



MEASURING COMPETITIVENESS OF ISLAMIC BANKING INDUSTRY IN MALAYSIA FROM THE PERSPECTIVE OF KNOWLEDGE MANAGEMENT

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ABSTRACT

These days, to retain competitiveness is the major target of all types of organizations. Islamic banking is moving beyond from only fulfilling the religious obligations of the Muslim community to be as a business venture to ineluctably seek for competitive advantage. This study was aimed to investigate the Sustainable Competitiveness Advantage (SCA) of Islamic Banks in Malaysia and its contributors. From managing knowledge, the research framework was established compassing Knowledge Utilization (KU), Knowledge Accumulation (KA), Knowledge Internalization (KI), Knowledge Sharing (KS) and Knowledge Creation (KC). BIMB (a full Islamic Bank) and AFFIN (a semi-Islamic or dual Bank) were selected as cases for study. 150 employees from each bank participate in the questionnaire survey and a series of interviews with managers were also conducted. The collected data was analysed by running SPSS Version 20.0. Based on the Multiple Linear Regression results, this study found that, KU and KA, are most contributing factors that drive competitiveness (SCA). It means to enhance SCA both Banks shall keep on the efforts on the two variables and improve the efforts in the least contributing factors as which also positively contribute to SCA. Then, based on Correlation Analysis (Testing Hypothesis), the entire research hypotheses are accepted. It means that all the IVs of KM could significantly and positively contribute to the competitiveness of the banks industry. As all the variables are contributing positively to SCA, both Banks shall catch up all of them. Then, based on the derived three levels (among their factors, levels and relationships), for the moderate and least contributing factors, both banks shall pay more attention to them to maximize their effects on SCA.

Keywords: Knowledge Management, Islamic Banking, Competitiveness

INTRODUCTION

These days, to retain competitiveness is the major target to all types of organizations. Since Islamic banks offer different products from conventional banks and practice unique ways of Islamic managing knowledge, this study tries to measure the competitiveness of Islamic bank in Malaysia from the perspectives of managing knowledge.

Malaysia is known as the first nation in the world that successfully adopted a dual banking system, where a full-fledged Islamic system operates alongside the conventional banking system. Currently, Islamic banking is moving beyond to only fulfill the religious obligation of the Muslim community as a business venture to ineluctably seek for competitive advantage or sustainable competitive advantage. In the context of today's knowledge economy, to build or sustain competitive advantage (SCA), more depends on managing knowledge (KM).

However, there are various related problems discovered, as below we found some general problems of KM in Islamic banking (Cyril, 2012):

The lack of professional bankers or managers for Islamic banks – Knowledge Internalization

The difficulty of obtaining top level view of customer relationship in case of Islamic banks with conventional system concerns – Knowledge Utilization

Islamic Bank implementations always end up in providing the vendors with more Islamic knowledge instead of vendors providing the banks with Islamic Finance specific expertise – Knowledge Sharing and Knowledge Creation. Suffering those problems we find the question, how is the competitiveness of Islamic banking or how to strengthen it from the perspectives of KM? They are the major problem of this research.

It mainly examines five sub-variables of KM, and two sub-variables of competitiveness or Sustainable Competitiveness Advantage (SCA). The sub-variables of KM consist of Knowledge Utilization, Knowledge Accumulation, Knowledge Internalization, Knowledge Sharing and Knowledge Creation. Then, it is limited to investigate the relationships between these five sub-variables and the competitiveness (SCA) of Islamic Banking. Competitiveness (SCA) is measured from both financial and non-financial aspects (Markus, 2011). We focus on two (2) banks; Bank Islam Malaysia Berhad (BIMB) which offerings a full Islamic Banking Practices and Affin Bank Bhd. which offerings Islamic financial products with Islamic banking licensed. The surveyed offices are mainly located around Kuala Lumpur, Selangor, Pahang and Terengganu.

The uniqueness of this study is that it covers both of competitiveness financial and non-financial aspect, especially towards achieving in competitiveness (SCA) of Islamic Banks. So it can help to enrich the current knowledge. This study tries to identify the factors of KM that drive SCA of BIMB and Affin Bank Bhd. Thus, it could guide the two banks to better utilize their resources for their banking operation. From this study, it could help to acknowledge the current levels of KM, as well as competitiveness of Islamic Banks. Then, the two banks can better understand their strengths and weaknesses in terms of KM. This study also tries to investigate the relationship among KM and SCA of the two banks. Besides that, the two banks can clearly know how to effectively enhance their managing knowledge in administration, marketing and finance operation, etc.

LITERATURE REVIEW

History and Development of Islamic Banking in Malaysia

The first Islamic bank operating in Malaysia is Bank Islam Malaysia Berhad (BIMB), which was incorporated under the Companies Act 1965 on 1st March, 1983, and commenced business on 1st July the same year. BIMB provides services similar to other conventional banks, but based on Shariah principles. Its belonged subsidiaries also operate complying with Shariah principles (Sudin, 2008).

Bank Negara Malaysia has committed for a long-term objective of creating Islamic Banking System (IBS) along with the conventional banking system, through three main mixes. First, the system must have enough members. Second, services and products must cover the entire banking system. And third, inter-bank market operations in accordance with Islamic principles should be established.

New framework of Islamic banking is ready for 2013. Meanwhile, the new legal framework for Islamic banking and takaful, which is now at the final stages of the enactment process, would be one of the key drivers for the industry movement. Bank Negara Governor Dr. Zeti Akhtar Aziz said the new law, which will be effective next year, would bring certainty to the legal and regulatory treatment of Islamic financial transactions by providing legal recognition to the contractual requirements in accordance with the Syariah (BNM, 2012).

The new act would potentially provide the industry greater legal certainties in conducting business given Islamic finance development has extended beyond borders; and has interlink ages with various segments of the financial market and real economy. Addition according in BNM (2012), Malaysia still dominates the market with a share of 74 per cent of global sukuk issuance as at end September 2012 and the trend looks set to continue moving forward.

Knowledge Management and Competitiveness

Firm increasingly compete on differentiated stock of knowledge and management of the firm's knowledge base has emerged as a major challenge for firms that want to stay on the competitive edge. According to competitive firms succeed by developing, improving, protecting and renewing knowledge (Claudia et al., 2013).

Under increasing competitive pressure, many companies are examining how they can manage their intellectual capital more efficiently. The survey from Madalina (2012) found that 87% of European business directors believe they could enhance their company's competitiveness with improved Knowledge Management and 76% believe that building and sharing knowledge is important for their company.

At the strategic level, the organization needs to be able to analyze and plan its business in terms of the knowledge it currently has and the knowledge it needs for future business the right knowledge, at the right time and in the right location (Ionel, 2012). Knowledge Management can be viewed as a process for optimizing the effective application of intellectual capital to achieve organizational objective, which is SCA.

RESEARCH HYPOTHESES

Hypothesis 1: There is a significant relationship between Knowledge Utilization and competitiveness.

Hypothesis 2: There is a significant relationship between Knowledge Accumulation and competitiveness.

Hypothesis 3: There is a significant relationship between Knowledge Internalization and competitiveness.

Hypothesis 4: There is a significant relationship between Knowledge Sharing and competitiveness.

Hypothesis 5: There is a significant relationship between Knowledge Creation and competitiveness.

RESEARCH METHODOLOGY

This study is designed as a case study in order to identify the relationships among competitiveness of Banking industry and Knowledge Management. Two bank cases were selected: BIMB (full Islamic Banking) and Affin Bank Bhd. & Affin Islamic Bank Bhd (Conventional Banking with Islamic Licensed). In total, three hundred (300) randomly-selected managers and bank personnel engaged with Banking Practices participated in this study. The data for this study were collected through self-administered distribution by researcher via email and mail (post). The collected information based on interview would also be important to support questionnaire study.

Both quantitative and qualitative methods were adopted. i) For qualitative part, semi-structured interview was used to collect data and content analysis was conducted to analyze the data. ii) For quantitative part, survey questionnaire was used to collect data and statistics was analyzed using SPSS, including Descriptive Analysis, Normality Test, Single Mean T-Test, Cronbach' Alpha, Factor Analysis, Correlation, Regression.

DATA ANALYSIS AND FINDINGS

Reliability Test

Table 1: Reliability Test for BIMB

Reliability Statistics					
Cronbach's Alpha	.815	N of Items	9		
Item-Total Statistics of BIMB					
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
KU	31.0588	7.002	.626	.766	.782
KA	31.1272	7.211	.701	.629	.772
KI	30.9638	7.589	.782	.696	.769
KS	30.9092	7.439	.775	.706	.767
KC	31.1398	7.855	.612	.759	.786

It has shown that the alpha value for the all independent variables (KU, KA, KI, KS, KC) in this study is 0.78, 0.77, 0.76, 0.76, 0.78. This all Cronbach's alpha value of BIMB is above 0.6 and the reliability value considered as having high reliability and accepted in this study.

Table 2: Reliability Test for AFFIN

Reliability Statistics					
Cronbach's Alpha	.758	N of Items		9	
Item-Total Statistics of AFFIN BANK					
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
KU	30.6996	5.565	.703	.708	.692
KA	30.9046	5.910	.542	.592	.719
KI	30.5216	5.390	.818	.782	.674
KS	30.4469	5.642	.656	.725	.700
KC	30.7709	5.880	.512	.649	.723

It has shown that the alpha value for the all independent variables (KU, KA, KI, KS, KC) in this study is 0.69, 0.71, 0.67, 0.7, 0.72. This all Cronbach's alpha value of Affin Bank Bhd. is above 0.6 and the reliability value considered as having high reliability and accepted in this study.

Validity Test

Table 3: KMO and Bartlett's Test

	BIMB	AFFIN
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.696	.718
Bartlett's Test of Sphericity	1014.896	617.725
Approx. Chi-Square	36	36
Df	.000	.000
Sig.		

Table 4: Rotated factor Matrix for BIMB and AFFIN

	BIMB	AFFIN
	Component	Component
	1	1
KU	.817	.903
KA	.914	.759
KI	.919	.825
KS	.851	.568
KC	.858	.842

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

According to Table 4, all the (absolute) values of varimax rotation of the independent variables for both BIMB and AFFIN are over 0.4, which means all tested variables are considered valid and can be used for further analysis. Additionally, the Varimax rotation of the items of each independent variable for BIMB and AFFIN are demonstrated in Table 4.8 and Table 4.9, with all the (absolute) values of varimax rotation over 0.4.

Correlation Analysis (Testing Hypothesis)

Table 5: Correlation Coefficient Results

V	BIMB	AFFIN	RESULTS
KU	.683**	.701**	H1 ₁
KA	.753**	.588**	H2 ₁
KI	.719**	.818**	H3 ₁
KS	.691**	.680**	H4 ₁
KC	.625**	.476**	H5 ₁

*Correlation is significant at the 0.05 level (2-tailed)

**Correlation is significant at the 0.01 level (2-tailed)

According to this table for both banks, all the IVs are significantly and positively related to the competitiveness. It means hypotheses H1-H5 are accepted.

Multiple Linear Regressions

After verifying the reliability and validity of the collected data, regression analysis was adopted to further identify the most influential factors in the whole knowledge and information communication technology (KICT) system. Since this study has more than one independent variable, the multiple linear regression analysis is most suitable to apply.

Regression Test for BIMB

The first regression test was performed for BIMB. By running SPSS, the derived regression results are demonstrated in Table 6.

Table 6: Multiple Regression Results for BIMB

Model Summary						
R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	F	Sig.	
.826	.815	.088063	1.631	73.961	.000 ^a	
Coefficients						
Model		Unstdzed. Coefficients		Stdzed. Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.459	.097		25.343	.000
	KU	.096	.022	.324	4.444	.000
	KA	.101	.020	.291	5.027	.000
	KI	.001	.028	.002	.037	.970
	KS	-.010	.027	-.025	-.390	.697
	KC	.090	.030	.216	3.012	.003

a. Dependent Variable: SCA

Table 7: Multiple Regression Results for AFFIN

Model Summary						
R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	F	Sig.	
.841	.831	.090190	1.597	82.207	.000 ^a	
Coefficients						
Model		Unstdzed. Coefficients		Stdzed. Coefficients	T	Sig.
		B	Std. Error	Beta		
2	(Constant)	2.129	.111		19.254	.000
	KU	.147	.027	.341	5.465	.000
	KA	.083	.023	.193	3.655	.000
	KI	.197	.032	.444	6.151	.000
	KS	.008	.027	.019	.300	.765
	KC	-.036	.023	-.090	-1.576	.117

a. Dependent Variable: SCA

Table 8: Summary of Regression Results by Comparison between BIMB and AFFIN BANK

Significant Contributors Towards SCA			
V	BIMB	AFFIN	Total (‘√’ = 1, ‘×’ = -1)
KU	√	√	2
KA	√	√	2
KI	×	√	0
KS	×	×	-2
KC	√	×	0

The major contributors to BIMB’s SCA are KA (.101), KU (.096), KC (.090). The significant factors that contribute to AFFIN’s SCA include KI (.197), KU (.147), KA (.083). Both are good at KU, KA, towards SCA. If to compare, BIMB is better in KC towards SCA, while AFFIN BANK is better in KI towards SCA. But both are bad at KS towards SCA.

RESULTS AND CONCLUSIONS

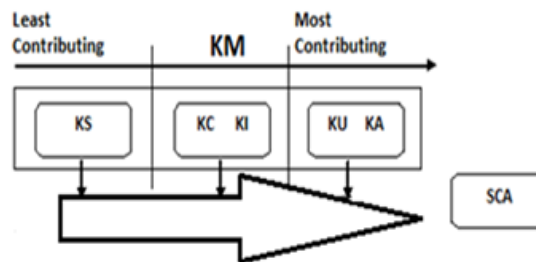


Figure 1: Feasible KM Model for Islamic Banking towards SCA (after analysis)

Based on the findings, a KM model can be structured for Islamic Banks to manage knowledge and towards enhancing and improving competitiveness as illustrated below. It can be seen that the most contributing factors of KM towards SCA are KU, KA, while the least contributing ones is KS. According to literature review, there are five factors under KM (KU, KA, KI, KS and KC) that can contribute to the SCA of organization.

Based on the Multiple Linear Regression results, this study found that for Islamic banking especially BIMB and AFFIN, KU, KA, are most contributing factors that drive competitiveness (SCA). It means to enhance SCA, both Banks shall keep on the efforts on the two variables and improve the efforts in the least contributing factors as which also positively contribute to SCA.

Based on Correlation Analysis (Testing Hypothesis), the entire research hypotheses are accepted. It means that all the IVs of KM could significantly and positively contribute to the competitiveness of the Islamic banks. As all the variables are contributing positively to SCA, both Banks shall catch up all of them. And also based on the derived three levels, for the moderate and least contributing factors, both banks shall pay more attention to them to maximize their effects on SCA.

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