contribute to the sustainability of Islamic banks and test customer's purchase intention for the sustainable business model components. This research focuses on Malaysia's Islamic banking business. The proposed methodology of this study is mixed method through semi-structured interviews and surveys techniques. The proposed analysis to test the link between the sustainable business model components and customer's purchase intention is using PLS (SEM). The finding indicates that the components of energy efficiency, organisational culture, awareness, *Maqasid Shari'ah* and functions were the best sustainable business model components for customer's purchase intention. The outcome of this study can contribute to developing a holistic model that enhances Islamic banks' sustainability through applying the sustainable business model.

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

This chapter gives an overview of the research which covers the research background, development of Islamic banking in Malaysia, problem statement, research objectives, research questions, the scope of the study, the significance of the study, definition of key terms and finally the summary and organisation of the remaining chapters.

1.2 RESEARCH BACKGROUND

In recent years, Islamic finance has seen a significant expansion in assets, with a strong worldwide presence that includes operations in Islamic nations and non-Muslim countries. The Islamic Financial Services Industry (IFSI) increased for the third year in a row in terms of overall worth and year-over-year growth in 2019. The IFSI's three core sectors (Islamic banking, Islamic capital, and takaful) are worth USD 2.44 trillion, up from USD 2.19 trillion in 2018. Furthermore, the IFSI increased by 11.4% year on year, compared to the 9.6% increase observed between 2017 and 2018 (IFSI, 2020).

Islamic finance refers to the supply of financial products and services based on Shari'ah-compliant contracts. A distinguishing aspect between Islamic and conventional finance is Shari'ah, the financial underpinning that satisfies Muslims' religious needs following their 'aqidah' (Tajudin, 2010). The need to provide robust and rigorous processes in place to ensure conformity with Shari'ah, as well as an

accurate and consistent Shari'ah review procedure, are the two main factors leading to more success for the industry (Rusnah, 2011).

Figure 1.1 shows that under the Islamic financial industry, there are four major sectors, namely Islamic banking, Sukuk, Islamic fund and *takaful*.

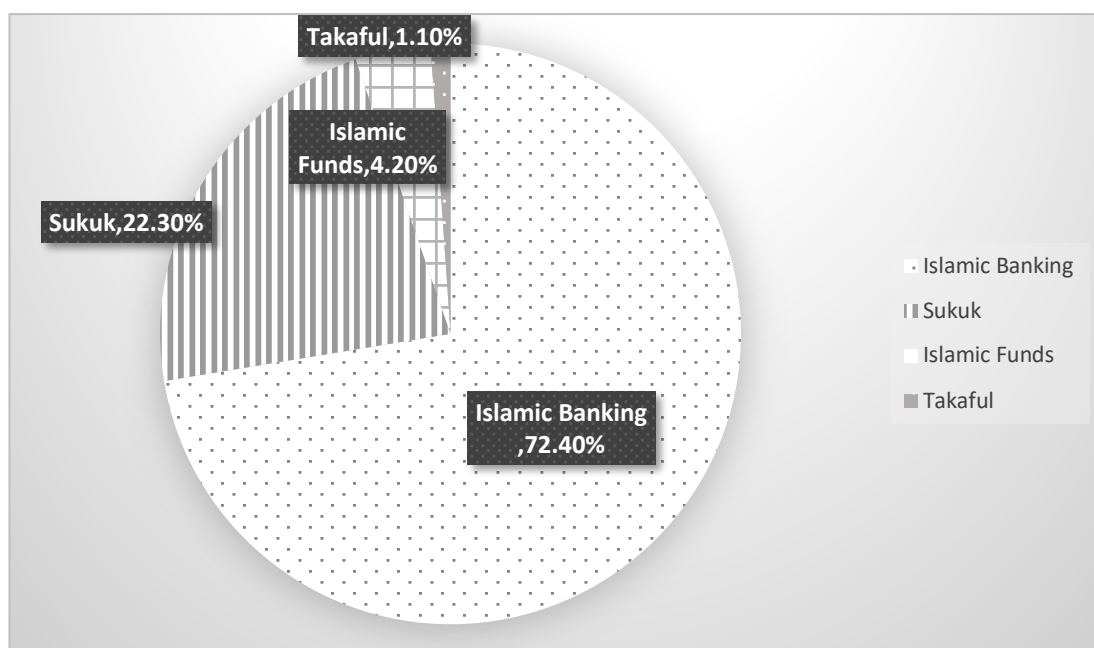


Figure 1.1 Sectoral Composition of the Global IFSI (2019). Adopted from Islamic Financial Services Industry. 2020. Islamic Financial Service Industry Stability Report. Kuala Lumpur, Malaysia, July.

The global Islamic banking industry saw a 12.7% increase in assets year over year in 2019 [2018: 0.9%], with total assets of USD 1.77 trillion as of 3Q19 [2Q18: USD 1.57 trillion]. The expansion is attributed to an improvement in Islamic banking assets in various jurisdictions, specifically in the Gulf Cooperation Council (GCC) area. Nonetheless, the Islamic banking segment's proportion of global IFSI value fell for the third year running, to 72.4 % [2Q18: 76.0%] (see Figure 1.1). On the other hand, the Sukuk industry finished 2019 with a total outstanding Sukuk value of USD 543.4 billion [2018: USD 444.8 billion], representing a 22.3% year-over-year growth.

Sukuk provides 22.3% of IFSI value and saw strong growth in 2019, with a cumulative yearly growth rate (CAGR) of 26% over the previous 15 years (from 2004 to 2019). In comparison, the global takaful industry's gross contributions 1.1%, closing at USD 27.07 billion in 2019 [2018: USD 26.23 billion] (IFSI, 2020).

1.3 DEVELOPMENT OF ISLAMIC BANKING IN MALAYSIA

The word "Islamic banking" refers to a banking system that adheres to Shari'ah guidelines (Islamic rulings). A wide spectrum of people is drawn to philosophies that emphasise moral and ethical standards in all relationships. Shari'ah prohibits the payment or acceptance of interest charges (*riba*) for a loan, as well as commerce and other activities that provide goods or services that are seen to be contradictory to Shari'ah principles. While these ideals were formerly used as the foundation for a successful economy, it was not until the late twentieth century that a number of Islamic banks were founded to provide Muslims with a choice, although Islamic banking is not confined to Muslims (Toutouchian, 2019).

Malaysia has gained worldwide recognition for its pioneering role in developing Islamic banking and finance. The majority of Malaysia's consumers are Muslim, and the government is providing facilities to expand the Islamic Banking system in Malaysia (Abdullah, 2019). Throughout the years, the Islamic banking sector has grown significantly in Malaysia. Islamic banking accounted for RM816,148.60 million of total assets in 2020, out of RM14,029 million in 2000 (BNM, 2020). Islamic banks also have a wide range of competing and innovative products that complement conventional banks, including *Ijarah* (leasing), *Mudharabah* (profit sharing), *Musyarakah* (partnership). Besides, there is a great deal of flexibility, creativity and option in financial institutions to develop Islamic financial products (BNM, 2020).

The first Islamic bank offering Shariah-compliant products was established in Malaysia in 1983, known as Bank Islam Malaysia Bhd (BIMB). The BNM has given BIMB 10 years of exclusive operations as the country's only Islamic bank and, in the same year, public investment certificates were issued under Government Funding Act 1983 to promote liquidity management in the BIMB business. Besides, the BNM has issued government investment certificates to finance the BIMB's activity (Abdullah, 2019).

The number of Islamic banks in Malaysia is 16, with 2,246 domestic branch offices of Islamic banks (BNM, 2020). On May 8, 2005, Kuwait Finance House (Malaysia) Berhad (KFH Malaysia) was licenced as Malaysia's first foreign Islamic bank under the Islamic Banking Act (Malaysia) 1983. The total assets of KFH Malaysia have increased to RM 3.38 billion in the last quarter of 2019 (KFH Report, 2020). Table 1.1 shows the growth of Islamic banking in Malaysia from 2014 until 2020 (BNM, 2020).

Table 1.1: *The Total Assets and Growth of Islamic Banking in Malaysia (2014-2020)*

Years	Total Assets (RM million)	Assets Growth (%)
2014	444,459.05	5.94
2015	507,844.55	14.26
2016	551,555.83	8.61
2017	611,529.80	10.87
2018	683,981.45	11.85
2019	764,240.10	11.73
2020	816,148.60	6.79

Note. RM = Ringgit Malaysia; % = percentage. Retrieved from Annual Report Bank Negara Malaysia 2020.

Based on Table 1.1, from 2014 until 2020, Malaysia's total Islamic banking assets rose every year. In 2014, the total assets recorded RM444,459.05 million and in 2015, the total worth of assets recorded RM507,844.55 million with a growth of 14.26%. While in 2016, the assets growth decreased to 8.61% (RM551,555.83 million) due to the Chinese crash. The China stock market crash affected the Islamic banking industry in Malaysia through contagion effect: The contagion effect explains the possibility of spread of economic crisis or boom across countries or regions. This phenomenon may occur both at a domestic level as well as at an international level. Therefore, indirectly this Chinese crash has an impact to Malaysia. The China's stock market had a dramatic sell-off of roughly 7%, sending global stock markets falling, and this crisis impacted the Islamic banking business indirectly (BNM, 2017). However, the total assets became increased to 10.87% with total assets RM611,529.80 million in 2017 and the growth increase gradually until 11.85% at the end of 2018 with total assets was RM 683 981.45 million. In 2019 and 2020, the total assets reached RM764,240.10 and RM816,148.60. The assets growth recorded 11.73% in 2019 and dropped to 6.79% in early 2020 due to crises Covid-19 pandemic. For the Islamic banking sector, the major component of the Islamic financial system, the Covid-19 pandemic faces liquidity, resilience, and capital issues (Islamic Development Bank Group, 2020). The average growth (2014-2020) trend of Islamic banking basically recorded at least 10% annually.

Islamic finance in Malaysia has evolved and grown by leaps and bounds over the last 30 years. Today have a well-developed and regulated Islamic finance industry. There are diverse industry players, both local and foreign. Prior to 2000, there were only two Islamic banks and two takaful operators in the country with total market share and takaful penetration rate of less than 5%. Islamic banking assets have now grown

to capture more than a quarter of the total banking system while the takaful sector has increased its penetration rate to 14.6% of the population. This is indeed very good progress. In the sukuk segment, Malaysia is also the market leader with market share of more than 50% in sukuk outstanding since year 2000.

Although Islamic finance growth represents a significant peak of development, it is equally important to ensure that the effect of Islamic finance on community, economies and the environment is positive and sustainable. The purpose of Shari'ah for good and harm prevention is strengthened by Islamic banks embracing Value-Based Intermediation (VBI).

Bank Negara Malaysia in collaboration with founding members of the VBI Practitioners' Community (including Agrobank, CIMB Islamic Bank Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad and HSBC Amanah Malaysia Berhad), has consulted key stakeholders on the implementation of several strategies aimed at strengthening the positions and effect of Islamic banking institutions (IBIs). The strategies concentrate on the implementation of appropriate policies, initiatives and behaviours which have a positive and enduring effect on the economy, community and environment, in keeping with long-term and sustainable returns of shareholders.

To provide economic, social and environmental benefits for the wider stakeholders, VBI shares its mission with the other movement and initiatives of business and finance. VBI is based on Shari'ah and its core principles, moral compass and goals are decided. VBI's vision is that the design, distribution, and dealing with Islamic banks would have a greater impact (BNM,2020). The strategy of VBI was in line with the national agenda to make Malaysia as the Islamic financial hub and to promote advancement in Islamic finance.

1.4 PROBLEM STATEMENT

The issue of sustainability has attracted considerable attention from academics, practitioners and policy makers. Sustainability was defined as the long-term link between economic, social, and environmental preservation. Islam has stressed the need to promote sustainability. The Quran and Sunnah are two fundamentals sources and guiding principles for the sustainable banking model criteria and Islam allows trade: *'God has permitted trade and has forbidden interest'* (Qur'an, Al-Baqarah: 275). Trade can take the form of investment contracts (profit loss sharing, PLS) (Al-Khazali et al., 2015; Masih et al., 2016). Sustainability in Islam recognized Allah as the sustainer and human being as the khalifah (vicegerent) of Allah on earth. Quran has emphasised on the protection of the environment and wise utilization of natural resources as well as avoid doing mischief and wasting resources. There is a need for examining Islamic banking sustainability to strike a balance between profit, social welfare and environment protection (Aliyu & Bauchi, 2014).

The debate on sustainable banking has emerged after the severe impact of the global financial crisis (2007 to 2009) on the financial system. Sustainable banking is defined as providing financial goods and services designed to fulfil people's needs while protecting the environment and making a profit (Antonio et al., 2012). The crisis highlighted just how fragile the banking system had become. As a result of the crisis, banks and other financial institutions began to prioritise long-term viability over short-term income (Banerjee & Velamuri, 2015). According to Olmo et al. (2021), sustainable banking is highly essential since it supports the environment, society, and the economic advantage of the business all at the same time, which may have a significant impact on bank profitability.

A rising post-crisis literature explores the effect on bank efficiency and stability of banks and others (Buch & Dages, 2018; Gardó & Klaus, 2020). The crisis during 2008 has triggered to rethink on ‘unsustainable’ business models adopted by banks (Yip & Bocken, 2018). Large banks that concentrated on investment banking and trade were not the only ones impacted by the crisis and in need of adjustment. Even though they were less affected by the financial crisis of 2007-2008, small retail-oriented banks must reconsider their business models as well (Köhler, 2014). Due to cyclical reasons such as the weak economy, low-interest rates, and lack of trade activity, many of these institutions are now forced to cut costs and reduce their workforce in order to react to a drop in demand for their products following the crisis. However, simply reducing costs and employment may not be enough. Investment banks must reconsider their business models in general for structural reasons (Köhler, 2014). Banks must rebuild their image and slash expenses to recover competitiveness after the crisis.

The Islamic Financial Services Act 2013 was established prior to BNM implementing the VBI in order to update the regulatory and legislative framework and respond to the shifting needs of the industry. The publication of 12 Shari'ah Standards established precise Shari'ah guidelines to encourage innovation outside of credit-based products. There are over 100 financial products available that are competitively priced, ranging from wealth management to investment banking to basic financial services.

The growth of the Islamic financial industry is evident in many ways than just the headline figures, especially when it comes to addressing social and environmental issues. In the area of ethical finance, where ideas like Sustainable, Responsible, Impact Investing (SRI) have been accepted in pursuit of objectives beyond financial motivation, Islamic finance has assumed the lead position. Despite having come a long

way, what comes next must now be considered. According to the Bank Negara Malaysia (BNM), creating economic value and sustaining ethical ideals should be prioritised equally in order to advance the Islamic finance sector to the next stage of expansion. Therefore BNM have started VBI, which is a comprehensive way for industry actors to deliver the desired outcomes of Shariah that generate favourable and long-lasting effects on the economy, community, and environment.

Entrepreneurial mindset, community empowerment, good self-governance, and best conduct are the four pillars of VBI. There would be a clear understanding of the necessity of having a good impact on stakeholders, as required by Shari'ah and Islam itself, as a result of the incorporation of these concepts into the business plans of Islamic banks.

The implementation of VBI is anticipated to further improve Islamic banks' sense of self-discipline. A shared commitment to the larger good leads to increased accountability and integrity, which in turn produces careful evaluation of the effects of any actions made. Islamic banks would be compelled to continuously enhance their products and methods of dealing with employees and customers, including fair and open disclosure. Long-term, the more sustainable banking practises that would be created based on VBI concepts would support the development of new business prospects and lay the groundwork for more sustainable returns for Islamic banks (BNM, 2017).

Based on Bank Negara Malaysia Report (2020), Malaysia's Islamic banking sector grew by 6.79% in 2020 to account for 37.0% of the overall banking system. Despite the rapid progress of Islamic banking, Aysan and Ozturk (2018) highlighted that Islamic bank financing does not show a significant difference from conventional bank lending. Furthermore Islamic banks concentrated more on debt-based financing

because of high monitoring cost in profit loss sharing contracts. However, the differences of conventional banks and Islamic banks in terms of behaviour are so large because conventional bank treats money as a commodity and lend it against interest as its compensation, while Islamic banking products are usually asset backed and involves trading of assets, renting of asset and participation on profit and loss sharing. In contrast, no restriction in conventional banks. Interest is the back-bone of this system and short selling, sale of debts and speculative transactions are common. While, Islamic banks work under the socio-religious guidelines that prohibit charging and paying interest and avoid all impermissible transactions like gambling, speculation, short selling and sale of debts and receivables.

According to Aysan and Ozturk (2018), the use of profit and loss sharing such as *Mudarabah* and *Musharakah* has been scanty. Islamic banks mostly rely on *Murabahah* (mark-up) and *Ijarah* (leasing), which is similar to debt-like financing. These contracts contributing for 51.0% of total financing in Islamic banks (BNM, 2020). Besides, Chong and Liu (2009) found that in Malaysia, Islamic banking is extremely similar to regular banking services. The study shows that the sharing of profit and loss (PLS) is based on only a small proportion of Islamic bank finance and that the Islamic deposit is not interest-free, but closely related to conventional deposits. Therefore, this research answered the research question below:

- What is the current business model supporting sustainability in Islamic banks?

Yip and Bocken (2018) identified a few major archetypes of a sustainable business model and customers asking that their banking institutions replace digital operations as part of the business model archetype with other sustainable banking archetypes. Customer traction results connected to archetypes assist in focusing on the

most popular archetypes for doing good and doing well (Yip & Bocken, 2018). Besides, Aliyu et al. (2017) found that Islamic finance and conventional views of development complement each other, but other fields of difference have also intensively explored with the definition of the *Maqasid* Shari'ah. There is no compromise on the requirement for long-term economic, social or environmental sustainability and to achieve the Shari'ah goal, Islamic banks must have sustainability on institutions, society, and the environment (Aliyu et al., 2017). Based on Orhan (2018), Islamic banks are founded on various ideas, including religious ethics and law. Furthermore, they are intended to achieve other purposes, such as achieving Islam's socio-economic sustainability goals. As a result, Islamic banks operate under a different business model than conventional banks. However, Rizvi et al. (2019) found that the existing business model in Islamic banking industries lacks being competitive and not achieving a sustainable banking agenda. Thus, this study discussed the following question:

- Which sustainable business model components could contribute to the sustainability of Islamic banks?

One of the most critical and difficult challenges is implementing sustainability or social responsibility into the business's current strategies and practices (Baldassarre et al., 2020). As the total output of tonnes of greenhouse gases (GHG) grows, all stakeholders are worried about the planet's environmental protection. Environmental responsibility must be included in long-term business practices by banks and financial organisations (Torre et al., 2019). Banking businesses throughout the world are making extraordinary attempts to successfully integrate sustainability aims into general purposes (Nosratabadi, 2019). From service design through final service delivery to consumers, banks adopt and integrate greener/sustainable information technologies

and systems (Igbudu et al., 2018). Customers' purchasing preferences have evolved through time, and they have begun to demonstrate ethical behaviour by choosing environmentally friendly products and services and preferring environmentally conscious organisations (Taufique & Vaithianathan, 2018). Consumer adoption of IT-enabled banking services is one of the most significant methods to support sustainable banking compared to traditional branch banking (Taneja & Ali, 2020).

Conventional business model, such as the product-buying model, is usually focused on ownership-based consumption, but they have limits on attaining widespread sustainability acceptance and diffusion (Stoiber et al., 2019). Furthermore, the inability of a larger number of consumers to access and use particular goods and services has prompted the development of business models that underpin the long-term sustainability of the banking sector (Burghard & Dütschke, 2019). In order to get a better strategy for the sustainable business model, the preference of customers is important because it leads to the purchase intention customers to choose the banks with a perfectly sustainable business model. Therefore the bankers can change the business model based on the customer's purchase intention. For that purpose, this research addresses the following research questions:

- Which component (s) would enhance customers' purchase intention on Islamic banking services?

According to Jan et al. (2019), frameworks for measuring sustainable market practices in Islamic banks are scarce. Muslim countries, especially Malaysia, take Islamic values seriously as they grow economically. However, rather than recognizing the role of religion in a multi-dimensional approach to progress, the alternate Islamic model's realistic development is still lacking. Furthermore, according to Meutia and Febrianti (2017), studies on sustainability in Islamic banks throughout the world are

still limited. In line with this, the Islamic banking business in Malaysia has a low degree of sustainability practice and reporting (Jan & Marimuthu, 2016) and also research relating to Islamic banks' business model is limited. Therefore, this research aims to look into business models for long-term sustainability in the service industry, specifically Islamic banking in Malaysia.

From early 2020 until now, global faced the biggest challenge, pandemic Covid-19, and these issues had negatively impacted every sector, especially the economic sector. In Malaysia, many people lost their job, sector economic likes SMEs face 91% revenue drop and face cash flow issues (BNM, 2020). In 2020, Bank Negara Malaysia (BNM) dedicated efforts to promote Islamic finance to solve the economic challenges of the Covid-19 pandemic. Furthermore, the Bank Negara Malaysia endorsed Islamic finance's role in pushing the financial system's sustainability and climate resilience agenda. The objective was in line with Shariah's core ideals of preventing damage and promoting benefits, which included environmental protection. Islamic financial concepts have broad applicability in achieving sustainability, long-term, and inclusive vision of economic growth (BNM, 2020).

In conclusion, the sustainable business model is very important because it makes the Islamic banking industry more resilient to face challenges like financial shocks, financial crises, and pandemic covid-19. Thus, this study developed sustainable business model components that could contribute to the sustainability of Islamic banks.

1.5 RESEARCH OBJECTIVES

The objective of this research are:

- i. To investigate the current business model supporting sustainability in Islamic banks.
- ii. To develop sustainable business model components that could contribute to the sustainability of Islamic banks.
- iii. To test customer's purchase intention for the sustainable business model components.

1.6 RESEARCH QUESTIONS

The research question for this research are:

- i. What is the current business model supporting sustainability in Islamic banks?
- ii. Which sustainable business model components could contribute to the sustainability of Islamic banks?
- iii. Which sustainable business model components would receive the best customer's purchase intention?

1.7 THE SCOPE OF THE STUDY

This study focuses on the Islamic banking sector in Malaysia. In order to obtain insights from Islamic banking practitioners and policymakers, the location for an interview is at the headquarters (HQ) of Islamic banks located in Kuala Lumpur. The interview was conducted to gather information on the current business model components for a sustainable banking model. While for customers, the researcher conducted a survey of Islamic banking customers in Kuala Lumpur, Selangor, Penang

and Johor who use the services of both local and foreign Islamic banks. This study chooses Kuala Lumpur because Kuala Lumpur is the main city in Malaysia and Kuala Lumpur has many economic activities. Many people still do Islamic banking even though they are from another state like East Coast (Terengganu and Kelantan). Thus, many people indirectly still choose Islamic banking in their transaction activities and so on. Besides that, a certain area of Selangor can be chosen as the place to distribute the samples because Gombak and Hulu Langat are some areas of Klang Valley (an urban conglomeration in Malaysia that is centered in Kuala Lumpur and includes its adjoining cities and towns in the state of Selangor). Furthermore, the selection of bank branches from a variety of localities aims to improve the generalizability of the findings and the representation of Islamic banking clients. The reason for choosing Kuala Lumpur, Selangor, Penang, and Johor because these places cover four major cities in Malaysia. The cities are regarded as major and leading financial hubs and have a significant number of Islamic banking customers.

1.8 SIGNIFICANCE OF THE STUDY

This research contributed to the literature in several ways.

i. Bank Managers

The findings on customers' purchase intention related to the sustainable business components provided insights to Islamic banks to focus on the most welcomed components for achieving sustainability. This research makes the most important contribution by developing a new set of sustainable business model components for the Islamic banking sector, which enables increased innovation and comprehensive analysis of sustainable banking practices.

ii. Customers

This study could benefit society or customers by charting a direction on developing a sustainable business model for Islamic banking operations. The customers clearly identify every service from Islamic banking that fulfils the Islamic principles and contribute to well-being and sustainability. Therefore, the customers make a purchasing decision and adopt sustainable banking services willingly.

iii. Policy Makers

The findings provided useful policy measures for government or regulators in creating a sustainable, equitable, and socially responsible Islamic banking system. Thus, the research instilled more accountability in business practices and established a corporate sustainability culture to achieve a balance between economic growth and sustainable development.

1.9 DEFINITION OF KEY TERMS

1.9.1 Sustainability

Meeting our own needs without jeopardising future generations' ability to fulfil their own needs is the definition of sustainability (Keeble, 1987).

1.9.2 Sustainable banking

Sustainable banking is described as delivering financial goods and services that are geared to meet people's needs (social) while also protecting the environment (environmental), all while earning a profit (economic) (Harvey, 1995).

1.9.3 Business model

The way an organisation generates, delivers and collects value is referred to as its business model (Pigneur & Tucci, 2010).

1.9.4 Sustainable Business model

As a type of sustainable innovation, sustainable business models must be viewed as economically viable and contribute to the sustainability of communities and the environment by balancing the competing and complementary goals of main stakeholder groups (Yip & Bocken, 2018).

1.9.5 Bank

The bank is a financial institutions that deals with debts and credits. The bank created the difference between lenders and borrowers, accepted and deposited money in the form of loans. Banks not only deal with money, they also make money (Vetrova, 2017).

1.9.6 Islamic banking

The fundamental principle of Islamic banking is profit and loss sharing, as well as the prohibition of riba (interest) (Ismail, 2017).

1.9.7 Conventional banking

The conventional bank borrows money from customers at a cheaper interest rate and lends it to borrowers at a high interest rate (Santos, 2000).

1.9.8 Islamic perspective

From an Islamic view, divine revelation is the basis of knowledge (Azram, 2015). This revelation is the Quran (Al-Quran) which was

revealed to Muhammad PBUH, who under the direction of God, literally modelled the values of the Quran.

1.9.9 Global Financial crisis

A global financial crisis during mid-2007 until early 2009 is often associated with one or more of the following phenomena: substantial changes in credit volume and asset prices; severe disruptions in financial intermediation and the supply of external financing to various actors in the economy; large scale balance sheet problems (of firms, households, financial intermediaries and sovereigns); and large scale government support (in the form of liquidity support and recapitalization). As such, financial crises are typically multidimensional events and can be hard to characterize using a single indicator (Claessens & Kose, 2013).

1.9.10 Maqasid Shari'ah

Maqasid Shari'ah is derived from two root words: *Maqasid* and *Shari'ah*. While *maqasid* means objectives (singular is *maqasid* i.e. an objective), *Shari'ah* signifies divine Islamic law. Thus, the combination of the two words theoretically implies the theory on the objectives of Islamic law. The objectives of the divine law cover every aspect of human existence including human development with special emphasis on the general well-being of every individual (Oladapo & Rahman, 2016). The realisation of benefits to mankind regarding their affairs in this world and the hereafter is the main goal of Islamic law. Three categories of *maqasid*, known as the essential *maqasid*, have been established by Muslim jurists according to their need and strength (al-

maqasid al-daruriyyah). Religion (din), life (nafs), lineage (nasl), intellect (aql), and property (mal) are the five fundamental values that these maqasid preserve and protect. The complementary maqasid comes next (al-maqasid al-hajiyyah). The goals of this maqasid are to create comfort and convenience and eliminate hardship and difficulty. Despite not disrupting daily life, their neglect may cause suffering for the individual or community. The final type is the desirable or embellishment maqasid (al-maqasid al-tahsiniyyah). These maqasid aim for purity and refinement in all areas of human conduct (ISRA, 2016).

1.9.11 Customers

Customers known as clients, purchasers, and buyers, are organisations or parts thereof, either business-to-business (B2B) customers or end-user consumers (Peppers & Martha, 2011).

1.9.12 Triple Bottom Line

The Triple bottom line approach is a popular framework used for evaluating sustainability of supply chains where not only financial aspects are considered. It emphasizes on the environmental and social measures too. It makes an organization understand that sustainability, at a broader level consists of three components, the natural environment, society and economic performance (Suryana et al., 2018).

1.9.13 Al-Quran

Quran is the holy book of Muslims that contains the commandment of words of Allah. Quran provides instructions and guidance to

humankind in achieving happiness in life in the world and the hereafter (Suryana et al., 2018).

1.9.14 Sunnah

Sunnah is secondary sources of Muslims' inspiration are the recorded and authenticated sayings (Hadeeth) and traditions (Sunnah) of the Prophet Mohammad (Turgut et al., 2010).

1.10 SUMMARY AND ORGANISATION

This thesis divided into five chapters. Chapter 1 elaborates the background of the study, development of Islamic banking, problem statement, research objective, research questions, the scope of the study, significant of the study, definition of key terms and finally is summary and organisation of the remaining chapters. Chapter 2 provides a comprehensive literature review on the sustainability, sustainability banking, and business model, sustainability of Islamic banking and review of sustainable business model. Chapter 3 presents the research methodology that is used in this study. This chapter discusses the research design, data collection methods which is through interviews with bankers and surveys to customers of Islamic banking, population, sample size and technique, statistical instrument and the measurements for the study questionnaire. Chapter 4 proceeds with the statistical results from the interviews (qualitative) and survey (quantitative). Smart PLS was used in this study. This study tests the relationship between the sustainable business model components and customers' purchase intention via Smart PLS. Chapter 5 concludes with the discussion on findings, contribution, implication, limitations of this study and suggestions for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter deliberates on the previous works that are related to the area of this study. The chapter begins with a discussion on sustainability. This chapter explains the concept of sustainability and describes sustainable banking, business model and sustainable business model. Besides, this chapter also describes the relationship between sustainable business models with the banking industry included sustainability from an Islamic perspective. The components of the sustainable business model, theoretical framework and research framework also described in this chapter.

2.2 SUSTAINABILITY

Sustainability is defined as the “*effective use of natural resources and its effect on profitability*” (Ramnarain & Pillay, 2016). According to Lagoarde (2019), the standard definition of sustainability implies that the current generation “*manages the resource base such that the average quality of life that we ensure ourselves can potentially be shared by all future generations*”. Although the term "sustainability" is new, the principle itself has deep origins in social justice, environmental preservation, globalism, and other long-standing concerns (The Brundtland, 2005).

Sustainability also refers to how banks create, develop, and operate in the long run and apply a comprehensive approach to resource management. Banking sustainability should be a seamless combination of business culture, a determination to operational and business innovation and quality, and a socially conscious and

customer-focused strategy that goes beyond basic compliance requirements (Ramnarain & Pillay, 2016).

The term sustainability was described in the General Assembly (The Brundtland, 2005) and the report from that assembly described the importance of sustainability as a cycle of economic development, environmental conservation and social equality. Sustainability refers to the process by which businesses manage their economic risks, environmental problems, social and commercial risks, as well as their obligations and possibilities.

Simply put, sustainability is a corporate approach to long-term value generation by taking into consideration how a given company works in the natural, societal, and economic climate — sustainability based on the premise that it is implementing these approaches to promote the business' survival (Haanaes, 2016).

Table 2.1 demonstrates sustainability initiatives by bank leaders.

Table 2.1: *List of bank leaders on sustainability initiatives*

No.	Bank	Initiative
1	Aspiration	<ul style="list-style-type: none"> • Ten percent of the monthly Pay What Is Fair fees you choose to pay are given back in charitable donations to worthy causes selected on a periodic basis for their focus on making a difference for people and the planet.
2	Ando Money	<ul style="list-style-type: none"> • Ando was founded on the principle of Sustainable Banking, investing 100% of customer deposits exclusively and transparently in companies committed to fighting climate change. The banking sector should help stabilize the environment, not sabotage it.
3	Bank Islam Malaysia Berhad (BIMB)	<ul style="list-style-type: none"> • BIMB is just embarking upon our sustainability journey. BIMB in its 5-year strategic direction has put in place a plan to embed ESG incorporating climate risk in credit assessment process and endeavors to put in place a broad-based framework before the end of 2022.

		BIMB has also embarked to put in place a bank wide Sustainability Plan.
4	CIMB Group Holdings Berhad	<ul style="list-style-type: none"> Established the Group Sustainability and Governance Committee at Board level. Committed to carbon neutrality (net zero GHG scope 1 & 2 emissions in our operations) by 2030 and overall Net Zero GHG by 2050 (including scope 3 and financed emissions). Announced target to mobilise RM30 billion towards sustainable finance by 2024.

Source. Annual Report Aspiration 2021, Annual Report Ando Money 2021, CIMB Sustainability Report 2021 and Annual Report BIMB 2021.

Most of these concepts had come through by the end of the 20th century in demand for “sustainable economic development”. Burton (1987) defines sustainability as “*the ability to meet the needs of the current population without compromising the chance of future generations to meet their own needs*”. By sticking to the idea of harmonising economic and social growth without jeopardising the earth's natural balance, this definition aspires to improve the quality of life for all people around the globe, both present and future generations. Another definition of sustainability is a system's ability to adapt while retaining its qualitative and quantitative characteristics (Popescu, 2018).

Based on research by Duran, Artene, et al. (2015), economic growth must promote sustainable development in accordance with ecological balancing criteria and overall human development. Sustainable development is a worldwide goal, and studying it requires a methodical approach to the three-way economic-social-ecological system. The significance of fairness between generations was mentioned in the 2015 Global Sustainable Development Report (GSDR). The concept of resource conservation for coming generations is one of the main differences between sustainable development policy and traditional environmental policy, which also tries to integrate environmental destruction externalities.

Duran et al. (2015) investigated elements of sustainable development as a possible approach. They found that each element of sustainable development results in three aspects of the human existence: biological (present in connections with the physical, natural, and environment), social/collective (as a member of some social groups), and rational/ psychological/ spiritual (induced by internal traits, particular to one human being). All of the studies were designed to highlight the need for sustainable development in ensuring that human activities do not jeopardise the planet's ability to support life.

The Brundland's concept defined an excessive demand for sustaining individuals and their surroundings, with the impoverished being one of those elements of society that requires urgent survival. (Brundland, 1987). Nevertheless, the idea of sustainability was divided into three central factors or axes: environmental, social and governance (Nájera-Sánchez, 2020). Such three variables were not necessarily dealt with concurrently, nor were they necessarily referred to in the same terms. In reality, a significant part of the literature used the term Corporate Social Responsibility (CSR) to describe sustainability in banks or other industries (Nájera-Sánchez, 2020).

Sustainability is a constant variable in the business way it is done (Nájera-Sánchez, 2020). Sustainability principles and standards have been created by organisations such as the United Nations (UN), the World Business Council for Sustainable Development, and the Global Reporting Initiative. Sustainability is the new business terminology that compels enterprises to monitor their social and environmental consequences on the larger community of stakeholders in addition to maintaining financial soundness (for shareholders) (Nizam et al., 2019). In broadly sustainability has two-directional (the institutional and policy of welfare) perspectives in banking and finance (Mia & Chandran, 2016; Bhanot & Bapat, 2015). Recent