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## Lack of Integration between Islamic Banking Operations and Islamic Human Resource Management: Officer Perspectives

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**Abstract:** The objective of this paper is to show some findings of the Islamic Human Resource practices in one Islamic bank in Malaysia. This was an exploratory qualitative study with interviews conducted on ten experienced officers of the selected Islamic bank. Any Islamic bank would want to portray that it is practicing the Islamic principles in terms of banking operations and human resource management (HRM). The banking operations of an Islamic bank would have to be Shariah compliant or following the Islamic banking laws in Malaysia. But the question was whether the bank concerned had followed the Islamic HRM practices. The study discovered that all the officers interviewed had viewed that their bank's operations had followed the Islamic banking principles as it was monitored closely by the Central Bank of Malaysia. However, all the five interviewees viewed that their bank had partially followed the Islamic HRM principles. The bank had good practices in staffing and training activities. Staffing included the functions of HR planning, recruitment and selection. However, the interviewees were not too happy with the methods related to promotion and compensation (salary and benefit management).

**Keywords:** Islamic banking, Islamic HRM, interview, qualitative study, Malaysia

### 1. INTRODUCTION

According to Sudin Haron and Wan Norsofiza Wan Azmi (2009), Islamic banking began as a theological dream but has developed to become a practical reality and has been widely accepted worldwide. They added that the Islamic banking sector has transformed itself from an infant industry in the 1970s to be one of the most viable and efficient alternative model of financial intermediation.

In terms banking device and mechanism, Islamic banking (or Islamic bank) has no doubt improved its operations over time in the whole world as well as in Malaysia. But some scholars had voiced that successful organizations including banks require both operational tools as well as effective human resource management (HRM)(Ahmad & Fontaine, 2009; Aslan, 2011; Dewa & Zakaria, 2012; Noor, 1999). For

Islamic banks, they not expected to be only Shariah compliant (i.e. following the Islamic rules and regulation), they are also expected to be practicing Islamic HRM in their daily activities.

This objective of this study is therefore to find out whether the process of Islamic banking operations had integrated the Islamic HRM principles in their organizational management.

## **2. PROBLEM STATEMENT**

It was of some concerns that the Islamic banks in Malaysia had not practiced and integrated fully the Islamic HRM. The banks were seen to be more interested in fulfilling their business goals and following the Shariah rules in terms of their operations (Dewa & Zakaria, 2012).

Like any organization, there are several key success factors (KSF) for the banks, both the conventional and the Islamic banks (Ahmad, & Ahmad, 2004; Akhtar, Ali & Sadaqat, 2011; Chowdhury, Haque, Alhabshi & Masih, 2015; Haque, Osman & Ismail, 2009; Kahf, 2004; Muzafar & Ullah, 2017; Pilkova, 2010; Rosly & Abu Bakar, 2003). Thus it would be futile for the Islamic banks in Malaysia (and also around the world) in the long run to focus only in developing efficient operational side of Islamic banking while ignoring the people side of banking (widely termed as “internal customer”). It was viewed that there was a gap in this area of study (integration between Islamic HRM and Islamic banking operations).

## **3. BACKGROUND OF ISLAMIC BANKING IN MALAYSIA**

The modern Islamic banking system in Malaysia began in 1984 when Islamic Bank Act was passed by the Malaysian Parliament.

## **4. LITERATURE REVIEW**

### **The Concept of Islamic Banking and Its Operations**

The term “Islamic banking” refers to a system of banking or banking activity that is consistent with Islamic law (Shariah) principles and guided by Islamic economics (Sudin Haron & Wam Nursafiza Wan Azmi, 2009). The contemporary movement of Islamic finance is based on the belief that “all forms of interest are *riba* and hence prohibited” (ibid).

According to Iqbal and Mirahor (2007) cited in Asmadi Mohamed Naim and Zairani Zainol (2015), generally, the operations of Islamic banks are similar to that of investment companies and commercial banks in the conventional system. In Islamic banks, depositors are classified as investors, though the investments are not guaranteed subject to the banks’ performances. The profit and loss of a business would be shared between the investors and the banks based on a ratio agreed by them in a contract (termed as “*mudarabah*”).

There are two models of Islamic banking operations – the one-tier *mudarabah* (Model 1) and the two-tier *mudarabah* (Model 2) (Asmadi Mohamed Naim & Zairani Zainol, 2015: 28). Model 1 is for lower risk activities and the returns to investors are secured. However, Model 2 would involve high risk investments and the returns are not guaranteed. But banking operations for both models are Shariah compliant (i.e. they abide by the Islamic law).

### **The Concept of Human Resource Management (HRM)**

The concept of HRM was developed by American scholars in the early 1980s to further enhance the management of people in firms (Ulrich, 1997). There were several definitions created by Western HRM scholars. One dominant definition of HRM was given by Mondy and Mondy (2012) who stated that “human resource management” (HRM) is the “utilization of individuals to achieve organizational objectives” (p. 30).

They then claimed that firm which wanted to practice HRM effectively must focus on at least five core HRM functions: staffing, human resource development (HRD), compensation, safety and health and finally employee and labor relations (Mondy & Mondy, 2012: 30 – 32).

### **The Principles of Islamic HRM**

Subsequently there grew an interest among management scholars to investigate HRM from the Islamic perspective (Nik Mustasim Nik Rahman, Mohamad Adnan Alias, Sharmin Shahid, Mohamad Abdul Hamid & Syed Shah Alam, 2013; Noor Khan, 2015; Siswanto, 2014). Nik Mustasim Nik Rahman *et al.* (2013), focused on the relationship between Islamic HRM and trust. Siswanto (2014), an Indonesian scholar, then studied the competitiveness of Islamic banking human resources through the implementation of Quran-based HRM practices. Lastly, Noor Khan (2015) made a literature review on the Human Resource gaps in Islamic banks.

From the three groups of scholars mentioned above, Nik Mustasim Nik Rahman *et al.* (2013) seemed to discuss the principles of Islamic HRM succinctly. They stated that the values of an ‘Islamic’ organization are based on Al-Quran and Hadith. For Muslims, these two sources provide the action guidelines or foundations of organizational behavior. These two sources are also the foundations for the Shariah laws (Islamic laws) and the norm for humanity.

Nik Mustasim Nik Rahman *et al.* (2013) added that while an Islamic organization is needed to fulfill all the requirements of Shariah to maintain the relationship among organizations and their stakeholders – the top management, suppliers, customers and employees (p.1107). They continued by stating that the main purpose of Islamic HRM is to rigorously maintain and practices Islamic law in the relationships between management and employees in line with organizational phenomenon (p.1108). Some of the core Islamic HRM principles are fair treatment by management on employees and trust between management and employees.

### **Relationship between Islamic HRM and Islamic Banking Operations**

As mentioned in the previous discussion, the sources of behavior guidelines in organizations are the Al-Quran and the Hadith (Nik Mustasim Nik Rahman *et al.* (2013). These two sources will later become the foundations for Shariah laws (ibid). These Shariah laws would subsequently guide all actions (both operations and people management) in organizations including the Islamic banks (ibid)

In addition, other scholars emphasized another aspect of the Islamic HRM which is generally known in the West as “Corporate Social Responsibility” (CSR). CSR is an important element in the Islamic banks as a show sincerity of practice to external stakeholders (Asyraf Wajdi Dusuki, 2005; Wan Noor Hazlina Wan Jusoh, Uzaimah Ibrahim & Mohammad Deen Mohd Napiah, 2015).

## 5. GUIDING RESEARCH FRAMEWORK

For a qualitative study, a research framework is not normally necessary as it is done to explore a phenomenon. Nevertheless, for this study it was thought a guiding research framework could speed up the data analysis. The study involved the interplay of two variables – Islamic Human Resource Management (HRM) principles and the Islamic Banking operation (Figure 1).



Figure 1: The Guiding Research Framework

## 6. METHODOLOGY

For this study, the researcher had decided to adopt the qualitative research design to undertake the investigation. Qualitative researchers have frequently suggested that research design, data collection and analysis are simultaneous processes (Bryman, 2012; Bryman & Burgess, 1994). One Islamic bank was selected for its stable financial performance over ten years. From this bank, ten experienced officers (five years and more) were selected as the key informants for this study. Two open-ended questions were developed for the interview protocol (the instrument). The researcher chose to do a manual analysis of the interview data collected.

## 7. RESULTS

### Interviewees' Background

Interviews were conducted on ten officers of an Islamic Bank in Malaysia (Table 1).

Table 1  
The Interviewees' Profiles

No.	Interviewee	Gender	Banking Experience (years)
1	A	Male	10
2	B	Male	12
3	C	Male	6
4	D	Male	8
5	E	Male	5
6	F	Female	5
7	G	Female	8
8	H	Female	8
9	I	Female	10
10	J	Female	10

There were five male and five female officers who were interviewed. There were all experienced officers ranging from five years to twelve years banking experience with the same Islamic bank.

## **Responses to General Questions on the Integration of Islamic HRM and Islamic Banking Operations**

### **First Question: Treatment of Employer on Employers (In terms of Promotion and Salary Awards)**

All the interviewees viewed that as far as compensation was concerned, the employer was seen partially fair. The verbal responses were varied but the meaning was the same. However, the employer was seen to be fair in terms of staffing (HR planning, recruitment and selection) and training of employees.

### **Second Question: Integration of Islamic HRM Principles and the Islamic Banking Operations**

All the interviewees voiced out that their employer over time had focused more on the efficiency of the bank's operations and developing more products to ensure increased sales and profits. Less focus was made by the employer on people development (Table 2).

**Table 2**  
**Interviewees' Responses on Integration of Islamic HRM and Islamic Banking Operations**

<i>No.</i>	<i>Interviewee</i>	<i>Responses on Integration of Islamic HRM and Islamic Banking Operations</i>
1	A	...very little
2	B	...few
3	C	...OK
4	D	...OK
5	E	...few la
6	F	—not much
7	G	...OK
8	H	...OK
9	I	...not much that I can see
10	J	..very little

From the ten interviewees, only four stated that there integration between Islamic HRM principles and Islamic banking operations while the majority of the interviewees viewed that their employer did not focus much on the efforts to integrate the Islamic HRM and the Islamic banking operations.

## **8. CONCLUSION AND LIMITATIONS**

The general perception among Muslims is that businesses of Islamic organizations including Islamic banks will attempt to balance or integrate the various functional activities under the Islamic umbrella or the Shariah law. However, this study had uncovered that even though the financial growth of the said Islamic bank was excellent, the people management side (the Islamic HRM) was lacking. The subtle dissatisfaction voiced by the officers who were interviewed had suggested that more should be done by the said Islamic bank to practice Islamic HRM principles so as to project “fair treatment” among its employees. This could reflect similar lack of integration between Islamic HRM and Islamic banking operation in other Islamic banks in Malaysia.

This study of course has its limitations as it focuses only on one Islamic bank. Even though as a qualitative study, the findings were not meant for generalization; it could start something of importance in this area of research. In future, researchers could conduct more in-depth surveys or comparative surveys to determine the extent of this integration phenomenon in Malaysia's Islamic banks.

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