

Applying of Islamic Economic Principals and Its Impact on Reducing Administrative Corruption in Libyan Islamic Banks

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Abstract

The study is essential in identifying the mechanisms of applying the Islamic economy and their impact on reducing administrative corruption in Libyan Islamic banks. The researcher used the questionnaire as a tool for the study. The study population was limited to the employees of the Libyan republic and oasis banks, which numbered 550 male and female employees. The data were analyzed by SPSS and SMART-PLS. Three hundred questionnaires were distributed to the employees of these banks, 235 questionnaires were retrieved, and 76% and 230 questionnaires met the conditions. Where the study sample was selected by random sample method, and arithmetic averages were used to find out the level of respondents' response to the paragraphs of the study variables. The results of the study showed that there was a strong positive effect with a statistical significance at a significant level ($\alpha \leq 0.05$) between the application of the rules of Islamic economics and the reduction of administrative corruption, in addition to the existence of a positive effect between legal, financial controls and the use of Islamic financing mechanisms and government intervention on the reduction of administrative corruption, with his banishment: Bribery and exploitation of public office. The study highlights future research, which is, conducting more studies on applying the rules of the Islamic economy to other Libyan banks and comparing the results due to its positive impact on the state's national economy—analyzing and evaluating the practice of the rules of the Islamic economy on the Libyan Islamic banks.

Keywords: Islamic Economics Rules, Administrative Corruption, Islamic Banks, Libya.

Introduction

The mechanisms of applying Islamic economics have become one of the most prominent topics economists have dealt with recently. Islamic economics contains many principles and solutions that would address the imbalances in the economics of institutions. Notably, the applications of Islamic economics are also based on reducing administrative corruption in all institutions, particularly banking institutions. Hence, the standards of integrity, transparency, and governance are among the most prominent mechanisms employed by Islamic economics

to combat administrative corruption in banking institutions (Ahmed, 2010). On the other hand, one of the most prominent mechanisms of the Islamic economy is the use of rational control methods that help reduce the widespread financial and administrative corruption in institutions in general. Also, one of the most prominent mechanisms of the Islamic economy is the application of Islamic financing methods in reducing financial and administrative corruption significantly. There is no doubt that the phenomenon of administrative corruption has become a phenomenon inherent to all developing countries. Administrative corruption has also emerged in many institutions, especially banking institutions. Administrative corruption is an old phenomenon, and it was the main factor in the collapse of the economies of many countries. Administrative corruption is one of the most dangerous types of corruption, as the spread of administrative corruption leads to many adverse effects that harm institutions in general. Administrative corruption has shown many other associated phenomena, especially job abuse. This phenomenon is based on employees achieving many material and moral benefits from behind their jobs and administrative positions (Shaaban, 2016).

Resulted from widespread administrative corruption in public institutions and banking institutions. Libyan banking institutions play a significant role in implementing the decisions of the Libyan Central Bank regarding the application of governance and transparency standards approved by the Central Bank of Libya. Also, banking institutions play a significant role in applying rational control mechanisms to strengthen internal regulations preventing employees from exploiting their jobs. The experience of Libyan Islamic banks is very recent, as those banks started their activity as Islamic banks less than ten years ago. Therefore the understanding of Libyan Islamic banks is exposed to many challenges. On top of those challenges is administrative corruption in Libyan banking institutions, which accompanied those institutions before those banks were transformed by a decision from The Libyan government to Islamic banks by decision since 2013. Based on the previous, the study deals with the problems and challenges of applying the mechanisms of Islamic economics and the impact of applying those practices to reduce administrative corruption and its impact on Islamic banks in Libya.

Research Problem

The Libyan government and the Libyan Central Bank are making great efforts to control the performance of Libyan Islamic banks in accordance with the internal regulations of those Libyan Islamic banks. Despite the use of mechanisms to implement the pillars and foundations of the Islamic economy since the decision to convert the traditional Libyan banks into Libyan Islamic banks in 2012, administrative corruption is still rampant in Libyan Islamic banks, as many employees commit many cases of abuse within the Libyan Islamic banks. Moreover, Among the most egregious of these abuses is employees' exploitation of the boundaries of their employment, their access to the database of clients and business people, their attempt to benefit from them, and their exploitation of the restrictions of their job to advance their interests. The presence of some reports about corruption in Libyan banking institutions confirmed the problem of the study. However, the Libyan Fatwa council (Dar Al-Iftaa) has officially issued Fatwa No. 2376, which pertains to the prohibition of administrative corruption and the spread of Bribery among employees in official departments. However, there is a remarkable spread of administrative corruption in banking institutions (Libyan Dar Al Iftaa Fatwa, 2015). Sabri (2021) confirmed in the report prepared for Reuters that the Director of Jumhouria Bank, Misurata Branch, Muhammad al-Darini, stated that despite the

Central Bank of Libya's adjustment of the exchange rate, political crises and widespread corruption in Libyan banking institutions are the main reason for the division of the Central Bank into Benghazi and Tripoli, which exacerbated the situation of administrative corruption. The World Bank issued a 2020 report on the banking sector in Libya, where the report confirmed that despite the significant investments made by Libyan banks, there is a complete absence of the application of rational supervision in Libyan banking institutions. This has exposed many Libyan banks to widespread corruption, and the deterioration of the political and security situation has exacerbated the severity of the crisis (World Bank Report, 2020). The Transparency Index report issued in 2020 indicated that Libya had reached the peak of administrative corruption, as Libya ranked 172, as the report indicated that administrative corruption is widespread in Libyan institutions in general and that the idea of buying responsibilities and loyalties and its will means neglect of government intervention, in particular. Banking institutions, as the report stated that there is widespread exploitation of employees for their job duties clearly and tangibly as the Corruption Perceptions report indicated that there are cases of employees profiting from the job tasks that they perform up to the point of employees obtaining large sums of cash unlawfully (Transparency Index report International (2020). Administrative corruption is widespread, and the exploitation of employees for their job tasks is relatively present. There is also an absence of applying the practices of the Islamic economy, which led to increased administrative corruption in the Libyan banks. The re-application of the standards and elements of the Islamic economy, the application of rational supervision and control of legitimate financial and economic transactions, the opportunity for government intervention, and the use of Islamic financing mechanisms can only address the phenomenon.

Research Questions

- I. What is the level of administrative corruption (Bribery, forgery, exploitation of public office, embezzlement) in Libyan Islamic banks?
- II. To what extent is the application of the principles of Islamic economics (legal, financial controls, rational supervision, Islamic financing mechanisms, government intervention) in Libyan Islamic banks?
- III. What is the impact of applying the principles of Islamic economics (legal, financial controls, Islamic financing mechanisms, government intervention) on reducing administrative corruption in Libyan banks?

Significant of Research

Libyan Islamic banks and the field of combating administrative corruption. The importance of the study is to identify the mechanisms of applying the Islamic economy and its impact on reducing administrative corruption in Libyan Islamic banks. The significance of the study lies in the worsening of administrative corruption in Libyan institutions in general and the issuance of corruption perception reports indicating a decline in the transparency index in Libya. The study also highlights the solutions that must be followed to eliminate employee exploitation of the limits of their job profession in Libyan Islamic banks. The study also focuses on the mechanisms and practices of the Islamic economy, including the control of legitimate financial and economic transactions, how to apply rational control, and the possibility of government intervention to reduce administrative corruption and work to reuse the mechanisms of Islamic finance. This study is the first of its kind that uses the foundations of the Islamic economy to identify the dimensions of administrative corruption in Libyan banking

institutions. Furthermore, the study reveals the solutions used in the Islamic economy, the principles of combating administrative corruption, especially in vital institutions, especially Libyan Islamic banking institutions. The study also reveals legal gaps in the regulations and laws regulating the work of Libyan Islamic banks and how to address those gaps. This study presents many policies that must be changed from time to time in order to find effective solutions to the problem of administrative corruption in Libyan banking institutions. On the other hand, Islamic banking institutions need to reconsider the methods used in order to combat the phenomenon of administrative corruption in Libyan Islamic banking institutions. The study is an attempt to discover solutions that can be reached to address one of the phenomena arising from administrative corruption in Libyan banking institutions. The study also presents images of administrative corruption, mechanisms, and practices applying the Islamic economy in Libyan banks. Likewise, to achieve the solution of these phenomena, which allows for addressing policies to develop work in Libyan Islamic banking institutions and to move away from the negative image of Islamic banking institutions, enhancing the standing of banking institutions.

Literature Review

About Libyan Islamic Banks, Islamic banks are considered to be the banks that carry out the same work as traditional banks, except that they differ from them in that the discipline and provisions of Islamic Sharia regulate them. Following this decision, the Libyan commercial banks became Islamic banks. Since that time, many entities that practice Islamic banking business have been established, such as the Central Authority for Sharia Supervision, which is subject to the Central Bank of Libya and reviews all Libyan banks' work in terms of legitimacy. According to Law No. 1 of 2005, amended by Law No. 46 of 2013, which stipulates the need to implement a system of Sharia supervision for all economic activities, and based on that decision, all Libyan Islamic commercial banks have established sub-committees for Sharia supervision of the work of Islamic commercial banks (Shaaban, 2016). Where it submits its reports to the boards of directors of these banks in a straightforward manner to verify and find out the legitimacy of Islamic financial and economic transactions and to improve the level of services in Libyan banks; it can be said that the Central Authority for Sharia Supervision in the Central Bank of Libya that a decision acquires the force of obligation, as all Sharia supervisory committees in commercial banks must comply with these decisions. There is a contradiction between the existence of many bodies that Oversight works are practised to reduce corruption, as the Libyan Audit Bureau exercises a supervisory role, but it differs from the oversight role exercised by the Administrative Control Authority, as well as different from the role played by the Central Bank of Libya in its role that issues orders and instructions to Libyan Islamic commercial banks. The Central Bank of Libya is the executor of the decisions of the Council of Ministers after discussing the proposals for laws related to Libyan Islamic banks after their adoption and discussion, and therefore the claim that the multiplicity of regulatory agencies that exercise control in Libya may hinder the work of Libyan Islamic banks is incorrect, and on the other hand, there are many bodies Other audits that practice the supervision work on a larger scale, where the supervision work is carried out by many Other bodies, especially the Anti-Financial and Administrative Corruption Agency in Libya, which is a non-governmental body, but it issues periodic reports on the conditions of financial institutions, in addition to the presence of many international reports that deal with the situations of Libyan banking institutions, on top of which is the World Bank report on the conditions of the Central Bank of Libya and the Libyan Islamic commercial banks and the

extent to which the mechanisms and principles of the Islamic economy have been applied since the decision to convert the Libyan Islamic banks, as well as an evaluation of the banks' experience and a listing of all the positives and negatives that the report deals with in order to enhance the Libyan Islamic banks' capabilities.

The Concept of Positive Economics and Islamic Economics

Before defining a clear concept of Islamic economics, the linguistic concept of the word economy must be defined, as stated in Lisan al-Arab Ibn Manzoor "Economy is the mediator between extravagance and frugality, and it comes from the frugal, that is, the one who spends extravagantly" (Abdul Latif, 2018). As for economics, it is that branch of social science that studies human behaviour in production and consumption and how to balance goals and the limited resources available to humans (Hassan, 2018). And services so that this is done in a state of perfect competition, and Adam Smith has confirmed that economics is the science of producing and developing wealth. In contrast, Ricardo has established that economics is the distribution of wealth to all individuals and all levels of society (Salem, 2017). Rowens has confirmed that economics is the science that works on how to choose uses from among the available resources (Houssen, 2019). After reviewing previous concepts, all earlier economics concepts have been affected by economic conditions. Prevalent in the eighteenth and nineteenth centuries, it can be said that economics is the science that studies economic activities (production, consumption, distribution, and exchange), as well as the phenomena and relationships that arise from these economic activities. The science of economics is related to many other social sciences, and the previous concept can be used at all times and places. Therefore, the researcher will depend on this concept that expresses the science of economics more clearly than the concepts referred to by the classical and Keynesian schools. Before defining the concept of Islamic economics, it derives its traditional hypothesis and theories from economics. Thus, Islamic economics is the science that practices all aspects of economic activity, such as production, consumption, exchange of goods and services, distribution, and the relationships and phenomena that may follow within the framework of the economic doctrine in Islam (Yusri, 2010). It is worth mentioning that Islamic economics is a method based on rules Ali the traditional economy that regulates the affairs of economic activity, but according to the controls of the Islamic perspective.

Mechanisms of applying the rules of Islamic economics

Yousri (2010) indicated that many mechanisms are used in applying the rules of Islamic economics, including the following:

First: The controls of legitimate economic transactions

Through these controls, any economic transaction can be evaluated with the balance of legal and financial transactions. Many institutions have become accustomed to dealing with forbidden usurious transactions, and many individuals have become accustomed to these usurious transactions. For economic or financial transactions, evaluate them according to what God Almighty has commanded. Among the most prominent controls of legal and economic transactions is the lack of the need for hoarding and the emphasis on the importance of practising halal financial transactions, entering into halal deals, and dealing in non-prohibited goods. The forbidden is laziness in operating this money and earning a living from it and opening many new fields that benefit many owners of money and business, and delaying the payment of workers' dues and increasing pressure on them under the pretext of

widespread unemployment and that institutions can hire others departing from the correct Islamic economics approach, which indicates The ability of the Islamic economy to use its mechanisms to control and evaluate financial and economic transactions legally.

Second: Government Intervention

Governmental intervention is considered one of the most critical mechanisms of Islamic economics clearly and tangibly. Through government intervention, deviations and erroneous economic practices can be corrected. Governmental intervention is only in cases that may represent a real danger affecting economic, social, or political security or drawing up the general economic policies that follow it. Most institutions (Moussi, 2021). Government intervention is the real deterrent to illegal financial transactions. Through government decisions, it is possible to protect local products, stand in the face of the production of prohibited goods, restrict economic transactions that do not conform to technical specifications and grant more support to many investors who want to practice their lawful activities without looking at the prohibited practices (Adila, 2021). Government intervention requires the distribution of land to its beneficiaries and plays a monitoring role after three years to enable young people to own these lands following the rules of Islamic economics. The researcher believes that The current time may not allow government practices that limit the practice of economic activities, even in prohibited activities due to globalization. It is not possible for a country in the world to prevent any economic activity except with measures that limit these practices over time, as many government measures refer to raising taxes on foreign industries or raising the value of customs tariffs to reduce prohibited economic methods, which indicates The importance of government intervention as one of the mechanisms used by the rules of Islamic economics.

Third: Islamic Financing Mechanisms

Islamic financing mechanisms are considered one of the most prominent mechanisms the Islamic economy uses clearly and tangibly. These mechanisms can be directed through Islamic financing mechanisms to achieve the desired economic return.

Administrative Corruption

The concept of administrative corruption

Many concepts refer to administrative corruption, including what Al-Bakoush (2020) referred to as those unethical practices that show a lack of discipline and commitment from which institutions suffer. Shaaban (2016) indicated that administrative corruption is the actions of one individual or a group of individuals that represent a deviation from adherence to the rules assumed by the institution during a specific period. Azouz (2016) defined administrative corruption as the abnormal behavior of an individual or many Individuals led to unlawfully obtaining benefits in violation of the laws and regulations in force in these institutions. However, the previous concepts did not delve into the understanding of administrative corruption significantly. The researcher in this study will adopt the concept of administrative corruption approved by the World Bank, as administrative corruption is an abuse of The use of public authority to obtain impressive gains from the general office to obtain material or moral gains for the employees and their relatives in violation of the applicable laws and regulations. The concept that the researcher used is characterized by flexibility, meaning it can be applied in all institutions, and it is also characterized by privacy, as it is concerned with the phenomenon of administrative corruption rampant in all institutions. Shaaban (2016)

emphasized that administrative corruption has many forms, such as accepting bribes or facilitating some procedures to obtain a tender in favor of one of the parties to benefit. There are many policies and loopholes in the regulations or benefits from the appointment of relatives or unjustly leaving work during official working hours. Administrative corruption also manifests itself in administrative exploitation by identifying high-ranking government officials, accompanying them, and providing them with exceptional services to obtain leadership positions within the institution.

Types of Administrative Corruption

The study literature confirmed that there are many types of administrative corruption, including Bribery obtained by an employee who works in public office, as well as the exploitation of public office and the exploitation of administrative corruption, and we will address each type in some detail as follows

Bribery

Al-Bakoush (2020) confirmed that Bribery obtained by a public employee is one of the essential types of administrative corruption, as it is defined as an amount of money given to the employee who exercises public office to pass personal interests in violation of the law. Among the most prominent attractions that the public employee passes are the employee's obtaining the general practice of Bribery in return for violating the conditions of tenders, leniency in routine procedures in return for receiving a sum of money, or breaching what is required by the public position and facilitating access to services in violation of the regulations and instructions of the institution. Shaaban (2016) confirmed that Bribery has many other forms, including ignoring procedural matters to facilitate special interests.

The Exploitation of Public Office

Al-Bakoush (2020) confirmed that the exploitation of the public position is the ability to benefit from the public position or the public position by passing personal interests and benefits and by exploiting and using the influence available through the public office to obtain material or moral benefits, and Azouz (2016) confirmed that there are many Other forms associated with the exploitation of the public office, including the existence of government tenders or practices that the institution decides on through the public employee who exploits influence for the benefit of a company in order to achieve private economic benefits, which affects the public interests of the institution, and the researcher believes that these tenders or practices It is public, and therefore all companies that enter into tenders and procedures are mostly known before deciding on the decision to accept tenders or processes, which explains the role that the public servant exercises in order to exploit job influence.

Conceptual Framework and Hypotheses Testing

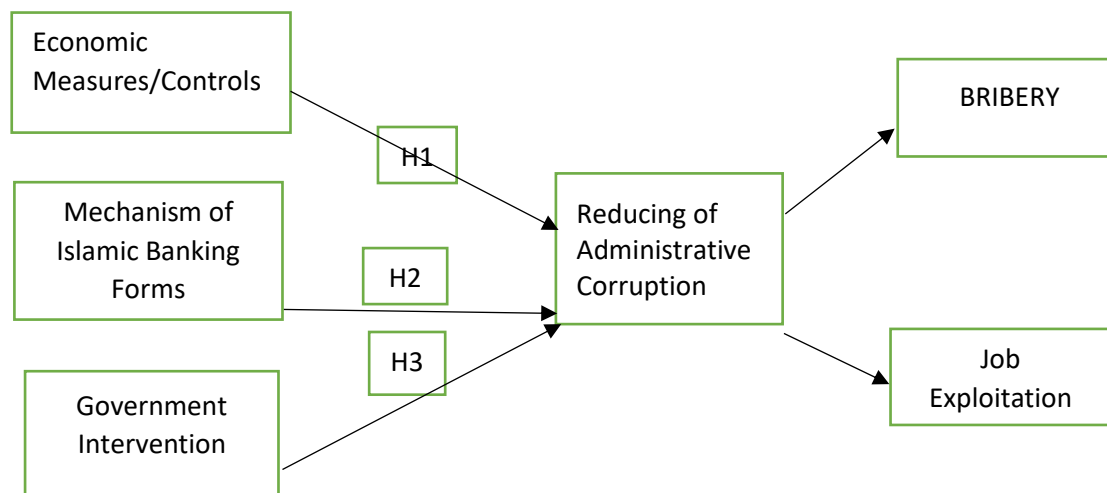


Fig. 1: Conceptual Framework and Hypotheses Testing

Hypotheses Development

H1: Economic Measures/Controls are a significant and positive influence on Reducing of Administrative Corruption among Islamic banks in Libya

H2: Mechanism of Islamic Banking is a significant and positive influence on Reducing of Administrative Corruption among Islamic banks in Libya

H3: Government Intervention is a significant and positive influence on Reducing of Administrative Corruption among Islamic Banks in Libya

Methodology

A quantitative research design is appropriate for the current study. This is because it hopes to influence economic measures/controls, mechanisms of Islamic banking forms and government intervention in reducing administrative corruption by employing hypothesis testing that requires a quantitative technique to deal with the data. This study collected data via a self-administered survey using a stratified random sampling method. The number of respondents (population of the sample) is distributed among Islamic banks in Libya.

This study used the survey method to collect the primary data. A questionnaire is designed to include two parts. The first part includes demographic information about the respondents, including gender, age, education, income, and experience; the second part will ask the respondents about the variables of interest in the study. Of the 300 surveys, 235 questionnaires were returned, representing approximately 78% response rate, and 5 cases were outliers; thus, a total of 230 usable questionnaires were utilized with a 76% response rate after removing outliers. The sample size of $n=230$ was considered as sufficient for this study.

Data Analysis and Results

Normality Testing

Chou & Bentler (1995); Ghazali et al (2005) indicate that the data are normal distribution if the Z-value skewness has to be less than ± 3 and the Z-value kurtosis is less than ± 7 . In addition, a small sample size of approximately 50 cases and below significantly influences normality compared to a large sample size (200 cases and above). In this research, the

researcher followed the guideline Hair et al. (2006) suggested to consider the cut-off critical value ± 2.58 . Table 1 shows that the value of kurtosis and skewness for every construct is within the range (± 2.58). The descriptive analysis illustrates that almost normal distribution with mean skewness ranged between $-.117$ and $-.574$ while kurtosis values ranged from $-.786$ and 2.524 . Table 1 indicates skewness and kurtosis for variables.

Table 1
Skewness and Kurtosis for Variables.

Variables	Code	Skweness	Kurtosis
Economic measures/controls	TM	-.117	1.124
mechanism of Islamic banking forms	RA	-.574	2.524
government intervention	VP	-.312	2.163
Job Exploitation	EC	-.359	2.350
Bribery	TA	.337	-.786
Reducing of Administrative Corruption	SA	-.454	2.368

Descriptive Analysis of Latent Constructs

The mean and standard deviation (S.D) of the measurement scales were calculated. This study used a five–point Likert scale ranging from "1" strongly disagree to "5" strongly agree. Table 4.5 and Figure 4.3 show that the highest mean was Job Exploitation with 4.313 out of a maximum 5 making up 86%. This is followed by Bribery had 4.20 making up almost 84%. On the other hand, Mechanism of Islamic banking forms had had the lowest mean with 4.07 making up approximately 81%. And also, the mean of these values (overall mean) was 4.186 or 83.7%. Furthermore, the standard deviations (S.D) for all variables range from .408 to .455 which reflects existence of considerable acceptable variability within the data set. Table 2 and Figure 1 present descriptive statistics for variables.

Table 2
Descriptive Statistics for Study Variables (Mean and S.D)

Variable	Code	Mean	%	S.D
Economic measures/controls	EC	4.0935	81.87	.44936
Mechanism of Islamic banking forms	IFM	4.0755	81.51	.45039
Government Intervention	GOV	4.0875	81.75	.45591
Job Exploitation	JE	4.3138	86.27	.42899
Bribery	BR	4.2087	84.17	.40845
Reducing of Administrative Corruption	RAC	4.2590	85.18	.44972
Overall		4.186	83.73	.45210

Assessment of PLS-SEM Path Model Result

As specified before, SEM fuses a two-stage method in data analysis which directs the assessment of the measurement model trailed by the structural model estimation. The assessment of the measurement model includes construct validity, convergent validity and discriminant validity of the reflective constructs. This research, along these lines, took after the two-stage successive methodology by utilizing PLS-based SEM (Hair et al., 2014). Following Hair et al (2014), we initially tested the measurement model, then we carry out the

structural model analysis and hypothesis testing. The assessment of convergent validity was a fundamental part of assessing measurement model. According to Hair et al (2019), convergent Validity is confirmed in Smart-PLS when items load highly (greater than 0.70 or 0.60 in exploratory research); constructs have an average variance extracted (AVE) of at least 0.5, and composite reliability (CR) measures of internal consistency reliability is above 0.70 and ranged between 0.881 and 0.919 as indicating in Table 3. Moreover, Table 3 reveals the reliability (Cronbach's alpha) values were greater than 0.70 and ranged from 0.850 to 0.900.

Convergent Validity

In this study, the factor loading for the items are more than 0.50 and are acceptable if the study sample is more than 200 respondents (Hair 2013, p. 128). This, in turn, is sufficient evidence of convergent validity. Therefore, all indicators in the present study are related to their particular constructs, and thus there is satisfactory proof of the convergent validity of the model. The convergent validity was confirmed in the study (see Table 3). Factor loading analysis is shown Figure 2 and Table 3. and all loading are more than 0.60 and ranged between IFM6 (0.632) and BR6 (0.835). According to Hair et al (2019), convergent Validity is confirmed in Smart-PLS when items load highly (greater than 0.70 or 0.60 in exploratory research). As per Hair et al (2013), outer loading above 0.60 is considered significant, item should remain.

Table 3

Items loading, Cronbach's alpha and Composite Reliability

Main-Variable	Sub- Dimension	Code	Loading	Cronbach's alpha	CR
Islamic Economy Controls	Economic measures/controls	EC1	0.764	0.875	0.903
		EC2	0.809		
		EC3	0.805		
		EC4	0.745		
		EC5	0.779		
		EC6	0.717		
		EC7	0.717		
		EC8	0.670		
	Mechanism of Islamic banking forms	IFM1	0.759	0.850	0.886
		IFM2	0.799		
		IFM3	0.767		
		IFM4	0.680		
		IFM5	0.680		
		IFM6	0.632		
		IFM7	0.737		
		IFM8	0.692		
	government intervention	GOV1	0.728	0.886	0.911
		GOV2	0.716		
		GOV3	0.810		
		GOV4	0.830		
		GOV5	0.789		
		GOV6	0.789		
		GOV7	0.797		
		GOV8	0.721		
Reducing of Administrative Corruption	Bribery	BR1	0.696	0.904	0.923
		BR2	0.766		
		BR3	0.734		

		BR4	0.780		
		BR5	0.833		
		BR6	0.835		
		BR7	0.785		
		BR8	0.762		
	Job Exploitation	JE1	0.642	0.900	0.919
		JE2	0.728		
		JE3	0.779		
		JE4	0.717		
		JE5	0.823		
		JE6	0.796		
		JE7	0.776		
		JE8	0.767		
		JE9	0.677		

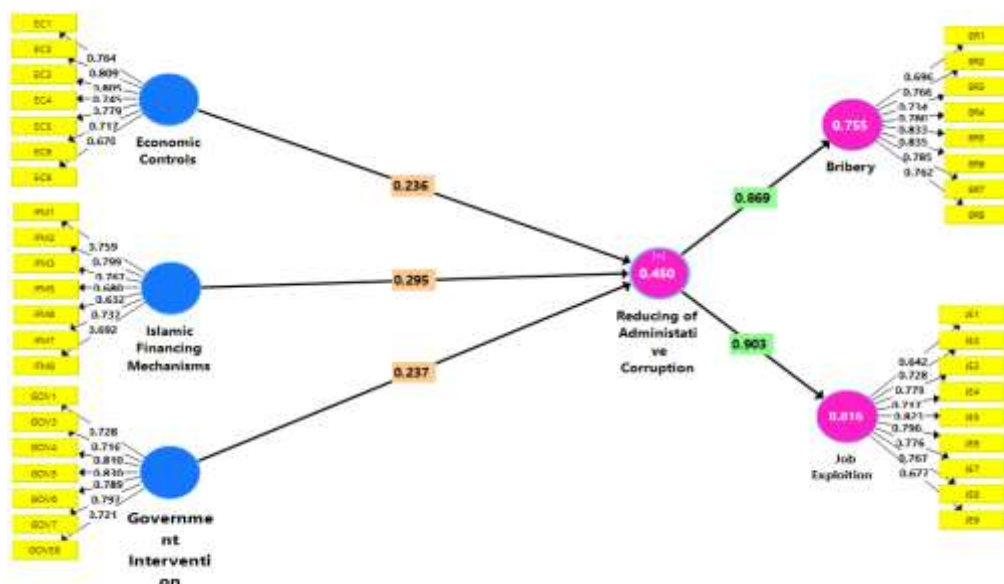


Figure 2: Measurement Model/ Outer Model

Discriminant Validity

Discriminant validity was indicated, as the AVE values are more than the squared correlations for each construct. In addition, the square root of the AVE for a given construct was greater than the absolute value of the correlation square of the given construct with any another factor ($AVE > \text{correlation square}$). Table 3 shows the square root of the AVE for all constructs greater than the correlations between the construct and other constructs in the model. Discriminant validity gives the extent to which a construct is truly distinct from other constructs (Hair et al., 2010).

Discriminant validity is evaluated by using Average Variance Extracted (AVE) for every construct that exceeds the squared correlation among other constructs (Fronell & Larcker, 1981). In this paper, AVE values were more than 0.50 and ranged between 0.527 and 0.601, suggestion acceptable values indicating an adequate convergent validity. Thus, the convergent validity was confirmed in the study (see Table 3 and Table 4).

Table 4

Discriminant Validity (Fornell and Larcker, 1981) and AVE for Latent Variables

Variable	AVE	Bribery	Economic Controls	Government Intervention	Islamic Financing Mechanisms	Job exploitation
Bribery	0.601	0.775				
Economic Controls	0.573	0.425	0.757			
Government Intervention	0.595	0.394	0.618	0.771		
Islamic Financing Mechanisms	0.527	0.415	0.603	0.696	0.726	
Job Exploitation	0.558	0.573	0.559	0.631	0.636	0.747

Source: Prepared by researcher using Smart PLS Version 3

Coefficient of Determination: R² value

Falk and Miller (1992) recommended that the R² values should be equal to or greater than 0.10 in order for the explained variance of a particular endogenous construct to be deemed adequate. Cohen, (1988b) suggested that R² is substantial when it is greater than 0.26 with acceptable power above 0.02, and according to Chin (1998) R² is substantial when it is greater than 0.65 with acceptable power above 0.19. Conversely, Hair et al (2017) recommended that R² has to be larger than 0.75 in order to be deemed substantial, with acceptable power above 0.25.

In this study, the model showed a good fit to the data as evidenced by the squared multiple correlations (R²) value for the dependent variables: Reducing of Administrative Corruption (RAC) was 0.450. Hence, economic measures/controls, mechanism of Islamic banking forms and government intervention explained 45% of the variance in Reducing of Administrative Corruption among Islamic banks in Libya.

Table 5 and Figure 3 show the result of R² from the structural model (PLS-SEM), and indicates that all the R² values are enough for the model to achieve an acceptable level of explanatory power.

Table 5

Coefficient of determination result R²

Exogenous Variables	Endogenous Variables	R ²	Hair et al., (2017)	Cohen, (1988b)	Chin (1998)
EC, IFM and GOV	RAC	0.450	Moderate	substantial	substantial

Source: Prepared by researcher using Smart PLS Version 3

Note: EC: economic measures/controls, IFM: mechanism of Islamic banking forms, GOV: government intervention, RAC: reducing of administrative corruption,

Assessment of Effect Size (f²)

It is advantageous to dictate the effect sizes of particular latent variables' influence on the dependent variables by utilizing the effect size (f²) analysis which is complementary to R²

(Chin, 2010). The effect size (f^2) can be determined using the formula suggested by Cohen (1988) as follows:

$$\text{Effect size } (f^2) = \frac{R_{\text{included}}^2 - R_{\text{excluded}}^2}{1 - R_{\text{included}}^2} \quad (1)$$

Where R^2 included is the R-square obtained on the endogenous latent variable when the predictor exogenous latent variable is used in the structural model. While R^2 excluded is the R-square obtained on the endogenous latent variable when the predictor exogenous latent variable is not used in the structural model. According to Cohen (1988), an effect size of 0.02 is small, 0.15 is medium and greater than 0.35 is large. The results show economic measures/controls, mechanism of Islamic banking forms and government intervention had small effect size of predictive variable on the in Reducing of Administrative Corruption at 0.057, 0.074 and 0.046 respectively due do the value (f^2) was less than 0.02. Table 6 presents the results of effect size of the dependent and independent variables.

Table 6

Effect Size of predictive Variables

Variable	Effect size (f^2)	
	Reducing of Administrative Corruption	
Economic measures/controls	0.057	Small
Mechanism of Islamic banking forms	0.074	Small
Government Intervention	0.046	Small

Direct Hypotheses Results

The results indicate economic measures/controls and mechanism of Islamic banking forms had a significant and positive influence on reducing of administrative corruption ($\beta = 0.236$, $t=3.517$; $P = 0.001$) and ($\beta = 0.295$, $t= 4.014$; $P = 0.000$) respectively. Thus, H1 and H2 are supported. In addition, government intervention was significantly positive effect on reducing of administrative corruption ($(\beta = 0.237$, $t= 2.866$; $P = 0.005)$); therefore, H3 is supported. Table 7 shows the direct hypothesis results of the structural model. Table 8 shows the direct hypothesis results of the structural model.

Table 7

Summary of Structural Model Assessment (Direct Hypotheses)

H	The Relationship	Estimate (path coefficient) (β)	(STDE V)	C.R (t-value)	P-value	Hypothesis Result
H1	EC -> RAC	0.236	0.067	3.517	0.001	Supprted
H2	IFM -> RAC	0.295	0.074	4.014	0.000	supported
H3	GOV -> RAC	0.237	0.083	2.866	0.005	Supprted

Source: Prepared by researcher using Smart PLS Version 3

Note: EC: economic measures/controls, IFM: mechanism of Islamic banking forms, GOV: government intervention, RAC: reducing of administrative corruption

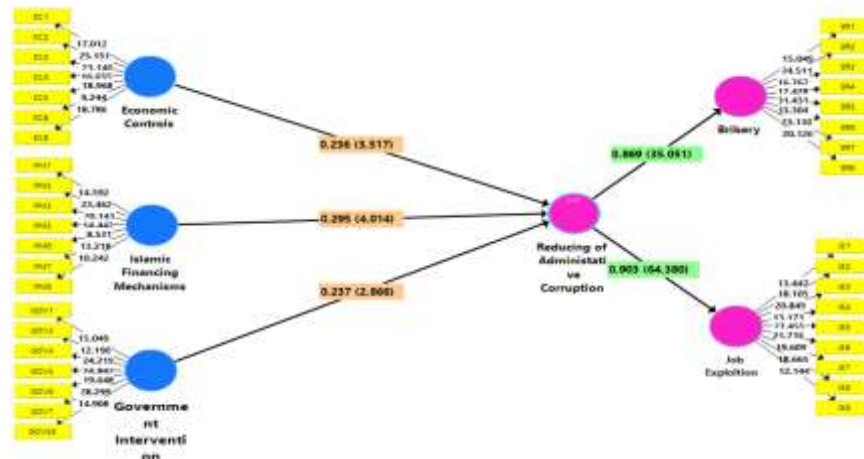


Fig. 3: Structural Model with (Bootstrapping) (Hypotheses Results)

Discussion the Results and Recommendations

The study results showed, according to the respondents' convictions (individuals of the study sample), the level of application of the rules of Islamic economics in the Libyan Islamic banks under study. High value and the approval rate is 83%, and this is an indication of the importance of applying the rules of Islamic economics among the members of the study sample in obligating Libyan Islamic banks to use these rules by the Central Bank of Libya and in implementation of the decisions of the Libyan government. Corruption, including Bribery and exploitation of public office in Libyan Islamic banks, is one of the factors in the spread of corruption among the employees of these banks. The results of the study showed that there was a strong positive effect with a statistical significance at a significant level ($\alpha \leq 0.05$) between the application of the rules of Islamic economics and the reduction of administrative corruption, in addition to the existence of a positive effect between legal, financial controls and the use of Islamic financing mechanisms and government intervention on the reduction of administrative corruption, with his banishment: Bribery and exploitation of public office. This study can be considered one of the first studies of its kind at the level of Libyan Islamic banks in terms of selecting the topic in knowing the mechanisms of applying the rules of Islamic economics and their impact on reducing administrative corruption in Libyan Islamic banks (Al-Jumhuriya and Al-Waha Banks), the largest banks in Libya, and the desire to achieve the desired change. Through the opinions of the study sample members who work in these banks. In addition to the urgent need for Libyan banking institutions to reduce administrative corruption in Libyan banks, through which the rules of Islamic economics can be applied. In addition, the political and security conditions imposed by the reality of Libyan society led to the desire to tighten control over the Libyan banking institutions to raise their efficiency. In addition to the applied contribution, the results of the current study confirmed the existence of a relationship with a positive impact between (legal and financial controls and the use of Islamic financing mechanisms and government intervention) in reducing administrative corruption in Libyan banks. Therefore, it is expected that the current study will contribute to helping Libyan banks in general and Islamic banks in particular in reducing administrative corruption by adopting an effective and advanced control system that works to improve the performance of employees and then improve the performance of banks, including the banks mentioned above, and their Arab and Islamic classification of ancient and advanced Islamic

banks. This study is essential for those working in the Islamic economy, Islamic banks, and combating administrative corruption in all state agencies and institutions. This study can also contribute to a scientific addition to human knowledge on the issue of administrative corruption in Libya with its dimensions of Bribery, embezzlement, forgery, and exploitation of public office.

Study Recommendations

Considering the findings of the study, it recommends the following

- 1- Reconsidering the legislation and laws related to the activity of the Islamic finance and banking industry to ensure its compatibility with the nature of the Islamic financial sector.
- 2- The management of banks should appoint a Sharia supervisory board in all bank branches and not be satisfied with that in the general management site. Each bank employee should be a Sharia supervisor because self-regulation is one of the most important types of control.
- 3- The government and banks employ qualified and economically competent people in Libyan banks to raise their level in the financial and service aspects.
- 4- Encourage the government of Libya, represented by the Central Bank of Libya, to manage Islamic investment money issued by Libyan Islamic banks.
- 5- Activating and implementing the law of the principle of accountability and punishment by the management of Libyan Islamic banks if the employee violates the limit of corruption, whether by taking bribes, forgery, embezzlement, or exploiting the position for a personal need

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