Abstract

Sukuk, the Islamic equivalent of bonds, has emerged as an important alternative source of financing for corporations in Muslim jurisdictions in recent years. Since the inception of the sukuk market operation two decades ago, Malaysia has maintained her position as the frontrunner, dominating both the number and volume of sukuk issuance. However, the market shows an increasing preference for debt-like and secured structure, a trend preceded by Islamic banking operation which has attracted scholarly debate among Muslim scholars and academia. Aiming to shed light on this issue, we examine the determinants of firm’s decision to issue sukuk and the choice of sukuk structure. We find that sukuk issuance is motivated particularly by financial benefits; tax incentive and credit reputation. Our findings on the choice of sukuk structure indicate the important influence of information asymmetry and potential agency problems on the issuers’ decision.