Barriers to Successful Implementation of Islamic Banking System in Pakistan

Maqsood Ali Jamali*
Danish Ahmed Shaikh**
Muhammad Munir Ahmedani***

Abstract
Banking industry has become everyone's need in today's world and this industry is establishing itself to entertain as many people as they can no matter they are kids, youth, or old, this industry is trying to get as much of the market as they can and, is introducing new concepts and products. Islamic Banking is a whole new concept of banking with the ideology of Islamic background and targets the followers of Islam; it is expending day by day however still lack in areas which are becoming barriers to successfully implementation of Islamic Banking system. This study will look after those areas where the Islamic banks lack and are unable to compete with conventional banks. In order to work, questionnaire were circulated for collection of data, sample size of the data was 204 and Likert scale was used for the formulation of questionnaire, Simple random sample technique, was used while collection of data was done. One sample T-test is applied to find the appropriate and accurate results. It is found that all three variables 1. Awareness of Islamic Banking 2. Service Quality 3. Narrow Branch Network, have a significant results, which means all these are the area where Islamic banking system lacks. This research is conducted to bring out the clear picture of the reasons why Islamic banks are not as efficient as conventional, so that Islamic banks can work over it in order to sustain in the Banking Industry.
Key words: Islamic Banking, Awareness of Islamic Banking, Service Quality, Narrow Branch Networking

1.   Introduction
1.1   Background of the Study
The aim of conducting this study is to understand the barriers perceived by the people who are users of Islamic Banking and also know the perception of those who are not the Islamic Banking users, we'll also find out the major barriers coming in the way of Islamic Banking usage. We'll also study about the customer's point of view what they think about the Islamic Banking system.
 Barriers in Islamic Banking system could be the narrow branching, the inconvenient and difficult to find branch locations of Islamic Banks, also people may think of it more as a religious practices rather than business and banking activities and transactions also we'll find what the criteria of people are when it's about choosing between Conventional Banking and Islamic Banking. Apart from these finding this research will also be an addition to the limited and finite knowledge and information about the Islamic Banking system.

1.2 Problem Statement
There are many researches done on the Islamic banking system, studying and elaborating different aspect of it for example one of the research shows the comparison of commercial

---

* Shaheed Benazir Bhutto University, Shaheed Benazirabad, Pakistan
** Iqra University Karachi, Pakistan
*** Govt Degree College Moro, Sindh, Pakistan

and Islamic bank in respect to the liquidity risk management (Megeid, 2017) also another research was conducted on Islamic bank's non-financial activities elaborating about their profits gaining due to these activities. (Hajer Zarrouk & Moualhi, 2016) Same as another study conducted on Islamic banking investigates about the Islamic banking windows introduced by the conventional banks in order to keep their market. (Al-Khatib, 1999). Whereas no research was found that investigates about the barriers for successful implementation of Islamic Banking System in Pakistan.

1.3   Purpose of the Study
As we are conducting this research to find out the significance of the variables i.e; awareness of Islamic banking, service quality & narrow branch network (Barriers to Islamic Banking), the purpose of figuring out these barriers is to give a clear picture that what are the problems which are affecting the acceptability and adoptability of Islamic banking among the people. This research will help the Islamic banks to improve their mentioned above areas which will help them to bring more customers.

1.4   Significance of the Study
Banking transaction is playing an important part in the human's life, for every single money transaction banks have the products & offerings. Pakistan being an Islamic country people are very concern about the transactions products they utilize should be halal and should be permitted by Islamic law. Keeping this factor in the view, banking industry look a step further by introducing Islamic banking systems, in Islamic banking they offer all the products and do all the products pursuant to the Islamic law. To keep this factor the most important concern, all the important decisions are made by the board of directors and Sharaiah Supervisory Board (SSB). For example: handling of any new product or anything, the permission of these two authorities is important. The main target market of Islamic banking is the people who are followers of Islam, to make them feel seeing in accordance to the religion while making any banking.

The main objective of this investigation is to find out the barriers which are effecting the implementation of Islamic banking, or we can say that, to find out the main reasons behind the fact that conventional banks are more active and are in practiced by the consumers than the Islamic banks. The purpose is to find the accurate reason, so that can resolved the gap can be filled, it is important for followers of Islam, to understand the importance of the Islamic banking and how its concerned in regards to the religious believe.

Objectives of the study:
1.   To examine the effect of awareness of Islamic banking in successful implementation of Islamic banking system.
2.   To evaluate the effect of narrow branch networking in successful implementation of Islamic banking system.
3.   To assess the effect of service quality in successful implementation of Islamic banking system.

Hypotheses

Following hypotheses have been developed for the conduct of this study.

H1: There is a significant effect of awareness of Islamic banking in successful implementation of Islamic banking system.

H2: There is a significant effect of narrow branch networking in successful implementation of Islamic banking system.

H3: There is a significant effect of service quality in successful implementation of Islamic banking system.

Research Framework
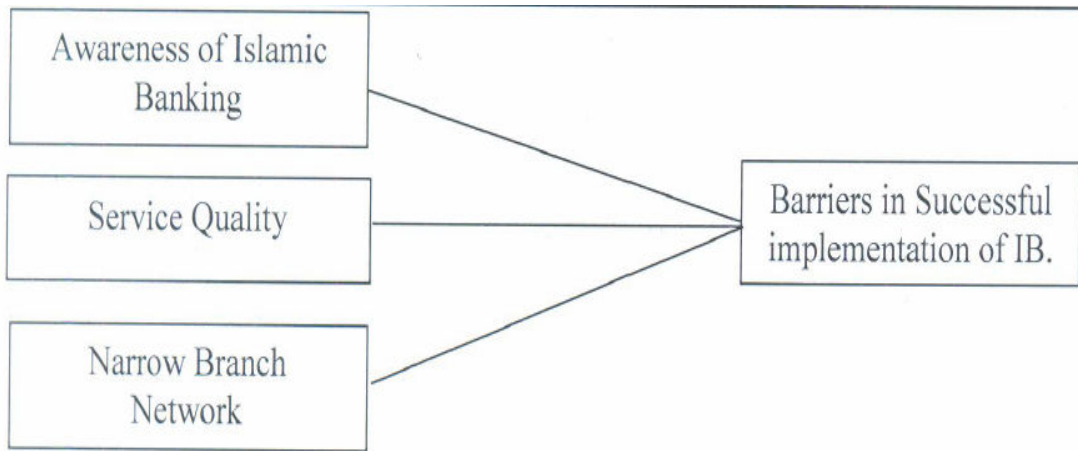
2.   Literature Review
2.1 Empirical Reviews

One of the most important activities of this modern world is the banking transactions; each and every country on the globe is in the practice of this activity whether on the daily human's need or no matter on business level, it has become very important and common among the people of this world. Banking is making the money transactions easy for world its getting the matter of finger tips now. At this time of modern and updated world of technology there is another concept in the banking industry called "Islamic Banking". Islamic Banking is the banking system that is function pursuant to the Islamic Shariah Laws. Two major concepts this banking system follows are 1. Profit and loss sharing and 2. Prohibition of interest also called Riba in Islamic term. Islamic banking is not as common as conventional baking system however it is filling up the gap as the years are passing, large number of banks are offering the Islamic products.(Md Abu Saleh & Gaur, 2017).

Looking at the fact that Islamic baking is being recognized by the banking system, the biggest advantage is the compatibility pursuant to the religious norms, life style, value and practices and giving the sense to people (believer of Islam) that the most common transaction they do on daily basis could be done with totally Halal manners with the instructions and guidance of Shariah Law which make them more habitual of using this banking system. (Kaabachi & Obeid, 2016). Pakistan being an Islamic country gives the biggest advantage to Islamic banking industry to make business over here.

According to one of the study conducted it is seen that one of the biggest reason of getting

the business is compliance of Shariah law, however if the customers find any kind of violation they intend to move to other Islamic bank rather sticking to the same. (Lee & Ullah, 2011). Islamic baking follows Shariah as mentioned above, Shariah is based on Holy Quran and Hadith which tells us the right doings and sayings of Prophet Muhammad (PBUH) the believer of Islam are fascinated by the actions and saying of Prophet Muhammad (PBUH) and Islamic baking do financial transactions pursuant to his recommendation given in Shariah Law, follower of Islam believe that whatever is suggested by Prophet Muhammad (PBUH) is lawful and ethical, this is why Islamic banking is grabbing the attention of Muslim world more.

Pursuant to one of the study conducted on Islamic banking there are three major products i-e Musharakah, Mudarabah and Murabaha. (Dixon, 1992). Explaining the three products Musharakah is the business investment which is done by the bank and the company both. The profit and loss according to the mutual considered percentage between the bank and company. Whereas Mudarabah is the business investment which is done wholly and solely by the bank and company contribute their entrepreneur services, in the case of profit it is shared pursuant to the pre-arranged percentage decided for each party, where on the other hand when it comes to the loss, it is beard by the bank only and entrepreneur get no reward for the services. The third and last product discussed in the study was Murabaha, it is also called the (Ijarah) in Islamic term, which means that bank provides asset to the customers instead of money, the assets they give are on rental basis after a certain time of period the bank offers the asset to customer on the settlement with lump-sum amount.

According to study done in Qatar it is seen that there are three major barriers in the establishment or awareness of the Islamic banking system i-e lack of empowerment, centralization and lack of transformational leadership. (Chaker & Jabnoun, 2010). The reason behind the lack of empowerment in Islamic banking is based totally on Shariah law therefore each and every transaction or product or processes they do are totally done with the acknowledgment of the higher management and authorities in order to make it sure there is no violation of Islamic law is done. Due to this we can see that the acknowledgment or the permission of higher management is involved in any kind of activity they do, it seems to be centralized model of the organization. No empowerment is seen in order to make sure everything remains pursuant to the bank's policy and the Shariah law. The last barrier discussed in the study was lack of transformational leadership which means that the leaders or the higher authority of Islamic banks do not give any priority to discuss any kind of amendments in the processes or product reason behind whatever products they offer or whatever procedures they make for financial transaction are according to the Islamic law in order to make no changes in those laws or not to violate the Shariah laws, they prefer not to make any discussions regarding the product and procedures.

Another study on Islamic banking tells us that each and every decision and activity which is made is governed by the board of directors and most importantly by Shariah Supervisory Board (SSB). (Khuram Shahzad Bukhari & Ahmed, 2013). It is important for the Islamic banks to work on the financial transactions under the guidance and governance of Shariah law and Shariah supervisory board respectively, because if they avoid doing this so it can and up losing their customers in the case of violation of Shariah law in any transaction.

3 Research Method

Islamic banking is a banking system which is introduced specially for the followers of Islam, however, due to its introductory phases, there are few barriers which shows that Islamic banking is not efficient enough as much as the conventional banks. One of the major problem is the awareness, people are not aware of the facts and the importance of the Islamic banking; some of the people have no idea at all about the difference between conventional banks and Islamic banks. Secondly, the level of the quality service conventional banks provided to the customers is outstanding and Islamic banks have to be really efficient to match their level. Last but not the least, narrow branch networking the chain of conventional banks are expanding like anything, in order to make the customer's satisfy, whereas the Islamic banks are not available, it is difficult for customers to reach.

3.1 Research Approach

The research approach which is used in this study is exploratory research, which means that research is answering the questions, what are the barriers which can be seen in the adoption of Islamic banking system

3.2 Research Design

The research design of the study is correlational design which means that the study shows the effect of independent variables on dependent variable.

3.3 Sampling Design

The Target population for this research isIQRA University Students (Both Salaried and non-salaried), Banking Industry & Professional Executives.

Sample size is the method or act of choosing the number or count of observations. For this research, two hundred and four (204) observations are used for data. Out of which 130 were male respondents whereas 74 were Females, according to the educational level the large number were of Master with 92 respondents and the rest 113 were the others like graduates, intermediates, matriculation and others.

The sampling technique used in research is based on Random Sample Techniqueit is the most reliable and straightforward technique among all, every single item of the population have the equal probability of being selected as a sample. The logic behind using this technique was to reduce bias for the sample and have as much accurate results as we can.

3.4 Instrument of Data Collection

Instrument or tool is, which is used for collection of data from the respondents, it's important that the instrument used should be very suitable with the research. The instrument used in this study is questionnaire following Likert scale. It helped us to gather the data which is appropriate for true results.

Validity of the statistical test is very important and plays a significant role in the research because the inferences and the analysis of the data are based on the reliability of the gathered data. Pursuant to the statistical reliability test if the value of Cronbach's Alpha is above .70 the data is said to be good and reliable, look at the table 3.1 which is showing the Cronbach's Alpha value for the data used in this research, the value is .89 which shows that

the data, is good and reliable for the research to be done.
Table 3.1

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized items	N of items
.892	.892	20

3.5 Procedure of Data Collection
Survey method was used for this research in order to conductprimary data; it is the type of method in which the collection of data is done directly for the first time and directly from the respondents. There are number of ways to collect through primary data, it is particularly used for the survey like it's done in our research and also for the new and descriptive research.

3.6 Statistical Technique
One sample T test is a statistical test run on SPSS, it is used when the data is collected is in two different forms, quantitative and qualitative, the data used in this paper were collected through a questionnaire, in which some of the variables were studied through different questions and some on the data for example the income, occupation and gender, different slabs were defined.

Results
4.1 Descriptive Profile of the Data
The results of the thesis have found with the help of 204 sample, people from different social classes and demographic were given to fill the questionnaire as the technique used is Simple Random Sample Technique, therefore random people were part of the sample, after applying test on SPSS, the data received from the sample gave us the authentic and true picture of what actually is happing in Pakistan when people think about the Islamic banking system. The results are elaborated by interpreting the values and the output which was found after applying the one sample T test on SPSS.

4.2 Validation of Model
Pursuant to the statistical reliability test if the value of Cronbach's Alpha is above .70 the data is said to be good and reliable, look at the table 4.1 which is showing the Cronbach's Alpha value for the data used in this paper, the value is .89 which shows that the data, is good and reliable for the research to be done.

4.3 Hypotheses Testing

Table 4.1

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Awareness_of_IB	204	4.0353	.56736	.03972
Narrow_Network	204	3.9637	.54696	.03830
Service Quality	204	3.9186	.61560	.04310

The above table shows that 204 participants responded to the particular variables. The sample mean of the variable Awareness of IB is 4.03 which at slightly greater than the population mean 4 which shows that the means are significantly differentiated. Standard deviation shows there is 56% probability of data variation and 0.039 is the standard mean error possibility.

The sample mean of the Narrow Network is 3.96 which is approximately at par to the population mean which shows that the means are significantly differentiated. Standard deviation shows there is 54% probability of data variation and 0.038 is the standard mean error possibility.

The sample mean of the variable Service Quality is 3.91 which is also at par to the population mean which shows that the means are significantly differentiated. Standard deviation shows there is 61% probability of data variation and 0.043 is the standard mean error possibility.

Table 4.2

One-Sample Test

	Test Value=4					
					95% Confidence Interval of the Difference	
	t	df	Sig.(2-tailed)	Mean Difference	Lower	Upper
Awareness_of_IB	.888	203	.037	.03529	-.0430	.1136
Narrow_Network	-.947	203	.034	-.03627	-.1118	.0392
Service Quality	-1.888	203	.046	-.08137	-.1664	.0036

The one sample t-test statistics is 0.888 and p value is 0.037 with 95% Confidence Interval which is less than 0.05 (0.037<0.05) which indicates that there is a significant difference between sample and mean population. Means are differentiated by 0.035. Subsequently, we can reject null hypothesis and H1 is accepted.

For the Hypothesis 2, The One Sample T-Test statistics shows that the test result for the variable Narrow Network is -0.947 with 95% Confidence Interval and sig value is 0.034 which is less than 0.05 (0.034<0.05) which specifies that there is a significant difference between sample and mean population. Both Means are differentiated by -0.036. Hence, we can reject null hypothesis and H2 is accepted.

For the Hypothesis 3, The One Sample T-Test results illustrates that the test result for the variable Service Quality is -1.888and sig value is 0.046 with 95% Confidence Interval which is still less than 0.05 (0.046<0.05) which specifies that there is a significant difference between sample and mean population. Both Means are differentiated by -0.081. Hence, we can reject null hypothesis and H3 is accepted.

In other words we can say that the variables awareness of Islamic Banking, Narrow Network and Service quality are considerable factors in order to identify the successful implementation of Islamic Banking.

Hypotheses Assessment Summary

S. NO.	HYPOTHESES	SIG. VALUE	MEAN Vs TEST VALUE	EMPIRICAL CONCLUSION
1	H1: There is a significant effect of awareness of Islamic banking in successful implementation of Islamic banking system	0.0375	4.04 > 4	ACCEPTED
2	H3: There is a significant effect of narrow branch networking successful implementation of Islamic banking system	0.034	3.91 ≈ 4	ACCEPTED
3	H2: There is a significant effect of service quality in successful implementation of Islamic banking system	0.046	3.96 ≈ 4	ACCEPTED

5.1   Conclusion

Results and findings clearly indicate that the respondents are agreed with the factor that although Islamic Banking is the foremost solution to the investors and the depositors who are sensitive to the Shariah compliance but still there are barriers to the successful implementation of Islamic Banking System.

In this study respondents expressed their opinion that the major barriers to the Islamic Banking's successful operations are the Lack of awareness among the public, Ineffective service quality as compared to the conventional banking services and the narrow networking facility. Although if a person is quite enough aware of the IB system and sacrifices the service quality consciousness still the very less branch network poses the barrier.

Hence, on the basis of findings and results we can conclude that the major barriers to the

successful implementation of Islamic Banking are Awareness about Islamic Banking, poor Service Quality and limited branch networking.

5.2   Discussion

Due to the Islamic consciousness and knowledge public is more diverging towards the interest free banking. The need of Islamic banking is not only the mandatory element for the Muslim majority countries but for the Muslim minority countries too. Importance and the requirement of IBs are recognized throughout the world.

Recently it is observed that the importance of Islamic Banking operations are being accepted, Bank of Ceylon expects to initiate its Islamic Banking unit in mid-2008. All these new sections suggest that this option saving money framework has drawn the consideration of Muslims and in addition non-Muslims because of its differentiated formative characteristics. The prominent standard of Islamic banks is the guideline of equity which is a basic prerequisite for a wide range of Islamic financing. One of the special and remarkable attributes of Islamic banks is that the reconciliation of moral and good esteems with its operations. Not at all like the conventional banks, the financing of Islamic banks limited to valuable products and enterprises only which eventually results in healthy trade facility and economic growth. Also, a definitive outcome is that an exceptional yield is provided by IBs to their investors, which is impossible in a regular bank where it manages their investor on a fixed premium rate.Furthermore, Islamic banks dispose of the boundary between the individuals who invest and the individuals who contribute, and take them nearer to the genuine market.

To support the findings of this research paper results of other relevant articles have been compared. In the past, multiple research papers have been carried out to investigate the customers' satisfaction and perception towards the Islamic banking and its attributes.(Kaabachi & Obeid, 2016)Investigates the six factors which can have a strong impact on the performance and popularity of Islamic banks. The two main factors which are relevant to this study were the degree and impact of customer satisfaction on service quality and the awareness of the products and services of Islamic banks. This research finding is based on the feedback of Tunisian respondents. It concludes that service quality and awareness of Islamic banking have a significant impact on the progress of Islamic Banks.

The absence of awareness and high quality of service are the principle issues that ruin the advancement of Islamic banking. Awareness and service quality will be the key elements for driving development in the quickly extending Islamic Banking channels.

(Jill M. Hendrickson & Fairchild, 2014) examines the effects of bank branch location on the performance of banks. It suggests that banks with fewer branches are more prone to get fail than the banks having huge branching networks. In short, potential branch network ensures the stability of the banks' performance and has a significant impact of the success of banks.

In this study, these variables i.e awareness of Islamic banking, effects of service quality and narrow branch networking on the successful implementation of Islamic banking have been studied. Findings and results clearly endores that these are the significant factors in order to identify the successful implementation of Islamic banking.

The purpose of comparing the other research paper is to support the findings of this study

that despite of carrying the research in different geographical regions the results are significantly similar which assists the observation of this research that Islamic Banking service quality, Lack of awareness and knowledge regarding the operations of Islamic Banks and the limited branch network are the barriers to the successful implementation of Islamic Banks.

5.3　　Implications
Islamic Banking System can accomplish remarkable success throughout the world if certain policies are maintained. To ensure the vast awareness assortment, the central banks of the countries should come in to take the initiatives. Certain policies should be announced regarding the service quality as it is being practiced in other conventional banking system. Similarly, there must a policy regarding the minimal branch networking requirement for the Islamic Banks so that the investors and the depositors can be facilitated and encouraged.

5.4　　Limitations
This study engaged around 204 users and non-users of Islamic banking and they conveyed their reservation clearly that there are certain barriers to the implementation of Successful Islamic banking. The result may varies if the sample was taken only the users of Islamic Banking.

5.5　　Recommendations
This research is particularly conducted for the Islamic bank. On the basis of this study we can say that Islamic Banking has significant opportunity in future as it gets popular among the bank users in a very short span of time. If the exclusion of discussed barriers is insured Islamic Banking can grab the attention of the majority of banking users in the future.

References
1. Abduh, M., & Omar, M. A. (2012). Islamic banking and economic growth: the Indonesian experience. *International Journal of Islamic and Middle Eastern Finance and Management, 5*(1), 35-47.
2. Al-Khatib, K. N. (1999). Islamic banking: a study of customer satisfaction and preferences in Jordan. *International Journal of Bank Marketing, 17*(3), 135-151.
3. Chaker, M. N., & Jabnoun, N. (2010). Barriers to service quality in Islamic banks in Qatar. *International Journal of Commerce and Management, 20*(4), 296-307.
4. Dixon, R. (1992). Islamic Banking. *International Journal of Bank Marketing, 10*(6), 32-37.
5. Gerald P. Dwyer, J. (1997). Branching Restrictions and Banking Offices. *Managerial Finance, 23*(2), 65-77.
6. Hajer Zarrouk, K. B., & Moualhi, M. (2016). Is Islamic bank profitability driven by same forces as conventional banks? *International Journal of Islamic and Middle Eastern Finance and Management, 9*(1), 46-66.
7. Hamim S. Ahmad Mokhtar, N. A., & Alhabshi, S. M. (2008). Efficiency and competition of Islamic banking in Malaysia. *Humanomics, 24*(1), 28-48.
8. Jill M. Hendrickson, M. W., & Fairchild, D. R. (2014). Bank branch location and stability during distress. *Journal of Financial Economic Policy, 6*(2), 133-151.
9. Kaabachi, S., & Obeid, H. (2016). Determinants of Islamic banking adoption in Tunisia: empirical analysis. *International Journal of Bank Marketing, 34*(7), 1069-1091.

10. Khuram Shahzad Bukhari, H. M., & Ahmed, F. (2013). An evaluation of corporate governance practices of Islamic banks versus Islamic bank windows of conventional banks: A case of Pakistan. *Management Research Review, 36*(4), 400-416.

11. Lee, K.-h., & Ullah, S. (2011). Customers' attitude toward Islamic banking in Pakistan. *International Journal of Islamic and Middle Eastern Finance and Management, 4*(2), 131-145.

12. Lutfullah Saqib, M. A., & Zafar, A. M. (2016). Customer perception regarding Sharī'ah compliance of Islamic banking sector of Pakistan. *Journal of Islamic Accounting and Business Research, 7*(4), 282-303.

13. Md Abu Saleh, A. Q., & Gaur, S. S. (2017). Quality and image of banking services: a comparative study of conventional and. *International Journal of Bank Marketing, 35*(6), 878-902.

14. Megeid, N. S. (2017). Liquidity risk management: conventional versus Islamic banking system in Egypt. *Journal of Islamic Accounting and Business Research, 8*(1), 100-128.