Student First Name: Karim

Student Surname: Ullah

Copyright subsists in all papers and content posted on this site.

Further copying or distribution by any means without prior permission is prohibited, except for the purposes of non-commercial private study or research, as defined in the Copyright, Designs and Patents Act 1988, or as otherwise authorised by statute.

To obtain permission, please contact the author of the relevant paper in the first instance or email copyright@brunel.ac.uk with details of your request.
Designing Adaptive Shariah Compliant Financial Services

Abstract

Service designers visualise deeds, processes, and performances for future service encounter, which is the point in time continuum at which service provider and user come together. We believe that such encounter occurs in unpredictable context, making a complex sphere around the service and forces it to adapt or migrate. The designs of shariah compliant financial services (SCFS) do not mirror these unpredictable service encounters, therefore leaving the service actors with no ‘emergent or instant design’ to act on. We therefore, proposes a model for adaptive SCFS designs based on qiyas and theory of deferred action, which are the theories drawing in Islamic jurisprudence and general theory of complexity.

Keywords: Emergent Design, Shariah, Service Encounter, Financial Services, Theory of Deferred Action, Qiyas.
1. Introduction

Lusch & Vargo (2006) define service as ‘the application of specialized competences (knowledge and skills), through deeds, processes, and performances’. Service designers visualise these deeds, processes, and performances for future service encounters – the points in which the service provider and user meet up (Case and Apte, 2007; Segelstrom, 2010). Such encounter, we believe happen in emergent context, which is the junction of unpredictable factors specific to different regions, sectors and service portfolios (Ullah and Patel, 2010). Emergent context creates a unique sphere around these encounters, which need to be adapted or migrated off by the service co-creators i.e. provider and user of service. Shariah compliant financial services (SCFS) are not adaptable in emergent context, therefore producing the problem of shariah non-compliance in the service practice (El-Gamal, 2008; Siddiqi, 2006). This paper aims to model this evolving service practice with consideration of its unpredictable context.

Following are the key parameters of this research;

What is modelled? The evolving service practice

Where? In the shariah compliant financial institutions of Pakistan

Why? To adhere to shariah compliance

How? SCFS literature is used to build, focus group interviews, to evaluate and service blueprinting to apply.

Key background theories: Theory of deferred action (Patel, 2007) and Qiyas (e.g. Hassan, 1986)

2. Addressing Emergent Context

Context is a unified view of situation formed by resource factors (Tessmer and Richey, 1997). SCFS is expanding into new regions, sectors and service portfolios, which have
their own sets of resource factors creating an emergent context. Designing SCFS for activation in such emergent context requires specification of activities and processes that will be triggered in future point in time. However, emergent context is not predictable and in turn not effectively planable (Patel, 2007). Particularly, in rapid growth (decline) situations, which requires instant decision and action for adaptation or migration right at the point of service encounter. Therefore, it is necessary to enhance the emergent context specification capability of stakeholders so that they effectively visualise the emergent context (Ullah and Patel, 2010). Figure 1 conceptualise the addressing of emergent context. We coin the idea of ‘code’ or ‘address’ means tagging the emergent context, through projectable information about the three dimensional expansion in SCFS. Graphically, emergent context is the intersection point of regional, sectorial and service portfolio expansions. Junction T20, the point in time at which resource factors intersect can be coded as geographical (G), sectorial (S), and product portfolio (P) junction at time 20. Hence, can be addressed as ‘GSP20’. SCFS designer can use these unique codes or identifiers to better understand and visualise changes in emergent context which can in turn make them able to effectively adapt or migrate the SCFS design. For instance, design for Takaful (i.e. Islamic Insurance) for corporate sector in US in year 2020 can have a code as USCT20 or in UK as UKCT20. So, SCFS design for context USCT20 will only need regional resource factor considerations for adapting context UKCT20.
Figure 1: Addressing Emergent Context: A hypothetical example

Geographical Dimension of Emergence
Sectorial Dimension of Emergence
Products Dimension of Emergence

Context code UKCT20 can be described as ‘Takaful for the corporate sector of UK in year 2020.’
3. Locating Emergent SCFS

Addressing context can then lead the designers to locate emergent SCFS. Figure 2 conceptualise change in SCFS at a time dimension of emergent context. While standing at point T0 all other future points from T1 to TN represent emergent context. Real SCFS change with emergence of resource factors arising out of varying regions, sectors and services (Ullah and Patel, 2010). The design visualising real SCFS in context T0 may do not represent the emergent SCFS at any other point (T1-TN), because the unpredictbles i.e. Maqīs add up with planned SCFS and result an emergent SCFS (Ullah and Patel, 2011).

![Emergent SCFS](https://example.com/figure2.png)

*Figure 2: Emergent SCFS (Ullah and Patel, 2011a)*

4. Specifications of SCFS Constructs

Shostack’s (1982) blueprint of service organisation has three interdependent and interconnected units i.e. service element (SE), product element (PE) and the bonds in between. Beside these, there are service co-creators, the provider and user of the service. Shariah compliant financial institutions (SCFIs) coupled with its deficit and surplus customers, co-create these SE, PE and bonds based on economic contracts such as *bai* (sale), *shirkah* (partnership), *ijarah* (rent/lease) and *wikala* (agency). As we show
in figure 3, surplus saving units (SSUs) supply product elements (e.g. money, auto) to financial institutions, which in turn transfer the same to deficit saving units (DSUs). Economic interests, legal obligations, and operational activities encapsulate a service, which bind all these elements(Ullah and Patel, 2011a).

![Figure 3: Static SCFS Design Ullah and Patel (2011a)](image)

5. Theoretical Background of Model

5.1 Shariah and Adaptability

Shariah is the religious law setting certain rules and objectives related to every aspect of Muslims lives, including economic and business activities (Ainley et al., 2007;
Hasan; 1986; Usmani 2002). Quran and Sunnah stress to follow this religious law with a reason driven analogy so to adapt to new situations (e.g. verses of Quran, (38:29, 47:24, 2:170, 10:78, 26:74, 43:24). Historically, when Islam expended from its revelation place of Makka, it started to adapt to different cultures through established methods of Ijmah, which is the consensus of shariah scholars and qiyas, which is individual reason driven analogy, keeping in view the maqasid (objectives) and ethical norms of shariah (El-Gamal, 2008; Hasan, 1986). The key economic ethical norms of shariah are freedom from al riba (interest), al gharar (excessive uncertainty), al-qimar (gambling), and al-maysir (uneared income) (Obaidullah, 2005). We use qiyas as adaptability construct in model we are proposing in this paper.

5.2 Qiyas

Qiyas is an arabic word literally means measurement. It is also termed nazer which means reflection (Hasan, 1986). Operationally, qiyas is used as analogy through in-depth reasoning to derive instant shariah rules (maqis’Ilah) from its textual sources (quaran, sunnah, an ijmah) covering new situations (far or maqis). This reasoning synthesis the ratio legis (illah) or the cause of rulings, common in the known (asl) and new (far) situations. Thus synthesis of both asl and far brings instant rule called maqis’ Illah (Hassan, 1986). Qiyas is considered a fourth source of shariah with three others textual sources of quran, sunnah and ijmaah (Hasan, 1986; Usmani, 2002). Qiyas is the frequently used adaptability construct of shariah.

5.3 Theory of Deferred Action

Theory of deferred action (ToDA) (Patel, 2007) is a theory to design adaptable systems drawing on general theory of complexity. As depicted in figure 4, this theory believes that planned action, emergence and deferred action are the three dimensions of designs.
for unpredictable situations. Based on this theory, we can argue that rational SCFS design should have due reflection of emergent context, so that it truly emulate the service encounters.

Figure 4: Theory of deferred action, Patel (2007)

6. The Model

There is considerable accord between *qiyyas* and the theory of deferred action, particularly the recognition of unpredictability called emergence in theory of deferred action and *maqis* in *qiyyas*. Likewise, both believe in response to emergence through deferred action and *maqis’lllah*, respectively. However, the response in *qiyyas* may either be adaptation and migration, depending on the harmony of emergence with the other textual laws in shariah (*asls*), its maxims and objectives. Therefore, the model we proposed in figure 5 provide two sets of response gateways as ‘instant design action’ (green for adaptation and red for migration) coming in the form of shariah rulings such as *farayiz* (mandatory) *sunnah* (recommended), *mubaah* (allowed) as green gateways of adaptation and *makrooh* (disliked) and *haram* (prohibited) as red gateways of migration, in the emergent context.
Figure 5: Deferred Model for designing Adaptive Shariah Compliant Financial Services (DM-ASCFS) (Ullah and Patel, 2011b)
7. Empirical Evaluation of the Model

7.1 Research Context

We are empirically evaluating the model in Pakistan. This is the pioneering country in SCFS having a Muslim population of around 164.7 million which constitute 97% of the total 169.7 million population. (World Bank 2009 estimates). Islam is considered the state religion and the country is named as ‘Islamic Republic of Pakistan’. There are six full pledge shariah compliant banks with 13 conventional banks offering SCFS through their Islamic windows. In 1981 the government of Pakistan has promulgated laws to make the economy shariah compliant (Ahmad et al. 2010). Apart from Islamic banks, many Takaful companies (i.e. Islamic Insurance companies), Islamic investment banks and Islamic mutual funds are operating in different parts of this country.

7.2 Methodology

March and Smith (1995) suggested four activities for design science research i.e. build, evaluate, theorize and justify. To build the model we adopted structural constructs of SCFS from literature. e.g. Shostack, (1982), Usmani (2002), Iqbal and Mirakhor (2008) and Obaidullah (2005). We then also built adaptability constructs based on theory of deferred action (Patel, 2007) and qiyas (Hasan, 1986). Which are then used to build the adaptive model illustrated in Figure 5. We will evaluate, theorize and justify this model and its constructs through focus group discussions and interviews. Appendix 1 illustrates the sequence of research activities.

7.3 Data Collection and Analysis

We arranged 6 focus group interviews to evaluate the constructs of the Model. 13 shariah scholars, 14 financial experts and 3 customers of Islamic Financial Institutions (IFIs) participated in these interviews (see figure 6). 4 among the financial experts and
9 among shariah scholars were academics in their fields as well. Initial three focus group interviews of financial experts from Islamic banks, takaful companies, Islamic investment banks, and Islamic mutual funds were focused on the SCFS design depicted in Figure 1. The other three focus group interviews were focused on evaluation of qiyas and its application to SCFS designs. We will report the findings of this empirical study in our presentation of this paper in symposium.

![Figure 6: Focus Group Interviews Participants](image)

8. Conclusion and Future Direction

This paper proposes a theoretical model for adaptable designs of SCFS. We used adaptability theories from Islamic jurisprudence and theory of deferred action to conceptualise the adaptive SCFS. Similarly, SCFS literature provided the essential structural constructs of the model. We conducted focus group interviews to evaluate, theorize and justify the constructs of the model. 30 shariah scholars, financial experts and customers participated in the study. Currently I am doing content analysis with the support of Nvivo 9, and will be able to present some of the findings in the symposium presentation.

Publications:


References


Appendix 1: Research Plan

[Diagram showing the research plan with timelines and activities such as literature review, interviews, and conference papers.]