

The Impact of the Knowledge Economy on Islamic Banks Performance

Ivica Terzić, PhD

Singidunum University
Faculty of Business Economics
Belgrade, Serbia

Mohamed Omar Sharif

PhD Candidate
Singidunum University
Belgrade, Serbia

Marko Milojević, PhD

Singidunum University
Faculty of Business Economics
Belgrade, Serbia

Abstract

Islamic banking has been growing rapidly and consistently for several decades and it now occupies a significant position – and sometimes a dominant position – in the financial markets of Muslim countries. Knowledge management has become in the last decades one of the key issues in management at the level of most countries of the world; and that as a result of discharge of globalization of information and the resulting huge development in the field of communications, especially the Internet. Modern communication system has led to the widespread and great understanding of the needs of customers; making business organizations focused on intellectual capital, which is an effective tool in the competitive knowledge-based economy under the building.

Keywords: Knowledge management, Islamic bank, intellectual capital, knowledge based economy

Introduction

We found that the leader in knowledge management applications have included banking and financial sectors because of the association with specialized knowledge in all its dimensions and its components, and the nature of the banking industry, which focuses on the production and delivery of banking and financial comprehensive services; so some banking departments concerned with the planning and implementation of knowledge management projects; and then invested in systems and tools of information technology-oriented towards attracting and storage of knowledge and stimulate the activities of knowledge sharing and distribution, as well as human capital employed in these banks for individuals management programs.

Among the newly terminology used, we find electronic banking (Electronic Banking) or Online banking (Internet Banking) or remote electronic banking (Remote Electronic Banking) or home Bank (Home Banking) or bank on-line (Online Banking) or self-financial services (Self -Service Banking), and all expressions related to the fact that customers manage their accounts and get their work done related to the bank through the home, office or anywhere else, and at the time that the customer wants. With regard to the Islamic banks, they have become facing a new challenge in intense competition from international banks characterized by a high level of services in recent years; especially after the opening of a private Islamic financial transactions of the sections, and poses the challenge that Islamic banks tend to achieve a comprehensive quality in the banking services of the level of by applying the latest technology and methods of communication. Is the reality of Islamic banking the transformation towards the knowledge economy requirements? The answer to this question requires a stand in front of a digital facts and research results to provide objective structure to evaluate the performance.

We will discuss in this paper the following themes. Firstly, the current reality of the performance of the Islamic banks industry is presented. Secondly, we note the key challenges of the knowledge economy Islamic banks. Thirdly, we discuss the transformation of Islamic banks around the requirements of the knowledge economy.

The current reality of the performance of the Islamic banking industry

Going here for the development of Islamic banks industry relying on data that the "International Association of Islamic Banks" compiled until 1997; where it stopped compiling such data since that date was resolved that the Union and established its place, the General Council for Islamic Banks and Financial Institutions founded in May 2001 in the Kingdom of Bahrain. According to the report of the General Council for Islamic Banks and Financial Institutions for the year 2008, the number of Islamic banks around the world amounted to 396 banks spread in 53 countries, and reached the funds run by the \$ 442 billion that the size, the number of conventional banks offering Islamic products has reached 320 banks, and reached the funds run by the \$ 200 billion that size (Nasser, 2008). Islamic banking itself has less than a 2% share of the global banking market, while Islamic fund management and Takaful are even less.

There are a number of new and emerging markets for Islamic finance, especially in African countries, Kazakhstan and Azerbaijan. Non-Muslim countries like Russia, China and India are also actively considering how to integrate Islamic finance into their economies, while the likes of the UK, Hong Kong and Luxembourg have already entered the arena with their Sukuk offerings. The opportunities are immense, but there are equally compelling challenges facing the industry. Many of the bodies and organizations and institutions have also been established for the purpose of providing the necessary system of Islamic banking and the safety of its application support. Revealed a survey prepared by the General Council for Islamic Banks and Financial Institutions included a sample of Islamic financial institutions from around the world, the most important indicators and results on the extent of Islamic banks interesting technical and technological side, shown off as follows (Khoja, 2014) :

- Information technology operations did not arrive in the Islamic banks to full maturity;
- Some components of IT operations amounted to the initial stage of maturity, such as: the creation of Internet sites and specialized competencies, devices and e-mail;
- Most of the IT operations in the Islamic finance industry are still in its infancy in many of the other components; particularly interactive services and the level of culture and awareness of electronic business.
- There are 90% of the institutions surveyed owns a website on the Internet, 41% of which was considered the website as a marketing tool essential;
- There are 84% of the institutions surveyed have departments of information technology, which was 44% have ten or fewer employees in those departments.
- About 58% of the covered financial institutions questionnaire in which the computer is used in the completion of daily work routine by (85%) of its employees and above;
- Despite the fact that all Islamic financial institutions surveyed have a connection to the Internet; however, 43% of those institutions which uses e-mail as a means of communication by the majority of its employees; by any proportion (85%) of older employees.

The challenges of the knowledge economy for Islamic banks

The concept of globalization appears in the literature of the social sciences as a phenomenon to describe the processes of change in different areas. It is a continuous process can be observed using quantitative and qualitative indicators in the areas of politics, economy, culture and communication. Some researchers believe that there are four basic processes of globalization, namely (Tayeb et al, 2004):

- Competition between the superpowers;
- Technological innovation (technological);
- The spread of globalization of production;
- Exchange and update.

The phenomenon of globalization is becoming more attached to the phenomena of economic activity, also linked to globalization banking activity as part of the economic globalization.

Banking globalization has taken new dimensions and implications, banks tend to make the fields and activities is unprecedented, and led to the transition from the attitudes and perceptions of activism to narrow the activities and perceptions of wide; in order to maximize opportunities and increase gains. Can review the challenges of globalization for Islamic banking to the banks through the following:

- cancel protectionist barriers that were set by the States or even institutions;
- raise the degree of competitiveness in the work of the banks to some extent is it a viable or withstand foreign banks;
- reduce the profit margins for different types of banking operations, and whether these margins in the last guarantor for the continuation of these banks; it is now become the subject of a great challenge;
- The weakness of the possibility of a lot of banks in response to the qualification requirements imposed by the information revolution; which will affect their business.

Brought international telecommunications network (the Internet) significant changes in the banking sector, can be summarized in the following elements:

- Reduce the cost of banking operations; where this reduction up to the limits of 1/10 the original cost of banking operations to be performed directly;
- Facilitate the cross-border deal and provide a variety of different services to customers, including removing border barriers like non-existent;
- The increasing challenges associated with the themes of security and protection of the confidentiality of clients and dealing and modify existing systems to serve this purpose;
- The decline of the relationship that existed in the past between the bank and its customers as a result of the options offered by the Internet to the customer that.

It can monitor four observations worthy of attention for Islamic banks, namely:

- The Islamic banks have not had a real opportunity to participate in policy development or the development of technologies related to information technology and internet business, or to contribute to finding solutions to the issues and problems;
- The absence of a unified vision of these banks for the phenomenon of globalization and how to deal with them;
- Do not neglect the privacy and characterize the work and activities of Islamic banks from other traditional banks and what could be difficulties which Islamic banks because of information technology and the world of Internet banking in particular;
- Realization of these banks to the problems and obstacles that stand in its way as banks newly established Islamic, both those associated with its work and activities, or those associated with the environment around it.

And supply a range of challenges that may affect the ability of Islamic banks, including:

- The lack of uniform standards for identifying products and financing tools;
- Non-Islamic banks' ability to develop products similar to products such as traditional banks: Treasury and hedging, bonds and other products;
- Non-Islamic banks are unable to compete with conventional banks in the case of profits; because Islamic banks' profits marginal in nature;
- The futility of the expansion of Islamic banks in the mechanism of branches as a result of competition which find e-commerce.

Islamic banking products have not benefited from modern technology; where are most of the operations in hand, which led to the slow procedures and frequent paperwork in addition to the exposure of many of them for violating the decisions of legitimate authority as a result of human errors.

Perhaps not to take advantage of Islamic banks products of modern technology resulting from the short-sightedness of those in charge of the industry in terms of the high cost of technological development required account to take advantage of modern technology without regard to the expected benefits, in addition to the lack of adoption of regulatory bodies for technological development in the side of Islamic banks has led to the loss of motivation to these institutions (Hamoudi, 2001, Nasser, 2008). Banking and financial markets are becoming increasingly sophisticated and competitive; and in order to take advantage of the markets that are rapidly changing the face of increasing competition and, it must be two components: financial engineering and innovation. In light of the principles of innovation prefer to resort to approach the "need" in financial engineering, engineers specializing in modern financial engineering has been designed for many financial instruments, such as the securitization of mortgage loans, options and derivatives, credit cards ...; and that meet the needs of customers a variety of financial services. Perhaps the most important challenges at the level of financial products in the Islamic banks are as follows (Kamel, 2002; Martan, 2005):

- Most of the banking operations directed towards the funding of return (sales and leases), and not based investment to participate in the profit and loss; which leads to a failure to achieve the development goals;
- The difference between Islamic banks in the use of a single product (contracts, forms, procedures, implementation mechanisms, controls, transparency and full documentation for these products); which leads to a lack of understanding of dealers Islamic financial industry;
- The lack of suitable for the development of new formulas derived or innovative, and limited to a limited number of products or innovation abnormal products violate the consensus environment; which leads to a rush to launch products without a reference to the industry adjusts the development and protection and directing process and manage a way that departs out for unilateral;
- Simulation of conventional banks in determining the cost of financing operations and that guided the interest rate index; which leads to a growing lack of trust of customers and the loss of any Islamic banks discriminate or independence, and raises the importance of finding an alternative to the interest rate to measure the return on financing operations profitability index.

The effects of a knowledge-based economy are the phenomenon of banking mergers between large and small banks and large banks and each other. And banking integration in general is more of Union Bank in one bank or melting entities bankers or more in a single entity. And motives of many mergers, including: achieving economies of scale and drive expansion and improve profitability in the context of liberalization of banking services. The process of integration of the banking plentiful and speed has become a global phenomenon influenced by all banks in the world Islamic banks have been affected by this trend; as the small size of Islamic banks is one of the main obstacles to growth and the reduction of operational efficiency. It is known in the banking literature that there is a minimum size of the bank is beyond take advantage of what used to be economically called "economies of scale" that occurs positive on the operating efficiency of its effects; and then on the profitability of the bank level and its ability to provide for the development of human resources and techniques investment banking. This challenge imposed on the Islamic banks to accelerate to enter into mergers studied by addressing the problem of small size, and improve operational efficiencies and general marketing. Perhaps the regulatory bodies (central banks) have a role in stimulating Islamic banks to take this approach, which has become a necessary requirement.

The transformation of Islamic banks around the requirements of the knowledge economy

The focus of the General Council for Islamic Banks and Financial Institutions, International Association of Islamic Banks, is to responsibilities on a variety of targets including: the protection of the Islamic financial services industry and to maintain the integrity of its approach and her career in both theory and practice, as well as the definition of the industry services, and dissemination of concepts, rules and provisions and information relating to the policy. Its objectives also include the promotion of cooperation between the members of the Council and similar institutions in the areas that serve the common objectives, and contribute to the growth of the industry through the promotion of research and development and registration of products and services to ensure the technical quality and legitimacy (www.islamicfi.com). It was agreed to establish a number of important centers for the Islamic banking industry, including: the establishment of different positions within the Council, as a monitoring Islamic finance and communication (with customers and the public), and the Centre for Islamic financial training adoption, and the Centre for Islamic financial products, information center and financial studies, as well as to establish a legitimate body to be the supreme authority.

Banks is one of the more institutions take advantage of modern technology; these institutions did not become clients need to visit their branches; where many of them can perform routine operations starting from the payment of utility bills and the end of the trading of shares in the domestic and global markets. In order to continue and face the competition, the development of techniques to work in Islamic banks is the essential foundation to provide services and products to the highest level of quality, and at the lowest level of the cost. It is expected to witness the coming years, significant developments in the global telecommunications systems; thus radically change the way the transfer of funds and information, be sure that this development leads to the decline of the human role in the banking and financial services, and to a large growth in electronic products and financial services remotely, and the system of payments based on the use of the Internet.

Generally the web is considered as mediator interactive business environment in general. That is the point of the individual user's point of view, a favorable environment for the completion of banking operations such as checking and checking personal accounts, pay bills ... and provide the user effortless transition and filling out forms and contribute to the elimination of requirements and effort interview with the employee. From the bank's point of view, that is a way to reduce operational costs and the constituent branches; and then increase profits and reduce customer service fees to different processes and increase the benefits of deposit and lower lending rates, and creating new programs and stimulation services and attract customers and enter new markets. Can exploit e-commerce environment after development to complete the operations of Islamic banks in the side of finance and investment, now point is when the client wants Murabaha financing to buy a car, for example, is (Nasser, 2008):

- Go to the bank and fills a funding request form (some banks offer through telephone banking or online);
- After approval of the request is once again visit the bank to sign the request and promised to purchase Murabaha, the bank and then ask the customer to determine the type and color of the car required by visiting the exhibition or agent who deals with the bank;
- The bank buys the car from the show; and then signing Murabaha contract with the client and give it permission to take over the car from the show (some banks are completion of these procedures within the exhibition);
- With what may accompany this process of erroneous interpretations of some of the staff in order to shorten the proceedings on the client such as: the client sign a contract Murabaha before the completion of the purchase of the car by the Bank!

When this process is completed online:

- The client is to make his application; and then be notified of acceptance or rejection;
- In case of acceptance of the customer to approve the request and promised to purchase on the site model; and then allow him browse cars in the exhibition show cross-linking data base with the bank;
- When choosing a car, the Bank through its system automatically buy the car of the show; where the procurement process control this agreement the Bank has signed on with the show describes the mechanism by which this process are the legal obligations resulting there from;
- The bank sells the car to the customer Murabaha across the site; where the customer agreeing to automatically Murabaha contract; and then prints the receipt that shows the type and color of the car to be handed over to the gallery to collect the car.

All of these operations are performed in accordance with the sequence takes into account the legitimate requirements necessary to verify the ownership of the bank to avoid a car with a lot of paper work and human error, and so can exploit the technology to serve the Islamic banking products. It seems that the quest to develop the technology to solve the problems of Islamic products is more useful to look for tricks jurisprudence; but this requires Islamic banks as follows:

- Activate the electronic culture when officials;
- Encourage officials to make investment decisions in the technical;
- Cope with the rising cost of investment in the field of technology;
- Face protection and secure systems risks;
- Rehabilitation of specialized human skills.

Gulf Finance House announced earlier in the establishment of a "default Islamic Bank" to provide services over the Internet, and this is the first bank of its kind in the world as Islamic banks, and at the level of the GCC and the Middle East and North Africa Council (GCC) being the first bank to launch offers banking services integrated online; where will provide investment tools and financial services consistent with Islamic law, and the announcement comes in line with Gulf Finance to provide innovative investment products that contribute to the promotion of Islamic banking sector house strategy.

Perhaps the idea of default IDB needs a number of basic requirements. These are:

- Technical infrastructure: cannot technical infrastructure to be isolated from the telecommunications infrastructure and information technology infrastructure of the state and the various sectors; so that e-banks operating in e-commerce and e-business environment. President and requirement to ensure safe access to the information age and the knowledge economy is in communication, and efficient infrastructure, safety and communication market policies, specifically the pricing policies of Internet connectivity services. Perhaps the question of the cost of communication represents the most important challenge for the establishment of electronic banking and require government intervention determine the scope and priorities of investment support by the state;
- Performing efficiency consistent with the technical era: the performance needs to understand and communicate rehabilitation and training; in terms of performance efficiency extends to all the technical, financial, marketing, legal, advisory and administrative functions related to electronic banking activity;
- Interaction with developments: Do not agree slowdown and wait for the other banks performance with seize opportunities excellence, and notes that some Islamic banks do not always heading towards the initiative in the new storming; and the protection of the funds shareholders and avoid risks, the initiative does not mean rushing in planning to deal with the new; it requires inevitably speed in doing so;
- Interaction with variables and strategies: Do not be reactive in dealing with new or with only technical infrastructure; but with modern ideas and theories in the technical and marketing and financial performance and service that are the result of creative thinking areas;
- Calendar control neutrality: set up the majority of e-banking sites advisory bodies in the disciplines of technology, marketing and law and electronic publishing to evaluate the effectiveness and performance of their sites. If the frequent visits the sites are not indicative of the success of the site; it is a real indicator of the health of the website on the search engines within the promotional strategies.

There is no doubt that the availability of appropriate human element, along with cutting-edge technology, represents one of the most important elements of success for any private institution with great technical progress the existing and upcoming future, Islamic banks are not an exception to that. Of course, the training process ongoing and continuous and cannot stop at the end. It is fair to say that Islamic banking is still suffering from the inadequacy of appropriate human resources especially at the administrative level and in the developmental area; which refers to the need to make more effort to cover this deficit; especially in the presence of estimates of the arrival of the number of employees in financial institutions Islamic to about half a million employees. They should train and prepare workers in the Islamic banks to use the latest global technology; in terms of communication devices and the use of information technology, computer software and the latest, whether belonging to the statistical and quantitative or those that help provide a quick analysis services, which leads to help employees develop and equip them to use technology advanced.

Conclusion

The banking sector of the most economic sectors in response to changes brought about by the knowledge economy; where require banks to prepare for the introduction of new banking management takes into account the constantly changing market conditions and rely on a network of communication and information, and the adoption of the merger strategy that will help to reduce operating costs and the acquisition of banking technologies; thus increasing their ability to compete and deliver sophisticated banking services. And work on activating the partnership with international banks, particularly in the technical part; to take advantage of technological means and modern information technology in the field of banking.

Accordingly, we recommend Islamic banks following suggestions:

- Islamic banks need to adopt e-modern in its internal management and external relations, especially with customers, and work to find and activate the electronic culture among all employees;
- The need to expand the use of the Internet to provide various banking services, and encourage customers to request these services, and work to re-design stages providing banking and financial services;
- The need to organize forums for e-business and active participation by the Islamic bank managers and their professionals in the field of electronic banking work;
- The need to prepare, train and develop the skills of human resources in dealing with modern and efficient technologies; in order to increase the prospects for growth and profitability of Islamic banks;
- The need for banks and Islamic institutions Council to issue an annual report statistical specialist in the field of electronic monitoring and reality in the Islamic banking business, and recommend printing and distribution to banks and relevant bodies;
- The need to establish an annual award for the best website in Islamic banks, and the formation of a committee to prepare the required standards and follow the work of this award management.

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