Analyzing the Impact of Banking laws and Legislations on the Converting of Conventional Banks into Islamic in Libya

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Abstract:

This study attempts to examine the moderating effect of regulation on the relationship between the success of converting conventional banks into Islamic lines and four variables: relevant experience, willingness to change, Islamic capital market, and qualified human resources. The sample for the present paper comprises data collected from 15 conventional in Libya. A multi-group analysis approach was applied to assess the moderating effect of regulation. The findings indicated that regulation significantly moderates the effect of four variables on the success of transformation. The paper contributes to the scarce knowledge about regulation and organisational transformation, with an emphasis on converting traditional banks into banks that are in line with the tenets of Shariah.

Paper type: Research paper

Keywords: Banking Law, Bank Conversion, External Environment, Conventional Banks, Islamic Banks

1. Introduction

The external environment has an important role as it helps in the formulation of the organisation's mission and identifies opportunities that can be taken and the risks and obstacles that should be avoided. The external environment has an influential impact to organisations. Supportive government regulations, in particular, can create competitive advantage by improving performance standards and driving market demands (Porter, 1990). The absence or lack of regulatory supports may result in negative consequences for organisations in running their operations effectively (Ahmad and Hassan, 2007).

Banking laws and financial regulation have influenced the structure of finance sector. The supervisory regimes vary in each country. The main purpose of banking regulation is to maintain the integrity of the financial system (Ahmad and Hassan, 2007; Khan and Bhatti, 2008; Zaher and Hassan, 2001). A growing number of conventional financial institutions in the Middle Eastern countries are gradually but noticeably converting their operations to Islamic basis (Khan and Bhatti, 2008). Some conventional banks also introduced Islamic banking and finance services to serve their Muslim clienteles. Countries such as Pakistan and Sudan have revolutionised Islamic banking by adopting the Islamic banking order at the national level (Khan and Bhatti, 2008). Financial institutions may encounter a number of legal issues in the process of conversion. Pakistan, for instance, has been criticised for trying to change too much and too quickly in changing the banking system at the state level (Iqbal and Mirakhor, 1987; Khan and Bhatti, 2008; Zaher and Hassan, 2001). As such, the regulatory and governance structure has a major impact on the success of converting conventional financial institutions into Islamic lines.

The purpose of Islamic banking and finance is to fulfil the teaching of Holy Quran (Zaher and Hassan, 2001). The principle in the Shariah (Islam Common Law) regulates the conduct and content of commercial transactions and thus it is imperative for Islamic financial banks to offer Shariah-compliant financial products and services to Muslim customers (Khan and Bhatti, 2008). However, the process of conversion from a conventional financial institution to a Shariah-compliant entity also subjects to national laws which may hinder the success of conversion. As Porter (1990) pointed out, government policy has an indirect role in creating the national competitive advantage.

Organisations do not live in a vacuum; rather, they are subject to a fast-changing business environment which consists of a series of influences impact on the success of the organisation. This paper examines the moderating role of legislation in the process of converting conventional banks into Islamic basis. It is structured as follows. The following section discusses the importance of human resources, their willingness to assist the change, market readiness, and previous experiences in the conversion process. The third section describes the Islamic banking in Libya. The fourth section discusses research framework and the fifth section explains the methodology of this study. The sixth section presents results and the final section provides a conclusion of the study.

2. Successful conversion of conventional banking into Islamic banking

Islamic banking has its own rules and principles which differ from profit-oriented conventional banking system. Perhaps the greatest difference is the Islamic prohibition of interest. The Islamic financial system discourages speculative use of capital and ensures efficient utilisation of financial capital leading to a sustainable economic growth (Khan and Bhatti, 2008). Unlike Western financial instruments, the Islamic banks finance enterprises and project on profit and loss sharing (Zaher and Hassan, 2001). The underlying concept is that, savers of Islamic banking would not receive fixed interests on their saving accounts; rather, they shared in the profits or losses of banks (Nienhaus, 2010). Due to the differences in business philosophy, converting a conventional bank to a bank that complies with Shariah principles is not straightforward.

The challenges and complexities associated with a successful conversion of a traditional bank into Islamic form are numerous. Administrative issues, market awareness and acceptance, as well as human resources constraint are the common barriers to converting conventional financial institutes into Islamic model (Alani and Yaacob, 2012). In relation to that, this paper considers the following factors as key determinants to successful conversion of a conventional bank into Shariah-compliant bank: relevant experience, supportive external environment (Islamic capital market and banking law), skilled and committed workforce (qualified human resources and willingness to change).

2.1. *Qualified human resources*

The religious foundation of finance and banking is important to Islamic banking but it is rarely highlighted in the literature. Researchers (Amin et al., 2009; Bhatti et al., 2011; Hossain and Leo, 2009) found that competence and attitudes of employees have a great impact on service quality delivery in Islamic banking sector. As in other industries, Bhatti et al. (2011) report that continuous training and development help to improve customer services in the banking sector. In addition to necessary skills and competencies to work in the banking sector, a good understanding of Islamic finance is a prerequisite to work in Islamic banks (Amin et al., 2009; Hossain and Leo, 2009; Nienhaus, 2013). In particular, the risk-sharing nature of Islamic financial services indicates that the need for employees of Islamic banks to be fully aware of Shariah principles as well as the recent developments in Islamic financial products and services. As Dusuki and Abdullah (2007: 153) state, Islamic bank should ensure that their staffs are properly trained and able to answer customers' enquiries about Shariah-compliant financial products and services.

However, recruiting and retaining highly competent workforce represents a challenge for Islamic banks due to Shariah law (Nienhaus, 2013). Well-trained bankers are generally attracted by the generous performance-based rewards offered by commercial banks and the Islamic prohibition of interest poses a challenge to hiring competent personnel (Iqbal and Mirakhor, 1987). The shortage of competent employees may explain the reluctance and difficulty of conventional banks to convert into Islam basis. Due to the limitation in giving financial incentives to attract highly skilled employees as traditional banks do, motivation and commitment of personnel

are crucial to keeping the talented people in Islamic banking (Nienhaus, 2013). This naturally leads to second factor of successful conversion into Islamic bank: willingness to change.

2.2. Willingness to change

Research on change management has long recognised the resistance to change as the key barriers to organisational transformation and strategic renewal (Harris and Ogbonna, 1998; Jackson et al., 2000; Reger et al., 1994). Resistance to change is related to the individuals' psychological aspects such as the feeling of insecurity, risk avoidance, and fear of the unknown. People usually tend to keep things familiar or stick to routines; and at the same time, they are afraid of making changes because of the uncertain and unknown conditions (Oreg, 2003). Moreover, since individuals believe that the desired change may not be in favour to them and may become defensive and refuse to facilitate transformation (Harris and Ogbonna, 1998). Many authors and researchers have addressed the relationship between the employees' willingness to change and organisational transformation. For instance, Harris and Ogbonna (1998) pointed out that the willingness to change represents one of the fundamental factors affecting the successful implementation of change in organisations. Reger et al. (1994) suggested that the willingness as a psychological condition that links the individual to the course of action within the organisation to carry out a range of actions necessary for the successful implementation of change initiatives. Thus, it is argued here that willingness to change is one of the key determinants of the success of transforming conventional retail banking into Shariah-compliant financial system.

2.3. Islamic Capital Market

Islamic capital market is an essential part of Islamic financial instrument. It functions similarly with the conventional capital market and it aims to enable efficient mobilisation of financial resources (Di Maoro et al., 2013) by allocating capital from those with excess funds to those in a shortage of funds. According to Di Maoro et al. (2013), nations with a surplus and a high saving rate are likely to drive demand for Islamic financial services and products, especially in oil and commodity-producing economies. This view is consistent with Khan and Bhatti (2008) who described the Middle East as the motherland of Islamic banking because of the continuous supports from rich individuals and government in the region which is renowned for oil-wealth. However, the gamut of Islamic capital market is still considerably smaller than in conventional capital market due to lack of money market instruments in many countries (Ahmad and Hassan, 2007; Ebrahim and Tan, 2001; Solé, 2007). For that reason, many scholars maintain that the presence of an active Islamic financial market as one of the key determinants to build a financial instrument that conforms to Shariah principles (Ahmad and Hassan, 2007; Ebrahim and Tan, 2001; Zaher and Hassan, 2001).

2.4. Relevant experience

In this study, relevant experience refers to prior banking experience as well as past experiences relevant to organisational transformations. Initiating major transformation is never an easy task. While some organisations may have encountered a number of

stepping stones in transition, many organisations have experienced challenges to transform the organisation to the desired state. Consider the case of Pakistan in converting conventional banking system into Shariah-compliant banking system. The history of introducing Islamic banking in Pakistan can be traced back to 1960s and yet at that point of time the country was still under the influence British legacy (Zaher and Hassan, 2001: 170) and the early efforts in transforming Pakistani financial sector to Islamic lines were all in vain (Khan and Bhatti, 2008: 717). To date, the attempt of Pakistan to transform the traditional financial system into Islamic basis remains as a backdrop to Islamic economy (Nienhaus, 2010: 77). Therefore, it is argued here that relevant experience is positively associated with the success of transition.

2.5. Supportive banking law and regulation

To a great extent, Islamic banking sector is influenced by the external environment factors namely banking laws and regulation. Financial institutions are subject to financial regulations governed by self-regulatory bodies and governments. Conventional retail banking systems are under the supervision of the banking authorities in each country. Islamic banks adhere to additional layers of supervision -- Shariah Supervisory Board -- which aims to ensure the banks functioning in line with the tenets of Shariah (Tsikouras, 2009). A well-defined regulatory framework for Islamic banks has an impact on the performance of the banks (Abdul-Majid et al., 2010; Ahmad and Hassan, 2007; Mokhtar et al., 2008; Solé, 2007; Tsikouras, 2009).

The Malaysian government is an exemplar here. The Islamic banking movement originated in the early 1970s where the government established Tabung Haji, a financial institution that systematically mobilise funds among Muslims to help them in the preparation for pilgrimage in Makkah (Mokhtar et al., 2008). Following to that, the government formed a National Steering Committee in 1981 and officially enacted Islamic Banking Act (IBA) in 1983. The first Islamic bank -- Bank Islam Malaysia Berhad (BIMB) -- was granted a full-fledged banking licence and began operations in 1983 (Solé, 2007). The Islamic finance sector in Malaysia continues to develop as some conventional banks began to offer Islamic windows while full-fledged foreign Islamic bank entered the country (Mokhtar et al., 2008). Presently, there are 674 Shariah-compliant securities representing 74.5% of the total Malaysian stock market (Securities Commission Malaysia, 2015). The growth of Islamic finance in Malaysia can be attributed to the Malaysian government in creating a favourable environment for Shariah-compliant financial institutions (Solé, 2007).

Banking law and regulation not only have direct effects on the successful transition to Islamic bank but also indirect effects of internal environment. In particular, external intervention in organisational transformation may interact with internal environment factors, and weaken or reinforce its impact on transformation. Although some studies have examined the impact of regulation on performance in the Islamic banking sector (Ahmad and Hassan, 2007; Tsikouras, 2009; Zaher and Hassan, 2001), there is relatively little knowledge regarding the combined effect of external and internal environment factors on organisational transformation, with an emphasis on converting conventional retail banking into Islamic lines.

Therefore, this paper proposes hypotheses on the moderating effect of banking law and regulation on the relationship between successful transformation and determining variables, namely competent human resources, relevant experiences, willingness, and Islamic capital market.

3. Libya

Although there is a growing literature discussing Islamic banking in various countries, little is known about the determinants of converting traditional banks into Islamic lines. There is a similar shortage of empirical studies concerning the Islamic banking in Libya. Libya house one of the largest proven oil reserves in the world and the country is largely dependent on oil production. In 2013, the economy minister and other officials announced that the country aims to transform its banking and finance system on a Shariah compliance basis (Laessing, 2014). However, the political turmoil and continued civil unrest in the country has slowed the development, especially in the finance sector given the monopoly of central bank within the Libyan banking system (IFN Analysis 2014).

As far as the authors of this study are aware, there are no empirical studies examining the Libya experience of converting conventional banks into Islamic lines or investigating the moderating effect of banking law and regulation, which are the subject of this study.

4. Research Framework and objectives

The aim of this paper is to investigate the moderating effect of the banking law to the success of converting conventional banks into Islamic basis and internal environment factors: qualified human recourses, Islamic capital market, the willingness of employees to change, and relevant experience. A conceptual model of the relationship between regulation and successful conversion is presented in Figure 1.

Figure 1: Conceptual model

Scholarly studies suggest that regulation is likely to create positive outcomes when it is viewed as supportive by regulatees (Ahmad and Hassan, 2007; Porter, 1990;

Tsikouras, 2009). Supportive regulation may help businesses to improve organisational performance and gain competitive advantage. Porter (1990) argues that strict government regulations can create competitive advantage at the national level. Stringent standards create a head start for companies in developing products and service at superior standards (Porter, 1990). In particular, bank managers who have necessary skills and understand the banking law can help to accelerate the transformation process. By contrast, staffs who have little or no knowledge of banking law and regulation may hinder the process of converting traditional banks into Islamic form. We, therefore, hypothesise that:

H1: Supportive banking law and regulation reinforce the relationship between qualified human resources and transformation.

The relationship between Islamic capital market and transformation is likely to be affected by the extent to which regulation is supportive. Supportive regulation may assist bank managers to convert from conventional banks to Islamic lines more effectively. On the contrary, unsupportive regulation is likely to undermine the attempts of bank managers to transform their banks. Thus, we hypothesise that:

H2: Supportive banking law and regulation reinforce the relationship between Islamic capital market and transformation.

Regulation can also impact the willingness to engage in transformation. People are less likely to resist change due to regulatory compliances. In an indirect way, mandatory compliances decrease resistance to change (Jackson et al., 2000). Clear and stable regulation can help to guide people in transiting from conventional banks to Islamic banks. We thus hypothesise that:

H3: Supportive banking law and regulation reinforce the relationship between willingness to change and transformation.

Prior experience in banking and transforming an organisation can ease the process of converting a conventional financial institution into Islamic basis. Experienced bankers who are familiar with banking law are more likely to facilitate a successful transformation. Inexperienced bankers, on the other hand, may have negative impacts on converting a traditional bank into the Islamic bank. Therefore, our last hypothesis is:

H4: Supportive banking law and regulation reinforce the relationship between relevant experience and transformation.

5. The Methodology

5.1. Respondents

The respondents of this study consisted of all employees in 15 commercial banks in Libya. The participants represented the board management, directors and heads of departments (N=338) and the sampling was comprehensive for the population. The number of the valid questionnaires for analysis are (286) questionnaires. Thus, only 84.5% questionnaires were usable for this study.

5.2 Research Instrument

The authors of this study designed a questionnaire to study the influence of the banking laws and legislation as a moderator of the relationship between four independent variables – qualified human resources, Islamic capital market, willingness to change, and relevant experience – and the success of converting the conventional banks into Islamic lines. The data was analysed using multiple-groups analysis modelling (Tabachnick and Fidell, 2012), and the moderation effects are analysed using structural equation modelling.

In the current study, the level of regulatory support was measured using a questionnaire item that measured the degree to which respondents felt regulations were supportive and relevant to the success of transformation. The authors evaluated this by asking participants to indicate their level of agreement with seven statements, where participants could answer each statement with Strongly Agree (1), Agree (2), Neutral (3), Disagree (4), and Strongly Disagree (5).

The first group consists of the grades less than the mean and it is considered as the supporters who believe legislative support is important. Next, the second group consists of the grades higher than the mean and they are categorised as non-supporters who perceive law as an irrelevant factor in the process of converting conventional bank to Islamic basis.

5.3. Confirmatory Factor Analysis

In order to test the validity constructs and the research hypotheses, this study adopts a Structural Equation Modeling (AMOS) model-fitting programme. The model fit is evaluated by using four indices of the model goodness-of-fit: 1) the comparative fit index (CFI); 2) the chi-square statistic; 3) Root Mean Square Error of Approximation (RMSEA); 4) normed chi-square.

5.4. Structural Equation Modelling

Based on the answers given by the respondents, respondents are divided into two groups: the first group is a group of supporters who perceives the role of legislative support as important; the second group is the non-supporters who do not perceive legislative support as important. These two groups are created based on the mean of each item and the weights given to each item in the questionnaire. If there are significant differences between the two groups, it indicates the moderating effect of the banking law and regulation to the success of converting the conventional banks into Islamic model and the factors influencing it.

6. Results

6.1 Banking Law and Regulation as Moderating Variable

Table 1 shows the number, mean scores and standard deviation for the significance perception between supporters and non-supporters on regulatory supports. These two groups are divided based on a five-point Likert scale ranging from Strongly Disagree (5) to Strongly Agree (1). The first group represents the supporters who have lower mean scores compared to the second group. The mean scores for the supporters was

10.950, while the mean scores for non-supporters was 19.119. This indicates that there is a significant difference perception between the two groups.

Table 1: Descriptive statistics of the Moderating Variable - banking law and legislation

Categories	Descriptions	Number	Percentage	Mean	Std. Deviation
First group	Supporters of the banking laws and legislation support	152	53.1	10.950	1.069
Second group	Non-supporters of the banking laws and legislation support	134	46.9	19.119	5.912
Total numbers		286	100.0	-	-

6.2. Confirmatory Factor Analysis

A Confirmatory Factor Analysis (CFA) was conducted, and the results of measurement model showed that the goodness-of fit was satisfied (Figure 2). The purpose of conducting a CFA is to assess the proposed measurement model in a structural equation model. The RMSEA value of 0.057 and CFI value of 0.991 were greater than the recommended threshold level of 0.05 and 0.90. At the same time, the normed chi-square was 1.940 was lower than the threshold level of 2 (Ullman, 2001). The results show that seven indicators of first-order CFA model of banking law and regulation were fit to the sample data.

Figure 2: Goodness-of-fit statistics for the revised model with seven-items
Cmin= 27.158
df=14
P=.018
Cmin/df=1.940
cfi=.991
Rmse= .057

6.3. Validity and Reliability Analysis

In this study, two indicators are used to measure the validity and reliability of the construct: factor loading and Composite Reliability. All factor loadings are greater than 0.5 (Hair et al., 2009), suggesting that they are imperative determinants of the variance explained by the factors. On the other hand, the value of Composite Reliability falls between 0.956 and 0.958 which is higher than the recommended cut-off value of 0.7 (Hair et al., 2009). The validity and reliability analysis is depicted in Table 2.

Table 2: Factor Loadings of Measurement Items

Items	Composite Reliability	Estimate	Standard Error (S.E.)	Critical Ratio (C.R.)	Loading
Q1) Islamic banks experience in Libya did not need to amend the banking laws and regulations.	0.958	1.0000	-	-	0.84
Q2) The currently exist Laws and regulations support the success of the converting into Islamic banks	0.957	0.9611	0.0659	14.58	0.80
Q3) Legal ingredients that contribute to the success of the converting the conventional banks into Islamic are available.	0.957	1.2019	0.0751	15.99	0.79
Q4) The new amended Libyan law No. (46) for the year 2012 contributes significantly to the success of converting the conventional banks to Islamic banks.	0.957	1.1504	0.0746	15.43	0.83
Q5) The new governmental legislations will contribute to strengthening converting the conventional banks into Islamic.	0.956	1.0674	0.0730	14.64	0.85
Q6) The current legal texts are in line with the nature of Islamic banking.	0.957	1.0301	0.0700	14.71	0.79
Q7) The existing legislation and laws on the amendment of the Statute and the Memorandum of Association of the bank do not affect the implementation of the necessary procedures for the converting into Islamic banks.	0.956	1.3610	0.0867	15.70	0.78

Note: All values were significant at $p < .001$

6.4. Structural Equation Modelling

A structural model of determinants of successful conversion was conducted to estimate the parameters. In this model, there were four models from the first-order constructs (qualified human resources, Islamic capital market, willingness to change, and relevant experience), and two second-order construct (regulation and successful conversion). The objective of conducting the structural model was designed to test that successful conversion is a multidimensional construct consisting of four sub-dimensional and each dimension has a positive relationship with the successful conversion. The structural model shown in Figure 1 was designed to test the hypothesis that the impact of factors influencing successful conversion is contingent on regulatory regimes.

The overall model fit was calculated for both supporters and non-supporters groups. The CFI of the model in both groups are acceptable values, i.e., 0.9410 and 0.7570 respectively. The other model fit measures, including RMSEA and Cmin/df are also within the acceptable level. In sum, the values were close to the threshold and thus they represented an acceptable model fit and the hypotheses were supported. The goodness-of-fit measures and their acceptable levels for structural equation modelling are provided in Table 3.

Table 3: Goodness-of-Fit Measure for Structural Equation Modelling

Parity indicators	Supporters group	Non-supporters group	Differences in the indicators between the two models	Function Value On the existence of Differences to the moderating variable
Cmin	427.871	301.344	126.527	The smaller, the better
df	220	221	1	The larger, the better
Cmin/df	1.945	1.364	0.581	$1 < Cmin/df < 2$
CFI	0.941	0.757	0.184	$0 < CFI < 1$
RMSEA	0.058	0.049	0.009	$RMSEA < 0.05$

The normed chi-square is also known as the relative chi-square and CMIN/DF (chi-square/ degree of freedom ratio). The criterion for acceptance varies across researchers. According to some researchers, the normed chi-square should be less than 2 (Ullman, 2001) or less than 5 (Schumacker and Lomax, 2004).

The value of Root Mean Square Error of Approximation (RMSEA) was (.049) and less than the standard test (.080). RMSEA is the square root of the average or mean of the differences between corresponding elements of the observed and predicted covariance matrix. According to Browne and Cudeck (1992), if the value of Root Mean Square Error of Approximation (RMSEA) falls between 0.08 and 0.10, this indicates a mediocre fit and zero represents a good fit.

Two path models were developed to determine the effect of qualified human resources, relevant experience, willingness to change, and Islamic capital market on successful conversion of conventional banks to Islamic lines. The single-headed arrows represent linear dependencies. The double-headed arrows in the path diagram connected the four processes that might be correlated with each other. Figure 3 and 4 represents the path diagram of models.

Figure 3: Factors influencing the success of converting conventional banks into Islamic model (Supporters group; N=152)

The results presented in Figure 3 indicate that among the supporters group, qualified human resources, relevant experience, willingness to change, and Islamic capital market are positively associated with the successful transformation of conventional banks to Islamic lines. Based on path values indicated in Figure 3, in order of rank, human resources is the main determinant of the successful conversion, followed by Islamic capital market, willingness to change, and relevant experience.

Figure 4: Factors influencing the success of converting conventional banks into Islamic model (Non- supporters group; N=134)

The standardised parameter estimates and significant values for the hypothesis relationships are presented in Table 4. The results suggest that regulation has a positive effect on organisational transformation and the impact of both external and internal environment factors (Islamic capital market, human resources, willingness to change, and relevant experience) are contingent on the regulatory framework. The standardised regression weight of regulation to successful transformation was significant; with parameter estimates of 1.000 (see Table 2).

There are various structural differences, i.e. significant differences in terms of loadings and path coefficient (Table 4). The assessment of the results of path coefficients among non-supporters indicated that human resources ($b=-1.0897$, $CR=2.0760$, $p<0.0379$), willingness to change ($b=-0.6037$, $CR=-1.8007$, $p<0.0717$) and relevant experience ($b=1.6169$, $CR=0.7918$, $p<0.0609$) constructs have lower weight compared to supporters group.

Table 4: Standardised regression weights

Groups	Path	Estimate	Standard Error (S.E.)	Critical Ratio (C.R.)	P-Value	Standardized Regression Weights
Supporters	HR → success	0.8256	0.1875	4.4028	***	0.5937
	ICM → success	0.8558	0.3739	2.2886	0.0221	0.3778
	WC → success	0.2966	0.1188	2.4969	0.0125	0.2639
	RE → success	1.2486	0.3975	2.6404	0.0017	0.4436
Non-supporters	HR → success	0.7917	0.3813	2.0760	0.0379	1.0897
	ICM → success	1.0000	-	-	-	1.7140
	WC → success	-0.2695	0.1497	-1.8007	0.0717	-0.6037
	RE → success	2.1210	1.1318	0.7918	0.0609	1.6169

Note: *HR, ICM, WC, and RE stands for Human Resources, Islamic capital market, Willingness to Change, and Relevant Experience respectively

The results show that the regulation has a significant moderating effect on the model for successful conversion. Moreover, the significant path coefficient showed that Relevant Experience (1.2486) and Islamic Capital Market (0.8558) had the most important positive impact on successful transformation, followed by Human Resources (0.8256) and Willingness to Change (0.2966) respectively (H1, H2, H3, and H4 supported).

7. Conclusion

The purpose of this study is to investigate regulation as a moderator of the relationship between the success of transformation and four independent variables: qualified human resources, Islamic capital market, willingness to change, and relevant experiences. The Structural Equation Modelling (SEM) approach was used to test the construct framework that moderating effect of regulation on the relationship between successful conversion and four variables. Our main findings are as follows. First, the findings confirmed that these four variables (qualified human resources, Islamic capital market, willingness to change, and relevant experience) have positive relationship with the success of converting conventional banks into Shariah-compliant banks. Second, supporters who see regulation as relevant to transformation is likely to reinforce the process of converting conventional banks to Islamic lines. If the regulatory regime is considered as influential and supported by the bank managers, then the impact of regulation would amplify the relationship between the success of transformation and the four variables. This is important because it indicates that regulatory regime has the potential to accelerate the process of transformation.

The findings of this study are consistent with earlier studies (Jackson et al., 2000) who found a positive link between regulation and transformation. Additionally, Ahmad and Hassan (2007) found that a well-defined supervisory framework and regulatory regime plays an influential role in the effective functioning of Islamic banking. At the minimum level, a conventional bank that wishes to convert into Islamic form needs to

consider if a basic regulatory and accounting framework has been established in the nation.

7.1. Managerial Implications

The findings of this study are useful for the human resources practitioners and policy makers in Libya, especially for those who have a keen interest in converting traditional retail banks into Shariah-compliant banks. The challenges and complexities involved in converting conventional banks into Islamic model are numerous. Therefore, management should provide greater support to enable their staff to overcome the challenges. Employees of the banks should be given sufficient opportunities to understand the process of change and necessary adjustments to reduce the level of uncertainty and resistance to change.

7.2. Future Research

Further research should gather more data regarding the process of converting conventional banks into Islamic lines in different countries. One of the research limitations of this study is its small sample that is derived from a single country. Additionally, feedback from all stakeholders should be collected to triangulate comprehensively. For that reason, further research should be considered to gather more insights into the success of conversion. In particular, further research is needed in order to uncover the dynamic process of transformation by considering customer perception and expanding sample size, at both organisational and national level.

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