Employee Perception, Knowledge and Potential of Islamic Banking in Pakistan

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Abstract

This research work was steered to gauge the perceptions and knowledge of employees in both Islamic banks and conventional banks offering Islamic products and services and the potential of Islamic banking in Pakistan. Questionnaire method is utilized to collect data from 197 banking sector individuals employed in the banks located in two cities namely; Rawalpindi and Islamabad, Pakistan. Results of the present research determine that employees have positive perception towards Islamic banking and Islamic banking products have high potential in Pakistan. In addition, Islamic bankers have high degree of knowledge regarding Islamic products and services than their counterparts. Research further founds that employee positive perceptions and knowledge of Islamic banking services have significant positive impact on the potential of Islamic products and services in Pakistan. This study shows that even the Islamic banks are restricted by Islamic views in their processes, still they are equally competing with conventional banks and the growth rate of Islamic banking industry is increasing day-by-day. This also signifies the potential of Islamic banking in Pakistan and the perception as well as knowledge of employees regarding Islamic products and services.

Keywords: Employee perception, Employee knowledge, Islamic banking, Products and services

Introduction

Few decades ago, the concept of Islamic banking was almost nameless and considered as potential thought. By the start of twenty-first century, Islamic banking has emerged into reality as the mass of this industry which hardly amounted to hundred thousand dollars in 1975, had extended to billions of dollars by 2004 (Iqbal & Molyneux, 2005). The worth of Shariah accounts have been increasing with the annual rate of 10 to 15 percent (Zainol, Sharri and Ali, 2008), and; it is projected that Islamic banks have control over Muslim savings up to 40 to 50 percent in the year 2009-2010 worldwide (Zaher and Hassan, 2001). The formation of Islamic banking is

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in result of high demands from Muslim community in the field of banking and finance as Muslims are not in favor of interest based conventional banking. However, it’s another fact that, the origin of Islamic banking is in result of market needs of Muslims though; they are not fully religious institutions as they also provide services to non-Muslims (Zainol, Sharri and Ali, 2008). Another evidence of the practicality of Islamic banking can be predicted through the initiative taken by conventional institution in a way of opening Islamic departments in conventional banks. Pakistan is one of those countries in which Islamic banking is also conducted through conventional institutions. These services are started by opening “Islamic windows” in conventional banking institutions. A great amount of intention on the research of Islamic banking proof that it’s not only have feasibility and viability, but it is a productive form of financial intermediation. The idea of the creation of Islamic banks was visualized in the era of 1940s (Khan, 1987). The first step to be taken for the establishment of Islamic banking institution was traced in Pakistan in the late 1950s. The second attempt to establish Islam based financial institutions was done in Mit Ghamr, Egypt from 1963 to 1967 (Scharf, 1983). Such initiatives had a significant impact in the evolution of Islamic banking and the shifting of Muslim community from interest-based banking to shariah based Islamic banking. Now a days, a number of Islamic banks provide Islamic product and services to its customers in Pakistan under the umbrella of shariah compliant banking system. However, the purpose of this research paper is to assess the perception of employees regarding Islamic products and services and potential of these products and services in Pakistan. Furthermore, this study determines the impact of employee knowledge and perception on the potential of Islamic products and services and their comparison with respect to employees working in conventional bank offering Islamic services and untainted Islamic banks.

**A Review of Literature**

In present era, every organization places a great emphasis on their respective customers due to severe competition arising from liberalization and globalization of the industries. Among these, banking industry whether it is conventional or Islamic banking, puts more emphasis to provide value added and featured services to their customers in order to remain competitive and sustainable in the financial market. As Zeithaml and bitner (2000) founds that, businesses now-a-days have to manage their competitive edge by focusing more on service quality which ultimately, leads to customer satisfaction. Peters (1999) further supports this ideology and stated that quality is a “magic bullet” that gives higher customer services and high margins and without managing quality, it is impossible to give value added services.

Zeithaml (2000) argues that service quality is an important aspect and therefore, banks must accredit their customer’s perception and then meet the customer needs by providing desired services. Donnelly, Berry and Thompson (1985) further stated by supporting the statement i.e.
“...employees who make the discretionary effort – who are friendly and responsive, who ask the extra question or suggest the extra services, who take time to listen - provide the competitive edge!”

However, it is commonly observed and tested (Schneider and Bowen, 1985) that, employees of the organization can deliver satisfactory services to customers when their respective organizations equip them with basic resources including logistics, equipment, administrative and management support. Zeithaml (2000) further supports this by arguing that

“Satisfied employees make for satisfied customers (and a satisfied customer can, in turn, reinforce employees’ sense of satisfaction in their jobs).”

A study accompanied by Bowen and Scheider (1988) found that front-line employees play an important role in presenting their organization towards the outer world, and influence the behavior and assessments made by customers. In addition to this, Congram and Friedman (1991) confirm the importance of front-line managers by listing ten criteria for the determination of organization success. One of these criteria, they argue that organization’s success also depends upon that how much the employees are empowered to deliver services to customers. Zeithaml (2000) also reaffirms this by stating that:

“...the employee’s relative strength of identification with an organization’s goals, objectives and values could impact on service delivery. Identification with the organization’s goals, objectives and values is referred to as organizational commitment.”

Researchers (Buchanan, 1974; Cook & Wall, 1980; Katz, 1996) argue that loyalty towards the organization is one of the important factors which are associated with organization commitment. Dessler (1988) and Davis (1989) highlighted that, it is organizational factors that actually produce employee loyalty and these factors includes employees participation in decision making, open communication, comfortable workplace, trainings and fair compensations. In addition, Katz (1996) claims that trainings for work development and compensation in the form of financial rewards have a strong association with the creation of employee loyalty towards organization. However from the Islamic banking perspective, Haron (1996) stated the contradictory objectives of conventional versus Islamic banking. Authors stated that Islamic banks objectives are based on two fundamentals that is: the religious perspective and the profitability aspect. If the banks solely depend on religious factor than they will be driven towards bankruptcy or insolvency and if they provide more focus to profitability factor, then it is clear diversion from the true Islamic base which focuses on the concept of justice.

Haron (1996) further argues that; in accordance with the objectives of the formation of Islamic banks, these institutions must provide services in compliance with Islamic
legal practices because Islamic banks are prohibited to engage in any activity which is based on riba (interest). Hamid and Nordin (2001) piloted the research for the determination of the importance of education in Islamic banking and the development of viable strategy for Islamic banks to face new millennium. Authors founds that 60% of the customers are unable to differentiate between conventional and Islamic banking products. Hassan and Ahmed (2002) conducted the study on the employees and customers of Islamic banks and found that customers are not interested in doing banking transaction with Islamic banks because they thought that only the name of banks have been changed and the riba which is prohibited in Islam is still in practices. Moreover, Haron and Ahmad (2002) have emphasized that nearly 65% of banking customers stated that they had very limited knowledge of Islamic banking. Makiyan (2002) publicized that the arrangement problem faced by banking sector employees was due to scant knowledge and training.

On the other hand, with regards to efficiency and growth of Islamic banking, Onour and Abdalla (2011) found that Islamic banks operating in Sudan start reaching their technical efficiency level while Abduh and Chowdhary (2012) and Abduh and Omar (2012) stated that Islamic banking plays an important role in the economic growth of the country. In addition, Shaikh (2013) found that market share of Islamic banking in Pakistan has risen to 7% by the end of 2011. Manzoor (2013) argued that the Global Islamic banking industry has to extend its operation as an alternative to conventional banking in order to overcome global financial crises. Furthermore, Ahmad and Rahman (2012) conducted a comparative study on the efficiency of Islamic and Conventional banking in Malaya. Findings of their study indicates that conventional banks have higher efficiency due to managerial and technological advancement as compared to Islamic banking. Therefore, it is necessary to identify the managerial efficiency and potential of Islamic banking in Pakistan to determine prospective problem related to growth of Islamic banking.

Overall, the literature witnessed that the employees and customer’s understanding of the concepts and practices of Islamic banking is still ambiguous. Based on these past researches, this study aims to determine the perception of banking sector employees about Islamic products and services along with the potential of these products and services and also make necessary comparisons. This Study further enhances the Islamic banking body of knowledge by determining the impact of employee’s perception and their knowledge about Islamic products and services on the potential of Islamic banking products and services.

**Research Questions**

Based on the review of literature above, this research has following research questions i.e.:

a) What are the perception of banks employees and the level of employee knowledge about the Islamic products and services?
b) What is the potential of Islamic banking products and services in the eye of banks’ employees?

c) Is there any difference between employee working in Islamic banks and in conventional banks offering Islamic banking services based on perception, potential and their knowledge about Islamic banking products and services?

d) What is the impact of employee perception and employee knowledge on the potential of Islamic products and services?

Sample

The study was conducted with a purpose to determine the perception and knowledge of employees working in banking sector of Rawalpindi and Islamabad, Pakistan regarding Islamic banking products and services along with the potential of these products and services in banking industry. Data is collected on convenience sampling basis from 197 respondents. Sample of the study consist of the individuals employed in Islamic banks and conventional banks offering Islamic banking services in these cities. A total of one hundred and ninety seven banking sector employees participated in this study in which 105 are from pure Islamic banks and 92 from conventional banks offering Islamic banking services.

Measures and Procedures

Data is collected by utilizing the questionnaire method. Perception of the employees is measured by 8-items scale with the alpha reliability of 0.86. A 5-items scale with alpha reliability of 0.67 is used to assess the employee knowledge regarding Islamic banking products and services while 3-items scale with alpha reliability of 0.73 is utilized to measure potential of Islamic banking products and services. All the scales are adopted from the Study on Islamic banking in Malaysia by Zainol, Shaaari and Ali (2008). A total of 300 questionnaires were distributed among banking sector employees from which 197 were received back yielding response rate of 65.6%. All the questionnaires were personally administered so it will helpful for the respondents to answer with proper understanding of the items and with ease.

Results

SPSS 16 and Amos 15 statistical tools are utilized to analyze the data received through questionnaires. An analysis of the bankers’ perception of Islamic products and services is depicted in Table 2. The first item concerns with the knowledge of the bankers regarding the *riba*(interest), which is strictly forbidden in Islam. 70.1 % of respondents strongly approve that the Islamic banking system was introduced in result of non-acceptance of interest based banking system by Muslim community which is openly practiced in conventional banking. The mean value for this item is 4.48, which displays that the respondent gave a positive response to this statement.
The second item examines the values of profit maximization in Islamic banking. The majority of respondents (40%) indicated that they agree with this statement, while only 25% do not agree and 30% are unknown to it. This demonstrates that most of those who replied to this statement understand the objective of the formation of Islamic banks, which are based on two main factors, namely religion and profitability.

For the fourth, fifth and sixth items, the respondents presented their opinions of the Islamic banking products and services which are offered by their respective banks. Based on the Likert scale ranges 1-5, the third item revealed the mean of 2.44, followed by the fifth item with a mean of 2.55, and a mean of 2.51 and 1.3 for the sixth and seventh items, respectively. From which, it can be determined that most of the employees have positive perceptions regarding Islamic products and services. In response to eighth items, 44% respondents fully agreed on the statement that government of Pakistan is committed towards the development of Islamic banking while only 31% disagreed with this statement.

**Table 1**

*Perception of Employees Regarding Islamic Products and Services (N = 197)*

<table>
<thead>
<tr>
<th>Items</th>
<th>Mean</th>
<th>SA(%)</th>
<th>A(%)</th>
<th>N(%)</th>
<th>D(%)</th>
<th>SD(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Islamic banking system was introduced because Muslims are prohibited to take riba.</td>
<td>4.48</td>
<td>70.1</td>
<td>13.4</td>
<td>12.4</td>
<td>3.1</td>
<td>1</td>
</tr>
<tr>
<td>2. The Islamic banking system must follow the rule of profit maximization.</td>
<td>3.11</td>
<td>15.5</td>
<td>24.7</td>
<td>29.9</td>
<td>15.5</td>
<td>14.4</td>
</tr>
<tr>
<td>3. Products and services in Islamic banks are similar to the products and services of conventional banks with the exception that the banks use different names to differentiate the products and services.</td>
<td>2.09</td>
<td>4.1</td>
<td>15.5</td>
<td>18.6</td>
<td>9.3</td>
<td>52.6</td>
</tr>
<tr>
<td>4. Products and services in Islamic banks are more expensive than in conventional banks.</td>
<td>2.44</td>
<td>7.2</td>
<td>19.6</td>
<td>13.4</td>
<td>29.9</td>
<td>29.9</td>
</tr>
<tr>
<td>5. Business customers are not interested in utilizing the Islamic products and services.</td>
<td>2.51</td>
<td>11.3</td>
<td>14.4</td>
<td>18.6</td>
<td>25.8</td>
<td>29.9</td>
</tr>
<tr>
<td>6. Customers choose Islamic banking products and services</td>
<td>1.30</td>
<td>13.4</td>
<td>21.6</td>
<td>23.7</td>
<td>23.7</td>
<td>17.5</td>
</tr>
</tbody>
</table>
because they are more interested in the Arabic concepts applied to these products and services.

7. Your bank management shows commitment in marketing and promoting Islamic banking products and services.

8. The government shows commitment to develop Islamic banking in Pakistan in its true spirit.

<table>
<thead>
<tr>
<th>Items</th>
<th>Mean</th>
<th>SA(%)</th>
<th>A(%)</th>
<th>N(%)</th>
<th>D(%)</th>
<th>SD(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Usage of Islamic banking products and services by non-muslims all over the world.</td>
<td>1.17</td>
<td>17.5</td>
<td>36.1</td>
<td>23.7</td>
<td>14.4</td>
<td>8.2</td>
</tr>
<tr>
<td>2. Usage of Islamic banking products and services by Muslims.</td>
<td>0.89</td>
<td>42.3</td>
<td>39.2</td>
<td>11.3</td>
<td>7.2</td>
<td>0</td>
</tr>
<tr>
<td>3. Usage of Islamic banking products and services by corporate sector.</td>
<td>1.18</td>
<td>28.9</td>
<td>46.4</td>
<td>5.2</td>
<td>13.4</td>
<td>6.2</td>
</tr>
</tbody>
</table>

SA= Strongly Agree, A= Agree, N=Neutral, D= Disagree, SD= Strongly Disagree

Table 2 shows the potential usage of Islamic banking products and services by Muslim customers. As from first and second items, about 50% respondents agree that the Islamic products and services have significant potential. The last item in this section deals with the use of Islamic banking products and services within the corporate sector in Pakistan. The survey indicates that only 19.6% believe that the products and services have no potential, while 71% of the respondents claimed that the Islamic products and services have owing potential incorporate sector customers.

Table 2

Potential of Islamic Products and Services

T-test is conducted to determine the degree of differences of Islamic and conventional banking sector employees based on their perception and knowledge regarding Islamic products and services and also, to determine difference based on
potential of Islamic products and services in both sectors. Table 3 depicts the difference between Islamic and conventional banks employees regarding perception of Islamic banking facilities. The analysis founds no significant difference between employees of Islamic and conventional banks based on their perception as the whole test is statistically insignificant (p> 0.05). This shows that banking employees including both conventional and Islamic banks have favorable perception regarding Islamic banking products and services.

Table 3

<table>
<thead>
<tr>
<th>Banking Sector</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>SE</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Perception</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Islamic banking</td>
<td>105</td>
<td>31.9630</td>
<td>3.87524</td>
<td>.52735</td>
<td>.16</td>
</tr>
<tr>
<td>Conventional banking</td>
<td>92</td>
<td>31.5116</td>
<td>5.89339</td>
<td>.89873</td>
<td></td>
</tr>
</tbody>
</table>

Another test is conducted to study the potential difference of Islamic and conventional bankers based on knowledge regarding Islamic banking products and services. Analysis found that individuals employed in Islamic banks (mean= 19.16, p<0.05) have more knowledge regarding Islamic products and services as compared to conventional bank’s employees (mean = 17.60, p <0.05) as shown in table 4. However, no significant difference is found between Islamic and conventional sectors regarding the potential of Islamic products and services (p > 0.05) as given in table 5 which indicates that Islamic banking have equal and considerable potential in Pakistan irrespective of banking sectors including Islamic and conventional / interest-based banking.

Table 4

<table>
<thead>
<tr>
<th>Employee Knowledge</th>
<th>Banking Sector</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>SE</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee Knowledge</strong></td>
<td>Islamic banking</td>
<td>105</td>
<td>19.1667</td>
<td>4.02703</td>
<td>.54801</td>
<td>0.01</td>
</tr>
<tr>
<td>Conventional banking</td>
<td>92</td>
<td>17.6047</td>
<td>3.71701</td>
<td>.56684</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5

<table>
<thead>
<tr>
<th>Potential</th>
<th>Banking Sector</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>SE</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Potential</strong></td>
<td>Islamic banking</td>
<td>105</td>
<td>11.2778</td>
<td>2.56549</td>
<td>.34912</td>
<td>0.78</td>
</tr>
</tbody>
</table>
In addition, figure 1 shows the impact of employee perception on the potential of Islamic products and services. Analysis found that total of 50% variation in potential of Islamic products and services is explained by employee perceptions regarding these products and services as the whole regression test is statistically significant (see table 5). The overall model is good fit as the value of CFI(Comparative fit index), GFI(Goodness of fit index), AGFI(Adjusted goodness of fit index), RMSEA(Root mean square) are statistically acceptable along with chi-square value = 37.7 showing the characteristics of good fit model.

**Figure 1: Regression Model**

![Diagram](image)

**Table 6**

| Regression Model Summary of Employee Perception and potential of Islamic Products and Services |
|---|---|---|---|---|---|---|---|---|---|
| CMIN/DF | RMR | AGFI | GFI | CFI | RMSEA | Chi-square | R² | S.E | p |
| 1.111 | .088 | .894 | .934 | .956 | .034 | 37.779 | .504 | .243 | .038 |
In the similar pattern, Regression analysis is conducted by utilizing employee knowledge as independent and potential of Islamic products and services as criterion variable. The test shows (figure 2) that, 23% variation in potential of Islamic products and services is explained by employee knowledge regarding Islamic products and services. Similarly, the value of CFI, GFI, AGFI, RMSEA and chi-square as shown in table 6 depicts that the overall model is good fit. In a nutshell, both test of regression analysis show that employee perception and knowledge of Islamic products and services have significant impact on the potential of Islamic banking products and services.

**Figure 2: Regression Model**

![Regression Model Diagram]

Table 7

<table>
<thead>
<tr>
<th>CMIN/DF</th>
<th>RMR</th>
<th>AGFI</th>
<th>GFI</th>
<th>CFI</th>
<th>RMSEA</th>
<th>Chi-square</th>
<th>R²</th>
<th>S.E</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>.677</td>
<td>.046</td>
<td>.952</td>
<td>.982</td>
<td>1.00</td>
<td>.000</td>
<td>5.420</td>
<td>.212</td>
<td>.165</td>
<td>.009</td>
</tr>
</tbody>
</table>

**Discussion**

This research works study the employee perception and knowledge regarding Islamic banking services and potential of these products and services in Pakistan. Study future highlights the cause and effect relationships among studied variables. It is found that banker’s perception regarding Islamic banking product and services is positive and there is no difference between the perception of Islamic banks employees and conventional bankers operating in Islamic banking. It is concluded that perception of employee’s regarding Islamic banking is indifferent with respect to
their working sector. In addition to this, present research founds that there is significant difference between conventional and Islamic bankers regarding the knowledge of Islamic banking services. Based on the results, it is clear that Islamic bankers are more exposed to Islamic products and services as compared to conventional bankers. The major reason behind this fact is that, Islamic bankers are solely involved in Islamic operations and transactions while conventional bankers also have to work with conventional banking along with Islamic banking. This study also determines that there is no significant difference between conventional and Islamic banks regarding the potential of Islamic products and services in the eye of their employees. In relation to cause and effect relationship among studied variable, it is determined that employee knowledge and perception have significant impact on the potential of Islamic banking products and services. It is further clarified from the present research that, employee positive perception and their extensive knowledge about Islamic products and services have a strong contribution towards the growth of Islamic banking in Pakistan. In relation to the role of Government of Pakistan in the development of Islamic banking, a significant number of respondents agreed on the statement that government is actively participated in developing the Islamic banking industry in Pakistan. However, the expansion of Islamic banking industry also depends upon the market demands of Islamic financial institutions and also the role of employees in this development can be traced from the present research work.

Conclusion and Recommendations
This research work was conducted to determine the potential of Islamic banking in Pakistan and to examine the knowledge and perception of banking employees regarding Islamic products and services and their impact on potential of Islamic banking. In addition, this also determines the potential difference between Islamic and conventional bankers on the basis of perception, knowledge and potential of Islamic banking. It is hoped that, the bank management must expose these findings towards their employees through various channels for example, seminars, workshops etc. to equip them well regarding Islamic banking products and services.

It is recommended that this research should be expanded throughout Pakistan by considering sample from all regions of Pakistan. It is suggested that foreign banks offering Islamic products and services also included in the sample to assess the perception and knowledge of employees in more depth.

References
regarding Islamic products and services and also, to determine differences based on corporate sector.

2. Usage of Islamic banking

The survey indicates that only 19.6% believe that the corporate sector in Pakistan deals with the use of Islamic banking products and services within the corporate sector customers. As from first and second items, about 50% respondents agree that employee commitment to develop Islamic products and services have a strong contribution towards the growth of by Muslim customers. As from first and second items, about 50% respondents agree that employee commitment to develop Islamic products and services have a strong contribution towards the growth of

SA= Strongly Agree, A= Agree, N=Neutral, D= Disagree, SD= Strongly Disagree

commitment to develop Islamic products and services. Based on the results, it is clear that Islamic banking is determined that employee knowledge and perception have significant impact on the potential of Islamic banking products and services. It is further clarified from the present research that, employee positive perception and their extensive knowledge about Islamic products and services have a strong contribution towards the growth of

Mean

1.17 17.5 36.1 23.7 14.4 8.2

N(%)

100 95 99 98 99 99

SD(%)

0.89 42.3 39.2 11.3 7.2 0


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