

BEHAVIOURAL INTENTION OF LIBYAN BANK
EMPLOYEES TOWARDS TRANSFORMATION TO THE
ISLAMIC BANKING SYSTEM

BY

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ABSTRACT

The transformation to the Islamic banking system is one of the most challenging and critical issues faced by the Libyan conventional banking sector. Nevertheless, for the process to be successful, bank employees would have to play a prominent role in achieving this goal. This study investigates the behavioural intention of Libyan bank employees towards supporting the transformation to a full-fledged Islamic banking system in Libya. In particular, this research adopts the theory of planned behavioural (TPB) to understand the behavioural intention of Libyan bank employees towards the transformation process by testing the effects of attitude, subjective norms (social influence) and perceived behavioural control on employees' behavioural intention as well as, religiosity, government support, and knowledge of Islamic banking products in the model of study. Furthermore, the role of training was examined to understand its moderating effect on the relationship between knowledge of Islamic banking products and behavioural intention. Moreover, this study employed a survey questionnaire of 323 employees of 10 conventional Libyan banks. To analyse this relationship, the study adopts a quantitative approach using Structural Equation Modelling (SEM). The findings of this research revealed that attitude, religiosity and subjective norms have a significant positive influence on the behavioural intention of Libyan bank employees. Also, the findings revealed that the attitude towards transformation is the most important factor that determines behavioural intention among bank employees, which clearly indicates that they are likely willing to support the transformation process and adopt Islamic banking. In the same context, the study suggested that religiosity or (religious influence) and subjective norms (social influence) play the determining role of behavioural intention towards the transformation process of shifting to a full-fledged Islamic banking system in Libya. The findings also indicated that the theory of planned behavioural (TPB model) is a valid model in predicting banking employee's behavioural intention to transform into Islamic banking in Libya. On the other hand, the findings revealed that perceived behavioural control, government support and knowledge of Islamic banking products were found to have an insignificant influence on employees' behavioural intention. This indicates the lack of technical infrastructure regarding the adoption of Islamic banking within the Libyan banking sector. In addition, the findings revealed that training is not statistically significant as a moderator between knowledge of Islamic banking and behavioural intention. Therefore, the lack of training and technical infrastructure will be the subject of further research to assist policymakers in designing a smooth transformation process. These findings help decision-makers to develop a strategy for the transformation process by utilizing the factors that contribute to a smooth transformation effectively. This research provides insights and guidance for banks' managers to manage employees' readiness to support the transformation process and avoid resistance during the time of transformation.

خلاصة البحث

التحول إلى نظام مصرفي إسلامي من التحديات والقضايا الحساسة التي تواجه القطاع المصرفي التقليدي في ليبيا. ولكن من أجل تحقيق نجاح العملية، ينبغي أن يؤدي موظفو المصرف دوراً بارزاً من أجل الوصول للهدف. هذه الدراسة تبحث عن الرغبة السلوكية لموظفي القطاع المصرفي الليبي من أجل دعم عملية التحول إلى نظام مصرفي إسلامي بالكامل في ليبيا. تستخدم الدراسة نظرية السلوك المخطط (Theory of Planned Behaviour TPB) من أجل فهم الرغبة السلوكية لموظفي المصارف الليبية في عملية التحول، وذلك من خلال اختبار الأثر المترتب من السلوك، والمعايير الشخصية (مثل التأثير الاجتماعي)، والضبط الاجتماعي المتوقع على الرغبة السلوكية للموظفين. بالإضافة إلى ذلك، تنظر الدراسة إلى عوامل أخرى كالتدين، والدعم الحكومي، والمعرفة بمنتجات الصيرفة الإسلامية في منهج الدراسة. كذلك نظرت الدراسة إلى دور التدريب لفهم تأثيره كعامل وسيط في العلاقة بين فهم منتجات الصيرفة الإسلامية والرغبة السلوكية. من أجل تحليل هذه العلاقة، استخدمت الدراسة الأسلوب الكمي من خلال تطبيق نموذج المعادلات التركيبية (Structural Equation Modelling (SEM)). كشفت نتائج هذه الدراسة أن السلوك، والتدين، والمعايير الشخصية لها تأثير بارز وإيجابي على الرغبة السلوكية لموظفي المصارف الليبية، وهذا يعكس أن الموظفين يرغبون في دعم عملية التحول إلى نظام صيرفة إسلامي. وفي نفس السياق، أظهرت الدراسة أن التدين، والمعايير الشخصية (مثل الأثر الاجتماعي) يلعبان دوراً محورياً في الرغبة السلوكية من أجل التحول إلى نظام مصرفي إسلامي بالكامل في ليبيا. كذلك، أظهرت النتائج أن نظرية (TPB) فعالة في التنبؤ بالرغبة السلوكية لموظفي قطاع الصيرفة تجاه التحول إلى نظام مصرفي إسلامي في ليبيا. ومن جهة أخرى أظهرت الدراسة أن الضبط السلوكي، والدعم الحكومي، والمعرفة بمنتجات الصيرفة الإسلامية ليس لها دلالة إحصائية في الرغبة السلوكية للموظفين. وهذه إشارة إلى غياب البنية التحتية الفنية في سبيل التنبؤ بنظام مصرفي إسلامي داخل النظام المصرفي الليبي. كذلك، أظهرت النتائج أن التدريب لم يكن عاملاً مؤثراً إرشادياً بين المعرفة بالصيرفة الإسلامية والرغبة السلوكية. لذا سيكون نقص البرامج التدريبية والبنية التحتية التقنية مجال بحث جديد يساعد على تصميم سياسات تساعد على التحول السلس نحو الصيرفة الإسلامية. نتائج الدراسة الحالية تقدم رؤى قيمة للمديرين في البنوك التجارية الذين يخططون للشروع في عملية التحول. كذلك، تقدم نتائج الدراسة رؤى إرشادية لإدارات المصارف تمكنهم من إدارة موظفيهم بحيث يزيد استعدادهم لدعم عملية التحول وتجنب مقاومة التغيير أثناء العملية.

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DECLARATION

I hereby declare that this thesis is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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LIST OF ABBREVIATION

AAOIFI	The Accounting and Auditing Organisation for Islamic Financial Institutions.
AMOS	Analysis of Moment Structures
AVE	Average Variance Extracted
CBL	Central Bank of Libyan.
CFA	Confirmatory Factor Analysis
CFI	Comparative Fit Index
CR	Degree of Freedom Ratio
EFA	Exploratory Factor Analysis
GOFI	Goodness-of-Fit Index
GS	Government Support
IFI	Incremental Fit Index
INT	Intention towards transformation to full-fledged Islamic banking system.
KNOW	Knowledge of Islamic banking products
PBC	perceived behavioural control
R ²	R-squared values
RMSR	Root Mean Square Residual
RL	Religiosity
SEM	Structural Equation Modelling.
SN	Subjective Norm
SPSS	Statistical Package for the Social Sciences
TBP	Theory of planned behaviour
TRA	Training

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Islamic banking and finance has grown and continues to grow rapidly towards becoming a valid alternative and competitor to the global conventional banking system (Khan and Bhatti, 2008). Islamic banking is steadily moving and growing in several countries where the conventional banking system exists like the United Kingdom, Luxembourg and Australia.

Moreover, there are more than 300 Islamic financial institutions across more than 50 countries. Also, there are over 250 funds which offer financial investments compliant with the Shariah. The current growth of the Islamic financial industry in global financial markets is about 15% to 20% per annum (Sole, 2007). This industry is likely to grow over the next few years to an estimated 3 trillion USD (Amine and Ami, 2016).

The above statistics indicate increased awareness of Islamic banking and financial services that have created significant demand for Shariah-compliant financial products. This is prompting banks that are highly capitalised to convert to Islamic banking, whether by adopting full-fledged Islamic banks or by applying Islamic banking through the window systems (Alani and Yaacob, 2012). The full transformation process to an Islamic banking system indicates the financial institution's obligation and intention to operate and practice financial products based on the principles of Islamic law for enhancing its credibility (Sole, 2007). Furthermore, the process of conversion to Islamic banking involves abandoning all practices that are interest-based (*riba*) and adopting a Shariah-based system that is permissible (*halal*)

(Shafii, Shahimi and Saaid, 2016a). In the same regard, there is an increasing number of banks that convert to Islamic banking in the Middle East and North Africa such as Saudi Arabia's Bank Al-Jazeera that recently wholly converted to a fully Islamic bank. The National Commercial Bank has planned to convert entirely to an Islamic bank in the next five years, and there are such kinds of plans in several countries like the UAE and Kuwait (Khan and Bhatti, 2008).

Libya is no exception to this trend. Due to the significant proportion of Muslim population in Libya, the desire for practising Islamic banking has notably increased in the country, especially after the change of the political administration that took place on 17 February 2011. In order to actualise this, in 2013 Libya enacted Act No. 1 that bans the use of interest in the entire whole financial system, including charging or paying interest on deposits and loans. Moreover, the Act opens the door for financial institutions to convert to Shariah-compliant banking. This Act was expected to be enforced by the beginning of 2015 (OECP, 2016).

Many obstacles prevented the application of this legislation and thus prevented the transformation process of conventional Libyan banks to an Islamic banking system. Firstly, the environment in Libya differs from that of other Middle Eastern and GCC countries. Also, Libya does not have sufficient experience in dealing with the Islamic banking system. Additionally, the Islamic banking system is a new event in Libya and practised only by a handful of government-owned conventional banks that offer only *Murabaha* products together with conventional financial services. The transformation process to Islamic banking in Libya has obstacles and challenges that distinguishes this country from other Muslim countries that have been practising Islamic banking for more than three decades (Shafii, Shahimi and Saaid, 2016b). On the other hand, the transformation process is not an easy task. According to Lawrence (1954), one of the

most critical factors that contribute to failure in changes is the lack of readiness and support among employees towards such change.

This situation raises several questions, such as what is the destiny of the transformation process from the conventional banking system to the Islamic banking system in Libya? Also, what is the role of bank employees towards the transformation to Islamic banking? Moreover, what is their perception, attitude and intention towards transformation to Islamic banking?

1.2 MOTIVATION OF THE STUDY

The motivation of this research stems from the sensitive situation in the Libyan banking system after 2013. Act No. 1 of 2013 established the prohibition of dealing with interest in the banking sector. This Act was expected to be implemented by 2015. Act No. 1 of 2013 created a plethora of problems and challenges for the Central Bank of Libya (CBL) as well as the conventional Libyan banks. For example, Jamhuriya Bank's total annual income before 2015 was over LYD 240 million but fell to only LYD 20 million in 2015 due to the immediate implementation of Act No. 1 (Jamhuriya Bank, 2016).

Similarly, Al-Wahda Bank before the enactment of the Act on banning interest in 2013, granted loans (both bank and retail loans) of about LYD 1.8 billion with an average interest rate of 6.5% but all these transactions stopped and were transformed to Qard Hassan. The bank was able to realise an average annual profit of only 1.5% after that period, which was hardly enough to cover operational costs. These critical losses mandated the Libyan House of Representatives to postpone the implementation of the Act until 2020 by issuing Act No. 7 of 2015 which stated that all provisions of Act No. 1 of 2013 will be effective by January 2020, particularly among corporations and institutions.

Thus, introducing alternative products to replace interest-based products was a critical issue. Also, Libya being an Islamic country, should consider Islamic banking as a better alternative than the conventional banking system in providing financial services to the community. However, the transformation to an Islamic banking system is not an easy task for the Libyan banking system. Currently, only *Murabaha* products are being offered by a few Islamic windows and branches across the country.

Previous research (Strebel, 1994, Waddell & Sohal, 1998, Oreg, S., & Berson, 2011) emphasises that one of the most significant factors that influence the success of any change inside an organisation is its employees' willingness to adopt the change process. Thus, ignorance of this factor may lead to failure during the transition process (Saaid, 2016). Besides, determining the failure or success of organisational changes depends on the employees' change-supportive behaviours towards the change (Kim, Hornung and Rousseau, 2011; Rafferty, Jimmieson and Armenakis, 2013; Straatmann and bei Warendorf, 2018). Therefore, this study aims to test and identify the intention of Libyan bank employees to support the transformation of the existing conventional banking system to a full-fledged Islamic banking system (the transformation process). We set out to achieve this by adopting the theory of planned behavioural (TPB) which was found to be an excellent predicting model for measuring and understanding the behaviour of employees and their intention to support organisational change by many researchers (Janssen, 2015; Jimmieson, Peach and White, 2008). Furthermore, this research investigates the role of other factors (i.e. religiosity, government support and knowledge of Islamic banking products), which are expected to influence the employees' intention and willingness. Moreover, we test the role of training as a moderator to a knowledge of Islamic banking products.

This study is considered the first study that addresses the role of knowledge of Islamic banking products among Libyan bank employees. The study hopes to be a guide for future research on the Islamic financial system in Libya.

1.3 PROBLEM STATEMENT

As mentioned above, the sudden and dramatic application of Act No. 1 2013 caused several challenges for the Libyan banking sector. The abolishment of bank interest appears to have created an opportunity for the adoption and transition to Islamic banking. However, the rescheduling of the enforcement of this Act until 2020 indicates the floundering in the Libyan banking sector as a whole regarding the transition to Islamic banking. Unfortunately, no conventional bank has converted to a full-fledged Islamic banking system. However, some Islamic windows and units are operating, but are insufficient in meeting the market demands. In fact, Islamic banking and finance is still in its infancy and are far from playing a significant role in the Libyan economy. Several issues are attributed to this setback, including inadequacy and ambiguity within Act No. 1 of 2013, as well as implementation constraints and more importantly lack of knowledge and skills of Islamic banking products. Furthermore, the majority of employees do not have experience regarding Islamic banking (Sabri Elkrghli & Abtesam Yahya, 2017). They also lack practical training to enhance their skills and knowledge, and most Libyan commercial banks do not have a specific strategy for transitioning to Islamic banking (Baej, 2013).

On the other hand, the role of the government in the transformation process in shifting to the Islamic banking system in Libya is still unclear. According to Amin et al. (2011), government support has a major effect on the development of Islamic banking products. Without such support, Islamic banking products cannot be

sustainable and competitive in the markets. Thus, there is a need to study the role of government in supporting the transformation of Islamic banking in Libya.

In the same regard, all of the abovementioned issues have caused a rushed decision in abolishing banking interest and heading towards a full-fledged Islamic banking system without considering the obstacles of the transition process as well as the necessities which must be available before making such a change. One of the essential issues that yet to be addressed is the ability of Libyan banking employees to practice full-fledged Islamic banking services and products in addition to implementing the process of transformation to the Islamic banking system.

Bank employees also play a prominent role in ensuring that the change is successful. The conventional banks in Libya should be aware that the role of employees is critical to the successful transition to the Islamic banking system. According to studies related to the change process (Saa'id, 2016; Strebel, 1994; Waddell and Sohal, 1998), the success of any change is dependent on the employees' willingness to adopt and support the change process. Furthermore, Saa'id and Shafii (2013) assert that a vital factor that conventional banks should consider before beginning the transformation process to Islamic banking is to examine the employees' ability and their perceptions towards the transformation to the Islamic banking system.

Therefore, there is a need to measure the behavioural intention of bank employees in Libya towards transformation to the Islamic banking system. Such a study will be useful in determining the factors responsible for the willingness of employees towards going along with the transformation process. Several studies have confirmed the validity of the TPB in predicting the behavioural intention of employees towards change in organizations such as Kashif, Zarkada and Thurasamy (2017), Janssen (2015), Innan and Moustaghfir (2012), and Jimmieson, Peach and White (2008). This

study is going to use three unique factors from TPB theory which are Attitude, subjective norms, perceived behavioural control. These factors are used frequently in previous researches to predict human behaviour. In the context of Libya, positive bank employees' attitude is considered a prerequisite before the transformation to Islamic banking. As such, all conventional banks in Libya should be aware that employees play a significant role in a smooth and successful transformation from conventional to Islamic financial system (Saaid & Shafii, 2013). In this context, Saaid (2016) suggested that it is necessary to gauge bank employees' attitudes toward transformation to the Islamic financial system in the country. Furthermore, social influence of Libyan community toward abolishing banking interest (riba) was the most important factor that paved the way to the issuance of the Act no1, 2013 (Alhajam, 2013). Thus, it is important to empirically test to what extent perceived social influence from others lead to banking employees' engagement to support the transformation process in Libya. Pertaining to technical aspects, Libyan banking sector faces several issues such as lack of a comprehensive framework for a transformation process, resistance to transformation, lack of human resources, the difficulty of applying Shari'ah-compliant products in the conventional banking system, absence of regulations and legislation related to the transformation process. Also Most of the managers of Libyan commercial banks are not qualified enough to lead the transformation process and have very limited understanding and experience in Islamic finance (Saaid, 2016).

All these issues create a lack of confidence among the employees regarding the transformation. Based on that, there is need to test the role of perceived behaviour control (PBC) among employees in order to know to what extent employees believe in the possibility of transforming the conventional banking system into an Islamic banking system in Libya by 2020.