

Abstract

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The Internal and External Contingent Factors that Affect the Determination of Profitability in Islamic Banks in Comparison to Conventional Banks in Egypt

Islamic banking system is one of the fastest growing segments of the international financial industry. This system has been receiving a growing attention nowadays especially after the global financial crisis which gave Islamic banks an opportunity to prove their resilience and contribution to financial and economic stability. The beginning of the Islamic banking in its contemporary mode was in the sixties of the past century by the first modern Islamic banking experiment which was undertaken in Egypt in 1963 by Ahmad Al-Najjar. Islamic financial institutions are established to operate commercial banking activities within an Islamic teaching perspective which depends on the elimination of any prohibited element in Islamic Shariah jurisprudence such as interest, gambling, speculation, dealing in pork alcohol. The very distinct nature of Islamic banking led to a growing interest in determining the success factors of such type of banks especially that in most of the cases they operate with conventional banks Vis a Vis within the same market and sometimes under the same regulatory framework. The aim of this research is to make a comparative study between the performance of Islamic banks and conventional banks in the Egyptian financial market. The study is an attempt to determine the internal and external contingent factors that affect the profitability of Islamic banks in Egypt in comparison to conventional banks while taking into consideration the fact that both types of banks operate under the same rules and regulations. The goal is to discover whether the different nature of operations between the two types of banks is likely to affect their determinants of performance. The main motivation for undertaking this research is to fill the gap in literature and provide some information that might benefit both academics and practitioners in this field. A thorough revision of the literature suggested contingency perspective as the most suitable and appropriate theoretical framework for this type of research (Thomas, 1991 Schweikart, 1985 Otley, 1980). Data were gathered in this research through the collection of annual financial reports for the two Islamic banks working in Egypt and a sample of eleven conventional banks registered in the stock market. The study covered the period from 2002 to 2010. The findings indicate that in general, the performance of conventional banks in Egypt outweighed that of their Islamic counterparts. Moreover, it can be concluded from the results of the study that there are differences between the profitability determinants of Islamic banks and conventional banks. and eventually, it can be inferred that the nature of operations has an effect on the determinants of profitability in Islamic banks and conventional banks.