

## Trust Crisis in Islamic Banking: Empirical Evidence Using Structural Equations Modeling

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### ABSTRACT

This paper studies the trust crisis of the Islamic banking industry through a comparative approach. While Islamic banking harks back to the maxims stemming from Islamic law (i.e., poverty alleviation, equitability, and social justice), little is known about its failure in terms of trust. This paper is a first attempt to model the variables explaining the trust crisis by comparing Saudi Arabian and Tunisian Islamic banking industries. The empirical design is based on a questionnaire analyzed using structural equations modeling. The empirical findings show that the trust is heterogeneously assessed in the two cultural contexts. Various measures can be enforced to strengthen the trust in Islamic banks in both countries. Examples of interesting measures are related to Islamic products development and favorable regulatory reforms that need to be ‘unleashed’ to maintain the trust and sustain the competitiveness and growth of Islamic banks.

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## I. INTRODUCTION

Although the Islamic financial system is still in its embryonic stage, Islamic banks are growing at a high, steady rate. The financial instruments and services of Islamic banks are gaining popularity<sup>1</sup> despite the legal environments that are not heavily supportive in all marketplaces. Although the fraction of the Islamic industry's assets that are compliant to *shari'ah* (Islamic law) relatively to some of the largest banks in the world (e.g., Citigroup, HSBC, Barclays Bank, BNP Paribas) is very small, it is growing rapidly (Ariss, 2010). Chapra (2012) argues that Islamic banks must collect resources from a large scale and make them available to a larger scale such that social problems like poverty and unemployment can be alleviated.

The financial instruments and services offered by Islamic banks should hypothetically be in line with the maxims of *shari'ah*. Indeed, such instruments could be legally tradable only when they are free of *riba*<sup>2</sup> (i.e., usury or interest), do not contain *gharar* (complexity and/or information asymmetry), *maysir* (gambling), and are *halal* (i.e., permissible). The specificities of Islamic banks' instruments and services are supposed to have a social responsibility in terms of poverty alleviation and economic welfare.

The review of previous studies related to Islamic banking reveals three approaches. The first approach is based on the comparison between Islamic and conventional banks (Chong and Liu, 2009; Ariss, 2010; Al-Ajmi et al., 2011). The second approach explores the analysis of Islamic finance's tradable instruments (e.g., Ebrahim and Rahman, 2005; Bouchard, 2009; Walkshäusl and Lobe, 2012). The third approach deals with regulation and institutional issues (Karim, 2001; El-Hawary et al., 2007).

The success of financial institutions depends, among other factors, on the degree of trust, either interpersonal or institutional (Gatfaoui, 2003). Several dimensions exist in the literature (Moorman and Zaltman, 1992): (i) cognitive (trust): when the trust is based on the knowledge of others; (ii) affective (confidence): when it is based on feelings toward others; (iii) conative (reliance): when it is part of organizational routines (Pluchart, 2010). The latter dimension of trust is designed as a process (Levicki and Bunker, 1996) which is sequential and represents "the expectations that are within a community governed by an honest and cooperative regular behavior, based on shared standards by other members" (Fukuyama, 1994).

Several studies focused on explaining the process of building a strong trust in financial institutions. However, very few studies were interested in the process and the corresponding determinants of losing trust in the case of Islamic banks. In fact, Ajili and Ben Gara (2013) argue that losing trust in Islamic banks can be explained in terms of a weak legal framework, the fear of Islamic connotation activities, the low adaptation of customers with Islamic financial products, the lack of information and the lack of specialists/experts in the Islamic finance industry.

There are no previous studies that investigated the assessment of Islamic banks trust from the perspective of two different cultural environments, namely the Saudi Arabian and Tunisian contexts. Indeed, the study of trust in Islamic banks in Saudi Arabia and Tunisia is appealing for at least two reasons. First, Islamic banking is more anchored in Saudi Arabia's financial system since almost all Saudi banks offer Islamic financial products and services. Second, the sensitivity of Saudi customers and

businesses is higher relatively to the sensitivity of Tunisian customers and businesses since the latter have a tighter access to a smaller array of Islamic financial instruments and services.

The research question of this article can be expressed as follows: do customers trust in Islamic banks? There are three main objectives of this article, namely (i) studying the conceptual differences between Islamic and conventional banks, (ii) determining the trust antecedents and facets in Islamic banks and (iii) explaining the reasons of losing trust in Islamic banks in different cultural contexts.

In order to explore our research question and reach the stated research objectives, we adopt a research methodology based on a questionnaire and uses structural equations modeling. The major results show a variety of implications. For example, we show that the Saudi customers' trust is less sensitive to the costs of Islamic products and services than the Tunisian customers' trust. In addition, the customers in both countries seem to be aware of the supplementary legal considerations that need to fosterer to increase their trust.

The remaining of this paper is organized as follows. Section II presents the conceptual background and develops the hypotheses. Section III discusses the research methodology. Section IV presents the data and explains the results. Section V concludes.

## II. CONCEPTUAL BACKGROUND AND HYPOTHESES DEVELOPMENT

### A. Some Underpinnings on Islamic and Conventional Banks

Over the last 40-plus years, the Islamic banking industry had grown at a rate of 15 percent (Beng, 2004; Aggarwal and Yousef, 2000; Khan, 2010). Iqbal (2001) claims that the total deposits during 1990-94 grew at an annual rate of 8.8 percent. According to the World Islamic Banking Competitiveness Report<sup>3</sup> 2014-15, various aspects characterize the Islamic banking industry. Some of these aspects include the following: - the international Islamic banking assets with commercial banks set to exceed US\$778b in 2014; - the global profit pool of Islamic banks is set to triple by 2019; - Islamic banks in Saudi Arabia, Kuwait and Bahrain represent more than 48.9%, 44.6% and 27.7% market share respectively.

The financial instruments and services of Islamic banks are gaining popularity despite the legal environments that are not heavily supportive. The Islamic financial system stems from *shari'ah*'s maxims and principles aiming at preserving social justice, equity, and economic welfare. Furthermore, the modern studies of *shari'ah* focus on its close enforceability in business practice in terms of spurring entrepreneurship, fair commercial and financial transactions, efficient financing tools, and protection of property rights.<sup>4</sup>

The most important *shari'ah*'s maxim is the prohibition of *riba* (i.e., interest or usury). Islamic banks generate returns to their depositors in terms of profitability of the projects in which their funds are invested. Rammal and Zurbruegg (2007, p. 66) maintain that "since Muslims cannot receive or pay interest, they are unable to conduct business with conventional banks. To service this niche market, Islamic financial institutions have developed a range of halal interest-free financing instruments that conform to *shari'ah* ruling, and therefore are acceptable to their clients."

The Islamic banks' financial instruments and services should hypothetically be in line with the maxims of *shari'ah*. Indeed, such instruments and services could be legally tradable only when they are free from *riba*, do not contain *gharar* (complexity and/or information asymmetry), *maysir* (gambling), and are *halal* (i.e., permissible). Alongside with these features, these instruments and services should have some social responsibility in terms of poverty alleviation and economic welfare. The activity of Islamic banks should furthermore be ethically appealing to individuals and companies (Mansour et al., 2015-a).

Bedoui and Mansour (2015) show that the standard financial performance must not dominate all objectives since supplementary objectives must be taken into account. The authors propose a Pentagon-shaped structure of performance that stems from *maqasid al-shari'ah* (i.e., objectives of Islamic law). They show that the performance of Islamic banks has several attributes and is not limited to the financial dimension. Indeed, their main theoretical result is that an Islamic bank that maximizes its financial profitability at the expense of the other objectives is poorly performing from the perspective of *maqasid al-shari'ah*.

Table 1-a gives some insights about the baseline differences between Islamic banks and their conventional counterparts on the basis of the following criteria: foundation, objectives, interest payment, incentive-driven problems, socially-oriented vision, risk-sharing and profit distribution. The comparison of both types of banks shows sheer evidence that they are different on many grounds. Banning the trading of financial instruments involving interest is the heart of conflict between Islamic and conventional banks. Schoon and Nuri (2012, p. 31) maintain that "people have devised ways to evade the prohibition on interest by applying, for example, partnership contracts which were allowed as long as the lender would assume some risk for which he would be entitled to a share of the profit. Contracts for the sale of goods on a deferred payment were equally permitted due to the fact that they were based on a trade."

Although Islamic banks first appeared and propelled in the Muslim World, some conventional banks in OECD countries (e.g., HSBC's HSBC Amanah Finance, Citibank's Citi Islamic Bahrain, and JP Morgan) provide Islamic financial instruments and services through Islamic windows. While there are various products traded by Islamic banks, the most known are *de jure* based on the principle of profit-and-loss sharing (PLS principle). The popular financial instruments based on the PLS principle are *mudarabah* (finance trusteeship) and *musharakah* (equity partnership) and PLS sharing accounts to individual customers. The PLS-based arrangements are theoretically appealing. However, several recent studies (e.g., Khan, 2010) show that Islamic banks' participation in these instruments is very low since they are reluctant to get involved owing to the corresponding high risk of the PLS-financed projects, Islamic banks' low appetite for risk, and the related monitoring costs (Archer and Abdel Karim, 2007). In addition, the depositors of Islamic banks are not willing to take risks due, inter alia, to the low level of transparency in the banking system. Although the PLS principle is appealing, Islamic banks may find it difficult to attract depositors as well as businesses, which may cast doubt on the effectiveness of the 'Islamicity' of their business operations.

**Table 1-a**

A comparison between Islamic and conventional banks (Source: Adapted from Majdoub et al. (2016))

Type of Bank	Foundation	Objectives	Interest Payments	Incentive-driven Problems	Risk sharing and Profit Distribution	Socially-oriented Vision
Islamic	Operations are based on the axioms and principles stemming from the two sources of <i>shari'ah</i> : <i>Qur'an</i> (Muslims' Holy Book) and <i>Sunnah</i> (Prophet Muhammad's practice).	The objectives should stem from <i>maqasid al-shari'ah</i> (i.e., objectives of Islamic law). Ibn Ashour (1945) notes two general aspects of <i>maqasid al-shari'ah</i> : promoting welfare ( <i>jalb al-masalih</i> ) and avoiding evils ( <i>dar'a al-mafasid</i> ).	Interest is the heart of conflict between Islamic and conventional banks. Money cannot be rented out to generate a return. It is only a commodity for exchange purposes. A bank cannot charge pre-determined financial fees on loanable funds.	Islamic banks suffer from incentive problems. Islamic financial engineering with its foremost PLS principle endeavors to alleviate these problems.	The return of Islamic banks must be generated from risk sharing among the contracting parties. Equity-like Islamic financial contracts (i.e., <i>musharakah</i> , <i>mudharabah</i> ) illustrate this principle.	The primary aim is to serve the general interest in equitably growing the economy. The best-known tool is <i>Zakah</i> , which contributes to poverty alleviation and social equity. People with excess savings pay <i>Zakah</i> to poor people and/or entrepreneurs with innovative ideas but with no funds.
Conventional	Operations are based on manmade microeconomic principles of utility maximization. The products, instruments, and services are derived from profit maximization.	The objectives of the financial intermediation stem from shareholder profit maximization. Trading complex financial instruments can be harmful to the economy as a whole in terms of value and job destruction.	Conventional banks charge interest irrespective of the future cash flow streams the project will generate. In the extreme case of default, a bank has the right of foreclosure, as a non-residual claimant.	Information asymmetry impairs the contracting relationship and affects the bank's ability to generate profits and raise funds. Banks must pay a premium to obtain external funds, which affects profitability.	The pivotal function is to lend money and get it back with pre-determined conditions in terms of an interest rate, maturity, and coupon payments. The firm bears all risk and must repay the bank irrespective of the future cash flow streams.	Conventional banks focus on credit worthiness in managing the debtor-creditor relationship and place less emphasis on project valuation and future outcomes for the society. Goals such as poverty alleviation, ethical investments, social equity, and economic welfare are not paramount.

Mansour et al. (2015-a, p.51) investigate the extent to which Islamic banks' traded financial instruments are ethical. The authors conclude that "the practice of Islamic banking misrepresents Islam and does not contribute to solve social problems. The interaction between *maqasid al-shari'a* (objectives of Islamic law) and *qiyas* (deductive analogy) provides a supplementary tool for interpreting the failure of the prior in terms of the practical misuse of the latter by Islamic banks. This essay provides an interpretive approach to the current debate about why Islamic banking has failed and suggests ways to move cautiously in the future."

The failure of Islamic banks is engendered by the misrepresentation of *maqasid al-shari'ah* in practice (Chapra, 2012). Indeed, most of Islamic banks in the world either chosen willingly or were forced (i.e., for profitability purposes) to not be 'fully' compliant to *shari'ah*. Khan (2010) concludes that Islamic banks follow *shari'ah* in a 'disguised' way. The misrepresentation distorted the vision of Islam and brought forth a trust crisis between Islamic banks and their individual customers and businesses. Indeed, the trust of businesses and individual customers towards Islamic banks has been impaired. Recent studies (e.g., Habib, 2011-b; Dusuki, 2010; Dusuki and Abdullah, 2007) show that there is distortion in the vision of *maqasid al-shari'ah*.

As claimed in the legendary treatise of Al-Ghazali (1109/1937), the vision of *maqasid al-shari'ah* brings benefits, justice, and equitability to individuals and society as a whole. The financial innovations that are traded in modern Islamic financial markets are supposed to achieve such goals. However, recent studies (e.g., Dusuki (2010)) document that the financial innovations that are compliant to *shari'ah* brought forth several controversies. Indeed, Dusuki (2010, p. 204) that "some innovations which try to achieve the same economic outcome like conventional instruments distort the vision of Islamic economics based on justice and equitability. This distortion stems from the restricted view of understanding *shari'ah*, by only focusing on the legal forms of a contract rather than the substance especially when structuring a financial product. The overemphasis on form over substance leads to potential abuse of *shari'ah* principles in justifying certain contracts which is in fact contradictory to the *shari'ah* text and ultimately undermining the higher objectives of *shari'ah*."

Islamic banks developed several financial products over the last forty-plus years either to create value, diversify portfolios or hedge risks. Mansour et al. (2015-b) developed a PLS-based financing model based on increasing musharakah in which the cash flow risk is hedged recursively. The Islamic financial engineers were poorly performing over the same period because the only achievement they did is limiting the set of instruments to the classical modes and/or suggesting hybrid products without innovative ideas in terms of value creation and risk hedging. Accordingly, no innovations have been developed to meet the needs of modern financial markets and face the new phenomena such as market integration, capital-market imperfections, and shocks transmission. The poor performance of Islamic financial engineers (i.e., lack of specialists/experts) did not provide innovative Islamic financial instruments that can draw the attention of individual customers and businesses. Iqbal (2012) claims that the current products traded by Islamic banks and *shari'ah*-compliant financial institutions were developed centuries ago and do not sufficiently meet the needs of modern society. Habib (2011-a) criticizes the set of Islamic financial innovations and evaluates the product development including the types of products used by Islamic banks and the approaches adopted to develop them.

There is wide gap between the ideals of Islamic banks and their business practices in real world inasmuch as it is frequently hard to distinguish between the products offered by Islamic and conventional banks. The following citation gives an interesting insight regarding this issue: Khan (2010, p. 850) argues that the rules of Islamic banks make them “more economically efficient than conventional banking and promote greater economic equity and justice. To what extent, then, do actual Islamic Banking practices live up to the ideal, and how different are they from conventional banking? A preliminary investigation shows that, three decades after its introduction, there remain substantial divergences between IBF’s (Islamic banking and finance) ideals and its practices, and much of IBF still remains functionally indistinguishable from conventional banking.”

Iqbal (2012) argues that there are many examples of clear divergences in theory and practice. According to Iqbal, the most serious divergences are (i) genuine versus synthetic *murabahah*, (ii) individual versus organized *tawarruq* (iii) buy-back arrangements in *sukuk*, (iv) ensuring fixed return through hybrid contracts, and (v) problems in *shari’ah*-validation procedure. The latter divergence can have a sizable impact on the loss of trust. Indeed, when Islamic banks are not endowed with highly qualified experts/specialists in the field who can provide customers and business with distinguished products and business solutions that meet their needs, the trust level becomes impaired. As a consequence, Islamic banks fail to sustain the trust of their customers and business.

The lack of experts/specialists can be revealed through two reasons. The first reason consists in the inefficient contribution of Islamic banks’ *shari’ah* boards. The latter consists in few scholars in Islamic jurisprudence that exclusively certify the products as *shari’ah*-compliant through a simple replication of conventional banks’ products using Islamic terminology, standard and interest-based banking products (Khan, 2010). In this respect, Islamic banks’ failure consists in camouflaging the products of conventional banks behind the ‘Islamic identity’ without a genuine innovation in the specificities of the products they offer. The second reason is that there are too few scholars in the industry who are eligible to issue *fatwas* (i.e., Islamic legal certifications). Morais (2007) argues that the prominent scholars are less than twenty in the world. They are present in more than 40 boards in Islamic banks to simply give their certifications or translate financial monikers into the jargon of *shari’ah* to give them the Islamic label.<sup>5</sup> After an interview with a banker from National Bank of Dubai, Foster (2009) maintains that the issuance of *fatwas* became like shopping. Indeed, the banker claims that, if a *shari’ah* scholar does not issue the certification, “we phone up another scholar, offer him a sum of money for his services and ask him for a *fatwa*. We do this until we get *shari’ah* compliance.”

The Islamic banking industry faces a variety of failures and potential challenges. Indeed, Islamic financial institutions, not only Islamic banks, face a variety of potential challenges that basically stem from their current failures. As Table 1-b shows, Islamic financial institutions are principally facing the challenge of innovating new Islamic financial products and services that are simultaneously profitable and satisfying the needs of their clients. In other words, Islamic banks must specifically pioneer new Islamic financial innovations that not only meet the requirement of *shari’ah* but also help them to increase their market share and sustain their long-term growth.

**Table 1-b**  
Failures and potential challenges

Failures	Challenges
1. Whilst Islamic finance experts do not 'like' conventional finance products and institutions, they simultaneously adopt very similar financing techniques that are close to being based on interest.	1. The Islamic finance industry has to develop new financial innovations and launch new institutions that simultaneously fit the <i>shari'ah</i> requirements and contribute to economic growth.
2. Islamic finance experts are unable to revolutionize the industry through new financial innovations.	2. Development of risk-hedging techniques and instruments that are compliant with <i>shari'ah</i> requirements.
3. The Islamic finance industry is a player with around 2 percent of the global finance industry.	3. New strategies must be developed to conquer new markets not only in Muslim countries but also in the West.
4. The Islamic finance industry does not contribute efficiently to economic development.	4. IFIs need to foster the microfinance environment by offering interest-free microcredits.
5. The social-oriented role is marginalized. Islamic financial institutions remain inactive in financing projects that contribute to social objectives.	5. Propelling the role of Islamic financial institutions in alleviating poverty and creating jobs ( <i>maqasid al-shari'ah</i> ).
6. Islamic finance and firm dynamics. The financial products and innovations offered by Islamic financial institutions did not take account of variables that affect positively firm dynamics.	6. More pronounced role of the interaction of Islamic finance with firm dynamics in terms of growth, survival, age, and profit.
7. Islamic finance is neither <i>de facto</i> ethical nor Islamic. The financial products offered by Islamic financial institutions are criticized because they are inconsistent with the claimed <i>maqasid al-shari'ah</i> (objectives of Islamic law).	7. Islamic financial institutions should be ethical in their business transactions and fulfill <i>maqasid al-shari'ah</i> , which qualifies Islamic financial institutions to meet the Islamic label.

## B. Trust in Banking

The concept of trust is used in many social disciplines not only in the field of marketing or banking (Wang and Emurian, 2004). Despite this overlap between a variety of fields, the concept of trust remains quite complex and difficult to measure in banking institutions, which explains the lack of studies dealing with financial institutions. This is due to the multifaceted trust construct<sup>6</sup> (Gefen, 2000). In fact, Belanger and Carter (2008) argue that the trust is defined differently in numerous studies. For example, Soderstrom (2009) identifies 29 different types of trust all of which are somewhat different and related to each other in different ways (Masrek et al. 2012). However, marketing academicians have accepted that trust is fundamental for building and maintaining service relationships.

**Table 2**  
Definition of trust construct (Adapted from Masrek et al., 2012)

Construct	Sub-constructs
Trust	Credibility: refers to the ability of service provider to perform what trustee needs.
	Benevolence: refers to the service providers' care and motivation to act in the trustee's best interests.
	Integrity: refers to the service providers' honesty and promise keeping.



Trust is defined as an expectation (Frisou, 2000), belief (Schurr and Ozanne, 1985; Anderson and Weitz, 1989; Anderson and Naurus, 1990; Ganesan and Hess, 1997; Gurviez; 1999; Gurviez and Korchia, 2002), a willing (Moorman et al. 1993; Chaudhuri and Holbrook, 2001), a behavioral intention or feeling (Bories, 2007). Mayer et al. (1995) define trust as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trust or irrespective of the ability to monitor or control that other party”. According to Muawanah (2010), trust is a willingness to act on the basis of beliefs about the motives of other parties and the level of risk involved with action. Trust is often used interchangeably with credibility, reliability, or confidence.

There is a trend in the marketing literature to distinguish between two types of trust, namely the interpersonal trust and organizational trust (Doney and Cannon, 1997; Ganesan and Hess, 1987; Zaheer et al. 1998; Ben Amour, 2000; Kennedy et al. 2001; Gatfaoui, 2003). In fact, interpersonal trust involves the relationship between two individuals, especially the customer-seller relationship, while organizational trust refers to the relation between customers and organizations. According to Gurviez and Korchia (2002), organizational trust is traditionally made up of three dimensions, namely credibility (competence or expertise), integrity (honesty) and benevolence related to the morale side of trust (Moulins et al., 2010; McKnight et al., 1998; Hadj Khalifa and Kammoun, 2009).

Consumers maintain relationships with the service provider because they consider that the latter has the required technical skills (competence) and will do their best to address potential problems (benevolence) (Moulins et al., 2010). Thus, the organizational trust is based on the credibility of the company and the corresponding interest in customer satisfaction (good intentions). These two dimensions of trust are observed through different studies, e.g., Bidault et al. (1995), Hadj Khalifa and Kammoun (2009) and Bin Mohamed et al. (2011). Mansour et al. (2010) study the criteria used by UK customers to rank banks. The authors show that the costs of services are at the top of their priorities to exhibit their preferences. We therefore consider that the cost of products and services need to be included as variable influencing the antecedents of trust.

While trust emerges quickly, it also can be fragile and might be broken (Kim et al., 2009). In fact, Ajili and Ben Gara (2013) show that the reluctance toward Islamic banks can be explained by the absence of a specific legal framework, the fear of Islamic connotation activities, the low familiarity of customers with the Islamic banking products, the lack of information and the lack of specialists in Islamic finance. This reluctance is expected to have a negative effect on trust (Bin Mohamed et al., 2011). Figure 1 redesigns the four hypotheses through the conceptual model.

Hypotheses are suggested based on the prior theoretical development:

**Hypothesis 1 (H1):** The lack of specialists/experts has a negative impact on the Islamic banking trust.

**H1-a:** The lack of specialists/experts has a negative impact on the credibility of Islamic banking.

**H1-b:** The lack of specialists/experts has a negative impact on the integrity of Islamic banking.

**H1-c:** The lack of specialists has a negative impact on the benevolence of Islamic banking

**Hypothesis 2 (H2):** The absence of a specific legal framework has a negative impact on the Islamic banking trust.

**H2-a:** The absence of a specific legal framework has a negative impact on the credibility of Islamic banking.

**H2-b:** The absence of a specific legal framework has a negative impact on the integrity of Islamic banking.

**H2-c:** The absence of a specific legal framework has a negative impact on the benevolence of Islamic banking.

**Hypothesis 3 (H3):** Higher costs of products and services have a negative impact on Islamic banks trust.

**H3-a:** Higher costs of products and services have a negative impact on the credibility of Islamic banks.

**H3-b:** Higher costs of products and services have a negative impact on the integrity of Islamic banks.

**H3-c:** Higher costs of products and services have a negative impact on the benevolence of Islamic banks.

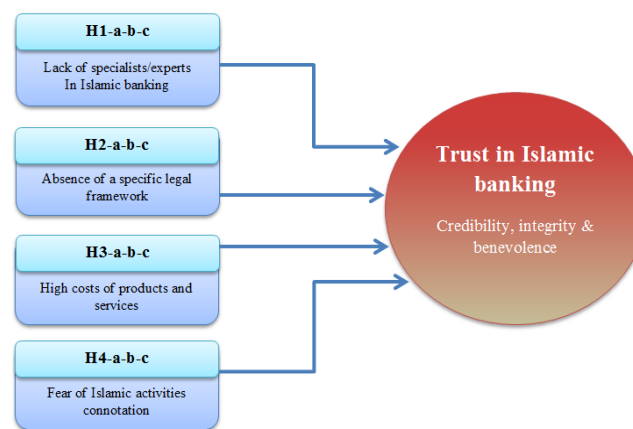
**Hypothesis 4 (H4):** The fear of Islamic activities connotation has a negative impact on the Islamic banking trust.

**H4-a:** Fear of Islamic activities connotation has a negative impact on the credibility of Islamic banking.

**H4-b:** Fear of Islamic activities connotation has a negative impact on the integrity of Islamic banking.

**H4-c:** Fear of Islamic activities connotation has a negative impact on the benevolence of Islamic banking.

**Figure 1**  
Conceptual model



### III. RESEARCH METHODOLOGY

The main objective of this article is to test the trust in Islamic banking in two different cultural settings, namely Saudi Arabia and Tunisia. For this aim, we opt a quantitative research based on questionnaire distributed to Islamic banks' customers. The data collection spanned over June 2015-August 2015.

There is a variety of measurement scales for trust (Siriex and Dubois, 1999). However, almost all of them are all inspired from the trust measurement scales developed by Gurviez (1999). Thus, we adapt this measurement scale to measure the trust construct completed with four items from the measurement scale developed by Haj Khelifa and Kammoun (2009). The original scale of the authors was developed in French.

The trust antecedent we have expounded in the previous section is measured through a single measurement scale. This is due to the absence of measurement scales for these variables in the literature. For this aim, we conducted 30 individual interviews with marketing professionals in order to generate one item for each variable.

Trust measurement scales adopted from the literature were translated into Arabic in order to facilitate the understanding of the questionnaire in both countries (Tunisia and Saudi Arabia) as recommended by Fehri (2004). We opt for the method of double translation because it is frequently used in cross-cultural empirical studies. All items have been translated from Arabic into French.

We choose a convenient sample of customers of Islamic banks in both countries. Data were obtained when clients come to their banks (from 9 a.m. to 12 p.m.). Respondents were asked to state their level of agreement or disagreement with the items of the questionnaire using a five-point Likert scale, ranging from 'strongly disagree' to 'strongly agree'. At the end, we collected 350 usable questionnaires in each country. This sample size is compliant with the rule of Hair et al. (2006) and is sufficient for structural equations modeling (SEM) (Roussel et al., 2002) using Amos 18.

SEM is used to test the causal relationship between non-observable variables. It helps econometricians to test hypotheses and measurement models taking into consideration the measurement errors (Roussel et al. 2002). This method will be used in our research. We will adopt the two-step modeling approach as recommended by Anderson and Gerbing (1988).

### IV. DATA ANALYSIS AND RESULTS

The profiles of respondents used in this research can be summarized in Table 3 that shows some characteristics. Table 3 shows a variety of differences between the two countries. For example, it is noticeable that the respondents in Saudi Arabia are dominated by males.

The data analysis followed a two-step approach for the SEM method as recommended by Anderson and Gerbing (1988) in order to ensure the reliability of the measurement model as well as examining the structural model. In the first step, exploratory and confirmatory factor analyses are used to assess the dimensionality, reliability and validity of constructs using SPSS 21. In the second step, the causal relationships among all constructs will be studied and the structural model is tested using SEM.

**Table 3**  
Respondents' profiles

		Saudi Arabia	Tunisia
Age	20-30 years	14.28%	2.85%
	31-40 years	37.73%	27.71%
	41-50 years	26.57%	58.00%
	51 years and more	21.42%	11.44%
Gender	Male	93.00%	59%
	Female	7.00%	41%
Profession	Student	19.14%	1.71%
	Jobless	4.28%	0%
	Having a business	16.28%	51.42%
	Employee	60.30%	46.87%
Total*		100%	100%

\*Sample of 350 respondents for each country.

#### A. Model Measurement

In cross-cultural studies, the dimensionality of scales used must be evaluated by an exploratory factor analysis (EFA), as indicated by Venkatraman and Grant (1986). If the scale is applicable in different contexts, its structure factor and the model should be equivalent across all cultures. Thus, a component analysis with varimax rotation using SPSS 21 software was conducted. The results are presented in Table 4.

**Table 4**  
Component analysis results (with varimax rotation)

Constructs	Items (codified)	Loadings		Cronbach's Alpha	
		KSA	TUNISIA	KSA	TUNISIA
Credibility	Cred 1	0.890	0.841	0.881	0.835
	Cred 2	0.730	0.805		
	Cred 3	0.710	0.776		
	Cred 4	0.687	0.730		
	Cred 5	0.642	0.635		
	Cred 6	0.630	0.600		
Integrity	Integ 1	0.682	0.665	0.725	0.739
	Integ 2	0.743	0.720		
	Integ 3	0.795	0.690		
	Integ 4	0.765	0.680		
Benevolence	Benev 1	0.776	0.621	0.821	0.802
	Benev 2	0.846	0.718		
	Benev 3	0.717	0.625		
	Benev 4	0.878	0.775		

Note to table: The K.M.O = 0.717 and Bartlett's test of sphericity displays a khi-square =344.865 with p = 0.00.

After a varimax rotation, the measurement scales maintain the same factor structure as set out in the literature. The reliability indices (e.g., Cronbach's alpha) are acceptable for all dimensions of trust. According to Hair et al. (2006), Cronbach's alpha for all constructs is considered as acceptable when it is beyond 0.7. In our case, this

means that the data instruments used in this research are valid and reliable. The final measurement models for all constructs were further examined via confirmatory factor analysis (CFA) using AMOS 18. Table 5 shows the indices results for all the CFA measurement models.

**Table 5**  
Overall fit with country level data

Model	$\chi^2$ (ddf)	P	GFI	AGFI	RMR	RMSEA	TLI	CFI
KSA	362.154 (284)	0.001	0.849	0.814	0.109	0.043	0.973	0.977
Tunisia	359.303 (310)	0.028	0.787	0.740	0.148	0.043	0.974	0.977

Note to table:  $p < 0.05$ ,  $GFI > 0.9$ ,  $AGFI > 0.8$ ,  $0 < RMR < 0.01$ ,  $RMSEA < 0.05$ ,  $TLI > 0.90$ ,  $CFI > 0.90$

**Table 6**  
Reliability and convergent validity (c.v)

	$\rho$ Jöreskog		Fornell and Lacker index	
	KSA	TUNISIA	KSA	TUNISIA
Credibility	0.901	0.879	0.693	0.609
Integrity	0.792	0.780	0.561	0.507
Benevolence	0.870	0.864	0.670	0.650

The overall level reveals an adequate model fit with the chi-square statistic ( $\chi^2 = 362.154$ ,  $p = 0.001$ ) being significant and all the baseline comparison indices ( $CFI = 0.977$ ;  $TLI = 0.973$ ;  $RMSEA = 0.043 < 0.05$ ;  $AGFI = 0.814$ ). These indices indicate a good fit of the measurement model. The measurement scale used has a good internal reliability as indicated in Table 6. The average variance extracted (AVE) for each construct is higher than 0.50, which supports the convergent validity of the constructs (Fornell and Larcker, 1981).

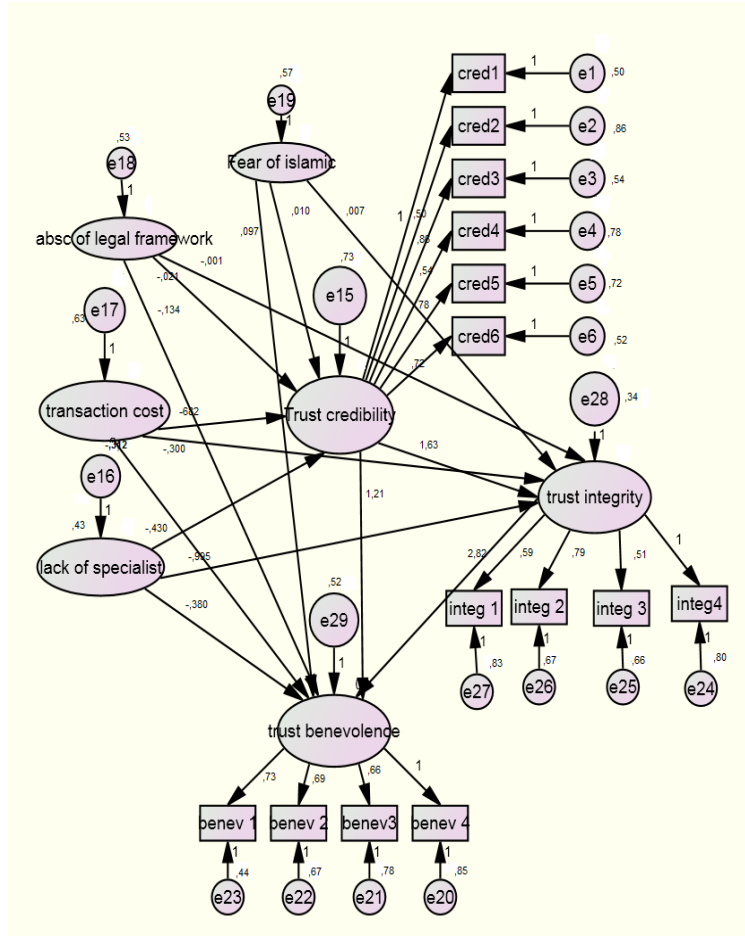
## B. Structural Model

The proposed hypotheses, causal relationships and estimation of the strength of relationships between the variables were tested using structural equation modeling through AMOS 18. The result of the model's goodness-of fit determines whether the hypotheses are supported by empirical data or not (see Figure 2 and Table 7).

## C. Discussion and Policy Implications

In order to discuss the results and infer the corresponding policy implications, we interpret the regression fits in Table 7. Regarding the impact of lack of specialists/experts on the trust in Islamic banks, it is clear that there is a strong negative significant relationship between the two variables. This confirms the fact that the lack of specialists/experts in both countries impairs the customers/business trust in Islamic banks. Hypothesis 'H1-a' is therefore supported. The same result applies to the relationship between the lack of specialists/experts and integrity and benevolence. Hypotheses 'H1-b' and 'H1-c' are supported. The three antecedents (credibility, integrity and benevolence) exhibit clearly a negative impact on trust in both countries.

**Figure 2**  
Results of structural model test



**Table 7**  
Testing structural relationships

Structural relation	Saudi Arabia				Tunisia			
	Estimate	S.E.	C.R.	P	Estimate	S.E.	C.R.	P
Trust credibility ← lack of specialists	-0.430	0.038	-8.241	*	-0.423	0.073	-5.930	*
Trust integrity ← lack of specialists	-0.995	0.081	-10.730	*	-0.378	0.067	-5.620	*
Trust benevolence ← lack of specialists	-0.380	0.112	-3.391	*	-0.244	0.057	3.638	*
Trust credibility ← abs of legal framework	-0.021	0.068	-0.311	0.753	-0.529	0.083	-6.444	*
Trust integrity ← abs of legal framework	-0.001	0.093	0.006	0.996	-0.824	0.067	-9.930	*
Trust benevolence ← abs of legal framework	-0.134	0.079	-1.696	0.092	-0.762	0.080	-7.039	*

Trust credibility ← cost of products and services	-0.682	0.069	-5.293	*	-0.807	0.080	-6.274	*
Trust integrity ← cost of products and services	-0.300	0.070	-4.280	*	-0.774	0.054	-7.100	*
Trust benevolence ← cost of products and services	-0.312	0.082	-3.549	*	-0.750	0.046	-3.682	*
Trust credibility ← fear of Islamic	0.010	0.080	0.120	0.910	-0.943	0.078	9.934	*
Trust integrity ← fear of Islamic	0.007	0.076	0.080	0.940	-1.630	0.087	7.948	*
Trust benevolence ← fear of Islamic	0.097	0.079	1.230	0.219	-1.174	0.065	6.147	*

\*Statistically significant test; S.E.: standard error; P: *p*-value

In statistical terms, we can argue that the structural relationship is stronger in Saudi Arabia more than in Tunisia. This means that the trust of Saudi customers and businesses is highly sensitive to the lack of specialists/experts inasmuch as they consider that the inefficient contribution of *shari'ah* scholars and Islamic financial engineers reduces their trust in Islamic banks' products and services. The absence of a supportive legal framework seems to be more pronounced in Tunisia relative to Saudi Arabia. Indeed, the three components of the trust construct are not statistically significant in Saudi Arabia. This means that the Saudi customers/businesses are not worried by the legal framework. Indeed, the Saudi Islamic banking industry is more anchored in the local financial system relative to Tunisia. Islamic banks in the Tunisian context are still trying to compete with conventional banks, both in number and size. According to Vizcaino (2013, 2014), the Islamic banking industry in Tunisia is currently tiny but is expected to grow with government and private initiatives. According to the survey study of the author, around 54% of ordinary Tunisian respondents are in favor of a switch to Islamic banking. In addition, around 40% claim that they approve the switching even if their money is not guaranteed. Hypothesis 2 is therefore partially accepted because the legal framework in Saudi Arabia is more comprehensive than in Tunisia.

The costs of Islamic banks' products and services turn out to have negative impact on trust for all three antecedents in both countries. This is clear because all estimates are negative and statistically significant. However, the trust of Tunisian customers and businesses in Islamic banks is more sensitive to the costs. This indicates that, when the costs of products and services are lower than those of conventional banks, the trust in Islamic banks can improve. This result is similar to Mansour et al. (2010) who show that, irrespective of the demographic locations and the religion of the respondents, the criterion 'low services charges' is at the customers' top criteria. The Islamic nature of the bank is, however, placed second, pointing to the importance of religious orientation. The trust of Saudi customers/businesses to the cost seems to be less sensitive when compared to the trust in the Tunisian context.

The last factor, namely the fear of Islamic connotation activities, is shown to be very low and statistically not significant in Saudi Arabia. This means that the fear of Islamic connotation activities cannot impair the trust of Saudi customers/businesses and thus for the three components. For the Tunisian context, all estimates are positive but statistically significant. This means that the *halal* (i.e., admissible from the *shari'ah* perspective) industry is not associated with the fear of Islamic connotation. In contrast,

it is clear that this factor improves the trust in Islamic banks. Indeed, the fact that Islamic banks design and pioneer *halal* products and services according to *shari'ah* increases the trust. This fact is more pronounced in Saudi Arabia. Hypothesis 4 is therefore rejected for both countries.

## V. CONCLUSION

This article has explored the issue of Islamic banking trust in Saudi Arabia and Tunisia. There are various reasons behind the relevance of this study. Indeed, it does not only address the issue of trust but also sheds some light on the importance of cross-cultural differences driving trust. From a theoretical perspective, this article is a continuation of Ajili and Gara (2013). From an empirical perspective, this paper is among the rare contributions that study trust in Islamic banking in different cultural and economic settings. The research methodology is based on structural equations modeling. A survey is conducted in Saudi Arabia and Tunisia to investigate the extent to which customers/businesses exhibit trust towards Islamic banks in both countries. The concept of trust is operationalized through three antecedents, namely credibility, integrity, and benevolence.

The empirical results have a number of implications to Islamic banks and governmental authorities in both countries. First, the lack of specialists/experts seems to be negatively correlated with trust. It is not surprising that the poorly-performing contribution of Islamic financial engineers and *shari'ah* scholars over the last 40-plus years still have an impact on the customers' consciousness about the Islamic financial products. We can argue that they are skeptical about the pivotal differences between Islamic financial products and services and their corresponding conventional counterparts. The awareness of customers is still very low. In a similar context, Vizcaino (2013) finds that 64 % of Tunisian respondents said they were unclear about how Islamic finance worked. This can be interpreted by the fact that the customers cannot distinguish properly why the Islamic and conventional products are different and why the prior are *halal*. Islamic banks need to give a higher attention to Islamic financial innovations not only to improve the trust of customers, but also to sustain their market shares and increase competitiveness.

The legal framework and fear of Islamic connotation do not show much difference between Saudi Arabia and Tunisia. However, the governmental authorities in Tunisia are expected to provide a more favorable regulatory setting to maintain and promote the competitiveness of local Islamic banks. A supplementary empirical result of this paper shows that the Tunisian customers' trust is more sensitive to the costs relative to the Saudi customers.

A number of recommendations can be inferred to help Islamic banks build stronger trust with their customers/businesses. The top of priorities of Islamic banks in both countries seems to be related to Islamic products development. Islamic financial products and services must simultaneously be compliant to *shari'ah* and profitable. This dual challenge is vital for their competitiveness and sustainable growth. The governmental authorities in both countries have a sizeable role to spur the trust of customers/businesses owing their sovereign role in terms of favorable regulatory measures.



### ENDNOTES

1. It is noticeable that the Islamic financial products and services are gaining popularity in Muslim countries where the religiosity has an impact of their investment choices (see Mansour and Jlassi (2014) for an exploration of how religiosity can drive finance and investment decisions).
2. The legal systems in Muslim economies do not have commercial laws that consider riba as a criminal offence) but only as a moral sin (Schoon and Nuri, 2012).
3. The report is available at: <http://www.ey.com/EM/en/Industries/Financial-Services/Banking---Capital-Markets/EY-world-islamic-banking-competitiveness-report-2014-15>
4. See Mansour et al. (2015-a) for a deep investigation of the ethical dimension of Islamic banks.
5. Iqbal (2012) reports that the 5 most known scholars in the world are Abdusattar Abu Ghudda, Nizam Yaqubi, Mohamed Ali El-Gari, Daud Bakar, and Abdallah al-Manea. They respectively had 101, 95, 86, 43, and 42 positions in different boards.
6. Trust is considered as a multifaceted construct because it is determined by several factors. Our empirical deigns uses three factors that influence trust in Islamic banking, namely credibility, integrity, benevolence.

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