

# Testing the Impact of the Central Bank's Support for the Experience of Converting the Conventional Banks into Islamic in Libya Multiple-Groups Analysis Using Structural Equation Modeling

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**Abstract:** *This study aims to test the Influence of the central bank's support as a Moderating Variable on the relationship between the independent factors model (the availability of the qualified human resources in Islamic banks, the availability of the Islamic capital market, the employees' willingness to convert into Islamic banks and the success of the Islamic banking experience) and the dependent factor (the success of the experience in converting into Islamic banksin Libya). Structural equation modeling is used to test the impact of the Moderating Variable (central bank's support). Where it is depended on the method of sampling or analysis of what is known as Multiple-Groups analysis. The paragraphs of the central bank variable are collected and divided into two groups according to the mean of the total paragraphs. In addition, according to the relative weights given to the paragraphs of the questionnaire the first group consisted of the grades less than the mean and it is considered as the group which is supporter of the existence of support. While the second group consisted of the grades higher than the mean and considered as the group which is not supporter of the existence of support. The study found that the model of success of converting the conventional banks into Islamic in the presence of the support of the central bank is appropriate for the first group and inappropriate in light of the lack of support by the central bank for the second group.*

**Keywords:** central bank, the external environment, conventional banks into Islamic, supporter of the Central Bank's support, not supporter of the Central Bank's support.

## 1. Introduction

The external environment has an important role as it helps in the formulation of the organization's mission and identifies opportunities that can be taken and the risks and obstacles that should be avoided, Elmgrabi(2001). The external environment factors have stressful effects on the institution and the decision makers Abu-Bakr ( 2004). The success of institutions in the development, change and achieving the strategic objectives in general depends on the support of the external environment to them, Abu Al-Nasr (2008). The support lack of the external environment on the institution may affect and confuse the decision-makers within the institution and prevents making good decisions, or may make them reluctant to take a final decision, Kanaan, (2007). Kayed, (2000) stated that the government has an important role in creating the political, legal and economic assistance environment because it is in charge of the steady, effective, Legal and legislative framework. Also, it is concerned with the activities of public and private sector alike. It is also in charge of confirming the stability and support for the success of institutions in the implementation of its strategic goals (ibid). And Elmgrabi, (1998); said that the factors affecting the achievement of the strategic goals of economic institutions must be taken into consideration which represented in the legislations and laws governing it during any decision within the institution. The central bank is one of the external environment factors for financial institutions and it is considered as the center stage in the hierarchy of the banking system, it is at the top of this device as a mainstay in the modern banking system. It is a

government institution in charge of the supervision and control of all banks, and management of the monetary system through monetary policy tools, Al-Attyat, (2009). Since the nature of the activity of Islamic banks differs from conventional banks there becomes an urgent need for formulating a relationship with a new style regulating Islamic banking business under central bank control. This depends on the central bank to understand the nature of the Islamic Bank and the difference in approach and style in the recruitment of funds. Whenever it possible to understand the role of supervisory organs of the philosophy of Islamic banks, and the natural action of these banks, it will be possible to reach a suitable and appropriate formats for the control of Islamic banks in accordance with the their approach, Al-Saad&Alhonini, ( 2009). The need for central bank's support through organizing its relationship and its oversight policy with the experience of converting conventional banks into Islamic is an urgent need and the success of the experiment depends upon it (Mira, 2011). However, the existence of the conventional central bank as a supervisor and an observer on the Islamic banks is a problem facing the work of Islamic banks and hinder their success, Abu-Yousef, ( 2013). So, there is a mutual relationship between the institution message and the support of its external environment, any organization cannot achieve its strategic goals unless through receiving the support of its external environment, Kasemi ( 2012).

## 2. Theoretical framework

The business organizations do not live in a vacuum, but they are open social systems to external environment contains of set of elements and influences which directs the organization behavior towards one direction or another. Although there are several classifications of the environment in which organizations work, many researchers and writers such as (Jones, 2004; Wheelen & Hunger, 2002; Thomposon, 2001; harem, 2010; Peace, 2008; and Qaryouti, 2009) divided the organization environment into three levels:

### 2.1 General Environment

It is a group of elements in the external environment which affect all organizations in the general environment. For example, the economic environment which includes economic factors such as: the national income rate, the level of the person's income, the rate of inflation, the price of the currency exchange rate, and the rate of unemployment. In addition, the technological environment such as: plant and machinery, new goods and services, innovations, patents and etc. Moreover, the political and legal environment affects the government's policy toward the organization and its stakeholders, as well as laws and regulations. Finally, the demographic cultural and social environment such as age, level of education, lifestyle, values, standards, customs and traditions that control people's relationships in the community in which organizations works.

### 2.2 Specific Environment

It is a set of elements in the external environment and those have a direct impact on the organization (and similar organizations). It consists of stakeholders such as customers, distributors, competitors, suppliers, professional associations, government organizations, and the market, and all of them by virtue of their divergent interests in the organization are able to practice influence and pressure on it.

### 2.3 Internal Environment

It consists of a combination of factors and internal forces that affect the organization's work and determine the strengths and weaknesses of the organization. It made up of the organizational structure, organizational culture, available resources of the financial resources, human resources, marketing resources, research and development resources, and management information system. Dawdi, (2007) stated that the external environment is one of the factors which surround the institution and affecting it and its strategy in one way or another. Those factors are pinpointed in a group of elements such as: Laws and regulations governing the work of institutions, public policies with the institution as well as other economic factors. Tertar, (1993) pointed out that the external environment impact is difficult to be controlled and influenced by the institution due to its comprehensiveness of all. However, Abdo, (1999) confirmed that the external environment has an effective impact on the support of the objectives internal institution, and it also helps to develop strategic objectives and provide full support in achieving them.

## 3. The Aim of the Study

The study aims to investigate the influence of the support of the Central Bank as one of the external environment elements of the banking institution on the success of converting the conventional banks into Islamic.

## 4. Study Hypotheses

4.1 The Moderating Effect of the central bank support on the relationship between the availability of the qualified human resources in Islamic bank sand the success of the experience in converting into Islamic banks in Libya.

4.2 The Moderating Effect of the central bank support on the relationship between the availability of the Islamic capital market and the success of the experience in converting into Islamic banks in Libya.

4.3 The Moderating Effect of the central bank support on the relationship between the employees' willingness to convert into Islamic banks and the success of the experience in converting into Islamic banks in Libya.

4.4 The Moderating Effect of the central bank support on the relationship between the success of the Islamic banking experience in the previous countries and the success of the experience in converting into Islamic banks in Libya.

## 5. The Methodology

### 5.1. Respondents

The respondents of this study consisted of all employees in prime commercial banks in Libya (N=15 commercial banks). 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 researcher designed a questionnaire to study the influence of the central bank's support model as moderating variable and an element from the external environment elements on the model of success of converting the conventional banks into Islamic. In addition, to measure the impact of central bank's support on the relationship between the independent factors model (the availability of the qualified human resources in Islamic banks, the availability of the Islamic capital market, the employees' willingness to convert into Islamic banks and the success of the Islamic banking experience) and the dependent factor (the success of the experience in converting into Islamic banks in Libya) the analysis of samples or what is known as Multiple-Groups analysis in a manner way was used. It is one of the best ways to measure the impact of equinoctial variable (influential) using structural equation modeling (Barbara, 2006). In the current study the paragraphs of the central bank will be collected, and divided into two groups according to the

relative weights given to the paragraphs of the questionnaire ranged from Strongly agree (1), agree (2), neutral (3), disagree (4), Strongly Disagree (5). The first group consisted of the grades less than the mean and it is considered as the group which is supporter of the existence of support. While the second group consisted of the grades higher than the mean and considered as the group which is not supporter of the existence of support.

### 5.3 Confirmatory Factor Analysis

CFA of the Structural Equation Modeling version 20 AMOS model-fitting program was applied to test the validity of items and constructs as well as to test the research hypotheses. The maximum likelihood estimation (MLE) method was utilised for the estimation of parameters. The overall model fit was assessed by using four indices of the model goodness-of-fit: (1) the chi-square statistics; (2) the comparative fit index (CFI); McDonald and Marsh (1990) stated that CFI values close to 1 indicate a very good fit; (3) the minimum value of the discrepancy between the observed data and the hypothesised model divided by degrees of freedom (CMIN/DF) or normed chi-square. Marsh and Hocevar (1985) described that the minimum fit function for CMIN/DF of an acceptable fit is between 2 and 5 ( $2 \leq \chi^2/df \leq 5$ ); (4) the root mean-square error of approximation (RMSEA) was also presented. Browne and Cudeck (1993) demonstrate that RMSEA of smaller than 0.08 ( $<0.08$ ) as a reasonable error of approximation. In addition RMSEA of between 0.08 to 0.10 indicates a mediocre fit (MacCallum et al., 1996) and would not employ a model a RMSEA greater than 0.1 ( $>0.1$ ) (Browne & Cudeck, 1993) The modification of the model was also conducted and discussed.

### 5.4 Construct Validity

The employment of factor loading, composite reliability (CR) and average variance extracted (AVE) were proposed by Hair, Black, Babin, Anderson and Tatham (2006) to determine the convergent validity. Factor loading for the parameters equals to or greater than 0.5 ( $\geq 0.5$ ) and the composite reliability equals to or greater than 0.7 ( $\geq 0.7$ ) were recommended by Hair et al.(2006).The AVE reading values should be greater than 0.5 ( $\geq 0.5$ ) as advocated by Fornell and Larker (1981).

### 5.5 Testing the Theoretically Hypothesized Research Model Using Integral Structural Equation Modeling

In this study the hypotheses moderating variable (the central bank) will be tested on the model of success of converting the conventional banks into Islamic, by using (Multiple-Groups analysis by Amos) method and through structural equation modeling. Where the respondents' answers will be

divided into two groups (the first group is supporter of the support, the second group is not supporter of the support) depending on the mean of the total paragraphs and according to the weights given to the paragraphs of the questionnaire. The comparison between the indicators of the success of converting the conventional banks into Islamic and the factors influencing it by using the group which is supporter of the Central Bank's support (first group) and the indicators of the success of converting the conventional banks into Islamic and the factors influencing it by using the group which is not supporter of the Central Bank's support (second group). If there are differences in the values of these indicators between the two groups, it indicates the presence of the influence of the variable of the central bank's support on the tracks, and relationships of the success of converting the conventional banks into Islamic model and the factors influencing it.

## 6. Results

### 6.1 Descriptive Statistics for the Central Bank as an Influential Variable.

The mean of the Central Bank variable was (40.36) with standard deviation of (9.00), and the minimum was (18) and the top end (55). Depending on the mean as a key factor and taking into consideration the distribution of the sample, the sample is divided into two groups. The first group is supporter of the Central Bank's support which is from (18) to (43) and numbered 138 and by (48.3%), while the second group is not supporter of the Central Bank's support which is from (44) to (55) and numbered 148 and by (51.7%), as shown in Table (1). We conclude that there is a serious rapprochement between the two groups. The first group consisted of the grades less than the mean and it is considered as the group which is supporter of the existence of support. While the second group consisted of the grades higher than the mean and considered as the group which is not supporter of the existence of support. It is happened according to the weights given for the paragraphs of the questionnaire strongly agree (1), agree (2), neutral (3), disagree (4), Strongly Disagree (5).

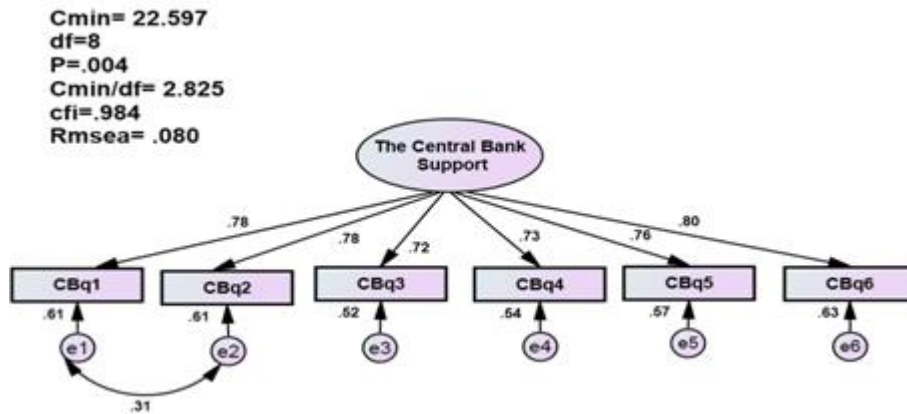
**Table 1:** descriptive statistics for the Moderating Variable (the Central Bank)

No	Moderating Variable	Level of Variable		Frequency	Percent	Mean	Std. Deviation
1	The Central Bank Support	First group	supporter of the Central Bank's support	138	%48.30	40.36	9
		second group	not supporter of the Central Bank's support	148	%51.70		
Total				286	100	-	-

**6.2 Confirmatory Factor Analysis of The external environment) Central Bank)**

The results of the goodness-of-fit of the final revised of the external environment) central bank).model showed that

normed chi- square (CMIN/DF) was (2.825) the CFI was (.984) and RMSEA was (.080). Figure (1) shows the adequacy of the final revised of the external environment) central bank).model.



**Figure 1:** The final revised of the Central Bank Support model with six- items

**Table 2:** Construct Validity of the external environment) central bank).model

code	Items	Reliability	estimate	S. E.	C. R.	P	Loading	R	AVE
CBq1	The central bank seeks to provide the appropriate supervisory framework for Islamic banks	0.961	1	-	-	-	0.78	0.61	0.58
CBq2	The central bank provides technical advice necessary for the converting	0.96	1.043	0.0633	16.48	0	0.78	0.61	-
CBq3	The current regulatory regimes correspond to the nature of Islamic banks	0.961	0.931	0.0762	12.2	0	0.72	0.52	-
CBq4	There is an effective legitimate supervisory board in the Central Bank	0.965	1.06	0.0845	12.52	0	0.73	0.54	-
CBq5	The central bank avoids any banking benefits in its transactions	0.963	0.93	0.0728	12.91	0	0.76	0.57	-
CBq6	The Central Bank has conducted the necessary adjustments in order to facilitate the converting	0.962	1.07	0.0782	13.65	0	0.8	0.63	-

**7. Theoretical Hypothesized Research Model of the Success of the Converting Conventional Banks into Islamic (Moderating Effect)**

Figure (2) shows the details of the default model for the study of which represented in the model of the success of converting the conventional banks into Islamic and the factors influencing it. The results indicate that there is a matching between the default model and the fact which has been sampled it. Also the relationship between the four

independent factors and the dependent factor was a positive relationship. Thus, the impact of the central bank's support on the relationship between the independent factors model (the availability of the qualified human resources in Islamic banks, the availability of the Islamic capital market, the employees' willingness to convert into Islamic banks and the success of the Islamic banking experience) and the dependent factor (the success of the experience in converting into Islamic banks in Libya) will be investigated in this study.

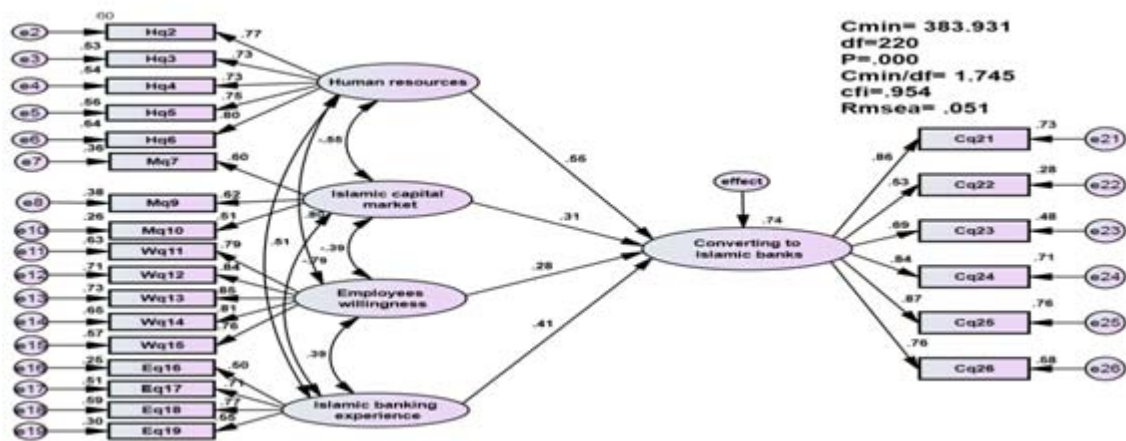


Figure 2: Structural model of the success of the converting into Islamic banks and factors affecting it

### 7.1 Testing the Efficiency of the Study Model between the Two Groups (supporter of the Central Bank' support, not supporter of the Central Bank's support).

Table (3) reveals that the indicators of the model of success of converting the conventional banks into Islamic for the first group which is the supporter of the Central Bank's support and it correspond the specified criteria. And the value of Chi-Square (Chi-Square / degrees of freedom) was (1.624) and it did not exceed the specified value (5). Also the value of the(CFI) was (0.927) which was higher than the value of the test (0.90). The value of the Root Mean Square Error of Approximation (RMSEA) was (0.068) and less than the standard test (0.080).

In the same table, it is clear that the indicators of the model of success of converting the conventional banks into Islamic for the second group which do not support the Central Bank's support and it did not correspond the specified criteria. And the value of the (CFI) was (0.745) which was less than the value of the test (0.90) and this assures that the group which does not support the Central Bank's support did not correspond with the model. And the value of Chi-Square (Chi-Square / degrees of freedom) was (1.370) and it did not exceed the specified value (5). The value of Root Mean Square Error of Approximation (RMSEA) was (0.050) and less than the standard test (.080).

Table 3: The Values of the Indicators of the Correspondence the Model of the Success of Converting Conventional Banks into Islamic between the Two Groups (supporter of the Central Bank' support, not supporter of the Central Bank's support)

NO	parity indicators	Standard Model		Differences in the indicators between the two models	Function Value On the existence of Differences to the moderating variable
		Pro-support group model 3. The value of the index	Non-pro-support group model 4 The value of the index		
1	Cmin	357.334	301.318	21.875	more than Chi-square probabilities
2	df	220	220	0	-
3	P	0	0	0	-
4	Cmin/Df	1.624	1.37	0.099	-
5	CFI	0.927	0.745	0.182	more than (.01)
6	RMSEA	0.068	0.05	0.018	more than (.015)

Based on the data in Table (3), there are differences between the two models in the (CFI) which was (0.182) and it was larger of the specified standard (0.01). As well as the differences between the two models in (RMSEA) index was (0.018) which exceeded the benchmark (0.015). This confirms the existence of differences in the model of the success of converting the conventional banks into Islamic between the first and second group. Also, this indicates that the model of the success of converting the conventional banks into Islamic was very appropriate for the first group (the supporter of the central bank's support). But the result of the second group (not supporter of the central bank's support) was inappropriate for the model. This assures that the relationship between the independent factors model (the availability of the qualified human resources in Islamic banks, the availability of the Islamic capital market, the employees' willingness to convert into Islamic banks and

the success of the Islamic banking experience) and the dependent factor (the success of the experience in converting into Islamic banks in Libya) is better in the supporter group than the non-supporter group.

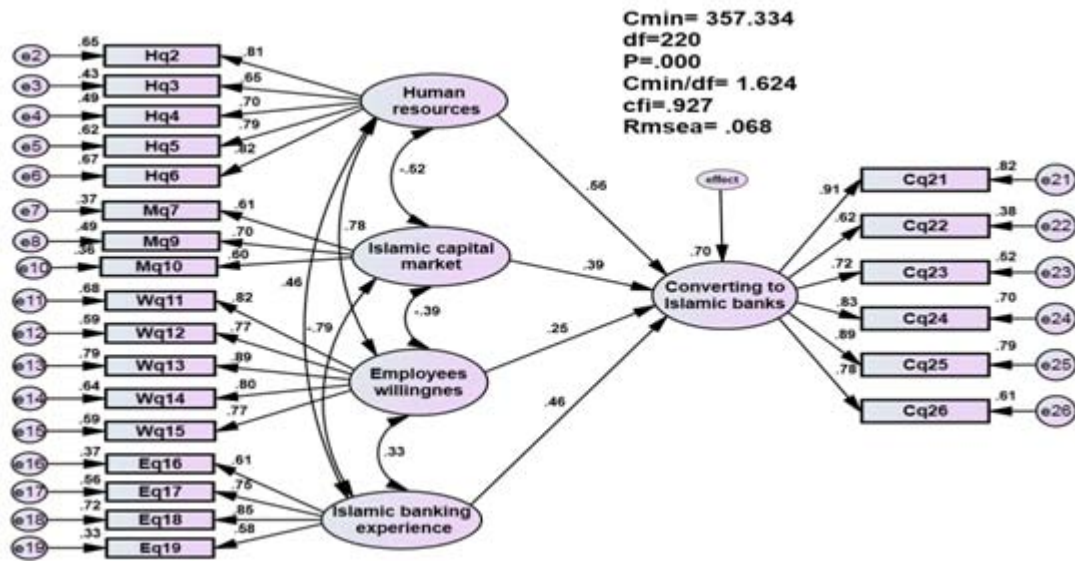
## 8. Testing the Main Hypotheses of the Moderating Variable (Central Bank)

### 8.1Hypotheses 1

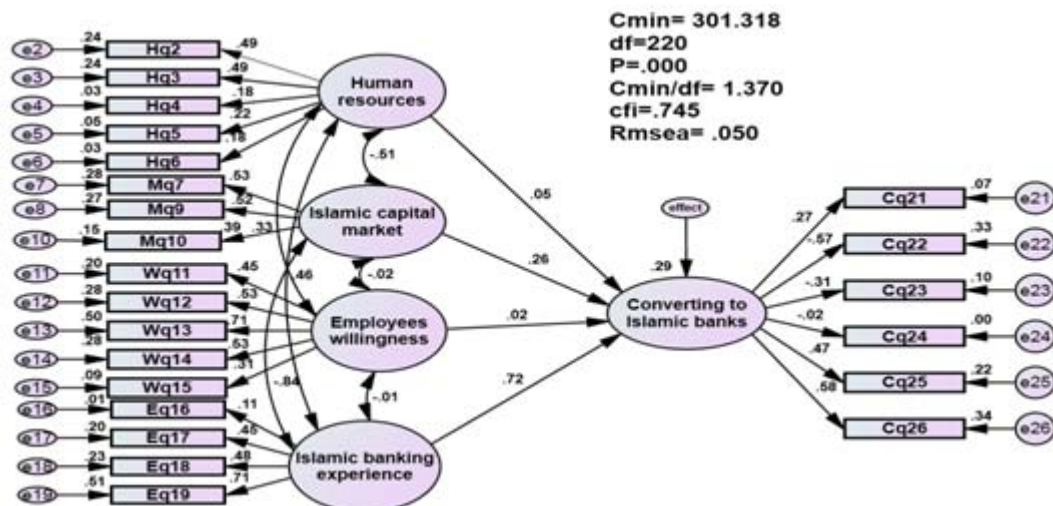
The moderating effect ofthe central bank support on the relationship between the availability of thequalified human resourcesin Islamic banks and the success of the experience in converting into Islamic banks in Libya. By looking at Table (4), Figure (3) and Figure (4) it is clear to us the existence of differences in the relationship between the qualified human resources in Islamic banks and the success

of converting the conventional banks into Islamic between the two groups. It is clear that the supporter group (first) better than the non-supporter group (second) in terms of not standard values (0.8106 - 0.0230) and standard values (0.5633- 0.0461) and standard error (0.2111- 0.1300) and T-test value (3.8393 - 0.1771) and the level of significance

(0.000 - 0.8594). This confirms the strength and enhances of the relationship between the two variables in the presence of central bank's support to the experience of converting the conventional banks into Islamic.



**Figure 3:** structural model scheme (Compositional) for the model of success of converting the conventional banks into Islamic and the factors influencing it (Pro-supporter group).



**Figure 4:** structural model scheme (Compositional) for the model of success of converting the conventional banks into Islamic and the factors influencing it (Non-pro-supporter group)

Table: Chi-Square Probabilities

The areas given across the top are the areas to the right of the critical value. To look up an area on the left, subtract it from one, and then look it up (ie: 0.05 on the left is 0.95 on the right)

df	0.995	0.99	0.975	0.95	0.90	0.10	0.05	0.025	0.01	0.005
1	---	---	0.001	0.004	0.016	2.706	3.841	5.024	6.635	7.879
2	0.010	0.020	0.051	0.103	0.211	4.605	5.991	7.378	9.210	10.597
3	0.072	0.115	0.216	0.352	0.584	6.251	7.815	9.348	11.345	12.838

**Figure 5:** table of Chi-square probabilities

### 8.2 Hypothesis 2

The moderating effect of the central bank support on the relationship between the availability of the Islamic capital market, and the success of the experience in converting into Islamic banks in Libya.

By looking at Table (4), Figure (3) and Figure (4) it is clear to us the existence of differences in the relationship between the Islamic capital market and the success of converting the conventional banks into Islamic between the two groups. It is clear that the supporter group (first) better than the non-supporter group (second) in terms of not standard values (1.0553-1.1208) and standard values (0.03855-0.2599) and standard error (0.5373-0.2875) and T-test value (1.9639-0.4202) and the level of significance (0.0495-0.6743). This confirms the strength and enhances of the relationship between the two variables in the first case (of support), while the non-existence in the second case (lack of support).

### 8.3 Hypothesis 3

The moderating effect of the central bank support on the relationship between the employees' willingness to convert into Islamic banks and the success of the experience in converting into Islamic banks in Libya.

By looking at Table (4), Figure (3) and Figure (4) it is clear to us the existence of differences in the relationship between the desire of employees in converting into Islamic banks and the success of converting the conventional banks into Islamic between the two groups. It is clear that the supporter group (first) better than the non-supporter group (second) in terms of not standard values (0.3132 - 0.0095) and standard values (0.2490- 0.0188) and standard error (0.1568 - 0.0827) and T-test value (1.9981-0.1146) and the level of significance (0.0457 - 0.9087). This confirms the strength

and enhances of the relationship between the two variables in the first case (of support), while the non-existence in the second case (lack of support).

### 8.4 Hypothesis 4

The moderating effect of the central bank support on the relationship between the success of the Islamic banking experience in the previous countries and the success of the experience in converting into Islamic banks in Libya.

The Fourth hypothesis confirms the existence of the influence of the Central Bank's support on the relationship between the success of the Islamic banking experience in the previous countries and the success of converting the conventional banks into Islamic in Libya. Specifically, there is a difference between the supporter group of the Central Bank's support and the non-supporter group of the central bank's support, and it is assumed that the values of the first group in the relationship between the success of the Islamic banking experience in the previous countries and the success of converting the conventional banks into Islamic in Libya higher than the values of the second group. By looking at Table (4), Figure (3) and Figure (4) it is clear to us the existence of differences in the between the success of the Islamic banking experience in the previous countries and the success of converting the conventional banks into Islamic in Libya between the two groups. It is clear that the supporter group (first) better than the non-supporter group (second) in terms of not standard values (1.1805- 1.901) and standard values (0.4622- 0.7188) and standard error (0.4471- 2.4006) and T-test value (2.6404-.7918) and the level of significance (0.0083- 0.4285). This confirms the strength and enhances of the relationship between the two variables in the first case (of support), while the non-existence in the second case (lack of support).

**Table 4:** Standard and non-standard Landmarks and Transactions for model of the Central Bank's support the construction compositional model (the success of converting the conventional banks into Islamic and factors affecting it) between the two groups.

Abbreviation of independent variable	The link	Abbreviation of dependent variable	Estimate	Standard Error (S.E.)	Critical Ratio (C.R.)	P-Value	Standardized Regression Weights
<b>Human</b>	→	<b>Converting</b>					
supporter of the Central Bank's support			0.8106	0.2111	3.8393	***	0.5633
not supporter of the Central Bank's support			0.0230	0.1300	0.1771	0.8594	0.0461
<b>Market</b>	→	<b>Converting</b>					
supporter of the Central Bank's support			1.0553	0.5373	1.9639	0.0495	0.3855
not supporter of the Central Bank's support			0.1208	0.2875	0.4202	0.6743	0.2599
<b>Willingness</b>	→	<b>Converting</b>					
supporter of the Central Bank's support			0.3132	0.1568	1.9981	0.0457	0.2490
not supporter of the Central Bank's support			0.0095	0.0827	0.1146	0.9087	0.0188
<b>Experience</b>	→	<b>Converting</b>					
supporter of the Central Bank's support			1.1805	0.4471	2.6404	0.0083	0.4622
not supporter of the Central Bank's support			1.901	2.4006	0.7918	0.4285	0.7188

## 9. Conclusion

The present study tested the role of the external environment as a supporter for converting the conventional banks into Islamic. It tested the central bank's support as an influential variable on the model of the success of converting the conventional banks into Islamic. This study was conducted on the main commercial banks in Libyan business environment, which amounted to 15 commercial banks. The study included all members of the councils' senior management, heads of departments and directors of the departments. Factor analysis assertive was used for the Central Bank variable and the results showed the appropriateness of the model according to the indicators of the structural equation modeling (SEM). The impact of the influential variable (the central bank) was measured by using the analysis of samples, or what is known as multiple-groups approach, where the subjects were divided into two groups, depending on the mean of the total paragraphs. The group which is less than the mean is the supporter of the Central Bank's support (the first group). And the group which is higher than the mean is the non-supporter of the Central Bank's support (the second group). The study found that the model of success of converting the conventional banks into Islamic in the presence of the support of the central bank is appropriate for the first group and inappropriate in light of the lack of support by the central bank for the second group. The findings of the study confirmed the important role of the central bank's support as an external environment factor which affect positively the success of converting the conventional banks into Islamic. The contribution of the present study is in testing the impact of the role of the external environment of the financial institutions (banks) in supporting the experience of the converting.

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