

**THE IMPACT OF NON-SHARI'AH COMPLIANT
INCOME OF ISLAMIC BANKS IN PAKISTAN:
TRUST AS A MEDIATOR
TO COMMITMENT OF CUSTOMERS**

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UNIVERSITI SAINS MALAYSIA

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TO COMMITMENT OF CUSTOMERS**

by

MUHAMMAD USMAN

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LIST OF ABBREVIATIONS

CCR	Counterparty credit risk
IB's	Islamic Banks
IBI's	Islamic banking institutions
IFI's	Islamic financial institutions
NSI	Non-shari'ah income
SC	Shari'ah Committee
SNC	Shari'ah Non-compliance
SNCI	Shari'ah Non-compliant Income
SNCR	Shari'ah Non-compliance Risk

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**KESAN PENJANAAN PENDAPATAN BUKAN-SHARIAH DI PERBANKAN
ISLAM DI PAKISTAN: KEPERCAYAAN SEBAGAI MEDIATOR KEPADA
KOMITMEN PELANGGAN**

ABSTRAK

Perbankan Islam adalah konsep kontemporari di dunia moden, memberi banyak penyelesaian untuk masalah sistem ekonomi moden. Undang-undang Shariah adalah tulang belakang kepada sistem ini yang mana falsafah sistem ini berasal dari Al-Quran dan sunnah Nabi Muhammad (SAW). Bank Islam menawarkan produk yang patuh Shariah kepada umat Islam yang merupakan elemen penting untuk mendapat penerimaan di kalangan umat Islam dan mengekalkan keyakinan semua pihak yang berkepentingan dan masyarakat umum terutama yang berkaitan dengan produk Halal. Juga, ada faktor-faktor tertentu (kemampuan, kebajikan, integriti, dan nilai bersama) yang penting untuk mendapatkan kepercayaan dan komitmen pelanggan dalam perbankan Islam. Selain itu, pendapatan bukan Shariah yang diperoleh daripada transaksi yang tidak patuh Shariah juga menjadi masalah. Tidak seperti bank konvensional, ciri khas ini berlaku dalam persekitaran perbankan Islam kerana tidak mematuhi Shariah (undang-undang Islam). Sebagai contoh, pendapatan tidak patuh Syariah sebanyak USD 2421667.26 dilaporkan dalam laporan tahunan bank Islam dari tahun 2013 hingga 2018. Oleh itu, penyelidikan ini menggunakan pendekatan pelbagai-kaedah untuk menjawab tiga soalan pertama penyelidikan yang berkaitan dengan pendapatan pematuhan bukan syariah menggunakan pendekatan kualitatif melalui enam wawancara mendalam dari pengurusan atasan dan sarjana Syariah. Kajian ini juga menggunakan pendekatan kuantitatif untuk tiga pertanyaan terakhir untuk memeriksa kesan empat faktor utama terhadap komitmen pelanggan dan untuk

memeriksa mekanisme kepercayaan yang mana keempat-empat faktor ini mempengaruhi komitmen pelanggan. Penemuan fenomena kualitatif mendedahkan 18 sumber pendapatan aduan bukan syariah, selain itu terdapat perbezaan pendapat di kalangan sarjana Syariah dan pengurusan atasan mengenai pendedahan sumber pendapatan yang tidak patuh syariah kepada pelanggan. Berdasarkan analisis Empirikal dalam fenomena kedua, hasil kajian menunjukkan bahawa integriti kemampuan, kebajikan, dan nilai bersama pengurusan tertinggi perbankan Islam berkaitan dengan komitmen pelanggan secara langsung dan tidak langsung melalui kepercayaan pelanggan di bank Islam Pakistan. Implikasi teori dan praktikal, cadangan masa depan, dan batasan kajian dibincangkan di akhir thesis.

**THE IMPACT OF NON-SHARI'AH COMPLIANT INCOME OF ISLAMIC
BANKS IN PAKISTAN: TRUST AS A MEDIATOR TO COMMITMENT OF
CUSTOMERS**

ABSTRACT

Islamic banking is a contemporary concept in the modern world, finding many solutions to the problems of the modern economic system. Shari'ah law is the backbone of this system which the philosophy of the system is derived from the Quran and the Sunnah of Prophet Muhammad SAW. Islamic banks (IBs) offer Shari'ah-compliant products to Muslims which is an essential element to gain acceptance among Muslims and maintain the confidence of all stakeholders and the general public especially related to Halal products. Also, there are certain factors (ability, benevolence, integrity, and shared values) that are essential to gain the trust and commitment of the customers in Islamic banking. Besides, non-Shariah income derived from non-Shariah compliant transactions is also a problem. Unlike conventional banks, this distinctive feature occurs within Islamic banking environments due to non-conformance with Shariah (Islamic law). For instance, USD 2421667.26 non-Shariah compliant income was reported in IBs' annual reports from 2013 to 2018. Thus, this research used a multi-method approach to answer the first three questions of the research related to non-shariah compliance income using a qualitative approach via six in-depth interviews from top management and shariah scholars. The study used a quantitative approach to the last three questions to examine the impact of four key factors on the commitment of the customers and to examine the mechanism of trust through which these four factors influence the commitment of the customers. The findings of qualitative phenomena revealed 18 sources of non-shariah

complaint income, besides there was a difference of opinion among Shariah scholars and top management regarding the disclosure of sources of non-shariah compliant income to the customers. Based on the empirical analysis in phenomenon two, the findings revealed that the ability integrity, benevolence, and shared values of the top management of IBs are related to the commitment of the customers directly and indirectly via the trust of customers in the Islamic bank of Pakistan. The theoretical and practical implications, future recommendations, and limitations of the study are discussed at the end of the thesis.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter introduces the background of the global Islamic banking industry and then, focus particularly in the context of Pakistan where this study will be conducted. The chapter 1 is consist of several sections such as the first is the background of the study; second is the overview of Pakistan banking industry; third is the Islamic Banking in Pakistan; fourth is the Shari'ah non-compliance (SNC) related Islamic banking industry; fifth is the problem statement; sixth and seven are comprised of the research objectives and questions respectively and, finally section eighth and ninth are the scope of the study and significance of the study respectively.

1.2 Background of The Study

Islamic banking is an emerging concept in modern world, finding many solutions of problems of modern economic system (Hassan & Mollah, 2018). Shari'ah law is the backbone of this system which the philosophy of the system is derived from the Quran and the Sunnah of Prophet Muhammad (peace be upon Him). Banking system is developed based on the conventional setting which aims to be an intermediary's institution between surplus and deficit units in the society. However, the conventional banking system is not compatible with the Islamic law which indulged with the interest-based products. Therefore, the introduction of Islamic banking is to eliminate several elements which are prohibited in Islam such as product that embedded with *Riba* (usury), *Gharar* (uncertainty) and *Maysir* (gambling). Thus, Islamic banking institutions offer Shari'ah compliant products to Muslim which is essential element to gain

acceptance among Muslim and maintain the confidence of all stakeholders and general public especially related to Halal product (Khokhar, Laghari, & Lakhani, 2019). It is generally expected that Islamic bank operations, aims and activities must be according to Shari’ah (Radzi & Lonik, 2016). The main objective of Islamic bank is to offer financial services that comply Shari’ah rules especially for the Muslim. This means that financial services, underlying contracts and legal documentation must follow Shari’ah (Lone, Aldawood, & Bhat, 2017). Similar to other profit making institutions, Islamic banking system is also exposed to a multi-source of revenue which is similar to conventional bank activities and most of the time exposed to prohibited activities due operation negligence (Haqqi, 2017).

According to Thomson Reuters Report 2020, the industry of Islamic finance is having more than US\$ 2,875 billion assets. If it is keep growing with this speed, the expected total assets will be US\$3,693 billion of total assets until the year 2024 as shown in the following Figure 1.1.

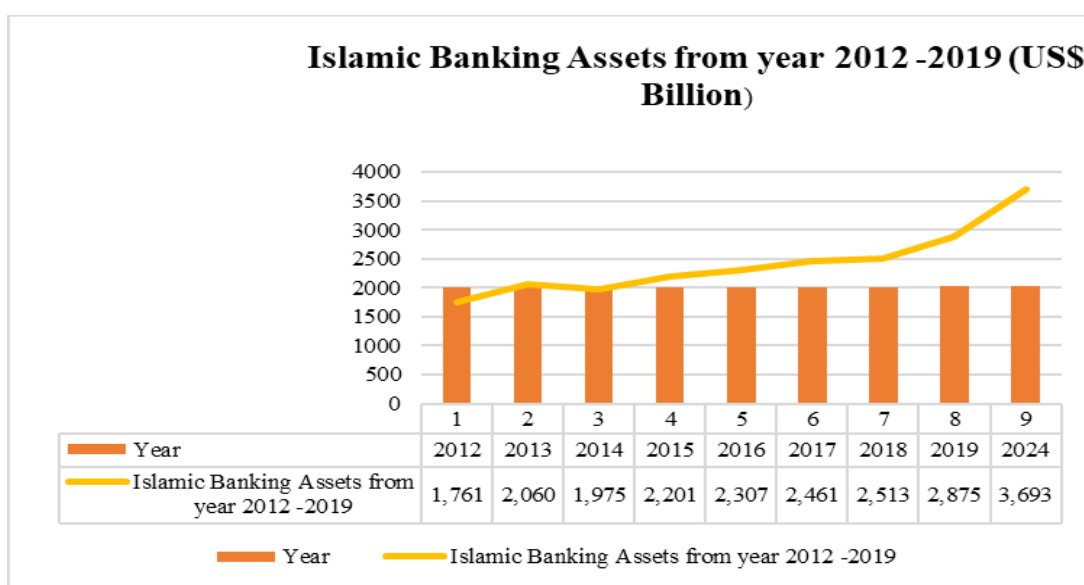


Figure 1.1. Islamic Banking Assets from year 2012 -2019

Source: Islamic finance Development Report by Thomson Reuters, 2020

Islamic banking industry is the largest sector in the Islamic finance industry, contributing to 71%, or USD 1.72 trillion, of the industry's total assets (Global, 2019). This sector is also supported by an array of commercial, wholesale, and other types of Islamic financial institution. Commercial banking remains the main contributor to the sector's growth. According to the Global Islamic Finance Market Report (2020) report there are 505 IBs in 2019 providing financial services around the world, including 207 commercial banks with Islamic windows (Global, 2020). Figure 1.2 below shows the Islamic banking asset based on region in the year 2019.

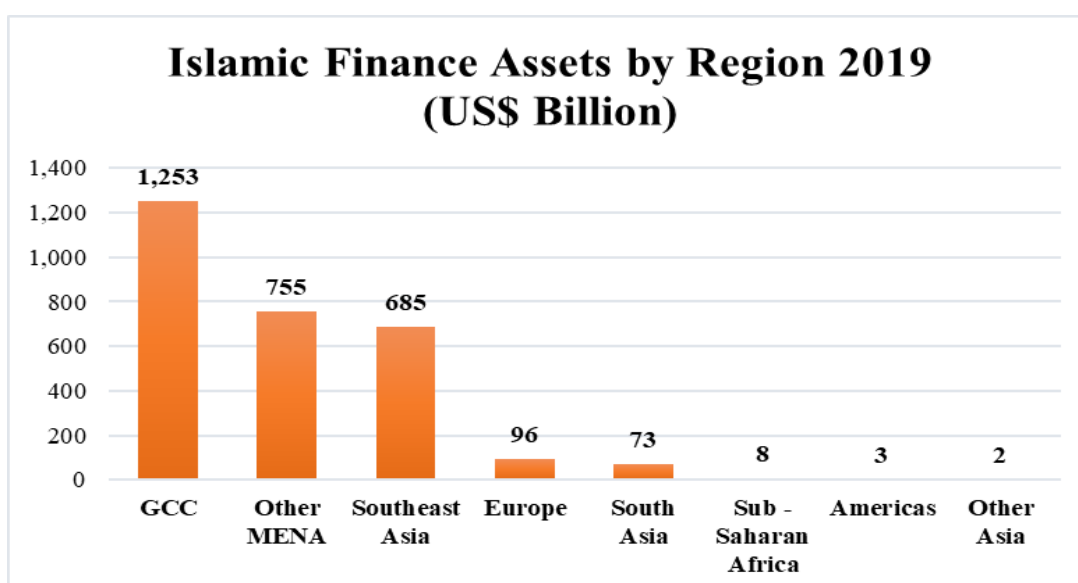


Figure 1.2. Islamic Banking Assets by Region 2020

Source: Global (2019)

Meanwhile, Figure 1.3 below shows the total assets of Islamic banking based on countries. According to the report of Islamic Corporation for the Development of the Private Sector (2020), Iran is at the top of the list with US\$ 698 billion based on the total assets as the indicator and then, followed by Saudi Arabia at the second place with USD\$ 629 billion and Malaysia is at the third number with US\$ 570 billion assets. The largest Muslim population in the world is Indonesia, which comprised of 205 million of

Muslim population is in lowest compared to other. Thus, this shows that population does not influence the total assets of the industry, perhaps it may influence by several factors such as the government policy, facilities of the Islamic finance industry. The present study is focusing on Pakistan which has the second highest of Muslim population in the world with 178 million people but does not exist in top ten countries listed. This means the industry of Islamic bank in Pakistan is still in the developing stage compared to other Muslim majority countries in the region.

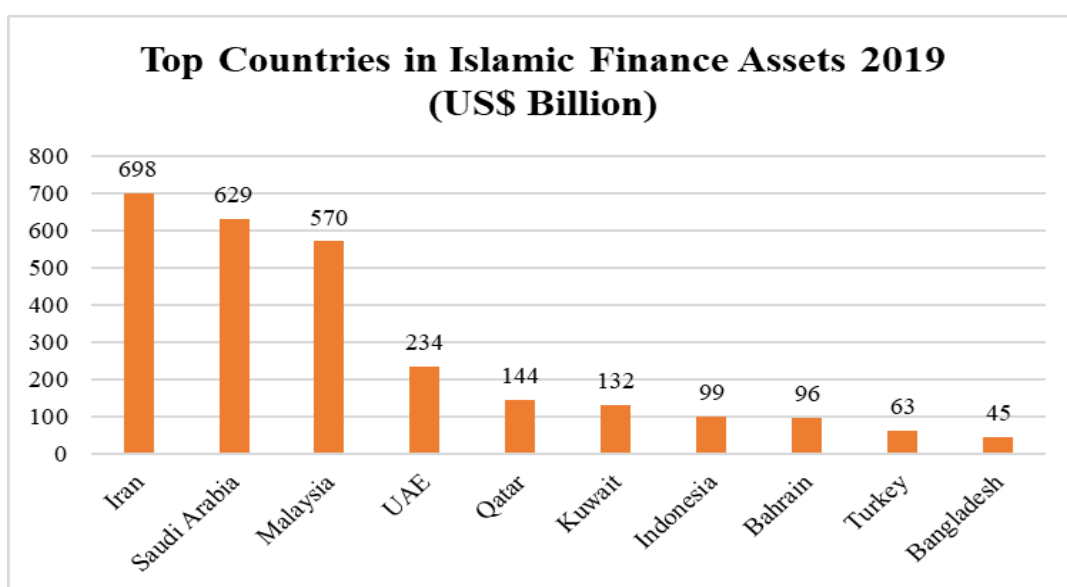


Figure 1.3. Top Countries in Islamic Banking Assets 2019

Source: Islamic Corporation for the Development of the Private Sector (ICD) 2020

According to ICD (2019), the total number of Shari’ah scholar all over the world are 1,170 Shari’ah scholars are representing Islamic financial institution. Malaysia is at the top with 184 Shari’ah scholars as compared to other countries. Bangladesh is at the second with 173 Shari’ah scholars. Indonesia is at number three with 133 Shari’ah scholars, Sudan and Iraq are at number four and five respectively with 77 and 76 Shari’ah scholars representing different Islamic financial institutions in the country as shown in Figure 1.4 below.

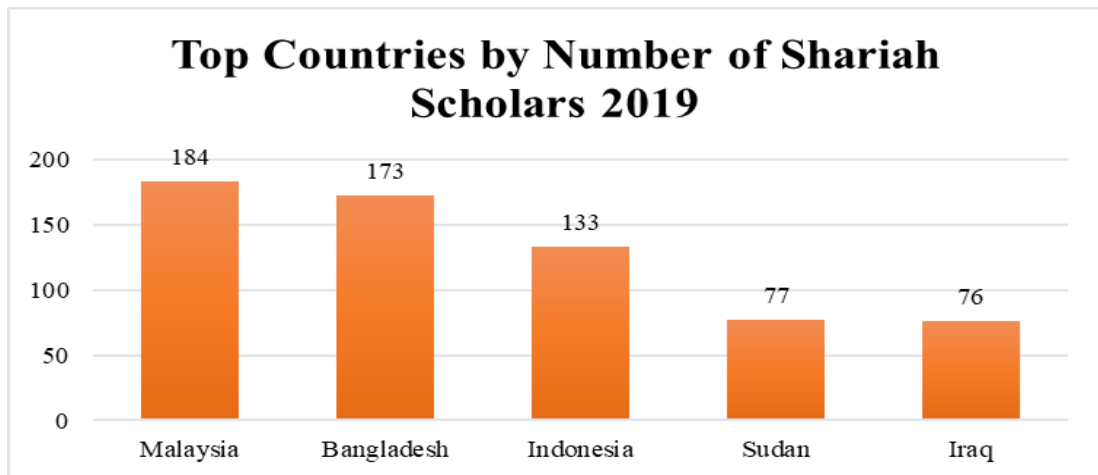


Figure 1.4. Top Countries by Number of Shari’ah Scholars 2019

Source: Islamic Corporation for the Development of the Private Sector (ICD) 2020

According to the Islamic finance development report (IFD) 2020, Indonesia is at top among top five countries which have at least 3 Shari’ah scholars representing IFIs. Pakistan is at the second and Saudi Arabia is at the third in the ranking. Subsequently, Kuwait and Malaysia are at number four and five respectively. Pakistan is among the top 5 countries that have at least 3 Shari’ah scholars to represent IFIs in the country but still shari’ah compliance issues prevailing as shown in Figure 1.5 below.

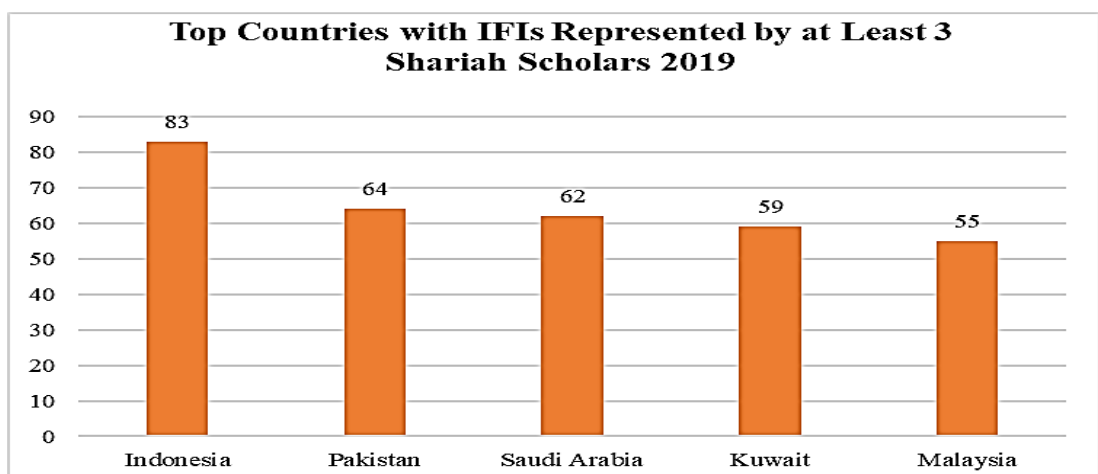


Figure 1.5. Top Countries with IFIs Represented by at Least 3 Shari’ah Scholars 2019

Source: Islamic Corporation for the Development of the Private Sector (2019)

The present study will focus on the context of Pakistan which specifically examine on the risk issue that related to Shari'ah and, commitment and trust among the Muslim customers in Pakistan. All the above statistics shown and discussed reflects that the development of Islamic finance industry specifically on IBs are different and influenced by various factors. The following sections will guide the readers to see the relevant and reasons why the present study focus in the context of Pakistan and the needs of conducting a research especially in area of Islamic Finance. The next section discusses on the Pakistan banking industry.

1.3 Banking Industry - Pakistan

Pakistan's banking sector has experienced three (3) stages: pre-nationalization, nationalization and post-nationalization. After the division of Pakistan and India on August 14, 1947, Australian Bank Ltd. and Habib Bank Ltd. were the only two banks in the pre-nationalization process. The Reserve Bank of India served as the central bank for both the newly created countries. As the Reserve Bank of India did not conduct its duties equally for the Pakistani banking industry, a need was felt to develop Pakistan's banking sector (Hashmi, 2017; Zafar & Aziz, 2013). The State Bank of Pakistan was founded by the Pakistani government in 1948 and the National Bank of Pakistan in 1949. The government then enacted the Pakistan State Bank Act in 1956 and implemented the Banking Firms Ordinance in 1962 for the growth of Pakistan's banking industry. In 1974, the second process began. Through combining all the institutions, the government agreed to nationalize the financial system and set up five institutions. In 1990, when the government of Pakistan privatized the banks and denationalized two financial institutions by making changes to the National Act of 1974, the last process, named post nationalization, started. The government has eased the strategy of opening up private

banking, which has promoted the development of the private sector (Khalabat, 2011; Qayyum, 2007).

1.3.1 Current Status of Banking Industry of Pakistan

Pakistan's banking industry has proven to be playing a supportive role in growth and development of the economy of Pakistan. According to the State Bank of Pakistan Act, the system of banking is running under a two-tier pattern concept in which it includes commercial banks, specialized banks, state owned banks, microfinance banks, development finance institutions and IBs. By end of the year 2019, according to the Statistics of state bank of Pakistan 2020 (Klynveld Peat Marwick Goerdeler (KPMG), 2020, the total number of commercial banks in Pakistan's banking industry are 25 with 12188 branches. Out of which 4 are foreign banks. In addition, five IBs are also operating as shown in Table 1.1.

Table 1.1

List of Banks in Pakistan

No	Bank	Total Assets (Rupees in billion)	Share of loans (%)	Profit before Tax (Rupees in billion)	Branches	Employees
1	Habib Bank Limited (HBL)	2,657.1	13.9	28.8	1,687	20,254
2	National Bank of Pakistan (NBP)	2,379.0	13.0	36.1	1,459	16,876
3	United Bank Limited (UBL)	2,116.3	10.4	41.1	1,345	14,597
4	Muslim Commercial Bank (MCB)	1,357.4	8.3	30.4	1,233	14,552
5	Allied Bank Limited (ABL)	1,246.3	5.9	21.1	1,162	11,398
6	Bank Alfalah	991.0	6.3	14.4	638	8,699
7	Bank AlHabib	919.5	5.2	14.0	605	13,221
8	Meezan Bank	785.9	6.5	9.9	601	10,653
9	Askari Bank	659.9	4.3	8.3	516	7,538
10	Habib Metropolitan Bank	661.1	3.0	9.5	286	4,261
11	Standard Chartered Bank	513.5	2.4	13.4	93	3,220
12	Faysal Bank Limited	488.0	3.9	7.2	405	6,210
13	Industrial and commercial bank of China	391.2	0.1	5.3	3	102
14	JS Bank Limited	390.9	2.8	1.8	322	8,570
15	Soneri Bank Limited	322.1	2.6	2.8	290	2,857
16	Bank of Khyber	245.1	1.3	2.7	166	1,388
17	Summit Bank Limited	233.0	1.5	(0.7)	193	3,200
18	Bank Islami	217.2	2.0	0.2	330	4,112
19	Sindh Bank Limited	204.5	1.0	2.2	300	2,032
20	Dubai Islamic Bank Limited	182.2	1.8	2.6	200	2,456
21	Silkbank Limited	166.8	1.4	1.4	123	3,858
22	Albaraka Bank Limited	120.6	1.1	(0.5)	188	2,765
23	Citibank N.A	117.1	0.4	3.7	3	564
24	Samba Bank Limited	117.1	0.6	0.9	37	749
25	Deutsche Bank	33.2	0.1	1.1	3	129
Total					12188	

Source: Adapted from KPMG Banking Results (2019) and State Bank of Pakistan (2019).

According to the KPMG Banking Results (2019) and State Bank of Pakistan (2019) Habib bank limited (HBL) is at the top of the list with 2,657 billion rupees of assets. National bank of Pakistan with 2,379 billion is at the second in the list, third in the list is United bank limited (UBL) with 2,116 billion rupees assets. Subsequently, Muslim commercial bank and Allied Bank are at fourth and fifth in the list with 1,357 billion rupees and 1,246 billion rupees respectively as shown in Figure 1.6.

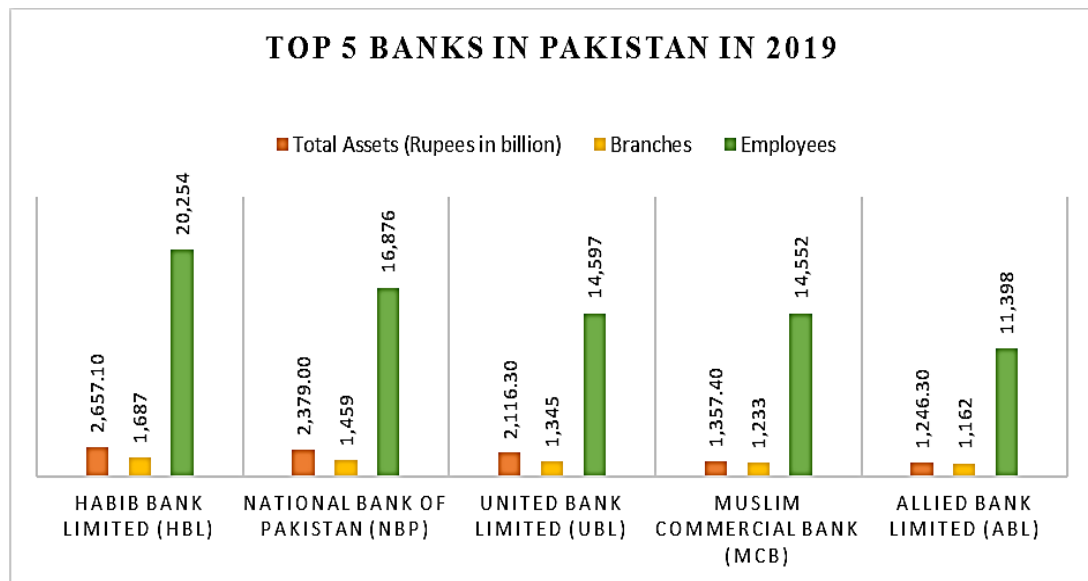


Figure 1.6. Top 5 Banks in Pakistan in 2019

Source: KPMG Banking Results (2019) and State Bank of Pakistan (2019)

1.4 Islamic Banking in Pakistan

The historical background of Islamic banking in Pakistan has three main stages (please see Table 1.2). The first stage is the political motives behind the foundation of Pakistan (1948-1962). The second stage was the transformation of conventional economic into Islamic economic system (1960 to 2000). The third phase involved the alignment between the conventional and Islamic banking sectors (after year 2000). The political movement behind the establishment of Pakistan established a state where the

Muslims could live under Islamic principles. In 1948, Muhammad Ali Jinnah, the founder and Governor General of Pakistan inaugurated the State Bank of Pakistan and said:

“I shall watch with keenness the work of your research organization in evolving banking practices compatible with Islamic idea of social and economic life”¹.

Table 1.2

Historical background of Islamic banking in Pakistan

Stage	Brief
Political envision behind Foundation of Pakistan	<ul style="list-style-type: none"> • In 1948, formation of State Bank of Pakistan, and visioning as an institution to facilitate the Islamic idea of social and economic life • In 1957, foundation of Council of Islamic Ideology for the purpose to assist the government in Shari’ah matters
Role of government in transformation in the year 1960- 2000	<ul style="list-style-type: none"> • In 1963, government referred the matter of interest-based transaction to Council of Islamic Ideology • In 1969, the council pronounced the interest-based transaction as against the Shari’ah • In 1977, a panel of experts formed under the council to bring reforms in economic system • In 1980, the council submitted its recommendations and guidelines of reformations • In 1981, several steps of reformations undertaken • The banks were directed to accept the deposits on a profit-loss sharing basis along with conventional modes, while at the end of July, 1985 the Islamic mode of financing will be continued only • Till 1991, several petitions came before Federal Shari’ah Court (FSC) pointing out the issues of Islamic reformations, and likewise FSC declared its verdicts and directed to government to bring several reformations in economic system to completely transform into an Islamic economic system.

¹ History of State Bank of Pakistan, at http://www.sbp.org.pk/about/history/h_moments.htm

Table 1.2 (Continued)

Stage	Brief
	<ul style="list-style-type: none"> • The same judgement of FSC was challenged before the Supreme Court of Pakistan (SCP), after a long pendency, SCP upheld the FSC verdicts and directed the government to bring reforms till June 2001, then extended the date till June 2002 • While, in a review petition before SCP, the earlier verdict was set aside, and SCP referred the original case back to FSC for fresh hearing, which is still pending before FSC
Post-year 2000 dual banking strategy	<ul style="list-style-type: none"> • State bank of Pakistan allowed dual banking system, Islamic banking along with conventional sector, and envisioned to make the Islamic banking as first choice • In 2002, State Bank of Pakistan issued the first license as Islamic bank to Meezan Bank

Moreover, Pakistan's political motivation was reinitiated by the objective resolution, which was shown on 12 March 1949 as the backbone of the Pakistani constitution and approved by Pakistan's National Assembly:

“... the Muslims shall be enabled to order their lives in the individual and collective spheres in accordance with the teachings and requirements of Islam as set out in holy Qur’an and the Sunnah.”

(Ispahani, 2017)

1.4.1 Current Status of Islamic Banking in Pakistan

Table 1.3 depicts an overview of Islamic banking, which presently accounts for 13.5 percent of assets in the banking industry and 15.5 percent of deposits, with 2851 branches across the country. There are five Sharia-compliant Islamic banking institutions and 17 conventional financial institutions with Islamic subsidiaries.

Table 1.3

Current status of Islamic banking in Pakistan

Year	Islamic Banks	Banks with Islamic Bank Windows	No. of Branches	No. of Branches Increase	Total Assets Rs. Bn.	Assets %	Deposits Rs. Bn.	Deposits %	Annual Change of % in	
									Assets	Deposits
2003	1	3	17	17	13	0.5	8	0.4	0.5	0.4
2004	2	7	48	31	44	1.4	30	1.2	0.9	0.8
2005	2	9	70	22	72	2.1	50	1.9	0.7	0.7
2006	4	12	150	80	118	2.9	83	2.8	0.8	0.9
2007	6	12	289	139	206	4.3	147	4.1	1.4	1.3
2008	6	12	515	226	276	4.9	202	4.8	0.6	0.7
2009	6	13	649	134	366	5.6	283	5.9	0.7	1.1
2010	5	13	751	102	477	6.7	390	7.2	1.1	1.3
2011	5	12	886	135	641	7.8	521	8.4	1.1	1.2
2012	5	13	1097	211	837	8.6	706	9.7	0.8	1.3
2013	5	14	1304	207	1014	9.6	868	10.4	1	0.7
2014	5	17	1574	270	1259	10.4	1070	11.6	0.8	1.2
2015	6	17	2075	501	1610	11.4	1375	13.2	1	1.6
2016	5	16	2322	247	1853	11.7	1573	13.3	0.3	0.1
2017	5	16	2581	259	2272	12.4	1885	14.5	0.7	1.2
2018	5	17	2851	270	2658	13.5	2203	15.5	1.1	1
Average									0.84	0.97

Compiled by the author

Source: (State Bank of Pakistan, 2007a, 2008b, 2009, 2010, 2011, 2012, 2013, 2014a, 2015, 2016, 2017b, 2018a)

The market share of Islamic banking is steadily increasing. However, the average yearly change in assets and deposits from 2003 to 2018 was 0.84 percent in assets and 0.97 percent in deposits, indicating that the change was less than 1%. Table 1.3 shows that Islamic banking market performance was slow but consistent until 2007-8, when the yearly change in assets and deposits of Islamic banking suddenly decreased. This decline, however, began to rebound in subsequent years, demonstrating customer trust. The overall trend since 2010 has shown that Pakistani Islamic banking is continuously recovering and regaining pace. Furthermore, the number of Islamic banking branches decreased by about half in 2009-10, and one full-fledged Islamic bank exited the market. This decline, however, began to rebound in subsequent years, reflecting customer trust.

The addition of a new full-fledged Islamic bank in the sector resulted in a rapid growth in the number of branches and deposits in 2015. However, the same bank left the market the next year. The overall trend since 2010 has shown that Pakistani Islamic banking is continuously recovering and regaining pace. The whole scope evokes variations in Islamic banking market performance, which can lead to a variety of views. First and foremost, strong competition comes from the traditional banking industry, which has deep roots in the economy and has been in operation for almost 70 years. Islamic banking, on the other hand, is a very new phenomenon, having only been around for for a decade and a half. As a result of the on and off pressure from the traditional banking industry, Islamic banking has become volatile. Pakistani IBs coexist with regular commercial banks, as they do in many other nations. This cohabitation does not come without significant obstacles in competing between the two, particularly on a global scale, making it necessary for IBs to cope with the dangers that their conventional counterparts confront while still adhering to international standards (Abdullah, Shahimi,

& Ismail, 2011). As a result of the demand to apply the same regulation to both types of banks, an uniform legislative framework is being established. In Pakistan, for example, no specific regulatory rules governing the activities of IBs have yet been enacted. It is common for IBs to follow the same rules as commercial banks (Abdullah, Shahimi, & Ismail, 2011). The primary distinction between Islamic and traditional banks may be seen in their core concept. In an Islamic bank, the goal is to use Islamic funding methods rather than the traditional system of trading debts and benefiting from the difference in interest rates between deposits and loans.

As a result, IBs' objectives comprise, in combination to maximizing shareholder income, maximizing depositor wealth as partners with the bank, as well as the fundamental purpose of eliminating usury and monopoly and attaining economic and social growth for Islamic societies. In terms of depositor relationships, IBs are not obligated to refund investment deposits or promise a particular rate of interest. Furthermore, depositors endure loss and profit without the involvement of the bank. As a result, the nature of operation and objectives of an Islamic bank and a conventional bank are fundamentally different, which necessitates variations in the type and amount of risks encountered by each. It's worth emphasizing that risks are an unavoidable part of doing business and living in a community. A risk is a chance of losing money or profiting from potentially easily manipulated circumstances, and it is a requirement for financial institutions to succeed. However, competent risk management departments inside institutions (i.e. banks) must be in place to assist banks in dealing with such risks and minimize risks and loss when they are exposed to them.

Conceptual studies on SNC can be traced back from the study on the concept of Haram (unlawful) as the processes and operations that are not conducted in accordance to Shari'ah law of contract that derived from the Quran and Hadith. Any unlawful deed or action committed by a Muslim lead to sin. To understand the concept behind Islamic banking, we need to look back into the history of Islamic banking. The next section will briefly explain the history of Islamic banking.

Modern world financial systems are based on lending at interest and trading at risk. On the other hand, Islamic finance does not rely on both. It is very clear that these two systems are basically opposite one another. Hence, the true Islamic financial system has to serve against the tide of global financial system. However, the matter of fact all current financial instruments involves riba or excessive Gharar in a way or the other. In the current situation, it is really very hard for Islamic financial system to follow Shari'ah principles and win survival at the same time. These Islamic financial institutions have to survive in the modern financial system and hence they have to make compromise in the name of durura (necessity) and maslaha (public interest). It cannot be denied that if Islamic finance tries to make too many compromises its credibility will be at risk.

1.4.2 Shari'ah Supervision of Islamic Banking in Pakistan

Banks in Pakistan are permitted to offer Islamic banking and financing under the Banking Companies Ordinance (1962). The central bank, the State Bank of Pakistan, has a shari'ah board with five members, including at least two Shari'ah scholars, one chartered accountant, one lawyer, and one bank representative. The central bank's shari'ah board is in charge of reviewing and approving shari'ah compliant products and transactions. The central bank's shari'ah board has approved the necessary modes of Islamic financing, which are binding on Islamic banking institutions (State Bank of

Pakistan, 2008a). In addition, Islamic financial institutions must have shari'ah boards, which are responsible for providing opinions and approvals on the Shari'ah compliance of products and activities. In the event of a disagreement, the central bank's shari'ah board's decision is final and binding on the board of an Islamic bank. This means that the central bank's Shari'ah board has final jurisdiction over shari'ah rulings. In a brief, Pakistani Islamic banking follows a centralised Shariah governance structure (Hamza, 2013). The State Bank of Pakistan initially required IBs to have at least one shari'ah advisor or member on their shari'ah governance boards. In the years 2014-2015, the number of Shari'ah advisers in every Islamic bank's shari'ah board increased to at least three shari'ah members (State Bank of Pakistan, 2015).

1.5 Problem Statement

Islamic banking emerged in the mid-20th century, yet an absence of careful study has arisen questions its credibility especially in terms of portion of prohibited income gain from Islamic bank activities. Also, there are loopholes in the operations of it and measures of their performance especially related to managing assets without indulged into prohibited income gain. Question arises about the poor performance of Islamic banking system. Perhaps, there is a mismatch of objectives and performance, or the role of management and scholar is not fully defined. The unlawful income is a real threat to Islamic financial system, and it is a matter of fact that due to this non-shari'ah compliant income (NSCI), there is no difference between Islamic and conventional banks. Various study in this area do investigate the sources of unlawful income from the perspective of risk. Along with this, there is a lack of data available about the role of managers and scholars to avoid such NSCI. This issue has attracted various stakeholders to see why this phenomenon still exists in the Islamic Banking industry. For example,

Table 1.4 below shows the amount of Non-Shari’ah Compliant Income (NSCI) reported by several IBs in the context of Pakistan.

Table 1.4

Non-Sharia’ah Compliant Income (NSCI) – Windows of Islamic Banks

Bank Name	Non-Shari’ah Compliant Income (NSCI) (in USD)
i. Askari Bank Limited	312, 445.00
ii. Bank Al Habib Limited	198, 634.56
iii. Bank Alfalah Limited	303, 937.28
iv. Habib Bank Limited	1, 606,649.8
v. National Bank of Pakistan	6,260.39
vi. Standard Chartered Bank (Pakistan) Limited	70, 381.09
Total	USD 2,421,667.26

Source: Compiled by researcher from Conventional Banks with Islamic Windows Annual reports (2013-2018)

When we compare NSCI with the full-fledged IBs in Pakistan, the situation is not much different. Even in the full-fledged IBs, every year they still need to transfer a huge amount of NSCI to charity account. The amount of NSCI in the full-fledged IBs is shown in Table 1.5 below.

Table 1.5

Non-Shari’ah Compliant Income (NSCI) – Full-Fledged Islamic Bank

Bank Name	Non-Shari’ah Compliant Income (NSCI) (in USD)
i. Bank Islami	255, 376.93
ii. Dubai Islamic Bank	201,257.15
iii. MCB	454,470.74
iv. Mezaan Bank	556,443.85
Total	USD 1,467,548.68

Source: Compiled by researcher from Full-Fledged Islamic Banks Annual reports (2013-2018)

The sources of this income are due to the activities that involve directly or indirectly with the non-Shari'ah activities. Hanif (2014) argues that if IBs gain prohibited income, there will be no difference between conventional and IBs. Many economists are of the view that the whole Islamic banking is based on the fundamentals of conventional banking system (Chapra, 2003; Ullah, Harwood, & Jamali, 2018). Islamic banking is a debt-based system which certainly includes interest (riba) (Chapra, 1985). There are various reasons behind non-halal income. According to Abbas and Ali (2019) and Usmani (2012), one of the reasons of earning prohibited income is the lack of clear understanding of the relevant guidelines and principals of Shari'ah. It is well established that NSCI is a real threat to modern Islamic banking which will not only hits its credibility but also a hurdle in the way of establishing a true Shari'ah compliant economic system. Besides, the implication of the NSCI will lead to the lack of trust among the client of Islamic bank service providers. The trust of the customer is the main catalyst for the services providers and customers. The importance of trust as a whole was reflected in a statement by Hunt and Morgan (1994); trust is central to all relational exchanges and also will lead to commitment issue between client and Islamic bank service provider. Based on this phenomenon of NSCI, therefore, main purpose of this study is divided into two (2) phenomena: (1) to investigate the sources of NSCI in Islamic bank and (2) to examine the determinants that influence the trust of Muslim customers of IBs in the context of Pakistan.

1.6 Research Question

Based on the research objectives above, therefore the research questions of the study are as follows:

1.6.1 First (1st) Phenomenon: The Existence of Non-Shari'ah Compliant Income (NSCI)

- a) What are the sources of Islamic banking activities that lead to non-Shari'ah income (NSCI)?
- b) What are the treatments to address the Non-Shari'ah Compliant Income (NSCI)?
- c) What are the impacts of NSCI on customer trust and commitment toward the bank services from the top management of bank perspective?
- d) What is the impact of non-shari'ah income on customer of Islamic bank commitment and trust from customers perspective?

1.6.2 Second (2nd) Phenomenon: The Trust of Islamic Bank Muslim Customers due to NSCI.

- a) Does the ability of bank management to address the non-Shari'ah compliant income (NSCI) affect the commitment of Islamic Bank Muslim client?
- b) Does the integrity of bank management to address the non-Shari'ah compliant income (NSCI) affect the commitment of Islamic Bank Muslim clients?
- c) Does the shared values of bank management to address the non-Shari'ah compliant income (NSCI) affect the commitment of Islamic Bank Muslim clients?
- d) Does the benevolence practice of bank management to address the non-Shari'ah compliant income (NSCI) affect the commitment of Islamic Bank Muslim clients?

- e) Does the trust mediate the relationship between ability, integrity, shared values and benevolence of bank management and commitment of Islamic Bank Muslim clients?

1.7 Research Objectives

The objectives of the study are divided into two (2) main phenomena which are, the first objective is to examine the reason for the existence of Non-Shari'ah Compliant Income (NSCI) in the banking activities and the second objective is to examine the determinants that influence the commitment of Muslim client which is due to the existence of NSCI in the banks' financial income. Therefore, the followings are the details of the objectives:

1.7.1 First (1st) Phenomenon: The Existence of Non-Shari'ah Compliant Income (NSCI)

- a) To identify the sources of Islamic banking activities that lead to non-Shari'ah income (NSCI).
- b) To explore on the treatments of Non-Shari'ah Compliant Income (NSCI).
- c) To explore the impacts of NSCI on customer commitment toward the bank services from the top management of bank perspective.
- d) To explore the impact of non-shari'ah income (NSCI) on customer of Islamic bank commitment and trust from the customers perspective.

1.7.2 Second (2nd) Phenomenon: The Trust of Islamic Bank Muslim Client due to NSCI

- a) To examine the relationship between the ability of bank management to address the non-Shari'ah compliant income (NSCI) and Commitment of Islamic Bank Muslim clients.
- b) To examine the relationship between the integrity of bank management to address the non-Shari'ah compliant income (NSCI) and Commitment of Islamic Bank Muslim clients.
- c) To examine the relationship between the shared values of bank management to address the non-Shari'ah compliant income (NSCI) and Commitment of Islamic Bank Muslim client.
- e) To examine the relationship between the benevolence practice of bank management to address the non-Shari'ah compliant income (NSCI) and Commitment of Islamic Bank Muslim clients.
- f) To examine the mediating role of trust between ability, integrity, shared values and benevolence of bank management and Commitment of Islamic Bank Muslim client.

1.8 Scope of the Study

This study involves an investigation of the existence of NSCI in Islamic banking. This research was conducted by examining the sources of Islamic banking activities that lead to NSCI also the treatments to address the NSCI and explore the impacts of NSCI on customer trust and commitment toward the bank services from the top management of bank perspective. This study was conducted in Pakistan Conventional banks with Islamic windows and Full-fledged IBs. The present study will employ multiple methods of research design which require a qualitative nature of investigation for the first

phenomenon. Thus, the first phenomenon was achieved by conducting a series of interviews with Shari'ah Scholars of IBs in Pakistan and top management that involve directly in the banking activities. Meanwhile, the second objective was achieved by using a quantitative method which required a self-administered questionnaire and, Muslim customers of Islamic bank was the respondents to answer the questionnaire which will measure the factors that influence the trust and commitment of the Muslim customers of IBs.

1.9 Significance of the Study

The significance of this study can be discerned from theoretical and practical perspectives. From a theoretical perspective, this study is expected to fill the knowledge gap in the model of gaining trust-commitment from client of Islamic bank based on independent and mediator variables. From the literature review, the issues regarding reasons that related to risk of Islamic bank is widely examine from the perspective of risk; however there is a dearth of studies that cover on the issue of NSCI in the perspective of qualitative data. This will enhance the richness of the phenomenon especially from the top management of bank that involves in the bank operational activities. Second, the present study contributes on the trust-commitment theory which examine on the client Islamic Bank on the issue of NSCI in the Islamic Bank.

From the practical perspective, it is anticipated that the issue of NSCI might affect the sustainability of the Islamic bank trust-commitment. To ensure that customers of Islamic bank will continue to trust and committed by the Islamic Bank service providers IBs need to be sustainable. The output of the research is expected to give clear indication to the top management of Islamic Bank and also to the students especially on the issue of NSCI. The outcome of this study would help to reveal the sources of the

NSCI in scientific way. Thus, this study will have both theoretical and practical contributions.

1.10 Structure of the Thesis

The present study is arranged into several key chapters such as follows;

Chapter 1 introduces the readers to the background of the research including problem statement, research objectives, and research questions, the significance of the research and the definitions of key terms.

Chapter 2 reviews the literature, research model and hypotheses of the present study.

Chapter 3 covers the methodology employed for the present study, which includes the research philosophy, research design, population and source of data, unit of analysis, sampling technique, minimum sample size, data collection procedures, research instruments, common method bias, pre-testing of the questionnaire and the statistical analysis used for the research.

Chapter 4 covers the results based on the collected data from two different methods i.e. qualitative (in-depth interviews) and quantitative (survey).The findings of the study based on several statistical analysis including the demographic profile of the respondents, validity and reliability, summary of hypotheses results etc.

Chapter 5 focuses on the discussion of the findings, theoretical and practical implications, limitations of the study and future recommendations.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Islamic financial system is working in many Muslim majority and minority countries, and many studies continuously contribute to the development of the industry. Studies have been done on general features of Islamic banking such as socio-economic contribution of bank, to promote social justice. The first section of this chapter will review the literature on the banking system during different eras, additionally it also will discuss the main differences between Islamic and conventional banking. In the second section, this chapter will discuss on the different kinds of risks involve in banking industry which specify on the differences between Islamic and conventional banks. Besides, this chapter also will highlight the different types of operational risks and the process of IBs deal with non-Shariah compliant income occurred due to operational risk. In the third section, the chapter focuses on the variables related to the building of a strong commitment of customers of Islamic banking by reviewing the related literature. The final section presents the conceptual framework and the development of hypotheses.

2.2 Finance Industry: Pre-Islamic Era

Prior to the arrival of Islam, financial operations had begun in the Arab world, but their operation was plagued with *riba*. Meccans of the era used money in one of two ways: sending it to another party to trade through *alQirad* or *mudarabah*, with both parties sharing the gains, or loan it to obtain advantages, which is known as *riba*. (Mohammad, 2013). However, the coming of Islam has resulted in complete prohibition

of all activities that involve riba, and this prohibition did not prevent the development of trade that took place either nationally or internationally (Sudin, 1996) cited in (Mohammad, 2013) and the origin of Islamic finance dates back to the dawn of Islam 1,400 years ago (Ajagbe & Brimah, 2013). Prophet Muhammad ﷺ had used the concept of trust before becoming a prophet. The Arabs chose him as their treasure keeper because of his excellent qualities such as honesty and sincerity (Hamoud, 1985) cited in (Mohammad, 2013). Apart from that, during the Prophet's time, there was a guy named al-Zubayr alAwwam who acted as a bank and held deposits for others. He did, however, change this method of money management to loans. When people brought their money to be stored by his father, Abd Allah bin Al-Zubayr, the son of Al-Zubayr, reported that he would inform them that the money was being borrowed rather than deposited since his father was afraid of losing it. Al-Zubayr's accomplished two main goals: the first is that he gained the right to use the money by taking the deposit as loans. Second, if the deposit is not used, the owner will lose money; therefore, if it is considered a loan, it is safer because the borrower is responsible for repaying the money (Ajagbe & Brimah, 2013; Mohammad, 2013). Apart from that, there were evidence that the establishment of an Islamic financial foundation began during the Prophet's era. One of those foundations was the establishment of Bayt al Mal, which acted as the central bank for Islamic countries and assisted the poor, particularly Muslims (Mohammad, 2013). Furthermore, there is a clear broad structure of principles practiced by Prophet Muhammad (ﷺ), such as the mudarabah contract between Khadijah and the Prophet (p.b.u.h), the musyarakah contract in which Al-Sa'ib Ibn Abi Al-Sa'ib became a partner of the Prophet (p.b.u.h.) before his prophethood, bay' al-salam.

2.3 Finance Industry: Islamic Era

In wide sense, the beginning of Islamic finance industry was in the early days of Islam and then the industry grew faster during Islamic empire. As trade grew, financial tools such as deposits, checks, bills of exchange, money transfer, developed in order to cope with commercial developments. Later, the Europeans learnt the financial system and adopted it (Alharbi, 2015). It is a matter of fact that the key principle of Islamic financial system is the abolition of usury, gambling, speculation, deceptions, monopoly, and information asymmetry. Other common traits in Islamic financial system are the investment in Halal business, the use of business which promotes risk sharing and mobilization of all factors of production. The major objective of Islamic financial system is to contribute to the overall economic growth (Smolo & Mirakhor, 2010) . Hence it is undoubtedly argued that financial system existed in its true definition provided by Islamic teaching of Quran and Hadith.

The downfall of Othman empire after world war I (WWI) 1924 also led to the collapse of the true Islamic financial system. The major parts of the empire were made colonies of developed European states such as France and England. These nations introduced new laws, regulations and techniques in these colonies. Hence, financial system especially banking institution is introduced with interest-based. The operation and financial activities involved usury, gambling, speculation and all other negative elements which are not according to Islam and created injustice in the society. This was the beginning of a new secular system in nearly in all Islamic states. In the middle of 20th century, after WWII, many colonies won independence. Many Muslims states were created on the map of the world. All states were keen to adopt Islam as a way of life as they believed that Islam is a complete code of conduct, so these countries wanted to implement Islam in their economies and finance as well. Hence, a struggle started to

materialize the dream of interest free institutions at least in Islamic states (J. U. Islam & Rahman, 2017).

2.4 Finance Industry: Modern Islamic Era

Late 19th century and 20th century is the era of Islamic resurgence. Some important figures who were responsible for this resurgence were Muhamamd Abduh (1849), Rashid Reda (1865), Muhammad Iqbal (1975), Hasan Albanna (1939), Hifz Al-Rehman (1942), Muhammad Hamidullah (1946), Naiem Siddiqi (1948), Muhammad Yousaf Al-Dean (1950) and Muhammad Uzair (1955).

Shaikh, Ismail, Shafiai, Ismail, and Shahimi (2017) argues that this Islamic financial system was first initiated by Mit Ghamr saving bank in Egypt between 1963 and 1967. It was an interest free banking system. However, the bank was lasted only for 4 years and closed in 1967 (Ariff, 1988). Then, the continuous attempt in developing Islamic banking was made again in Malaysia in the late of -1960's and in Pakistan in the late 1950's (Ajagbe & Brimah, 2013; Perry & Rehman, 2011). The objective of Islamic finance in Malaysia was to invest prospective pilgrim savings in real estate. Meanwhile, in Pakistan, the Islamic banking was established for rural areas where landowners were reluctant to deposit in interest-based banks due to Shariah-related issues. It is undoubtedly accepted that the increasing wealth of Ummah has also led to the growth of Islamic banking industry. Perhaps, the most successful formal Islamic bank was Dubai Islamic bank in 1974. It was the most important development in the history of Islamic banking. This fact cannot be denied that the performance of Islamic banking has been remarkable, keeping in mind the years it has started its services (i.e. 25 year only). Government involvement, increasing wealth of Muslim world and global

demand for interest-free banking system are the factors which contributed towards its remarkable success.

The oil boom in 1970's has generated the need of surplus savings in oil rich states (Choudhury & Dusuki, 2008). For example, the export of oil from Gulf states were expected to generate USD 5 trillion to USD 9 trillion between 2005 and 2020. Hence, the modern Islamic banking is also a demand of modern world. This factor has also led to the growth of Islamic banking. The matter of fact is that non-Islamic countries have also demand of Islamic banking. According to a study, up to May 1997, in Africa, Europe and USA, there were about 150 IBs managing about USD 75.5 billion. The number of Islamic institutions increased from 75 in 1975 to more than 300 in 2005 in more than 75 countries across the globe (International Monetary Fund 2006). Furthermore, Islamic banking growing at an annual rate of 15 – 20% (Mckinsey, 2008).

Another study shows that Shari'ah compliant assets have increased from USD822 in 2009 to USD 895 in 2010 which was an increase by approximately 8.85%. The increasing trend of Islamic finance can also be understood by the fact that even non-IBs were also investing in IBs (I. Askari, Mirakhor, 2009). This has resulted in an increase in the number of banks in many European countries. The most prominent example is of UK in which there are 22 Islamic institutions offering Islamic finance (McKenzie, 2010). The increasing demand is due to the fact that Islamic finance is attractive owing to ethical appeal and it is considered to be the best solution to all economic and financial problems. For example, the Vatican was cited to have said that banks should study the principles of Islamic banking so that they can regain the trust of customers during global economic crises (Totaro, 2009). According to the official

newspaper of the Vatican² The ethical principles on which the Islamic finance based may bring banks close to their customers and to the true spirit which should make every financial service trustworthy (Chazi & Syed, 2010).

The backbone of Islamic finance is the prohibited source of income declared by Quran and prophet Muhammad SAW. Examples are consumption of alcohol and pork and lending money with interest. The next section discusses the elements that are prohibited in Islamic finance i.e. Riba, Gharar and Maysir.

2.4.1 Riba (Usury)

Scholars determined that in Islam there is two types of riba. Riba prohibited by Quran and traditions of holy Prophet Muhammad SAW which the first type it involves a time delay before money is paid back and the second type of riba is prohibited in hadith. The second type of riba does not involve a time delay before money is returned. Scholar like El-Gamal (2006) argue that the view that all types of economic interests are not considered to be riba or one may say that riba cannot be confined to the general concept of interest. For example, obtaining high price on credit is considered to be interest but the Quran does not consider this as riba. On the other hand, exchanging two volumes of a good or service of inferior quality with one volume of good or service of superior quality may fall in the category of riba. This form of riba is prohibited in hadith of Prophet Muhammad ﷺ, although it does not involve riba or interest apparently. The most crucial element clearly described in Quran, is lending money with interest. Quran declares a clear decision on this issue. Lending money with interest is prohibited in all circumstances. The Quran shows no flexibility in this regard. Whether the interest is

² "Vatican offers Islamic finance system to Western Banks". world bulletin. 6 March 2009. Retrieved 6 August 2016.

compounded or simple, high or low or between rich or poor does not matter. This issue is clearly stated in the Quran:

“Allah has permitted trading and prohibited riba” (2:275)

El-Gamal (2006) says that the view that prohibition of Riba and Gharar actually acts as the deference against human idiosyncrasies in financial decision making. On the other hand, El Diwany (2003) considered compound interest on debt as a conflict with nature. He elaborates that in physical world, deterioration is the fate of everything “fruits rot and buildings become dilapidated” but compound interest grows to infinity instead of deterioration. Another debate in Islamic finance industry is about inflation indexation of interest free monetary loans. Some scholars such as Zaheer (2007) has view that in order to generate fairness to lender, inflation indexation is a right step. But other scholars view the indexation of monetary is contravention to prohibition of riba. They believe that inflation is not a current phenomenon and inflation indexation is not a part of Islamic commercial jurisprudence. Another reason is that interest itself is an effect of inflation. Another reason given in this regard is that borrower is supposed to pay back the same amount even in the case of deflation (Ayub, 2013).

2.4.2 Gharar (Uncertainty)

Gharar means “uncertainty” or “excessive and avoidable uncertainty”. It simply refers to lack of knowledge, uncertainty and hazard. Ibn-Qayyim a well-known Muslim scholar defines it as “A sale in which seller is not in position to hand over the subject matter”. On the other hand, Dr Zuhayli explained it as follows “A contract which contains a risk to any one of the parties which could lead to his loss of properties” (Islamic Financial System: Principles & Operations, pp.181). Gharar literally means danger, exposure to destruction, deception, delusiveness, peril, hazard, disclosed, and

uncertainty (Abozaid & Dusuki, 2007; Malik, Malik, & Mustafa, 2011; Mihajat, 2016). In financial system, it means uncertainty which is actually deceptive. It implies that one who practices Gharar is actually frauds others by using uncertainty (A. U. F. Ahmad & Hassan, 2007). In terms of Fiqh Muamalat, Gharar means to do something blindly without exactly knowing what will happen or doing something without proper knowledge. Al-Dharir (1997)³ identifies 4 forms of Gharar and provides four necessary conditions of Gharar to invalidate a contract:

1. It must be major.
2. The contract must be a commutative financial contract.
3. Gharar must affect principal component of the contract.
4. No need is met by the contract containing that cannot be met otherwise.

There is no clear evidence which prohibits Gharar. However, Allah mentions in Quran:

“Eat not your property among yourself unjustly by falsehood and deceptive except you by mutual consent”

(Al Bukhari,2:188, Al Nisa, 4:29)

Gharar is actually considered as a form of gambling (Alkhamees, 2014) and, Quran clearly prohibits gambling as directed in many verses (Al-bakrah 2:188; Al-Maidah,5:93)^{4,5} Prophet Muhammad (PBUH) has prohibited many transactions which included Gharar. For example, Prophet Muhammad SAW forbade the sale and purchases of unborn animal in mother’s womb, sale and purchase of the catch of a diver

³ Al-Dharu (1994), pp. 583-612.

⁴ And do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order that [they might aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful].

⁵ There is not upon those who believe and do righteousness [any] blame concerning what they have eaten [in the past] if they [now] fear Allah and believe and do righteous deeds, and then fear Allah and believe, and then fear Allah and do good; and Allah loves the doers of good.

and the sale and purchase of milk in udder without measuring it. All these are forms of Gharar.

Gharar is an important element in transaction whose main aim is to avoid deception. It is proper implantation would help to minimize disputes among the contracting parties and also reduce the chances of exploitation. In other words, avoiding Gharar safeguards both of the parties to be cheated. Hence, the eradication of Gharar clearly means that there must be a clear terms and conditions of any contract in terms of price, quantity, quality and existence of goods and services. This prohibition of Gharar also emphasis on the need of an accounting system based on Shari'ah. Gharar sales is only applicable in principle of uqad mu'a Wadhat (exchange contract) and is not applied in principle of uqud tabarrua't (charitable contract) (Mihajat, 2016). It is because, in charitable acts owners has no intention to multiply his wealth. Question arises here, why Gharar is strongly prohibited. Imam Ibn Taymiyyah is of the view that the wisdom behind prohibition of Gharar is the element uncertainty. this uncertainty may take someone property which is immortal (Jam'ah, 2005). This prohibition also aimed to protect the wealth from loss and to eradicate hostility among people during trade (Asma'Rashidah Idris et al., 2011). Mahmoud (2001) has the view that Gharar is actually a trading of a risk without any asset of good in hand. He argues that to prohibit is actually economically efficient (El Khamlichi, Sarkar, Arouri, & Teulon, 2014).

2.4.3 Maysir (Gambling)

Maysir is sort of a lottery. It has contributions from participants and random draw. The benefit of draw is received by one winner. Maysir literally means gambling. The player obtains wealth by chance, without it deprives others from their wealth. Hence it is considered to be a part of gambling and any type of business activity in which

money is obtained by chance by depriving others from wealth. The term gambling in Islam finance is defined as:

“any transaction conducted by two parties to process the ownership of particular asset or services which obtain benefits to one party and harm to others by linking a particular transaction with an act or events”

(Brann, 2010, p.5)

In order to consider a transaction as gambling, these conditions must be met.

- a) Both sides of gambler must have betting assets
- b) There must be a game which would declare the winner and the loser
- c) The winner will take the asset that is being bet and loser will lose his bet property.

Quran clearly prohibits gambling (Al-Bakrah 2:219⁶ & Al Maida,5:93⁷). It is “Game of chance” and gambling (Vogel & Hayes, 1998). Hence some scholars call it extreme Gharar. It is also worth mentioning that gambling is an effort to gain benefits through trading of risk and it does not involve any economic activity and its outcome is short term and immediate. Gambling’s outcome is beyond the control of contracting parties. The prohibitions against Riba and excessive Gharar are major source of understanding the structuring of products in Islamic finance. These prohibitions explain and emphasis is laid on assets, enterprise and risk sharing. For example, if one does not want to lend money with interest and wants to earn profit, then one has to trade assets

⁶ They ask you about wine and gambling. Say, "In them is great sin and [yet, some] benefit for people. But their sin is greater than their benefit." And they ask you what they should spend. Say, "The excess [beyond needs]." Thus, Allah makes clear to you the verses [of revelation] that you might give thought.

⁷ There is not upon those who believe and do righteousness [any] blame concerning what they have eaten [in the past] if they [now] fear Allah and believe and do righteous deeds, and then fear Allah and believe, and then fear Allah and do good; and Allah loves the doers of good.

or engage in business activity. It means one has to accept the risk associated with ownership of an asset or engaging in business. Likewise, if one wants to avoid trading of risk and tries to manage risk by insurance, then it is mutual risk. It is clear from these examples that why risk sharing is closely related to Islamic finance. These prohibitions also hinder the way of different financial instrument which is linked with interest-bearing debt and trading of risk (conventional debt and derivatives). Prohibitions also stand in the way of trading debt at values other than par value is also considered as riba. Short selling is also made problematic by the prohibitions impose by Shariah. Short selling is against the tradition Prophet in which he (PBUH) orders not to sell what is not possessed (Dusuki & Abozaid, 2007; A. Dusuki & Smolo, 2009; A. W. Dusuki, Ali, & Hussain, 2012). Although it seems that these prohibitions minimize the freedom to contract yet risk sharing keeps finance simple. It also facilitates the redistribution of wealth. It helps to promote social solidarity as well. Risk sharing safeguards society against financial instability because the loss is transferred to both of the parties.

2.5 Fundamental Principles of Islamic Finance

Shariah outlines a number of principles for finance. The main goal is public welfare and social justice (Dusuki & Abozaid, 2007). Islam allows capitalism and does not restrict profit maximization, yet it restricts unlawful means such as gambling, tobacco, pornography, speculation etc.(Usmani, 2002). The main aim of maintaining justice and social equality (Usmani, 2002).

The basic principle on which Islamic finance is standing is a set of prohibitions. These prohibitions are as follows. First of all, the most fundamental concept is the prohibition of riba (Interest). The literal meaning of riba is excess. In technical meaning it refers to extra money paid (or received) for borrowed (or lent) money (Khan &

Ahmed, 2001a; Obaidullah, 2005). Islamic finance researchers have views that riba is responsible for unequal distribution of wealth by keeping lender safe from risks associated with investment. It also oppresses the borrower because all the risk is shifted towards him (Sultan, 2007; Usmani, 2002) (Sultan, 2007, Usmani, 2002b). Hence, shariah scholars don't permit IBs to make any transaction involving riba. Riba leads to imbalance distribution of wealth and concentration of wealth in a few hands.

Secondly, Maysir (Gambling), Gharar (Excessive risk) is strongly prohibited by Islam. These practices have some impact i.e. “tend to concentrate wealth in the hands of few” (Usmani, 2002b, p47). Another reason due to which gambling is prohibited is that Islam prefer investment in real assets and gambling holds capital in hypothetical assets and it does not lead to overall economic development. Moreover, they can cause social problems. It also leads to “financial breakdown, impaired relations with family and friends” (Bergh & Kuhlarn, 1994, p.275). Gharar has a sense of deception which is unfair in Islam and is obviously against basic human right. On the other hand, speculation leads to hoardings and may result in market crises.

Thirdly, Islam prohibits all form of businesses that are naturally harmful to society in a way or the other e.g. alcohol, tobacco, pork, arms, pornography etc. (Usmani, 1998; Usmani, 2002b). The reason of prohibition is again the harm to different sectors of society (Cactano et al., 2001).

2.6 Prohibitions: The Key to Practice

The prohibitions against riba and excessive gharar are major source of understanding the structuring of products in Islamic finance. These prohibitions explain why so much emphasis is laid on assets, enterprise and risk sharing. For example, if one does not want to lend money with interest and wants to earn profit, then one has to trade

assets or engage in business activity. It means one has to accept the risk associated with ownership of an asset or engaging in business. Likewise, if one wants to avoid trading of risk and tries to manage risk by insurance, then it is mutual risk. It is clear from these examples that why risk sharing is closely related to Islamic finance. These prohibitions also hinder the way of different financial instrument which is linked with interest-bearing debt and trading of risk (conventional debt and derivatives). Prohibitions also stand in the way of trading debt at values other than par value is also considered as *riba*.

Short selling is the selling of a stock that the seller doesn't own (Ariff, 2014). Short selling is also made problematic by the prohibitions impose by shariah. Short selling is against the tradition prophet in which He (PBUH) orders not to sell what is not possessed (Dusuki & Abozaid, 2007; Dusuki & Smolo, 2009; Dusuki et al., 2012). Although it seems that these prohibitions minimize the freedom to contract yet risk sharing keeps finance simple. It also facilitates the redistribution of wealth. It helps to promote social solidarity as well. Risk sharing safeguard against financial instability because the loss is shared with both parties not just transferred to the capital provider.

2.7 Islamic Banking Verses Conventional Banking

Modern conventional banking system operated in the 12th century in Italy (Chachi, 2005). After Renaissance period in Europe (17th century), secular features were introduced in the banking system. Secularism is a part of this system to date.

The theory of secularism were developed to replace the rule of church in Europe and were based on human logic and reasoning. On the other hand, Islamic banking is based on fundamental principles of a religion i.e. Islam instructed by divine book Quran and sayings and practices of Prophet of Muhammad (PBUH). (al-Maqasid). Hence,

these two banking systems differ fundamentally. In other words, they follow different philosophy.

Philosophy is defined as:

“a system of motivating beliefs, concepts and principles. It means unconscious vision of life and scheme of values”

Webster’s third New International Dictionary (1993, p.91)

The philosophy of conventional banking is based on lending and borrowing, trading in money and, making money to time value; a relation which increases and maximizes the value of money (Mohammed & Taib, 2015). Man is considered to be the factor of production and the aim of the life is to maximize profit. On the other hand, the objective of Islamic banking is based on religion and profit (S. Haron & Azmi, 2009). The principle of philosophy of Islamic banking originates from Tawheed. As Quran describes “Allah Almighty is the cherisher and sustainer of the world”⁸ and He (Allah) is absolute owner of all resources in the universe (Quran, 5:120) and it is a matter of fact that man hold all these resources as a khalifah (Trustee) (Quran, 6:165). Man, is supposed to use all these resources for the will of his creator. Shariah defines the boundaries within which these resources are utilized keeping in mind the wellbeing of the whole mankind. Hence Islamic philosophy emphasis individuals, governments and firms must run their economic affairs in accordance with the divine directions. The major aims of God are human well-being and socio-economic justice (M Umer Chapra, 1985). S. Haron and Azmi (2009) are of the view that this Islamic philosophy is the foundation stone to formulate objectives and policies of IBs. The main features of the two banking systems vary as well. In conventional banking system, money is an

⁸ Qur'an: Translation of the meaning, 1:2 <https://www.muslimconverts.com/allah/index.htm>

essential commodity, and this banking system is based on debt. The operation of debt is based on interest rate. On the other hand, Islamic financial system is based on risk and profit sharing. Money is considered as a medium of exchange and bank and customers trust each other as investors. Transparency is a very key element in Islamic banking as well. All contracts in Islamic banking must be transparent to avoid future disputes (Al-Zuhayli, 1985). Many scholars object that in all aspects of Islamic banking operations Shariah laws has been compromised. The main reason behind this compromise is that Islamic banking main objective has been narrowed to profit maximization. One may say that all IBs mainly depend on conventional unidimensional financial ratios to measure their results. Risk sharing is a fundamental feature of Islamic financial system (Ullah, Harwood, & Jamali, 2018).

2.8 Islamic Financing Modes

The conventional banks do not have any restriction on their operations. On the other hand, IBs have to develop products that are in accordance with shariah. Some of these products are given below.

2.8.1 Musharakah and Mudarabah

Musharakah is a financial instrument which is truly shariah based. Two or more partners invest mutually and agree on profit and loss sharing equally (Khan & Ahmed, 2001). This business is financed and managed by both of partners together. They share profit and loss according to the ratio of their investment. According to shariah profit ratio can be adjusted with consent of the partners (Usmani, 2006b). However, loss sharing is strictly in accordance with the ratio of investment.

Mudarabah is a financial agreement in which one partner, rabb-ul-mal (the capital provider) invests his capital and the other partners of the business. The investing partner has no role in managerial affairs. In mudarabah, any loss completely borne by the capital providers (Khan & Ahmed, 2001).

2.8.2 Murabahah

It means a sale agreement with known profit (Usmani, 1998, Usmani, 2002b). It means that the price of the product is described to the buyer at the time of sale. The product must be legal and shariah compliant. The owner must own it at the time of agreement.

2.8.3 Ijarah

It means an operating lease agreement between two parties (Lee and Ullah, 2007, Khan and Ahmed, 2001). The main characteristic of ijarah is that the underlying asset remains in the ownership of the financier (El Qoreli, 2005). Price and quality are negotiated. (Iqbal & Mirakhor, 1987, Swedararejan & Errico, 2002).

2.8.4 Salam and Istisna

These two instruments allow deferred delivery of underlying assets. At the time of agreement, price and quality are negotiated (Iqbal & Mirakhor, 1987, Swedararejan & Errico, 2002).

2.9 Risk

Thompson (1986) argues that human race has always been aware of the concept of risk and its proofs can be traced at least from recorded history. The most important proof

in this regard is Asipu⁹. He was the scholar and practitioner of Tigris-Euphrates valley. He dealt with risk prediction and management in 3200 BC. The concept of risk is also present in the 5th century B.C. in China, Greek, early Romans and other ancient civilizations. Hence, it is clear that all the people around the globe used the concept of risk although there was an absence of a specified word “risk” to represent their activities (Althaus, 2005). (Douglas, 1982, 1985, 1990) argues that the meaning of “risk” has changed overtime. The concept of risk was introduced for the first time in the 17th century in the context of gambling. During pre-1499, risk was considered fate from God. In the late 15th century, Fra Luca Pacioli solved coin tossing puzzle and proved probability theory. As a result, the law of large numbers by Bernoulli in 1711 had emerged. This eventually led to normal distribution by de Moivre in 1738, then idea of prior belief by Bayes in 1763 and then theory of expected loss in the 1800s. Markowitz put an effort towards risk management in 1952. Sharpe and Lintner (1964) introduced Capital Asset Pricing Model (CAPM). CAPM explained the relationship between risk and expected returns. Later, Stephen Ross introduced no-arbitrage theory in 1976. This theory explains the relationship between the returns of portfolio and the return of a single asset by a linear combination of many independent macroeconomic variables. The Bank for International Settlement (BIS) has adopted value-at-risk (VaR) as a standard to calculate regulatory capital requirements since 1998. It was introduced by JP Morgan 1994.

2.9.1 Origin of Risk

The concept of risk is not new. This concept was used even in earliest civilization. In western academic works, the origin of risk has been discussed by

⁹ Asifu is refers to a scholar and practitioner of diagnosis and treatment in Tigris-Euphrates valley in Mesopotamia who has dealt with risk prediction and management as early 3,200 BC.

(Althaus, 2005; Thompson, 1986; Trimpop, 1994). Risk is uncertainties which are the result of fluctuation of profits and losses. There are two main categories of risk.

- i. Systematic risk
- ii. Unsystematic risk

Systematic risk is linked with market & economy of a country and It can also be related to global and regional economic conditions . On the other hand, unsystematic risk has a relation with a unique asset or a specific company.

2.9.2 Types of Risks

Vigus and Singh (2010), classify risk into these categories:

- i. Transaction Risk
- ii. Systematic Risk
- iii. Operational risk

2.9.2(a) Transaction Risk

These risks include credit and market risk. Transactional risks are problematic for companies which deal with different foreign currencies. It occurs due to change in exchange rates of currencies.

2.9.2(a)(i) Credit Risks

Credit risk makes 60% of total risks in commercial banks (Dazik et al., 1998). It refers “to defaulting of counterparty on debt payment or failing in meeting contractual obligation”. Sayed (2013) views that 70% of total banks risk comprises of credit risk.

The rest of 30% is shared by market and operational risk. Khan (2003) considers credit risk as the most important and prominent source of instability.

Credit risk is further divided into the following risk components (Bessis, 2011):

a) Default risk:-

“Default risk is the risk that a lender takes on in the chance that a borrower will be unable to make the required payments on their debt obligation. .A higher level of default risk leads to a higher required return, and in turn, a higher interest rate” (Basel Committee on Banking & Supervision, 2019, pp. 133-135).

b) Counterparty risk:-

According to the Basel Committee on Banking and Supervision (2019) counterparty credit risk (CCR) is “the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. Unlike a firm's exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, CCR creates a bilateral risk of loss: the market value of the transaction can be positive or negative to either counterparty to the transaction. The market value is uncertain and can vary over time with the movement of underlying market factors”.

2.9.2(a)(ii) Market Risk

There are risks which arise due to changes in interest rate, exchange rate or change in bond's price or price of commodities. Ghosh (2014, p145) defines it as “ a risk of losses in on and off balance sheet positions arising from the fluctuation in market price”. Market risk factors are:

- a. Interest rate risk
- b. Foreign Exchange Risk
- c. Equity Risk
- d. Commodity Risk

Interest rate risk is not only faced by Islamic bank, but it is a similar phenomenon to conventional bank which is also exposed. Although, some people argue that IBs do not deal in interest-based investments, the matter of fact is that Islamic bank are exposed to this risk indirectly because of deferred sale and lease-based transactions. It is necessary that the return on Islamic deposits must be of some scale as interest rate of conventional banks. What poses a threat to IBs is the disparity in real return. IBs may encounter a dilemma that their return may be above than that of conventional counterparts. This leads to commercial risks of being overwhelmed by influence of money for which no short cut liquid market is available. Hence, Islamic Banking institutions (IBIs) face ethical problem of minimizing the real return on profit loss sharing (PLS) investment so that banks may have low interest rate comparable to conventional banks (El Khamlichi et al., 2014). London interbank offered rate (LIBOR) is used by IBs as a benchmark in the financing operations. Hence, the risk of changes in LIBOR directly affect assets of the bank (El-Gamal, 2006). Markup will be raised if there is a rise in LIBOR. Hence, it will lead to increase of profits to future depositors as compared to those paid by users of long-term funds to banks. This risk is also multiplied due to the nature of investment deposits on liabilities side of IBI (Muhammad Umer Chapra, Khan, & Al Shaikh-Ali, 2008). Profit received under Mudharabah deposits will be marked up based on the market rate. On the other hand, profits earned on assets cannot increase as prices have been fixed on previous period rates. It means that

depositor must receive share in case of increase in earnings but it cannot be re-adjusted on assets (El Khamlichi et al., 2014).

2.9.2(b) Liquidity Risk

Liquidity risk is the main risk in banking institutions. It occurs when bank cannot pay its liabilities due to the fact that there exist a mismatch in the maturity of assets and liabilities. Banks, which hence greater number of off-balance sheet items face greater liquidity risk. It involves the following risks (M. K. Hassan, Khan, & Paltrinieri, 2019).

(i) Funding risk

The danger of a company's short-term financial commitments not being met when they are due is known as funding liquidity risk. To put it another way, funding liquidity risk is the risk that a firm may be unable to pay its present debts.

(ii) Time risk

When an investor tries to purchase or sell a stock based on future price forecasts, he or she is taking a risk called timing risk. Timing risk refers to the possibility of losing out on profitable price movements owing to a timing miscalculation.

(iii) Call risk

The danger that a bond issuer may redeem a callable bond before it matures is known as call risk. This means the bondholder will be paid the bond's face value and will most likely reinvest in a less advantageous environment—one with a lower interest rate..

It is generally argued that IBIs do not face this risk, but it is a matter of fact that IBs also face it.

2.9.2(c) Operational Risk

Operational risk occurs if there is a direct or indirect loss which is caused by non-performance due to internal or external factors. The main characteristic of this risk is that it includes Shariah non-compliance risk (SNCR). SNCR make a major portion of operational risk (IFSB, 2007b:6)¹⁰. Shariah non-compliance is the result of failure of IBs to abide by the Shariah rules and principles determined by fatwa and Shariah supervisory board (FSSB) or any relevant rule (IFSB, 2005a)¹¹.

Bessis (2011) categorizes operational risk into 4 fundamental parts.

- 1- Human errors, internal or external frauds, practices of employees, and lack of expertise may lead to loss to the bank.
- 2- Technical loss may be an outcome of technical processes, implementation, modeling error or lack of appropriate tool of risk measurement.
- 3- Processes - banks may face losses due to inadequate procedure, organizational and management deficiencies or technical inefficiencies.
- 4- Information Technology- banks face risk of loss due to system failure or information systems inefficiency.

¹⁰ Guidance on Key Elements in the Supervisory Review Process of Institutions Offering Only Islamic Financial Services (Excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds), 2007b. <http://www.ifsb.org>. Access date 6 September 2020

¹¹ Islamic Financial Services Board. "Guiding Principles of Risk Management for Institutions (Other than Insurance Institutions) Offering Only Islamic Financial Services," 2005a. <http://www.ifsb.org>. Access date 6 September 2020

Operational risk is a residual risk. In other words, to estimate operational risk one has to look at financial statements of the bank and remove the following from income statement:

- The effect of credit losses
- The profit/losses from market risk exposure

Operational risk is the risk of loss which are outcome of the failure of internal processes, people and systems or external events (BCBS, 2001). Legal risk is included in this definition but reputational risks are risk resulting strategies decisions are excluded increase in banks operating cost or decrease in revenue may be outcome of operational risks. BCBS (2001) identifies the following categories of operational risks associated with:

- 1- Internal Fraud: when at least one internal party is involved in an act with an intention to defraud, circumvent negligence, or misappropriate property
- 2- External Fraud: when a third party is involved in an act to defraud, circumvent negligence, or misappropriate property
- 3- Employment Practices and Workplace safety: Discrimination in employment, violation of health and safety rules for employees and personal injury claims are included.
- 4- Client, Products and Business practices: A failure, whether unintentionally or negligent, to fulfill a professional obligation to specific client or form nature of product.
- 5- Damage to physical asset: - A natural disaster or any other accident may cause a damage to physical asset which is a loss as well.

- 6- System Failure: - System failure is also considered to be operational risk.
- 7- Execution, Delivery, and process management: - Failure of transaction process or process management from relation with trade counter parties.

According to the State Bank of Pakistan (2019) credit risk, market risk, liquidity risk, operational risk, reputation risk, and regulatory risk and legal risk as the important types of risk in Pakistani banks.

2.9.2(d) Residual Risk

It includes:

- 1- Reputational Risk if there is a damage to overall goodwill of bank, it is reputational risk. It is harmful for shareholders value. Bank can face many consequences of reputational risk such as distracted image, decline in share price, less revenue, loss of customers etc.
- 2- Compliance Risk: If bank fails to perform lawful activities, and ethical and legal standards, it may face compliance risk.
- 3- Sovereign Risk: it is also called country risk. If there is an interference by foreign government in case of non-payment of loan by foreign borrower, bank faces sovereign risk.
- 4- Off-balance Sheet risk: It occurs owing to conditional assets and liabilities, e.g. forward contract, options, swaps etc.

2.10 Risk in Islam

In Islam origin of risk can be understood by verse of Quran.

“And spend in the way of Allah and do not throw [yourselves] with your [own] hands into destruction [by refraining]. And do good; indeed, Allah loves the doers of good”

Al- Baqrah (2:195)

Here destruction means “Khatar” (an exposure to damage). The concept of risk has also been introduced in Quran. If a product is not managed properly, the ultimate outcome would be destruction. Hence, the above verse verifies that risk is an unfavorable outcome. It can be analyzed that Islam considers risk as destruction which is very close to “Khatar”.

A hadith also verifies the message of Quran. According to it, a Bedouin left his camel untied, Prophet inquiries about this act. He replied, “I trust in God” Prophet (PBUH) replied “Tie your camel and then trust in God” it makes very clear that people should have faith in God but should decide wisely. Muslims should make clear and wise decisions as long as it does not violate Shariah rulings. Hence, this hadith declares that a Muslim shared practice rules to reduce unpleasant future outcomes (Lahsasna, 2014; Laldin, 2013; Mohd Noor, Ismail, & Mohd. Shafiai, 2018).

Keeping in mind the Quranic verse and hadith it is clear that it can be argued that unfavorable outcomes should be managed properly to minimize damage. Quran orders to make best plan to reduce possible damage. Hence, risk management in financial transactions is essential.

2.11 Risks in Islamic Banking Industry

2.11.1 Markup Risk

Under Murabaha product offers by IBs, pre-determined profit rates are kept constant for the entire period of contract. Hence, banks cannot get any benefit if there is an increase in the market rate. Likewise, client cannot get benefit if there is any decrease in the market rate.

2.11.2 Foreign Exchange Rate Risk

The base currency used by majority of banks is US dollar. Therefore, a bank can face high currency risk. In case of volatility of US dollar. IBs are subject to FX risk as they have to deal with international banks who deal with stronger currencies. It is not allowed for IBs to deal in FX futures and banks are also not allowed to purchase currency on short or long basis.

2.11.3 Securities Price Risk

IBs are permitted to make investment in stock market only if the company is dealing in Shari'ah compliant product and company's debt is less than 33% and has less than 5% prohibited business activity. IBs are not permitted to use options, futures, forwards, short selling, or buying long.

2.11.4 Interest Rate Risk

IBs operate in markets which are interest based. Hence, these indirectly face interest rate risk and cannot be avoided completely. This risk arises as the result of selling fixed income assets or by selling of participation certificates already held by banks.

2.11.5 People Risk

IBs will face this risk due to the of lack experienced personnel in this industry. This scarcity leads to lower efficiency. It also causes less trust by customers which ultimately leads to reputational risk.

2.11.6 Legal Risk

Legal risks are also important in IBs. It is because Islamic bank must follow certain condition set by Shariah board in order to make a valid contract. A situation may arise when the condition contradicts with the common laws and legislation of that particular region. This risk is enhanced especially in an environment where Islamic court do not exist.

2.11.7 Benchmark Risk

It is possible loss owing to changes in interest rates is local or international conventional banks. IBs also affected by interest rates when determining the rates in investments such as Murabaha. It is a matter of fact that IBs have to face greater chance of risk as compared to conventional banks (Hussain & Al-Ajmi, 2012). Čihák and Hesse (2010) also have same opinion and claim that IBs have to face additional risks. It is due to difference of their governance, liquidity, structure & legal requirements.

S. Islam, Mamun, Islam, Uddin, and Sultana (2021) claims that the operations of Islamic financial institutions are riskier as compared to conventional banks. It is because of these factors:

- i. IBI's have less risk-hedging instruments and techniques.

- ii. IBI's have immature or even absence of inter-bank money market and government securities.
- iii. IBI's have limited access to the lender-of-last-resort.

On a whole, Islamic financing contracts are facing market liquidity, operational and credit risks.

2.12 Risk Management in Islamic Banking

Risk management is defined as “a method through which decision are made, a process conducted in two steps: (i) to identify the origin and causes of risk (ii) To develop ways to assess risk by means of mathematical models” (Khalid & Amjad, 2012, p43). It is a continuous process which is dependent on changes in external and internal environment of banks, thus changes require constant attention to identify and control risk. The Basel committee on banking supervision, BCBS (2001), elaborates risk management as a four-step process (Izhar, 2010).

- (i) Identification of events into one or more broad categories of market, credit, operated and other risks (and then into specific subcategories)
- (ii) Assessment of risk using data and a risk model.
- (iii) Monitoring and reporting of risk assessment on timely basis.
- (iv) Control of these risk by senior management

Hence one can conclude that risk management is the set of all departments that are directly or indirectly linked with assessing, mitigating, and monitoring and reporting risk in Islamic bank. Risk management is also defined as “ a method through which decision are made; a process conducted on two steps: (i) to identify origin and cause of risk (ii) to develop ways to access risks by means of mathematical model” (Khalid &

Amjad, 2012). Risk management is an essential process whose main aim is to get control over risk, to reduce its occurrence to minimum so minimizing the size of loss. It can be done by identifying, analyzing and assessing risks, then finally selecting the best method to minimize risk and eventually achieving the actual target (Al Rahahleh, Ishaq Bhatti, & Najuna Misman, 2019). Both the conventional and IBs follow the same procedure for risk management. There are some risks which are common for both conventional and Islamic bank but some risks are associated with IBs only e.g. compliance risk, reputational risk: compliance risk is related to corporate governance risk and reputational risk arises when bank fail to follow shariah principles. There is another risk which arises when client is propelled to withdraw deposits from bank. There is also a liquidity risk which means a group that fail to meet financial liability on due time. Hence IBs need to focus on risk management more seriously. Risk management is a continuous process which includes changing in banks external and internal environment.

It is required by BCBC (2006) that banking groups must have supervisors that is essential for risk management process. It includes board and senior management. Its function is to evaluate, invigilate, curb all risks. Al-Tamimi (2002) argues that there are 8 steps that commercial banks can follow in order to manage risks.

- a) Exposure identification
- b) Data gathering and risk quantification
- c) Management objectives
- d) Product and control guidance
- e) Risk management evaluation
- f) Strategy development
- g) Implementation
- h) Performance evaluation

Khan and Ahmed (2001b) also have same view that Islamic bank not only face risks faced by conventional bank but are additionally exposed to certain risks characterized by their assets and liability structures. These risks arise due to requirement of shariah compliance. Such transaction are less exposed to risk. However, this fact also can't be ignored that such profit and loss sharing contract expose IBI's to specific risks linked with type of contract.

When one Islamic bank fails to perform according to explicit and implicit standards applicable to their fiduciary responsibilities it leads to fiduciary risk (IFSB,2005a). and this failure to fulfil fiduciary responsibilities leads to distorted banks image (Hamidi, 2006) . It in return causes liquidity crises as bank will lose funds after reputational damage. The customers will be reluctant to get financial facilities from the bank which would decrease profits, of banks. In order to maintain good reputation among customers, bank is required to do two things:

1. To make sure the shariah compliance of their product (Mirakhor & Zaidi, 2007; Van Greuning & Iqbal, 2008).
2. To maintain their fiduciary identification role active (Bello, Hasan, & Saiti, 2017)

Additionally, IBI's also face a unique operational risk to which conventional bank are not exposed to, i.e. SNCR. The operation of Islamic institution is free from interest, but banks can't get rid of interest fully as interest rate risk can't be neglected because of the use of LIBOR (London international offering Rate) as the benchmark in pricing. Hence, if there is change in reference rate, it would affect the rate of return that the bank expects to realize on its use of funds and pay to its depositors. It is known as rate of return risk (IFSB, 2005). The process of risk measurement uses the appropriate

risk indicators so that the size of risk can be determined and overall banks activity (Tafri, Abdul-Rehman and Omar, 2011).

Akkizidis and Khendelwal (2008) provide a comprehensive explanation of risk management in IBs. It covers the particulars of risk management issues in Islamic financial contracts, Basel II and Islamic financial services Board (IFSB) for Islamic financial risk. They also elaborated unique type of risk for particular financial contract in IBs. Iqbal and Mirarkhor (2007) elaborate the requirement of risk management in IBs, they also suggest a comprehensive risk management framework for a specific risk. Greening and Iqbal (2007) bring to notice some modification of theoretical balance sheet of an Islamic bank. The modification has an impact on overall riskiness of banking sector. It also highlights the role of different stakeholders in relation to risk. IFSB explains the primary purpose of establishing risk management standards “serve to complement the BCBS guidelines in order to cater specificities of IBs”. IFSB also recognize that “certain issues are of equal concerns to all financial institutions” (IFSB, 2005) while some risk are particularly associated with IBs.

Boston consulting Group (2001) concluded after a study that technical development is not the only success determining factor, but risk understanding, and handling is of key importance in this context. It also focus on the fact that it is also of vital importance that mindset of management and employees must also be changed in order make them understand the importance of risk management. This view is also supported by Al-Tamimi and Al- Mazrooei (2007) who give example of UAE bank staff. Staff is well, trained and has a good understanding of risk and management. They have view that trained staff leads to avoid risk in long run. There are also many studies that reveal the risk management and its importance for firm (fuser et al., 1999; Barton et al., 2002; Luck, 1998; Techankova 2002; kromschroder & luck, 1998). Some studies

such as Al-Tamimi and Al-Mazrooei, 2007 show a healthy relationship between risk management practices and different aspects of risk management process. Importance of risk management process in different financial institutions is also shown in many studies such as (Bostan consulting Group, 2001; Al-Tamimi, 2002; KPMG,2003; Parrenas, 2005; Al-Tamimi & Al-Mazrooei, 2007) many studies are also available on risk and risk management in Islamic financial institutes (e.g. Iqbal & Mirakhor, 2008; Sundararajan, 2007; Archer & Haroon, 2007). Some studies like e.g. Khan and Ahmed, (2001) and Noraini, (2005) study the perception and kind of risk management in IBs.

Kromschroder and Luck (1998), Luck, (1998); Tchankova, (2002), Barton et al. (2002) worked on risk identification (Tchankova, 2002). It is considered to be very important overall (Al-tamimi & Al-Mazrooei, 2007). Hence the first task of employees and management is to identify risk. In case of IBs research is carried out on risk identification by Haroon (2007). They worked on market and credit risk. Archer and Haroon (2007) worked on operational risk. Haroon and Hock pointed out that certain risks are common for Islamic and conventional banks. Risks faced by IBs are complex, yet principles of credit and market management are equally applicable to both. Archer and Haroon 2007 argues that IBs face different kind of operational risk as compared to some risks which arises from profit sharing investment deposits Khan and Ahmed (2001). Norani (2005) pointed out that credit risk is considered to be most important risk.

Risk analysis and assessment is another step. Studies have been conducted on risk analysis and assessment. It is helpful to align different risks according to intensity of damage caused by them (Fuses et al., 1999). This classification helps the managers to differentiate risks causing heavy damage from those which cause negligible (2007) pointed about that UAE banks efficiently analyse and assess risk. The management and

staff of Islamic bank actually lack the basic knowledge in risk management (Ullah, 2014). Another reason provided is that many risk managements aimed at attracting customers. Their aim is not get better understanding of theory or concept (Ullah, 2014). High risk in financial activities leads to bankruptcy and efficiency of IBs is decreased (Nodeh et al., 2015). Operational risk has attracted attention of scholars over last few years. Its major reason is many major institutions such as Baring and Daiwa have faced losses owing to mishandling of operational risk management (Hoffman, 2002; hull, 2007; Hussain, 2000) As the losses were not negligible have considered the issue seriously.

In Islamic banking industry many researchers have discussed the need to cater operational risk issue. Most important among them are Akkizidis and Kumar (2008), Archer and Haroon (2007), Hossain (2005), Iqbal and Mirakhor (2007), Ullah (2014). Khan and Ahmed (2007) have the view that for Islamic bank, operational risk is higher than credit and market risk. It is quite unfortunate that one cannot find a single literature which could cover all aspects of this major issue of the Islamic banking.

IBs and conventional banks face the same challenges as both offer financial services in various banking activities (Archer & Haroon, 2007 ; and Hossain, 2005) on the other hand it is argued that challenges faced by IBs are more sophisticated (Abbas & Ali, 2019; Ullah, 2014). It is because financial activities and features of financial contracts are more important for IBs owing to this specific contractual feature (Fiennes, 2007; Greuning & Iqbal, 2008; Iqbal & Mirakhor, 2007; khan & Ahmed, 2010; Sundarajan, 2005).

The definition of operational risk implies legal risk (Archer & Dj ojosugito, 2008, Fienres, 2007; Khan & Ahmed, 2001) and also reputational risk (Fiennes, 2007;

Akkizidis & Kumar, 2008; Stauderd & Poors, 2008). Operational risk is considered as a major type of risk which is responsible for significant losses in Islamic banking.

2.12.1 Risk Management Based on Al-Quran

Quran-the divine book for Muslims, has many references which define risk management one of the most permanent reference about it the story of prophet Joseph. The king of Egypt had a dream of seven-fat cows. Who swallowed seven fat cows? All his assistances fail to analyse it. in Quran Allah (S.A.W) elaborate it in following word:

“O Yusuf (Maxwell), the man of truth! Explain to us (the dream) of seven fat cows whom seven lean ones were devouring, and of seven green ears of corn, and (seven) others dry, that I may return to the people, and that they may know.”

(Quran: 12:46)

Prophet Joseph was able to identify the risk. He provided interpretation of king's dream as follow.

“For seven consecutive years you shall sow as usual and that (/the harvest) which you reap you shall leave in ears (all) except a little of it which you may eat. Then will come after that, seven hard (years), which will devour what you have laid by in advance for them, (all) except a little of that which have guarded (started). Then thereafter will come a year in which people will have abundant rain and in while they will press (Wine and oil)”.

(Quran 12– 49)

This was actually a solution provided by prophet to avoid risk. Next step was risk management for which authority was given to prophet by king. He was given the control of store house to ensure the implementation of plan. Quran says:

(Joseph said) *“set me over the store – house of the land; I will indeed guard them with knowledge”*

(Quran 12:55)

This was actually risk management by which prophet Joseph managed to avoid the risk of famine successfully.

2.12.2 Benefits of Managing Risk

1. It is beneficial for the managers and it enables them to minimize routine loss, enhance efficiency and reduce the probabilities of large losses. It also improves the quality of operational process.
2. Risk management helps to satisfy shareholders.
3. Risk management is not an add-on activity, but it is a core competency. Banks can competitive advantages by practicing risk management.
4. Banks are now operating in e commerce where most of risk are operational hence managing operational risks helps the bank to get more customers in competition. It also helps to fulfill demands of clients.

2.13 Risk Measurement and Mitigation

2.13.1 Risk Measurement

Different type of risks can be measured by using many tools as indicated by Safiullah and Shamsuddin (2018) In their study they indicated different tools. These tools might be external or internal.

Externally risk measurement includes risk weight, capital adequacy ratio, and stress testing. Market risk is measured by value at Risk (VaR). In terms of operational risk, is used to record the loss occurred with bank. A lot of subjective measures are also taken for other types of risks measurement e.g. experience and market situation. Some banks use their software such as Moody's to measure credit risk. Most of the banks also use sendero UK company package, to measure market risk. Along with using excel sheet spreading for operational risk measurement, bank also use risk register in which records of all incidents is kept that kept that occur in bank. In order to mitigate the risk, banks get insurance policies for staff medical uses, against fraud or any disaster. In nutshell, for credit risk many tools are used such as Moody's rating system, Loss Given Default (LGD), value at risk (VaR) and liquidity gap analysis.

For operation risk, the following tools are used:

- (1) Risk and control self-Assessment (RCSA). It is an activity that must be done once a year to find out interest rate risk and to find out how to control it.
- (2) Loss data collection. It is used to recommend plan to mitigate and also used to avoid the tide up with Risk Control Self-Assessment (RCSA).
- (3) Risk indicator. It is used to monitor risk on weekly basis.
- (4) Business process mapping.

2.13.2 Risk Mitigation

Risk mitigation and transferring techniques are helpful to minimize the risk. (Santomero,1997). In general, there are three risk mitigation strategies.

1. Simple business practices can be used to avoid risks
2. Risk can be transferred to other parties
3. By managing risk at bank level

(Oldfield & Santomero, 1997)

Collateral arrangements and grantees are the techniques used by Islamic bank mostly to mitigate risk (Ariffin, Archer, & Karim, 2009). Insurance is another tool used by banks so that risk can be transformed, and position can be secured in case of any uncertain situation. Another way to mitigate risk internally, banks implement periodic reviews to policy and procedures. It helps to judge the effectiveness of particular policy hence risk can be mitigated. In case of market risk, a daily control is imposed on VaR which helps to reduce it. Operational risk can be minimized by ongoing review and loss monitoring. External risk is measured and minimized by building measures on external events such as fire etc. Increase of risk level and financial instability are two factors with which liberalization of financial markets are linked (Kamran, Mohamed-Arshad, & Omran, 2019). According to this study, Islamic financial institutes are exposed to two types of risks.

- i. It includes credit risk, liquidity risk, market risk and operational risk. Although traditional bank face them as well, yet their nature changes in IBI's due to shariah compliance.
- ii. It is unique risk the IBI's are exposed to. This risk arises due to their different assets and liability structure. It includes Murabaha, Mudaraba,

Musharaka, Ijarah, Istisna and Salam.

2.14 Challenges Facing Islamic Banking and Finance

Although conventional banks face many challenges, yet IBIs face additional and specific challenges. These challenges are as follows.

- Shariah Arbitrage: - There is always an argument whether products and service is Shariah compliant or not (Ullah et al., 2018; Wilson, 2007). There is a contradiction among scholars about compliance of products. Scholars from different school of thought usually have different interpretations of Islamic law. This causes a problem for Islamic financial institutions. If consensus occurs among scholars of different beliefs, it will greatly help Islamic financial system.
- Shariah Compliance throughout the Islamic life cycle: - it is vital for Islamic finance institutions to gain approval from Shariah supervisory board before launching any product. It must also be essential for bank to understand that Shariah compliance is a continuous process (Mahmood, Khan, Mehmood, & Khan, 2014). However, it is a difficult process and if any product fails to get approval, “it can adversely affect a bank’s solvency by converting an asset into a liability on the balance sheet”. This problem can be solved by:
 - i. Reinforcement of more effective SSB.
 - ii. By adding more expertise within an Islamic bank.
- Shortage of experts: Islamic financing is a growing industry, but this fact cannot be ignored that it is facing scarcity of not only well-qualified Islamic scholars but also executive’s specialist who could make running

of Islamic finance system smooth. Lack of trained and experienced bankers has seriously hindered the development of Islamic finance (Abozaid, 2016; Adel Ahmed, 2010).

2.15 Operational Risk in Islamic Banking Institutions

The definition of operational risk given by Basel II includes Shariah compliance risk but excludes strategic and reputational risk. It means if Shariah compliance is not achieved and Islamic finance services (IFS) fail to do so, the investor would be betrayed and hence bank would be responsible for lost income (M. Abdullah, Shahimi, & Ismail, 2011; El-Hawary, Grais, & Iqbal, 2004). Operational risk faced by Islamic bank are categorized into three types by Archer and Karim (2007).

2. Any operational risks resulting from different types of banking activities and similar to all types of intermediaries (Shariah compliant or not). However, operational risk may be caused by asset-based nature of financing product such as ijarah, istisna, in contract drafting.
3. Shariah compliance risk i.e. risk associated with non-compliance with Shariah rules.
4. Legal risk which may arise due to two factors:
 - a. IBs operations
 - b. Problem of legal uncertainty in interpreting Shariah rulings & contracts.

According to International, Swaps., and Derivatives (2015), Operational risk is the risk of loss resulting from inadequate or failed internal process, people and systems or from external clients.

Credit risk and market risk is well-understood by banks hence they use these understandings to define operational risk. They define it as “being left over after accounting for credit and market risk”. It is argued that these three risks are interdependent. This interdependence provides many clues for managing operational risks (Safiullah & Shamsuddin, 2018). Although it is useful to define operational risk as residual risk (Chamberlain, Hidayat & Khokhar, 2020)

Some authors like Safiullah and Shamsuddin (2018) call all risks faced by an institution as company risks. This generalized term is used to all different type of risks. Operational strategic risk is actually the potential for loss which arises if a firm fails in its strategy. It also includes the loss arising from not doing the right things instead of the failure of doing right things. A section of operational risk is also called processing risk also called operational risk. It includes losses from back-office operations of processing trade and information. This includes:

- Losing information on trade
- Sudden failure of computer system
- Unexpected damage to database
- Incorrectly entering trade

Operational risk is not only arises out of the operations of a firms but also from circumstances or action of others on which the firm depends upon it means a bank not only faces losses from operation within but also from the operation of firms it depends upon for assistance. According to the Masood, Abdullah, Shahimi, and Ismail (2011) These failures or decisions may directly or indirectly lead to banks loss. It is also true that all operational risks cannot be insured. Hence other mechanisms are adopted for risk reduction instead of insurance. For instance, legal mechanism can also be used.

Divestment of corporate activities and outsourcing of operating function are also mechanism to transfer the risk. Divestment and outsourcing not only involve transfer of risk but also transfer of commercial activity itself. There are some considerations which are to be taken into account which balance between risk-retention and risk transfer. This decision is primarily based on the intensity of impact of risk in an activity. The competency of the firm in managing specific risk is also taken into account. If bank or firm outsources operation, it means the firm has view that recipient is better equipped with resources to handle the risk efficiently. It is because more knowledge and greater care competence leads to less risk.

The impact of financial loss are from operational risk is divided into two types:

- An expected amount
- An unexpected amount

The unexpected amount is further divided into sources and catastrophic losses.

Question arises here, what factors are responsible for operational risk in Islamic banking. Sundararajan (2013) explain specific aspects that can lead to operational risks are given below:

- There might be technical risk of various nature
- There may be a cancellation risk in non-binding Murabaha and istisna contract which mean in literal words: Shariah non- compliant risk
- There is a failure in internal control system to perceive and manage problems in operational process.
- There arises a difficulty to enforce Islamic finance contract in a broader legal environment (SNCR).

- There is a need to maintain and manage commodity inventories often in illiquid market.

Risk exposure of Islamic financial institution is different from that of conventional banks. Basel II identifies the risks conventional banks are exposed to as: Credit risk, market risk and operational risks (BCBS, 2006). But Muhammad Umer Chapra, Khan, and formation (2000) argue at least for other types of risks linked with shariah compliant products which are not a part of Basel II. Khan (2003) observes that banking instability is mainly caused by credit risk. Same is opinion of Rekha and Kotreshwar (2005) according to whom credit risk makes 70% of total risk, market risk and operational risks constitutes rest 30%. Basel committee also observed that credit risk is key source of critical banking problem. Credit risk is defined by Hull and White (2013) and Rekha and Kotreshwar (2005) is “credit risk is a possibility of borrower, bond issuers or counter parties to default or be unable to repay the promised amount. According to IFSB 2 (2005), accounts receivable in Mudarabah contract, counterparty risk in salam contract, account receivable and counterparty risk in Istisna contract, lease payment receivable in ijara contract and sukuk held to maturity in banking book lead to credit risk in Islamic financial system.

Operational risk deal with all losses which are outcome of “inadequate or failed internal processes, people and system, or from external processes, including losses resulting from non-compliance with the provisions of the Islamic shariah and the failure in fiduciary responsibilities” (IFSB,2005 a :26). The definition of operational risk includes legal risk (Archer & Karim, 2007; Djojosingito, 2008; Fiennes, 2007; Khan, 2003) and reputational risk (Akkizidis & Khandelwal, 2008; Choudhury & Dusuki, 2008; Fiennes, 2007). The definition in Basel II does't include SNCR and fiduciary risk, but above given definition does. In IFSB (2007:6), shariah non-compliance is

considered to be a major part of operational risk. If a bank fails in shariah compliance i.e. it cannot comply the principles set by shariah committee, the transaction will be cancelled and hence loss is not generally recognized.

2.15.1 Operational Risk Measurement

It is the diverse nature of operational risk that makes it hard to diverse a single effective measurement mechanism for evaluation of this risk. Generally, it is demanded that a good measurement framework should be able to do following two things:

- a) It must be able to measure the absolute level of risk
- b) It must elaborate and suggest the ways which would help to reduce risk.

The risk estimation approaches can be derived into categories which are qualitative, structural, actuarial, or beyond to all of them. In qualitative approach, the judgment of measurement of management is used for the detection of risk's sources. Questionnaire or surveys are used to get data from management and staff of institution questionnaire consist of question which are based on historical events and current state of system. It also includes monitoring and control policies. One of the most widely used qualitative approach to operational risk is the technique of control self-assessment. In this technique a questionnaire is used to get an idea about important risk faced by firms by asking to subjectively be assessing various parts of organization and its characteristics. Data is frequently is gathered (generally yearly). Qualitative approaches successes lie in the fact that it is helpful to draw attention of management on risk in question. It also gives management a best understanding of bank processes, their weak points and risks. Structural approaches presume a model of causality that defines linkages between observable and probability of loss events. It helps mangers to locate the area where they must concentrate to minimize the risk. In possible structural a map

of the process is built, then it is examined that which link in the process could fail and would lead to losses. Building a process map will also help managers the area of focus to reduce risk. In actuarial approach minimal assumptions are made about losses. It is beneficial as it includes all types of risk, but its disadvantage is that it cannot help to understand the source of risk.

2.15.2 Benefits of Managing Operational Risk

The window of "operational risk" is simply another perspective through which a shared underlying reality may be seen. As a result, procedures that incorporate the monitoring and management of this risk look for possible financial advantages. Indeed, a bank's ability to manage operational risk may lead to the development of intellectual capital and management practises that other branches may use to avoid crises and handle problems connected to each operating activity.

The growth of operational risk management is at a crossroads and obtaining financial benefits and economic drivers will be challenging. The first rationale for the rising interest in operational risk management is the ability to assess intellectual capital and apply new concepts and methodologies to the concept of "value creation." Similarly, the development of a more active operational risk management culture benefits economic operators by encouraging proactive risk management.

The question here is why it is important for an institution to manage operational risk. There are several reasons to answer this question.

- Future planning for investment will become easier.
- Operational Risk management helps to reduce the expected cost of financial loss.

- It is also helpful to reduce expensive forays to capital market
- Operational risk management permits the increased use of debt financing

2.16 Non-Shariah Compliant Transaction

It cannot be denied that Islamic financial system is not totally free from non-shariah compliant transactions. Dusuki, Ali, and Hussain (2013) argue that the issue has not been resolved. For example, an Islamic bank charges an additional processing fees to its customer. Thus, fee is imposed on parties who take the possession of good purchased. Hence non – shariah compliant events also occur within Islamic financial environment (Ali et al., 2013). On the other hand, some financial reports show that non-shariah transactions occur owing to unpredictable reasons e.g., system failure or human error.

There are three sources to which non-shariah income cannot be recognized.

- a) IBs receive interests from nostro account¹² in foreign conventional bank as Islamic banking facilities are not available in those countries.
- b) IBs earn commission from non -compliant merchants of their Islamic credit card business.
- c) Gharamah (penalty charges) received from its customers.

2.17 Shari’ah non-compliant Income

“Shari’ah non-compliant income (SNCI) is income generated or received from events that are non-compliant to Shariah rules and principles; for example, income derived from Shariah non-compliant

¹² A nostro account refers to an account that a bank holds in a foreign currency in another bank. Nostros, a term derived from the Latin word for "ours," are frequently used to facilitate foreign exchange and trade transactions. The opposite term "vostro accounts," derived from the Latin word for "yours," is how a bank refers to the accounts that other banks have on its books in its home currency.

business and profit charges from transactions with invalid Shariah contracts”

(Standard Chartered, 2018, p 189).

IBs have a unique mix of risks, including equity investment risk and displacement commercial risk, with SNC being one of the most critical. Shari'ah non-compliance risk emphasizes the possibility of failing to meet standards or satisfy shari'ah principles as stipulated in the applicable jurisdiction's standards and commonly recognized worldwide shari'ah standards. The management of these risks is critical since an Islamic bank's failure to comply with shari'ah might jeopardize its long-term viability and reputation. IBs have improved the quality of their disclosures as a result of these risks, as well as increased regulatory requirements to boost accountability and transparency. Greater transparency in these areas is critical for customers of financial information, such as investment account holders, shareholders, regulators, and the general public. Furthermore, providing transparency and complete disclosure of NSCI is an important Shari'ah risk management function.

2.17.1 Categories of shari’ah Non-Compliant Income

Non Shariah compliant income is divided into two sources (Ali et al., 2013):

- i. Principle of contract
- ii. External Influence

I. Principle of a Contract:

Offering a trade facility base on Murabaha-based contract is a clear example of haram income due to the principles of contract. IBs are supposed to buy or import goods before selling to customers. If it is later discovered that the good is not permissible by

shariah, banks should dispose the sale (Hanefah, Kamaruddin, Salleh, Shafii, & Zakaria, 2020b).

II. External Influences:

There are six types of non-shariah compliant income due to external factors.

1. Imperfection of subject matter:

It may occur when shariah screening authorities do not classify securities as shariah compliant source.

2. Pillar of contract is not present upon the signing of a contract:

A contract is considered to be a non-shariah compliant if a company entered into letter of credit (LC) Murabahah with Islamic bank but latter it is found that there is no asset movement involved.

3. Structured condition but rectified:

A clause or a provision that limit the right of any party can't be a part of a sale contract.

4. Structured Condition yet rectified:

Shariah prohibits a guaranteed rate of return. Hence, any contract that guaranteed a fixed rate of return is a part of non-shariah compliant activities. However, an indicative rate which is based on previous data available is allowed.

5. Contract with approval of the owner but without obtaining shariah committees' approval:

Any sort of gifts to bank employees is not justified. This action impairs the reputation of an Islamic bank. So, such gifts are not justified under shariah as it is not approved by the shariah committee.

6. Contract without approval of an Owner:

It happens in case where an Islamic bank charges customer for an overdue outstanding balance without making proper disclosure of the charge to the customer.

Non Shariah compliant Income related to share Investment:

a. Interest Income:

It is the income rewarded to a company by bank for a deposit held at bank.

b. Income from non shariah compliant investments:

Income from conventional banks, debentures or insurance claims is mostly non-shariah compliant income as it is hard to identify due to lack of details.

c. Income from non-shariah compliant business sources:

Income from other non-shariah business such as commission received from being a selling agent for a non shariah compliant parent company.

2.17.2 Channeling Non-Shariah Compliant Income to Charity

Mirza Bagum (2014) have opinion that non-shariah compliant income must be channeled to charity. Furthermore, any income received from any impermissible source must be purified. Purification is mandatory for all activities which are against shariah. Scholars argue that it is better to spend such income in charity rather than utilizing it, or ignoring it (Mirza Begum, 2014).

The concept of charity is highly recommended in Islam as Quran says”

“Take, [O, Muhammad], from their wealth a charity by which you purify them and cause them increase, and invoke [Allah 's blessings] upon them. Indeed, your invocations are reassurance for them. And Allah is Hearing and Knowing.”

Sūrat L-Tawbah, (9:103)

Furthermore, Charity is considered to be best way of purifying wealth. An incidence is narrated by Qais ibn Abu Gharazah:

“One day during the life of prophet (PBUH) when we were traders, The prophet passed by us and named us by a good name and said : O you traders, indeed inaccurate speaking and promise do accompany trade, so counterbalance it by giving charities.”

(Abu Daud)

2.18 Empirical Review on Non-Shariah Activities in IBs

Several studies in this area have been carried out, but, for the most part of them focus only on the religious aspects of it or on the financial instruments of Islamic financial institutions. While the Shariah law covers the sources, objectives, functioning, dealings of non shariah income and other activities of Islamic financial institutions, guaranteeing Shariah.

The Shari'ah Compliance environment is a key need and distinguishing feature of every Islamic bank, distinguishing it from its competitors. As a result, no one can deny the active and successful role of Islamic banking in global economic growth, notably in Pakistan, in this modern period. It's growing wider every day, according to SBP's quarterly compendium: The total asset of Islamic Banking Institutions in Pakistan as of March 31, 2019 was 2,789,891 million (FSD, 2019), compared to 2,658,485

million in the previous quarter database (FSD, 2018). The adaptability of Islamic principles, as shown in global financial crises, is one of the reasons for its growing popularity (Zahid & Basit, 2018).

However, Islamic banking is more than simply the name of these two words (Islam+Bank) or a few Arabic phrases that signify only Islamic concepts; it is the system that is based on Shariah principles and adheres to the Islamic spirit and ideology. These principles and values, as well as laws and regulations, are derived from primary shari'ah sources such as the Quran and Sunnah, as well as secondary shari'ah sources such as the Ijma and Qiyas. As a result, a financial system based on the above-mentioned sources is known as a shari'ah compliant financial system.

As a result, in comparison to its competitors, IBI adheres to Shariah principles and provides Shariah-compliant financing and banking solutions (Aman, Sharif, & Arif, 2015). Shariah compliance is mandatory for all Islamic Banking Institutions' (IBIs) products and services. In addition, Shariah compliance is required in the accomplishment of all duties and obligations, as well as all functions, activities, and procedures.

Various sources, resources, and data were used during and before the research, notably 'Shari'ah non-compliance risk in the banking sector and its impact on the capital adequacy framework of IBs.' have been investigated (Oz, Ali, Khokher, & Rosman, 2016). A thorough discussion was also presented on the subject of SNCR and how to deal with SNCR, but as they began to describe SNCR, they only covered a few key SNCRs very briefly for certain prominent products. Another article; 'Risk Management in Islamic Finance: An Analysis from Objectives of Shari'ah Perspective' (Agha &

Sabirzyanov, 2015) explains the risk in different styles following the Objectives of Shari'ah (Maqasid al-Shari'ah)¹³.

Derigs and Marzban (2008b) empirically diversified asset universes in the S&P 500 index. The study revealed that the asset universes are significantly diverse in size and composition, i.e., a significant number of assets are defined as Halal or Haram for each index, but have been categorised in the opposite manner for other indexes. It implies that no uniform and widely recognised understanding of how to transform shari'ah laws into a system of controlled investing recommendations has been developed (Derigs & Marzban, 2008b)

M. R. Dar, Azeem, and Masood (2013) focused on operational risk related to Islamic banking industry, being an exploratory study, first he explained classification of operation risk using model given by Izhar (2010) and then discussed a conceptual framework presented by Rosman (2009). They also tried to integrate the two models. In conclusion, they emphasized that in Islamic banking, exposure of operational risk is substantially different from conventional banking mainly due to additional Shari'ah compliance risk and fiduciary risk, however, no example of Shari'ah compliance/non-compliance risk was provided which should have been given due to major distinction between Islamic and conventional banking. Also, no suggestion, framework or technique was found regarding mitigation of risk but advice is given to Islamic banking sector that they should develop a framework for operational risk management. I. Butt et al. (2011) discussed in his paper about risk management is vital for every organization

¹³ Maqasid al-Shariah are basically five objectives of Shariah. They are known as mentioned by ^ Mohammad Umar Chapra (2008). Al-Ghazali defines Maqasid al-Shariah as “promotion and protection of the well-being of the people, which lies in safeguarding their faith (din), their self (nafs), their intellect ('aql), their lineage (nasl) and their wealth (mal)”. Almost the ruling of Shariah bases on to protect these five main objects for the welfare of human beings (Ali & Hasan, 2011).

and have greater importance for financial institutions in general due to nature of business. In particular, Islamic banking attracts additional risk of Shari'ah noncompliance and these additional unique nature risks should be identified and part of Risk assessment system of the bank. Moreover, the complete chapter of risk management in very widespread books 'An introduction to Islamic Finance theory and practice' Askari, Iqbal, and Mirakhor (2011) was established. All most important types of risks exposed to Islamic financial institutions were conversed along with the key factors and their details moreover the book emphasizes on the importance of Shari'ah compliance as this is the main difference among Islamic and conventional financial systems.

Moreover, it explains that the relation of customers with the organization (Islamic Bank) is of trust basis in Shari'ah compliance regardless only profitability. Therefore, they focused and educated by their write-up to give high priority along with complete Shari'ah compliance with their all functions and duties (Iqbal & Mirakhor, 2011).

According to the Ariffin (2012) due to the obligation to avoid interest-bearing products, IBs are limited in their operations in the Islamic interbank market. For short-term investment and liquidity management, many IBs have traditionally relied largely on commodities murabaha (mark-up basis) based on tawarruq. As a growing number of shari'ah scholars oppose the use of this arrangement because it is regarded a grey area, numerous new shari'ah-compliant liquidity management tools have been proposed. Several sukuk applications have been implemented, in which the Islamic bank would purchase or sell the sukuk (depending on its liquidity position) and pay or make profit on the sukuk in exchange. Several more mechanisms to meet the liquidity demands of

IBs include the use of various contracts such as mudarabah, ijarah, and parallel salam. (Ayub, 2007).

Mat-Radzi and Muhamed (2012) observe that possible shari'ah breaches in the process of tawarruq are mostly shown in the underlying commodity's redundancy, the interdependency of one contract on another, the commodity's acceptability as an underlying asset, and the commodity's capacity to supply the commodity. Meanwhile, according to the findings of the Firoozye (2009) the selected commodity in the tawarruq transaction is just utilised as an entrance point to the brokers. The customer's capacity to accept delivery of the product may be limited by legal documents. Mohamad and Ab Rahman (2014) Maybank Islamic Berhad was examined for potential SNC events in IBs in the process of tawarruq financing in Malaysia. SNC events in tawarruq finance may occur at many levels and in diverse stages, according to the authors, ranging from credit application, documentation, client interaction, disbursement, credit monitoring, and credit recovery (rescheduling and restructuring). In particular, Mohamad and Ab Rahman (2014) presented potential SNC incidents in tawarruq financing as follows:

- The tawarruq arrangement is used to provide finance to individuals or non-individual businesses whose operations have explicit SNC elements, such as riba-based transactions, liquor manufacturing, gambling, and brothels.
- In the name of the bank, bank employees may engage in SNC activities with clients. The collateral and commodity utilised in the tawarruq arrangement are not shari'ah compliant. Before the bank has possession of the commodity, the tawarruq contract is signed.

- The pattern of selling transactions does not correspond to the sequential operations. The terms and conditions are not clearly defined, which might cause confusion throughout the contracting procedure.
- The representation of an agent prior to the ownership of the commodity may result in bogus transactions. The facilities might be used before the contract is signed. Late payment compensation does not represent real losses. In a restructuring, a debt rollover is carried out.

Noor and Azli (2009) studied the Sharī'ah issues in the practice of tawarruq in Islamic credit cards in Malaysia. The study discovered that the tawarruq-based credit card is vulnerable to SNC problems involving fake transactions, prearrangement, profit charge on overdue credit limit repayments, bank appointment as an agent, and resale of unowned items. According to the Obeid and Kaabachi (2016) the incorporation of dual agency (wak alah) in tawarruq time deposits as practised in Malaysia was investigated for potential Shariah problems. The use of dual agency in the mode of operation of tawarruq deposit via bay al-wakil li nafsihi (sell of the agent to himself) did not impact the legality of the tawarruq arrangement, according to the study. However, considerable caution should be used at every stage of the transaction to ensure that it does not breach the shari'ah criteria of tawarruq, which include correct sequencing.. Mohamad and Ab Rahman (2014) it has been stated that tawarruq finance has a higher rate of SNC events than other types of funding because it requires a variety of processes and phases. As a result, prior to contract signing, a thorough examination and due diligence are necessary to ensure that the arrangement is not only a paper exchange.

Ahmed, Ullah, Ahmed and Rahman (2016) found that the practice of Islamic profit rate swap and options structured based on tawarruq triggers the issue of

gambling in which one party may gain in the arrangement at the expense of another party. Ahmad, Yusof and Mazlan (2020) discovered five main Sharī'ah issues in the application of interbank commodity murabahah for liquidity management in Malaysia. These include the issue of resemblance to interest, the nature of tradability of commodities, the structure of commodity murabahah, the duration of the completed tawarruq transaction and the real brokerage cost.

Ullah (2014) has stated that IBs in Bangladesh are in a susceptible position of Shari'ah compliance. Ullah (2014) further mentioned that the status of Shari'ah is very different among IBs, and that Shari'ah violations are high in investing activities. Ullah (2014) explained the reasons such as lack of knowledge of Sahri'ah, lack of sincerity with respect to Shari'ah, and poor attention to Shari'ah audit. Ullah (2014) observed that on average 76.05% strongly agreed and 22.16% agreed that Sharia compliance is a priority for IBs in all Islamic bank transactions. However, 28.14% of employees claim that higher authorities do not plan enough training programmes to make employees well informed in Shari'ah guidelines.

Rehman and Masood (2012) stated that Riba's brutality and inequality in the financial system is eliminated and socio-economic progress is ensured by implementing the Halal methods of doing business, e.g. The Musharkah, the Bai Salam, the Mudharba, and the Ijarah. However, awareness of the Shari'ah Guidelines is the single most important factor in the choice of IBs, and compliance with Shari'ah, assures the reputation of IBs and inspires trust in shareholders and stakeholders, as indicated by Rashid, Yousaf and Khaleequzzaman (2017).

Considering the Islamic principle of Amanah (trustworthiness), Katper, Madun and Syed (2015) examined managerial trustworthiness in Shariah companies' capital

structure decisions and compare it with those of non-Shariah companies' trustworthiness. For non-Shariah companies, the results supported the previous research findings that indicated that managers exploit leverage ratios at the expense of company value in their own interest, reflecting the magnitude of agency disputes between these companies. This manipulation is also observed by Alsaadi, Jaafar and Ebrahim (2020) who stated that membership in a Shariah index leads to manipulation of earnings. This indicated that inclusion in a Shariah index does not increase financial reporting efficiency.

According to the Haron, Ramli, Injas and Injas (2015) the IBs are still in the process of evolving, and this process will need more time and effort on the part of decision-makers, bodies, and regulatory authorities. If we ignore the fundamental principles, IBs, like other conventional banks and firms in the financial system, are affected by any damage to their departments or products' reputation. Karim and Shetu (2020) attempted to determine the level of enforcement of Shariah in the IBs' operations in Bangladesh. The data was gathered from a questionnaire survey of 400 respondents from six IBs on banking operations and from a personal interview with bank officials and bank regulators. Other data was collected from various journals, books, the Qur'an, the Sunnah, and the banks' websites. The interpretation of the data uses descriptive statistics. Regarding deposits, loans, audits and other practices, most of the IBs do not comply with Shariah. According to the Butt et al. (2011) users and non-users of Islamic banking services both felt IBs to be moderately following Islamic principles. While considering barriers faced by non-users of IBs, it was identified that the perception that IBs do not follow Islamic principles, constituted a major barrier for non-users when selecting IBs.

The reputational damage caused by product fraud or financial and administrative corruption inside the business, which results in a substantial loss of income and a considerable reduction in customer commitment, and hence a decrease in the value of the stock and insolvency (Zaman, 2010). The promoting reputation it has a role in building customer loyalty and increase revenue (ElGammal, El-Kassar, & Messarra, 2018). This occurs with the IB when they are misleading in their products and introducing them to the market in a dishonest manner. As a result, it prioritises earnings that are not based on Islamic precepts, which has greatly impacted the bank's reputation and had a negative impact on customer commitment, pushing people to withdraw their savings and go to other IBs. On the other hand, when there is a variation in a Fatwa between SSBs of the same IB in the same country, the image of the bank rattles (Haron et al., 2015; Injas, Haron, Ramli, & Injas, 2016).

The fact that most IBs have to work within the conventional banking framework is one of the features that is often ignored, and some characteristics of Islamic banking are not adequately safeguarded by law and legislation, especially those related to the operational aspects of Islamic banking. Such negligence may affect the risk of Islamic banking. The previous studies lack the compilation of the resources of non-Shariah income and how is this non-Shariah compliance income generated and treated according to Shariah guidelines.

Thus, in order to meet these objectives, the present study makes a variety of contributions. To get a deeper understanding of the sources of NSCI, and how this income is handled, the present study will contribute to the ever-developing literature of the non-Shariah compliance income. The present study will try to explain the intrinsic sources and how income from non-Shariah sources is treated.

The presence of non-shariah income strongly hit the credibility of modern Islamic financial system as a whole. Now it is needed to take serious step to minimize NSCI to such a trend that it can neglected. It would enhance the trust of customers on the systems and it would be ultimately helping to support and sense the economies of Islamic countries. In order to achieve it there is a dire need of relevant studies. In this study, we will try to recognize the factors which contribute to NSI. Ultimately, it would help to find solutions to existing problem of NSCI.

2.19 The Development of Theoretical Framework

Researchers who are using quantitative research method use theory at beginning of the idea. Based on the theory research framework, hypothesis for data collection procedure are developed. “Theory” is a general declaration about the actual world, the basic truth of which the proof obtained by the logical method should be supported (Kirshner, 1994). Since the model is a blueprint for action, it describes in a general way what happens in practice. The objective of the present study is to analyze the Ability, Integrity, Benevolence and Shared values of Islamic bank management have an impact on Commitment of customers of IBs. At the same time the mediating role of Trust of IBs between said variables in Pakistan's IBs. The related literature leading to the development of the conceptual framework is reviewed. Specifically, Ability, Integrity, Benevolence, Shared values, Commitment of customers and Trust literature. To clarify each variable of the current research, prior empirical results are well discussed. Finally, based on the reviewed literature, the research hypotheses of the present study are provided.

2.20 The Commitment-Trust Theory

To understand the reason why customers/Clints turn out to be committed to an organisation, The Commitment-Trust Theory need to be discussed. Morgan and Hunt (1994) presented the Commitment-Trust Theory (CTT). They suggested that the "trust" factor is the mediator between multiple latent factors and commitment. Commitment-Trust Theory (Morgan & Hunt, 1994), states that success of relationship marketing requires commitment and trust, not the strength or the ability to condition the other party. Commitment is defined by Morgan and Hunt (1994) as a continuous desire to maintain the values of a relationship. Based on these definitions can be stated that the commitment was created after two or more parties have a relationship.

Relationship marketing emphasises the need of continuous contact between the seller and the buyer in order to build a long-term mutually beneficial relationship. Trust is an essential component in sustaining a long-term relationship. According to Morgan and Hunt (1994), trust is at the core of all forms of partnerships, as well as trust in relationships. Individuals and companies alike use trust to build customer relationships (Jones, Wilkens, Morris & Masera, 2000). Berry (1983) previously said that trust is essential in creating a long-term relationship between firms and consumers. According to Urban, Sultan, and William (2000), who combined these two perspectives, trust is seen as a critical component in developing long-term relationships with customers and retaining market share in the company. According to Morgan and Hunt (1994) in their Commitment-Trust Theory, trust develops when one party has faith in the partner's reliability and integrity. Furthermore, Morgan and Hunt (1994) described that the trust is the result of the trusting party confidence that the trustee is reliable and have high integrity, which is linked with a competent, honest, fair, responsible, helpful and wise. The theory is based on the existing issue which is looking on trust and commitment

issue. Therefore, present study is also looking at the same issue which has not been covered in Islamic bank literature.

2.20.1 Commitment

The concept of commitment, which has played an important part in service marketing, is heavily reliant on the relationship between the company and its customers (Chai, Malhotra, & Dash, 2015; Fullerton, 2003; Garbarino & Johnson, 1999; Moorman, Deshpande, & Zaltman, 1993; Moorman, Zaltman, & Deshpande, 1992; Morgan & Hunt, 1994). It has become the most prevalent idea in business-to-customer relationship research in modern banking.. According to the Morgan and Hunt (1994) commitment and trust are key components of a healthy relationship. Commitment and trust are two essential elements in the development of a relationship. According to the Morgan and Hunt (1994), commitment is defined as "an exchange partner who feels that their ongoing connection with another is valuable enough to justify their best efforts to sustain it.". On the other hand, Moorman et al. (1992), defines Commitment as "a continuing desire to maintain valued relationships with their clients". These definitions fundamentally include emotional bond (Moorman et al., 1992; Morgan & Hunt, 1994) which also include the an expectation to receive bigger advantage in case of maintaining relationship (Chenet, Dagger, & O'Sullivan, 2010; Geyskens, Steenkamp, Scheer, & Kumar, 1996). Anderson and Weitz (1992); (Curras-Perez & Sanchez-Garcia, 2016) concluded that a firm must establish a mutual commitment and must concentrate on maintaining relationship with customers so that firms shared values may develop.

The commitment relationship helps to enhance emotional bends between the firm and its customers. It is because a feeling of equality of relationship establish

between both parties (Cater & Zabkar, 2009; Parsa & Cobanoglu, 2011; Sumaedi, Juniarti, & Bakti, 2015). It also helps to build friendship and personal confidence (Fullerton, 2011; Sharma, Young, & Wilkinson, 2015). (Andaleeb, 1996; Chai et al., 2015; S.-C. Chen & Quester, 2015; Christian, 2004; Morgan & Hunt, 1994) are of the view that trust and commitment are greatly important in order to build a long-term relationship. Many scholars even consider these two factors important as they may influence the success and failure of ongoing relationship between firm and customers (Geyskens et al., 1996; Gounaris, 2005; Ponder, Holloway, & Hansen, 2016; Sharma et al., 2015). Chiu et al. (2015) defines customer commitment as “a mental attachment that exists between a customer and an organisation, illustrated by the degree of strength of a customer’s emotional identification and association with the organization”. Tabrani, Amin and Nizam (2018) also include the continues desire of the customer to continue the relationship with organisation.

Commitment is a fundamental tool which helps to build Long-term relationship between partners. Revilla-Camacho, Cossío-Silva, and Palacios-Florencio (2017) argue that it is beneficial for firm as customer have high level of commitment, they consider themselves as partner of business and hence are motivated to have to have a strong relationship with firm for longer period of time. However, due to the difficulties in grasping the theoretical underpinnings of these two fundamental variables (trust and commitment), the majority of them proposed measuring them as unidimensional (Andaleeb, Rashid, & Rahman, 2016; Dwyer, Schurr, & Oh, 1987; Ganesan, 1994; Martín, Gutierrez, & Camarero, 2004; Morgan & Hunt, 1994). This study adopted a unidimensional approach of commitment concept that has supported from the literature (Anderson & Weitz, 1992; Brock & Zhou, 2012; Garbarino & Johnson, 1999; Hennig-Thurau, Gwinner, & Gremler, 2002; Ponder et al., 2016).

2.20.2 Trust

Trust is a dynamic concept that has been conceptualised in various ways (Amin, Isa & Fontaine, 2013; Dimitriadis, Kouremenos, & Kyrezis, 2011; Flavián, Guinalu & Torres, 2005; Lu, Fan & Zhou, 2016), resulting in much debate about its dimensions, antecedents, and consequences in business relationships (Abror, Patrisia, Engriani, Idris & Dastgir 2021; Baumann & Le Meunier-FitzHugh, 2014; Doney & Cannon, 1997; Doney, Barry & Abratt, 2007; Toufaily & Pons, 2017). Moorman et al. (1993) define trust as the willingness to put one's confidence in an exchange partner in whom one has confidence. According to Moorman et al. (1993), trust has two meanings under this framework. Trust is defined as belief, confidence, and intentionality in trust partners who have knowledge, reliability, and intentionality. The deliberate action that shows partner trust, which incorporates the element of uncertainty and vulnerability of the party who is trusting, is also referred to as trust. From this perspective, Doney and Cannon (1997), Moorman et al. (1993) (1992) explain that the concept of trust is only significant in uncertain situations, and that trust will minimise uncertainty in a scenario where customers are most vulnerable (Chaudhuri & Holbrook, 2001). Based on this definition Doney and Cannon (1997) Integrity and benevolence are the significant implications of trust. Integrity refers to a customer's belief that a company's promises may be trusted (Doney & Cannon, 1997; Fullerton, 2011). Customers who feel that a company's goals and intentions are in their best interests are referred to as benevolent (Cater & Zabkar, 2009; Doney & Cannon, 1997). Additionally, Doney & Cannon (1997) emphasize an important point underpinning trust that when trusting parties are vulnerable, then those parties have to participate in risk-taking behavior for this vulnerability to exist (Doney, Barry, & Abratt, 2007; Hanmer-Lloyd & Canning, 2007; Morgan & Hunt, 1994). Another

definition of trust describes that trust will exist when one party has confidence in an exchange partner's reliability and integrity (Morgan & Hunt, 1994). Similarly, Garbarino and Johnson (1999) defined trust as customers have confidence in the quality and reliability of the products and services offered by the firms. The components of confidence and reliability from both parties are important in building trust and this confidence notion as a key component of successful relationships (Berry, 1995; Ha, Lee, & Janda, 2016; Verhoef, Franses, & Hoekstra, 2002). Another scholar explains that trust is formed by past customers' experience with a firm and this historical experience provides customers with numerous opportunities to evaluate a firm's ability, benevolence and integrity (Choi & La, 2013). Although previous customer experience characteristics influenced by the customer's evaluation of any direct or indirect contact with service providers. However, consumption experience is more significant as a source of trust (Delgado-Ballester & Munuera-Alema, 2001; Keller, 1993; Krishnan, 1996). According to Elliott and Yannopoulou (2007) this notion represents a hierarchy of emotional involvement which reaches trust when customers take part an emotional immersion in dealing with service providers. Typically, the level of trust enhances when customers trust a service provider or directly interact (Jacobs, Hyman, & McQuitty, 2001; Jiang, Jun, & Yang, 2016; Morgan & Hunt, 1994) whereas the lack of trust motivates relationship termination (Amin, Rahman, Razak, & Rizal, 2017; Kabadayi, 2016).

In the banking industry, (Ennew & Sekhon, 2007) define that trust is associated with acceptance of vulnerability, risk, interdependence and involves confident expectations about future behaviors. In this definition, Ennew, Kharouf and Sekhon (2011) argue that for a customer to accept vulnerability, they must be confident that the service provider has the expertise to deliver what is promised. Similarly, Järvinen

(2014) define that consumer trust is based on consumer's experience, feeling of confidence and security on the ability of banks to behave honestly, committed with rules and regulations. Moreover, it is important for banks to keep their promises, sincere and commit to build bank trust relationships. From Islamic banking perspective, Amin, Z. Isa, and Fontaine (2013) define trust as a symbol of trustworthiness, honesty, ethics and compliance with Islamic (Shariah) principles. Customers' trust in Islamic banking transactions has some unique characteristics; therefore, to build trust, IBs have to keep their promises based on these criteria. This definition is also consistent with (Sumaedi et al., 2015) who define trust as a customer's belief toward IBs that the IBs are running accordance with Islamic principles. Additionally, Kayed and Hassan (2011) emphasize that trust is reflected as the foundation of Islamic banking activities which comply with Islamic principles. Following this viewpoint, the operational assurance of the IBs to comply with Islamic principles has been identified as a key important indicator in building bank trust relationships (Amin et al., 2013; Ashraf, Robson, & Sekhon, 2015; Mollah, Hassan, Al Farooque, & Mobarek, 2017).

Previous studies have identified that religious aspects are also one of the main criteria when customers deal with IBs. For example, Haron, Ahmad, and Planisek (1994) highlight that Malaysian customers believe that the religion is the only reason they patronize the IBs. Similarly, Butt and Aftab (2013) point out that religious attitude will significantly influence consumer assessments of a bank's relationships. In this context, religious consideration plays a significant role in influencing the decision-making behavior of Muslim customers. As a result, customers establish relationships with IBs because customers trust that IBs are Shariah compliant (Asadullah, 2016; Ashraf et al., 2015; Hassan & Lewis, 2007; Tameme & Asutay, 2012). Indeed,

customers' trust in IBs may be interrelated to customers perceiving that the products and services of IBs are running with Shariah principles (Amin et al., 2013; Amin & Isa, 2008; Ullah et al., 2018). However, there are many indicators other than religion for customers in choosing the IBs. For example, Othman and Owen (2001) demonstrate that between 65 and 78 percent of Islamic banking customers are satisfied with their overall and personal contact with bank staff. As Erol and El-Bdour (1989) and Naser, Jamal, and Al-Khatib (1999) report that customers of IBs are satisfied with the Islamic bank's name and image, customer confidentiality, the wide range of facilities offered and the proficiency of bank personnel. Other aspects such as friends, neighbors and family members have great influence on prospective customers when it comes to making decisions to patronize a financial institution (Ndubisi, 2006). This implies that the religious factor does not constitute the most significant aim. Therefore, providing secure banking products that are fully compliant with Islamic principles and excellent service quality are important in Islamic banking. Although the definition of trust in bank-to-customer relationships has been established (Järvinen, 2014; Nienaber, Hofeditz, & Searle, 2014), There are a consensus in IBs in defining trust as honesty, confidence, integrity and trustworthiness (Amin et al., 2013; Jamshidi, Hussin, & Wan, 2015; Martin & Murphy, 2017; Sumaedi et al., 2015; Tsarenko & Tojib, 2009; Tyler & Stanley, 2007; Ullah et al., 2018; Wahyudi, 2014). This study adopts the definition of trust given by Amin et al. (2013) "Trust is a symbol of trustworthiness, honesty, ethics. and compliance with Islamic (Shariah) principles" , who studied trust in the relationships between customers and IBs.

2.20.3 Ability

The set of abilities, competences, and qualities that enable a party to exert influence in a given domain is referred to as ability (van Esterik-Plasmeijer & van Raaij, 2017). The ability has a specific domain since the trustee may be extremely knowledgeable in a certain technological field, which allows that person to be trusted with duties that are connected to that area. On the other hand, the trustee may have minimal ability, training, or experience in another area, such as interpersonal communication, which may be a problem. A person who is trusted to perform analytic duties relevant to his or her technical field may not be trusted to begin contact with a significant customer. As a result, trust differs depending on the domain (Zand, 1972).

A number of theorists have discussed similar constructs as affecting trust, using several synonyms. Cook and Wall (1980), Deutsch (1960), Jones, James, and Bruni (1975), and Sitkin and Roth (1993) van Esterik-Plasmeijer and van Raaij (2017) all considered ability an essential element of trust. Others have used the term competence to describe a similar construct (e.g., Butler, 1991; Butler & Cantrell, 1984; Kee & Knox, 1970; Lieberman, 1981; Mishra; Rosen & Jerdee, 1977). Perceived expertise was found as a crucial attribute of the trustee in the Yale research mentioned above. Ability, according to Giffin (1967), is a factor that leads to trust. Gabarro (1978) defined nine trust bases: functional/specific competence, interpersonal competence, business sense, and judgement. In the present conception, all of these are comparable to ability. While words like expertise and competence signify a set of skills relevant to a particular, fixed area (e.g., Gabarro's interpersonal competence), ability emphasises the construct's task and situation specific nature in the current model.

2.20.4 Benevolence

Benevolence is the amount to which an individual trustee, aside from a self-centered profit motivation, would like to do good to the trustor. Benevolence implies that the trustee has a special relationship with the trustor. The connection between a mentor (trustee) and a protege is an example of this attachment (trustor). Even though the mentor is not obligated to assist the protege, and there is no extrinsic incentive for the mentor, the mentor wishes to assist the protege. The perception of a trustee's favourable attitude toward the trustor is referred to as benevolence.

Benevolence is essential to trust because it reflects how much an individual is thought to care about people interpersonally and to be willing to work hard for motives other than ego and wealth (Robert, Denis & Hung, 2009). Bhattacharjee (2002) contended that a benevolent trustee would help a trustor, even when not required to or rewarded for doing so. If customers believe that banking firms are benevolent, they are more likely to use banking. Thus, perceived benevolence is likely to be associated with positive attitude toward adopting (or continuing to use) banking.

A number of researchers have included characteristics similar to benevolence as a basis for trust. Hovland and colleagues (1953) described trustworthiness in terms of the trustee's motivation to lie. This idea is clearly consistent with the view that perceived benevolence plays an important role in the assessment of trustworthiness, in that high benevolence in a relationship would be inversely related to motivation to lie. Several authors have used the term benevolence in their analyses of trust, focusing on the specific relationship with the trustor (Larzelere & Huston, 1980; Solomon, 1960; Strickland, 1958). Others have considered intentions or motives as important to trust (e.g., Cook & Wall, 1980; Deutsch, 1960; Giffin, 1967; Kee & Knox, 1970; Mishra, In

press). Although these authors reflect a belief that the trustee's orientation toward the trustor is important, the terms intentions and motives can include wider implications than the orientation toward the trustor (e.g., the trustee's profit motives). Benevolence connotes a personal orientation that is integral to the proposed model. Also, in a similar vein, Frost, Stimpson, and Maughan (1978) suggested that altruism contributes to the level of trust. Butler and Cantrell (1984) identified loyalty among their determinants of dyadic trust. Jones, James, and Bruni (1975) suggested that confidence and trust in a leader are influenced in part by the extent to which the leader's behavior is relevant to the individual's needs and desires. Rosen and Jerdee (1977) considered the likelihood that the trustee would put organizational goals ahead of individual goals. Thus, all of these researchers used some construct similar to benevolence, as defined in our model.

2.20.5 Integrity

The relationship between integrity and trust involves the trustor's perception that the trustee adheres to a set of principles that the trustor finds acceptable (Mohamed, Abdul Rahim, & Ma'aram, 2020). McFall (1987) illustrated why both the adherence to and acceptability of the principles are important. She suggested that following some set of principles defines personal integrity. However, if that set of principles is not deemed acceptable by the trustor, the trustee would not be considered to have integrity for our purposes (McFall called this moral integrity). The issue of acceptability precludes the argument that a party who is committed solely to the principle of profit seeking at all costs would be judged high in integrity (unless this principle is acceptable to the trustor). Such issues as the consistency of the party's past actions, credible communications about the trustee from other parties, belief that the trustee has a strong sense of justice, and the extent to which the party's actions are

congruent with his or her words all affect the degree to which the party is judged to have integrity. Even though a case could be made that there are differentiable reasons why the integrity of a trustee could be perceived as higher or lower (e.g., lack of consistency is different from acceptability of principles), in the evaluation of trustworthiness it is the perceived level of integrity that is important rather than the reasons why the perception is formed.

Integrity or very similar constructs have been discussed as antecedent to trust by a number of theorists. Lieberman (1981) included integrity per se as an important trust factor. Sitkin and Roth's (1993: p. 368) approach utilizes a similar but more constrained construct of value congruence, which they defined as "the compatibility of an employee's beliefs and values with the organization's cultural values." Their approach compares the trustee's values with those of an organizational referent, rather than a judgment of the acceptability of the trustee's values to the trustor. Integrity and consistency were trust determinants in Butler and Cantrell's (1984) model. Likewise, Butler (1991) included consistency, integrity, and fairness as conditions of trust. Although a lack of consistency would cause one to question what values a trustee holds, being consistent is insufficient to integrity, as the trustee may consistently act in a self-serving manner. Gabarro (1978) suggested that three bases of trust were commonly mentioned by their interviewees, one of which was character. He contended that character includes integrity. Hart, Capps, Cangemi and Caillouet's (1986) analysis of 24 survey items revealed three factors, one of which was openness/congruity (i.e., the integrity, fairness, and openness of management). Inclusion of integrity in the proposed model is well grounded in previous approaches to trust.

It is apparent from the previous discussion that the three factors of ability, benevolence, and integrity are common to much of the previous work on trust. Earlier

models of trust antecedents either have not used the three factors together or have expanded into much larger sets of antecedents (e.g., Cecchetti, Allegrini & Monteduro, 2018; Butler, 1991; Gabarro, 1978). These three factors appear to explain concisely the within-trustor variation in trust for others.

2.20.6 Shared Values

To describe shared values different names has been used. For example, Levin, Whitener, and Cross (2006) Shared Perspective used to examine shared vision and shared language of two parties, on the other hand Orr (1990) and Monteverde (1995) shared perspective to examine shared language and shared narratives. Shared vision was referred as common goals or aspirations the organization by Tusi and Ghoshal (1998). This variable has long been considered an important component in building buyer–seller relationships (Amah & Ahiauzu, 2014; Heffernan, O'Neill, Travaglione, & Droulers, 2008; MacMillan, Money, Money, & Downing, 2005; Wilson, 1995). The concept of shared values can be defined as ‘the extent to which partners have beliefs in common about what behaviors, goals, and policies are important or unimportant, appropriate or inappropriate, and right or wrong (Morgan & Hunt, 1994). Fish, Ma, & Wood, (2018) and Taleghani, Gilaninia, and Mousavian (2011) showed that shared values can be considered an antecedent of trust in financial contexts.

All organizations reflect, enact, and disseminate values (Chen, Lune, & Queen, 2013). Having shared values contributes to the development of commitment and trust in a relationship (Dwyer et al., 1987; Morgan & Hunt, 1994). Perceptions of similar values between partners may increase partners’ perceived ability to predict other partners’ behavior and purposes and thereby enhance trust (Helen, 2011). Having shared values

facilitates the achievement of common goals, reduces interpersonal barriers, and consequently leads to a higher level of trust (Coulter & Coulter, 2002).

2.21 Hypothesis Development

The research hypotheses are formulated based on the conceptual framework of the study which derived based on the theory on the commitment-trust theory as shown in Figure 2.1. The research hypotheses are supported by previous empirical findings.

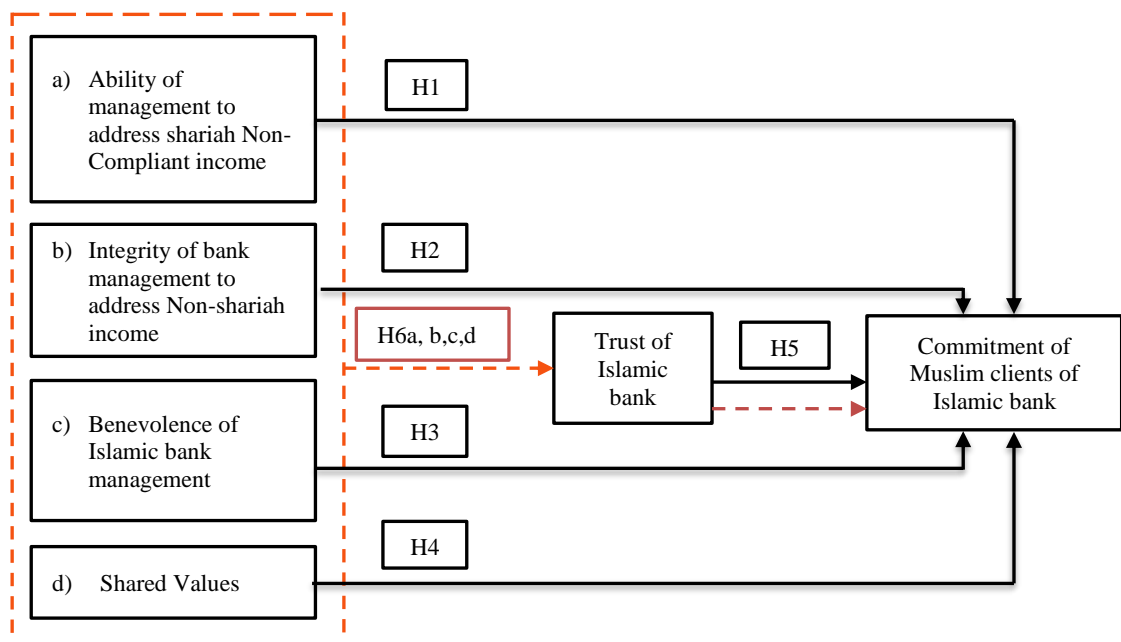


Figure 2.1. Conceptual Framework

2.21.1 Relationship Between Ability and Commitment

Managing relationships with customers is challenging for many firms because they engage in many different types of transactions and their customers vary considerably as to their wants and needs (Fichman & Goodman, 1996). According to the Luo and Zhou, (2017) Arnett and Badrinarayanan (2005) Roberts-Lombard (2020), and Tabrani, Amin and Nizam (2018) Ability also known as competency have a vital role in commitment of clients. Ability of the management to control the expected and

unexpected risks have a effect on the customers commitment towards the organization Nobar and Rostamzadeh (2018). Thus, based on these studies the present study proposed the following hypotheses:

H1: There is a positive relationship between Ability and commitment

2.21.2 Relationship Between Integrity and Commitment

Firms develop trust to gain commitment from customers (Doney & Cannon, 1997; Morgan & Hunt, 1994). Integrity is an essential dimension of trust, and it reflects fulfillment of written and spoken promises (Khokhar, Laghari, & Lakhani, 2019). Integrity fosters overall trust since it allows exchange partners to predict future behaviors under uncertain environments (Doney & Cannon, 1997). Integrity allows exchange partners to predict future events and to protect one another from the dangers of opportunistic behavior. By reducing future uncertainties through ethical and honest behaviors, integrity fosters commitment among exchange partners (Tabrani et al., 2018; Iven, 2004; Kaufmann & Stern, 1988). Studies have found that integrity of an exchange partner fosters the other party's commitment to the relationship (Coote et al., 2003; Simon, 1999; Sonnenberg, 1994). Thus, based on these studies the present study proposed the following hypotheses:

H2: There is a positive relationship between Integrity and commitment

2.21.3 Relationship Between Benevolence and Commitment

Benevolence refers to helping behaviors beyond the call of duty for the well-being of exchange partners (Lee et al., 2004). This study posits that benevolence increases commitment because benevolence communicates caring motives and goodwill

to exchange partners by providing care and favors (Guo et al., 2021; Doney & Cannon, 1997), reducing transaction costs (Green, 2003), and enhancing relationship performance (Lee et al., 2004). Thus, based on these studies the present study proposed the following hypotheses:

H3: There is a positive relationship between benevolence and commitment

2.21.4 Relationship Between Shared Values and Commitment

Morgan and Hunt (1994) describe shared values and norms in exchange relationships as “the extent to which partners have beliefs in common about what behaviours, goals and policies are important or unimportant, appropriate or inappropriate and right or wrong”. Similarly, De Ruyter and Wetzels (1999) argue that in terms of content, relationships may be governed by several types of norms and values (such as shared values pertaining to quality, profitability and ethics). According to Morgan and Hunt (1994), shared values contribute positively to the development of affective commitment. Referring to mutual goals, Fontenot and Wilson (1997) maintain that the more committed partners are to the relationship, the better the chance for a firm to achieve its individual and mutual goals without the overshadowing risk of engaging in opportunistic behavior. MacMillan, Money, Money, and Downing (2005) as well as Morgan and Hunt (1994) report a positive relationship between shared values and relationship commitment. Both groups of authors find that, when partners share the same values, this has a positive effect on their mutual level of commitment to the relationship.

According to Amah and Ahiauzu (2014) and Fang, Milena and Norm (2000) , if partners in a relationship have concern for the welfare of one another, both partners become committed to the relationship because there is a general feeling that they share

the same values. Rafiq, Fulford and Lu (2013) also present results showing that the perceived shared value has an influence on commitment. The results further show that the service provider's investment of time, effort and money in the relationship is an indication of good will to the values and needs of customers and this persuades customers to be committed to the relationship. This supports Polites, Williams, Karahanna and Seligman (2012) finding which indicates that an ongoing relationship between customers and the service provider leads to relationship commitment by both parties. Thus, based on these studies the present study proposed the following hypotheses:

H4: There is a positive relationship between shared values and commitment

2.21.5 Relationship Between Trust and Commitment

Trust is regarded as an essential component in relationships between individuals, between organizations, and between an individual and an organization (Abror et al. 2021; Martinez-Torres, Palacios-Florencio Toral-Marín, & Barrero-García, 2011; Prieto, Phipps, Georgia, College, & Addae, 2014). In fact, it is one of the key elements associated with service recovery (Choi & La, 2013) and it can be an essential factor in consumers' purchasing decisions. The literature in this field shows that trust is a prerequisite for the creation and preservation of long-term relationships between the company and its consumers (Kantsperger & Kunz, 2010; Morgan & Hunt, 1994), mainly in services sectors. In this vein, Reichheld and Scheffer (2000) observe that to win customers' commitment, firms must first win their trust. Yen (2009) demonstrates that commitment is positively influenced by the level of trust. This trust– commitment relationship is also highlighted by other authors such as Ball et al. (2004), Chaudhuri and Holbrook (2001), Hoq et al. (2010) and Trif (2013). Furthermore, some studies find

that trust is a strong determinant of loyalty and influences not only the outcomes for example, commitment – but also the processes of the relationship, such as the quality of the interaction (Hikkerova & Sahut, 2014; Moorman, Zaltman, & Deshpande, 1992).

Thus, based on these studies the present study proposed the following hypotheses:

H5: There is a positive relationship between Trust and commitment

2.21.6 Trust as Mediator

For this specific study trust is used as mediator. A mediator variable explains the process through which two variables are related, while a moderator variable affects the strength and direction of that relationship. For this study researcher used mediator because it's a mechanism to reach commitment of the customers. Previous studies have investigated empirically that trust as an important parameter of building relationships quality (Baumann & Le Meunier-FitzHugh, 2014; Martin & Murphy, 2017; Ponder et al., 2016). Although there is no consensus in the literature regarding the relationship between trust and commitment, but still a number of studies find that trust plays a significant role in enhancing customer commitment (Cater & Zabkar, 2009), (Čater & Čater, 2010; Kassim & Abdulla, 2006; Moorman et al., 1992, 1993; Sharma et al., 2015; Shukla et al., 2016). For example, Boateng and Narteh (2016), Cho and Hu (2009), Montazemi and Qahri-Saremi (2015) describe that when customers engage in relationships with their banks, it is essential for the customers to trust their bank before they commit to them. Similarly, Gounaris (2005) point out that trust will lead to a high level of commitment, the more customers gain in trust, the more committed customers become. In Islamic banking context, most of the studies conclude that customer trusts IBs because the customer has a high commitment in implementing their beliefs (Houjeir & Brennan, 2017; Usman et al., 2017).

Devastating support has been found in the literature for the influence of trust on commitment to a relationship (Geyskens & Steenkamp 1995; Morgan & Hunt 1994; Moorman, Zaltman & Deshpandé 1992). Ganesan and Hess (1997) find that commitment to a relationship is the most frequently examined consequence of trust. Referring to the importance of trust as an antecedent of relationship commitment, Morgan and Hunt (1994) comment that:

“relationships characterised by trust are so highly valued that parties will desire to commit themselves to such relationships. Indeed, because relationship commitment entails vulnerability, parties will seek only trustworthy partners.”

According to Geyskens and Steenkamp (1995) the underlying theme in the marketing literature on this topic is that trusting one’s partner to be honest and benevolent brings about a feeling of security, reduces uncertainty, and creates a perceived supportive climate. One of the key characteristics of relationship commitment is the committing party’s purposeful and consistent engagement of resources to maintain the relationship over an extended period of time (Gao, Sirgy and Bird 2005). Gao et al. (2005) believe that reciprocal or joint commitment may lead to stable long-term relationships by aligning participants’ incentive structures and enhancing their confidence in each other’s behaviors.

Cook and Wall (1980), Deutsch (1960), Jones, James and Bruni (1975), and Sitkin and Roth (1993) and George, Aboobaker and Edward (2020) all considered ability has a strong relationship with trust. It is required for the bank to deliver on commitments and promises made (Sitkin & Roth 1993; Lieberman 1981). Product competence is about the knowledge of and experience with products, services, innovation, quality, research, and technical product development. Managerial

competence is the knowledge of internal and external organization. According to van Esterik-Plasmeijer and van Raaij (2017) there is a positive relationship between Ability of the management and trust.

No one disputes that trust and integrity are important in banking, but it is more difficult to delineate clearly what trust and integrity mean with regard to banking and what role they play. Trust and integrity are highly valued moral goods, not only in banking but in business generally. Indeed, little commercial activity would not be possible without them. Moreover, many scandals and crises, are blamed on the lack of trust and integrity. In discussing these matters, however, it is all too easy to invoke pious platitudes about the need for trust and integrity in banking and to make earnest appeals for a restoration of these qualities.

Integrity refers to the trustor's perception that the trustee adheres to a common set of principles that the trustor finds acceptable (Mayer et al., 1995). In other words, the trustor's perception of the trustee's integrity is related to a set of common principles between trustee and trustor (McFall, 1987). These common principles include consistency of past actions, credible communications, a strong sense of justice, and congruent actions with the trustee's words (Mayer et al., 1995). Integrity influences overall trust since it allows prediction of future events, especially under high uncertainty (Doney & Cannon, 1997). Studies have identified integrity as having a meaning similar to such concepts as value congruence (Haron et al. 2020; Sitkin & Roth, 1993), consistency (Butler, 1991; Butler & Cantrell, 1984), character (Gabarro, 1978), and openness/congruity (Hart et al., 1986).

Benevolence refers to the extent to which one party believes that a second party has intentions and motives beneficial to the first party (Ganesan 1994). At the center of

benevolence is one firm's willingness to help the other (Gao & Brown, 1997). Examples of benevolence include provision of support, expression of consideration for the exchange partner's welfare, restraint of self-serving opportunism, and willingness to assume fiduciary responsibilities (Atuahene-Gima & Li, 2002; Sirdeshmukh et al., 2002). A benevolent trustee shows consideration and sensitivity to the needs and interests of the trustor, acting in a way that protects these interests, and refrains from opportunistic behaviors (Atuahene-Gima & Li, 2002).

Previous studies have indicated that the more the values shared between partners, the higher the level of trust created between them. Morgan and Hunt (1994) found that perceptions of similar values shared between partners increase the trust among partners. Adidam et al. (2004) and Holdford and White (1997) suggested that the construct of shared values is positively associated with trust. In Islamic banking context, according to Roberts-Lombard (2020) and Sumaedi et al. (2015) there is the lack of studies in investigating the trust-commitment relationship in Islamic banking, it is necessary for banks to build a good relationship with their customers based on trustworthiness and develop emotionally committed customers. Thus, based on these studies the present study proposed the following hypotheses:

H6: There is a mediating role of trust between Ability and Commitment

H7: There is a mediating role of trust between integrity and Commitment

H8: There is a mediating role of trust between benevolence and Commitment

H9: There is a mediating role of trust between shared values and Commitment

2.22 Summary

Previous literature mostly focused on the Islamic banking shariah compliance in the perspective of risk, especially in the context of transactions and credit risk i.e. Islam, Mamun, Islam, Uddin and Sultana (2021), Very limited studies conducted in the context of operations and activities which leads to no-shariah compliance as well as sources of Non shari'ah income. The present study is to find out the sources of non-shari'ah income and also analyze the Ability, Integrity, Benevolence and Shared values of Islamic bank management impact on Commitment of customers of IBs. At the same time the mediating role of Trust of IBs between said variables in Pakistan's IBs.

CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter will describe methodological considerations for the research questions that are to be answered in this study. For this study multimethod methodology will be used. Multi method is an approach that help to have a more in-depth information and knowledge of the problem as well as provide rich datasets. It also assist for to increase findings reliability and credibility. Using multiple methods to study a phenomenon is proposed to produce results that are more robust and compelling than single method studies (Davis, 2011). This chapter will address two (2) approaches of methodologies for two (2) unique phenomena as mentioned in chapter 1. The first part will discuss epistemological and interpretative perspectives underlying the methodology discussed in order to address the first three (3) research questions. The research design will justify the reason of employing the qualitative approach to achieve the first research phenomena. Second part of this chapter will provide detail of the second phenomena which comprised of quantitative method and data analysis techniques, research philosophy, research design, population and source of data, unit of analysis, sampling technique, minimum sample size, data collection procedure, instruments used, common method bias, pre-testing and the statistical analysis to be used to answer the remaining five (5) research questions.

3.2 Research Paradigms

A research paradigm is a set of commonly held beliefs and assumptions within a research community about ontological, epistemological, and methodological concerns

(Fazlıoğulları, 2013). Such a paradigm constitutes a mental model that influences and structures the members of a research community perceive their field of study. A research paradigm answers ontological questions about the nature of reality, what entities exist, and how these are related and interact with each other. A research paradigm also addresses epistemological questions about the ways in which people can know about reality, i.e., how they can gain knowledge about the world (Johannesson & Perjons, 2014). Finally, a research paradigm answers methodological questions about legitimate ways of investigating reality and how to confirm that the knowledge generated is valid. In summary, ontology asks “What is in the world?” Epistemology asks, “What can we know about the world and how should we obtain that knowledge?” And methodology asks “Which procedures can be used to obtain knowledge?” (Johannesson & Perjons, 2014). Figure 3.1 explains the research paradigm which involves the research strategy (experiments, surveys etc.), research method (questionnaires, interviews etc.), and data analysis techniques (qualitative or quantitative). The two most established research paradigms in the area of social sciences are positivism and interpretivism.

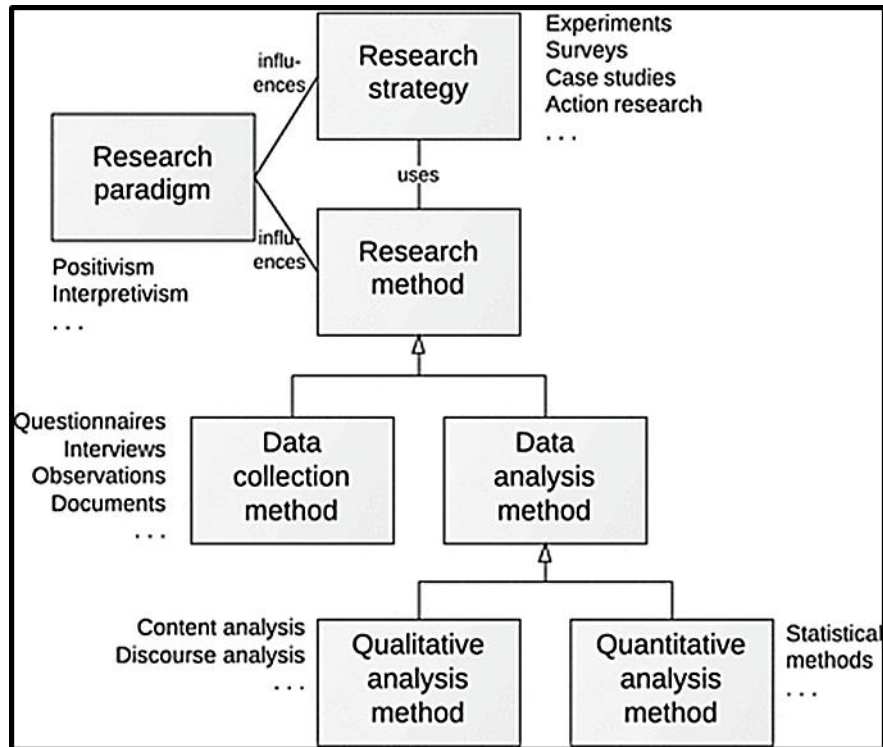


Figure 3.1. Research Paradigm, Strategies and Methods

Source: Johannesson and Perjons (2014)

In a nutshell, research method refers to the technique which can be adopted to explore the nature of the world that surrounds us. On the contrary, research methodology is the foundation, which helps us to understand the determinants influencing the effectiveness of the methods applied.

FIRST PHENOMENA

3.3 Research Philosophy - Qualitative Approach

The first phenomena subscribed into qualitative nature of research. This approach is ideal to investigate ideas and methods in order to develop understanding of problem. It mostly deals with critical problems regarding phenomenological realities (Yin, 2009) in qualitative approach, different things are studied in their natural settings and attempt is made to develop sense (Denzin & Lincoln, 2008b). It includes field notes, interviews, recording, photograph and conversations. It is important in behavior science (Kothari, 1990). It also provides strong evidence of success and research (Rocco, Bliss, Gallagher, Pérez & Prado, 2003). A matter of fact is that existing theories sometimes do not answer to current problems, hence qualitative techniques provides complete understanding required to meet research objectives. A qualitative study interviews is an interaction, which is well developed and organized, between researcher and a person who is considered to be a potential source of information. Researcher controls the conversation to obtain relevant information on subject matters. In depth interviews are one of the most commonly used qualitative methods. These are effective in providing human face to research problems. It is the reason which make them popular among researchers. It provides a clear and bright of participants point of view on specific research topic. In in-dept interviews, the interviewer is considered as a student and the person who is interviewed is considered to be an expert on subject. The researcher designs the interviews in such a way to get maximum knowledge from the person who is interviewed. Scholars ask relevant questions in a natural way, listens carefully and ask to follow up questions. The researcher is un-biased, and outcome of the interview is not showed by his opinion. In-depth interviews are conducted face-to-face telephonic

conversation is also considered to be a part of in-depth interviews. Such interviews can also be conducted with more than one participant. It clearly means that in qualitative research the experience of the respondent is source of information. It's simply about recording and analyzing the human experience. Qualitative research is an approach to comprehend the experiences of people on particular subject (Bryman, 2016).

The qualitative research design explores ideas, thoughts and methods to improve and develop the understanding of problems. It is most proper way to deal with critical problems regarding phenomenological realities (Yin, 2009). Moreover, the qualitative research design used findings and decision making which encourage subjectivity. This performance changes the world into a series of representation, including field notes, interviews, recording, photographs, conversation and memos to the self. This means that qualitative method studies things in their natural setting, attempting to make sense or interpret, and explains phenomenon in terms of the meanings people bring to them (Denzin & Lincoln, 2008a). It is important in behavioral sciences which is the objective to causal motives of mankind behavior (Kothari, 1990). It ensures that the main technology is to be done by qualitative methodology for research design and reliability, with the ability to evaluation, diagnosis and documentation including tangling (Guion, 2002). Moreover, qualitative mode helps to provide strong evidence for success and study on the weakness of research (Rocco et al., 2003). The rational for using qualitative research method was confirmed when issue needs to be explored rather than using determine data from other studies and when we want to develop theories / models where the current theories or model are insufficient or do not take the difficulty of the issue we observe. Therefore, using qualitative method for the study would produce a complete understanding required to meet the research objective. A qualitative study interview is an organized social interaction between a researcher and a subject who is identified as

a potential source of information. Generally, the evaluator inducts and controls the conversation to obtain information relevant to the subject at hand. Moreover, in the qualitative methodology, scholar will direct all struggles to the specific selected phenomenology method.

3.4 Interpretivist

At the early 20th century, interpretivism arose as a response to positivism. The German sociologist Max Weber was among the early pioneers, who argued that the social world, and human behavior, can only be interpreted by recognising the subjective meanings and intentions that individuals have along (Schwandt, 1994).

Ontologically, interpretivism claims that the social universe should not exist "out there" as opposed to the natural world regardless of the behaviour and intentions of human beings. The social world was being created by people who act and give meaning to behaviours (Schwandt, 1994). Housing contracts, for instance, are generated by social causes involving two or more citizens, a national government and maybe other parties. The meaning of such an agreement shall not be given in advance but shall be decided by the participants. Moreover, as agreed by the concerned parties, the purpose of the contract will change during its lifetime. It might be the case that the participants do not entirely agree on the nature of the agreement, but view things differently. Such disputes can lead to legal proceedings in extreme cases where a third party, the court, determines how the agreement is to be handled. This example demonstrates that even such a simple sociological phenomenon as a housing agreement is not part of a secure, objective reality. Rather the behavior and meanings of the participants who are involved in it are developed and continuously updated (Johannesson & Perjons, 2014).

As a consequence of the communications and lived experiences of individuals, any social phenomenon arises. This is valid for club memberships, job contracts, married couples, payments, vacations, religious faiths, etc. People produce all of these phenomena, and the meaning depends on the behaviour, intentions, and perception of the people who engage in them. Therefore, social reality is far more uncertain and flexible than physical reality, since it relies on individuals for all their preferences, biases, and other perspectives (Kraus 2005).

Epistemological implications have the ontological differences between both the natural world and the social world. Since social phenomena are based in people's behaviors, perceptions, and subjective interpretations, studying people as though they were objects can only obtain superficial information (Fazlıoğulları, 2013). Instead, individuals should be seen by a researcher as subjects who consciously construct the social environment. Only by actively engaging in the phenomenon along with the individuals who actually establish it (Fazlıoğulları, 2013) can researchers obtain a deep understanding of a social phenomenon. They should not be distant observers, but by engaging in their everyday activities, they should instead strive to become members of the community or group being studied. In short, they need to wear one another's shoes. This is marked contradiction to the positivist ideal of detaching the researchers from their study object. This division is interpretatively self-defeating, as subjective knowledge is a part of the social context they experience (Fazlıoğulları, 2013).

Methodologically interpretivist researchers select case-studies, research on behavior, ethnographic research and phenomenological research, since these research strategies allow them to understand social phenomena with empathy or participation (Johannesson & Perjons, 2014). Researchers should approach people who take part in

the phenomenon studied to consider their opinions and interpretations (Johannesson & Perjons, 2014).

3.5 Justification of The Phenomenology Approach

Phenomenology method not only discuss philosophical perspective but it is the basis for questioning the sense of life and emphasis on people subjective understandings and interpretations of the world (Van Manen, 2016). It defines the sense for individual or several individuals lived understanding (Creswell, Hanson, Clark Plano, & Morales, 2007). Giorgi (1989) pointed out that, four core characteristics embrace across all variations: The research is thoroughly descriptive, practices of the phenomenological reductions, discovers the intentional relationship between individuals and situations, and discloses the spirits, or structures of meaning immanent in human experiences through the use of imaginative variation. In a different place, Amedeo Giorgi (1997), directly, maintains that the phenomenological method covers three interlocking steps: (1) phenomenological reduction, (2) description, and (3) search for essences. The conclusion is choosing the phenomenological approach is founded on the objectives of the current research activities argument in earlier sections. These aspects of in-depth interviews direct use of the phenomenology as most researchers assert that ‘what’ and ‘How’ questions render subject experience as the most suitable (Yin, 2009).

This proposed study is concerned with service-based organization of Pakistan i.e. Islamic banking. This requires in-depth analyses of the issue that is not possible by using other research method. Besides, phenomenological approach is quite flexible in terms of the use of data collecting methods such as in-depth interviews, evaluation, documentation, art, poetry, drama, films, novel (Moustakas, 1994) which is in accordance with the flexibility of tools used by the current study. Moreover, In-depth

interviews are one of the most common qualitative methods. One reason for their popularity is that they are very effective in giving a human face to research problems. In fact, an in-depth interview is a technique designed to draw a bright picture of the participants perspective on the research topic. All through the in-depth interviews, the person being interviewed are considered the expert and the interviewer is considered the student. The researcher interviewing techniques is motivated by the desire to learn everything the participant could share about the research topic. Scholars will involve with participants by posing questions in a neutral manner, listening thoughtfully to participants replies, and asking follow-up questions and reviews based on those responses. They did not lead participants according to any preconceived notions, nor do they encourage participants to provide particular answers by expressing approval or disapproval of what they say.

In-depth interviews are usually involve one interviewer and one participant. Phone conversations and interviews with more than one participant also qualify as in-depth interviews, in this module, this study focus on individual. The suggested study deals with top management of the organizations within Phenomenological approach and applies qualitative methods for that reason. Therefore, using Phenomenology approach as a research strategy to investigate the participating processes within Islamic banking, will help the researcher to explore the inclusion of NSCI in the Islamic banking.

3.6 Justification of Selecting Pakistan Islamic Banking

With a population above 220 million people in south Asia, Islamic republic of Pakistan is an independent country, it is the 6th most populous nation with an area covering 796,095 km². Pakistan is 36th biggest state in the planet in terms of area (Pakistan Bureau of Statistics, 2018). Islam is the state religion of Pakistan which is 95-

97% of total population are Muslim (Pakistan Bureau of Statistics, 2018). According to the Statistics of state bank of Pakistan 2019, Klynveld Peat Marwick Goerdeler (KPMG) 2019, the total number of commercial banks in Pakistan's banking industry are 33 with 14,603 branches. Out of which 4 are foreign banks. With 2,851 branches around the country, the current proportion of Islamic banking in the banking industry is 13.5 percent in terms of assets and 15.5 percent in terms of deposits. There are five full-fledged IBs and 17 traditional banks with Islamic subsidiaries. Islamic banking's market share is steadily increasing. Islamic banking is a key sector for the Pakistani economy, and it plays an essential role in supporting the country's financial sector. Furthermore, researcher chooses Pakistan for study, because it is easy to the researcher to collect data and conduct the interview to the management and Shari'ah Scholars who are working for IBs. Because conversation between researcher and informant, focusing on the informant's perception of self, life and experience, and expressed in his or her own words (Minichiello et al, 1995). That is the reason the present focused on Pakistan Islamic banking sector management and scholars which to explore and understand the sources of Non Shari'ah compliant activities in Islamic banking.

3.7 Selection of Experts

Zikmund (2003) pointed out that, the target respondent refers to the specific concerned group relevant to the research area. In this study, the target respondents for the study will be the top management and Shari'ah scholars of IBs of Pakistan. In terms of sampling technique, the study will be based on purposive sampling technique as random sampling will not appropriate for this study. There is no specific (min or max) number regarding how many interviews are needed to conduct research guided by the qualitative approach. it depends on the research objectives and settings. Guest, Bunce,

and Johnson (2006) suggested at least twelve interviews required as a sample of the respondents, while Polkinghorne (1989) suggested that phenomenologists interview between 5 to 25 individuals who have experienced the circumstances. This study chose the purposive sampling technique. So, for this purpose, for this study six (6) interviews was conducted from the top management and Shari’ah scholars of the IBs in Pakistan as mentioned in Table 3.1. The rules of purposive sampling, the researcher will select the sample based on his own judgment and also, the purposive sampling, in qualitative research allow the researcher to get the maximum variation in the data and to classify cases of interest from the participants (Abdelhamid Ahmed, 2008). Following criteria was used for sample selection.

1. The respondent holds top management position in Islamic bank.
2. The respondent will have an experience and knowledgeable in his/her field.
3. The Shari’ah scholar collaborating with Islamic bank

Overall goal of qualitative interview is to find and identify the sources of Islamic banking activities that lead to SNCI. To detect the treatments of Non-Shari’ah Compliant Income.

Table 3.1

Respondents of Interview

Bank Name	Top Management Respondent Title	Shari’ah Compliance Department Respondents Title
Meezan Bank	Senior Manager - Operational Risk	Shari’ah compliance Advisor
Askari Bank Limited	Senior Manager - Operational Risk	Shari’ah compliance Advisor
Habib Bank Limited	Reginal Risk Manager	Shari’ah compliance Advisor

For forth research objective a focused group interview will be conducted. As for as focus group interviews, interviews will be conducted from 6 customers of Islamic bank. Criteria of selecting respondents for focus group discussion will be as follows:

1. Must be Pakistani
2. Have Account in any Islamic bank operating in Pakistan

3.8 Primary Data Collection

In this study, the primary data collection was collected through interviews with the top management and Shari'ah scholars. Interviews was recorded to ensure the accurateness of information (Elmendorf & Luloff, 2001). The interview schedule will have a list of open-ended questions to accumulate the information. The collected data was undertaken to interpret the information.

3.8.1 Interview

Perhaps the most popular and oldest way of collecting qualitative information is interview, also called an in-person interview. According to Lavrakas (2008), in order to reduce non-response and optimize the quality of the data obtained, the best method of data collection has been retained. Scholars such as Denzin and Lincoln (2008a) claimed that interviews would help to detect imprecise reactions in the language, actions, feelings or other signs of the respondent's body. Six was undertaken with top management and Shari'ah scholars of IBs. The interviews was conducted from Shari'ah scholars and top management of IBs of Pakistan, because they acquire particular knowledge and understanding of sources of non-Shari'ah income. Such information may help the researcher to achieve the research objectives. The interviews can provide

insight on the nature of problems and give recommendations for solutions of the research questions.

3.8.2 Data Collection Procedure

This study has chosen IBs in Pakistan and in- depth interviews was conducted from 3 top management executives and 3 Shari'ah scholars of IBs, these departments are the most important to seek answers for the research questions mentioned in chapter one Phenomena 1. The researcher first contacts the executives of mentioned department via telephone, email, and requested them for appointments of meeting. After they give appointments, the researcher on the given date of appointment personally called them and conducted interview. During the interview interviewer followed the interview protocol and asked the open-ended questions as mentioned in appendix A and to get the fruitful insight on the sources of SNCI. At the end of the interview was ended by saying “I am very thankful to you that you give your valuable time for the interview. I assure you that this interview will be used only for academic purpose and not share with any other person or organization.”

3.9 Data Analysis

Primary data was analyzed carefully to address the main research questions. The noted data of interviews with top management and the Shari'ah scholars of the IBs of Pakistan was recorded manually. Afterward, recorded data was organized for Atlas ti 9 version program which was used for thematic data analysis. Thematic analysis is a method for identifying, analyzing and reporting patterns (themes) within data. It minimally organizes and describes the data set in (rich) detail. However, frequently it goes further than this, and interprets various aspects of the research topic (Boyatzis,

1998). Whilst it is a widely used approach in analyzing qualitative research it is a poorly acknowledged method when compared to more prevalent methods such as grounded theory. It is argued, however, that what distinguishes thematic analysis from approaches such as grounded theory or discourse analysis is the fact that it does not rely on pre-existing theoretical frameworks and that it is therefore a more accessible approach (Branine & Pollard, 2010), with the ability to be used with a wide variety of frameworks. Thematic analysis lends itself to providing a rich thematic description of the whole data set and it is for this reason that it is a useful approach when exploring new or under-researched areas. A well-conducted analysis involves some level of interpretation of the data. Using thematic analysis assists with this by providing clear links between themes and the aims of the study in order to guide the development of analytical claims. Thematic data analysis is the systematic method to qualitative data analysis that absorbs recognizing designs or themes of cultural meaning, coding and data arrangement mostly textual in aligning with the themes, and interpretation of resulting thematic structure by seeking a relationship, commonalities, overarching patterns, explanatory principles or theoretical constructs. Boyatzis (1998) explains five objectives of thematic analysis. Researcher sees it as a mean of quantifying qualitative data, methodically observing the case, analyzing, seeing and finding relationships.

Moreover, Atlas.ti is a specified program designed for the thematic analysis of qualitative data with theory and model building abilities. It is a computer-assisted database management system that includes searching, coding, model building and linking. Atlas.ti facilitates sophisticated and rigorous thematic analysis, even for unstructured data sets. In this study, the basic approach used for thematic analysis is coding. This is the method of examining texts carefully to search for recurrent topics,

themes or relationships and marking identical passages with the label or code to categories them for theory-building, model establishment and later retrieval.

3.10 Validity and Reliability

Joppe (2000) described research validity in terms of whether it: ‘truly measures that which it was intended to measure or how truthful the research results are.’ Atkinson et al. (2004), pointed out that in qualitative research, validity helps in determining the extent by which either researcher claims about knowledge correspond to reality or respondents’ construction of reality being investigated. For making sure validity and reliability in qualitative research, Guba and Lincoln (1994) proposed concept of trustworthiness that every researcher needs to address. Guba and Lincoln (1994) elaborated concept of trustworthiness through credibility (parallel to internal validity in quantitative research), transferability (a parallel for external validity), dependability (a parallel for reliability), and confirmability (a parallel for objectivity). Following are the questions related to each of the above concepts to get the idea.

Table 3.2

Questions Related to Validity and Reliability

Question	Related Concern
How can a researcher establish confidence in his/her findings? Or how do we know if the findings presented are genuine?	Truth value
How do we know or determine the applicability of the findings of the inquiry in other settings or with other respondents?	Applicability
How can one know if the findings would be repeated consistently with the similar (same) participants in the same context?	Consistency
How do we know if the findings come solely from participants and the investigation was not influenced by the bias, motivations or interests of the researchers?	Neutrality

In current research study credibility/bias, transferability, dependability and confirmability will be made sure by following instructions of Guba and Lincoln (1994). Firstly, credibility will be made by following instructions of Guba and Lincoln (1994). In this study, it will be employed by confirming respondents' responses during direct interviews. Respondents' body language, facial expressions will be taken into account during interviews. As far as the direct interviews are concerned, McDaniel, Whetzel, Schmidt, and Maurer (1994) reported that direct interviews are highly valid. Therefore, Interviews' permission will be taken from the candidates.

Secondly, concept of transferability was applied through complete explanation of data collection. According to Guba and Lincoln (1994), transferability is related to applicability concern of the qualitative research.

Thirdly, concept of dependability was applied. Dependability answer; how can one know if the findings would be repeated consistently. According to Guba and Lincoln (1994), it is possible through code-recode strategy, triangulation and peer examination. In this study, dependability was applied through code-recode strategy.

Finally, concept of confirmability was applied which is related to objectivity. This concept answer question as; how we know if the findings come solely from participants and the investigation was not influenced by the bias, motivations or interests of the researchers.

SECOND PHENOMENA

3.11 Introduction

This part will describe methodological considerations for the research questions mentioned in chapter 1, second Phenomena that are to be answered in this study. It will address research philosophy, research design, population and source of data, unit of analysis, sampling technique, minimum sample size, data collection procedure, instruments used, common method bias, pre-testing and the statistical analysis to be used.

3.12 Research Philosophy

The second phenomena is based on positivism research philosophy that referred to the idea of science is the only way to learn about the truth (Bryman & Bell, 2011; Hair, Celsi, Money, Samouel, & Page, 2011; Sekaran & Bougie, 2013). It follows the view that only factual knowledge gained via senses, including measurement, is trustworthy as findings are observable and quantifiable. It depends on deductive reasoning with rigour and repeatability of the research, the consistency of observations, and generalizability of outcomes (Sekaran & Bougie, 2013). Deductive reasoning needs a theory to back the research model from where the hypotheses are postulated and verified (Bryman & Bell, 2011; Hair, Celsi, Money, Samouel, & Page, 2011; Sekaran & Bougie, 2013). In contrast to positivism, there is interpretivism approach, which referred to the idea that takes to reality (given or socially constructed) is only possible through social constructions such as language, consciousness, shared meanings and tools (Bryman & Bell, 2011; Hair, Celsi, Money, Samouel, & Page, 2011; Sekaran & Bougie, 2013). It emphasizes qualitative analysis over quantitative analysis. The

interpretive approach relies on inductive reasoning, as it attempts to explain a particular case by finding people's views of the world (Sekaran & Bougie, 2013). Positivism research theory fits into the second phenomena of the present study since this study aims to empirically examine the relationship between variables of interest in a series of hypotheses. In addition, deductive reasoning is used to develop a research framework and hypotheses compatible with the application of positivism.

3.13 Positivism

Positivism began with Auguste Comte, a social scientist and philosopher of the nineteenth century, who tried to develop sociology as a science by introducing a view of natural science to sociological phenomenon (Schwandt, 1990). As a response to religious and philosophical world views that accepted authority, divine revelation, and tradition as valid sources of truth, Comte promoted positivism. Positivism, on the other hand, only accepts information based on context, experience, and objective proof (Schwandt, 1990).

Ontologically, positivism claims that there is a truth outside of individual behaviour and perceptions (Weber 2004). Like in natural science, the purpose of social science ought to be to analyze and understand regularities across phenomena in the world by relationships of cause and effect. Such regularities and descriptions can ideally be independent of context, i.e. they ought to be generalized and not rely on time, location, or individuals (Weber 2004).

Epistemologically, positivism argues that empirical understanding of the social world is attainable, but only by experimentation (Lather, 2006). Social research should be impartial and the role of an uninterested researcher who is independent from the matters being examined. This ensures that researchers should keep an eye on phenomena they investigate so that the backgrounds and interests of their studies do not prejudice their results (Lather, 2006).

Methodologically, positivist scholars aim for an impartial and value-free analysis in which they isolate themselves from the individuals under study (Schwandt, 1990). Big quantitative surveys, like survey questionnaires, are preferred tools for gathering research data. As they can provide empirical information (Schwandt, 1990).

For phenomena 2, the researcher of the present study will use positivism research paradigm, according to the objectives of the study. However, for phenomena 1, the researcher will use interpretivist research paradigm.

3.14 Research Design

The research design refers to the blueprints for the collection, measurement and analysis of the data. It refers to the overall strategy that the researcher will choose to incorporate the different components logically and lucidly (De Vaus, 2001). The present study employed a cross-sectional study design in which the researcher gathered data from the study respondents and measure the results simultaneously (Setia 2016). A structured questionnaire used to record the responses of the study participants. An online link of the questionnaire was distributed by online resources. The research is correlational survey research which is a type of quantitative method in which researcher aimed at establishing a relationship between predictors, dependent variable and mediator (Pluye, Gagnon, Griffiths, & Johnson, 2009).

3.15 Population and Sample

Population refers to a definite collection of persons or things that have similar characteristics. All individuals or objects within a specific population usually have a common, binding characteristic or trait are called elements of the population (Sekaran & Bougie, 2010). The customers who are having accounts in the IBs, in Pakistan, form the population of the present study. The sample of the present study drawn from IBs in Pakistan with a maximum number of branches, that will help in the generalizability of the findings. The choice of a single industry (Islamic banking industry) is made to reduce the variability of conditions surrounding the subjects. The sample of the present study is drawn from the customers who have account in Islamic bank in Pakistan.

3.16 Unit of Analysis

The unit of analysis of the study was individuals. Basically, they will be customers of the bank. The current study focused only on customers that are having account with IBs located in Lahore, Karachi, Quetta and Peshawar. Eligibility criteria of the study participants must be;

1. Pakistani
2. Customers of IBs Pakistan.
3. From Karachi, Lahore, Quetta or Peshawar.

Since the customers was the respondents who required to complete the questionnaire in this study, a statement was made clear in the cover letter of the questionnaire that “As this study requires a data collection, I seek your kind cooperation in this survey. The survey will take approximately 20-25 minutes to answer all questions. Eligibility criteria of the study participants must be:

1. Pakistani
2. Customers of Islamic bank in Pakistan.
3. From Karachi, Lahore, Quetta or Peshawar.

3.17 Sampling Technique

There are two general techniques for sampling design in business research, probability sampling and non-probability sampling (Bell, Bryman, & Harley, 2018). Probability sampling is a sampling technique, in which the subjects of the population have an equal opportunity to be selected as a representative. While in non-probability sampling, it is not known that which individual from the population was selected as a sample (Bell et al., 2018). Probability sampling design is used when a researcher needs a wider generalizability of the findings. In contrast, non-probability sampling design is used when the researcher has time and other factors constraints (Bell et al., 2018). The present study employs a purposive sampling technique which is a non-probability sampling technique in which sample is selected by characteristics of the population and aims of the study. It is also called subjective, judgmental or selective sampling. This technique is useful when a researcher needs the desired information from the respondents that have common characteristics. As per Sekaran and Bougie (2013) and Israel (2009), the purposive sampling is acceptable when there is a need to obtain information from the specific target of people who can provide the desired information.

- The respondents are the customers who have account in IBs in Pakistan.
- The respondents are from four provincial capitals of Pakistan, namely Lahore, Karachi, Quetta, and Peshawar. These four provincial capitals are the most populous cities of Pakistan.

3.18 Minimum Sample Size

As per Hair et al. (2011), the minimum sample size needed for PLS-SEM path modelling is calculated by multiplying by 10 the highest number of structural paths that point to one particular endogenous structure in the structural model. In the perspective of the SEM exogenous variable, it is similar to an independent variable, while the endogenous variable is equivalent to the dependent variable (Hair et al., 2011). The endogenous variable is clarified by any other variable and is visually represented by a path indicated by another variable, that could be an exogenous variable or some other endogenous variable (Hair et al., 2011). In this study, the highest number of structural pathways pointing to the endogenous variable is 5 and therefore, the minimum sample size could be 50 as a result of the multiplication of 5 structural pathways by 10.

Using the large sample size as feasible is a general rule of thumb. The greater sample size contains more population, while the smaller sample size provides less accurate findings because they are less likely to be population representative (LoBiondo-Wood & Haber, 1998). Roscoe (1975) suggested the rule of thumb in another approach that a sample size greater than 30 and less than 500 is ideal and that the sample size should be many times, preferably 10 times or more of the research variables. According to Hoe (2008), for data analysis, a sample size of more than 200 sample numbers is considered adequate. However, as the respondents are customers of Islamic banking, to test the research framework, the study aimed to get a maximum number of responses. According to Polit and Hungler (1999), sampling assists because it is more reasonable to choose a sample instead of studying the whole population. Secondly, it is pointless to collect data from the entire population as data can be understood by obtaining information from the chosen sample. De-Vos (1998) specified that sampling could be regarded as a sensible choice in cases where it is difficult to

identify all the participants of a population. L (Lamda) is calculated as 19.1 dependent on the number of exogenous constructs for research work, referring to Green (1991). Five exogenous constructs point to the endogenous constructs, which is the largest number of structural pathways that point to the endogenous constructs. Green (1991) proposed that f^2 should be set to 0.15 on the basis of a medium effect size of Cohen (1988). On the basis of the above formula, the division of 19.1 by 0.15 is approximately equal to 127. Besides Hair et al. (2017) recommended researchers to calculate sample size based on statistical power. Therefore, the present study used “G power” to compute the minimum sample size. According to G power analysis, the minimum sample size for the current study, with effect size 0.15, the desired statistical power level of 0.8, p-value 0.05 and 5 predictors, is 92. Hence, the minimum sample size for the present study is 92.

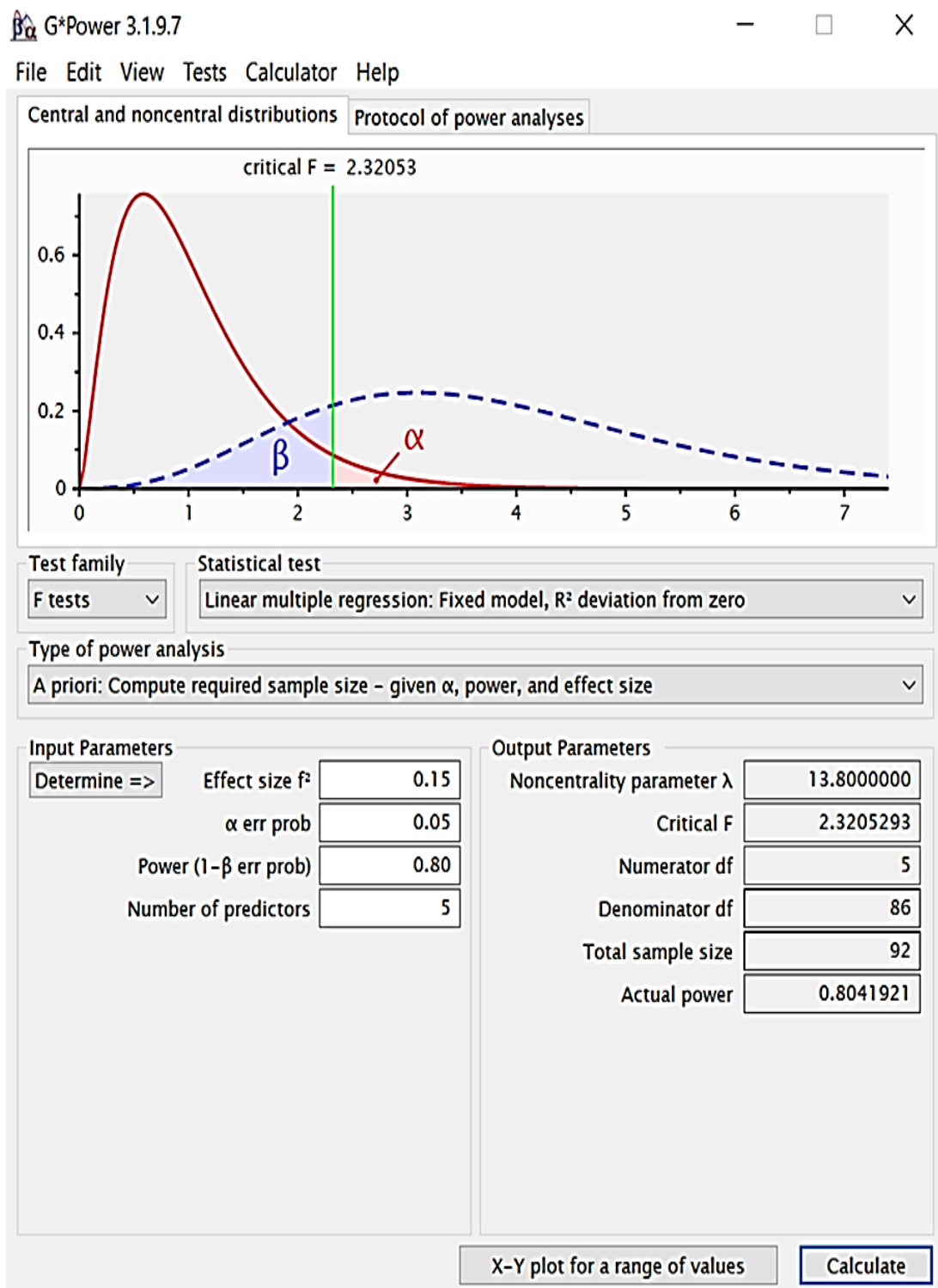


Figure 3.2. G*Power calculation for sample size

Since the average response rate for the online survey is 29 percent (Lindemann, 2019), this study aimed at 317 responses given the results of power analysis. The researcher of the current study predicted that the study will receive at least 29 percent of the response rate and that a minimum of 92 responses need to be collected. The recent Covid-19 pandemic has significantly disrupted almost every industry and organization. The Covid-19 pandemic started in Pakistan on 26th February 2020 with two cases were recorded. On 18th March 2020, all four provinces reported several confirmed Covid-19 cases. Today, Pakistan is currently the top 30 countries with the highest number of Covid-19 confirmed cases globally. Movement restriction order is implemented in Pakistan. It is difficult for the researcher of the present study to collect data physically or to have a face to face meeting with the customers from the banking organizations located in different provinces in Pakistan. Therefore, the researcher of the present study have to opt for online questionnaire for data collection. According to Lindemann (2019), the average survey response rate varies for different survey method. Figure 3.2 reported the average survey response rate for different survey method. Lindemann reported that an average response rate for an online survey is 29% (See Figure 3.2). Hence to get a minimum response rate of 29% (92 responses from customers of the banks in Pakistan), the present study needs to distribute at least 317 questionnaires to customers of the banks in Pakistan. Due to Covid-19 crisis, maybe many respondents may not be willing to participate in the survey. Therefore, to be on the safe side, the researcher decided to distribute 400 questionnaires via online to ensure researcher can meet the minimum sample size.

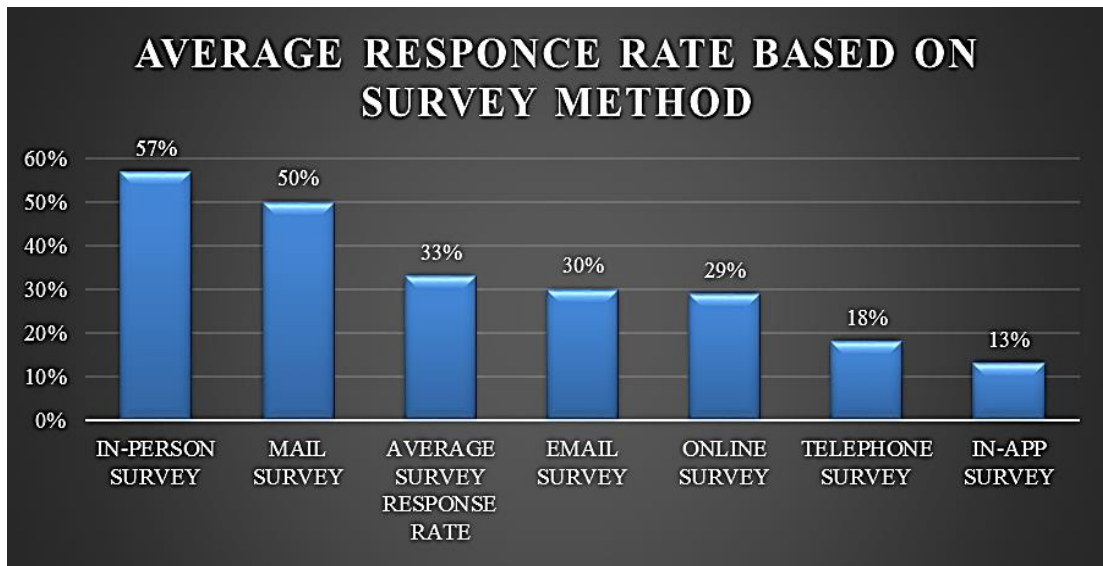


Figure 3.3. Average Survey Response Rate

Source: Lindemann (2019)

Table 3.3 summarizes the pros and cons of using different data collection procedures. The present study used electronically administered questionnaire.

Table 3.3

Pros and cons of using data collection procedure

Data collection procedures	Pros	Cons
Self-administered questionnaire	<ul style="list-style-type: none"> ❖ Motivate respondents. ❖ Establish link with respondent. ❖ Doubts can be clarified. ❖ Almost 100% response rate. ❖ High anonymity. 	<ul style="list-style-type: none"> ❖ Biasness while explaining questions. ❖ Takes much effort on the part of researcher. ❖ Expensive if respondents are from different places.

Table 3.3 (Continued)

Data collection procedures	Pros	Cons
Mail questionnaire	<ul style="list-style-type: none"> ❖ High secrecy. ❖ Broad geographic regions can be reached. ❖ Time consuming as respondents may return at their convenience 	<ul style="list-style-type: none"> ❖ Cannot explain questions. ❖ Low response rate. ❖ Follow up procedure needed for non-responses.
Electronically administered questionnaires	<ul style="list-style-type: none"> ❖ Easy to administer. ❖ Broader coverage. ❖ Inexpensive ❖ Convenient for educated respondents. ❖ Fast delivery 	<ul style="list-style-type: none"> ❖ Must have internet facility. ❖ Computer literacy. ❖ Unable to clarify questions.

Source: Loomis and Paterson (2018).

3.19 Data Collection Procedure

In order to get responses for all variables in the present study, electronically administered questionnaire was adopted as a data collection procedure. Since the responses were obtained from IBs in Pakistan, from four provincial capitals which are geographically dispersed, thus the electronically administered questionnaire is considered the most relevant data collection method for the present study (Loomis, & Paterson 2018). In addition, this method may provide the respondent with anonymity, secrecy and free communication (Loomis, & Paterson 2018). Moreover, the minimal cost is a justification to use the electronically administered questionnaire as compared to other data collection procedures.

Furthermore, it is well understood that it is not easy to obtain access to research organizations for data collection from customers (Easterby-Smith, Thorpe & Jackson, 2012; Jones, 2014). A written request to the managers of the IBs was sent by email requesting permission to collect data from customers. After obtaining permission, the researcher of the present study shared the questionnaire link to the branch managers requesting them to take the consent from their regular customers to participate in the study. If client voluntarily agrees to participate in the study, then the branch manager will share the questionnaire link with the client. The researcher also contacted the employees of the IBs to help the researcher to collect data. The operation manager and assistant manager, for example, will assist to share the electronically administered questionnaire with customers.

As mentioned in Appendix B on the first page of the questionnaire, a cover letter was written to express the objective of the study and questionnaire, to convince respondents of the confidentiality of the data collected, to lead respondents to reply to the questionnaire and to include the researcher's contact details. The respondents were asked to fill the questionnaire, as per their willingness. In particular, respondents were invited to participate in the survey, where they could complete and return the survey. Through this process, respondents may at their convenience, think and answer questions. The researcher then, will review and record the responses. Some follow-ups with the employees of IBs were performed by the researcher at the end in order to increase the response rate if needed.

3.20 Research Instruments

Based on the literature search, the questionnaire is developed. Researcher used adapted items. The questionnaire is a self-report measure to obtain responses from each

respondent for all study variables. Spector (2006) argued that all identical research with cross-sectional self-report measures would lead to high correlation which may lead to common method bias; but that was not the case. Spector (2006) clarified that cross-sectional self-reporting does not necessarily lead to common method bias, due to evidence that studies have reported non-significant correlations via cross-sectional self-reporting measures. Most importantly, no other person than the individual can know more about their own perception, approach and behavioral intention (Spector 2006). Therefore, self-report measures are the most realistic and feasible tool for assessing person perceptions, approaches and behaviors. A 5-point, scale was used. 5-point Likert scale is simple to understand and use for survey administrators and respondents alike. It takes less time and effort to complete than higher-point scales. Fits mobile device screens better than higher-point scales. Respondents have choices without becoming overwhelmed.

For the present study, the researcher used Churchill (1979) approach for questionnaire development. The researcher combined several other relevant empirical studies with new items to make an initial list of questions. Thirty-one items was used to measure the independent variables, dependent variable and mediator. Variables, number of items, and sources are reported in the Table 3.4.

Table 3.4
Summary of Questionnaire Constructs

Variable	Number of Items	Sources
Ability	5	McKnight and Chervany (2002); Wrightsman (1991)
Integrity	5	McKnight and Chervany (2002); Wrightsman (1991)
Benevolence	5	Doney and Cannon (1997)
Shared values	5	Posner and Schmidt (1993); Doney and Cannon (1997); McDonald and Gandz (1992)

Table 3.4 (Continued)

Variable	Number of Items	Sources
Trust	9	Lau and Lee (1999); Doney and Cannon (1997)
Commitment	7	Chaudhuri and Holbrook (2001); Meyer and Allen (1997)
Total	36	

The questionnaire is divided into seven sections. Section A consists of 5 items related to Ability. Section B measures Integrity with 5 items. Section C measures Benevolence with 5 items, Section D measures Shared values with 5 items. Section E measures trust with 9 items section F measures Commitment with 7 items and section G contains personal details of respondents; gender, age, education, and nationality. The questionnaire is shown in Appendix A.

3.20.1 Ability

Ability is defined as expertise and competency of a trustee (Mayer et al 1995). The researcher will measure Ability with 5 items adapted from the scales developed by McKnight and Chervany (2002); Wrightsman (1991). Ability was measured with Five-point scale between 1 (strongly disagree) and 5 (strongly agree). The original items and adapted items are presented in Table 3.5.

Table 3.5

Measurement Items for Ability

Original items	Adapted items
1. I believe that the company has a good performance.	1. I believe that Islamic banks have a very good performance in managing the bank activities according to Shari'ah requirements.
2. The company is competent and effective in providing service.	1. I believe that Islamic banks are able to compete in the banking sector.
3. In general, the company is very knowledgeable.	2. I believe that Islamic banks are managed by top management who are equipped with Islamic finance knowledge.
4. I believe that the company has enough experience to provide quality services.	3. I believe that Islamic banks have enough experience to provide quality services according to Shari'ah requirements.
5. I believe that the company has enough experience to provide quality services.	4. I believe that Islamic bank is able to provide services according to Shari'ah requirements.

Source: McKnight and Chervany (2002); Wrightsman (1991)

3.20.2 Integrity

Integrity is defined as the truster's perception that the trustee has established principles in accordance with the truster (Mayer et. al., 1995). Integrity was measured with 5 items adapted from the scales developed by McKnight and Chervany (2002); Wrightsman (1991). Integrity was measured with Five-point scale between 1 (strongly disagree) and 5 (strongly agree). The original items and adapted items are presented in Table 3.6.

Table 3.6

Measurement Items for Integrity

Original items	Adapted items
1. I believe that the company always has a commitment.	1. I believe that Islamic banks always have a commitment to eliminate the Shari'ah risk into the bank operation.
2. I believe that the company will fulfill his promise to the customer.	2. I believe the Islamic bank will insure to the client with free non-Shari'ah income gain.
3. I believe that the company is always honest no matter what.	3. I believe that Islamic banks are always honest in financial transactions without involving with non-Shari'ah activities.
4. I believe that the company has lawful source of funds.	4. I believe that Islamic banks have lawful source of funds to invest in Shari'ah compliant activities.
5. I believe that the company has always acted with full responsibility.	5. I believe that Islamic banks have always acted with full responsibilities to avoid non-Shari'ah investment activities.

Source: Mcknight and Chervany (2002); Wrightsman (1991)

3.20.3 Benevolence

Benevolence is defined as truster belief trustee will work well for the truster's benefit (Mayer et al., 1997). Benevolence was measured with 5 items adapted from the scales developed by Doney and Cannon (1997). Benevolence was measured with five-point scale between 1 (strongly disagree) and 5 (strongly agree). The original items and adapted items are presented in Table 3.7.

Table 3.7

Measurement Items for Benevolence

Original items	Adapted items
1. We trust this vendor keeps our best interests in mind.	1. I believe that Islamic banks keep best interests of clients without compromising the requirement of Shari'ah.
2. This supplier is genuinely concerned with the needs of the customer.	2. I believe that Islamic banks are genuinely concerned with the needs of the client according to Shari'ah law.
3. We believe the information that this vendor provides us.	3. I believe that Islamic banks provide Shari'ah law treatment to their client.
4. When making important decisions, this supplier considers our welfare as well as its own.	4. I believe that Islamic banks will consider clients welfare as well as their own in decision making.
5. We trust this vendor keeps our best interests in mind.	5. I believe Islamic banks keep client's best interests in mind.

Source: Doney and Cannon (1997)

3.20.4 Shared Value

Shared values is defined as the extent to which partners have beliefs in common (Morgan & Hunt, 1994). Shared value was measured with 5 items adapted from the scales developed by Posner and Schmidt (1993), Doney and Cannon (1997) and McDonald and Gandz (1992). Shared value was measured with five-point scale between 1 (strongly disagree) and 5 (strongly agree). The original items and adapted items are presented in Table 3.8.

Table 3.8

Measurement Items for Shared value

Original items	Adapted items
1. The company has the same values as I do with regard to concern for others.	1. Islamic banks have the same values as I do with regard to concern for others according to Shari'ah law.
2. In general, my values and the values held by this company are very similar.	2. The objective of Islamic banks must be based on the principle of Shari'ah.
3. This salesperson has values similar to people in our firm.	3. Islamic banks held and promoted the same values as I do.
4. Islamic banks emphasise on the needs of stake holders.	4. Islamic banks emphasise on the needs of stake holders.
5. Islamic banks values fits well with the values of Shari'ah law.	5. Islamic banks values fits well with the values of Shari'ah law.

Source: Posner and Schmidt (1993), Doney and Cannon (1997) and McDonald and Gandz (1992)

3.20.5 Trust

A generalized expectancy held by an individual that the word or actions of another can be relied on (Rotter 1967). Trust was measured with 9 items adapted from the scales developed by Lau and Lee (1999) and Doney and Cannon (1997). Trust was measured with Five-point scale between 1 (strongly disagree) and 5 (strongly agree). The original items and adapted items are presented in Table 3.9.

Table 3.9

Measurement Items for Trust

Original items	Adapted items
1. This company gives me a feeling of trust.	1. Islamic banks give me a feeling of trust to the top management of Islamic bank
2. This company gives me a trustworthy impression.	2. Islamic banks give me a trustworthy impression.
3. I have trust in this company.	3. I have trust in Islamic bank top management to manage Muslim assets.
4. This company can be relied upon to keep promises.	4. The Islamic bank can be relied upon to keep promises.
5. This company is trustworthy.	5. The Islamic banks are trustworthy.
6. I have full confidence in this company.	6. I have full confidence in Islamic bank.
7. Islamic banks are truly concerned with Islamic principles	7. Islamic banks are truly concerned with Islamic principles
8. I believe the products and services offered are based on Islamic Shari'ah	8. I believe the products and services offered are based on Islamic Shari'ah
9. I believe that Islamic banks keeps its promises	9. I believe that Islamic banks keeps its promises

Source: Lau and Lee (1999) and Doney and Cannon (1997)

3.20.6 Commitment

The exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it (Morgan & Hunt, 1994). Commitment was measured with 7 items adapted from the scales developed by Chaudhuri and Holbrook (2001) and Meyer and Allen (1997). Commitment was measured with Five-point scale between 1 (strongly disagree) and 5 (strongly agree). The original items and adapted items are presented in Table 3.10.

Table 3.10

Measurement Items for Commitment

Original items	Adapted items
1. I feel loyal to Company X.	1. I feel committed to Islamic bank top management.
2. I am a loyal user of Company X products.	2. I am a loyal Islamic bank client.
3. Company X has a great deal of personal meaning to me.	3. Islamic banks top management commitments have a great personal meaning to me.
4. Even if it were to my advantage, I do not feel it would be right to change Company X.	4. My preference for the Islamic bank would remain the same.
5. I will strongly recommend others to use Islamic banks services	5. I will strongly recommend others to use Islamic banks services
6. I feel strong sense of belonging with Islamic banks	6. I feel strong sense of belonging with Islamic banks
7. I feel strong attachment with Islamic banks	7. I feel strong attachment with Islamic banks

Source: Chaudhuri and Holbrook (2001) and Meyer and Allen (1997).

3.21 Statistical Analysis

The researcher needed to make sure the data is clean and ready for analysis. It must be screened to ensure that the data for testing the research hypothesis is accurate, reliable and ready to use. When screening the data using IBM SPSS 24 for current research, the researcher will concentrate on three critical issues that needed to be discussed.

3.21.1 Preliminary Assessment of Data

After collecting questionnaires, the data was coded and keyed in the statistical analysis software. The data was screened before further analysis to check if there are

errors or missing data. After that, data was coded accordingly. The data was screened to identify missing data, outliers and influential points and normality.

3.21.1(a) Missing Data Analysis

Missing data occurs when, in a questionnaire, a respondent deliberately or inadvertently fails to address a query or multiple questions (Hair et al., 2014). When more than 15 % of the total number of questions in a questionnaire are not answered by a respondent, it is suggested that this specific respondent be dropped from the analysis (Hair et al., 2014). A respondent is often suggested to be dropped from the study when it can be found that a number of questions are not answered by the respondent, even though the missing data is less than 15 percent of the total number of questions in a questionnaire (Hair et al., 2014). That case should, therefore, be deleted if there are excessive levels of missing data or if the missing data is concentrated on a specific variable. Other than that, to estimate the missing data, effective imputation techniques can be used.

3.21.1(b) Outliers

The investigator will also track outliers using IBM SPSS 24. For one or more variables, an outlier refers to a response that is significantly different from other responses (F. Hair Jr, Sarstedt, Hopkins, & G. Kuppelwieser, 2014). As per Aguinis, Gottfredson, and Joo (2013), if the standardised residual value is above -3.3 or +3.3, the case is an outlier. Via case-wise diagnostics and Cook's distance in SPSS, the outliers was tested. Outliers should be kept in the data, according to Hair, et al. (2010), unless irrefutable evidence indicates that they are deviant or not reflective of any population

observations. Pallant (2013) believes that if only a few outliers are recognised, it is not important to take any action because it is not unusual to find outliers in a large sample.

The Cook's distance is the most suitable metric for assessing outliers since it is a function of both leverage and discrepancy (Pallant, 2013). Leverage refers to a case where outliers are far from any data while the discrepancy points to how much a case relates to other data (Pallant, 2013). When a case is deleted, Cook's distance evaluates shifts in regression coefficients. In addition, Cook's distance has been alleged to be the only most representative measure of overall fitness (Pallant, 2013). The Cook's distance over 1 is considered to be significant. The data are then tested to decide how each case is affected by the Cook distance value on the regression estimates..

3.21.1(c) Normality

Even though PLS-SEM is a non-parametric statistical approach that does not require the normality assumption, it is still necessary to ensure that the collected data is not highly non-normal (Hair Jr et al., 2014). Skewness refers to the magnitude of the distribution of the variable whether or not it is curved around its mean value (Hair Jr et al., 2014). If it is shifted towards left, it means distribution is positively skewed and if it shifted towards right, it means distribution is negatively skewed. Kurtosis refers to the peak-ness or flatness of the variable's distribution. If it is flatter, it means negative kurtosis while peaked-ness signals positive kurtosis (Hair Jr et al., 2014). The skewness and kurtosis must be between -1 and +1 in order to ensure the data is highly non-normal. Otherwise it will show that distribution is far from normal (F. Hair Jr et al., 2014).

3.21.1(d) Harman's Single Factor Test

Along with the procedural solutions used to mitigate common method bias, MacKenzie and Podsakoff (2012) recommended the use of Harman's single factor (one factor) test as a statistical solution to search for common method variance. In this test, all the measurement items used throughout the study are loaded on the basis of unrotated factor analysis to run exploratory factor analysis. This is done in order to define some single common factor that will account for the bulk of the co-variance between the measures. There shouldn't be any one particular single factor that comprise the majority of the covariance between the measures if common method variance is not a concern.

3.21.2 Structural Equation Modelling (SEM)

A structural equation modelling used to examine the relationships among variables. SEM is multivariate data analysis technique which enables the researcher to examine the relationships among multiple independent and dependent variables simultaneously, including a mechanism that eliminates measurement errors in the observed variables (F. Hair Jr et al., 2014). Through the application of bootstrapping, the mediating effects can also be tested as part of comprehensive model. There are two main approaches to calculate SEM, first one is covariance-based SEM using software programs such as LISREL, AMOS or EQS. The second one is Partial Least Squares (PLS) as exemplified by software such as Warp PLS, PLS-Graph, and Smart PLS. PLS-SEM has gained popularity as a key multivariate analysis method in all disciplines including management, marketing, human resource management, organizational behavior and development, global strategy and other research fields. The main aim of PLS is the prediction of variance explained in the dependent variable(s) comparable to

theory development and testing in the form of structural relationship (i.e. parameter estimation) in SEM, hence putting emphasis on prediction (F. Hair Jr et al., 2014; Hair, Ringle, & Sarstedt, 2011)

The four main reasons for using PLS-SEM are:

1. It does not require a normal distribution of data.
2. It is convenient to accommodate all kind of sample sizes.
3. It is useful for both reflective and formative construct analysis.
4. It is appropriate for exploratory studies and analyzing focused research models (Hair et al., 2012), where many exogenous constructs are pointing to several endogenous constructs.

The two methodological consideration are important to the application of PLS-SEM. First, is assessing the validity and reliability of variables (outer model assessment). Secondly, determining the appropriate nature of relationships between constructs (path coefficient) effect size, predictive accuracy etc. (inner model) (F. Hair Jr et al., 2014).

3.21.3 Assessment of Measurement Model

In order to test the measurement model, the validity and reliability of each construct in the model was tested. Validity and reliability are two assessments designed to test the goodness of variables.

3.21.3(a) Validity

Validity concerns the sustainability of the questionnaire items that is used to assess the suggested framework (Sekaran & Bougie, 2010). It confirms the degree of

association between variables (Mayer, 2009). The proposed validity is above 0.50 and the desired validity is 0.70 and above (Hair, 2010). Construct validity can be measured using discriminant validity and convergent validity (Sekaran, & Bougie, 2010). Convergent validity refers to the extent to which two measures have a similar construct (Carlson & Herdsman, 2012). It is evaluated by investigating the average extracted variance (AVE), factor loading and composite reliability (Jassimudin, Li, Perdikis, 2015). Hair et al. (2014) suggested that the value of factor loading be 0.50 or higher to indicate its substantial validity, also that AVE be more than 0.50 and that the composite reliability be more than 0.70. Carlson and Herdman (2012) proposed that the criterion for convergent validity of the factor loading value should be more than 0.70 and that those with 0.50 and below should not be considered. Discriminant validity refers to the degree to which elements of various constructions are not interrelated (Sekaran & Bougie, 2010). Discriminant validity must be checked by evaluating the cross-loading of the indicators or the square root value of the AVE (Hair et al., 2014). It is suggested that the factor loading of the key indicator be higher than all its cross-loadings and the square roots of the latent AVE should be greater than the cross-loading of the other variable (Hair et al., 2014).

3.21.3(b) Reliability

Reliability means the continuity or repeatability of the design over time (Greener, 2008). It is an important concept in the examination of a questionnaire in which it assesses the reliability of the measurement items and the stability of their measurements under various circumstances. Cronbach's alpha is commonly used for the evaluation of internal reliability. Hair et al. (2014) indicated that Cronbach's alpha could lead to underestimation of internal consistency reliability due to its sensitivity to

the number of items on a scale. They also argued by using composite reliability as a measure to assess reliability more accurately. The higher the value of the composite reliability, the greater the internal accuracy of the scale components. Composite reliability values of 0.60 to 0.70 are appropriate and the value below 0.60 is considered to be unreliable.

3.21.4 Assessment of Structural Model

The structural model tested following the evaluation of the measurement model to ensure that the measurements used were accurate and effective. The first step in the structural model evaluation was to analyze the collinearity of exogenous variables. Next, it included analyzing the significance of the path coefficients and the predictive accuracy of the model. In addition, the effect size was also analysed to meet the needs of practitioners. Ultimately, the predictive relevance of the model was checked. A direct effect points to the pathway between the two constructs (Hair Jr et al., 2014) were checked. In the mediation model, the indirect effect leads to the path from an independent variable to a dependent variable via a mediating variable (Hair Jr et al., 2014; Hayes & Scharkow, 2013), which is essentially a series of one direct effect preceded by another direct effect.

3.21.4(a) Collinearity Assessment

Collinearity happens when two independent variables are highly correlated, whereas, when an independent variable is strongly linked with a number of other independent variables, multicollinearity occurs (Hair Jr et al., 2014). As per Rungtusanatham, Miller, and Boyer (2014), collinearity occurs when the variance inflation factor (VIF) is greater than 5 or the tolerance value is less than 0.20. The

estimation of collinearity or multicollinearity is essential because, as collinearity increases, the specific variance described by every other independent variable on the dependent variable decreases and the mutual prediction percentage increases. It is therefore, necessary to ensure that the independent variables do not have multicollinearity with each other in order to optimize the variance described by each independent variable.

3.21.4(b) Structural Model Path Coefficient

For the hypothesised relations among the variables, the path coefficients are measured. The coefficients of route (β) are values from -1 to +1 and help to assess if the hypothesised relationship is positive or negative (Hair Jr et al., 2014). A path-coefficient of +1 is a strong positive relationship; a path-coefficient of -1 represents a strong negative relation; and a value of 0 indicates no relation (Hair Jr et al., 2014). In order to decide if the path coefficients are significant or not, however, the t value is required. Bootstrapping to obtain t values is performed to obtain a standard error that allows the t values to be computed. The t-value estimation is as follows.

$$t \text{ value} = \beta \text{ coefficients} / \text{standard error}$$

Bootstrapping is a non-parametric technique to inferential testing and provides benefits as it can be used with limited sample size requirements on non-normal data with no need to rely on a probabilistic random sample (Fox, 2008). Bootstrapping is among the few estimation and hypothesis testing resampling techniques and it is carried out by sampling N units (Preacher & Hayes, 2008). Bootstrapping means essentially drawing samples from the initial sample results, as stated concisely by Fox (2008) as "population is to sample as the sample is to bootstrap samples" (p.590). (p.590). To create new data sets where new R^2 measures are collected for each endogenous construct in a model,

bootstrap resampling is often used (Chin, 2010). Many academics (Hayes, 2009; Hair et al., 2014; Preacher & Hayes, 2008) suggest that the samples be bootstrapped 5,000 times. Researchers have also suggested bootstrapping (Hayes, 2009; Hair et al., 2014; MacKinnon et al. 2004; Preacher & Hayes, 2008) to test for indirect effects in a model of mediation. Bootstrapping is also an important technique for evaluating mediation relationships because it is used to extract correct standard errors and confidence intervals to ensure statistical consistency in order to inferentially test the hypothetical relationship in the study model (Fox, 2008).

In order to determine the importance of the path coefficients, the t values are used (Hair et al., 2014). A t-value represents the strength of the relationship represented by the parameter, which implies that a higher t score shows that the correlation is stronger. By evaluating the magnitude of the standardised parameter estimates between variables along with the corresponding t-values that imply the significance level, the hypothesis were tested (Chin & Dibbern, 2010). In the analysis, the predetermined significance level of 10 percent, 5 percent, and 1 percent was used because p values in empirical studies are widely used (Hair et al., 2014). The corresponding critical values for the p values of 10 percent, 5 percent, and 1 percent are 1.645, 1.96, and 2.57 respectively for a two-tailed test. The two tailed tests was used for mediation analysis.

3.21.4(c) Coefficient of Determination

To determine the model's predictive accuracy, the coefficient of determination (R^2) was assessed. The R^2 is measured as the squared correlation of a Pearson between a dependent variable's actual and predictive values (Hair et al., 2014). R^2 also reflects the cumulative impact on the dependent variable of the independent variables and the proportion of the variance of the dependent variable explained by the independent

variable (Hair et al., 2014; Lee, Pettey, et al., 2011). The values of an R^2 vary from 0 to 1, where a value closer to 1 means that the model has a greater predictive accuracy, indicating that the independent variables explain some of the variance of the dependent variable. The rule of thumb is that R^2 above 0.02, 0.13, and 0.26 respectively are considered small, medium, and large (Cohen 1988).

3.21.4(d) Effect Size (f^2)

The effect size provides the magnitude of the study findings or the magnitude of the phenomenon as it is observed in the population (Ellis, 2010). The effect size is also reported in this research to supplement the documentation of statistical significance for hypothesis testing. The disclosure of the size of the impact helps to educate the general public, especially the practitioners, about the significance of the study findings (Ellis, 2010). The size of the effect is often known as practical significance and helps to inform practitioners about whether or not an effect is practically significant (Ellis, 2010).

The f^2 effect size for the direct effect relationship was measured for the present analysis. If a defined independent variable is excluded from the study model, the f^2 effect size report on the change in R^2 value to determine the magnitude of the influence of that specific independent variable on the dependent variable (Harr et al., 2014). For the f^2 values, the thumb rule for small, medium, and large effect sizes is 0.02, 0.15, respectively, and 0.35 (Cohen, 1988). Below is the formula for estimating effect size:

$$f^2 = (R^2 \text{ included} - R^2 \text{ excluded}) / (1 - R^2 \text{ included})$$

3.21.4(e) Predictive Relevance

The predictive sample reuse technique (Q^2) was used to assess the predictive relevance of the model. The blindfolding algorithm was used to calculate Q^2 by omitting every DTH data point in the endogenous variable construct indicators and using the resulting estimations to predict the omitted part (Hair et al., 2014). Until each data point had been omitted and the model re-estimated, the blindfolding procedure is repeated (Chin, 2010, Hair et. al., 2014). In order to obtain the Q^2 measure for each dependent variable to determine the predictive potential of the model, the suggested cross-validated redundancy prediction technique (Q^2) (Hair, Ringle, et al., 2011; Hair et al., 2014) was used. For one specific endogenous construct, the rule of thumb is that Q^2 must be above 0 to represent that the path model does have predictive relevance for that endogenous construct (Hair et al., 2014).

3.22 Summary

This chapter presents an overview of the material and methods that was used in this study. In phenomena 1, qualitative analysis was used to get an in depth understanding of the sources of non-Shari'ah income in IBs. The interviews was conducted from top management and the Shari'ah scholars of the IBs in Pakistan. For phenomena 2, the questions was answered by islamic bank customers through quantitative approach. Population, sampling frame, sample, and appropriate sampling technique data collection and reporting methods for this study are also elaborated for both phenomena of the present study. Finding was presented in the form of discussions, tables, graphs and figures with interpretation.

CHAPTER 4

DATA ANALYSIS AND FINDINGS

4.1 Data Analysis and Findings of Phenomenon One

This section of the current study will discuss the results of the study which are based on three objectives as well as the research questions. Data were analyzed based on the 9 interview questions. In (Table 4.1) which were conducted from the top management of the IBs and from shariah scholars working with IBs and providing their services to Islamic bank's shariah compliance department. To complete the data analysis task Atlas ti version 9 assistance was taken to analyze data using thematic analysis.

Table 4.1

Interview Questions based on RO and RQ

Research Objective (RO) Research Question (RQ)	Interview Questions
RO1: To identify the sources of Islamic banking activities that lead to non-Shari'ah income (NSCI).	what is non-shari'ah compliant income? How does non-shari'ah compliant income exist in Islamic banks?
RQ1 What are the sources of Islamic banking activities that lead to non- Shari'ah income (NSCI)?	
RO2: To explore the treatments of Non-Shari'ah Compliant Income (NSCI).	How does the bank detect non-shari'ah compliant income? What is the treatment to non-shari'ah compliant income?
RQ2 What are the treatments to address the Non-Shari'ah Compliant Income (NSCI)?	What is the future action to avoid non-shari'ah compliant income?

Table 4.1 (Continued)

Research Objective (RO) Research Question (RQ)	Interview Questions
RO3: To explore the impacts of NSCI on customer commitment toward the bank services from the top management of the bank perspective.	What is the reaction of your customers? How do you communicate with your customers?
RQ3 What are the impacts of NSCI on customer trust and commitment toward the bank services from the top management of the bank perspective?	Do you think the non-shari'ah-compliant income should be disclosed to customers? What is the impact of non-shari'ah compliant income on client commitment and trust?
RO To explore the impact of non-shari'ah income on customer of Islamic bank commitment and trust.	Do you know the existence of Non-Shariah Income in Islamic Bank in Pakistan?
RQ3 What is the impact of non-shari'ah income on customer of Islamic bank commitment and trust?	Does the existence of Non-Shariah Income will affect your trust in Islamic Bank? Does the existence of Non-Shariah income impact on your commitments toward Islamic Bank?

4.2 Demographic Characteristics

The respondents for this study were from the Islamic bank top management and shariah scholars who are working with an Islamic bank in Pakistan. The demographic data of the respondent are presented in Table 4.2. As it is mentioned, in the Table (4.2) 3 respondents are from the top management side of the Islamic bank and 3 respondents are from the shariah department of the Islamic bank (See Figure 4.1). To maintain integrity and transparency while using that data “The Data Protection Act 1988” has been followed. According to this legislation, the data of others must be used “fairly, transparently and lawfully” for personal use

(legislation.gov.uk, 2021). To keep the identity of the respondents hidden their names are changed to M1, M2, M3 for the top management and SS1, SS2, and SS3 for the shariah scholar. Total 6 interviews were conducted for this specific phenomenon.

Table 4.2

Demographic Characteristics of Respondents

S. No	ID	Sector	Gender	Age	Position
01	M1	B	Male	40	Regional Risk Manager
02	M2	A N K I N	Female	38	Senior Manager - Operational Risk
03	M3	G	Male	52	Senior Manager - Operational Risk
04	SS1	S E C	Male	47	Shari'ah compliance Advisor
05	SS2	T O	Male	45	Shari'ah Advisor
06	SS3	R	Male	42	Shariah compliance Auditor

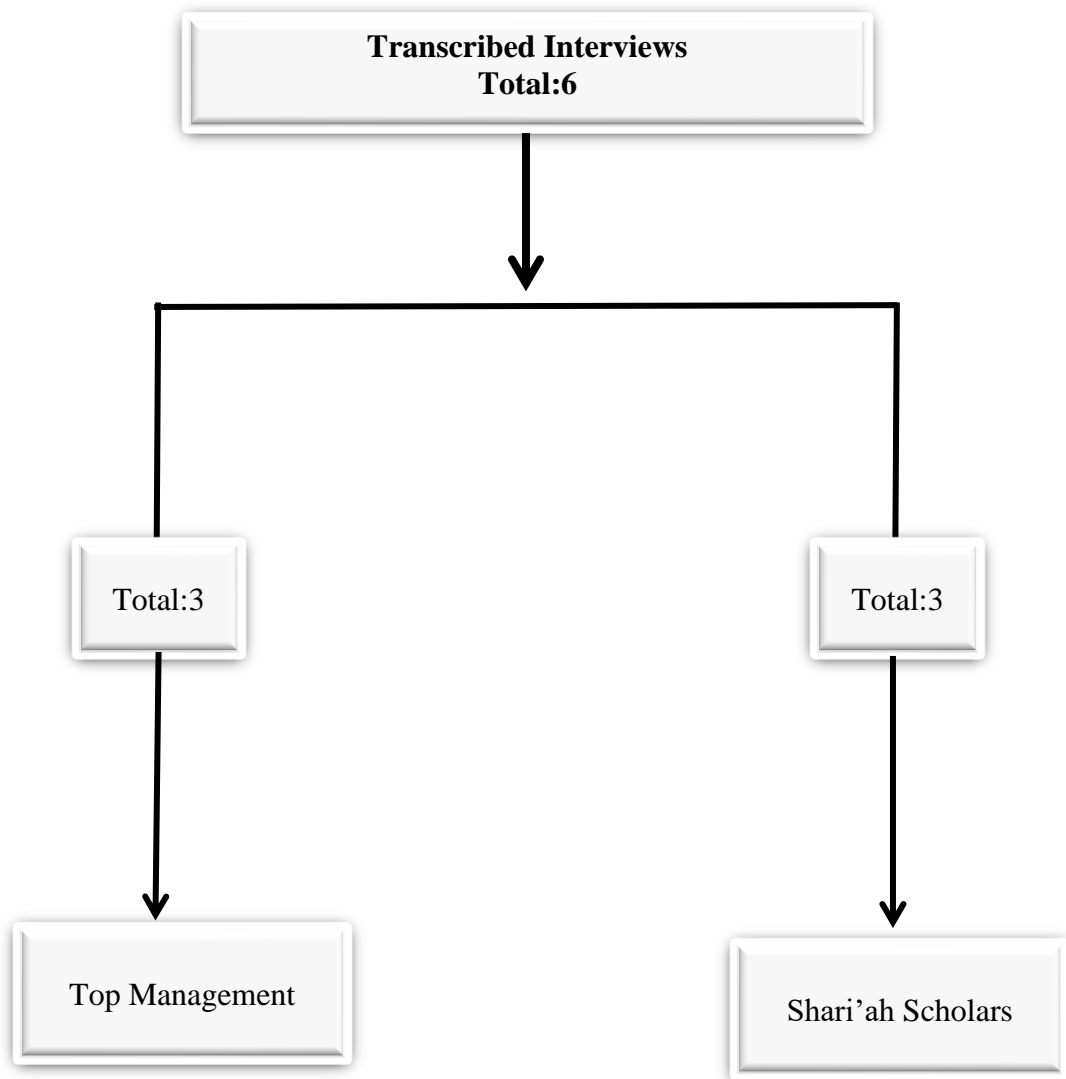


Figure 4.1. Flowchart of distribution of interviewees in this study

4.3 Data analysis Technique

To explore the research objectives thematic analysis technique was employed. To find codes, themes and to analyze the data qualitative software Atlas ti 9 was used. The use of Atlas to increase efficiency, increase transparency, and help in the precision of the data. Before the analysis of the transcripts, Transcripts was several times were read. To establish final themes codes and subthemes were created. As discussed in

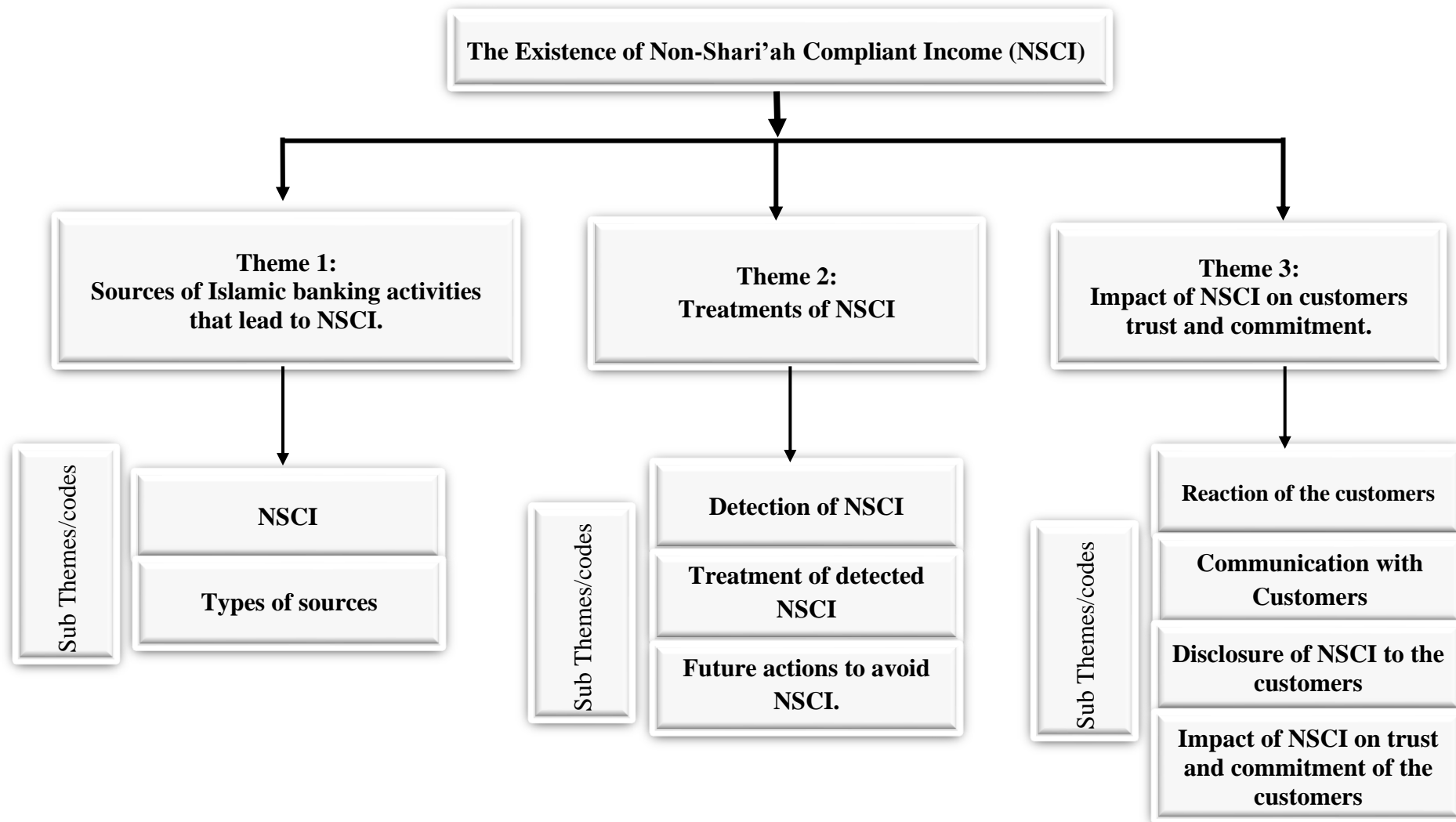


Figure 4.3. Thematic map

4.4 Identification of Sources of Islamic Banking Activities That Lead to Non-Shari'ah Income (NSCI) in Islamic Banks (RQ1)

In this section findings of the first objective of the current study will be explored. In every Islamic bank, there are chances of the NSCI gain. The data analysis identified 2 different codes and one theme based on the identified codes in the research objective. With the help of Atlas ti, these extracted codes and theme were named and then classified in Figure 4.4.

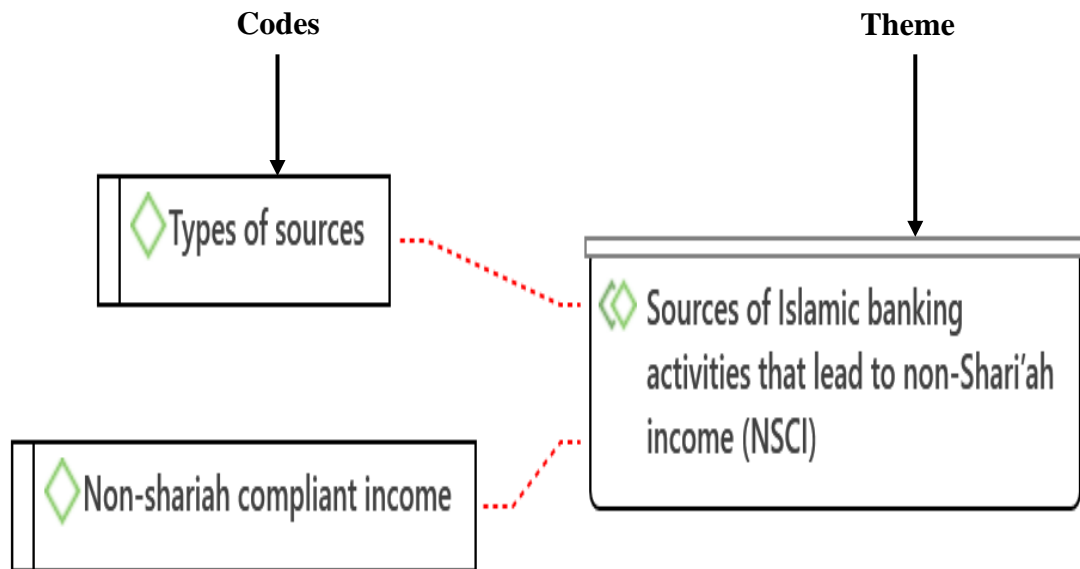


Figure 4.4. Extract Codes and Themes of RO1

Source: Author 2021

Figure 4.4 concludes the result of the two interview questions of RO1. The two interview questions were:

RQ1.1. What is NSCI?

RQ1.2. How does NSCI exist in IBs?

The above interview questions with the respondent's discussion led to the extraction of Codes and Themes which are discussed below.

4.4.1 Sources of Islamic Banking Activities That Lead to Non-Shari'ah Income (NSCI) (Theme)

The first research objective is to know the sources of Islamic banking activities that lead to NSCI. The findings from the in-depth interviews found that to identify the sources of Islamic banking activities that lead to NSCI first needs to identify or need to clarify what is NSCI and what type of sources are of NSCI in Islamic banking.

4.4.1(a) (RQ1.1) Non-Shari'ah Compliant Income

As per the bank top management and shariah scholars' opinion after the analysis of the in-depth interviews this confirms that the opinion of top management M1, M3 shared similar opinions about NSCI as summarized below:

*“.....Any **income generated from the sources which are declared as against shariah by the shariah committee is considered as non-shari'ah compliant income....**” [M1&M2-2021]*

However, the response of M2 was found as bellow:

“.....Income which is derived from non-shari'ah compliant means or from any activities which are against shariah department rulings is considered as non-shari'ah compliant income.....” [M2-2021]

SS1 and SS2 shared the similar opinion as explained below:

*“..... **Non-Shariah compliant income includes any income which comes from business/source which has been declared as Shariah Non-***

Compliant/ illegal or is not as the ruling of shariah board”
[SS1&SS2-2021]

SS3 opinion about NSCI is explained as:

“.....Non-Shari’ah Compliant income is the income generated through non-compliance means of income or the income earned through compliant mode financing, but there is violation of any Shari’ah principal.....” [SS3-2021)

According to the above-mentioned opinions of experts, it is clear that any income which is derived from any business/activity/transaction which is against the shariah guidelines provided by the SSB is considered as the NSCI. Furthermore, any income which is generated through the compliant mode but during the execution of the contract shari’ah audit team finds out any shari’ah violation also becomes NSCI.

4.4.1(b) (RQ1.2) Types of Sources

Based on the in-depth interviews, the researcher found that there are multiple types of sources that can cause the inclusion of NSCI in Islamic banking. Four respondents M3, SS1, SS2, and SS3 shared similar opinions about the types of sources of NSCI which are combined and explained below:

*“..... Income from **gambling**, income from **interest-based transactions**, income from **Gharar based transactions** including **derivatives**, **insurance claim reimbursements** from conventional companies, **penalty charged or late payment for a credit sale**, **income from casinos**, **addictive drugs and Alcohol** and **dividend income from conventional businesses**, etc.....”* [M3, SS1, SS2&SS3-2021]

However, the response of M1 and M2 was found as follow:

“..... Income from a transaction that is executed against shariah guidelines (void transaction). Investment or financing in a firm involved in shari’ah non-compliant businesses” [M1&M2-2021]

SS1 explained further:

“.....Under Islamic Banking and specifically auto finance umbrella, bank and customer are both partners in the financing and any benefit which the bank receives from manufacturer, dealer, insurance or tracker company, the customer is a pro-rata partner. In case, the bank does not share this benefit received from the aforementioned with the customer, the said income is a non-shariah complaint income for the bank” [SS1-2021]

It is clear from the in-depth analysis of interviews that there are multiple types of sources that can lead to NSCI in IB’s. There are also chances that IBs are involved in non-shari’ah compliant activities.

4.4.2 Summary of RQ1 Findings

The findings of RQ1 based on the in-depth interviews showed that almost all the respondents agree on any income which is generated/received from the sources which are against the guidelines and rulings set by the Shari’ah committee will be considered as NSCI for Islamic banking [M1, M2, M3SS1, SS2, SS3] .it is very important to have a consensus on the “what is NSCI” among the 2 major parties/pillars of the Islamic banking (Management and Shari’ah scholars) to address the NSCI challenge. It is also very important to know what are the different types of sources which contribute to NSCI. After in-depth interviews with the experts, eighteen (18) different types of sources were identified as mentioned in figure 4.5 bellow.

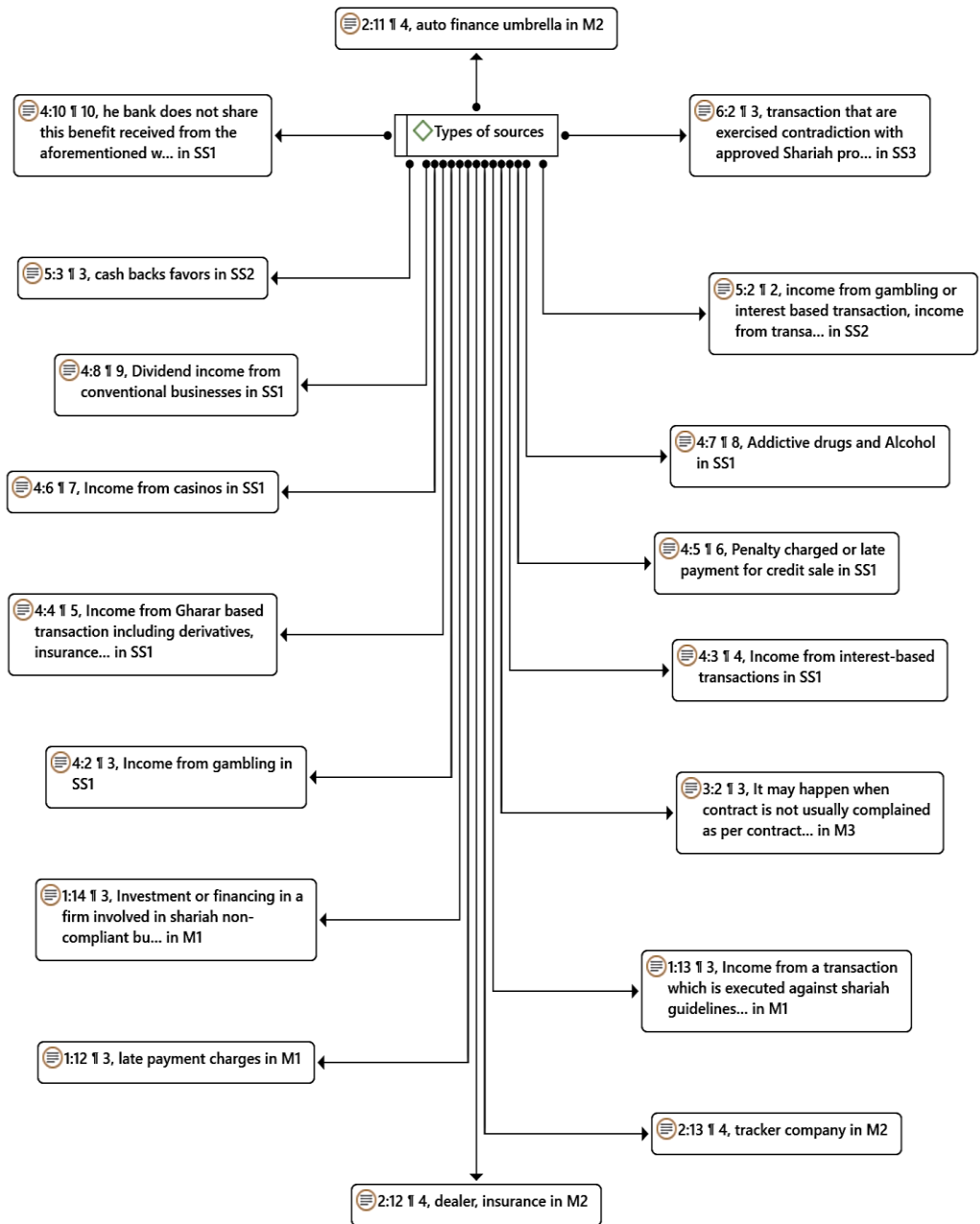


Figure 4.5. Sources of NSCI

Source: Author 2021

4.5 The Treatments to Address the NSCI (RQ2)

This section presents the findings of the second research objective that is to understand the treatments of (NSCI). After analysis of the in-depth interviews with the

help of Atlas ti 4 different codes were generated to get one main theme which was named in Figure 4.5.

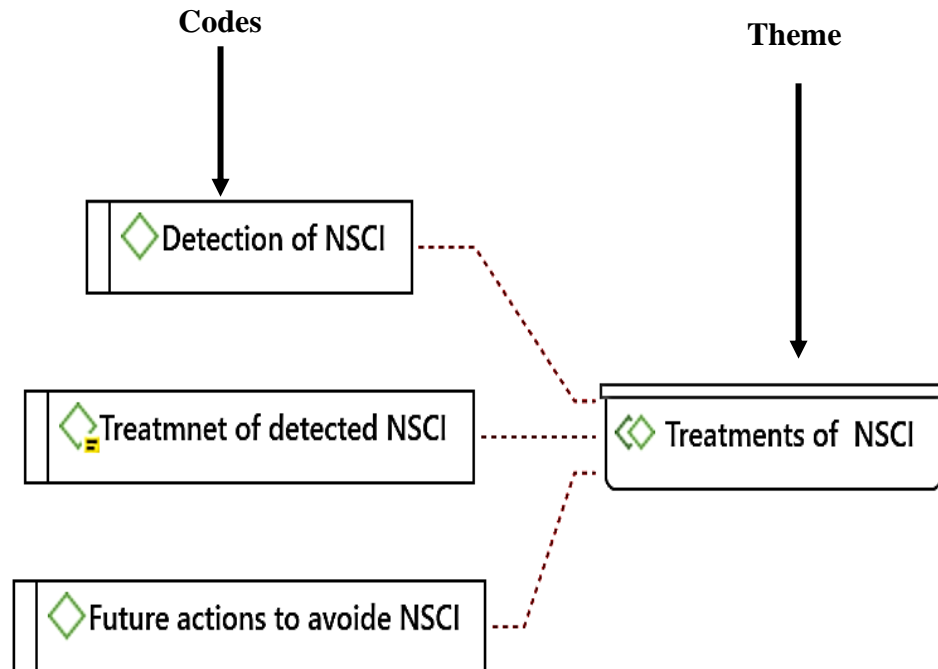


Figure 4.6. Extract Codes and Themes of RO2

Source: Author 2021

Above mentioned figure 4.4 concludes the result of the three interview questions of RO2. The three interview questions were:

RQ2.1. How does the bank detect non-shari'ah compliant income?

RQ2.2. What is the treatment to non-shari'ah compliant income?

RQ2.3. What is the future action to avoid non-shari'ah compliant income?

The above interview questions with the respondent's discussion led to the extraction of codes and themes related to the treatment of the NSCI which are discussed below.

4.5.1 Treatments of NSCI (Theme)

The second objective is to find the treatments to address the NSCI in the IBs of Pakistan. Based on the data with the help of the atlas ti three codes were extracted which will be explained one by one.

4.5.1(a) (RQ2.1) Detection of NSCI (Code)

Based on the in-depth interview's researcher found four respondents M1, M2, M3, and SS3 shared the almost same opinions about the detection of the NSCI as summarized below:

“.....every IFI has a shariah board who is constant hunt of such activities, and this meeting is held quarterly to identify such loopholes and resolve them immediately.....” [M1, M2, M3&SS3-2021]

M1 further explained the process of detection of NSCI as follows:

“.....Like a transaction was executed wrong like the proper contract is not executed, the bank has done financing in a business which is wrong as per shariah. So, a shariah Audit department highlights all the issues. The same is presented to Shariah Board.....” [M1-2021]

Furthermore, SS1 explained NSCI detection importance as follows:

“.....NSCI is an important issue in Islamic Financial institution's operations and hence a quarterly exercise is conducted for all the products to keep a proper check and balance. As soon as any such income is detected, it becomes the liability of the relevant product manager and higher-ups to justify such earning.....” [SS1-2021]

SS2 opinion was different from other experts according to the SS1 opinion detection is an ongoing process daily as mentioned below:

“..... Banks detect the non-shariah compliant income through comprehensive monthly reviews of Shariah Audit and Shariah Compliance department.....” [SS2-2021]

Pieces of evidence from the interviews showed that the detection and decision of the NSCI is the responsibility of the shari’ah department. The results of the in-depth interviews also highlighted that detection of the NSCI is a continuous process that can be done every quarter as well as on monthly basis depending on the seriousness of the bank's top management about the shariah compliance level in any Islamic bank. Also, it is found that any NSCI detected during the shari’ah audit becomes the liability of the relevant product manager and related high ups need to give justification for such earnings.

4.5.1(b) (RQ2.2) Treatment of Detected NSCI (Code)

Based on the in-depth interviews from the top management and Shari’ah scholars code-named “Treatment of detected NSCI” mainly focus on how a detected NSCI is treated. Most of the time it is directly dropped into the charity account as M1, M2, SS1 and SS3 share the same opinion as mentioned below:

“.....income which is declared by shariah audit as not compliant with shariah rulings of shariah board It is donated to charity....” [M1, M2, SS1 & SS3-2021]

But M1 also mentioned sometimes NSCI is also shared with customers based on the decision made by the Shari’ah board as mentioned below:

“.....in few cases management transfers it to the customer account as pro-rate after the approval or discussion of the shariah board....” [M1-2021] This opinion also supported by SS2:

“.....as per the customer contribution in the asset, in few cases NSCI distributed between the customer and bank.....” [SS2-2021]

The above responding views mentioned that there are 2 types of treatments IBs do with the NSCI detected after the shariah audit. First is they transfer NSCI directly to charity account which is the most common and popular method used to dispose-off such income or to purify the IB's income. But the second treatment is distributing the NSCI to the customers. This method is not much popular and also banks don't mention this kind of treatment in their annual financial statements.

4.5.1(c) (RQ2.3) Future Actions to Avoid NSCI (Code)

Based on the loopholes and potential weak areas identified during the detection process of NSCI future actions are derived to minimize the inclusion of NSCI in IB's income. M1 shared opinion regarding future actions as follow:

“.....shariah guidelines advised by Shari'ah committee are provided how a transaction to be executed, pre shariah review is conducted, training, list of non-compliant businesses, etc. helps to avoid such instances.....” [M1-2021]

Also, M2 and M3 shared the same opinion:

“.....We collaborate with Sharia department to provides training to all staff to ensure non-sharia compliant income is not generated.....” [M2 & M3-2021]

Shariah committee distributes circular with a proper process:

“.....Shariah team circulate a proper process to deal with any unforeseen non-shariah complaint income meanwhile keeping a check on the process which resulted in such income” [SS1-2021]

Track Record is also maintained for future consideration.

“.....Keeping a log of all such activities is a top priority for all Islamic banks with a constant reminder to the same sales and product teams.... the bank is required to keep a record.....” [SS1&SS2-2021]

Based on all records and logs of NSCI events IB's top management and shariah department collaborate and develop strong controls and measures to avoid any non-Shari'ah compliance in the future. Shariah scholars/Shariah audit teams' role is very important to provide future recommendations and to provide a process that can help banks to avoid non-shari'ah compliant events/activities.

4.5.2 Summary of RQ2 Findings

Owing to the respondent's views, the researcher found that treatment of the NSCI is based on multiple stages. The first stage is to find/detect the NSCI. In the detection of NSCI role of the shari'ah audit department is very important. This activity is done on a monthly or quarterly basis as per the bank policy. The second stage is disposal or distribution of NSCI. in this stage two main approaches are used, first if there is any income that is declared by the shari'ah audit department as NSCI after the approval of the shari'ah committee it is transferred to charity account and then from charity account, this income is transferred to authorized charitable institutions. The second approach is there are chances in which the shari'ah committee decides to distribute NSCI between customers and banks at pro-rata. The third stage in the process of the treatments to address the NSCI is future actions to avoid such actions/transactions/activities which lead to NSCI. For that purpose, all the actions/transactions/activities which are detected during shari'ah audit are recorded and, based on that record, shari'ah committee give their recommendations and process

to avoid such events in the future. Also, after an in-depth analysis of interviews, it was found that the daily shari'ah department issues advisories and circulars. Also, bank management provides training and organizes workshops from time to time with the collaboration with shari'ah department.

4.6 The Impacts of NSCI on Customer Trust and Commitment Toward the Bank Services from the Top Management and Shari'ah Scholars of Bank Perspective (RQ 3).

This section presents the findings of the third research objective that is to explore the impacts of NSCI on customer trust and commitment toward the bank services from the top management and shari'ah scholars of bank perspective. During in-depth interviews with the top management and shari'ah scholars of the Islamic bank's researcher observed the role of the third research objective for NSCI impact on customers trust and commitment. After analysis of the in-depth interviews with the help of Atlas ti 4 different codes were generated to get one main theme which were named in Figure 4.6.

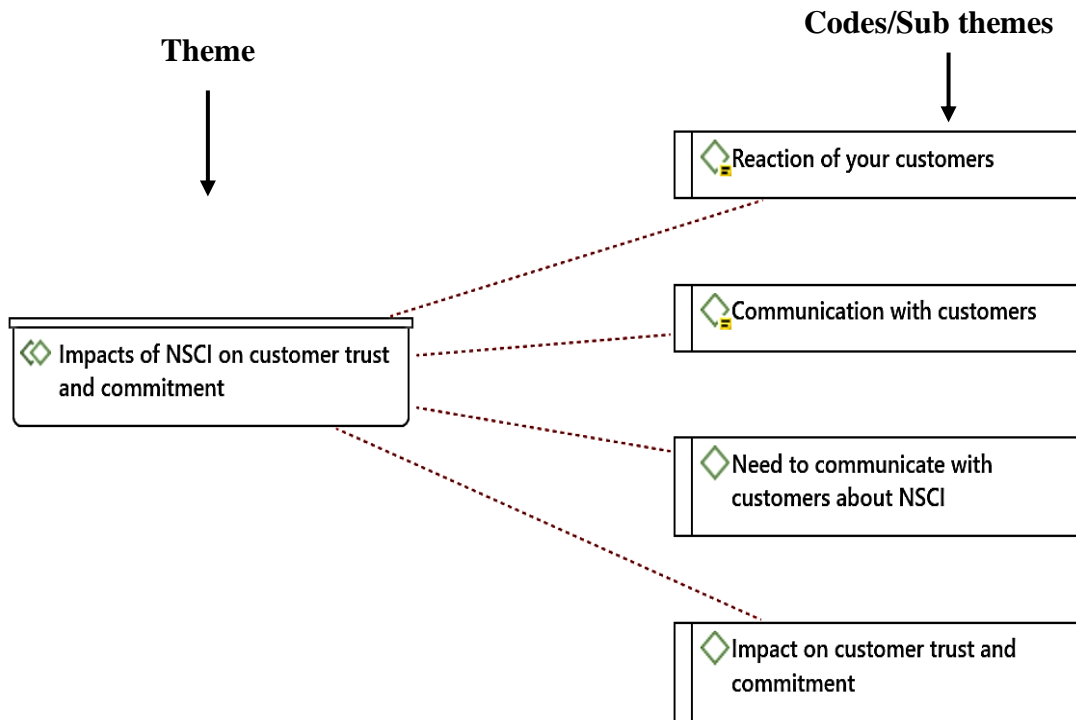


Figure 4.7. Extracted Codes and Theme of RO3

Source: Author 2021

Above mentioned figure 4.5 concludes the result of the four interview questions of RO3. The four interview questions were:

- 3.1. What is the reaction of your customers?
- 3.2. How do you communicate with your customers?
- 3.3. Do you think the non-shari'ah compliant income should be disclosed to the customer?
- 3.4. What is the impact of non-shari'ah compliant income on customer commitment and trust?

The above interview questions with the respondent's discussion led to the extraction of codes and themes related to the impact on trust and commitment of the customers due to NSCI which are discussed below.

4.6.1 Impact of NSCI on Customers Trust and Commitment (Theme)

Based on the in-depth analysis of interviews researcher developed four codes with the help of Atlas ti and one theme to address the third objective of the study. Extracted codes will be explained one by one below.

4.6.1(a) (RQ3.1) Reaction of the Customers (Code)

Based on the interviews in-depth analysis research found that there is a difference of opinion between the respondents about the reaction of the customers about NSCI. M1 and M2 gave their opinion as follow:

“.....It does not impact customers. They paid what is supposed to be paid so there is no concern from their side” [M1&M2-2021]

But M2 explain further in addition to his opinion which was the same as the opinion of M3:

“.....but if they come to know of course the Customers will demand an explanation from Sharia department regarding non-sharia compliant income....” [M2-2021]

But, based on the interviews it was found that the shari'ah department has a different perspective about the reaction of the customers about the NSCI. SS1, SS2, and SS3 give almost the same opinion so the researcher merged it and mentioned below:

“.....Bank does not communicate the non-shari'ah compliant income to the customer, as this is the Bank income and bank give charity at his end. So no reaction from the customers.... off course if the customers know about such kind of activities, their customers reaction will be negatively.....” [SS1, SS2&SS3-2021]

A very interesting fact was found based on shariah department opinion that banks usually do not communicate information related to the NSCI activities happening in IBs which ultimately lead to no reaction from the customers, but all experts agree that if the customers know about such activities they will surely demand an explanation from the management as well as from shari'ah department.

4.6.1(b) (RQ3.2) Communication with Customers (Code)

After an in-depth analysis of interviews with top management of the IBs researcher found that banks normally do not communicate with the customers about the NSCI but they only mention in their annual reports without any in-depth information about the number of non-shari'ah compliant transactions or frequency of non-shari'ah compliant activities. As M1 shared opinion as follow:

“.....No communication however it can be disclosed in annual bank accounts and on the website without any in-depth details because bank settle these issues internally.....” [M1-2021]

M2 and M3 share the same kind of opinion as follows:

“.....We do not share such information right away. We mostly declare non-shari'ah compliant income in our annual reports published on our website from where customers can refer if they need any information.....” [M2&M3-2021]

M3 further said that bank management is responsible to communicate this kind of information and most of the time management decides to not disclose these matters as mentioned below:

“.....it is the responsibility of the Management of the bank to communicate with customers. Management usually do not share this kind of information with customers” [M3-2021]

In response to the responsibility to communicate with customers SS1 and SS2 shared the same kind of opinion which is merged and mentioned below:

“.....The responsibility to communicate about non shari’ah-compliant activities is on the management. Shari’ah department does not communicate directly with customers It’s a need-based activity and bank use different mediums to connect with the customer if needed for example social media, customer care unit, phone-banking unit, emails, etc” [SS1&SS3-2021]

In addition to the opinions of the above-mentioned experts SS3 stated that the shari’ah audit department can only provide their report about shariah compliance to the top management and they publish it in their bank’s annual reports, as mentioned below:

“..... shari’ah department provide a report about the shari’ah compliance in bank activities and transactions to the top management and through the annual reports of Islamic bank which can be communicated to customers ...” [SS3-2021]

As a result of an in-depth analysis of the interviews of the experts, it is concluded that the responsibility to communicate with customers rests on the top management of the bank. It is also clear that the shari’ah department does not directly communicate to the customers about the non-shari’ah compliance matters of the bank. In addition, based on the opinions communicating with the customers about the NSCI is a need-based activity and it depends on the top management decision whether to communicate or not.

4.6.1(c) (RQ 3.3) Disclosure of NSCI to the Customers (Code)

There is a different opinion of the experts about the need to disclose NSCI to the customers. Based on the in-depth analysis of the interview, researcher found that there is a difference of opinion between top management and the shari'ah department. As per the opinion of the top management respondents, there no need to disclose NSCI to the customers until there is a need. Like M1, M2, and M3 shared the same kind of opinion about the disclosure of NSCI to the customers which is as follows:

“.....I do not think customers need to know about it because they are more interested in the profits, their earnings and also disclosure of NSCI activities can cause unnecessary panic to customers Customers are not concerned until they are getting profits.... bank always vigilant and take immediate actions to avoid any activity which is against shari'ah rulings of the shari'ah board.....” [M1, M2&M3-2021]

On the other side, the shariah department's opinion is different than the top management of the banks. As per the opinion of shari'ah scholars to win the trust of the customers, it is important to disclose NSCI. This will increase the trust of the customers in the intentions of the bank to provide **Halal income** to the customers. As it is mentioned by SS1, SS2, and SS3 in their opinion:

“.....Yes. It should be disclosed to the customer to win their trust, so that customer understands that there is no place of non-shari'ah income in the Islamic bank” [SS1, SS2 & SS3-2021]

4.6.1(d) (RQ3.4) Impact of NSCI on Trust and Commitment of the Customers

Based on the analysis of in-depth interviews, it is found that NSCI has a negative impact on the trust and commitment of the customers. As M1 mentioned:

“.....if customers know any activity like this there will be a negative impact on their trust and commitment” [M1-2021]

In addition, M1 also mentioned:

“.....Because customers most of the time don't know if any of the non-shari'ah activity happened because that thing we handle internally so usually no impact on customers “ [M1-2021]

M2 and M3 shared the same opinion as follow:

“.....If customers come to know that Islamic bank is involved in non-shariah compliant activities, this will have an adverse impact on customer trust and commitment” [M2&M3-2021]

IBs cannot afford to be involved in NSCI because it can affect bank image adversely. As per the opinion of the shariah department customer's commitment is based on the trust that the bank can provide them an income that is pure and free from all kinds of “non-halal” means. But if customers find out that their bank is continuously involved in activities that are against shariah, this can damage their trust adversely which will ultimately negatively impact the commitment of the customers to the bank. As mentioned by the SS1, SS2, and SS3 in their opinion:

“.... Even Islamic bank always pays at most importance to shariah compliance still there are some chances that bank involve in activities/transactions which are against shariah rulings of the shariah board, and it can cause a negative effect on customers to trust on Islamic bank which is definitely not in the favor of the bank” [SS1, SS2 & SS3-2021]

Furthermore, SS1 mentioned as follow:

“.... Unresolved issues will always affect the reputation of the institution...” [SS1-2021]

4.6.2 Summary of RQ3 Findings

The third research objective of this study is “To explore the impacts of NSCI on customer commitment toward the bank services from the top management and shariah scholars of bank perspective.” During in-depth interviews with the top management of the IBs, the researcher observed non-shariah compliant IBs could give rise to negative trust and confidence of customers because it is against the religious principles and teachings. The researcher also observed that there is a difference of opinion between top management and shariah scholars about the disclosure of NSCI with customers. As per the findings of the research, it is the responsibility of the bank management to communicate with customers about the NSCI and its treatment, but bank management does not communicate about that income until it is related to the “late payments”. The banks do not share info about NSCI generated from “void transactions”.

4.7 The Impact of Non-Shari’ah Income on Customer of Islamic Bank Commitment and Trust from Customers Perspective (RQ4)

This section presents the findings of the fourth research objective that is to explore the impacts of NSCI on customer trust and commitment toward the bank services from the customers perspective. During in-depth interviews with the customers of the Islamic bank’s researcher observed the role of the fourth research objective for NSCI impact on customers trust and commitment. After analysis of the in-depth interviews with the

help of Atlas ti 4 different codes were generated to get one main theme which were named in Figure 4.7.

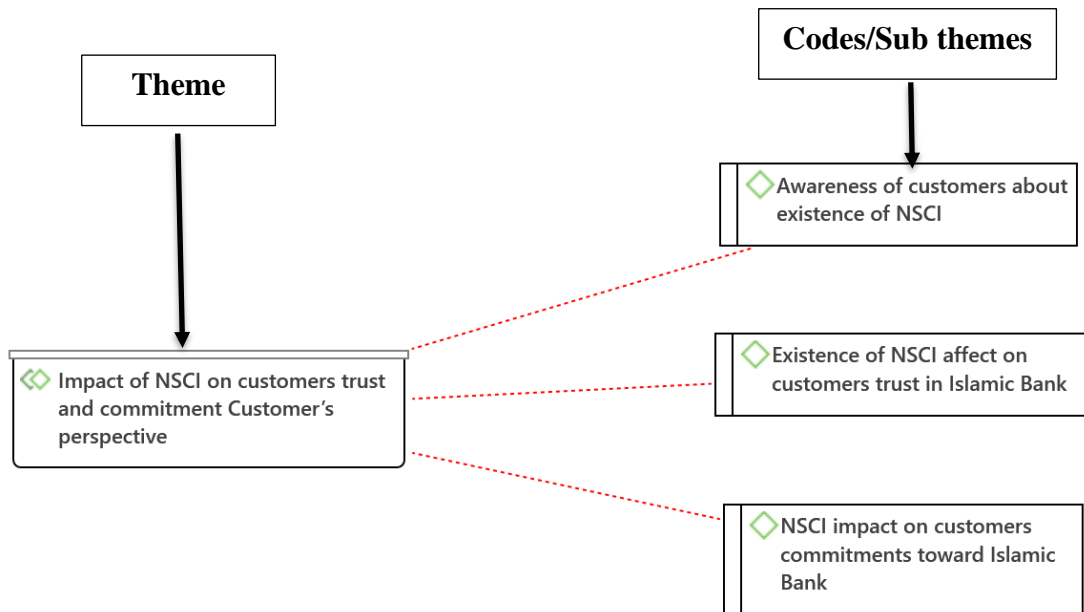


Figure 4.8. Extracted Codes and Theme of RO3

Source: Author 2021

Above mentioned figure 4.7 concludes the result of the three interview questions of RO4. The three interview questions were:

- 4.1. Do you know that Non-Shariah Income exist in Islamic Banks in Pakistan and bank transfer it charity account?
- 4.2. Does the existence of Non-Shariah Income will affect your trust in Islamic Bank?
- 4.3. Does the existence of non-Shariah income impact on your commitments toward Islamic Bank?

The above interview questions with the respondent's discussion led to the extraction of codes and themes related to the impact on trust and commitment of the customers from Islamic banks customers due to NSCI which are discussed below.

4.7.1 Impact of NSCI on Customers Trust and Commitment Customer's Perspective (Theme)

Based on the in-depth analysis of interviews researcher developed three codes with the help of Atlas ti and one theme to address the fourth objective of the study. Extracted codes will be explained one by one below.

4.7.1(a) Awareness of Customers About Existence of NSCI (Code)

Based on the focused group interviews with customers of the Islamic bank very interesting fact found that 5 out of 6 focused group interview respondents was not aware of NSCI existence in Islamic bank. Only one respondent as follows:

“.... Yes I heard about it but I never checked by myself because all the time I was thinking Islamic bank is Islamic because it is doing everything in Islamic way....” (Customer2-2021)

Remaining all 5 respondents said “No we don't know about the existence of the NSCI in Islamic banking until researcher did not told them about it.

4.7.1(b) Existence of NSCI Affect on Customers Trust in Islamic Bank (Code)

Based on the in-depth interviews with focused group code-named “Existence of NSCI affect on customers trust in Islamic Bank” mainly focus on is there any impact on customers trust level in Islamic bank due to NSCI. All the focused group members was agreed and shared the same point of view that yes definitely there will be a negative impact on their trust towards Islamic bank. Customer 1,2,3,4,5 opinion was same which is merged and mentioned bellow :

*“...yes, my trust level will be **not the same**....”* (Customer1, 2,3,4,5-2021)

Customer 6 added further:

*“.... **For sure**. Because, Islamic banks have a distinct set of risks, including equity investment risk, shifted commercial risk, and **Shari'ah non-compliance risk, which is regarded as one of the most serious and if they cannot handle it then no difference in convention and Islamic bank**....”* (Customer 6-2021)

4.7.1(c) NSCI Impact on Customers Commitments Toward Islamic Bank (Code)

According to the customers of the Islamic banks during focused group interview about their opinions regarding their commitment with Islamic banks due to existence of NSCI their view was as follows:

*“.... I might **switch** to another **Islamic bank**....”* (Customer 1-2021)

Customer 2 shared his opinion in this way:

*“.... if **my bank involved in any activities like non shariah compliance** etc the **I will switch to other Islamic bank which is clean from these activities**....”* (Customer 2-2021)

Customer 3 and 5 shared the same opinion and express that due to NSCI there will be negative impact on commitment towards Islamic bank. As mentioned below:

*“.... **definitely it will impact my commitment towards my bank negatively** , because the promised me **shariah compliance**....”* (Customer 3-2021)

Customer 6 point of view is as follows:

*“.....**yes definitely I will not be committed** to the bank because my reason to choose Islamic bank was the trust that Islamic banks will not be involved in any*

No-shari'ah compliant activities which will lead to inclusion of haram income....” Customer 6-2021)

4.7.2 Summary of RQ4 Findings

During focused group interview with customers of the Islamic bank researcher found some interesting fact. Only one customer out of 6 (Six) knew about existence of NSCI in Islamic bank. Another fact found was almost all the respondents was agreed that existence of NSCI in Islamic bank will definitely impact their trust on Islamic bank negatively and due to that they will not be committed towards Islamic bank. And even they might switch to conventional banking instead of choosing another Islamic bank.

4.8 Data Analysis and Findings of Phenomenon Two

The findings of this study and the results of the statistical data are summarised in this section. Smart PLS 3.2.7 was used to measure and analyse the study framework's structural model, while Statistical Package for Social Sciences (SSPS) version 24.0 was used for descriptive analysis, Cronbach's alpha estimate, common method variance, outlier detection, normality, and missing data analysis. The data should not be too far from normal, despite the fact that PLS-SEM is a non-parametric statistical tool. For highly skewed data, bootstrapping was used, and the structural model for the collinearity problem was evaluated using the tolerance variance inflation factor (VIF) parameters (Urbach & Ahlemann, 2010). By comparing the path coefficients to the critical t-values for the significance levels of 0.10, 0.05, and 0.01 the significance of the path coefficients was calculated. Bootstrapping was used to

calculate the t-value of the path coefficients with 5000 sub-samples (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014).

This section is divided into three sub-sections. The procedure for data scanning for any errors, missing data, and coding for each indicator is explained in the first part. This section also includes the findings of a Harman single factor test that was used to see whether there were any biases in the sample that might influence the results. The demographic profile of the respondents and the detailed study findings are discussed in the second section. The validity and reliability of the measurement model, as well as each path of the measures, are explained in the third part. The test was carried out in the third section to verify reflective structures for the measurement model. The final section conducted a structural analysis to back up the major hypotheses of the present study.

4.9 Response Rate

To obtain an adequate response rate, a total of 600 questionnaires were sent via email and the researcher's network. Of the 600 questionnaires sent to banks in Pakistan, 344 responses were returned which is equivalent to 57.3% response rate. Three of the responses was discarded due to the respondents were not meeting the screening criteria. Only a total of 341 responses were found usable and this contributes to 56.8% response rate.

The high response rate of 56.8% was due to a few reasons. First, the HR managers of the private commercial banks assigned the branch managers to assist the researcher of the present study in data collection from the customers. The branch managers have helped to ask their customers complete the survey who met the eligibility criteria. Second, the researcher of the present study also contacted banks

located in the four provincial capitals and informed them the purpose and importance of the study and agreed to share the findings of the study with them. The bank management showed their interest and were happy to assist. They were informed the eligibility criteria so that only the eligible respondents could participate in the survey. Third, the researcher also consistently followed up with the management on a monthly basis and management has helped to remind their customers. Table 4.3 below shows the summary of the response rate.

Table 4.3

Summary of the response rate.

Cities	Number of Distributed Questionnaire	Number of Returned Questionnaires	Percentage of Returned Questionnaires (%)
Lahore	150	102	68.0
Karachi	150	97	65.0
Peshawar	150	76	51.0
Quetta	150	69	46.0
Total	600	344	57.3

4.10 Data Screening

Data screening was done before recoding and analysis to ensure that the data was accurate. The variables and cases that are included in the final analyses were thoroughly checked. Data screening involves identifying and correcting flaws in data. Data screening included (1) checking for errors, (2) missing data, (3) outliers, (4) data normality, and (5) common method variance.

4.10.1 Checking for Errors

During the data entry for this study, each item was double-checked to ensure that the code and value were correct. Any inconsistency in the data may be the result of incorrect data entry or a failure to assign a particular code and meaning to a specific item. This is an extremely important step in ensuring the data's validity. According to Sekaran and Bougie (2016), irregularities in results, whether categorical or continuous, can be identified using descriptive measurement techniques such as frequency and percentage for each variable. In this analysis, values that did not fall within the range were identified and corrected. The findings of each item were summarised in Table 4.4, which shows that all missing data, number of respondents, mean, standard deviation, maximum and minimum range of the items were all included. As a result, the present study did not experience any erroneous data entry problem.

Table 4.4
Checking for Errors

	Missing Data	N	Mean	Std. Dev	Minimum	Maximum
A1	0	341	4.17	0.749	3	5
A2	0	341	4.24	0.763	2	5
A3	0	341	3.98	0.725	2	5
A4	0	341	3.96	0.771	2	5
A5	0	341	4.06	0.787	2	5
I1	0	341	3.84	0.696	2	5
I2	0	341	3.88	0.692	2	5
I3	0	341	3.89	0.863	2	5
I4	0	341	3.93	0.762	2	5
I5	0	341	3.91	0.753	2	5
B1	0	341	3.89	0.704	2	5
B2	0	341	3.92	0.719	2	5
B3	0	341	4.1	0.785	2	5

Table 4.4 (Continued)

	Missing Data	N	Mean	Std. Dev	Minimum	Maximum
B4	0	341	3.95	0.658	2	5
B5	0	341	4.06	0.702	2	5
SV1	0	341	3.92	0.725	2	5
SV2	0	341	4.09	0.718	2	5
SV3	0	341	3.91	0.703	2	5
SV4	0	341	3.83	0.696	2	5
SV5	0	341	3.97	0.745	2	5
T1	0	341	4.08	0.778	2	5
T2	0	341	4.14	0.751	2	5
T3	0	341	4.03	0.749	2	5
T4	0	341	3.98	0.69	2	5
T5	0	341	3.99	0.799	1	5
T6	0	341	3.93	0.863	2	5
T7	0	341	3.93	0.819	2	5
T8	0	341	3.95	0.807	2	5
T9	0	341	4.06	0.808	2	5
C1	0	341	3.92	0.744	2	5
C2	0	341	3.92	0.804	2	5
C3	0	341	3.96	0.764	2	5
C4	0	341	4.01	0.799	2	5
C5	0	341	4.17	0.743	2	5
C6	0	341	3.96	0.798	2	5
C7	0	341	3.94	0.8	2	5

4.10.2 Missing Data

The process of looking at possible data entry mistakes. Following that, the data was double-checked for accuracy to ensure the sample was not biased. The data were scrutinised for missing values. Respondents were required to complete the online questionnaire, which had all items marked as mandatory, as previously stated. Respondents were not allowed to move on to the next section of the questionnaire and

submit their response in this case if they had skipped any of the survey items, either accidentally or deliberately. As a result, no missing data issues were found during the analysis. In the current study, the results of the frequency descriptive analysis (Appendix D) indicated that there was no missing data.

4.10.3 Outliers

Case-by-case diagnosis was used to identify outliers, and two separate linear regression models were conducted for the two endogenous variables of trust and commitment. An outlier is observed when the normal residual value approaches -3.3 or +3.3 (Tabachnik & Fidell, 2013). When conducting the regression analysis, none of the cases had a uniform residual value that exceeded the +/-3.3 values.

In addition, both cases were evaluated using the Cook's distance to determine whether or not an influential point should be removed. If the Cook's Distance value approaches 1.0, a case is called influential (Hair, Ringle & Sarstedt, 2012; Tabachnik & Fidell 2013; Hair *et al.*, 2014). No case has crossed the 1.0 cut-off mark, according to the linear regression analysis (Appendix G). As a result, no cases were removed from the final data set used in the analysis due to outliers.

4.10.4 Data Normality

Although PLS-SEM does not assume data normality (Hair *et al.*, 2014), a data normality check was performed. The skewness and kurtosis of the key constructs were assessed in order to determine if the data is normal. It was also done to ensure that the data was not too far from the normal, since extreme normal data can make it difficult to assess the significance of the parameters (Hair *et al.*, 2014). Extreme, non-normal data can be detected when the skewness and kurtosis values are greater than 2.828 and

12, respectively (Kock, 2016). The Kolmogorov-Smirnov and Shapiro-Wilk tests were used to determine normality. When both skewedness and kurtosis are close to 0, the thumb rule assumes data normality. This sequence of responses is known as a normal distribution (Hair et al., 2014). Non-normal values are those that are greater than +1 or less than -1. The skewness and kurtosis of the study's variables can be seen in Table 4.5.

Table 4.5
Skewness and Kurtosis of Study Variables

Variable	Skewness		Kurtosis	
	Statistic	SE	Statistic	SE
Ability	-0.021	0.132	-0.504	0.263
Integrity	0.044	0.132	-0.29	0.263
Benevolence	-0.373	0.132	0.337	0.263
Shared Values	0.037	0.132	-0.097	0.263
Trust	-0.054	0.132	-0.582	0.263
Commitment	-0.036	0.132	-0.348	0.263

The findings of the Kolmogorov-Smirnov test and the Shapiro-Wilk test (Table 4.6) show that the data of the present study did not confirm normality as both skewness and kurtosis statistical value did not drop to close to 0. The data did not fall through the extreme distributors of non-normality as the maximum skewness and kurtosis value did not exceed Kock's (2016) extreme non-normality threshold. With PLS-SEM discarding the assumption of normality, further data analyses were supported by the use of the PLS-SEM statistical tool. Table 4.4 outlines the level of significance of normality test.

Table 4.6

Tests of Normality

	Kolmogorov-Smirnova		Shapiro-Wilk	
	Statistic	Sig.	Statistic	Sig.
Ability	0.104	0	0.97	0
Integrity	0.151	0	0.962	0
Benevolence	0.158	0	0.962	0
Shared Values	0.143	0	0.962	0
Trust	0.118	0	0.963	0
Commitment	0.126	0	0.963	0

4.10.5 Common Method Variance

The researcher used the common method variance (CMV) test in this study. To check for CMV, the Harmon single factor analysis was used. Since the data for the predictor and criterion variables were obtained from a single source, it was necessary to examine the common method variance. According to Podsakoff, MacKenzie, Lee, and Podsakoff (1990) a common method variance problem can arise when data is obtained using the cross-sectional survey method.

Podsakoff and Organ (1986) believed that common method bias might be an issue if the variances explained by a single latent variable were to account for more than 50%. In this study, an analysis of all measurement items by non rotated principal component factor was performed which extracted 25 factors with Eigen values greater than 1.0 and constituted 92.72 percent of the total variance (Appendix F). First factor accounted for 34.51 per cent of the variance, so the common method variance for this study did not appear to be a problem.

4.11 Descriptive Analysis

Prior to assessing the measurement and the structural model, the respondents' profile and responses to study variables were calculated. In the following sections, we'll go over the details of the descriptive analysis.

4.11.1 Profile of the Respondents

All of the respondents of the study were Pakistani national. The majority of the study respondents were male (62.8%) and the majority (42.8%) of the respondents were belonged to the age group 25- 31 years. Majority of the study respondents were married (56.9%) and most of them are working with private sector (56.9%). Majority of the study respondents had done bachelor's degree (46.6%). 29.6% of the study respondents belong to Lahore, 28.2% of the respondents belonged to Karachi, 20.2% belonged to Peshawar, and 22.0% belonged to Quetta. Table 4.7 explains in detail about the demographic profile of the study respondents who participated in the study and the SPSS output is attached in Appendix E.

Table 4.7

Demographic Profile of Respondents (N = 341)

Variable	Category	Frequency	Percentage (%)
Gender	Male	214	62.8
	Female	127	37.2
Marital Status	Single	141	41.3
	Married	194	56.9
	Divorcee	6	1.8
Age	18-24	135	39.6
	25- 31	146	42.8
	32 – 39	46	13.5
	Above 40	14	4.1

Table 4.7 (Continued)

Variable	Category	Frequency	Percentage (%)
Education	High School	10	2.9
	College Diploma	8	2.3
	Bachelor's Degree	159	46.6
	Master's Degree	145	42.5
	Doctoral Degree	19	5.6
City	Lahore	101	29.6
	Karachi	96	28.2
	Quetta	75	22.0
	Peshawar	69	20.2
Employment sector	Government	60	17.6
	Private	194	56.9
	Self-employed	87	25.5

4.11.2 Mean and Standard Deviation of the Study Variables

The independent variables: ability, integrity, benevolence, shared values, the mediator trust, and the dependent variable commitment were measured using 5-point Likert scale from 1 (strongly disagree) and 5 (strongly agree). The mean values and standard deviation of all constructs of the sample are presented in Table 4.8.

The mean score of the latent variable equal to or less than 2.60 is considered low in the five-point Likert scale, whereas between 2.61 and 3.40 it is considered moderate and 3.41 and higher is considered high (Dawes, 2008; Sekaran & Bougies, 2013).

Table 4.8

Mean Value and Standard Deviation of Latent Constructs

Study Variables	Mean	Standard Deviation
Ability	4.08	0.513
Integrity	3.89	0.539
Benevolence	3.98	0.516
Shared Values	3.94	0.476
Trust	4.01	0.560
Commitment	3.98	0.553

4.12 Assessment of Measurement Model

In order to obtain the results of the structural model, the first step in Structural Equation Modelling (SEM) is to determine the quality of the measurement model. (i) convergent validity and (ii) discriminant validity was assessed for the measurement model.

4.12.1 Measurement Model

The first step in a PLS analysis is to establish a measurement model, which is crucial for determining how well measurement items were prepared when theoretical constructs were developed. The two main indicators used to test the measurement model were validity and reliability. The measurement model assessment is outlined in Figure 4.1. The standards of (Hair, Ringle, & Sarstedt, 2012) have been used for explaining the internal consistency, reliability of the predictor, convergent validity, and discriminant validity of the study variables including a mediating variable of trust.

4.12.1(a) Construct Validity

This study used construct or measure validity to evaluate the degree to which the theoretically based conceptual framework can be measured (J. F. Hair Jr, Babin, &

Anderson, 2010). In this analysis, two validity components are evaluated: (i) convergent validity and (ii) discriminant validity. The validity of measurements is important, and it has been used to determine if the evaluation of constructs represented by the measurement is reliable.

4.12.1(b) Convergent Validity

The outer loadings of indicators and the average variance extracted (AVE), as recommended by Hair et al, (2014), the convergent validity or extent to which measure correlates with alternate measures of the same construct was tested. The AVE exceeded the recommended value of 0.50, for all latent variables. This indicates that more than half of the variance observed was the variance extracted from the loading items. Table 4.9 below summarized the loadings for all items. Loadings recommended value is 0.708 (Hair et al., 2014). Nonetheless, low loading was maintained in the study, as the AVEs of these items' corresponding variables were higher than the acceptable value of 0.50. The composite reliability for the first order constructs ranged from 0.80 to 0.90. This value exceeded the cut off value of 0.70 as recommended by (J. Hair Jr, Sarstedt, Hopkins, & G. Kuppelwieser, 2014). Thus, the measurement model assessment ensured the existence of convergent validity.

Table 4.9

Results of Measurement Model

Construct	Item Code	Factor Loading	CR	AVE
Ability	A1	0.76	0.81	0.50
	A2	0.52		
	A3	0.61		
	A4	0.78		
	A5	0.74		
Benevolence	B1	0.62	0.85	0.53
	B2	0.77		
	B3	0.73		
	B4	0.80		
	B5	0.70		
Commitment	C1	0.75	0.84	0.51
	C2	0.74		
	C3	0.70		
	C4	0.66		
	C5	0.61		
	C6	0.74		
	C7	0.77		
Integrity	I1	0.72	0.84	0.51
	I2	0.67		
	I3	0.67		
	I4	0.73		
	I5	0.79		
Shared Values	SV1	0.75	0.80	0.44
	SV2	0.58		
	SV3	0.69		
	SV4	0.60		
	SV5	0.83		
Trust	T1	0.65	0.90	0.51
	T2	0.65		
	T3	0.72		
	T4	0.78		
	T5	0.77		
	T6	0.82		
	T7	0.67		
	T8	0.80		
	T9	0.56		

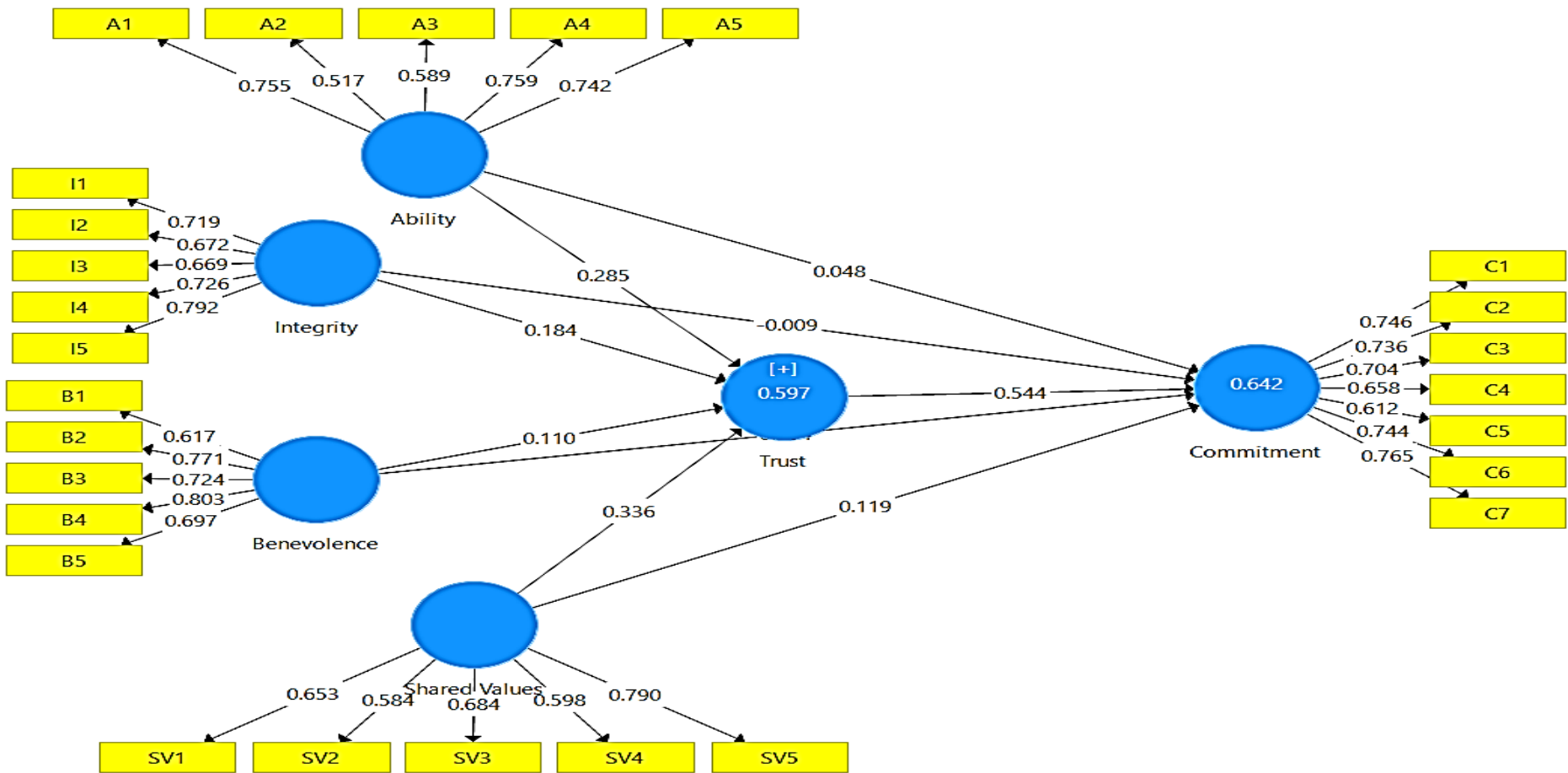


Figure 4.9. Assessment of Measurement Model

4.12.1(c) Discriminant Validity

Subsequently, the discriminant validity of the measurement model in the present study was assessed. The testing of discriminant validity was performed to assess whether a particular item reflects other measures. It was necessary to calculate the discriminant validity of the model to ensure that the items were distinctive, and their measurement did not overlap with one another. The discriminant validity of this study model was assessed by two-stage approach. Henseler, Ringle and Sarstedt, (2012) suggested the two-stage approach in PLS analysis, which helps researchers reduce the complexity of the model. Hair et al., 2014 suggested a two-stage analysis method in which the scores of the construct are estimated at first stage. Then, the final outer weights, loadings, and validity estimates are determined in the second step.

Fornell-Larcker test was used to determine the discriminant validity between latent variables, in which the square root of the average variance extracted must be greater than inter-construct correlations (Hair et al., 2014). Therefore, if the square root of the average variance extracted is less than the correlations with all other constructs, the discriminating validity may be a concern. Table 4.10 indicates that latent variables share equal or less variance with their own calculation and other measurements.

Heterotrait-Monotrait (HTMT) ratio checked the model's discriminant validity. Henseler, Ringle, & Sarstedt, (2016) clarified that the HTMT ratio is superior to other approaches such as the Fornell-Larcker criterion. They suggested two different HTMT criterion cut-off values of 0.85 and 0.90 to establish discriminating validity. This research used 0.90 (i.e., HTMT.90) to determine the model's discriminating validity. Table 4.11 indicates the model's discriminating validity as all tests of the HTMT.90

test were below the critical value of 0.90. Overall, the measurement model showed adequate convergent validity and discriminant validity.

Table 4.10

Discriminant Validity Analysis (Fornell-Larcker Criterion)

	Ability	Benevolence	Commitment	Integrity	Shared Values	Trust
Ability	0.707					
Benevolence	0.521	0.725				
Commitment	0.57	0.61	0.711			
Integrity	0.543	0.571	0.553	0.717		
Shared Values	0.6	0.626	0.649	0.667	0.666	
Trust	0.644	0.574	0.769	0.626	0.699	0.717

Note: values in diagonal (bolded) represent the square roots of the AVE while the off diagonals represent correlations.

Table 4.11

Discriminant Validity Analysis (HTMT_{0.90} Criterion)

	Ability	Benevolence	Commitment	Integrity	Shared Values	Trust
Ability						
Benevolence	0.72					
Commitment	0.743	0.744				
Integrity	0.739	0.744	0.685			
Shared Values	0.851	0.847	0.856	0.890		
Trust	0.806	0.682	0.888	0.744	0.891	

The obtained results revealed the cross-loadings of all the items in the study were high on the corresponding constructs, but low on the other constructs. In other words, the constructs were distinctly different from one another, thus, suggesting adequate discriminant validity of the study data (Appendix I).

4.13 Assessment of the Structural Model

The structural model analysis was carried out to analyze the relationships between hypothesized constructs within the research model, after checking the validity and reliability of the constructs. Referring to the recommendation Hair et al. (2014), this study used 5,000 samples for the bootstrapping procedure of resampling to estimate the standard errors and the significance of parameter estimates. Since all the constructs in this study were reflective in nature, five criteria were applied in assessing the influence of each exogenous latent variable on the endogenous latent variable specifically (I) construct collinearity assessment, (II) structural model path coefficient, (III) determination coefficient (R^2 value), (IV) effect size (f^2), and (V) predictive relevance (Q^2) and blindfolding.

4.13.1 Collinearity Assessment

Prior to initial assessment of the structural model, it was deemed crucial that there was no lateral collinearity problem in the structural model. Although the criteria of discriminant validity (vertical collinearity) were satisfied in the present study, lateral collinearity problem (predictor-criterion collinearity) may occur, resulting in misleading findings that mask the strong casual effect in the model (Ramayah, 2018). Such cases often occur when two variables that are hypothesised to be casually related measure the same construct. As proposed by Hair et al. (2014), the structural model

was first tested for the issue of collinearity by tolerance and variance inflation factors (VIFs). In PLS-SEM, the indicated tolerance level for VIFs is greater than 0.2 and less than 5.0 (Hair et al., 2014). It is to make sure there is no collinearity problem in the structural model. When collinearity is observed in the structural model, the effected constructs must be merged or omitted from the model of study. Table 4.12 displays the independent and dependent constructs and the VIF and tolerances.

The findings of the collinearity analysis showed that among the predictors; Ability, Benevolence, Integrity, Shared values, Trust there was no question of collinearity.

Table 4.12

VIFs for Collinearity Evaluation of the Structural Model

Dependent Variable →	Trust		Commitment	
Independent Variable	Tolerance	VIF	Tolerance	VIF
Ability	0.586	1.707	0.528	1.893
Benevolence	0.500	2.000	0.483	2.068
Integrity	0.548	1.825	0.541	1.850
Shared values	0.441	2.269	0.392	2.550
Trust	---	---	0.424	2.360

4.13.2 Structural Model Path Coefficient

As the question of collinearity was not included in the research model, the next step was to estimate the path coefficient in order to determine the structural model. The magnitude of the path coefficients is determined by comparing the t-values with the t-values for 0.10, 0.05 and 0.01. The empirical t-value for path coefficients was determined using 5000 sub-samples by bootstrapping (Hair et al., 2014).

The findings of the data analysis showed that the Ability and Integrity has no impact on Commitment of the customers at $\beta= 0.048$, $t=0.987$ $p<0.10$ and $\beta= -0.009$, $t=0.147$ $p<0.10$, respectively. H1, H2 were not supported. Meanwhile Benevolence, Shared values and Trust have significant positive impact on commitment of the customers with $\beta= 0.204$, $t=4.506$ $p<0.01$, $\beta= 0.119$, $t=1.876$ $p<0.01$ and $\beta= 0.544$, $t=8.816$ $p<0.01$ respectively. Hence H3, H4 and H5 supported.

Table 4.13 describes the path coefficients obtained from the study to estimate the statistical significance of the structural model.

Table 4.13

Assessment of Structural Model (Direct Relationship)

Hypothesis	Path	Beta	T Statistics	P Values	Decision
H1	Ability → Commitment	0.048	0.987	0.162	Not Supported
H2	Integrity → Commitment	-0.009	0.147	0.442	Not Supported
H3	Benevolence → Commitment	0.204	4.506	0.000***	Supported
H4	Shared Values → Commitment	0.119	1.876	0.030*	Supported
H5	Trust → Commitment	0.544	8.816	0.000***	Supported

Note: “Critical t-values at*1.65 (significance level=10%), **1.96 (significance level=5%) and ***2.57 (significance level=1%)”.

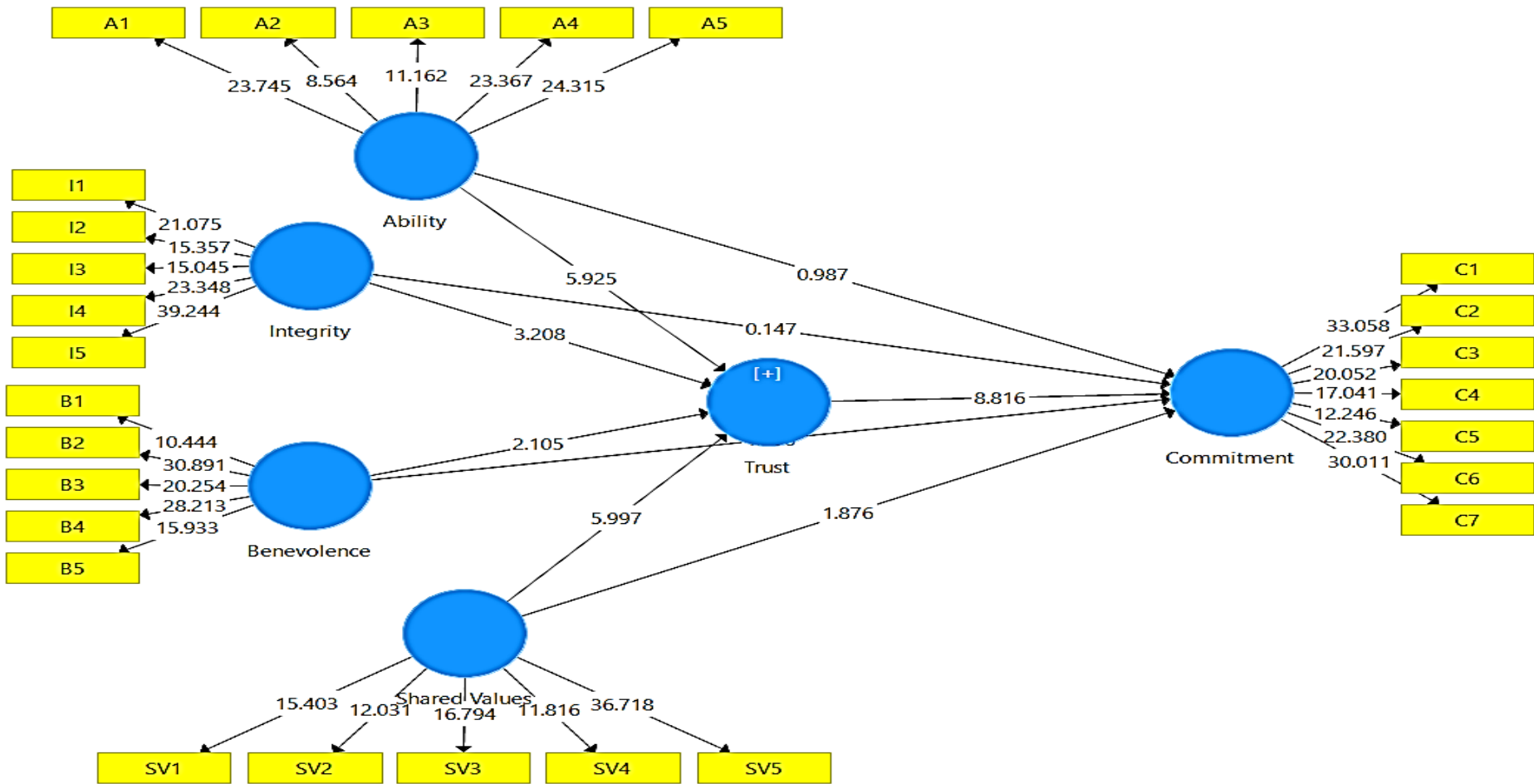


Figure 4.10. Assessment of the Structural Model

4.13.3 Mediating Effect

This subsection focuses on the testing of hypothesis related to mediating effect of trust between independent and dependent variables. The results of the bootstrapping were determined to check for significance. Unlike the approach recommended by Baron and Kenny (1986), the bootstrapping procedure was deemed as a better solution as it can estimate model simultaneously and perfectly suits PLS-SEM as it works for simple and multiple mediator models. Hence, in line with non-parametric PLS path modelling approach, the present study performed the non-parametric bootstrapping procedure (based on t values) to test the significance the mediating effect (Hanseler et al., 2009) presented in Figure 4.2.

The new version of the Smart PLS software 3.2.7 calculates the t-value of indirect effects automatically, so the t-values for indirect effects were not manually calculated. Table 4.14 listed the results of the mediating effect of trust between Ability, Benevolence, Integrity, Shared values and Commitment.

The bootstrapping analysis shows that trust mediated the relationship between ability and Commitment at $\beta = 0.155$, $p < 0.01$ with confidence interval lower limit (LL 5%) 0.102 and upper limit (UL 95%) 0.216, Integrity and commitment at $\beta = 0.10$, $p < 0.01$ with confidence interval lower limit (LL 5%) 0.049 and upper limit (UL 95%) 0.16, Benevolence and Commitment at $\beta = 0.06$, $p < 0.1$ with confidence interval lower limit (LL 5%) 0.017 and upper limit (UL 95%) 0.119, Shared Values and commitment $\beta = 0.183$, $p < 0.01$ with confidence interval lower limit (LL 5%) 0.133 and upper limit (UL 95%) 0.247 respectively. Thus, H6, H7, H8 and H9 were supported.

Table 4.14

Assessment of Structural Model (Indirect Relationship)

	Path	Path Coefficient	T value	P value	Confidence interval		Decision
					5%	95%	
H6	Ability → Trust → Commitment	0.155	4.483	0.000***	0.102	0.216	Supported
H7	Integrity → Trust → Commitment	0.1	3.024	0.001***	0.049	0.16	Supported
H8	Benevolence → Trust → Commitment	0.06	1.934	0.027*	0.017	0.119	Supported
H9	Shared Values → Trust → Commitment	0.183	5.323	0.000***	0.133	0.247	Supported

Note: “Critical t-values at*1.65 (significance level=10%), **1.96 (significance level=5%) and ***2.57 (significance level=1%)”.

4.13.4 The Results of Hypothesis Testing

The relationships path coefficient and level of significance were used to test the hypotheses. The data analysis findings were used to identify the hypotheses as supported and not supported. Table 4.15 provides a description of the hypotheses which were tested in the study. In total 9 (Nine) direct and indirect hypotheses from the research framework were tested. Out of the total of 5 direct hypotheses, 3 were supported. Likewise, 4 hypotheses were found supported out of a total of 4 indirect hypotheses.

Table 4.15

The summary of the hypotheses tested.

	Relationship	Decision
H1	There is a positive relationship between Ability and commitment	Not Supported
H2	There is a positive relationship between Integrity and commitment	Not Supported
H3	There is a positive relationship between benevolence and commitment	Supported
H4	There is a positive relationship between shared values and commitment	Supported
H5	There is a positive relationship between Trust and commitment	Supported
H6	There is a mediating role of trust between Ability and Commitment	Supported
H7	There is a mediating role of trust between integrity and Commitment	Supported
H8	There is a mediating role of trust between benevolence and Commitment	Supported
H9	There is a mediating role of trust between shared values and Commitment	Supported

4.13.5 Coefficient of Determination (R^2)

The study's primary objective was predictions, therefore the theoretical model's goodness was developed coefficient of determination (R^2) of the dependent variable and the significance of path estimates (Chin, 2010). The R^2 value determines the sum of variance on the dependent variable that is described by all the independent variables pathing to it (Hair et al., 2014). The R^2 values for each dependent variable are shown in Table 4.16. Recommended value for R^2 (Cohen, 1992) is between 0.02-0.12 low, 0.13-0.25 moderate, and 0.26 above substantial. Nonetheless, these figures (Hair et al., 2014) qualified, indicating that high R^2 depends on particular research background. All of the endogenous variables resulted in substantial effect. The R^2 is 0.597 (Trust) and 0.642 (Commitment) for two dependent variables.

Table 4.16

Coefficient of determination (R^2)

Dependent variable	(R^2)	R^2 Effect
Commitment	0.642	Substantial
Trust	0.597	Substantial

Note: “ R^2 0.02-0.12 low, 0.13-0.25 moderate, and 0.26 above substantial”

The dependent variable commitment in Table 4.16 has shown the R^2 of 0.642, indicating that the independent variables explain the 64.2% of the total variance. Similarly Trust showed the R^2 of 0.597 which means independent variables Ability, Integrity, Benevolence, Shared values together explain the 59.7 percent of total variance in trust.

4.13.6 Effect Size (f^2)

The study also calculated all variables' effect size. Sullivan and Feinn, (2012) concluded that the study findings would contain both statistical significance (P-value) and substantive significance. Hair et al. (2014) proposed that R^2 should be investigated when the model omits an independent variable to measure the effect size (f^2), which describes the substantive impact of the omitted variable on dependent variables. Commonly used criteria for effect size was provided by Cohen (1992), which is 0.02, 0.15, and 0.35, respectively reflecting small, medium, and large effects. Researchers concluded, however, that small-effect size does not mean the variable is unimportant. They also concluded that researchers should carefully estimate the effect size based on their knowledge and study method rather than merely comparing it to the standard values given by Chin, Marcelin, & Newsted, (2003); Green (1991) and Preacher & Kelley (2011). The effect size of the variables is shown in Table 4.17.

Table 4.17

Effect Size (f^2) of Study Variables

	Commitment	f^2	Trust	f^2
Ability	0.003	No	0.117	Medium
Benevolence	0.063	Small	0.020	Small
Integrity	0.000	No	0.042	Small
Shared Values	0.020	small	0.119	Small
Trust	0.333	Medium		

Note: “ f^2 0.02 (Small), 0.15 (Medium), and 0.35 (large)”

4.13.7 Predictive Relevance (Q^2)

In addition to looking at the magnitude of Q^2 , the predictive sample reuse test, also known as the Stone-Geisser's (Q^2), can be used as a criterion for predictive relevance. Henseler et al. (2016) used the methodology to determine their research model's predictive potential. Based on blindfolding procedure, Q^2 evaluates a model's predictive validity through PLS. Q^2 values above zero indicate that exogenous variables have predictive significance for dependent variables (Hair et al., 2014), provided that Q^2 values were above zero for all Two dependent variables. Table 4.18 displayed the predictive relevance of dependent variables.

Table 4.18

Results of Predictive Relevance (Q^2)

Dependent Variables	Predictive Relevance (Q^2)
Commitment	0.298
Trust	0.281

4.14 Summary

Data analysis was carried out in this chapter. The researcher ensured that the data was clean and ready for analysis. The data was screened to identify missing data, outliers, normality, and common method variance using IBM SPSS 24. After that, the structural equation model test was performed in SmartPLS version 3.2.7 in order to examine the hypotheses that were developed in Chapter Two. Through the application of bootstrapping, the mediating effect was also tested as part of comprehensive model. The findings were addressed in depth in the final chapter and analysed whether the present study had accomplished its objectives.

CHAPTER 5

DISCUSSION AND CONCLUSION

5.1 Discussion on Findings of Phenomenon One

The present study explores the impact of NSCI on the trust and commitment from the perspective of top management of the IB's and shariah scholars working with IB's. To achieve the aims of the present study, a qualitative approach is used to achieve the objectives that were determined in the previous chapters. In this chapter, study results are explained. This chapter debates data findings in detail.

5.2 Overview of the Research

The research aimed at investigating sources of NSCI, Treatments to address NSCI, and the impact of NSCI on the customers' trust and commitment from the perspective of the top management and shariah scholars providing their services to IB's in Pakistan. Total of 6 interviews were conducted. This chapter discussion is structured based on the following research objectives:

- RO1: To identify the sources of Islamic banking activities that lead to non-Shari'ah compliant income (NSCI).
- RO2. To explore on the treatments of Non-Shari'ah Compliant Income (NSCI).
- RO3: To explore the impacts of NSCI on customer commitment toward the bank services from the top management of bank perspective.

Respondents for this study were from the three IBs. Data were extracted from semi-structured in-depth interviews. Three respondents were from the top management and three were from shari'ah department of the IB's.

5.3 Discussion of the Results

For all the research objectives in this research, detailed explanations are delivered in this section. The explanations assist in answering the three research questions. Hence, complete discussion is presented in the following sub-sections to clarify the reasons after the findings of this study.

5.3.1 The sources of Islamic banking activities that lead to NSCI

According to the results there is consensus between the shari'ah scholars and top management regarding the definition of the NSCI that any income which is generated/received from the sources which are against the guidelines and rulings set by the Shari'ah committee will be considered as NSCI for Islamic banking. This result is in lined with the previous studies where different scholars define NSCI in the similar way (Derigs & Marzban, 2008a; Hanefah, Kamaruddin, Salleh, Shafii, & Zakaria, 2020a; Nor & Sawari, 2020). There is a robust literature available related to the implementation of shariah governance (Aslam & Haron, 2020; Nomran & Haron, 2020) there was few studies available related to specifically types of sources which lead to NSCI. Results indicated that there are multiple types of sources which can lead to inclusion of NSCI in IB's income. This study found almost 18 sources which can lead to NSCI in IB's i.e. benefits received to banker, cash back favours, dividend income from conventional business, income from casinos, income from gharar, income from gambling, investment or financing in firm involved in NSCI, late payment charges, dealer insurance, auto finance umbrella, contradictory transactions against shariah law, interest based transaction, investment of financing in addictive drug or alcohol, involvement of riba, penalty charge for credit sale, contract against

shariah law, income from transaction that is against shariah, and income from tracker company.

5.3.2 The treatments of Non-Shari'ah Compliant Income (NSCI).

NSCI events are generally on a case-by-case basis, and they contain documentation, language, and transactions in addition to money exchanges. It might also be caused by audit dysfunction and an inefficient governance structure (Paino et al., 2010; Alam, 2013). Failure to adhere to Shariah governance and to obtain Shariah Committee permission for a certain business, for example, may result in NSCI. Previous studies mainly focused on the income which dropped into the charity account (Lahsasna, 2014; Omar & Hassan, 2019; Reyad, Chinnasamy, Madbouly, & Badawi, 2020). The current study focused on the three main points involved in the treatment of the NSCI.

First step in the treatment of the NSCI is detection of the NSCI. The NSCI detection and decision are the duty of the shari'ah department, according to evidence gathered during the interviews. The findings of the in-depth interviews also revealed that NSCI detection is a continual process that may be carried out every quarter or on a monthly basis, depending on the bank's senior management's commitment to shariah compliance in any Islamic bank. Furthermore, any NSCI discovered during the shari'ah audit becomes the responsibility of the relevant product manager and connected high-ups must justify such revenues. Second most important step is the Treatment of the NSCI which is declared after the audit from the shari'ah department. According to the findings of in-depth interviews, there are two major treatments for the NSCI that has been discovered. The first is that they divert NSCI to a charity account, which is the most usual and popular option for disposing of such revenue or purifying the IB's

income. The second approach, on the other hand, is to distribute the NSCI to the clients. This approach is not widely used, and banks do not disclose this treatment in their annual financial statements. Figure 4.9 shows the process of Detection and treatment of the NSCI.

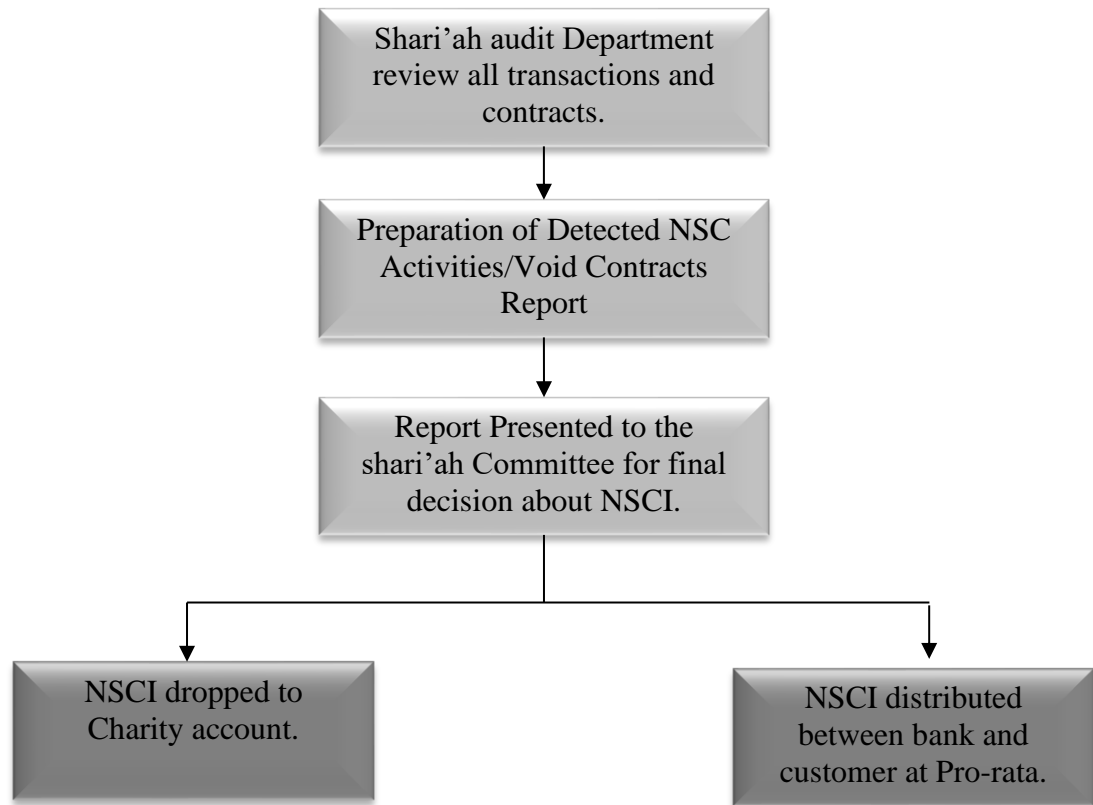


Figure 5.1. Process of detection and treatment of the NSCI

Source: Author 2021

Finally, after detection and treatment of the NSCI it is very important to draw future action and plan to avoid such events. According to the BNM (2017) after the Shariah Committee has determined that it is the Actual SNC, all operations must be halted immediately, and no other similar business, affair, or activity may be undertaken. According to the analysis of the in-depth interviews of the experts it was found that the daily shari'ah department issues advisories and circulars. Also, bank management provides training and organizes workshops from time to time with the

collaboration shari'ah department. Figure 5.2 shows the process future planning to avoid NSCI.

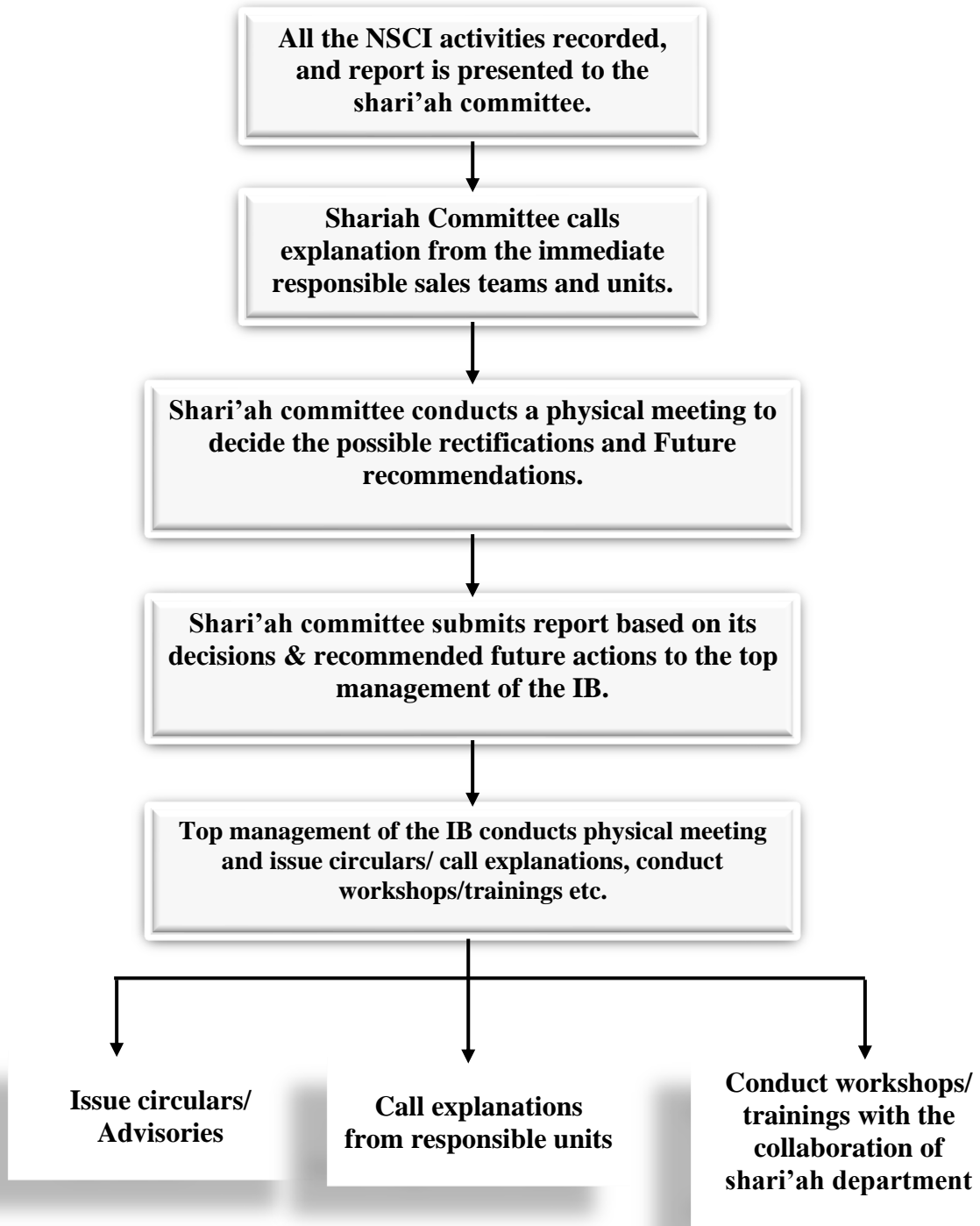


Figure 5.2. The process of future planning

Source: Author 2021

According to the finding of the current study all the shari'ah department is responsible for the conducting the shari'ah review. Current study also found that business units or, the respective process owners will be responsible for the future planning to avoid NSCI events in the bank operations and transactions.

5.3.3 The impact of NSCI on customer commitment toward the bank services from the top management of bank perspective.

Non-shariah compliant IBs could give rise to negative trust and confidence of customers because it is against the religious principles and teachings. This does not stand connected with the concept of avoiding or refraining from Riba. Fianto, Gan, Widiastuti, and Sukmana (2020) mentioned that consumer behaviours are an evolving phenomenon. This is because the relationships of the organization with others are important to maintain functional levels of performance. Brand image of such banks are influenced negatively, and they do not sustain in terms of religiously inclined customers. This is because they value service quality, which is clearly not maintained if it is a non-shariah compliant bank.

Customers' trust and commitment is greatly influenced by those operations of IBs that comply with the principles of Shariah. This is due to the fact that Muslim people are encouraged to use services of those specific banks that reflect compliant with Islamic Laws in their operations. Bintoro (2021) has mentioned that Shariah principles address people to embrace humanitarian approaches in their daily doings.

Financial information is critical for shareholders and depositors in Islamic banking systems when making investment choices. Non-compliant Shariah income is an indicator for SNCR (Basiruddin & Ahmed, 2017). There is a different opinion of the experts about the need to disclose NSCI to the customers. Based on the in-depth analysis of the interview researcher found that there is a difference of opinion between top management and the shari'ah department. As per the opinion of the top management respondents there is no need to disclose NSCI to the customers until there is a dire need. Despite Shariah noncompliant income disclosure instructions, reports do not offer any "detailed information" about Shariah noncompliant income and its sources (Ali & Hassan, 2019; Oz et al., 2016; Rosman, Azmi, & Amin, 2017).

According to the current research, during in-depth interviews with the top management and shari'ah scholars of the IBs, the researcher observed non-shariah compliant IBs could give rise to negative trust and confidence of customers because it is against the religious principles and teachings. The researcher also observed that there is a difference of opinion between top management and shariah scholars about the disclosure of NSCI with customers. As per the findings of the research, it is the responsibility of the bank management to communicate with customers about the NSCI and its treatment, but bank management does not communicate about that income until it is related to the "late payments". The bank does not share information about NSCI generated from "void transactions".

5.3.4 To explore the impact of non-shari'ah income on customer of Islamic bank commitment and trust.

According to the current research, during focused group interviews with Islamic bank customers, researcher observed that most of the customers are not aware about

existence of NSCI in Islamic bank. Only very few knew about NSCI existence in Islamic bank. Researcher also observed that NSCI impact customers Trust negatively which ultimately lead to less commitment of customers towards Islamic bank. Customers either switch to other Islamic bank ore totally left Islamic banking and move to conventional banking.

Islamic banking is based on the Islamic shari'ah. Any activities which cause inclusion of NSCI will lead to dissatisfied and less committed customers which is supported by different scholars Hoq, M. Z., Sultana, N., & Amin, M. (2010), Tabrani, M., Amin, M., & Nizam, A. (2018), Suhartanto, D., Gan, C., Sarah, I. S., & Setiawan, S. (2019). Failing to comply with Shari'ah by full-edged Islamic or subsidiaries may have an effect on a bank's sustainability and reputation. More detailed disclosures in these areas are critical to gain trust and commitment of the customers.

5.4 Discussion on Findings of Phenomenon Two

The present study explores the relationship between exogenous variables Ability, integrity, benevolence, shared values, trust and commitment. To achieve the aims of the present study, a quantitative approach is used to verify the relationships that were hypothesized in the previous chapters. In this chapter, study results are explained. This chapter debates data findings in detail.

5.5 Recapitulation of Findings

The research aimed at investigating the relationship of ability, integrity, benevolence, and shared values of the bank management on the commitment of the customers in IBs. The researcher also aimed at investigating the mediating role of trust

between independent variables (Ability, integrity, benevolence and shared values) and dependent variable (Commitment of the Islamic bank clients).

A total of 341 responses were received back from the 600 electronically administered questionnaires, and this made the response rate of 56.8%. Data were screened for missing data, outliers, normality, and common method variance before data analysis. No missing data was found in this study as electronically administered questionnaire items were mandatory to be answered. In addition, no outlier was found since there were no influential responses. There was also no problem with normality because the evaluation of the variables' skewness and kurtosis showed that the data were not extremely non-normal.

Harman single factor test showed that the largest factor accounted for 34.5 percent of total variance of 92.7 percent for all the study items. Besides, the correlation between the variables was found to be more than 0.90 correlated. Consequently, it was reported that common method bias in this study was not a problem.

Regarding the demographic profile of the respondents, all the respondents of the study were Pakistani nationals. The majority of the study respondents were male (62.8%) and the majority (42.8%) of the respondents were belonged to the age group 25- 31 years. Majority of the study respondents were married (56.9%) and most of them are working with private sector (56.9%). Majority of the study respondents had completed bachelor's degree (46.6%).

Following the PLS-SEM analysis, the measurement model was analysed first, followed by the structural model. The purpose of the evaluation of the measurement model is to evaluate whether the constructs are valid and reliable. The PLS algorithm was applied in order to have outer loadings, composite reliability and AVE of all study

variables. By testing the convergent and discriminant, the validity of the constructs has been evaluated. The convergent value of each construct was inspected by analyzing the outer loadings and AVE. At the same time, the discriminant validity was evaluated by comparing the square root of the AVE with the intercorrelation of the constructs. Besides that, the HTMT value was also evaluated by testing with HTMT_{.90} and HTMT_{.85} parameters. The bootstrap 90 percent of HTMT's trust interval was also tested to decide if the value of 1 is between the confidence interval. Meanwhile, by reading the composite reliability of each construct, the reliability of the constructs was inspected. The evaluation of the measurement models demonstrated a sufficient level of convergent validity, discriminant validity, and reliability.

Next, to evaluate the hypothesized relations between the variables, the structural model was inspected. As part of the structural model, collinearity assessment was tested, and it was found that collinearity in this analysis was not a problem. By running the PLS algorithm and bootstrapping, the R^2 , path coefficients, t-values, and the bootstrapping confidence intervals were gained. Out of a total of 9 hypotheses, 7 hypotheses were supported. Also, the direct effect sizes were analysed in order to enrich the statistical significance of the research. The model's predictive relevancy was examined, and the model was shown to be predictively relevant in this analysis. In addition, the Q^2 effect was measured to assess the degree of the predictive relevance of the exogenous constructs to a particular endogenous construct.

In testing the direct effect relationship between ability, integrity and commitment, the findings of the data analysis showed that the Ability and integrity don't have a direct relationship with Commitment. Furthermore, in testing the direct effect relationships between benevolence shared values, trust and commitment, the

findings of the data analysis showed that the benevolence shared values and trust have a direct relationship with Commitment.

The indirect effects were also examined after analysing the direct effects. In testing mediating role of trust, it was found that the indirect effect of trust was significant between ability, integrity, benevolence, shared values, and commitment of Islamic bank clients. The results of bootstrapping revealed that trust mediate the relationship between ability, integrity, benevolence, shared values and commitment of Islamic bank clients.

In short, 2 hypotheses were not supported in a total of 9 hypotheses. In the following section, a thorough discussion is conducted based on the results of the analysis and an explanation is given for each supported and non-supported hypothesis.

5.6 Discussion on research findings

For all the relationships examined in this research, detailed explanations are provided in this section. The explanations assist in answering the five research questions, which were tested through 9 hypotheses. Out of the 9 hypotheses, 2 were not supported. Hence, complete discussion of the hypotheses is presented in the following sub-sections to clarify the reasons after the findings of this study.

5.6.1 Discussions on Direct and Indirect Relationships

The direct relationships between the constructs are discussed in this section. This segment addresses the findings of the outcomes of the study's data analysis. This starts with the direct relationships of commitment with ability, integrity, benevolence, shared values and trust.

5.6.2 The Relationship between Ability and Commitment

The first objective of the study examines the relationship between ability of the banks to manage non shariah compliant income and the commitment of the customers towards Islamic banking in Pakistan. The findings from the study revealed that H1 was not supported. It means that ability of the management is not directly related to commitment of the clients. Previous studies mentioned having ability to manage is important but if customers do not believe or management is unable to convey/present to customers, it might not have effect on customers commitment (Ball, Coelho, & Machás, 2004; Fang et al., 2014)

The results of the study imply that employees working in IBs may inherent deficiencies in performing their task which is attributed to a lack of banking and financial knowledge according to shariah principles, which may lead to lack of commitment of the customers towards IBs. In Islamic banking, it is important to build up the trust of the customers first, then to strengthen the confidence that the IBs has the ability to manage operational risk through the Shariah rules and framework (A. A. Abdullah, Sidek, & Adnan, 2012). Muslims, especially from rural areas are attracting towards Islamic banking products such as Murabaha and Mudarabah (Akhtar, 2007). Globally, Murabaha and Mudarabah products are among the fastest growing Islamic finance instruments, because customers have a trust in IBs management that these instruments are in line with shariah laws (H. Dar & Azmi, 2012). Islamic banking growing and establishing deep roots with Muslims in Pakistan, but still not as much as it should be, where it was reported that 97% of the population in Pakistan are Muslims (Pakistan, 2010). It maybe because of lack of knowledge and training about the governing issues of Islamic products and services.

Secondly, in the context of Islamic banking, customers' commitment in IBs may be linked to customers' trust on the products and services they offer (Nomran, Haron, & Hassan, 2018). In Islamic banking, it is necessary to be able to deal with non shariah compliant income but more important is to show to the customers that you are actually able to manage and control non shariah compliant income. This ability of the IBs may develop a trust of the customers in Islamic banking that would eventually lead to customers' commitment. Thus, it is a complete process in which trust serves as a mechanism that leads to customer commitment. Without trust, it might be impossible to gain the commitment of the customers. This study also provides survey evidence that ability of the Islamic bank to deal with non shariah compliant income has a positive effect on trust and trust eventually has a positive influence on commitment to the bank. The positive sign of the estimates shows that the greater the level of ability of the Islamic bank, the higher the level of customers' trust and the greater the level of trust, the higher the level of customers' commitment. All elements of the research propositions are thus firmly supported. This study also reveals that trust acts as a mediator between IBs' ability and customers' commitment. Trust may influence the customers' decisions toward building the long-term relationship with IBs, which in turn can result in committed customers having greater trust on the banks, and this will enhance the long-term relationship even further.

Thus, in the context of the IBs in Pakistan, there is a continuous pressure in the current circumstances, this poses challenges for managerial policies of the IBs aimed at enhancing management ability towards non shariah compliant income as well as convincing the customers that Islamic bank management has an ability to control and manage the non shariah compliant income to enhance commitment of the customers towards IBs in Pakistan.

5.6.3 The Relationship between Integrity and Commitment

The second objective of the study examines the relationship between Integrity and Commitment. The findings from the study revealed that H2 was not supported. It means that Integrity of the management is not directly related to commitment of the clients. Previous studies i.e Nguyen, Leclerc, and LeBlanc (2013), Yasin, (2014) also support this result.

Having great integrity in the context of Islamic banking in Pakistan entails developing a strong compliance system. Banks's desire an effective compliance culture to treat consumers fairly, learned staff, guarantee satisfied shareholders, also to maintain society's trust. Integrity is a powerful operating principle for workforce in the IBs in Pakistan. The acceptance of integrity not only benefit the functioning of the IBs more efficiently, but it is also acknowledged by the customers as mentioned by (Yasin, 2014).

Whereas the absence of "Riba" (interest) in all its forms is a key aspect of the Islamic financial system. Essentially, it seeks to eradicate exploitation and promote a fair society by the proper implementation of Shari'ah principles to the functioning of IBs in Pakistan. IBs employ religious boards constituted of Shari'ah scholars to ensure Shari'ah compliance. The IBs cannot involve in activities that are against shariah laws. Still, the financial statements of Pakistan's IBs revealed the existence of non-shariah-compliant income. To acquire client commitment, it is vital to specify how non-shariah compliance money is processed. Customers will gain trust as a result of the clarification, which may lead to their commitment to IBs.

According to the findings of the current study, the factors that build up trust among the customers in Islamic banking system are major drivers of commitment of

the clients. As a result, managers in IBs should focus more of their efforts on establishing and implementing quality-of-service in compliance with shariah laws.

5.6.4 The Relationship between benevolence and Commitment

The third objective of the study is to investigate the relationship between benevolence and commitment of the clients. One hypothesis (H3) was tested. The hypotheses examined if benevolence is positively related to commitment of the clients.

The findings of the study found that H3 received full support. Benevolence is significantly related to commitment. Data analysis revealed that benevolence has a positive impact on the commitment of the clients. Previous studies have studied the impact of benevolence on the commitment of the customers (Wetzels, de Ruyter, & van Birgelen, 1998; Widana, Wiryono, Purwanegara, & Toha, 2014; Wu, Huang, & Hsu, 2014; Yousaf, Mishra, & Bashir, 2020).

The findings of the current study are supported by Bello Bada and Karupiah (2021), who suggested that benevolence of the bank management can boost the commitment of the clients. This is also supported by Svare, Gausdal, and Möllering (2020) and Wu et al. (2014). This study highlights that the care demonstrated to customers by the management of the banking sector can impact the commitment of the clients. Customers are pleased with the level of care they get from the bank management because it lowers their perceived risk during their financial dealings. The degree of care offered to clients, as well as the honesty of management, has a favourable impact on their awareness of the risk connected with their financial transactions with the bank (Krot & Rudawska, 2016).

5.6.5 The Relationship between shared values and Commitment

The fourth objective of the study is to investigate the relationship between shared values and commitment of the clients. The hypothesis (H4) examined if shared values is positively related to commitment. The findings of the study found that H4 received full support. Shared values are significantly related to commitment. Data analysis revealed that shared value has a positive impact on the commitment of the clients. Previous studies have studied the impact of Shared values on the commitment of the customers (Sekhon, Ennew, Kharouf, & Devlin, 2014; Theron, Terblanche, & Boshoff, 2008).

The findings of the current study are supported by Sekhon et al. (2014), who suggested that shared values of the bank management can boost the commitment of the clients. This is also supported by van Esterik-Plasmeijer and van Raaij (2017), Tabrani et al. (2018) and. This study highlights that Islamic banking is widely perceived to have two benefits over traditional banking. The first is a widespread belief that IBs are given a higher moral standard. They will not take on excessive risk or give outsized incentives to their best bankers. The second point is that earnings are generated by identifiable assets rather than ambiguous mixtures of instruments. Because IBs cannot profit from interest, they rely on linkages to tangible assets such as real estate and equity, charging 'rent' rather than interest. Muslim customers value such considerations just as much. As a result, the findings of our study imply that IBs' shared values are positively associated to customer commitment, because customers also desire to invest in institutions that follow shariah principles.

5.6.6 The Relationship between trust and Commitment

The fifth objective of the study is to investigate the relationship between trust and commitment of the clients. The hypotheses (H5) examined if trust is positively related to commitment. The findings of the study found that H5 received full support. trust is significantly related to commitment. Data analysis revealed that trust has a positive impact on the commitment of the clients. Previous studies have studied the positive impact of trust on the commitment of the customers (R. Haron & Ibrahim, 2020; Tabrani et al., 2018; Theron et al., 2008).

The findings of the study are supported by Tabrani et al. (2018), who indicated that the higher levels of customer trust will significantly impact on high level of commitment of the clients. To put it another way, the findings of this study show that customers become committed to Islamic banking because they believe it is Shariah compliant. This is also supported by M. Amin, Z. Isa, and R. Fontaine (2013), Ponder et al. (2016) and Van Tonder, Petzer, and Van Zyl (2017). According to the findings of this study, trust is critical in the development of commitment, which means that customers who have trust in their banks are more likely to develop commitment and to reduce the number of comparisons with other alternative banking systems.

The findings of the current study imply that Islam places a great value on trust and considers 'trustworthiness' to be a fundamental Muslim principle as mentioned by Iqbal and Mirakhor (2011). As a result, the Islamic banking system's underlying principle of trust can be considered as a representation of trustworthiness, authenticity, fairness, equality, and moral values, all of which are embedded into the positive relation between banks and consumers. With the concept and structure that is incorporated in Islamic banking, it is feasible that trust in the Islamic bank is motivated

by a belief in Islamic principles. As a result, Muslims have a high level of institutional trust in IBs that lead to their commitment in IBs top management.

5.7 Discussion on Indirect Relationships

This section deals with the indirect relationships between the constructs. The section presents the conclusions from the analyses of the study's data analysis. The topic instigates with the mediating role of trust between ability and commitment of clients. The section also focuses on the mediating role of trust between integrity of bank management and commitment of customers This section will also highlight the mediating role of trust between benevolence of the management and commitment of the customers Continues with discussion on mediating role trust between Shared values and commitment of the clients. The conclusions of the findings are based on the research objectives of the present study.

5.7.1 Mediating role of trust between ability and Commitment

In testing the mediating effect of trust between ability and Commitment, H6 hypothesis was developed. To test the mediation hypotheses, we obtained 95% percentile bootstrapping confidence intervals for hypothesized indirect effects using 5000 bootstrap samples. Results indicated that there was indirect effect seen. In testing the mediating role of trust between ability and Commitment, the study supports the hypothesis H6. The results of this study are in line with the previous studies Boateng and Narteh (2016) and R. Haron and Ibrahim (2020).

In the context of the banking sector in Pakistan, Pakistani IBs are in continuous pressure in the current circumstances, this poses challenges for managerial policies aimed at enhancing management ability as well as convincing the customers that

Islamic bank management has an ability to control and manage the non shariah compliant income. According to Newman (2001) ability of the management to manage the financial matters is not always provides surety of the committed customers. Most important is to build trust in the customers about the ability to manage the financial matters which will ultimately lead to committed customers. As per the findings of the study due to the mediation effect of the trust IBs can get the committed customers which is in line with the previous studies (Tabrani et al. (2018); van Esterik-Plasmeijer and van Raaij (2017).

The findings of the current study added new insights to the ability and commitment literature by showing that trust fully improves the commitment of the clients. The interaction of trust between ability and commitment revealed by the study findings reinforces the importance of trust of the customers. The findings of the study suggest that use of ability of the management improve the trust of the clients, which may, in turn improve the commitment of the clients. Trust, in this regard, work as a mechanism through which the management who have high abilities to manage non shariah compliant income could lead to better commitment of the IBs in Pakistan.

5.7.2 Mediating role of trust between integrity and Commitment

Next objective was to test the mediating effect of trust between integrity and Commitment, H7 hypothesis was developed. To test the mediation hypotheses, we obtained 95% percentile bootstrapping confidence intervals for hypothesized indirect effects using 5000 bootstrap samples. Results indicated that there was indirect effect seen. In testing the mediating role of trust between integrity and Commitment, the study supports the hypothesis H6. The results of this study are in line with the previous

studies van Esterik-Plasmeijer and van Raaij (2017), Boatright (2011) and Usman (2015).

Pakistan's IBs are growing at a faster pace. This put pressure on managerial practises aimed at improving management integrity and persuading customers that Islamic bank management is honest and fair in its dealings and operational activities according to shariah compliance. The integrity of management for fair treatment, according to Newman (2001), does not guarantee client commitment. The most important factor is to instil confidence in management's integrity to deal with operational activities fairly, which will result in loyal and committed customers. The study's findings suggest that IBs can gain committed customers through a mechanism of trust, which is consistent with prior research by Tabrani et al. (2018) and van Esterik-Plasmeijer and van Raaij (2017).

Sheikh (2021) mentioned that in Pakistan, the Islamic banking sector already accounts for more than 16 percent of the total banking sector, with growth predicted to reach 20 percent to 25 percent by 2023. It is envisaged that proper implementation of the government's measures will not only allow the Islamic banking industry to flourish more quickly, but also reinforce the foundations of a real Riba-free, Islamic economic system. This again provide evidence that IBs have developed trust in customers, customers are getting attracted towards Islamic banking that would lead to long term benefits of the Islamic banking by enhanced commitment of the clients.

The findings of the current study added to the integrity and commitment literature by indicating that trust increases client commitment. The findings of the study reveal a link between managerial integrity and commitment, proving the importance of consumer trust. According to the findings of the study, management's

honesty increases client trust, which could lead to higher client commitment. In this sense, trust is a means for high-integrity management to handle non-shariah compliant income, resulting in increased commitment from Islamic bank customers in Pakistan.

5.7.3 Mediating role of trust between benevolence and Commitment

To test the mediation hypotheses, we obtained 95% percentile bootstrapping confidence intervals for hypothesized indirect effects using 5000 bootstrap samples. The findings of the study reveal that trust mediated between benevolence and Commitment of customers of IBs in Pakistan. The results showed that trust mediated the relationship between benevolence and Commitment ($\beta= 0.06, p< 0.1$). Thus, H8 received full support in the study. The findings of this study demonstrated that customers who have trust on the benevolence of the Islamic bank management are more committed with IBs. Supported by Trust-Commitment theory by Morgan and Hunt (1994). The findings of the study are supported by A. Hassan and Mollah (2018) that indicated that trust of the customers mediated the relationship between benevolence of the management and commitment of the clients.

In Pakistan, there are a number of banking organisations that provide services in a competitive atmosphere. Many of these businesses are Shariah-compliant. Many banks that aspire to provide Islamic banking are regulated by the State Bank of Pakistan and provide services in accordance with that licence. These banks have a Shariah advisor who certifies the services and products that are provided to customers in accordance with Islamic banking's basic principles. The advisor is also in charge of monitoring and evaluating the items that the banks provide. They are all required to offer Islamic banking as a first-choice banking option in order to assist their consumers in implementing an equitable economic system and establishing a fair and just society.

They also try to supply customers with value-added products and services that are within Shariah's limitations.

Thus, the finding of the current study implies that all the efforts by the IBs in providing shariah compliant product and services in Pakistan may develop a trust in the top management of the banks that would ultimately lead to the commitment of the clients.

5.7.4 Mediating role of trust between shared values and Commitment

The study explored the mediating effect of trust between shared values and commitment. One hypothesis was developed to test the mediating role of trust between shared values and Commitment (H9). To test the mediation hypotheses, we obtained 95% percentile bootstrapping confidence intervals for hypothesized indirect effects using 5000 bootstrap samples. The findings of the study reveal that trust mediated between shared values and Commitment of customers of IBs in Pakistan. The results showed that trust mediated the relationship between benevolence and Commitment ($\beta = 0.183$, $p < 0.01$). Thus, H9 received full support in the study. The findings of this study demonstrated that customers who have trust on the shared values of the Islamic bank management are more committed with IBs which is in line with the prior studies (Dunaetz, Smyly, Fairley, & Heykoop, 2020; Morgan & Hunt, 1994; Nguyen et al., 2013).

Commitment is a continuous wish to maintain a valued relationship with clients. According to different scholars commitment is a psychological motivation of an individual to be in a relationship with an specific objective (Moorman et al., 1992; Morgan & Hunt, 1994). That's why IBs need to give utmost importance to establish a relationship based on the shared values (Curras-Perez & Sanchez-Garcia, 2016).

According to Tabrani et al. (2018) trust plays an important role in maintaining the commitment of the customers with any organization which is also proven in this study findings.

In the country like Pakistan where already Islamic banking went through lots of up and downs in the past Islamic banking working under consistent pressure. Working in a system where conventional (interest based) banking system is well established it is very important to make strong groundings based on the shared values and giving sense of trust to the customers is very important to get the commitment of the customers The findings of this study supported this argument by the mediating role of trust between shared values and commitment of the clients.

5.8 Implications of the study

The present study used qualitative approach to answer the first three research questions for phenomenon one. Furthermore, the study used quantitative approach in phenomenon two to examine the factors that can influence the commitment of the customers IBs. The study also examines the mediating effect of trust between ability, integrity, benevolence, and shared values and commitment in phenomena two. This means that the present study extends the literature on NSCI, its sources, treatment, detection and its impact on customers trust. Besides, the study shed light on the factors such as ability, benevolence, integrity, shared values, and commitment including trust a mediator. Therefore, the present study encompasses the literature on commitment of customers in IBs in several meaningful ways. The results of the study provide both theoretical and practical contributions as follows.

5.8.1 Theoretical implications

From a theoretical perspective, this study tried to fill the knowledge gap in the model of gaining trust-commitment from client of Islamic bank based on independent and mediator variables. From the literature review, the issues regarding reasons that related to risk of Islamic bank is widely examine from the perspective of risk; however, there is a dearth of studies that cover on the issue of NSCI in the perspective of qualitative data. This study enhances the richness of the phenomenon especially from the top management of bank that involves in the bank operational activities. Second, the present study contributes on the trust-commitment theory which examine on the customers of Islamic Bank on the issue of NSCI in the Islamic Bank.

The findings of the study revealed that ability, integrity, benevolence and shared values have a direct and indirect effect on commitment of customers via trust. These findings provide a gateway to future research to examine the factors that can improve the commitment of the customers in other contexts to explore which factors influence commitment the most.

Similarly, the two factors ability and integrity were found insignificant with commitment, the results were discussed in detail. The findings also revealed that ability and integrity were significant to the commitment via trust. The possible reasons maybe employees working in IBs may inherent deficiencies in performing their task which is attributed to a lack of banking and financial knowledge according to shariah principles, which may lead to lack of commitment of the customers towards IBs. Thus, the present study provided the empirical evidence that the ability and integrity of the IBs top management may result in commitment of the customers if trust is built among customers.

Studies on mediating effect of trust in the Pakistani Islamic banking context are still in its preliminary stage. The present study offers meaningful contributions in the field of Islamic banking and finance as it investigates the four factors that can influence the trust of customers which may lead to commitment of the customers.

The findings of the present study suggest that trust is a mechanism with which factors of ability, integrity, benevolence and shared values could contribute to commitment of the customers. The results of the present study contribute to trust-commitment theory which is based on the premise that the "trust" factor is the mediator between multiple latent factors and commitment.

The findings of the study also shed light on the non shariah compliant income in Islamic bank in Pakistan. The findings based on the in-depth interviews showed that any income which is generated/received from the sources which are against the guidelines and rulings set by the Shari'ah committee will be considered as NSCI for Islamic banking. The findings of in-depth interviews with the top management and shariah scholars identified one of the most important outcomes related to sources of NSCI. Almost eighteen (18) identified types of sources of NSCI including benefits received to banker, cash back favours, dividend income from conventional business, income from casinos, income from gharar, income from gambling, investment or financing in firm involved in NSCI, late payment charges, dealer insurance, auto finance umbrella, contradictory transactions against shariah law, interest based transaction, investment of financing in addictive drug or alcohol, involvement of riba, penalty charge for credit sale, contract against shariah law, income from transaction that is against shariah, and income from tracker company. Such sources were not mentioned in previous studies as per limited knowledge of the author. This is the theoretical contribution of the present study that the findings not only identified the

sources but also provided the treatment, detection and impact of NSCI. The study adds to the body of knowledge related to NSCI, sources of NSCI, treatment & detections and impact of NSC as well.

5.8.2 Practical implication

In addition to the theoretical implications, several other implications can be drawn for practitioners and policymakers as well. Further, several suggestions are also emphasized that can be undertaken to improve the commitment of the customers in IBs in Pakistan.

From the practical perspective, it is anticipated that the issue of NSCI might affect the sustainability of the Islamic bank trust-commitment. To ensure that customers of Islamic bank continue to trust and remain committed to the Islamic Bank service providers, IBs need to be sustainable. The output of the research is expected to give clear indication to the top management of Islamic Bank and also to the students especially on the issue of NSCI.

Shariah compliance is vital for the success of the IBs in Pakistan, the factors that positively influence the commitment of the customers in the IBs, particularly with trust are pertinent to be investigated particularly within the context of Pakistan. Responding to these urgencies, maybe first and foremost practical implication of the present study. Regarding the research appeals, the present study extends the explanations by examining how the five important factors (ability, integrity, benevolence, shared value and trust) affect the commitment of customers. Additionally, the mechanism of trust in association between ability, integrity, benevolence, shared value, in influencing the commitment of the customers in IBs in Pakistan.

Policy makers should be aware that ability, integrity, benevolence and shared values are essential factors in getting trust of the customers in IBs in Pakistan because these factors positively influence the commitment of the customers in IBs.

Since commitment of the customers is the most important issue in the Islamic banking industry's success, the findings of the study can serve as a guide for bank management to recognize ability, integrity, benevolence and shared values as necessary ingredients for the commitment of the customers. Banking is a service-oriented industry, with employees providing services to customers. As a result, it is important for the management to provide sufficient knowledge, skills and training to the employees regarding shariah guidelines, rules and regulations in delivering services will bring in and retain more customers, contributing to the banking sector's overall profitability. As a result, the study's results are useful to policymakers and HR for successful interventions and policy implementation of factors to increase commitment of customers for an overall productivity of the banking industry.

The outcome of this study would provide knowledge and help policy makers to detect, treat and identify the sources of the NSCI in a scientific way. Thus, this study has both theoretical and practical contributions.

5.9 Limitations

Although the research design has been carefully crafted to meet the research objectives based on the critical variables of the study, the current study has limitations. First, the researcher finds it is difficult to distribute maximum questionnaires to all four provincial capitals due to the Covid-19 pandemic. Due to strict restrictions in the four provincial capital cities due to the Covid-19 pandemic, the researcher could only distribute 150 questionnaires each. Despite this, the researcher received a sufficient

response rate from all of the provincial capitals. Furthermore, due to travel restrictions, the present study researcher could not collect data from customers in person. As a result, the researcher chooses to collect data via an online administered questionnaire, which is also a valid and acceptable data collection method.

The study's second limitation relates to the gender diversity of the customers in the banking sector. There were difficulties in selecting a truly representative sample. Data revealed that 62.8% were male respondents. It is worth noting that the respondents within the study were almost exclusively men, and prior research has suggested some relevant differences between men and women. It is, therefore, to note that the findings of the present study should be interpreted with caution when inferring the results in cultural and economic contexts.

Nevertheless, the results mentioned earlier in this chapter, despite the study's limitations, provide novel clues and a better understanding of the relationship ability, integrity, benevolence, shared values, trust and commitment of customers in IBs in Pakistan.

5.10 Future recommendations

The present study may also provide unique results and further form the basis for future research work, considering the limitations facing the current study, like other studies. The potential avenues for future studies are explored in this section. First, potential researchers are encouraged to test the model in a setting where the generalizability of the results would be plausible. It is also important, in comparison with other countries and cultural settings which show differences in customers' commitment in organizations, to test the implementation of the model from a global point of view. In this respect, the results of the current study indicate that future studies

are concentrating on the acceptability of the model in other developing and developed economies. In addition, local researchers and practitioners are required to validate research in other Islamic sectors in Pakistan. Besides, this is a recommendation to other Muslim countries that the findings of the current study should be cross validated by researchers to assess the generalizability and validity of the results.

The study's results revealed that ability and integrity have a no direct effect on commitment of the customers. On the other hand, all the factors have an indirect positive effect on commitment of the customers via trust. These results pave the way for future studies by recommending that the factors of the study be tested in order to gain a better understanding of the constructs and to learn more about their nature, strength, and direction of the relationship.

Also, the findings of the study revealed difference of opinion among top management of the IBs and the shariah scholars. As per shariah scholars it is ethically correct to reveal the sources of NSCI to the customers to gain their trust and commitment. However, according to top management of the IBs, the disclosure of the sources of NSCI to customers would have an adverse effect on their trust and commitment in IBs. Thus, future studies are suggested to study rationale behind difference of opinion among top management and shariah scholars in IBs in Pakistan.

5.11 Conclusion

As Pakistan adopts a dual banking system, Islamic banking industry continuously grows and pushes for customers' trust and commitment to attract interest of more Muslim customers. This may lead many Islamic financial institutions to develop the products and services that must comply with Shariah principles.

The main objective of this study is to analyse the impact of ability, integrity, benevolence and shared values on commitment of the customers. As trust plays the mediating role among independent and dependent variables, the influence of trust between ability, integrity, benevolence and shared values and commitment is also examined. The underlying theory for the phenomenon two of the present study is trust-commitment theory. Since the research uses the factors that can lead to trust of the customers which ultimately leads to the commitment of customers in IBs. Most of the hypotheses were supported by the results of the analysis.

In this study, ability, integrity, benevolence and shared values explained 64.2% of the variance in trust. Based on Cohen's (1988) criteria, the variance explained for a dependent variable more than 26% is considered large, more than 13% is considered medium, and more than 2% is considered small. Hence, the variance explained in trust by the ability, integrity, benevolence and shared values is considered as large and substantial. Besides, the variances explained in commitment are also considered large and substantial. The result shows the significance of study variables and their influence on the commitment of the customers.

Conclusion that can be drawn from the six interviews from Islamic bank shariah scholars and top management, almost 18 sources of NSCI were detected. Findings of the interviews also revealed that there is a difference of opinion between top management and shariah scholars about the disclosure of NSCI with customers. As per the findings of the research, it is the responsibility of the bank management to communicate with customers about the NSCI and its treatment, but bank management does not communicate about that income until it is related to the "late payments". The bank does not share information about NSCI generated from "void transactions". In addition to that based on the opinions communicating with the customers about the

NSCI is a need-based activity and it depends all on the top management decision whether to communicate or not.

The present study also provides theoretical and practical implications that will be beneficial to HR, policymakers of the Islamic banking industry and also to academicians. For academics, the study provided empirical evidence for the application of trust-commitment theory in explaining the commitment of the customers. The study also provided recommendations for future research that would help in gaining trust of the customers in other contexts. The present study is hope for policymakers and HR to consider the four factors (ability, integrity, benevolence and shared values along with the mediating role of trust) that can positively affect the commitment of the customers to elevate the banking industry of Pakistan.

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APPENDICES

Appendix A: Interview questions



Assalamu' alaikum warahmatullahi wabarakaatuh.

Dear respected Ms/Sir,

We invite you to participate in this research survey with the following title “**The Impact of Non-Shari’ah Compliant Income Gain of Islamic Banks in Pakistan: Trust As A Mediator to Commitment of Customers**”.

Thank you for your willingness to spare the time. This study is conducted to fulfill the requirements of PhD Thesis. The purpose of this research is to examine the impact of Non-Shari’ah Income to Islamic Bank customers. There are various factors that influence the commitment of the customers and the present study is keen to understand this phenomenon from the perspectives of Non-Shari’ah Compliant income from the Islamic bank activities and its impact on the customer commitment towards Islamic Bank.

Your participation is strictly voluntary, and you may refuse to participate at any time. If you choose to participate in this interview all information provided in this interview will in no means reflect the identity of the participants. It will be kept strictly confidential and will be used only for this research.

If you have any doubts, questions or in needs of clarification, please do not hesitate to contact the main researcher, Muhammad Usman. Your kind cooperation in this study is highly appreciated. Thank you.

Yours sincerely,

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Interview questions:

The following are the interview questions.

1. The sources of non shariah compliant income (NSCI)
 - 1.1. What is NSCI?
 - 1.2. How does NSCI exist in Islamic banks?

2. Treatment of Non shariah compliant income
 - 2.1. How does the bank detect Non shariah compliant income?
 - 2.2. What is the treatment to non shariah compliant income?
 - 2.3. What is the future action to avoid Non shariah compliant income?

3. Implications of Non shariah compliant income on Islamic bank
 - 3.1. What is the reaction of your customers?
 - 3.2. How do you communicate with your customers?
 - 3.3. Do you think the Non shariah compliant income should be disclosed to client?
 - 3.4. What is the impact of Non shariah compliant income on client commitment and trust?

Appendix B Questionnaire



Assalamu' alaikum warahmatullahi wabarakaatuh.

Dear respected respondent,

We invite you to participate in this research survey with the following title “**The Impact of Non-Shari’ah Compliant Income Gain of Islamic Banks in Pakistan: Trust As A Mediator to Commitment of Customers**”.

Thank you for your willingness to spare your time in answering this questionnaire. This study is conducted to fulfill the requirements of PhD Thesis. The purpose of this research is to examine the impact of Non-Shari’ah Income to Islamic Bank customers. There are various factors that influence the commitment of the customers and the present study is keen to understand this phenomena from the perspectives of Non-Shari’ah Compliant income from the Islamic bank activities and its impact on the customer commitment towards Islamic Banks.

Your participation is strictly voluntary and you may refuse to participate at any time. If you choose to participate in this survey, we request that you read the instructions provided carefully and to respond as accurately as possible.

All information provided in this survey will in no means reflect the identity of the participants. It will be kept strictly confidential and will be used only for this research.

If you have any doubts, questions or in needs of clarification, please do not hesitate to contact the main researcher, Muhammad Usman. Your kind cooperation in this study is highly appreciated. Thank you.

Yours sincerely,

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SECTION A: DEMOGRAPHIC INFORMATION

Instruction: Please tick (✓) the appropriate answer.

1. Age

- 18-24
- 25- 31
- 32 – 39
- Above 40

2. Gender

- Male
- Female

3. Marriage status

- Single
- Married
- Divorcee

4. Nationality

- Pakistani
- non-Pakistani, please specify _____

5. Religion

- Muslim
- Non-Muslim, please specify _____

6. Level of education

- High School
- College diploma
- Bachelor's degree
- Master's degree
- Doctoral degree
- Others, please specify _____

7. City

- Lahore
- Karachi
- Peshawar
- Quetta

8. Employment sector
 Government
 Private
 Self-employed
 Others, please specify _____

SECTION B: COMMITMENT OF ISLAMIC BANK CUSTOMER

Please tick (√) which best indicates your response using the scale below.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

Please rate the importance of each information below that would best to your opinion.

ABILITY						
1	I believe that Islamic banks have a very good performance in managing the bank activities according to Shari'ah requirements.	1	2	3	4	5
2	I believe that Islamic banks are able to compete in the banking sector.	1	2	3	4	5
3	I believe that Islamic banks are managed by top management who are equipped with Islamic finance knowledge.	1	2	3	4	5
4	I believe that Islamic banks have enough experience to provide quality services according to Shari'ah requirements.	1	2	3	4	5
5	I believe that Islamic bank is able to provide services according to Shari'ah requirements.	1	2	3	4	5
INTEGRITY						
1	I believe that Islamic banks always have a commitment to eliminate the Shari'ah risk into the bank operation.	1	2	3	4	5
2	I believe the Islamic bank will insure to the customer with free non-Shariah income gain.	1	2	3	4	5
3	I believe that Islamic banks are always honest in financial transactions without involving with non-Shari'ah activities.	1	2	3	4	5
4	I believe that Islamic banks have lawful source of funds to invest in Shari'ah compliant activities.	1	2	3	4	5
5	I believe that Islamic banks have always acted with full responsibilities to avoid non-Shari'ah investment activities.	1	2	3	4	5
BENEVOLENCE						
1	I believe that Islamic banks keep best interests of customers without compromising the requirement of Shari'ah.	1	2	3	4	5
2	I believe that Islamic banks are genuinely concerned with the needs of the customer according to Shari'ah law.	1	2	3	4	5
3	I believe that Islamic banks provide Shari'ah law treatment to their customers.	1	2	3	4	5

4	I believe that Islamic banks will consider customer's welfare as well as their own in decision making.	1	2	3	4	5
5	I believe Islamic banks keep customers best interests in mind.	1	2	3	4	5
SHARED VALUES						
1	Islamic banks have the same values as I do with regard to concern for others according to Shari'ah law.	1	2	3	4	5
2	The objective of Islamic banks must be based on the principle of Shari'ah.	1	2	3	4	5
3	Islamic banks held and promoted the same values as I do.	1	2	3	4	5
4	Islamic banks emphasise on the needs of stake holders.	1	2	3	4	5
5	Islamic banks values fits well with the values of Shari'ah law.	1	2	3	4	5
TRUST						
1	Islamic banks give me a feeling of trust to the top management of Islamic bank.	1	2	3	4	5
2	Islamic banks gives me a trustworthy impression.	1	2	3	4	5
3	I have trust in Islamic bank top management to manage Muslim assets.	1	2	3	4	5
4	Islamic banks can be relied upon to keep promises.	1	2	3	4	5
5	Islamic banks are trustworthy.	1	2	3	4	5
6	I have full confidence in Islamic banks.	1	2	3	4	5
7	Islamic banks are truly concerned with Islamic principles	1	2	3	4	5
8	I believe the products and services offered are based on Islamic Shariah	1	2	3	4	5
9	I believe that Islamic banks keeps its promises	1	2	3	4	5
COMMITMENT						
1	I feel committed to Islamic bank top management.	1	2	3	4	5
2	I am a loyal Islamic bank customer.	1	2	3	4	5
3	Islamic banks top management commitments have a great personal meaning to me.	1	2	3	4	5
4	My preference for the Islamic bank would will remain the same.	1	2	3	4	5
5	I will strongly recommend others to use Islamic banks services.	1	2	3	4	5
6	I feel strong sense of belonging with Islamic banks	1	2	3	4	5
7	I feel strong attachment with Islamic banks	1	2	3	4	5

THANK YOU FOR YOUR KIND COOPERATION AND TIME

Appendix C

Descriptive Statistics: Mean, Standard Deviation, Minimum and Maximum values

	Missing Data	N	Mean	Std. Dev	Minimum	Maximum
A1	0	341	4.17	0.749	3	5
A2	0	341	4.24	0.763	2	5
A3	0	341	3.98	0.725	2	5
A4	0	341	3.96	0.771	2	5
A5	0	341	4.06	0.787	2	5
I1	0	341	3.84	0.696	2	5
I2	0	341	3.88	0.692	2	5
I3	0	341	3.89	0.863	2	5
I4	0	341	3.93	0.762	2	5
I5	0	341	3.91	0.753	2	5
B1	0	341	3.89	0.704	2	5
B2	0	341	3.92	0.719	2	5
B3	0	341	4.1	0.785	2	5
B4	0	341	3.95	0.658	2	5
B5	0	341	4.06	0.702	2	5
SV1	0	341	3.92	0.725	2	5
SV2	0	341	4.09	0.718	2	5
SV3	0	341	3.91	0.703	2	5
SV4	0	341	3.83	0.696	2	5
SV5	0	341	3.97	0.745	2	5
T1	0	341	4.08	0.778	2	5
T2	0	341	4.14	0.751	2	5
T3	0	341	4.03	0.749	2	5
T4	0	341	3.98	0.69	2	5
T5	0	341	3.99	0.799	1	5
T6	0	341	3.93	0.863	2	5
T7	0	341	3.93	0.819	2	5
T8	0	341	3.95	0.807	2	5
T9	0	341	4.06	0.808	2	5
C1	0	341	3.92	0.744	2	5

C2	0	341	3.92	0.804	2	5
C3	0	341	3.96	0.764	2	5
C4	0	341	4.01	0.799	2	5
C5	0	341	4.17	0.743	2	5
C6	0	341	3.96	0.798	2	5
C7	0	341	3.94	0.8	2	5

Appendix D

Missing Data

	A1	A2	A3	A4	A5	I1	I2	I3	I4	I5	B1	B2	B3	B5	SV1	SV2
N Valid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Missing	341	341	341	341	341	341	341	341	341	341	341	341	341	341	341	341

	SV3	SV4	SV5	T1	T2	T3	T4	T5	T6	T7	T8	T9	C1	C2	C3	C4
N Valid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Missing	341	341	341	341	341	341	341	341	341	341	341	341	341	341	341	341

	C5	C6	C7
N Valid	0	0	0
Missing	341	341	341

Appendix E

Demographic Profile

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	135	39.6	39.6	39.6
	2	146	42.8	42.8	82.4
	3	46	13.5	13.5	95.9
	4	14	4.1	4.1	100.0
	Total	341	100.0	100.0	

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	214	62.8	62.8	62.8
	1	127	37.2	37.2	100.0
	Total	341	100.0	100.0	

Marriage status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	141	41.3	41.3	41.3
	2	194	56.9	56.9	98.2
	3	6	1.8	1.8	100.0
	Total	341	100.0	100.0	

Nationality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	341	100	100	100
	1	0	0	0	100.0
	Total	341	100.0	100.0	

Religion

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	341	100	100	100
	1	0	0	0	100.0

Level of education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	10	2.9	2.9	2.9
	2	8	2.4	2.4	5.3
	3	159	46.6	46.6	51.9
	4	145	42.5	42.5	94.4
	5	19	5.6	5.6	100.0
	Total	341	100.0	100.0	

Employment sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	60	17.6	17.6	17.6
	2	194	56.9	56.9	74.5
	3	87	25.5	25.5	100.0
	Total	341	100.0	100.0	

City

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	101	29.6	29.6	29.6
	2	96	28.2	28.2	58.8
	3	75	22.0	22.0	79.8
	4	69	20.2	20.2	100.0
	Total	341	100.0	100.0	

Appendix F
Factor Analysis

	Initial	Extraction
A1	1.000	0.657
A2	1.000	0.564
A3	1.000	0.671
A4	1.000	0.637
A5	1.000	0.731
I1	1.000	0.607
I2	1.000	0.641
I3	1.000	0.658
I4	1.000	0.676
I5	1.000	0.606
B1	1.000	0.661
B2	1.000	0.670
B3	1.000	0.807
B4	1.000	0.724
B5	1.000	0.621
SV1	1.000	0.591
SV2	1.000	0.560
SV3	1.000	0.568
SV4	1.000	0.602
SV5	1.000	0.560
T1	1.000	0.604
T2	1.000	0.619
T3	1.000	0.735
T4	1.000	0.667
T5	1.000	0.696
T6	1.000	0.756
T7	1.000	0.677
T8	1.000	0.723
T9	1.000	0.618
C1	1.000	0.699
C2	1.000	0.551
C3	1.000	0.659
C4	1.000	0.723
C5	1.000	0.632
C6	1.000	0.761
C7	1.000	0.669

Extraction Method:
Principal Component
Analysis.

Appendix F (Continued)
Common Method Variance (CMV)

Total Variance Explained						
	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Factors	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	12.426	34.516	34.516	12.426	34.516	34.516
2	1.966	5.460	39.976			
3	1.586	4.406	44.382			
4	1.531	4.253	48.635			
5	1.469	4.082	52.717			
6	1.349	3.747	56.465			
7	1.182	3.284	59.749			
8	1.063	2.953	62.701			
9	1.030	2.862	65.563			
10	0.917	2.547	68.110			
11	0.892	2.478	70.587			
12	0.821	2.281	72.869			
13	0.751	2.085	74.954			
14	0.749	2.080	77.034			
15	0.696	1.934	78.968			
16	0.649	1.802	80.770			
17	0.604	1.679	82.449			
18	0.550	1.528	83.977			
19	0.520	1.444	85.421			
20	0.516	1.433	86.854			
21	0.490	1.361	88.216			
22	0.458	1.274	89.489			
23	0.404	1.122	90.611			
24	0.391	1.087	91.698			
25	0.369	1.025	92.723			
26	0.358	0.994	93.717			
27	0.317	0.880	94.596			
28	0.303	0.841	95.437			
29	0.266	0.738	96.175			
30	0.257	0.715	96.890			
31	0.237	0.660	97.549			
32	0.227	0.629	98.179			
33	0.201	0.559	98.738			
34	0.169	0.469	99.207			
35	0.147	0.410	99.616			
36	0.138	0.384	100.000			

Extraction Method: Principal Component Analysis.

Appendix G

Outliers

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.14	4.72	3.98	0.42	341
Std. Predicted Value	-2	1.768	0	1	341
Standard Error of Predicted Value	0.02	0.044	0.027	0.008	341
Adjusted Predicted Value	3.13	4.73	3.98	0.42	341
Residual	-0.915	1.407	0	0.36	341
Std. Residual	-2.539	3.906	0	0.999	341
Stud. Residual	-2.543	3.927	0	1.002	341
Deleted Residual	-0.917	1.422	0	0.362	341
Stud. Deleted Residual	-2.564	4.013	0.001	1.007	341
Mahal. Distance	0	3.999	0.997	1.185	341
Cook's Distance	0	0.082	0.003	0.008	341
Centered Leverage Value	0	0.012	0.003	0.003	341

a Dependent Variable: Commitment

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.03	5.03	4.01	0.425	341
Std. Predicted Value	-2.31	2.4	0	1	341
Standard Error of Predicted Value	0.021	0.129	0.042	0.015	341
Adjusted Predicted Value	3.03	5.03	4.01	0.425	341
Residual	-1.076	1.007	0	0.365	341
Std. Residual	-2.933	2.744	0	0.994	341
Stud. Residual	-2.953	2.749	0	1.002	341
Deleted Residual	-1.091	1.01	0	0.371	341
Stud. Deleted Residual	-2.987	2.776	0	1.006	341
Mahal. Distance	0.085	41.015	3.988	4.105	341
Cook's Distance	0	0.044	0.003	0.006	341
Centered Leverage Value	0	0.121	0.012	0.012	341

b. Dependent Variable: Trust

Appendix H

Normality Tests

Tests of Normality

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Ability	.104	341	.000	.970	341	.000
Integrity	.151	341	.000	.962	341	.000
Benevolence	.158	341	.000	.962	341	.000
Shared Values	.143	341	.000	.962	341	.000
Trust	.118	341	.000	.963	341	.000
Commitment	.126	341	.000	.963	341	.000

a. Lilliefors Significance Correction

Appendix I
Measurement Model

Variable	CR	AVE
Ability	0.81	0.50
Integrity	0.84	0.51
Benevolence	0.85	0.53
Shared Values	0.80	0.44
Trust	0.90	0.51
Commitment	0.84	0.51

Appendix I (Continued)

Discriminant Validity Analysis

(Fornell-Larcker Criterion)

	Ability	Benevolence	Commitment	Integrity	Shared Values	Trust
Ability	0.707					
Benevolence	0.521	0.725				
Commitment	0.57	0.61	0.711			
Integrity	0.543	0.571	0.553	0.717		
Shared Values	0.6	0.626	0.649	0.667	0.666	
Trust	0.644	0.574	0.769	0.626	0.699	0.717

Discriminant Validity Analysis (HTMT_{0.90} Criterion)

	Ability	Benevolence	Commitment	Integrity	Shared Values	Trust
Ability						
Benevolence	0.72					
Commitment	0.743	0.744				
Integrity	0.739	0.744	0.685			
Shared Values	0.851	0.847	0.856	0.890		
Trust	0.806	0.682	0.888	0.744	0.891	

Appendix J
Structural Model

VIFs for Collinearity Evaluation of the Structural Model

Dependent Variable →	Trust		Commitment	
	Tolerance	VIF	Tolerance	VIF
Ability	0.586	1.707	0.528	1.893
Benevolence	0.500	2.000	0.483	2.068
Integrity	0.548	1.825	0.541	1.850
Shared values	0.441	2.269	0.392	2.550
Trust	---	---	0.424	2.360

Outer Loadings

	Ability	Benevolence	Commitment	Integrity	Shared Values	Trust
A1	0.755					
A2	0.517					
A3	0.589					
A4	0.759					
A5	0.742					
B1		0.617				
B2		0.771				
B3		0.724				
B4		0.803				
B5		0.697				
C1				0.746		
C2				0.736		
C3				0.704		
C4				0.658		
C5				0.612		
C6				0.744		
C7				0.765		
I1					0.719	
I2					0.672	
I3					0.669	
I4					0.726	
I5					0.792	
SV1						0.653
SV2						0.584
SV3						0.684
SV4						0.598
SV5						0.79
T1						0.655
T2						0.653
T3						0.718
T4						0.781
T5						0.773
T6						0.822
T7						0.671
T8						0.779
T9						0.562

Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Ability -> Commitment	0.048	0.046	0.049	0.987	0.162
Ability -> Trust	0.285	0.286	0.048	5.925	0
Benevolence -> Commitment	0.204	0.207	0.045	4.506	0
Benevolence -> Trust	0.11	0.113	0.052	2.105	0.018
Integrity -> Commitment	-0.009	-0.01	0.062	0.147	0.442
Integrity -> Trust	0.184	0.182	0.057	3.208	0.001
Shared Values -> Commitment	0.119	0.119	0.063	1.876	0.03
Shared Values -> Trust	0.336	0.336	0.056	5.997	0
Trust -> Commitment	0.544	0.543	0.062	8.816	0

Specific Indirect Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Ability -> Trust -> Commitment	0.155	0.155	0.035	4.483	0
Benevolence -> Trust -> Commitment	0.06	0.061	0.031	1.934	0.027
Integrity -> Trust -> Commitment	0.1	0.1	0.033	3.024	0.001
Shared Values -> Trust -> Commitment	0.183	0.183	0.034	5.323	0

Predictive relevance Q^2

	SSO	SSE	$Q^2 (=1-SSE/SSO)$
Ability	1,705.00	1,705.00	
Benevolence	1,705.00	1,705.00	
Commitment	2,387.00	1,674.51	0.298
Integrity	1,705.00	1,705.00	
Shared Values	1,705.00	1,705.00	
Trust	3,069.00	2,206.52	0.281