

# Challenges of IFIs in practicing IFM and their solutions: Evidence from Islamic banks and insurance companies

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## Abstract

This research aimed to explore the challenges and solutions in practicing Islamic Financial Management (IFM) in Islamic Financial Institutions (IFIs) in Bangladesh. To achieve the objectives, this study adopted the qualitative approach and purposive sampling method including twenty-five semi-structured interviews with managers of Islamic banks and Islamic insurances. The rich qualitative data from the interviews were thematically analysed to identify the challenges and solutions in practicing IFM in the IFIs in Bangladesh. The major challenges and solutions that emerged were mainly categorised into three main types: social, organisational, and individual challenges and solutions. However, some of these challenges have been consistent with the previous studies while some have been newly identified from the participants' opinions. Similarly, some of the solutions in practicing IFM in the IFIs have been similar to the previous studies, while some of the findings have emerged as new additions to the current literature and practice. The results of the study have significant implications for both literature and practice.

**Keywords** IFM Practices, Thematic, Challenges, Solutions.

**Paper type** Research paper

## Background of the study

Although the ideas of IFM were developed in the early 1960s, however, its practices started in the late 1970s. Based on the ethical viewpoints, the effectiveness of IFM has been successful in areas like Islamic financial instruments, institutions, and markets that have earned the popularity of such systems all over the world (Khan, 2010; Arshad, Yusoff & Tahir, 2016; Nurfalah, Rusydiana, Laila, & Cahyono, 2018). Interestingly, such a financial system's philosophy and principles have been outlined in the Holy Quran and the Sunnah of Prophet Muhammad (peace be upon him) over 1400 years ago. For example, the main theme of IFM has been prescribed in the Holy Quran as follows "Allah hath



permitted trade and forbidden interest” (2:275). In line with the objective of the Quran and Sunnah and practices of IFM in Muslim countries, a considerable number of IFIs, including banks, have been established in the Muslim countries. One of the main intentions behind such intention is to promote a just and equitable society, free from exploitation and brotherhood among the people/ Ummah.

In this regard, Bangladesh is one of the countries that are growing fast in terms of economy and human development index; therefore, it is urgent for the researchers and practitioners to explore various financial practices to bring fairness and equity in society's financial transactions. It is because many people in such countries are deceived and cannot access financial services due to the difficulties in the current conventional banking and financial systems derived from the Western countries, the majority of which are non-Muslim countries. Therefore, it is vital to explore financial management practices in Bangladesh from the Islamic perspective showing challenges and solutions so that the banking and financial organisations can adopt and apply Islamic banking and financial systems to better the people and the entire economy as a whole.

It is because the context of Islamic banking and finance in Bangladesh is not different. Bangladesh is considered one of the third-largest Muslim countries globally, with around 160 million population, of which 90 percent are Muslims. The hope and aspiration of the vast majority of the Muslim population to run a banking system based on Islamic principles came into reality after the OIC recommendation at its foreign ministers meeting in 1978 in Senegal to develop a separate Islamic banking system. After five years of that declaration, in 1983, Bangladesh established its first Islamic bank called Islami Bank Bangladesh Limited (IBBL). Since then, the Islamic banking and finance industry has seen remarkable progress domestically with tremendous challenges, which are yet to be explored. Till today, there are ten full-fledged Islamic banks out of 61 scheduled banks, eight Islamic insurance companies out of 62 insurance companies, and four non-banking Islamic financial institutions out of 33 which are found to be practicing IFM in Bangladesh. However, there are some additional financial institutions as well that practice IFM on a limited scale in its operation. Since IFM remains a lucrative solution to the conventional financial system, this study mainly focuses on the challenges in practicing IFM in the IFIs in Bangladesh and its various solutions in the context of country to accelerate the growth of the IFM which can be adopted and practiced in this economically growing country.

### **Literature gap**

Despite having a considerable expansion in terms of a number of Islamic Financial Institutions (IFIs) and their branches along with the client based in most of the Muslim majority countries like Bangladesh, the sector has been encroached with several issues and challenges (few of them are highlighted above) that have hindered the potential growth of the industry in the country. The industry reports relating to the challenges faced by the IFIs in practicing and implementing Islamic banking and financial practices also lack updated information, especially in Bangladesh. It is also similar to other countries' industry reports. There is a dearth of information relating to the challenges and solutions in practicing Islamic Financial Management (IFM) i.e. Islamic banking and financial practices in the banks or other financial organisations in different countries (Arshad, Yusoff, & Tahir, 2016; Nurfalah, Rusydiana, Laila, & Cahyono 2018; Arwani, 2018; Habib, 2018; Aracil, 2019). However, the report provided by Shah Foundation Bangladesh (2016) shows that absence of supportive and link institutions, lack of long-term financing, lack of relationship with foreign banks, absence of suitable long-term assets, and absence of Islamic Money market are the most compelling challenges to the Islamic Banking in Bangladesh.

In this regard, the Shah Foundation Bangladesh (2016) report presents that the prospect for Islamic Banking and Financial operations is very much bright and can have substantial growth in the country as most of the people in this country are Muslims. According to Financial Express, Islamic transactions share 25% of Bangladesh's total banking assets, even due to the significant challenges the organisation is facing (Financial Express, 2020). Mostly, similar information was found in the report provided by the Dhaka Tribune in the context of the Islamic Banking and Financial activities of the IFIs in Bangladesh (Hasan, 2020). In this respect, the Dhaka Tribune reported that the lack of Islamic banking and finance infrastructure, lack of concrete legal basis, low attention from the central bank, lack of Islamic capital market and the unavailability of Shariah law and awareness have been major challenges faced by the current IFIs in Bangladesh in practicing the Islamic Financial Management (IFM) practices (Islam, 2017; Islam, & Sultana, 2019). However, most of these reports have not mentioned any recommendations as to the solutions for alleviating the challenges in practicing the IFM in IFIs (Islam, 2017; Hammoud, 2017; Javaria & Masood, 2020; Islam & Sultana, 2019). Therefore, the present decision-makers, policymakers, administrators, practitioners, and other stakeholders in the Islamic Banking and Financial industry do not have holistic data to bring a reliable and sustainable solution to the challenges the Islamic Financial Institutions (IFIs) face in Bangladesh.

The absence of information relating to the challenges and solutions of Bangladesh's financial management practices from Islamic perspectives is also observed in the current academic literature. Therefore, the lack of contemporary literature signifies a critical exploration and examination of the challenges and solutions in practicing IFM i.e. in Islamic Banking and Financial practices in Bangladesh that would also be effective for other countries and future researchers. However, among the few studies, Iqbal, Ahmad, & Khan, (1998) presented the challenges include lack of government/central support, lack of framework and supportive policies to measure risks, lack of Accounting Standards Boards for Islamic finance practicing companies, lack of financial markets and lack of a demand for short term placements of funds that are also corroborated by findings of the contemporary researches in different countries, i.e., Syarifuddin (2020); Shabbir and Rehman (2019); Hammoud (2017); Zainordin, Selvaraja, Man, and Hoong, (2016).

Similarly, in the context of the Bangladesh Islamic Banking and financial industry, Akkas (2008) outlined some challenges that include lack of credit creation and monetary policy, financial stability, lack of capital market and financial instruments, insufficient legal framework and protection. Furthermore, Ather (2007) also highlighted several crucial challenges of Islamic banking in Bangladesh for example lack of motivation under Islamic management and control system, no central regulatory and legal framework that are consistent with the findings of Usmani (2008). Furthermore, some studies (i.e., Malim, 2015; Majeed & Zainab, 2017; Basu, Prasad, & Rodriguez, 2018; Zainordin, Selvaraja, Man, & Hoong, 2016; Alamgir, Hossain, Ahmed, & Safiullah, 2018; Ijaiya, 2020; Cheong, 2021) found that difficulty in the measurement of the Shariah Compliance risks, lack of social awareness regarding IFIs, lack of government and central supports are also challenges in practicing the IFM in the IFIs.

However, most of the empirical research findings highlighted in this section lack the solutions to overcome the challenges that have created a significant gap in the current study relating to Islamic Banking and financial operations. Furthermore, these studies' findings cannot be generalised and applied to the Bangladeshi context in overcoming the challenges faced by IFIs. Furthermore, Bangladesh also has a different cultural and economic context from other countries. Therefore, previous studies call for further research in the context of Bangladesh and other countries where the Islamic banking and financial organisations can boost their operations (Majeed & Zainab, 2017; Hammoud, 2017; Zainordin, Selvaraja, Man, & Hoong, 2016). Hence, this study explores the challenges faced by the Islamic Financial

Institutions and the solutions to overcome those challenges to enrich the current academic literature and knowledge relating to the Islamic Banking and Financial area.

### Methodology

This research adopted qualitative approach. Furthermore, the research adopted purposive sampling as the research was explorative in nature. In such an explorative research study, researchers such as Cohen, Manion, and Morrison (2011), Maxwell (2012) have recommended to adopt the purposive sampling method because it allows to collect opinions, information from the perspectives of the respondents based on the judgments of their possessions or typicality of the specific characteristics that being sought (Gentles, Charles, Ploeg, & McKibbon, 2015; Ishak & Asni, 2020). Furthermore, this sampling is also applied in this research as it has been one of the widely used non-probabilistic types of sampling that facilitates the researchers to identify the main participants for a certain study (Gentles, Charles, Ploeg, & McKibbon, 2015; Afkar, 2017). Moreover, this sampling strategy is also effective as it allows getting in-depth data regarding the issue from the respective people for example from the IFIs officials to know about the challenges and solutions in practicing IFM. This sampling approach, by including respondents with specific knowledge on the subject, can effectively help achieve the research goals (Maxwell, 2012; Ishak & Asni, 2020). Hence, the purposive sampling strategy used for this study to select participants and finally the researcher interviewed 25 respondents via the semi-structured interviews. The data were thematically analyzed.

### Results and analysis

Social challenges faced by IFIs in practicing IFM in Bangladesh

Social challenges that have been found in this study include local culture, lack of awareness, prejudice, religious differences, traditional usury practices and lack of Islamic Capital Market Structure. In this respect, the following figure outlines all the social challenges that are faced by the IFIs in practicing IFM in Bangladesh followed by the explanations.



Figure 1

*Social challenges faced by IFIs in practicing IFM in Bangladesh*

### **Lack of awareness**

All the participants of the study unanimously agree that the lack of awareness regarding the benefits of the IFM practices is one of the major reasons that IFIs cannot practice the Islamic Financial Management (IFM) practices. Therefore, many banks become demotivated because of the lack of potentiality to get the clients in the competitive market. According to the Participant 3:

*“Sometimes, general people do not understand the benefits of the Islamic Banks or even the Islamic Insurance organisations. They only want the general banking services and the promise to get the highest profit from their savings, deposits or other services. I personally tried to convince some people but many of them were reluctant because they think this is IFM practices or the IFIs in Bangladesh are therefore, they cannot rely, you know this is the lack of awareness regarding the Islamic Financial Institutions (IFIs) and of course for the Islamic Financial Management (IFM) practices. This is also something similar in the case of the employees in the Banks because many employees work in the Islamic banks or insurances or other sort of Islamic Financial Institutions but very few of them have fundamental knowledge regarding the IFM. Many of them do not know how the IFM can be easy to adapt and it can be good for their operational processes. As a result, they cannot aware general people, who could be the service holder of the IFIs. Hence, the lack of awareness is one of the major issues that create challenges for the IFIs to apply the IFM practices in Bangladesh”.*

All the other participants have opined that the lack of awareness regarding the IFM practices of the IFIs is a significant challenge. Employees of IFIs and general people do not have much awareness regarding the benefits and features of the IFM. Thus, they think that lack of awareness in society creates challenge in practicing IFM by the IFIs in Bangladesh.

### **Prejudice**

All the participants agree that many people in Bangladeshi society believe in prejudice that is harmful for the businesses of the financial institutions in the country. In the process of practicing the IFM in the IFIs, the prejudice has been recognized as one of the major issues. The Participant 1, manager of the Islamic Bank has opined that:

*“You know, most people in Bangladesh have a problem with prejudice. You will get them in both urban and rural areas. So, you will have to take this as a serious challenge to practice the IFM in the IFIs of Bangladesh”.*

### **Local culture**

All participants have opined that the local culture of Bangladesh is one of the biggest challenges for the Islamic Financial Institutions (IFIs) for example Islamic Banks and Islamic Insurances to apply the Islamic Financial Management (IFM) practices in Bangladesh. As Participant 1 opined, in Bangladesh local culture is different from other Muslim countries, therefore, it has been challenging for the Islamic Financial Institutions (IFIs) to apply the Islamic Financial Management (IFM) practices in the organisations. For example, the local culture of the Saudi Arabia is different from the Bangladesh. As a result, it has been challenging for the Islamic Financial Institutions (IFIs) to apply the Islamic Financial Management (IFM) practices in a different culture of Bangladesh where the Islamic values/culture are not practiced in most cases similar to the Saudi Arabia or other Muslim countries.

*“Bangladesh is a country where more than 90% people are Muslim but there are some differences in terms of practicing the Islamic values in the Bangladeshi context. Therefore, I may argue that Financial Institutions (IFIs) may face the challenges to apply the Islamic Financial Management (IFM).”*

### **Religious faith differences**

Religious faith differences have been identified as a major challenge by the 16 participants in this study while rest 9 participants didn't think this is a challenge in practicing IFM by the IFIs of Bangladesh. However, differences in the religious faith among the Muslims, Hindu, Christian, Buddha and other type of religious people have been identified as the major challenge by the participant 4 in this study. He opined that:

*“Although more than 90% people in Bangladesh are Muslim but many of them do not practice Islam according to the Shariah rules and regulations. Hence, it becomes very much challenging for the organisations like the IFIs with the IFM practices to attract the customers because some people think IFM practices will enforce them to practice the Shariah rules and regulations. As a result, many of the potential clients of the banks or even the Islamic insurances do not choose the IFIs. For this reason, I believe the difference in the religious faith is a significant challenge.”*

### **Traditional usury practices**

Most of the participants in this study have opined that the traditional usury practices create challenges in practicing IFM in the IFM in Bangladesh. Total 18 participants have opined that the traditional usury practices are very much challenging to attract the customers for the IFIs. It is because many local people do not like to follow the Islamic rules and regulations while the

traditional moneylenders give the loans without any formalities or rules and regulations, therefore, IFIs face significant barrier in practicing the IFM. The Participant 1 outlines that:

*“Due to the moneylenders, we have to be very much generous in terms of the formalities but according to the banking laws, we cannot be too much generous and we have to follow the rules and regulations in terms of loan disbursement or any kind of service processes. However, these things are not acceptable to many people living in the society of Bangladesh. they take the loans easily from moneylenders and they pay back easily without formalities. hence, they do not like to come and open bank accounts and avail the banking services of the IFIs. So now tell, why should a bank manager should try to install the IFM practices if the target customers do not like the practices. Thus, if we would want many clients, we need to reduce the moneylenders from the society. They create big problem among the clients’ businesses and even personal life because their interest rate is too high.”*

### **Lack of Islamic capital market**

Twenty-one participants in this study have outlined that the lack of Islamic Capital market environment in the Bangladeshi economic and financial industry is one of the major challenges for the IFIs in practicing the IFM practices. In this regard, the Participant 1 has outlined that:

*“I think the lack of the Islamic Capital Market is a significant issue that could make the situation better for the IFIs to practice IFM but its absence is a challenge for the IFIs in Bangladesh.”*

However, Participant 4, Participant 12, Participant 23 and Participant 24 have not mentioned anything regarding the lack of Islamic Capital Market but rest of the participants have stressed to the need of the Islamic Capital Market development in the Bangladesh. They believe that the existence of the Islamic Capital Market can contribute to the development of the IFM practices in the IFIs in Bangladesh.

### **Organisational challenges faced by IFIs in practicing IFM in Bangladesh**

Organisational challenges have been identified most of the participants in this study. These challenges create problem in practicing the IFM in Bangladesh. Therefore, it can play a vital role to the understanding of the stakeholders specially the decision makers can be benefited from the results regarding these organisational challenges, which are faced by the managers in practicing the IFM in Bangladesh. In this respect, the Figure 2 outlines all the organizational challenges that are faced by the IFIs in practicing IFM in Bangladesh followed by the explanations.





**Figure 2**  
*Organisational challenges faced by IFIs in practicing IFM in Bangladesh*

### **Poor Shariah council**

Every participant in this study mentioned that poor Shariah council is one of the major reasons in the process of developing the practice of the Islamic Financial Management (IFM) practices in the IFIs of Bangladesh. They have informed that if the Shairah council could be strong to influence the decision-making process of the owners of the IFIs or the directors of the IFIs, the organisations would be more interested to practice the IFM. In this respect, the Participant 1 outlined that:

*“Shariah Council in Bangladesh might have lack of strength to regulate the banks that might create problem in practicing IFM in the IFIs..”*

Other participants in this study have also opined that the Shariah Council is important for the IFIs in Bangladesh but these have no significant influence on the management of the Islamic institutions.

### **Few employees**

The lack of employees with the Islamic Values has been identified as another significant challenge in case of practicing IFM in IFIs in Bangladesh. Interestingly, all the participants in this study have outlined that there are few employees who have proper knowledge regarding Islamic values and Islamic Financial values or culture even. The Participant 2 opined as:

*“You know most of the people in Bangladesh are Muslim but you should know that being a Muslim or believer of Islam does not imply that you have knowledge regarding the Islamic Financial Management Practices. Many of them may not be enthusiastic to apply the IFM practices in the IFIs.”*

### **Lack of training**

All the participants in this study have outlined that there is a big problem regarding the lack of training in the Islamic Banks and other Islamic Financial institutions in Bangladesh. The Participant 1 has outlined that:

*“There are lack of training for the employees that is a problem. For this reason, it becomes difficult for the employees with little knowledge regarding the IFM practices to apply in the IFIs.”*

Something similar is also identified from the Participant 4. He has outlined that:

*“Most of the employees in IFIs have not formal educational or experience regarding the Islamic Financial or Banking or Insurance knowledge because there are very few universities or colleges with these knowledge or courses. In addition, there are not many training organisations in the country that is also another issue not having the employees with knowledge or skill in applying the IFM practices in the IFIs. As a result, it becomes very much difficult for the organisations like the Islamic Banks or the Islamic Insurances to apply the IFM practices.”*

### **No specific framework**

Absence of a specific framework regarding the Islamic Financial Management (IFM) practices has been identified as a significant challenge in practicing the IFM in the IFIs of Bangladesh. Therefore, the employees working in the organisations do not get what to do specifically relating to the Shariah practices and the IFM practices. As a result, a confusing operational process is created that demotivates the employees or even decision makers to apply the IFM practices in the IFIs. In this respect, the Participant 3 has outlined that:

*“Basic instruments include cost-plus financing (i.e., Murabaha), profit-sharing (i.e., Mudarabah), partnership (i.e., Musharakah), leasing (i.e., Ijarah), and forward sale (i.e., Salam). These instruments serve as the basic building blocks for developing a wide array of more complex financial instruments, suggesting that there is great potential for financial innovation and expansion in Islamic financial markets. But to be honest with you many employees in the IFIs in Bangladesh do not have clear understanding regarding these. As a result, it becomes challenging to develop an universal framework that should be honoured and followed by the IFIs in practicing the IFM practices. Hence, it is very much challenging.”*

The participant 7 has outlined that:

*“We do not have framework that every Islamic bank can follow. As a result, it is difficult to apply the IFM practices in the IFIs.”*

All other participants in this study have also opined similarly that there is a need for the formal and widely accepted framework with the Islamic Financial Management Practices that would contribute to the development of the IFM practices among the IFIs in Bangladesh.

### **No central rules**

The participants of the study have outlined that there is no central rules and regulations relating to the Islamic Financial Management (IFM) practices in

Bangladesh. Thus, this has been identified as a significant challenge in developing IFM practices in the Islamic Financial Institutions (IFIs) in Bangladesh. In this respect, the Participant 1 has outlined that:

*“In Bangladesh, there is no central rules and regulations set by the Bangladesh Bank specifically in relating to the Islamic Financial Management (IFM) practices. Therefore, none gets the formal something to follow. As a result, if any employee or personnel in the Islamic Bank does not follow the IFM practices or does not integrate the IFM practices into the operational processes in the IFIs, you cannot force them.”*

### **Lack of motivation or rewards for employees**

Lack of motivation and rewards for the employees in practicing IFM practices is also another reason that hindering the IFIs in Bangladesh. This is derived from the opinions provided by 12 participants. In this respect, the Participant 1 said that:

*“In applying something new or something difficult, you will have to make sure that your employees are motivated. Without proper motivation and rewards, you cannot expect that the IFM practices can be applied in the IFIs in Bangladesh. I think lack of the motivation and rewards are very much important problem in practicing IFM in the IFIs in Bangladesh.”*

### **Internal politics**

Among 25 participants, 9 participants have raised this issue as the challenge. However, other 16 participants have not mentioned anything about the internal politics as a challenge for the IFIs to practice IFM. In this respect, the Participant 6 has outlined that:

*“Some employees are recruited based on the political recommendations in the IFIs. These employees create problem to bring something new in a system that is not different in the case of the IFIs. They do not want the IFM practices to be implemented in the IFIs in Bangladesh. They create dirty politics against the IFM practices. As a result, the employees, who like the IFM practices, cannot apply them. Thus, it becomes very much challenging for the banks.”*

The Participant 14 has also outlined similarly that:

*“Everywhere internal politics create problem. It is also in the IFIs but outside people do have idea regarding this. Thus, they do not know. There are many employees who do not want the IFM practices completely to developed and implemented in the working processes. As a result, interested employees cannot apply the IFM practices.”*

### **Individual challenges faced by IFIs in practicing IFM in Bangladesh**

Some individual challenges are also identified in this study. The participants have blamed the employees i.e., individuals because of these challenges,

which restrict the implementation of the IFM practices in the IFIs in Bangladesh. They have argued that nothing can be installed without employees' contribution therefore, the individual challenges create problems in implementing the IFM practices in the IFIs in Bangladesh. The individual challenges, which have been derived from the research are outlined below:



**Figure 3**  
*Individual challenges faced by IFIs in practicing IFM in Bangladesh*

### **Lack of interest**

Every participant in this study mentioned that the lack of interest of the employees is one of the challenges that create problem in the implementation of the IFM practices in the IFIs in Bangladesh. In this respect, the Participant 1 outlined that:

*“The employees have lack of interest to learn and apply the IFM practices in the Bangladeshi IFIs. There could be many reasons you know. I told you that there are some other problems previously in this interview that could impact on their interest. Once you are not interested from your heart, then it is possible to apply the IFM practices in the organisations, I mean in the Islamic Financial Institutions (IFIs). The employees’ interest is a significant factor and if they are not interested you cannot force again and again because you are not technically not allowed to do so due to the limitations in the banking processes. Hence, you will have to be very much careful in this regard.”*

### **Lack of Islamic practice**

All the participants in this study unanimously uttered that the lack of Islamic practices among the employees in the IFIs is one of the crucial challenges in blocking the implementation of the IFM practices. In this respect, the Participant 1 outlined that:

*“Many Bangladeshis are the Muslims but that is by birth. Most of them do Pray but literally they are not practicing the Islamic values, rules and regulations specially the Shariab rules very much sincerely. Hence, this is very much important challenge in implementing the IFM practices in the IFIs.”*

All other participants have also outlined similarly that the lack of the Islamic practices is a challenge in IFM practices in the IFIs of the Bangladesh.

### **Lack of competency**

All Participants have outlined that some of our employees have lack of competency that is a significant challenge in practicing the IFM in the IFIs. The Participant 1 has outlined that:

*“I can see some of the senior or higher management personnel have lack of competency regarding the various working processes and he or she does not know how to perform those jobs. In this respect, if the IFM practices are made obligatory for them to practice, then it would be very much challenging for them. Hence, this issue I mean lack of competency among the employees is a significant challenge for IFIs to practice the IFM.”*

### **Lack of confidence**

Lack of confidence among the employees to perform certain jobs specially when the IFM practices are enforced is also one of the significant challenges in implementing the IFM practices in the IFIs in Bangladesh. However, only 5 participants (Participant 2, Participant 8, Participant 14, Participant 19 and Participant 25) have outlined this is a challenge in implementing the IFM practices in the IFIs in Bangladesh. The Participant 2 has outlined that:

*“Sometimes the employees overreact to the new processes because of their poor confidence to work in some new processes. As a result, it becomes very much challenging or the organisations to develop overall employees’ interest to work under the IFM practices. Thus, the lack of confidence is a significant challenge for the organisations I mean the Islamic Financial Institutions (IFIs) of Bangladesh.”*

The Participant 25 has outlined in different words that:

*“Some employees feel that their works are not recognized in the IFIs with the words or rewards. As a result, they think that they might not be performing very well. That impacts negatively on the employees’ performance confidence. In this respect, if they are bound to IFM practices, they will not be feeling confidence to work under the new practices in the IFIs. thus, poor confidence of the employees is a challenge for the organisations.”*

However, other participants have not said anything regarding the lack of confidence as the challenge in implementing the IFM practices in the IFIs in Bangladesh.

### **Poor technological knowledge**

Technology has been changing and it has been impacting on every company specially in the financial industry. It is because the process of banking and insurance and other sorts of financial organisations have been changed overnight. However, to get the best benefits of the technologies, the

employees should have enough technological knowledge. In this respect, the 9 Participants have outlined that the poor technological knowledge of the employees is also one of the challenges in developing the IFM practices in the IFIs in Bangladesh. The Participant 3 has outlined that:

*“Some employees have lack of technological knowledge so after achieving the minimum or certain training on technologies, if they see some more changes in the operational processes to come, he or she will not be interested. Thus, the poor technological knowledge is a challenge to develop the IFM practices in the IFIs of Bangladesh.”*

### **Solutions in overcoming the challenges faced by IFIs in practicing IFM**

This research has found a number of challenges that impedes the IFM practices in the IFIs in Bangladesh. However, some significant solutions have been derived from the semi-structured interviews with the participants of the study. These solutions have been critically analyzed in this section of the study. The figure 4 below outlines the solutions to overcome the challenges in practicing the IFM in the IFIs of Bangladesh.



**Figure 4**

*Solutions to overcome the challenges in practicing the IFM in IFIs*

#### **Strong Shariah council**

All the participants have recommended strong Shariah Council as the solutions in overcoming the challenges faced by IFIs in practicing IFM. The Participant 1 has outlined that:

*“Without strong Shariyah Council, IFIs cannot maintain the right processes to ensure the Islamic financial management practices in the daily or long-term workings.”*

#### **Similar rules and regulations (framework)**

This study has found that there is no similar rules and regulations that could work as the framework for the IFIs in Bangladesh. In this respect, all the participants unanimously recommended the similar rules and regulations for implementing the IFM practices in the IFIs in Bangladesh. In this respect, the Participant 2 has outlined that:

*“As there is no central rules and regulations, every IFI has different types of rules and regulations to meet the Islamic financial practices but some employees can take this as the opportunity to ignore the Islamic fundamental rules and regulations. I mean they might avoid practicing the IFM, hence, I think the similar rules and regulations in a similar framework can be created. However, you have to keep in mind that a framework for bank should not be used for the insurance or other Islamic financial institutions. As a result, the employees will be able to follow one framework that would be easier and beneficial for them to practice IFM in the IFIs.”*

Furthermore, the Participant 9 has also affirmed the need for the similar rules and regulations in the IFIs in Bangladesh. He has outlined that:

*“You know employees need something similar so that they can work effectively and similar way otherwise, they will be doing everything differently that is not good for the organisations. Hence, similar kinds of rules and regulations in the similar framework are very much important for the IFIs in Bangladesh to successfully implement IFM practices.”*

### **Social campaigning**

All the participants in this study have recommended the social campaigning by the IFIs in Bangladesh to raise the awareness regarding the IFM practices. It is probably because the study has found some significant social barriers in implementing the IFM practices in the Bangladesh. The Participant 1 has outlined that:

*“There is lack of awareness among the mass people regarding the benefits of the IFM practices in the IFIs that would be good for them and beneficial to get the extra money not as the interest but as the profit. There is also prejudice regarding the IFM practices and even regarding the IFIs in Bangladesh. Some people specially from other religion think that they are now allowed to take the services from the IFIs, as a result, a big portion of the clients are not taking the services from the IFIs in Bangladesh. This is demotivating many IFIs to practice the IFM practices efficiently and effectively in Bangladesh. Hence, a widely social campaigning regarding the IFIs are recommended.”*

### **Reducing workloads**

All the participants unanimously also argued that the IFIs give too much workloads to the employees, who cannot perform their jobs on time and they leave the workplace in late night. It is not really a good scenario. In this respect, all of them have suggested reducing workloads in practicing the IFM in the IFIs because there are many IFIs do not have formal IFM practices. In such situation, if those organisations apply the IFM practices, they need to

reduce the current workloads so that the employees can concentrate on the new practices that would be developed based on the Shariah practices. In this respect, the Participant 3 has opined that:

*“Most of the employees leave the IFIs because of the high workloads. I am a manager but I have no choice because there are no enough people in this workplace. As a result, the shorter people I mean the employees have to perform the extra workloads. I always request to increase people in the IFIs but who listen. I think if the IFM practices are done as the mandatory aspects, there would be new procedure, new technologies and many things would be new. As a result, the current workloads will be more difficult for the employees. Hence, before applying the IFM practices as the mandatory practices in the IFIs, I highly recommend to reduce the workloads that would be possible by recruiting more employees. If the IFIs do not reduce the workloads of the employees, I think it will be successfully establish the IFM practices. Hence, it is very much important for the organisations.”*

All other participants in this study have recommended that the reduction of the workloads would be very much effective in practicing the IFM in the IFIs in Bangladesh.

### **Training**

The training has also been suggested by the all participants in this study as the significant solution to the challenges in practicing the IFM in the IFIs in Bangladesh. The Participant 3 has opined that:

*“Training for the employees in terms of the technologies and the motivations is very much important. It is because if the IFIs apply the IFM practices, the organisations will have to train the employees to learn the sensitive issues and the important issues of course. I can tell you employees are already suffering from the problem of inefficiency in terms of many works. There is also problem of in appropriate training. Sometimes, the trainings are given without the consent of the employees, who are sent by the managers. As a result, the training does not bring any kind of improvement to the skills. Our employees need the training relating to the technologies, Islamic rules, Shairah and so on. Many employees work in the IFIs without any kind of proper Islamic knowledge or qualification. Hence, I strongly recommend the training on technologies, operations, Islamic rules and regulations should be organized in the IFIs. Thus, the IFM practices can be implemented in the IFIs.”*

All the other participants have also suggested that the training is a very much important solution to the development of the employees' interest, efficiency, skills and motivation for the implementation of the IFM practices in the IFIs in Bangladesh.



### **Government support**

The government support as the solution has also been identified from the response of every participant in this study. The Participant 1 has opined that:

*“The conventional banks are directly run based on the central banks rules and regulations where the Islamic Shariah laws are not included. But in case of the Islamic Financial Institutions, the government can make the IFM practices mandatory for the every IFI that would bound them to employ the IFM practices. In every country, the government is the supreme power that is also same here in my country so if the IFM practices to be applied, it is high time that the government took immediate actions.”*

### **Monitoring and supervision**

Monitoring and supervision is recommended by the 11 participants in this study. The Participants included Participant 2, Participant 3, Participant 8, Participant 11, Participant 14, Participant 16, Participant 19, Participant 21, Participant 22, Participant 23 and Participant 25. All these participants have urged the IFIs to ensure that they have the monitoring and supervision team for implementing the IFM practices. The Participant 2 has outlined that:

*“I can say you that there are some IFIs that claim the IFM practices are being practiced but to be honest with you not all of them are true. It is because they do not practice the IFM practices based on the proper Shariah law because of the lack of monitoring and supervision. Now, if the IFIs develop the IFM practices, the organisations need to have the proper monitoring and supervision to ensure that the employees do follow the practices according to the Shariah Law. Otherwise, the employees will just avoid the IFM practices in their working processes in the IFIs. So I suggest you to mention that that the monitoring and supervision is urgent.”*

### **Islamic financial education**

18 participants out of the 25 participants in this study have opined that Islamic Financial Education in the universities and colleges can be effective for implementing the IFM practices in the IFIs in Bangladesh. The Participant 2 has opined that:

*“Although Bangladesh is a Muslim country, there is a shortage of the Islamic education in this country specially in the college and the university level. I think there is no formal modules for the students regarding the Islamic fundamental rules or regulations and I think nothing regarding the Islamic financial issues. As a result, there is a difficulty to get the employees with the Islamic financial knowledge. So, if you would like to develop the educated people with Islamic financial knowledge you have to develop the Islamic financial education. It is possible once you have the Islamic courses in the traditional universities and colleges.”*

### **Motivation and rewards**

17 participants in this study have argued that the motivation is very much important for motivating the employees and higher management in practicing the IFM in the IFIs in Bangladesh. The Participant 2 has opined that:

*“Employees will be working under the IFM practices no problem if you pay them enough also if you give them motivation with good behavior, words and also financial rewards, promotion and so on. These will motivate the employees who receive these but also other employees because they will be working hard to practice IFM based on the Shariah rules and regulations.”*

Furthermore, the Participant 18 has also opined mostly similar that:

*“Employees in the IFIs have more works to do than the other commercial banks. But our employees get less money than the other banks. So, they are not motivated to work harder. If you now give them to work under the IFM practices, you need to first make them motivated. Otherwise, it is not possible to get them work harder. So, I suggest to give the employees more motivation and rewards that will make the employees happy.”*

Other participants have also opined that the Motivation and rewards are very much important to get the employees to work with the IFM practices in the IFIs in Bangladesh. It is important to note that the employees who didn't mention anything regarding the motivation and rewards didn't say anything against these.

### **Discussion and implications**

Social challenges faced by IFIs in practicing IFM in Bangladesh

According to the results of the study, it has been found that the participants found lack of awareness regarding the Islamic Financial Management (IFM) practices in the IFIs in Bangladesh. This finding is in line with the results of Hesse, Jobst, and Solé (2008); Abdul-Rahman, Said, and Sulaiman (2017), who have argued that there is a number of people in Bangladeshi society who do not have the right information regarding the IFM practices that create challenges in practicing the IFM in the IFIs in Bangladesh. Furthermore, prejudice has also been identified as one of the significant challenges faced by the IFIs in practicing the Islamic Financial Management in Bangladesh. This result is consistent with the results of Lajuni, Wong, Yacob, Ting, and Jausin (2017), who argued that prejudice among people in societies regarding the Islamic finance, is one of the key challenges in practicing the IFM in the IFIs. Furthermore, this study found that local culture of Bangladesh is one of the key challenges in practicing the IFM in the Bangladeshi culture. This

is in line with the study conducted by Uddin and Mohiuddin, (2020). This study has also found that religious faith difference in Bangladesh has been one of the key challenges for the IFIs in practicing the IFM. This result is consistent with the study conducted by Ahmed (2010).

Moreover, this research has also found that traditional usury practices in Bangladesh is a significant challenge in practicing the IFM in the IFIs. Although this has not been found in the previous literature as a significant challenge for the IFIs in practicing the IFM but usury practices are completely forbidden by Quran and Shariah rules. This is one of the key findings of the study that can be taken in the future for the further examination to strengthen the claim that the traditional usury system can be one of the key challenges in practicing IFM in Bangladesh. This study has also found that the lack of the Islamic capital market is one of the key challenges in practicing the IFM in the IFIs in Bangladesh. This is corroborated with the findings of the Sarwar (2016), Habib (2018) and Aracil (2019), who argued that in Bangladeshi social contexts there is no strong Islamic capital market that creates a significant challenge for the IFIs to practice the IFM.

### **Organisational challenges faced by IFIs in practicing IFM in Bangladesh**

Firstly, poor Shariah council of IFIs has been found as one of the significant organizational challenges in this study. This is consistent with the findings of previous studies i.e., Ullah (2013), Ahmed and Khatun (2013), Rahman (2010) who have argued that there is no strong shariah council to ensure the IFM practices to be applied in the IFIs. This study has also found that shortage of employees in the IFIs is another significant challenge to ensure IFM practices. Furthermore, this study found that lack of training on the IFM practices is one of the significant challenges in the IFIs. This result is also consistent with the previous studies i.e., Ali (2006), Hassan (2015), who argued that training is very much important requirement to have the employees to perform their jobs. Moreover, there are also lack of training facilities in the IFIs while some employees are transferred from one place to another place, therefore, the knowledge and skill shortage remain crucial. In this respect, the findings of the study enrich the current arguments on the challenges i.e., lack of training as one of the key challenges in developing IFM practices.

The study has also found that there is no specific framework i.e., no universal rules and regulations for the IFIs relating to the IFM practices that are consistent with the previous studies i.e., Ahmed and Khatun (2013);

Ullah (2013). Moreover, the study also found that there are no central rules regarding IFM practices that could be imposed in the IFIs. This finding is also supported by the previous studies Khan (2015) where the authors argued that no central rules for the IFIs to practice IFM in Bangladesh. This study has also found that there is no specific law relating to the IFM practices in the IFIs in Bangladesh. The organisations i.e. IFIs do not have any specific law relating to the Islamic Financial Management practices because nothing has been passed from the parliament. As a result, it is challenging for the IFIs to practice the IFM in Bangladesh for example due to the lack of specific law, it is difficult for the IFIs specially in relating to the long-term financing and taxation (Ariss, & Saredidine, 2007; Malik, Malik, & Mustafa, 2011; Shah, 2016).

### **Individual challenges faced by IFIs in practicing IFM in Bangladesh**

This study has found a number of the individual challenges that are not widely available in the current literature. The study found that the individuals working in the IFIs have lack of interest in practicing the IFM. This could be the result of lack of awareness, knowledge and lack of training because if the employees do not have enough knowledge and skills regarding the working process, the employees will not be able to interested to perform (Hesse, Jobst, & Solé, 2008; Ahmed, 2010). Moreover, this study has also found that there are lack of motivation and reward practices in the IFIs that can also reduce the interest of the employees to practice the IFM. Furthermore, this study has also found that there are many employees with lack of Islamic practices working in the IFIs in Bangladesh. This has also been a challenge for the IFIs in practicing the IFM. This study has also found that the lack of competency is one of the significant challenges in practicing IFM in the IFIs in Bangladesh.

Lack of confidence of the employees is also found in this study as a new aspect in relation to the IFM practices in the IFIs. This finding is very much important for the IFIs so that these organisations take initiative to develop the confidence of the employees in practicing the IFM practices. However, this finding has not been found in the previous studies mentioned in the literature review. Therefore, it has created a significant room to validate the arguments. Furthermore, the study has also found that the poor technological knowledge is one of the significant challenges in practicing the IFM in the IFIs in Bangladesh. Technologies, for example, Internet, Intranet, software, computer, and so on are the inevitable for performing jobs in any kind of financial organisations because nowadays everything is going to be online and technological. In this respect, if the employees have lack of

technological knowledge, they will not be able to apply the IFM practices because these would be integrated with the technologies. Hence, this is a significant finding for the current literature as well as for the IFIs and their practitioners.

### **Solutions to overcome the challenges in practicing the IFM in IFIs**

This study found a number of challenges in practicing the IFM in IFIs in Bangladesh, hence, the study also explored some solutions from the participants so that the IFIs can apply the IFM practices. In this regard, the participants unanimously opined that the organisations i.e., Islamic Financial Institutions (IFIs) need the strong Shariah Council. Furthermore, the study has also found that the current Shariah councils cannot influence the management of the IFIs to apply the IFM practices. This result is consistent with the findings of the previous studies where the authors also suggested that the strong Shariah Council can be effective in implementing the IFM practices in the IFIs in Bangladesh.

Furthermore, this study has also found that the IFIs need similar rules and regulations in relating to the IFM practices for example the Islamic Banks should be run based on similar IFM practices while Islamic Insurances should be run based on similar rules and regulations, which could be effective for them. The participants in the study have argued that the similar rules and regulations for the IFIs in practicing the IFM would be very much effective for these organisations. They have also argued that the employees will have something similar to do and their efficiency will be improved that will also inspire them to apply the IFM practices. This is also consistent with the previous studies i.e., Hassan and Lewis (2009), Nurdin (2019), who argued that conventional financial institutions have been more successful because they have some similar rules and regulations. Moreover, this study has also identified that social campaigning is a significant challenge for the IFIs in practicing the IFM. In addition, this study has also found that the IFIs should reduce the workloads if these organisations would like to apply the IFM practices. The participants in the study have also recommended that the training is very much important for practicing the IFM in the IFIs in Bangladesh.

Additionally, the study also found that there are some training programs for the employees in the IFIs but those trainings are not good enough to develop their competency to perform the jobs according to the IFM practices. These findings are consistent with the previous studies where researchers suggested that the training could be solutions to the implementation of the IFM practices in the IFIs in Bangladesh (Nomran &

Haron, 2020). Besides, this study found that government support is very much important in practicing the IFM in the IFIs in Bangladesh. This finding is consistent with the previous studies for example Islam and Sultana (2019). However, the participants in the study have also argued that the Government of Bangladesh needs to make the law or Act that will compel everyone in the IFIs to apply IFM practices. More to the point, this research has also found that the monitoring can be effective in practicing the IFM in the IFIs in Bangladesh. These arguments from the participants are also supported by the previous studies i.e., Nurfalah, Rusydiana, Laila, and Cahyono (2018), Belkhir, Grira, Hassan, and Soumaré (2019), who have also suggested that monitoring can play a significant role in practicing the IFM in the IFIs. As well, the participants in this study have also suggested that Islamic education can be effective in implementing the IFM practices in the IFIs in Bangladesh. Finally, the participants have argued that the employees should be given financial and nonfinancial motivation for example some rewards if they apply the IFM practices.

### **Concluding remarks**

The present study was conducted to explore the challenges and solutions in practicing the Islamic Financial Management (IFM) in the Islamic Financial Institutions (IFIs) in Bangladesh. The results identified in the study were mainly divided into three major areas based on the codes, categories and themes, which have been presented in the results section following the discussion section of the findings. In this respect, the study has found a number of the social, organizational and individual challenges in practicing IFM in the IFIs in Bangladesh. The study has also identified some solutions to the challenges based on the opinion of the participants.

Every study has some limitations that is applicable in this study. The study was only conducted on major Islamic Financial Institutions (IFIs) such as Islamic Banks and Islamic Insurances in Bangladesh, therefore, the results of the study may not be generalized to all IFIs in Bangladesh or in other countries. The study has also been based on the qualitative study. The study was semi-structured and involved 25 participants selected from Islamic banks and Islamic insurance providers in Bangladesh. Therefore, the sample size of the participants should be extended to include more participants in order to get more accurate and representative results.

Moreover, the data collection was done by the researcher, therefore, the personal attributes such as age, body language, time of the interviews, interviewees busy schedules, etc. could have also impacted the responses. In addition, it is also important to note that because of the nature of the

questions mentioned in the interview protocol, interviewees could be hesitant or avoided to discuss the sensitive issues relating to the challenges in practicing IFM in the IFIs in Bangladesh. Therefore, the results of the study like other research studies should be used or applied cautiously. In this regard, future studies could be conducted using other types of data collection method for example focus group discussion. Furthermore, the future studies can be conducted using the quantitative survey to validate the findings of the study that may also contribute to avail greater generalization. Besides, the conducting a similar study in the different other contexts can also help the future researchers to establish the degree of which the current findings can be perused in other types of Islamic Financial Institutions (i.e., except Islamic Banks and Islamic Insurances). Finally, the respondents from other types of employees of IFIs can also be included in the future studies to identify more challenges to enrich current literature and understanding of practitioners, managers and policy makers.

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