Factors Influencing Knowledge of Islamic Banking Services: The Case of Malaysian Bank Managers

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Abstract: Many studies have examined the level of awareness, knowledge, and understanding of Islamic banking and finance (IBF) among bank customers. However, there has been no study to date of the level of knowledge of IBF among bank managers. This paper aims to do that for bank managers in Malaysia. The findings of the study are vital for future human capital development in the Islamic banking industry. Overall, the results of the study show that bank managers possess good knowledge of the general principles of IBF and some basic concepts, like *murābaḥah*/*bayʿbi-thaman ājil*, *qarḍ ḥasan* and *ijārah*. However, their knowledge of other basic concepts, like *mushārakah* and *muḍārabah* is only of a moderate level. The results also indicate that the bank managers' knowledge on advanced concepts of IBF such as *ghurmī* (risk) and *gharar* (uncertainty) are relatively poor. The Pearson Correlation test indicates attendance at training programmes as the most significant factor in improving the managers' level of knowledge of IBF. The results also indicate that managers with longer banking working experience and higher level of education have inverse relationship with the level of knowledge of IBF. However, while longer working experience in the IBF industry indicated a positive relationship with knowledge of IBF, it was not at a significant level.

I. Introduction

The Islamic banking and finance industry (IBF) has experienced tremendous growth and progress. Malaysia is one of the most established markets for

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IBF, in which the local Islamic banks are now expected to compete effectively on level terms with international best players (BNM, 2001). As of end 2004, total assets owned by Islamic banking increased to RM94.6 billion or 10.5% of the total assets in the banking system. To date, Islamic banking deposits and financing accounted for 11.2% and 11.3%, respectively, of the total deposits and financing of the banking system (Bank Negara Malaysia, 2004). The government of Malaysia is also committed to position Malaysia as an International Islamic Financial Hub in the region and has set the target for the Islamic banking sector to capture 20% of the market by 2010 (BNM, 2001).

This paper aims to address the following two basic questions: does Malaysia have the human capital and resource capacity to become the most prominent IBF industry internationally? Is the workforce of the local Islamic banks, in particular, their managers equipped with sufficient expertise and knowledge in IBF? To date there has been no study of the factors that influence the level of knowledge of IBF among Islamic banking operators, in particular bank managers. This study aims to fill this gap by: (*i*) examining the level of knowledge of IBF among bank managers, and (*ii*) exploring the factors that influence their level of knowledge of IBF.

II. Knowledge and Understanding of Islamic Banking Services: A Review of Literature

In Malaysia, a study conducted by Abdul Halim and Norizaton (2001) indicated that 97% of respondents were aware of the existence of Islamic banking in Malaysia. However, 46% had never been to an Islamic banking counter and 49% did not know about Islamic banking products. On average 83% of the respondents did not know the basic concepts of Islamic financial services, namely *wadīʿah, muḍārabah, mushārakah, bayʿbi-thaman ājil, ijārah, bayʿal-salam,* and *bayʿal-murābaḥah.* More than half of the respondents did not use any Islamic banking facility. 42% of them did not know about the Interest Free Banking Scheme (IBS) and 60% of them could not differentiate between IBS and conventional bank products.

Haron *et al.* (1994) conducted a study on bank patronage factors of Muslim and non-Muslim customers. They showed that 63% of Muslim respondents possess limited knowledge of IBF. They do not fully understand the operation of IBF even though Islamic banking has been established in Malaysia for more than twenty years. This factor has led to low usage of Islamic banking facilities among the Muslim respondents.

Another study by Ahmad and Haron (2002) on perceptions of Malaysian corporate customers of Islamic banking products and services indicated that Islamic banks were not the main choice because of the lack of knowledge. More than half of the respondents (65%) said they had limited knowledge of the Islamic banking system. This study shows that Islamic banks have not conducted enough programmes to educate people or promote their products to the public.

In Singapore, a study by Gerrard and Cunningham (1997) revealed that the Singaporeans, Muslims or non-Muslims, are generally unaware of the principles of Islamic banking. Erol *et al.* (1990) found that religion is not the main factor encouraging Muslims to choose Islamic banks to hold their funds. Their findings also indicate that bank customers perceived no difference between the services offered by Islamic and conventional banks, the former being perceived as merely duplicating the latter.

Finally, a study by Mirza (1997) brought up some issues relating to IBF. One of them is the shortage of experts and scholars knowledgeable in the *Sharīʿah*. The growth of IBF has led many religious scholars (*Sharīʿah* experts) to become actively involved in the system. There is a need for them as those who are trained in conventional economics, banking and finance rarely have the necessary knowledge of *Sharīʿah*. The research findings indicated that the majority of the respondents, Muslims or non-Muslims, still lack the knowledge on the Islamic banking system.

Previous research has only looked at the level of awareness and knowledge of IBF among bank customers. There has been no research done to assess the level of knowledge among Islamic bank managers. This study aims to fill that gap. Past studies also indicate that there are at least three main factors that can influence the level of knowledge of IBF, such as working experience, training programmes, and level of education.

2.1. Working experience

The level of knowledge of one individual may differ from another, and the difference may be due to their working experience. Experienced individuals have more knowledge relevant to the job, and can make better use of it because their knowledge is more comprehensive and better organized.

Etelapelto (1993) found in his study that experienced programmers had more meta-cognitive knowledge about their tasks and are more aware of what specific problems can arise as compared to students who only know about possible difficulties on a rather general level. Possessing the relevant

theoretical knowledge alone is not always sufficient to accomplish a given task. That is why trainees or novices are unable to execute tasks effectively – they lack experience in applying their knowledge to problem-solving (Voss *et al.*, 1986).

Warr (2001) in his research found that older and younger employees may differ in terms of their knowledge, the difference being closely related to years of working experience. His study also found that older employees on average possessed greater job knowledge due to their greater experience in a job. His findings were also supported by the research of Schmidt *et al.* (1986). They found that there is a significant positive correlation between years of experience and level of job knowledge – older employees typically have greater experience compared to younger employees. Their study showed that working experience is closely related to the accumulation of job knowledge, in other words, that the greater the working experience, the better the job knowledge, which leads to better performance.

Akermen (2000) in his research also emphasized that knowledge is acquired through long-term investment not only in financial terms but also in time and energy, linked with an individual's ability and interest.

2.2. Training programmes

Company education and training of employees are key components in any organization's human resources practice. The main objective of training is to improve the job holder's competence in areas relevant to their current role (Wakely and Points, 2003). Ericsson and Charness (1994) in their study on expert performance highlighted the importance of training to improve skills. The trainees are required to undergo a very long period of active learning and training under the supervision of a teacher or a coach, the training programme being designed to improve specific aspects of performance through repetition and successive refinement. They found that the earlier the acquisition or practice happened the better the results of training. Acquisition of skill during adulthood is rather difficult and more time-consuming, as compared to young people. In terms of session length, they suggest that training cannot be more than four hours per day. Excessive training causes burn-out which is counter-productive.

Michell and Lung (1989) showed that training in marketing skills is important for a junior or middle-rank or senior manager. Such training enables managers to develop their skills in competitive strategy. All managers are required to attend training in specific functional areas in

order to acquire knowledge of planning, and to develop presentation and communication skills. However, the skills acquired through training programmes may differ from one individual to another: different levels of management require different levels of skills. Michell and Lung's study (1989) states that senior managers may need to acquire broader marketing skills or strategy and communication training while middle-rank managers may need training in specific marketing functions, and junior managers yet more focused training, such as pricing strategy. This study also showed that training courses provided by outside professionals give more positive outcome as compared to in-house training courses. They state that in-house training within banking organizations is normally done by university graduates who lack teaching experience in conducting training and whose quality as lecturers is poor, as reflected in the poor ratings given by course participants who complain that courses are too theoretical and generalized. By contrast, independent consultants received the least levels of unfavourable comment from trainees. Commercial trainers generally are practised teachers able to offer the best course with high lecture standards and teaching aids, as well as meeting specific training needs such as forecasting, strategy development and innovative thinking, not available in in-house programmes.

The above research findings indicate that training is very important in enabling employees to increase their level of knowledge and understanding of the tasks assigned to them. That in turn helps the company to improve and expand its operations to compete at international level.

2.3. Level of education

Customers are now more sophisticated than in the past. Recent innovation and development of financial products has encouraged them to look for more sophisticated products to fulfil their needs. The study by Metawa and Almossawi (1998) found that Islamic banking in Bahrain is predominantly patronized by well-educated people. Their findings imply that the Islamic bank managers must develop more sophisticated products and services in order to satisfy the needs of such customers and to enable themselves to compete with other financial institutions. Designing and developing new financial products requires the bank management to develop their people first (Alexander and Lyons, 1995). Bank managers must acquire enough knowledge of IBF to be able to meet their customers' needs and become more competitive in the domestic and international financial market.

Abd. Manab *et al*. (2004) in their study on awareness and ownership of Family Takaful Scheme (FTS) among the Muslim community in Malaysia, found that 50% of the respondents were aware of the existence of FTS, but only 11.8% of the respondents owned an FTS policy. This low take-up of the scheme is due to lack of proper understanding, even misconceptions, about certain characteristics of the operation of FTS. Educational background is one of the factors studied in this research: it was found that the higher the educational level of the respondents the higher their level of understanding.

By contrast, a study by Bahrom (2004) on the application of Islamic products among Malay entrepreneurs on the East Coast of Pahang found that the level of education does not have any bearing on the level of knowledge of IBF among respondents. This research showed that four out of five doctorate-holders did not understand and could not define *mushārakah, bayʿ bi-thaman ājil* (BBA), *ijārah, qarḍ ḥasan, murābaḥah, bayʿ al-inah* and Islamic overdraft. Among holders of diploma and vocational qualifications, 45 out 85 could not define *bayʿal-inah, qarḍ ḥasan* and *ijārah*. However, we should not read too much into these results – this study was conducted in only one of the states in Malaysia and tested only 187 Malay entrepreneurs.

III. Research Design and Methodology

3.1. Research propositions and hypotheses

The study made the following research propositions after taking into consideration the fact that the Islamic banking and finance industry is still in its infancy and no past studies have examined the level of knowledge of IBF:

Proposition 1: Bank managers have insufficient knowledge of advanced concepts of IBF.
Proposition 2: Bank managers have good knowledge of IBF products and services that are widely used as compared to products and services that are not widely used.

In addition, the following hypotheses were made and Pearson Correlation used to test them:

H_1: Level of working experience is positively related to the level of knowledge of IBF among bank managers.
H_2: Training programmes in IBF are positively related to the level of knowledge of IBF among bank managers.

H_3: Level of education is positively related to the level of knowledge of IBF among bank managers.

3.2. Data collection

Data for this study were mainly collected through primary sources. The questionnaire used was designed by the author of this research in order to collect data for it, and answered by respondents on their own.

The questionnaire combined closed-end questions to encourage an objective response from respondents and facilitate the use of statistical tests when analyzing the results. The questions were divided into two sets. The first set of questions solicited information on demographic profile and educational background of the respondents. In the second set, the questions on basic knowledge of Islamic banking and financing were designed to examine the level of knowledge of the bank managers.

The research sample for this study was Islamic bank managers in Kuala Lumpur, inclusive of commercial banks, Islamic banks, and international banks. The research population was selected on the basis that all banks' head offices are located in the national capital, which permits access to the senior managers. Head offices are also the location of the central authority responsible for decisions related to new policy and introduction of new products, as compared to branch office.

Table 1: List of samples in the study

Islamic Banks	Conventional Banks with Islamic Windows	International Banks with Islamic Windows
1. Bank Islam Malaysia Bhd. 2. Bank Muamalat Malaysia Bhd. 3. RHB Islamic Bank Bhd. 4. Hong Leong Islamic Bank Bhd. 5. Commerce Tijari Bank Bhd.	1. AFFIN Bank Bhd. 2. Alliance Bank Bhd. 3. AmBank Bhd. 4. EON Bank Bhd. 5. Malayan Banking Bhd. 6. Public Bank Bhd. 7. Southern Bank Bhd.	1. Citibank Bhd. 2. HSBC Bank (M) Bhd. 3. OCBC Bank (M) Bhd. 4. Standard Chartered (M) Bhd.

Source: http://wwwbnm.gov.my

3.3. Data analysis

This study used Microsoft Excel and Statistical Package for the Social Sciences (SPSS) programme to analyze the data collected. It employed two statistical tests, namely descriptive test and correlation test, to analyze the

data collected. The following section will present and discuss the detail of these two tests.

First, frequency distribution was used as one of the most common statistical tools used to describe the respondents' characteristics, namely demographic profile, *i.e.* gender, age, working experience, designation and educational background. Information on the attributes mentioned was set out in tabular form for category of attribute, frequency of occurrence and percentage of the data.

Secondly, Pearson Correlation Test was used to look at the factors influencing the level of knowledge of IBF among the bank managers. Our assumption was that factors such as working experience, educational background, training programme and religiosity, would influence the level of knowledge of IBF. The study would therefore look for a positive or negative relationship between the dependent variables and the independent variables by running Pearson Correlation Test on each of the variables. On the basis of the p-value results, we would be able to affirm or reject the hypotheses.

3.4. Demographic Profiles

Table 2 shows that 154 questionnaires were distributed to the Islamic bank managers in all commercial banks. Out of the 154 questionnaires, 79 questionnaires or 51.30% of the total were completed and returned. Almost half of the total respondents (48.70%) failed to return the questionnaires within the specified time frame.

Table 2: Questionnaire Response Rate

Distribution of Questionnaires	**Questionnaires Received**		**Questionnaires Not Received**	
No.	**No.**	**%**	**No.**	**%**
154	79	51.30	75	48.70

In general, the response rate for the study can be considered as satisfactory. The response rate averaged 51%. International banks gave the highest response rate with 55.9%, followed by conventional banks with 52.86%, and lastly Islamic banks with 46% response rate.

Table 3: Questionnaire Response Rate according to Bank Type

No.	Bank	No. of Questionnaires distributed	No. of respondents	Response Rate
Islamic Bank				
1	BIMB	10	2	20%
2	BMMB	10	0	0
3	RHB	10	7	70%
4	HLB	10	4	40%
5	Commerce Tijari	10	10	100%
	Total	50	23	**46%**
Conventional Bank with Islamic Windows				
1.	EON	10	10	100%
2.	AM	10	10	100%
3.	PB	10	7	70%
4.	SBB	10	4	40%
5.	Alliance	10	6	60%
6.	MBB	10	0	0
7.	Affin	10	0	0
	Total	70	37	52.86%
International Bank with Islamic Windows				
1	Standard	10	0	0
2	Citibank	4	3	75%
3	HSBC	10	9	90%
4	OCBC	10	7	70%
	Total	34	19	**55.90%**

Table 3 depicts that the study received a low response rate from the Islamic banks, a rate below the average rate (50%). 50 questionnaires were distributed to five full-fledged Islamic banks, namely Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, RHB Islamic Bank, Hong Leong Islamic Bank, and Commerce Tijari Malaysia Berhad. Out of the 50 questionnaires, only 23 questionnaires were completed and returned. Commerce Tijari Malaysia Berhad was able to return all questionnaires followed by RHB Islamic Bank with 7 questionnaires, Hong Leong Islamic Bank with 4 questionnaires, BIMB only returned 2 out of 10 questionnaires distributed to them and BMMB returned none of the questionnaires.

Table 4 shows that the number of male respondents was more than that of the female respondents. 50 persons or 63.3% of the respondents were male respondents while 29 or 36.7% were female.

Table 4: Gender of Respondents

		Frequency	%
Valid	Male	50	63.30
	Female	29	36.70
	Total	79	100.00

In terms of age, Table 5 shows that almost half (48.1%) of the respondents were 26 – 35 years old; the second largest group at 40.5% were aged 36 – 45. Almost half of the respondents were of middle age, the age group most likely to hold important positions in their organization.

Table 5: Age of Respondent

		Frequency	%
Valid	<25	4	5.10
	26-35	38	48.10
	36-45	32	40.50
	46-55	5	6.30
	Total	79	100.00

Table 6 shows that 36 of the respondents had been working in their respective organizations for less than five years; the second largest group, consisting of 24 respondents, had done so for more than ten years. The result shows that almost half of all respondents had been with the same organization for less than five years. This is attributable to the recent establishment of three full-fledged Islamic banks, namely RHB Islamic Bank, Hong Leong Islamic Bank and Commerce Tijari Bank.

Table 6: Years of Service in Present Organization

		Frequency	%
Valid	<5	36	45.60
	5-10	19	24.10
	>10	24	30.40
	Total	79	100.00

Table 7 shows that 49.39% of the respondents are managers; with the second largest group at 26.58% being executives.

Table 7: Respondents' Designation

Designation	Frequency	%
Vice President	3	3.79
Assistant Vice President	3	3.79
Manager	39	49.39
Executive	21	26.58
Head of Division	13	16.45
Total	79	100

As for working experience in the banking and finance sector, Table 8 shows that 39 persons or 49.4% of the total respondents had (at the time of doing the questionnaire) more than ten years working experience. The second largest group, 26 persons or 32.9% of respondents, had five to ten years working experience.

Table 8: Banking and Finance Experience

		Frequency	%
Valid	<5	14	17.70
	5-10	26	32.90
	>10	39	49.40
	Total	79	100.00

Table 9: Working Experience in Islamic Banking and Finance

		Frequency	%
Valid	<5	45	57.00
	5-10	28	35.40
	>10	5	6.30
	Total	78	98.70
Missing		1	1.30
	Total	79	100.00

Table 9 shows the respondents' work experience in the IBF sector. The largest group of respondents, 45 persons (or 57% of the total) had less than five years of working experience in this sector – attributable, as before, to the recent establishment of Islamic banks in Malaysia. The second largest group,

28 persons or 35.4% of the respondents, had five to ten years of working experience in this sector.

Tables 8 and 9 together indicate the respondents' working experience in banking. Almost half of the respondents had more than 10 years working experience in the banking industry; 36% had been working in Islamic banking for five years or more. We strongly believe that the respondents' working experience, especially as many had exposure to two different banking systems, was a significant factor in their providing input and answering the questionnaire.

Almost half of the respondents had been working in the banking and finance industry for more than ten years and 33% of them had five to ten years working experience in the same organization. Almost 35% of the respondents had five to ten years working experience in the IBF industry, with five or 6% of the respondents with more than ten years experience in IBF. In addition, the majority of the respondents hold senior positions, such as head of department, senior executive, manager, or president of Islamic banking division in the organization. This indicates that they were established professionals involved in decision-making related to IBF. All that, combined with the respondents educational background (see Table 10), suggests that they can be considered as reliable respondents to the questionnaire.

Table 10: Respondents' Educational Profile

	Frequency	**%**
Bachelor	56	70.88
Master	15	18.98
PhD	-	-
Missing	8	10.14
Total	79	100.00

Table 10 presents the respondents' educational background: 56 respondents held a Bachelor's degree, 15 a Master's. Lastly, 8 respondents did not specify their educational profile and none of the respondents had a PhD degree. The fact that almost 90% of respondents had a Bachelor's degree while 19 had gone further and taken a Master's, implies that there is still room for the majority to upgrade their knowledge.

Table 11. Bachelors Degree Subject Areas

	Frequency	%
Accounting	17	21.50
Business Administration	14	17.70
Banking & Finance	11	2.50
Economics	9	11.40
Islamic Banking/Finance	3	3.80
Islamic Studies/ *Sharīʿah*	3	3.80
Others	14	17.70
Total	71	89.90
Missing	8	10.10
Total	79	100.00

As Table 11 shows, the largest group of respondents (17) holding a Bachelors degree had studied accounting, followed by business administration (14). However, less than 4% of respondents had studied IBF or Islamic Studies/*Sharīʿah,* which means that the great majority of the respondents did not go through formal education or training for the job they were doing. Less exposure and education related to IBF will lead to insufficient knowledge on IBF.

Table 12: Subject Related to IBF

		Frequency	%
Valid	Yes	21	26.60
	No	58	73.40
	Total	79	100.00

The study also asked whether the respondents had taken any subjects related to IBF. Table 12 indicates that only 21 persons or 26.6 % of the sample had done so. The majority (58 persons or 73.40%) had not done so.

Table 13: Frequency of Training or Seminar on IBF Attended

	Frequency	%
Very frequent	9	11.40
Frequent	30	39.20
Less frequent	31	38.00
Missing	9	11.40
Total	79	100.00

Finally, Table 13 shows that bank managers in the sample are not well trained in IBF. Most of the respondents had attended training or seminars on IBF only once a year or less often than that. Evidently, insufficient knowledge of IBF among its practitioners is not good for its future development and prosperity.

IV. Results and Findings

This section presents the results of the findings of the study. First, we discuss the findings on the level of knowledge of IBF among the bank managers, then the factors that have led to those results.

4.1. Level of Knowledge on IBF

Table 14 shows the level of knowledge of IBF classified into five categories namely very good, good, moderate, poor and lastly very poor. This classification is merely indicative and definitely not conclusive, but it serves the present purpose to classify the bank managers' level of knowledge of IBF based on the mean score obtained from the survey. The level of knowledge of IBF was graded by calling 90% score 'very good'; 80–89% as 'good'; 70–79% as 'moderate' and so on. It hardly needs saying that bank managers are professionals involved in decision-making related to IBF and can be expected to possess at least a 'good' level of knowledge on IBF.

Table 14 : Classification of the Level of Knowledge on IBF

Percentage Score	Classification
90–100	Very good
80–89	Good
70–79	Moderate
60–69	Poor
0–59	Very poor

Table 15 presents the summary of findings of the level of knowledge on the general principles of IBF, which shows that the average score on knowledge of general principles of IBF is 82.87%, *i.e.* the level of knowledge of general principles is 'good'. However, it indicates that the respondents' knowledge of advanced issues of IBF such as the concept *Al-Ghurmī* and *Al-Gharar* is 'poor'. This result is attributable to the fact that only a few (in fact, six) respondents had been through formal education in IBF.

Table 15: Level of Knowledge on General Principles of IBF

Q	***Very Good*** (90-100%)	%*	Rank
11	IB is prohibited from investing in any non-*Sharīʿah* compliance stocks	100.00	1
13	IB is allowed to finance construction projects such as casino and wine factory	100.00	2
15	IB can lend money at interest to other banks	100.00	3
3	Islam prohibits gains from interest on loan or from lending activities	98.73	4
12	Investments should only support practices or products that are not forbidden	96.20	5
8	Contracting parties for trading contracts are not bound to specify quantity to be exchanged or delivered	93.67	6
	Good (80-89%)		
2	*Ribā* literally means addition or increase	89.87	7
10	IB must disclose the source of funds, where the funds go, how the funds are being used and how the distribution of profit is structured	88.61	8
14	IB is prohibited from financing construction projects which are against *Sharīʿah* principles even if commercially attractive	87.34	9
1	*Ribā*, usury and interest are similar concepts with the same meaning	82.28	10
	Moderate (70-79%)		
5	Islam prohibits fixed or predetermined return on *muḍārabah* and *mushārakah* contract	73.42	11
6	In a sale contract, it is good enough for one party to have full knowledge of the object of sale that is to be exchanged	70.89	12
	Poor (60-69%)		
7	In the case of *al-wadīʿah* contract, IB is allowed to guarantee a predetermined level of profit	69.62	13
4	The absence of risk sharing (*Al-Ghurmī*) between banks and customers making profit from the financing transaction is unlawful	53.16	14
	Very Poor (0-59%)		
9	Not every sale involving what is unknown or uncertain is prohibited	39.24	15
	Mean	82.87	

Note: '*' indicates the percentage of correctness of responses

Table 16: Level of Knowledge on *Baiʿ Al-Murābḥah Baiʿ Bi-thaman Ājil*

Q	***Very Good*** (90-100%)	%*	Rank
4	BBA is not a loan contract but it is a sale contract with deferred payment	100.00	1
1	BM is one of the methods applied in *muʿāmalah* transactions especially in capital financing and sales	98.73	2
3	BBA means sale with cash	92.41	3
	Moderate (70–79%)		
5	BBA is a short term financing facility provided by IB	78.48	4
2	Buyer does not need to know what the cost is of the goods to be purchased	77.22	5
	Mean	**8**9.37	

Note: '*' indicates the percentage of correctness of responses

Table 16 shows that the average score for knowledge of *al-murābaḥah* and *bayʿ bi-thaman ājil* is 89.37 %, meaning that the respondents have 'good' knowledge of these two concepts. The results also show that the respondents were able to differentiate between BBA and conventional contracts, the former being based on trade and the latter on a pure loan. This may be attributed to the fact that the BBA product has dominated the IBF market for more than 20 years. The study also observed that 18 respondents had insufficient knowledge of advanced concepts of *al-murābaḥah*, for example on the needs for the seller to disclose the cost of the goods to the buyer. This reflects current practices of Islamic banks which only disclose the selling price to the buyer instead of the cost price of the goods.

Table 17: Level of Knowledge on *Al-Mushārakah*

Q	***Very Good*** *(90-100%)*	%*	Rank
1	*Mushārakah* is an *ʿaqd* where two or more parties agree to a joint venture in a business	96.20	1
3	The percentage of profit which is taken by the bank varies from transaction to transaction taking into account the capital and efforts by each party	94.94	2
	Moderate (70–79%)		
4	*Mushārakah* contract will automatically become void if one of the party dies, become insane (*junūn*) or the contract matures	72.15	3
5	*Mushārakah* contract is a well-known instrument for serving short-term financing only	70.89	4
	Very Poor (0–59%)		
2	One party contributes financial capital and the other party expertise/human capital	30.38	5
	Mean	72.91	

Note: '*' indicates the percentage of correctness of responses

As depicted in Table 17, the average score obtained by the respondents on *al-mushārakah* concept is 72.91%, *i.e.* their level of knowledge is 'moderate'. The majority of the respondents had inadequate knowledge of the basic principles of *al-mushārakah* contract, particularly as regards the participation of the contracting parties in the provision of capital and human resource or expertise in the venture. This poor showing may be due to the lack of exposure to this IBF product, which is not popular among Islamic banks in Malaysia. Statistics prepared by Bank Negara Malaysia in 2004 show *al-mushārakah* and *al-muḍārabah* financing constituted only 0.50% of the total financing.

Table 18: Level of Knowledge of *Al-Muḍārabah*

Q	***Very Good*** *(90-100%)*	%*	Rank
5	*Al-Muḍārabah* Investment Account (AMIA) only caters for Muslim depositors	96.20	1
2	IB as *muḍārib*/working partner will receive deposits from the depositors through AMIA and bank will invest that fund in a business or on projects	93.67	2
	Good (80-89%)		
4	As capital provider, depositors are entitled to earn/share the profits from the investments on a pre-assigned percentage	89.87	3
	Poor *(60-69%)*		
3	IB as working partner providing expertise in managing the investment is entitled to enjoy all the profits derived from the investment	62.03	4
	Very Poor *(0-59%)*		
1	*Muḍārabah* contract is only a contract in relation to capital	39.24	5
	Mean	76.20	

Note: '*' indicates the percentage of correctness of responses.

Table 18 presents the mean score of 76.20% for the respondents' knowledge of *al-muḍārabah* concept. As with *al-mushārakah*, the result shows that the majority had insufficient knowledge of *al-muḍārabah*. However, most respondents did seem to be familiar with *al-muḍārabah* Investment Account (*AMIA*), a universal account which caters for Muslim and non-Muslim customers. The poor showing is, again, attributable to lack of exposure to this product: these two products constituted only 0.50% of Malaysia's Islamic Banks' total financing in 2004.

Table 19: Level of Knowledge of *Al-Ijārah*

Q	***Very Good*** *(90-100%)*	%*	Rank
3	To avoid *gharar*, the contracted usufruct or *manfaʿah* of the asset has to be absolutely ascertained	97.47	1
1	*Al-ijārah thumma al-bayʿ* (AITAB), consist of two *ʿaqd* in two different contracts namely *al-ijārah* and *al-bayʿ* contract	92.41	2
	Moderate *(70-79%)*		
4	The usufruct or *manfaʿah* does not necessary need to be lawful as long as it has commercial value	78.48	3
2	For *al-ijārah thumma al-bayʿ* (AITAB), the ownership of the asset will not be transferred to the lessor even though lessee intended to purchase the asset	72.15	4
	Poor *(60-69%)*		
5	The current AITAB runs under the Islamic Banking Act 1983	59.49	5
	Mean	80.00	

Note: '*' indicates the percentage of correctness of responses

Table 19 shows that the average score obtained by the respondents for knowledge of *al-ijarah* concept was 80%. This indicates a 'good' level. However, the results also indicate that 32 of respondents had insufficient knowledge of the rules regulating *al-ijārah thumma al-bayʿ* (*AITAB*) contract. Almost half of the respondents thought that the current *AITAB* product is governed by the Islamic Banking Act 1983; in fact, it is governed by the conventional Hire Purchase Act 1967.

Table 20: Level of Knowledge of *Al-Qarḍ al-Ḥasan*

Q	***Very Good*** *(90-100%)*	%*	Rank
1	*Qarḍ* means loan and *ḥasan* implies good or benevolent	98.73	1
2	*Al-Qarḍ al-Ḥasan* loan expresses the spirit of mutual help (*taʿāwun*) and brotherhood between debtors and creditors	94.94	2
3	In *Al-Qarḍ al-Ḥasan* contract, the creditor has the right to ask the debtor to pay more when he intends to settle his debts	91.14	3
	Moderate *(70 – 79%)*		
5	The increment or *hibah* given out by the creditor is lawful (*ḥalāl*)	77.22	4
	Very Poor *(0 - 59%)*		
4	When a debtor settle his debts, he may pay more to the creditor on a voluntary basis	44.30	5
	Mean	81.27	

Note: '*' indicates the percentage of correctness of responses.

Table 20 shows that the average score for knowledge of *al-qarḍ al-ḥasan* concept is 81.27%, a 'good' level. However, most respondents were not aware that the debtor is expected to pay more on a voluntary basis as a gift (*hibah*) when settling the debt.

Table 21: Overall Mean Score and Rank on Knowledge about IBF

Concept	Mean Score	Rank	Classification*
Al-Murābaḥah/BBA	89.37	1	Good
General Principles on IBF	82.87	2	Good
Al-Qarḍ al-Ḥasan	81.27	3	Good
Al-Ijārah	80.00	4	Good
Al-Muḍārabah	76.20	5	Moderate
Al-Mushārakah	72.91	6	Moderate
Total Average Score	80.44		Good

Note: '*' Please refer to Table 14 for classification of knowledge of IBF

Table 22: Islamic Financing Contracts, December 2001 to 2004

Financing Contract	2001		2002		2003		2004	
	RM Million	%	RM Million	%	RM Million	%	RM Million	%
Al-Murābaḥah/BBA	15595.32	55.30	20708.78	56.40	2620364.67	53.90	32935.14	56.90
Al-Ijārah	7473.34	26.50	9656.76	26.30	1409843.7	29.00	13891.80	24.00
Al-Istiṣnāʿ	253.81	0.90	477.33	1.30	29169.18	0.60	694.59	1.20
Al-Muḍārabah and Al-Mushārakah	394.82	1.40	257.02	0.70	24307.65	0.50	289.41	0.50
Other	4484.01	15.90	5617.81	15.30	777844.8	16.00	10071.56	17.40
Total	28,201.30	100	36,717.70	100	48,615.30	100	57,882.50	100

Source: Annual Report. *Islamic Financial System: Performance of Islamic Banking System*. Bank Negara Malaysia

Table 21 shows a good level of knowledge of *al-murābaḥah/bayʿ bi-thaman ājil* concept, a result explicable from Table 22 showing those contracts to be the most popular financing tools in Malaysia. These contracts were dominant through the period 2001 to 2004, constituting 56.9 % of the total financing in 2004, followed by *al-ijārah* at 24% in the same year. By contrast, *al-mushārakah* and *al-muḍārabah* financing are not popular, constituting only 1.4% of the total financing in year 2001 and going down in the following years 0.5 % in 2004. Knowledge of *al-murābaḥah* and *al-bayʿ bi-thaman ājil* concept is undoubtedly related to the current practices and the products and services offered by Islamic banks in the financial market: these are the only products with deferred payment available in the market and the bank managers are much better exposed to the concepts behind these contracts than others (Rosly, 2005).

4.2 Factors influencing the level of knowledge on IBF

The further objective of this study is to explore and examine the factors influencing the level of knowledge of IBF among bank managers.

Table 23: Pearson Correlation Analysis

Pearson Correlation	Knowledge on IBF	Sig. (2-tailed)	N
Knowledge on IBF	1.000	.	79
Level of education	-0.071	0.524	77
Attending training	0.356**	0.001	79
Frequency attending training programmes	0.109	0.370	70
Years of service in existing organization	-0.206	0.069	79
Banking & finance working experience	-0.098	0.392	78
IBF working experience	0.044	0.704	78

Note: '**' Correlation is significant at the level 0.01 level (2 tailed)

Table 23 shows the correlation or relationship between the dependent variable, namely knowledge, and the independent variables, namely level of education, attending training programmes, frequency of attending training programmes, years of service in existing organization, banking and finance working experience and IBF working experience.

The Pearson Correlation in Table 23 shows that only three of the independent variables have positive relationships with the dependent variable, namely attending training programmes, frequency in attending training programmes and IBF working experience. These three factors were examined as factors influencing the level of knowledge of IBF. However, out of the three, only one indicated a significant relationship with the level of knowledge of IBF, namely attending training programmes (r=0.356). The other two show positive relationships with the level of knowledge but the Pearson Correlation does not indicate a significant level.

The Pearson Correlation shows a positive relationship between attending training programmes and level of knowledge of IBF. The study indicates that the bank managers attending a training programme improved their knowledge on IBF. Accordingly, the hypothesis on attendance of training programmes for this study is accepted at 0.01 significant level.

Table 24: Knowledge Score According to Banking and Finance Working Experience

	Less than 5 years	**5 to 10 years**	**More than 10 years**	**Total**
Below 80%	4 (12.5)	12 (37.5)	16 (50.0)	32 (100)
81-84%	5 (16.67)	8 (26.67)	17 (56.66)	30 (100)
85% **and above**	5 (31.25)	7 (43.75)	4 (25)	16 (100)

Table 24 shows that 32 of the total respondents scored below 80%. Of the 32 respondents, 12 respondents had 5 to 10 years working experience and 16 respondents worked in banking and finance for more than 10 years. This suggests that working experience in banking and finance may not enhance their knowledge on IBF. Pearson Correlation in Table 23 shows a negative relationship between these two variables (r=0.098). The negative correlation indicates that the duration of working experience need not mean an increase in the respondent's knowledge score on IBF. Job tenure may not be a good parameter for measuring an individual's level of knowledge. Rather, an individual will learn from the special tasks (number and difficulty) assigned to and performed by them: task level exposure is more important than job tenure in improving the level of knowledge. Accordingly, this research finding supports the assertion that working experience in the banking

and finance sector may not be a good predictor of an individual's level of knowledge.

On the other hand, the Pearson Correlation (Table 23) shows a positive relationship between working experience in IBF and the level of knowledge of IBF among bank managers, but one that is weak ($r = 0.044$) and insignificant relationship. Accordingly, the hypothesis that the longer the working experiences in banking or IBF sector, the better the level of knowledge on IBF among the bank managers is rejected.

Table 23 shows that the level of education has negative relationship with the level of knowledge of IBF among the bank managers. This is inconsistent with the proposition, where it was expected that the higher the level of education of the bank managers, the better would be the level of knowledge of IBF. Previous studies by Metawa and Almossawi (1998) and Norlida *et al.* (2004) showed that education had a positive relationship with the level of awareness or knowledge of IBF among the respondents.

Table 10 shows that 89.9% of the sample (71 respondents) had a Bachelors degree in various disciplines – business administration, accounting, economics, IBF, Islamic studies/*Sharīʿah* and others. Out of 56 respondents with Bachelor degree, only 6 had specialized in IBF and Islamic studies/*Sharīʿah*. In addition, the respondents were asked to indicate whether they had taken subjects relating to IBF during their studies: 73.4% indicated that they had not done so. The result indicates that the majority of the respondents were not well exposed to IBF knowledge during their studies. That would explain why the hypothesis on the level of education turned out to be untrue. The result is consistent with studies by Bahrom (2004) and Deng *et al.* (1999). Hassan found that the level of education of respondents did not have any impact on their level of knowledge of IBF. Deng *et al.* (1999) showed that the level of education of the bank branch managers has no connection at all to their perceived functional roles.

V. Conclusion

The study has shown that, overall, the bank managers possessed 'good' knowledge of general principles of IBF and of *al-murābaḥah/BBA*, *al-qarḍ al-ḥassan* and *al-ijārah* concepts. However, their knowledge of *al-mushārakah* and *al-muḍārabah* concepts was only 'moderate'. The likely reasons for this are: bank managers are not well educated and trained in IBF – only six or 7.6% of the sample were educated in IBF; the majority of them had attended training or seminars related to IBF only once a year.

Also, the current practices of Islamic banks in Malaysia may be a principal factor in limiting the bank managers' knowledge since the credit-based products dominate the IBF market while equity-based products (such as *al-mushārakah* and *al-muḍārabah*) are far less popular.

The study has found that attendance at training programmes was the most significant means of improving the bank managers' level of knowledge of IBF. However it also found that working experience and the level of education played a measurable but far less significant role than training in influencing an individual's level of knowledge. Overall, we believe that the three factors together, namely training programmes, level of education, and working experience, all are relevant to the bank managers' level of knowledge of IBF.

Finally, the study indicates that more focus and improvement of education and training on advanced aspects of Islamic banking and finance are urgently needed. This finding is important for policy-makers such as central banks. As Malaysia intends to become the international hub of the Islamic financial industry, knowledge of Islamic banking and finance among the bank managers is critical to realizing that goal. In particular it is essential if the industry is to evolve and prosper. Knowledge of the foundation of Islamic banking practises *i.e. Sharīʿah* and *Fiqh al-Muʿāmalāt* is a pre-requisite if the banks are to introduce innovative Islamic financial products. In addition, only if the bank managers are knowledgeable can they inform and educate their customers, which in turn will attract new customers and enhance the market share of Islamic banks. This is especially important in a dual financial system like Malaysia where Islamic financing is practised in parallel with conventional banking.

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