

The Importance of Training and Development in Initiating Human Capital Relevancy for the Sustenance and Development of Islamic Banking and Finance: An Overview

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ABSTRACT

The fascinating development and the point of discussion in recent years, is the rapid growth and expansion of the Islamic financial services industry. It is no more a rhetoric but Islamic finance has been accepted as a viable and competitive mode of financial intermediation, not only in Muslim countries but also beyond the Muslim world, which offers a wide range of financial products and services to meet the highly differentiated demands of the new economy. Against these rapid evolving of Islamic financial industry globally and in Malaysia significantly, human capital has become the defining factor in sustaining the performance and competitiveness of the Islamic financial industry. Thus, it is very important to place a strong focus on human capital development in embarking Islamic financial services encompassing the basic foundation that is education. This is a prerequisite requirement for highly talented and skilled labour force essential for the future in maximizing the opportunities presented by the evolving economic environment. The objective of this study to illustrate how training and development will embark and equip Islamic financial institutions with human resources that can practice with good strong comprehension in Shariah, products knowledge, and knowledge in banking procedures both competency and technical. Parts of the findings will show how training and development form the basic development of human capital as a contributing factor to financial institutions towards positive attitude, knowledge and skillful workers, so as to gain competitiveness in Islamic financial products and services.

Keywords: *Training and Development, Islamic Finance, Human Capital*

INTRODUCTION

Islamic financial service is one of the fastest growing industries in Malaysia today and has now been accepted as a viable and competitive mode of financial intermediaries.

Islamic banking has come a long way over the past three decades, however, it cannot

be denied it also faces a number of challenges that need to be addressed in order to provide a sound base for its future path (Khan, 2007). With the accelerating pace of financial integration, financial institutions are presented with prospects to expand beyond domestic borders to capture opportunities from regional and global markets (Zeti, 2007).

THE CHALLENGES AND THE FUTURE

Notwithstanding the encouraging data, the fact still remains that the industry is too small compared to the size of its potential market. However the encouraging success shown by many of the local banks clarified that Islamic financial do demand for more accelerating expansion and will become a popular choice among the public. The emergence of this new player creates more challenges among Malaysian commercial banks not only to compete among themselves but they have to compete with the new competitors which offer Islamic principles (Haron et al, 1994). The continued progression in the economic and financial landscape has presented many opportunities for the new products, services and innovation (Zeti, 2007). With this changes and further capability of Islamic financial services proof that an alternative to conventional banking transactions will no longer be disputed. Given this slow but encouraging progression of Islamic banking it also faces a number of challenges that needs to be addressed in order to provide a sound footing for its future path.

One of the challenges mentioned in a report jointly initiate by Islamic Research & Training Institute Islamic Development Bank (IRTISDB) and Islamic Financial Services Board (IFSB) is the challenges imposed to fulfill human resource requirements (Khan, 2007). Zeti further retreated that the rapid evolving Islamic financial industry and the growing significance of Islamic financial institutions

globally, is that human capital should be the focus in sustaining the performance and competitiveness of Islamic financial services industry (Zeti, 2006). Responding to this common view give an important correlation of human capital as a main factor for business surviving in today's competitive environment. Successful companies are those that understand the importance of managing and organizing the use of its human capital (Gordon, 2006). According to Gordon, one of the many ways to improve human includes education and training that can ensure performance, having qualified people, and motivate employees (ibid).

Therefore organizations continue the search for innovative approaches to increase their competitive advantage in this era which is defined by the utilization of people's talent (Brooks et al, 2006). Thus in realizing this strategic value, organization has to device an effective and workable human capital initiative that can be utilizes as a long term planning. In fact, it is human capital, rather than physical or financial capital, that distinguishes the leaders in the market (Saudah et al, 2005). Consistently effective organizations are those that having superior strategies for managing and developing people, focus on individual capability and organizational capability, measure people as assets as well as well as cost and able to resist the short-run pressures that cause chronic under-investment in people (Picket, 2005). The aim of this paper is to explore the role of training and development in the contemporary personnel/human resource function. It form the basic development of human capital as a contributing factor to Islamic financial institutions in question towards positive attitude, knowledge and skillful workers, so as to gain competitiveness in Islamic financial products and services.

LITERATURE REVIEW

In today's competitive business environment people plays an important role in determining the survival of any business organizations. The organisation's human resources or human capital are now seen as one of the major contributors to competitiveness and every organisation should take the human resource dimension into account before making strategic decisions and implementing a new corporate strategy. (Morrow,2001). For many, sidelining this important element can sound disaster to which not only losing competitiveness but also crippling the process of production. Therefore, human resources or capital may be regarded as the most valuable asset of any enterprises. In continue to confirm the relevancy of company's human resources or human capital their skills, knowledge, commitment and motivation are the prime factors that does require encouragement and enhancement. In this context they need to be developed and, therefore, continuous training plays a very important role. (Vermeulen & Crous, 2000)

What does human capital really mean? General Accounting Office (GAO) (2002) simply stated, human capital means people. First, people are assets whose value can be enhanced through investment. As with any investment, the goal is to maximize value while managing risk. Investment in people includes not only in terms of providing training and development, but also the rewards and benefits offered to them. The term human capital (Fong & Yorston, 2003) was first used by Nobel Laureate, Theodore w. Schultz, in the 1961 American Economic Review Article, 'Investment in HC'. The term is now most frequently used to refer to a combination of skills, experience and knowledge. From the human capital perspective, employees are viewed as a capital resource that requires investment. (Ramayah et al, 2004). According to Chartered Institute of Personnel and Development (CIPD) human

capital is the knowledge, skills, abilities and capacity to develop and innovate possessed by people in an organization (CIPD, 2007).

On a more economic definitive meaning of human capital, Wikipedia refers it to the stock of productive skills and technical knowledge embodied in labor. Many early economic theories refer to it simply as labor, one of three factors of production, and consider it to be a fungible resource -- homogeneous and easily interchangeable. Other conceptions of labor dispense with these assumptions. Quratulain Aziz further redefine human capital that incorporates all human intellect labor, workforce, and human strengths in the form of employees, customers, business partners and competitors (Aziz,2007). As an investment, Thomas Davenport, a management consultant, has combined several these definitions to come up with his human capital investment which can be achieved through ability, knowledge, skill, and talent in addition to behaviour (Fong &Yorston, 2003). Quality human capital therefore provide for a competent workforce that ensure competency of performing the jobs, training and development has for many decades proven the main initiative enrolled by human resource division of an organizations.

In today's global competitiveness and technological development require the creation of new knowledge which is communicated to employees and which leads to continuous innovation(Horwitz,1999). Improving product and service quality may require devolution of authority and responsibility to employees at lower levels. Integrated systemic changes in organisational design, with delayed structures, flexible work practices including task/functional flexibility and multi-skilling, have created new challenges for HRD (Horwitz,1999). According to Snyder and Cummings (1998), cited by (Reed &Vakola, 2006) organisations' abilities to change are necessary for survival. This capacity of change is associated with organizational

learning since organisations have to be able to learn from past experiences, effectively use “lessons learnt” correct errors and disseminate this knowledge within the organisation if they are to change and adapt themselves to the continuously changing market. Increased need for improved performance requires more efficient ways to identify, recruit, measure, and improve the training and education of the workforce (Berge et al, 2002).

If people are to do things better, they must not only want to do things differently, they must have the skills and knowledge to do so (Vermeulen, & Crous, 2000). Human resource development is a process of developing and/or unleashing expertise through organization development (OD) and personnel training and development for the purpose of improving performance (Swanson, 2001 as cited by Arif Hassan ,2007). This view is supported by Antonacopoulou (1999) as cited by David Robotham(2004) who, from an extensive review of the management development literature, concluded that learning is an integral part of the development process. This added up to Ashton and Felstead (1995) cited by Morrow (2001) acknowledge the widespread consensus that training and development should be encouraged. The best way to institute quality into an organisation, particularly a bank, is to train employees to do their jobs better. For example, First Interstate Bancorp has demonstrated its confidence in employee training by initiating credit training programmes for those employees involved in the analysis, recommendation, approval or review of commercial credits (Spagnola and Spagnola, 1993, as cited by Vermeulen & Crous, 2000).

This has also been underscored by the rise of human resource management (HRM) with its emphasis on the importance of people and the skills they possess in enhancing organisational efficiency. Morrow(2001) such HRM concepts as

“commitment” to the company and the growth in the “quality” movement have led senior management teams to realise the increased importance of training and development or so logic would suggest. One common notion of training and development is not just enhancing knowledge also incorporating skills enhancement. Skills problems fall into the domain of training. The aim of training is to change the way a trainee does something, i.e., create a change in his/her knowledge or skill level (Prioritysky, 2007). In order to maintain job effectiveness in a changing information environment and to meet the demands put upon them by the society, information professionals need to continue to learn up-date and refresh their knowledge. Individuals need to learn new knowledge to prevent the onset of professional alienation in his or her performance and to adjust to the culture and changes prevalent in a new information environment. (Odini, 1999).

The importance of effective education and training is emphasized by many authors who were surveyed. Bird (1993) sees training as important in order to give employees the necessary knowledge to bring about quality improvement across the company. Batten (1992) describes the importance of education and training by the following words: “Train, Train, Train!” (Vermeulen,& Crous, 2000). McDonnell (1994), Schonberger (1992) and Riley (1993) all regard training as fundamental in transforming the workforce so that it can function in the demanding TQM environment (Vermeulen, & Crous,2000). Companies should also be looking more inwardly – training and developing existing employees rather than buying in appropriately qualified and experienced workers Morrow (2001). In addition training and education is for everybody in the enterprise. Although the training contents may differ, it is essential that everybody should be able, with the aid of the necessary

training, to make a vast contribution to the improvement of total quality in an organization. (Vermeulen, & Crous, 2000).

METHODOLOGY

A set of questionnaires is developed which consist of 31 questions and 4 parts. All questions are based on Likert scale which ranked between 1 to 5 with 1 as strongly agree and 5 as strongly disagree. The set of questionnaires is distributed to practitioners in one of the local Islamic bank in Klang Valley. A total of 140 set of questionnaires is being distributed and 60 of them was returned.

The questionnaire has been divided into four sections which are to identify the issues and the elements related to human capital which includes the role of training and development in reducing the gap to enhance human capital skills and knowledge.

All the data collected is subjected to the statistical process of normality testing, validity testing and reliability testing. A Principal Component Analysis is then being performed to all the questions in order to extract the relevant factor for Pearson correlation analysis and Multiple Linear Regression.

FINDINGS

Reliability, normality and validity testing was separated for the first objective and second objective. A preliminary reliability testing on all of the question is being performed which can be refer to *Table 1* for the first objective i.e. to validate the issue of human capital which is required in order to strengthen Islamic banking practices in Malaysia. *Table 2* for the second objective to identify the elements of human capital that needs to be improved in order to strengthen Islamic Banking practices in Malaysia. The overall Cronbach Alpha shows a value of 0.522 and 0.958 which is

considered to be acceptable. A Principal Component Analysis result in *Table 3* is performed to extract the relevant factor that contributes to the limitations of human capital based on reduction of data. *Table 4* is Principal Component Analysis performed to extract factors in human capital management that is requires to improve Islamic banking growth as perceived by respondents.

Table 5 shows the result of correlation analysis between identified issues which contributed to Islamic Banking growth. The correlation result supported that there is positive relationship between knowledge and skills related to Islamic banking to the growth of Islamic banking at confidence level of less than 5%. This can be interpreted the importance of knowledge and skills to Islamic banking growth for practitioners and employees of the financial institutions. *Table 6* and *Table 7* shows the result of Multiple Linear Regression of human resources elements which is significant to be address in order to improve the growth of Islamic banking in Malaysia. The model R square is at 0.749 with F test of less than 0.05. Based on the coefficients of 0.413 and 0.463 and significance level of less than 0.05, the human resource elements which need to address is on training and development (TD) and career development (CD).

DISCUSSION

Looking again at the four key policy goals of HRM, the three operational goals of commitment, flexibility and high quality are all intrinsically linked to training and development. Employees who are highly trained and whose career development is effectively managed by the company show high levels of commitment, are flexible, invariably multi-skilled and can make significant contributions to the quality of goods or services the company offers, regardless of the level at which they operate

(Morrow,2001). Thus the roles of training comprehend the required and acceptable level of competencies which enable organizations to compete. In the mid-1990s a team of researchers from Charles Sturt University and from the University of Technology, Sydney carried out two major projects examining the determinants of employer training. The research confirmed the growing strength of the link between training and organization development (Smith, 2006).

The research confirmed the increasing strength of the link between the three classic elements of human resource development – individual career development, organizational development and training (McLagan, 1989 cited by Smith, 2006). Today many organizations were shaping their training towards the fulfillment of individualized needs in order to enhance performance (Smith, 2006). Through training and development with proper execution and monitoring, the wealth of human capital which consisting of skills, knowledge and positive attitude is inculcate progressively. The outcome of this not only generated capable workforce or quality human capital but open a wide spectrum of career enhancement in which employer has to honour. Today's many organizations such as the banking sector has imposed and ensures that a certain percentage of their total employee gross salary is budgeted for training. Moreover, on the part of the employee fulfilling certain number of hours of their job commitment towards training is part of their performance indicators.

In the case of Malaysia, the formation of Islamic Banking and Finance Institute (IBFIM), International Centre for Education in Islamic Finance (INCEIF), Malaysian International Islamic Centre (MIFC) and Shariah Knowledge Center which exist in most Islamic banks and Commercial banks are the indicators and the initiatives toward realizing and supporting the importance of training and development for the growth of Islamic finance. The fast growth of Islamic based

financing and the diligent on the part of government in supporting financial institutions to adopt and practice section of their banking services on Islamic principals sees the role of training becoming more critical in familiarizing and understanding the concepts and practices.

SUMMARY

The study is being performed with the involvement of practitioners in order to venture the insight view of Islamic Banking environment in Malaysia after it is being extensively promoted and supported by the government. However, despite the aggressive action taken by Malaysian government in promoting Malaysia as the Islamic banking and financing hub, Malaysia still require skills human capital or expertise to enhance and nurture the industry. It is concluded in this paper, that one of the urgent and consistent action require for Malaysian Islamic banking industry is the generation of its human capital or expertise in the aspect of Islamic banking operation which is thinly adaptation of the conventional banking operation..

The lingering observation of limited sound Shariah knowledge expertise, the limited knowledge on Islamic banking product of employees and the lack of capability and skills to develop Islamic banking product itself thus require a prompt intervention through training initiatives. Further, the current training and development initiated by financial institutions need to be intensive and revamp for their employees to be fluent in Islamic banking may it be in term of operation, Shariah knowledge and product. Due to this, for Islamic banking industry in Malaysia to be able to grasp the opportunity in this evolving industry, actions need to be taken in the area of training and development especially apart from promising career development of human

resources in order to solve the issues above by means of extensive, comprehensive and continuous training apart from offering of lucrative career pathway.

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APPENDIX

Table 1: Reliability testing of first objective

Reliability Statistics - Preliminary			
	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
BOK	.607	.611	2
SK	.522	.522	2
IPK	.667	.668	2
IPDS	.788	.789	2
ISSUES	.691	.691	2

Table 2: Reliability testing of second objective

Reliability Statistics - Preliminary			
	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
RP	.915	.916	3
TD	.954	.954	9
RB	.839	.840	3
CD	.958	.958	3
ELEMENTS	.821	.831	3

Table 3: Principal Component Analysis of Issues that Contributes to Islamic Banking and Financing Growth

Total Variance Explained						
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
BOK	1.440	71.990	71.990	1.440	71.990	71.990
SK	1.353	67.668	67.668	1.353	67.668	67.668
IPK	1.502	75.077	75.077	1.502	75.077	75.077
IPDS	1.651	82.549	82.549	1.651	82.549	82.549
ISSUES	1.528	76.407	76.407	1.528	76.407	76.407

Extraction Method: Principal Component Analysis.

Table 4: Principal Component Analysis of Elements that Improve Islamic Banking and Financing Growth.

Total Variance Explained						
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
RP	2.569	85.649	85.649	2.569	85.649	85.649
TD	6.664	74.045	74.045	6.664	74.045	74.045
RB	2.276	75.869	75.869	2.276	75.869	75.869
CD	2.768	92.276	92.276	2.768	92.276	92.276
ELEMEN TS	2.243	74.781	74.781	2.243	74.781	74.781

Extraction Method: Principal Component Analysis.

Table 5: Pearson Correlation Analysis

Correlations						
		Issues in IBF	Operation Knowledge	Shariah Knowledge	Islamic Product Knowledge	Islamic Product Development
Pearson Correlation	Issues in IBF	1.000	.649	.652	.416	.700
	Operation Knowledge	.649	1.000	.735	.618	.780
	Shariah Knowledge	.652	.735	1.000	.730	.694
	Islamic Product Knowledge	.416	.618	.730	1.000	.595
	Islamic Product Development	.700	.780	.694	.595	1.000
Sig. (1-tailed)	Issues in IBF	.	.000	.000	.001	.000
	Operation Knowledge	.000	.	.000	.000	.000
	Shariah Knowledge	.000	.000	.	.000	.000
	Islamic Product Knowledge	.001	.000	.000	.	.000
	Islamic Product Development	.000	.000	.000	.000	.

Table 6: Regression Analysis of Elements to Improve Islamic Banking

Model Summary^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig. F Change
1	.866 ^a	.749	.730	.53341131	.000

a. Predictors: (Constant), Career Development, Remuneration Benefits, Recruitment Policy, Training & Development

b. Dependent Variable: HR Elements

Table 7: Coefficient of Regression Analysis

Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.006	.071		.082	.935
	Recruitment Policy	-.136	.116	-.135	-1.173	.246
	Training & Development	.413	.180	.406	2.289	.026
	Remuneration Benefits	.175	.091	.175	1.921	.060
	Career Development	.463	.154	.462	3.015	.004

a. Dependent Variable: HR Elements