Impact of Awareness on Profit Distribution Management by Islamic Banks in Pakistan: An Empirical Investigation

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Abstract

In the current era of competition in financial markets particularly in banking sector, everyone is putting his best efforts to attract more depositors. And the pattern of profit distribution is primary concern of every potential depositor for both conventional and Islamic banking; however, this pattern is not uniform. There are several factors that determine the pattern of profit distribution among depositors. The current study also focuses on the role of different internal, bank specific, external, and macroeconomic variables in relation to profit distribution where the variable of interest is customer's awareness towards Islamic banking system. The current study constructs a Panel of 14 Islamic banks where 4 banks among them are full-fledged Islamic banks and remaining have their Islamic windows. The data covers the time span of 2008-2017. To find empirical evidence, this study adopts Fixed Effect model with White corrected standard errors structure to tackle the problems of heterogeneity in balanced panel. This study reveals that customer awareness towards Islamic banks affects negatively but insignificantly to profit distribution management in Pakistan. These findings are beneficial for Islamic banks and customers of Islamic bank because with an increase in competition, there is no impact on depositors' return. Therefore, Islamic banks can increase their number of branches and windows along with good quality human capital and customers can deposit their savings in Islamic banks.

Keywords: Islamic banking, customer awareness, Profit distribution management, Islamic banks, fixed effect.

I. Introduction

The recent global financial crisis of 2007-08 (GFC) attracted considerable attentions to the credibility and transparency of financial statements especially in the banking industry. This is evidenced by the aggressive financial reporting practices by Lehman Brothers to hide its leverage through mistreating financial

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transactions in order to meet the balance sheet targets that ultimately led to its collapse on 15th September, 2008 (Valukas, 2010). During the GFC, Islamic banks, however, showed stronger resilience and have been affected differently than conventional banks (Hasan & Dridi, 2010). Islamic banks are founded on *Shariah* rules which are significantly different from those of conventional banking operations that are rooted in the Western capitalist system (Haron & Azmi, 2009). Under *Shariah* principles, there are some restrictions in transacting Islamic banking business activities such as prohibitions of *riba* (usury), *gharar* (uncertainty) as well as transacting in *haram* and immoral activities. The operations of Islamic banks are thus mainly based on profit and loss sharing (PLS) arrangements, for example, *mudaraba* and *musharaka* contracts of which both provider(s) of funds and provider(s) of labour (expertise) participate in the returns resulting from the use of funds (Farook et al., 2014). *Shariah* also establishes the ethical and moral framework that
provides guidance for ethical behavior and accountability (Lewis, 2001). It shapes Islamic banks into organizations that place more importance on moral and ethical *Shariah* system embedded in Islamic banks.?????????.

The primary objective of any organization is to maximize the profit (Jensen, 2010). To achieve this objective, organizations make many strategies such as minimization of cost, marketing, and efficient management and then finally distributes this profit among stakeholders of the organization (Rumelt, 1982). The decision making about profit distribution varies not only from firm to firm but also industry to industry (Metawa & Almossawi, 1998). A bank is an institution which belongs to financial industry and its major function is to borrow money from individuals and corporations and then invest this amount in different ways. Furthermore, depositors are important stakeholders for profit sharing than other stakeholders and they are more interested in high profit.

According to Farook et al. (2012), general management should make sure return on savings of customers and stakeholders by banks known as profit distribution management. It is the primary tool for the banks to enhance their efficiency because in this way they can retain the trust of the investors and depositors as well. Poor profit distribution management system can lead customers switch from one bank to another. Furthermore, financial sector is highly volatile and venerable particularly banking sector because it directly depends on the Household's savings (Wafaretta et al., 2015). Thus, effective profit distribution management is a big challenge for banking industry. Hence, some studies tried to determine profit distribution management from different internal and external factors. For example, Rachman and Dodik (2017) examined that capital adequacy, portion of funds and their effectives have negative impact on profit distribution management in case of their belongings to third party. Likewise, Mulyo and Siti (2012) indicated that elimination of unproductive asset has the positive impact on profit distribution management. In addition, according to Mollah and Mahboob (2015) banking sector profit distribution management is positively related to the ownership structure of the bank.

Currently, two types of banking systems are prevalent in Pakistan: conventional and Islamic Banking system. Conventional banks are proposing fixed interest rate to depositors on their deposited amount (Iqbal, 2001). Contrarily, Islamic banks are offering profit to their customers in the light of Sharia rules (Majid et al., 2009). The latter system is an infant system and persistently endeavoring to attract customers. In Contrast, conventional bank has been performing its function since many decades. But After the global financial crisis of 2007-08, a question mark was raised on the functioning of conventional banking and a need of an alternative system emerged which could perform its system in the more stable way. Therefore, policy makers focused on Islamic banking system in the worldwide and Pakistan also realized its importance. Consequently, State Bank of Pakistan made compulsory for all conventional banks to start their Islamic banking windows. But savers (depositors) are more inclined towards the profit provided by banks on their savings in either way. Almost majority of the savers demand a high profit (return) on their amounts that they supplied as loanable funds. Therefore, there is a need to determine the profit distribution by Islamic banks over the time. Furthermore, low profit distribution by Islamic banks will pose a threat to the future of Islamic banks in Pakistan.

Because savers are still confused about Islamic system mechanism and they are reluctant to deposit their amounts into Islamic banks. Despite the fact of government's desire to promote this system and State Bank of Pakistan's special interest in the promotion of this system, there are only 5 full-fledged Islamic banks in Pakistan in 2019. The Premier Islamic bank is the Meezan bank which started functioning in 2003. Although there are 27 conventional banks working in Pakistan, only 22 among them have their Islamic windows. Therefore, the findings of this study will guide not only to management of Islamic banks to make sure the effective profit distribution management but also to government of Pakistan to promote this system in Pakistan at a broader way. In addition, the findings of this study are equally important for the potential savers to avail services of Islamic banks.

2. Literature Review

2.1 Theoretical Background

The primary objective of this study is to determine the impact of customers' awareness towards Islamic banking systems on profit distribution management of Islamic banks. Former studies report this factor as one of the primary factors of profit distribution and provide the theoretical channel in different ways. One possible explanation of the link between awareness and profit distribution is that Islamic banking industry is a newly emerged industry and initially customers are attracted towards Islamic banking by considering their religious values and invest their money in Islamic bank and maximize their income through sharia compliant way. But in the long run, it is observed that when the customers succeeded to get the market awareness about Islamic banking, they used to transfer their funds from Islamic banks to conventional banks. Therefore, awareness has negative impact on Profit Distribution Management of Islamic banks (Farook et al. 2012). Another possible channel which explains the relationship between profit distribution and awareness is realization of the factor that Islamic banks are providing them low return as compared to other conventional banks and other conventional banks are more sustainable than Islamic banks. Furthermore, the realization of declining trend in profit distribution with the passage of time after availing the services of Islamic banking system decreases the investment efficiency of customers because initially Islamic banks as are unable to pay higher return to the customers due to deviation from their economies of scale (Mulyo and Siti, 2012). The last but not the least possible channel is that as much as a bank gets aged, it expands its business in different parts of the country. For this purpose, it bears a heavy cost in the form of advertisement expenditures and opening of new branches along with hiring of new staff. Consequently, the cost of the bank upsurges and it curtails the amount of profit provided to depositors (Rachman and Dodik, 2017).

2.2 Profit Distribution

Iqbal (2001) researched to explore the charisma of Islamic and conventional banking of Middle East banks by taking the secondary data of 12 conventional as well as 12 Islamic banks of Middle East for the period of 1990-1998 by using ratio analysis. The findings revealed that the profitability of Islamic bank is higher than the conventional bank because they are more capitalized banks. In addition, Islamic banks are dealing relatively more efficiently in terms of providing them the best banking services. Furthermore, Islamic banks have got relatively more trust of customers than conventional banks. However, still Islamic banks are struggling for the achievement of cost effective operations.

Dar and Presley (2001) investigated the impact of management and controls of Islamic banks on the management of profit and loss sharing. The researchers indicated that there is not a proper segregation between the management structure and control rights in Islamic banks which is adversely affecting their performance and their profit management distribution as well. This issue is a serious threatening indicator because it makes PLS as a disadvantage for Islamic banking. However, there is no theoretical reason provided by this study that the PLS management of Islamic banks is inefficient. However, this fact may occupy some important place in economic function. Majid et al. (2009) compared the effectiveness of Islamic and conventional banks at international level after the collection of data of 10 banks which are operating in the Middle East countries for the period of 1996-2002 by using distance function approach. Results revealed that as the boom arises in the Islamic banking industry, Islamic banks have more potential than current level to generate maximum output. Contrarily, after a deep analysis of the customer retention and customer switching variables, this study revealed that in coming years Islamic banks will struggle strive to generate high profit. Therefore, Islamic banks will face tough time to get the enough market share. In addition, the key challenge for the coming decade for Islamic bank will be to generate sufficient output from by utilizing the low market share.

Hassan and Bashir (2012) investigated the determinants influencing the profitability of Islamic banks. For this research, the researchers chose banking variables such as Load loss residual, Equity to total asset, equity to net loan, (equity to cus & St fund???), equity to liabilities, cap to net asset, capital fund to liabilities, subord debt to cap fund, net interest margin, net intl reserves to average asset and many variables. In their research, it was emphasized to find out those characteristics which are influencing the overall performance of Islamic banks. Researchers used bank level data for the period of 1994-2001. For the purpose of this research, the researchers used variety of internal and external banking characteristics to analyze the profitability and the overall efficiency of Islamic bank. On the other hand, researchers also used the macro economic variables such as financial market structure, and taxation. The findings of the research revealed that the internal and external taxesaffect the performance of the bank negatively. On the other hand, the macroeconomic environment affects the Islamic banking performance positively. However, the findings revealed the strong positive correlation between overhead and profitability.

Mulyo and siti (2012) investigated the factor influencing the profit distribution management in Indonesia. Researchers used GDP, bank's age, capital adequacy, non-investing financing and elimination of productive asset as a variable. For this purpose, researchers collected the secondary data of 5 Islamic banks of Indonesia which are listed in the central bank of Indonesia for the period of 2008-2011. The result showed that the proportion of customer investment hasthe negative impact on profit distribution management--- when the investment proportion increases, the efficiency in PDM decreases. On the other hand, the variables like capital adequacy, non-investing financing and elimination of productive asset have the positive impact on Profit distribution management. In addition, Gross Domestic Product (GDP), and age of the bank has no impact on the performance of Profit Distribution Management. Beck et al. (2013) conducted a research for the sake of a sound comparison between Islamic and commercial banks on the basis of their business models, stability, and efficiency. For this purpose, they collected the data of both banking sectors belonging to 22 different countries from 1995 to 2009. The results indicated the minor difference between the business models of both banking systems. However, the operations of Islamic banks were less cost effective than the conventional banks because of the lack of stability of Islamic banks. Furthermore, in the recent crises, the listed Islamic banks' performance was very impressive because of higher capitalization and better asset quality due to switching of depositors from conventional to Islamic banks after the emergence of crisis of 2007-08.

Lahrech et al. (2014) examined the performance of Islamic banks by collecting the data of 25 globally operating Islamic banks from the year 2006 to 2010. After applying generalized least-square method, they found that Islamic banks were managing customers' investment more efficiently than the conventional banks. In addition, Islamic banks were more transparent to allocate the customer fund through their profit and loss sharing account and allocation of customers' money in a sharia compliant business to generate the pure profit. However, the large Islamic banks were more prominent than small Islamic banks regarding the efficient management of profit sharing. Wafaretta et al. (2015) conducted research on the impact of banks' characteristics on profit distribution management by Islamic banks by taking third party fund as a variable. To perform this research, the data was collected from 10 Islamic banks by taking tenure from 2nd quarter of 2010 to the third quarter of 2014 with total of 180 observations. The researchers used the Moderate Regression Analysis (MRA) technique to test this study. Results showed that the management of Islamic banks measures their banks' performance by how efficiently banks are managing their profit distribution, and how much reserves they have to push profit distribution management more. Moreover, results indicated that high third party fund and low market shares suggest the higher uncertainty in profit distribution management. However, the proportion of third party fund and the age of the bank have no effect on Profit Distribution management.

Mollah and Mahboob (2015) made a comparison between Islamic and conventional banks. For this purpose, they collected the data of 86 Islamic and conventional banks each. Results showed that the sharia board of Islamic bank has positive impact on the performance of Islamic banks because Islamic banks were purely running on the principle of Islamic sharia guidelines. Contrarily, the effect of the number of owners and the CEO power was negative on Islamic banks' performance which was positive for the case of conventional banks. However, the profit sharing management was high as compared to conventional banks.

Bitar et al. (2016) examined the financial characteristics of Islamic banks that were the source of differences among Islamic and conventional banks. They used data of Islamic banks belonging to 28 countries from 1999 to 2013. The results revealed that the Islamic banks were more liquid capitalized than suggested by the theory of capital structure. In addition, Islamic banks were relatively more profitable because they were managing the deposits of customers more efficiently conventional banks. Furthermore, Islamic banks have more volatile earnings as compared to the European and US banks. However, the similarities are more noticeable in terms of the volatile earning distribution management and liquidity management as the sample is limited to those countries where both banking systems coexist. In a nutshell, the higher capital of Islamic banks makes the earnings more volatile, and the higher liquidity impacts the profitability of the conventional banks negatively.

Rachman, and Dodik (2017) investigated the bank specific and macroeconomic variables as a determinant of profit distribution management by Islamic bank in Asia. Before empirical analysis, they considered a number of internal, bank specific, variables of 38 Islamic banks belonging to 10 countries. According to results, the contribution of third party regarding share of funds and their efficacy along with capital adequacy affected adversely to profit distribution management. However, the impact of age of the Islamic banks had no impact on Profit Distribution Management.

Alandejani et al. (2017) examined the failure rate of Islamic and conventional banks after analyzing the data of Islamic and commercial banks operating in Gulf cooperative countries (GCC) covering the time span of 1995-2011 with the help of survival time analysis. Results showed that the rate of failure of Islamic banks was higher than conventional banks because the fluctuation in Islamic banks of customer deposits was quite high. Furthermore, the survival time of Islamic banks was shorter than the time of conventional banks needed. In addition, increase in the interest rate of conventional banks was responsible for an increase in the hazard rate in Islamic banks. On broader level, when the inflation rate increases the hazard rate of Islamic banks will also increase. Boukhatem and Fatma (2017) explored the relationship between Gross national product and Islamic banking for the case of 13 countries belonging to MENA region. The data set covers the time span of 2000-2014. The result showed that the development of Islamic financial market played a vital role in achieving sustainable growth of MENA countries. The development of Islamic banks had a positive and direct impact on the growth of financial sector of these countries. Therefore, government should give more attention on the growth of financial institution for the better growth of their countries' economy.

Miah and Helal (2017) investigated the difference between Islamic and conventional banks in terms of the business orientation, business efficiency and stability by collecting the secondary data of 28 Islamic banks of Gulf cooperative countries (GCC) form the period of 2005-2014 by applying accounting ratios, Stochastic Frontier Analysis (SFA), and ordinary lease square (OLS). The results revealed that conventional banks were managing their cost more efficiently than Islamic banks. However, in terms of short term solvency, Islamic banks were more solid but in terms of long term solvency, there was no difference between Islamic and conventional banks. In addition, statistical result showed that the operations of Islamic banks were different from the conventional banks' operations. Zainuldin (2018) compared the earning management of Islamic and conventional banks of emerging market. For this purpose, researcher used Abnormal Loan Loss Provision (ALLP) as a primary variable for comparison from 2006 to 2011 of 53 Islamic banks and 111 conventional banks. Results revealed that Islamic banks had the higher earning distribution management as compared to conventional banks because Islamic bank used the sharia principle of distribution of earnings in the shape of Profit and Loss among stakeholders which is comparatively successful than conventional banks.

Farook et al. (2012) studied the relationship between familiarity with Islamic banking system and their profit distribution management by analyzing the data of Islamic banks belonging to 17 Middle East Region. Moreover, the study used data of 50 Islamic banks and after applying the Generalized Least Square (GLS) method, results indicated that Islamic banking was directly related to the religiosity, financial development, and asset composition, but people are investing their fund into Islamic banks not because of religious factor but just to maximize the profit. In addition, it was also observed that more people were getting familiar with Islamic bank, more they are switching from Islamic banks to conventional banks. However, the profit distribution management by the Islamic banks of Middle East countries is high which means that they are managing the earnings distribution efficiently.

3. Research Method

Methodology is a process used to explain the process of data collection, analysis and methods used to analyse the data as well. To fulfil the objective of this study, current research collected data of 4 full-fledged Islamic banks and 10 commercial banks who have been running their Islamic windows since 2008 namely, BankIslami Pakistan, Dubai Islamic Bank, Meezan Bank, Albaraka Bank, Bank of Khyber, Bank Alfalah, MCB bank, Habib Bank Limited, Bank Al Habib, Askari bank, United Bank Limited, Soneri bank, habib metropolitan bank, and standard chartered bank respectively. The data set is comprised of banking variables from the financial statements of above mentioned banks, and macroeconomics variables are collected from World development indicators covering the time span of 2008-2017. The Primary reason to select this time span is the availability of maximum data of large number of Islamic banks.

After collection of data, the current study uses descriptive statistics and co-movements of variables to know the stylized effects in data. Furthermore, this study adopts the model of Farook et.al (2012) and with the help of Hausman test, the current study applies Fixed Effect model with White corrected standard errors which tackle the problem of heterogeneity in the case of balanced panel data set.

The theoretical model is given below;

$$PD = f(DEP, RES, NOB, BA, SIZE, GDPGR, POPG)$$

Where PD is the measurement of Profit Distribution, DEP is the used for total deposit, RES is the representative of total reserves, NOB represents number of branches, BA is a symbol of age of banks, $SIZE$ is represents total asset, $GDPGR$ represents annual growth rate of gross domestic product, and $POPG$ is representing annual population growth rate.

The Dependent and Independent Variables explain separately for the better understanding of the readers.

3.1 Profit Distribution

The main objective of Profit Distribution management is to make high return to the depositors so that Islamic banks can attract the depositors to deposit their fund in Islamic banks (Farook et al., 2012).

3.1.1 Deposits
Deposits of the bank consist of the people's money which is deposited in the banking institutions for safekeeping or saving purpose. These deposits are placed in the banking accounts such as saving account, current account, term deposits etc. In the previous study, total deposit was used to check the relationship with Profit Distribution Management (Farook et al., 2012).

H$_{1:}$ There is a positive relationship between total deposits and profit distribution management of Islamic banks.

3.1.2 Size
Size represents the loan asset to total asset It is an indicator to measure the bank's assets that are financed by the bank. This ratio indicated that how the size of the bank asset increases over time. This ratio also helps investors to measure the size of the bank assets to meet their current debt obligations (Kenton, W., 2019).

H$_2$: There is a positive relationship between bank size and profit distribution management of Islamic banks of Pakistan.

3.1.3 .Number of Branches
Number of Branches is defined as when a bank operates its business through different locations of the same city or different cities or country (Define by FDIC). . In the previous study, this variable was used as a determinant of capital decision by Islamic banks (Bitar et al., 2016).

H$_3$: There is a positive relationship between number of branches as a proxy of customers' awareness towards Islamic banking and profit distribution management of Islamic banks.

3.1.4 Age of Bank
It describes the age of the bank from where the bank started its operations in the country. Rachman and Dodik (2017) also used this variable to check its relationship with Profit Distribution Management.

H$_4$: There is a positive relationship between age of a bank as a proxy of customers' awareness towards Islamic banking and profit distribution management of Islamic banks.

3.2 Gross Domestic Product Annual Growth Rate
Gross Domestic Product growth rate is a rate which changes year to year. Gross Domestic Product (GDP) is a value of goods and services which are produced in a country in a particular period (Edmar, L.B., 1990). Rachman and Dodik (2017)

also investigated the relationship of this variable with profit distribution management of Islamic banks.

H_5: There is a positive relationship between profit distribution management of Islamic banks and annual growth rate of GDP of country.

3.2.1 Population Growth Rate

Increase in population will lead to an increase in business of banks and it highly affects the Profit Distribution Management of the bank (Rachman & Dodik 2017).

H_6: There is a positive relationship between profit distribution management of Islamic banks and the population growth rate of country.

Reserves

This variable is used to check the relationship with profit distribution management. It is estimated that high reserve attracts the investors to invest more money in the bank which also affects PDM positively.

H_7: There is a positive relationship between total reserves of Islamic banks and profit distribution management of Islamic Banks.

3.3 Econometric Methodology:

The current study uses the date of 14 banks that cover the time span of 2008-2017 which is a strong balance panel. In this study, Ordinary Least Square (OLS) regression is used to determine the effect of variables that determe the Profit Distribution Management (PDM) of Islamic Banking in Pakistan.

$$\ln PD_{i,t} = \lambda_1 size_{it} + \lambda_2 res_{i,t} + \lambda_3 dep_{i,t} + \lambda_4 nob_{i,t} + \lambda_5 ba_{it} + \lambda_6 GDP_{it} + \lambda_7 POPG_{it} + \varepsilon_{it} \text{..........}(i)$$

Due to balance panel model, we can also show our econometric model in the following way:

$$PD_{it} = \mu + \alpha_i + \lambda_t + x'_{it}\beta + z'_i + \mu_{it} \text{..........}(ii)$$

Where $i = 1,......., N$ and $t = 1,......., T$

Sometimes researchers also use this equation

$$\ln PD_{it} = \mu + \alpha_i + \lambda_t + x'_{it}\beta + z'_i + \mu_{it} \text{..........}(iii)$$

For easy interpretation of the results, the study applies natural log on variables except for the GDP annual growth and population annual growth, and Size of the bank because both these variables are in percentage form. The regression equation is;

$$\ln PD_{it} = \mu + \alpha_i + \lambda_t + x'_{it}\beta + z'_i + \mu_{it} \text{..........}(iv)$$

Where $i = 1,......., N$ and $t = 1,......., T$

Sometimes authors also consider

$$PD_{it} = \mu + \alpha_i + \lambda_t + x'_{it}\beta + z'_i\gamma + \xi'_t\theta + \mu_{it} \text{..................}(v)$$

Those equations are complete panel data set where α_i is an individual specific effect, and λ_t time-specific effect. Nevertheless, mostly author ignore ξ_t' and use dummy variable instead of λ_t. In case of separation dummy, they introduce them to check the significance of the data set. However, the conclude model is:

$$\ln PD_{it} = \mu + \alpha_i + x_{it}'\beta + z_i'\gamma + \mu_{it} ....(vi)$$

It will be decided about α_i that if it is random or fixed. Changing over the cross section is all about random. For fixed effect, its overall will be $\mu + \alpha_i = \alpha_i^*$ and for fixed effect the equation will be

$$\ln PD_{it} = \alpha^*{}_i + x_{it}'\beta + z_i'\gamma + \mu_{it} ....(vii)$$

And in matrix form, it can be written as:

$$\ln PD_{it} = X\beta + Z\gamma + \alpha + \mu_{it} ....(viii)$$

However, if researcher chooses fixed effect, then the sum will be $\alpha_i + \mu_{it} = v_{it}$ and for the random effect the final equation will be

$$\ln PD_{it} = X\beta + Z\gamma + \mu_{it} \rightarrow ....(viiii)$$

Before moving towards further study, author has to make decision to capture one model which will prove to be the best fit for the data set of this study under the consideration of random and fixed effect. To determine the best result, previous studies suggest Hausman specification test. This needs to select proper estimator $\hat{\beta}_w$ and $\hat{\beta}_{GLS}$. It has its own null hypothesis;

$H_0 : (\alpha_i X_i) = 0 \rightarrow ....(\hat{\beta}_W - \hat{\beta}_{GLS}) = 0$ And alternative hypothesis is;

$H_1 : (\alpha_i X_i) \neq 0 \rightarrow ....(\hat{\beta}_W - \hat{\beta}_{GLS}) \neq 0$

Where $(\hat{\beta}_W - \hat{\beta}_{GLS})' \hat{\Sigma}^{-1} (\hat{\beta}_W - \hat{\beta}_{GLS})' \rightarrow \chi^2$

If H_0 is accepted then it is said to be the random effect and will be suitable otherwise the fixed effect will be preferred model. To check the stationary of the data in time series modeling, we appled Unit Root Test.

4. Results

4.1 Descriptive statistics

Descriptive statistics is a summary of coefficients of given data set which are the representative of whole sample data set. In descriptive statistics, data is broken into measures of central tendency. These measures include the mean, median, and mode, whereas the tendency to check the variability includes standard deviation, variance, the minimum and maximum variables, and the skewness and kurtosis (Kenton,, 2018). Therefore, following table 1 shows descriptive statistics of all variables in regards to the research. It provides the brief summary of Islamic Banks. The Profit Distribution Management variable has a minimum value of 19429 for Habib Bank Limited in 2009 while the maximum value is 15440000 for Meezan Bank Limited in 2014. In addition, the mean of PDM is 2248329 with a standard deviation of 2957321. However, these statistics is based on the collective 140 observations.

Table 4.1: Descriptive Statistics

Variables	Mean	Maximum	Minimum	Stat. Dev.	Observations
PD	2248329	15440000	19429	2957321	140
SIZE	0.428	0.913	0.026	0.193	140
DEP	36013483	179000000	18655	41159049	140
BA	35.357	154	2	37.33305	140
NOB	87.671	601	1	110.613	140
RES	1209502	13368809	56	1901297	140
GDP	3.742	5.701	1.607	1.415	140
POPG	2.060	2.117	1.954	0.050	140

4.2 Co-Movements of the Variables

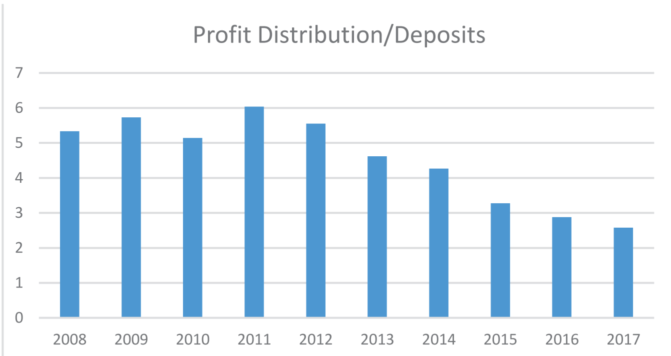
According to the results of correlation matrix, bank size, deposits, and reserves has positive correlation with profit distribution. Similarly, GDP growth rate and population growth rate has positive correlation with profit distribution. On the other hand, both bank age and number of branches that tare the proxy of customers' awareness towards Islamic Banking are negatively correlated with profit distribution management. A negative correlation indicates that both variables move in an opposite direction at the same time and vice versa.

Table 4.2: Correlation Analysis

	PD	SIZE	DEP	BA	NOB	RES
PD	1					
SIZE	0.113	1				
DEP	0.229	-0.096	1			
BA	-0.257	0.093	-0.093	1		
NOB	-0.883	-0.049	0.293	-0.325	1	
RES	0.546	0.123	-0.227	0.262	0.539	1

4.3 Fixed Effect Model:

The followin figer 3 shows the result of research model mentioned in previous section estimated by fixed effect model with White heteroskedastic error structure. The rationale behind this methodology is to tackle the built in heteroscedasticity in balanced panel data set. According to results of this model, size and deposits which are bank specific variables are positively and significantly correlated with profit distribution management of Islamic banks. It implies that increase in both variables leads to increase in profit distribution of Islamic banks. These results are consistent with Farook *et al.* (2012). Among macroeconomic variables, only population growth rate is positively and significantly correlated with GDP growth rate because higher population may lead to higher customers. These results are also consistent with Rachman and Dodik (2017). The variables of interest which is customers' awareness of Islamic banking proxy by number of branches and bank age is negatively but insignificantly correlated with profit distribution by Islamic banks. These results are consistent with Farook et al. (2012). For the sake of analyzing the trend in profit rate of Islamic banks provided to depositors, this study calculates the profit rate as the ratio of average Profit distribution to average deposits of 14 banks in each year from 2008 to 2017 as a crude proxy of profit rate. The graph of profit rate is given below;



According to above graph, average profit rate has been declining since 2013 continuously. These results are consistent with the findings of our study. The possible reason of this behaviour may be the lack of knowledge in human capital about Islamic banking because despite increase in physical capital, the profit rate is still declining. The same findings for the case of commercial banks had already been mentioned by Sayyid, (2003). Islamic banking system in Pakistan is still unexplored and has a big room for the banks to market their product efficiently. Therefore, awareness about Islamic banks can play a vital role for the banks to market their product efficiently. Therefore, awareness about Islamic banks can play a vital role for the banks among depositors and stakeholders. In this current study researcher focuses on the determinants of awareness towards Islamic banks such as age of the bank and number of branches. In addition, by using these awareness variables, Islamic banks broaden their branches and customer networks. By increasing the age of the bank and number of branches, banks get the chance to interact with more customers and aware them with Islamic banking concepts and about their products which they are offering to customers.

Basically, Banks are focusing on physical capital by which they increase their branches by using retained earnings and further investment. Although banks are increasing their branches but they are lacking in knowledgeable human resource for Islamic banking system. Therefore, by increasing branches, banks are availing more direct interaction with customer but lacking in staff knowledge about product doing a serious damage to the Islamic banking industry.

In Pakistan, only five Full-fledged Islamic banks are operating, and 21 conventional banks are operating their Islamic banking windows. Due to Islamic windows in conventional banks, banks are using same staff for the conventional windows which affects the trust of the depositors who want to deposit their fund in the Islamic banks, and banks are unable to attract them and get their valuable deposits.

In the current study, the results indicate that although branches and age of the banks are increasing but they are unable to increase their Profit distribution. This is a clear intimation that although banks are increasing their network but due to unskilled or untrained staff, banks are facing trouble to attract the depositors towards Islamic banking system.

In contrast, the interaction term of number of branches and bank age is positively but insignificantly correlated with profit distribution. The possible reason of this result is when a bank increases number of branches with increase in age rather than in early years of bank, it leads to increase in profit distribution. These results indicate another possible reason of declining profit distribution is the rapidly growing physical capital of Islamic banks. GDP growth and reserves of banks also have insignificant relationship with profit distribution. These findings are also consistent with Mulyo and Siti (2012) and Farook et al. (2012) respectively. Table 4 represents the value of diagnostic tests that confirm the reliability of the results. The probability of Hausman test is less than 0.5 which rejects the null hypothesis of random effect is appropriate than fixed effect. The goodness of fit is 96 percent because the value is 0.960 which implies that 96 percent of variation in profit distribution is explained by all independent variables (regressors). Therefore, both tests confirm the reliability of the results of the study.

Table 3: Regression Results

REGRESSORS	SIZE	DEP	POPG	NOB	BA	INT	RES	GDPGR
PROFIT DISTRIBUTION	0.459***	0.695***	2.366***	0.001	0.034	0.001	0.029	0.014
	(0.177)	(0.100)	(0.544)	0.001	0.028	0.001	0.0199	0.022

Table 4.1: Results of Diagnostic Tests

TESTS	HAUSMAN TEST	R^2
OUTPUT	0.0000	0.960

5: Conclusion:

The current study examines the relationship between awareness of customers of Islamic banking and Profit Distribution Management of Islamic banks. Profit Distribution is a function of bank in which banks distribute their profit (after deducting retain earnings) between their stakeholders. To investigate this relationship, the current study uses return to stakeholders for profit distribution, number of branches and age of bank as a proxy of awareness towards Islamic banking along with other banking specific factors and macroeconomics factors as control variables that include total deposit, total reserves, ratio of Loan asset to total asset. And macroeconomics variables which are used in this study are GDP growth rate and annual growth rate of population of Pakistan. Moreover, the current study follows the methodology of Farook et al. (2012).

Purposefully, this study collected data of 4 full-fledged Islamic banks and 10 commercial banks who have been running their Islamic windows since 2008. The data set is collected of banking variables from the financial statements of above mentioned banks, and macroeconomics variables are collected from World development indicators covers the time span of 2008-2017.

To deal with balanced panel of above mentioned banks, the current study uses fixed effect model with white corrected standard error suggested by Hausman test. Furthermore, for robustness, this study uses fixed effect model with partial corrected standard errors to capture the contemporaneous correlation among banks. The result of current study shows that although awareness of Islamic banking is decreasing the Profit Distribution, this negative effect is insignificant. This result is consistent with Farook et al. (2012). Similarly, reserve and GDP growth rate do not significantly determine the Profit Distribution. This result is consistent with Farook et al. (2012) and Rachman and Dodik (2017). On the other hand, Size of a bank, total deposit, and growth rate of population are significantly increasing profit distribution and these results are also consistent with (Farook et al., 2012 and mulyo & siti, 2012).

6: Policy Implications

The findings of the study have potential policy implications for regulators of Islamic banks, and financial institutionswho have the presence in the Islamic financial system. Since, current study finds that if the banks or financial institutions want to grow in this industry, they need to work on their deposits.,Therefore, the banks received high profit and they can distribute their Profit among distributors more efficiently. In addition, increase in reserves is also important for any financial institution, hence, high reserves attract investors and high priority depositors to invest in the bank, as high investment can also affect positively on profit distribution management. Furthermore, the key variables of this study about customer awareness suggest that increase in number of branches rapidly will cause decrease in profit distribution managementbut if the bank makes proper action plan to increase number of branches with the passage of time (bank age) will help the banks to increase in profit distribution management. Last but not the least, the growth in population indicates that it affects the profit distribution management positively so that Islamic banks have room to grow,. The outcome of this study is precious for those institutions which are involved in the Islamic banking industry directly or indirectly., This study can be vital to help the institution take corrective actions and help them grow and sustain in the Islamic banking industry.

On the other hand, it is recommended that Islamic banks need to focus more on the training of the staff about Islamic banking product so that they can make the customers aware of Islamic banking more effectively. For this purpose, Islamic banks can calibrate with highly recommended business institution of Pakistan such as Iqra University, Institute of Business Administration, National University of Sciences and Technology for professional trainings of their staff members.

7. Future Recommendation

Islamic banking is relatively new in the market than conventional banks. Although this study checked the relation of awareness of customer towards Islamic banking and Profit Distribution Management but there is still a gap to check the performance of Profit distribution management through different variables or by different phenomenon and help Islamic banking industry to produce the results which can help the industry in a positive manner.

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Appendix A

Name of the banks

Following appendix represents the name of the conventional and Islamic Banks where the data was collected.

Sr. No	Name of Islamic Banks	Name of Conventional Banks
1	BankIslami	Bank of Khyber
2	Dubai Islamic Bank	Bank Alfalah
3	Meezan Bank	MCB bank
4	Albaraka Bank	Habib Bank Limited
5		Bank Al Habib
6		Askari bank
7		United Bank Limited
8		Soneri Bank
9		Habib Metropolitan Bank
10		Standard Chartered Bank