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**CORPORATE CULTURE AND PERFORMANCE – A
COMPARISON BETWEEN ISLAMIC AND CONVENTIONAL
BANKS IN THE KINGDOM OF BAHRAIN**

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Academic Advisor: Professor Laszlo Pólos

The thesis is submitted for the degree of Doctorate of Business Administration

Durham Business School

Durham University, England

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ABSTRACT

Purpose: The main purpose of this dissertation is to investigate and test the proposition that corporate culture is a necessary component of financial organization effectiveness and to examine the notion that a positive relationship exists between certain corporate values and financial performance.

Methodology/Design: The study consists of two linked phases. The first phase is a mixed-methods study that primarily focuses on developing and constructing cultural profiles. Qualitative data were gathered from 27 participants representing 11 different institutions through semi-structured interviews. Also, longitudinal data covering a 10-year period were collected to examine how each bank performed financially. The second phase, which is quantitative in nature, examines the effect of certain cultural values on the two best-performing banks (Generalist 1 and 2) using descriptive statistical and regression analyses.

Findings: The study implies that the five organizational values that emerged from the two best-performing banks were strategically important for the success of the two institutions. These values were identified as Clarity of Vision and Strategy, Corporate Governance, Customer Orientation, Innovativeness and Meritocracy. The regression analyses imply a positive relationship between the two generalists' Net Operating Income (NOI) and Innovativeness. Although there is also a positive relationship between Corporate Governance and NOI, it is less significant than the aforementioned corporate value. Conversely, Innovativeness is found to be negatively related to Return on Average Equity (ROAE); there is also a negative relationship between Corporate Governance and Customer Orientation with ROAE. The study also implies that financial institutions that preserved their original corporate culture performed better than those that did not, either as a result of a change in CEO, or business strategy.

Originality/Contribution: To my knowledge, this is the first study in Bahrain that addresses corporate culture in financial institutions in general, and Islamic banking in particular. Moreover, little research exists on the importance of institutionalization and operationalization in Islamic banking in Bahrain and particularly the role that corporate culture plays.

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DECLARATION

I confirm that this piece of work, which I submit for the degree of Doctorate of Business Administration, is the result of my own work, and I have acknowledged materials that I obtained from the works of others.

STATEMENT OF COPYRIGHT

The copyright of this thesis rests with the author. No quotation from it should be published without the author's prior written consent and information derived from it should be acknowledged.

ACKNOWLEDGEMENTS

After spending nearly three decades in the banking industry in the Kingdom of Bahrain, I always had the desire to go back to academia and indulge in a research topic that addresses the challenging issues and impediments confronting Islamic and conventional banks in the Arabian Gulf region and especially in the aftermath of the 2008 financial crisis. I sincerely hope that this dissertation will identify and recognise the importance of corporate culture and the role it plays in shaping, stabilising and prospering financial institutions, particularly for those operating in the Islamic banking sector.

This long and overwhelming journey has been a rewarding and fulfilling learning experience and was possible due to the invaluable guidance and contributions of many scholars and friends. First and foremost, I would like to sincerely thank my supervisor, Professor Laszlo Pólos, for his advice and guidance in critically polishing my research idea and helping to bring it to fruition.

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DEDICATION

I wish to dedicate this dissertation to the dearest people in my life who have been a great inspiration and support throughout my life journey:

My late father, my mother, my wife Amaal, and my three daughters - Noor, Maryam and Hala.

CHAPTER ONE: INTRODUCTION

Executive Summary

This chapter starts with an introductory statement on the purpose and objective of this study. A detailed background is then provided on the major issues facing Islamic banks in the Gulf Cooperation Council (“GCC”); the study also highlights the importance of this research paper to the Bahraini banking industry. The research also emphasises the importance of corporate culture to both academic scholars and practitioners in examining the culture-performance relationship in the context of conventional and Islamic banking environments. Finally, the study concludes with academic and practical contributions to this research.

1.1 Background

Rasheed Al-Maraj, Governor, Central Bank of Bahrain (“CBB”) (CIBAFI Global Forum, 2016) stated,

“I would like to re-emphasise the enormity of the challenges faced by the Islamic finance industry today in order to sustain its growth momentum. It has to differentiate itself convincingly for its customers by providing them with an excellent customer experience while embracing the true spirit of Shari’ah. Secondly, it has to invest heavily in its people. The opportunities offered by the Islamic finance industry are endless; but the question is, are we up to the challenge?”

In a 2015 *Gulf News* interview, Hussain Qemzi, CEO of Noor Bank stated,

“Despite Islamic banking being a fast-growing sector, the pace of innovation has been slow. Unless we differentiate ourselves in terms of value - a competitive price, innovative products, and high-quality customer service - we will struggle to compete with conventional banks.”

Moreover, based on studies conducted by the financial consultants Booz & Company (2008); A.T. Kearney (2010); Oliver Wayman (2009); Ernst and Young (2013, 2014), and researchers like Archer and Karim, (2002) and Karbhari et al. (2004), six significant issues confront global Islamic banks in general and “Bahraini institutions in particular”. These issues also have raised implications for corporate culture, as discussed below.

Academics and practitioners recognize the vital importance of corporate culture in shaping, stabilizing and revitalizing organizations. Interest in corporate culture dates to the 1970s, when the sudden rise in Japanese economic prosperity took the Western world by surprise. This was perceived as being due to the value Japanese culture places on the way employees and resources interact with each (Prasad et al., 2009; Denison, 1984) and their unequivocal commitment to Total Quality Management (“TQM”) practices even though the TQM concept arose from W. Edwards Deming’s research in the US. Five decades later, interest in corporate culture research remains as strong as ever (Sackmann, 2011).

The notion of corporate culture was introduced to management literature by anthropologist Clifford Geertz in *The Interpretation of Cultures* (1973), but gained greater momentum in the management literature of the 1980s. During this period, organizational behavioural researchers started to introduce the concept of “corporate culture”; by then, Geertz’s cultural definition was among the most cited in management literature.

From the viewpoint of practitioners, corporate culture is an important theme in today’s global business environment for a number of reasons: (a) a strong corporate culture creates a healthy and conducive atmosphere; (b) it translates into positive bottom-line for organizations (Mahrokian et al., 2010); and (c) it assists in the development of a sustainable business model based on strategies that are reflected in corporate practices and actions (Schwartz & Davis, 1981).

Schein (2004) argues that the effectiveness of corporate culture rests primarily with the ability of the organization’s founder or entrepreneur to articulate his or her beliefs and values to new members of the organization. These espoused beliefs, once shown to work, become coded work procedures and policies and are ultimately institutionalized as a blueprint.

Barney (1986) goes one step further by arguing that a firm with a strong culture can also develop a competitive advantage if these factors are subtle, valuable and difficult to imitate by competitors.

Because there is typically consensus among the majority of employees about what type of culture exists within an organization, detecting the cultural profile or pattern should be feasible through the use of both qualitative and quantitative methods (Cameron & Quinn, 2006).

In light of the above, and for the purpose of this study, I adopt Schein's (2004) institutional theory to define corporate culture as shared values and beliefs and assumptions. These shared values are ultimately translated into behaviours and corporate practices (Schwartz & Davis, 1981; Wilkins & Ouchi, 1983). Similarly, I use the Organizational Culture Profile ("OCP") instrument (O'Reilly et al., 1991) to measure each organization's cultural profile. I also apply an organizational ecology framework, such as imprinting (Hannan, 2005) and organizational fitness theories (Hannan et al., 2007) to analyse and interpret the qualitative data of this study. Collectively, the study uses an "institutional ecology" integrated framework, which is a combination of ecological insights and institutional perspectives (Ruef, 2010, cited in Baum & Oliver, 1996) to analyse data and test the study hypotheses.

1.1.1 Competition

Because of the increasing number of Islamic banks operating in a close vicinity to each other in the market centre, competition within the industry has risen noticeably in recent years. Consequently, there is a great pressure on profit margins and pricing in general. Moreover, due to the prevailing low rate of return on deposits (mudharabah-based profit¹) nowadays, customers are switching to other investment products (such as Islamic mutual funds) that offer higher rates of return. This shift in customer preferences affects the ability of Islamic banks to identify traditionally cheap funding sources. In addition, with bigger Islamic banks entering into the mainstream, and with more conventional banks offering Shari'ah-compliant products through windows of Islamic banking products², the competition in this sector is intensifying and the distinction between Islamic and conventional banks is slowly disappearing. Ariss (2010) argues that in Turkey, Islamic banks are less competitive than conventional banks in terms of overall profitability. Similarly, average return on equity in the GCC between 2008 and 2012 was lower than conventional banks (Ernst & Young, 2014). Therefore, Islamic financial institutions need to develop a new way of differentiating themselves beyond the traditional practice of being Shari'ah-compliant. Although profitability is in general lower for Islamic banks than conventional banks, a number of scholars have argued that financial performance is

¹ Mudharabah-based profit is a contract between the Islamic bank and holder of investment account where the bank invests the money based on an agreed profit-sharing arrangement, Archer and Abdel Karim (2002), p. 213.

² These are specialized set-ups within conventional financial institutions that offer Shari'ah-compliant products for their customers, Archer and Abdel Karim (2002), p. 46.

only one dimension of this young industry, and other, non-financial, measures should be taken into consideration. This is because Islamic banks bear more social and ethical responsibility to sustain the welfare of societies and this may affect the way Islamic institutions conduct their business operations (Bedoui & Mansour, 2014).

1.1.2 Risk Management

The financial crisis of 2008-2010 cast a shadow on the global economy in general and the financial sector in particular (*The Economist*, 2013). The intensity of this crisis for global firms has varied in terms of size, sector, and geography, and Islamic banks operating in the GCC were not immune.

The governments of Qatar and the United Arab Emirates (“UAE”) have injected fresh cash into their financial sectors, including Islamic banks, to strengthen their capital bases (Khamis et al., 2010). Archer and Karim (2002) assert that financial risk management is more developed in conventional than in Islamic banks.

Some Islamic banks were more affected than conventional banks because of higher real estate holdings on their balance sheets. Hassan and Dridi (2010) argue that because some Islamic banks experienced weakness in their risk management systems, this led to a large decline in their profitability in 2009 and beyond. Although the liquidity situation has improved significantly in the aftermath of the financial crisis, it remains a challenging area, especially for those Islamic banks that operate in the investment sector (*Financial Times*, 2010). This is mainly due to the mismatch between long-term asset holdings and corresponding short-term liquidity liabilities, which causes difficulties for asset-liability management. In particular, risk management remains challenging for many Islamic banks because of their relatively higher holdings of real estate assets on their balance sheets than conventional banks.

1.1.3 Rising Regulatory Influence

Central banks around the world are advocating a tougher stance on financial institutions to ensure that lessons learned from the financial crisis are not being ignored. GCC regulators are no exception, and have adopted a stricter regulation of the banking industry, including Islamic banking. To comply with international banking standards, regulators are demanding that banks

in general maintain higher liquidity and a larger capital cushion in case global financial markets again become turbulent. This will entail full implementation of the Basel III capital adequacy ratio requirements, which will take place in 2019 (Al-Hares et al., 2013). Also, regulators are urging more transparency in financial reporting and better corporate governance structures, including the appointment of independent members at the board level (CBB Report, 2010).

1.1.4 Information Technology

Acceptance of information technology (“IT”) has been mixed, at best, in Islamic banks. Banks will need to step up their efforts to enhance efficiency and distribution channels through electronic banking services (i.e., e-banking) in order to reach out to different segments of the market and serve customers’ needs effectively. Also, banks must use sophisticated software to efficiently handle Customer Relationship Management (“CRM”). Improvements in IT are essential if Islamic banks are to clearly differentiate themselves from competitors.

1.1.5 Human Resources (“HR”)

The rapid growth of Islamic banking institutions has not been matched by recruitment of talented bankers, and especially at the senior manager level (Karbhari et al., 2004). This gap has not been addressed by many Islamic banks. Recruiting talented managers is one of the key factors in the success of the financial sector, since these managers assist in developing and enhancing corporate business growth. At present, adequately skilled human resources are in short supply in the marketplace for Islamic banks operating in the Gulf region (Booz & Company, 2008). This situation exists at all levels in organizations, but in particular at the Shari’ah board level. It takes many years of intensive education and practical experience to develop a competent Shari’ah board member. Motivating staff is one of the key factors in creating a competitive and vibrant environment in an organization. Wallach (1983) argues that an employee can be more effective in his or her job when there is a match between his or her motivation and organizational culture.

Equally important to recruiting the right employee is the ability to retain and manage him or her within the corporate culture through a well-designed reward system (Kerr & Slocum, 1987).

1.1.6 Product Development and Innovation

Product development in Islamic banks has made big strides in recent years by introducing new sets of products such as *tawarruq*³, *istisna'a*⁴, and Shari'ah-compliant credit cards (Ahmed, 1988), but more improvements are needed to cope with the increasingly competitive landscape and to satisfy emerging customer and societal needs. For example, customers are looking for a return on their high-balance demand deposits that matches the returns offered by conventional banks. There is a shortage of products with medium to long-term maturity, given the lack of depth and scope in Islamic secondary markets (Archer & Karim, 2002). A *mudharabah*-based profit-and-loss-sharing investment account can be structured as a viable vehicle to address this particular demand (Ahmed, 1988). Similarly, banks need to finance real estate purchases over a long period through the development of Islamic mortgages (*sukuks*) that can ultimately be securitized and sold as income-generating funds in the capital market. Also, there is a need to develop Islamic wealth-management services for the high-net-worth investors for such products as fixed income and private equity funds.

1.2 Purpose, Objective and Study Hypothesis

The main purpose of this dissertation is to investigate and test the proposition that corporate culture is a necessary part of financial organization effectiveness and to examine the notion that a positive relationship exists between certain corporate values and financial performance.

I selected the theme of corporate culture as the main topic of study because little research exists on the importance of institutionalization and operationalization in Islamic banking in Bahrain, and particularly the role that corporate culture plays. To my knowledge, this is the first study in Bahrain that addresses this topic.

The main objectives of this study of the Islamic and conventional banking industries in Bahrain are as follows:

³ Monetization of assets. In Islamic banking this takes the form of buying commodities and selling them to get cash, Ahmed (1988), p. 234.

⁴ A contract of sale of specified goods to be manufactured, with an obligation on the manufacturer to deliver them upon completion. The seller provides either the raw material or cost of manufacturing the goods, Archer and Karim (2002), p. 213.

1. Examine the best-performing banks among a group of selected financial institutions in terms of key financial ratios based on net operating profit growth and return on equity and risk management analysis over a period of 10 years.
2. Identify and analyse the most important organizational values for the best-performing banks.
3. Examine the relationship that exists between selected corporate values that relate positively with financial performance.

The essence of the study is to test the notion that certain corporate values will positively relate to financial performance. The five corporate values identified in this study serve as independent variables. These are Clarity of Vision and Strategy; Corporate Governance; Customer Orientation; Innovativeness; and Meritocracy. The two financial measurements that are applied for this research are Net Operating Income (NOI) and Return on Average Equity (ROAE), which will serve as the dependent variables. Therefore, ten hypotheses are examined as follows:

Hypothesis 1: <i>Innovativeness is positively related to NOI</i>
Hypothesis 2: <i>Meritocracy is positively related to NOI</i>
Hypothesis 3: <i>Clarity of Vision & Strategy is positively related to NOI</i>
Hypothesis 4: <i>Corporate Governance is positively related to NOI</i>
Hypothesis 5: <i>Customer Orientation is positively related to NOI</i>
Hypothesis 6: <i>Innovativeness is positively related to ROAE</i>
Hypothesis 7: <i>Meritocracy is positively related to ROAE</i>
Hypothesis 8: <i>Clarity of Vision & Strategy is positively related to ROAE</i>
Hypothesis 9: <i>Corporate Governance is positively related to ROAE</i>
Hypothesis 10: <i>Customer Orientation is positively related to ROAE</i>

1.3 Significance and Relevance of the Study Topic

Islamic finance is one of the fastest-growing sectors of the global financial market. In some countries, such as the Kingdom of Bahrain and Malaysia, it is strategically important to not only be a global leader in this sector, but also to make a significant economic contribution to their respective country's Gross Domestic Product ("GDP"). In other cases, such as Saudi Arabia where Islamic finance penetration has reached nearly 54% of the total financial market in 2013, it is evident that this sector has become a major force in the economy, and hence too big to be ignored (Ernst & Young, 2014).

While Islamic banking has been on the rise over the past 40 years, it is currently going through a consolidation phase in a number of countries' markets, including Bahrain, and is in a progressive phase in other markets, such as Turkey and Indonesia (Ernst & Young, 2014). It is evident that the process of institutionalization and operationalization is becoming a major issue in this industry. It has been argued that a successful institution will be one that can establish a solid corporate governance foundation (Ginena & Hamid, 2015), with clear differentiation from competitors in terms of innovation and efficient distribution channels (Booz & Company, 2008), but, most importantly, one with a strong and positive corporate culture to achieve sustainable financial results. However, the study of corporate culture in financial institutions in general and Islamic banking in particular has been limited in the management and economics literature.

This study consists of two phases. The first phase is a mixed-methods study that primarily focuses on developing and constructing cultural profiles. Qualitative data were gathered through a semi-structured interview format with open-ended questions. A total number of 27 interviews were conducted with managers of 11 different financial institutions (six Islamic and five conventional). For the majority of institutions, I also collected data covering a 10-year period to examine how each bank performed financially.

In the second phase, which is quantitative in nature, I examine the effects of certain cultural values on the best-performing banks, being Generalist 1 and 2, using descriptive statistical and regression analyses. A total of 74 managers from the two financial institutions participated in this survey.

Given that the sample contains only 11 banks, this research could be interpreted as limited in terms of breadth and depth. However, this field study should be viewed as exploratory and further research is recommended to generalize study findings to a larger population.

1.4 Islamic Banking in the Gulf Region

The philosophy of Islamic banking is based on offering Shari'ah-compliant banking products that conform to Islamic banking laws. Although industry growth has slowed in recent years because of the 2008 financial crisis, it has since grown at a pace of 10-15% annually (Ernst & Young, 2013).

Hassan and Dridi (2010) argue that several factors have contributed to the strong growth of Islamic finance in general: (a) the strong need for Shari'ah-compliant products in many Islamic countries including those in the Gulf region; (b) the increase in the regulatory system to deal with the growing demand for Islamic finance; (c) the growing demand from conventional investors as means of diversifying their products and services; and (d) the industry's need to develop a number of financial instruments to meet the growing demand of both corporate and individual investors. The Islamic finance and banking industry's value reached US\$ 1.9 trillion in the first half of 2014 (World Bank and Islamic Development Bank Report, 2015).

Al Saie (2011) also argues that the growth of Islamic banking in the Gulf region, especially during the period 2000-2007, can be attributed to the following factors: (a) an abundance of liquidity generated by hydrocarbon prices (see Appendix **Exhibit A1.1**); (b) societal needs, since some segments of the society want to conduct their financial transactions in accordance with Islamic banking guidelines; and (c) the establishment of a proper legal and auditing framework to cater to the growing number of Islamic institutions. All of these factors have enabled Islamic banks in the Gulf region to flourish during this period.

In 1975, Dubai Islamic Bank in the UAE was the first Islamic institution to be founded (Archer & Karim, 2002). This was followed by other financial institutions such as the Kuwait Finance House, Kuwait; the Al-Rajhi Bank, Saudi Arabia; and the Bahrain Islamic Bank. All early founders of Islamic banks in the Gulf region benefitted from early monopolies within their respective home territories and had established a clear competitive advantage in the late 1970s

and early 1980s. Regulators in these countries recognized the success of Islamic banking and encouraged the issuance of licenses for new entrants to this sector. Therefore, Islamic banking established itself not only as a feasible and viable alternative for financial intermediation, but also as an efficient and productive way of undertaking financial intermediation between surplus and deficit economic establishments (Archer & Karim, 2002).

Bahrain has established itself as a global leader in Islamic finance by hosting the largest concentration of Islamic financial institutions in the Middle East. The Central Bank of Bahrain has also established a prudential regulatory framework that is tailor made for the specific needs of Islamic banking and insurance companies (*takaful*⁵). The regulatory framework covers areas such as licensing requirements, capital adequacy, risk management, business conduct, and disclosure/reporting requirements. In addition to hosting many Islamic financial institutions, Bahrain is a hub for a number of organizations that play a central role in the development of Islamic finance, including: (a) the Accounting and Auditing Organization for Islamic Financial Institutions (“AAOIFI”); (b) Liquidity Management Center (“LMC”); (c) The International Islamic Financial Market (“IIFM”); and (d) Islamic International Rating Agency (“IIRA (CBB Report, 2010).

In addition, the CBB established the Waqf Fund to finance research, education, and training in Islamic finance. This study, which focuses on the corporate culture and performance of selected Islamic and conventional banks in the Kingdom of Bahrain, is in line with CBB’s support of academic research aimed at developing and enhancing Islamic banking best practices but is privately supported and funded.

1.5 Overview of the Study

Chapter 1 highlights the importance of corporate culture for organizational effectiveness. It also sheds light on the challenges facing the Islamic banking industry and the need to address these from the standpoint of creating a prudent corporate culture. This entails the establishment of a sound organizational infrastructure that attracts professional human capital and fosters a culture of innovativeness.

⁵ A Shari’ah-compliant system of insurance in which the participants donate part or all their contributions, which are used to pay claims for damages suffered by some of the participants, Archer and Karim (2002), p. 215.

Given the relatively short history of Islamic banking in comparison to the conventional industry, it would be unfair to compare Islamic banking competitiveness to that of conventional banks. Nevertheless, Islamic banks must place more emphasis on building sustainable business strategies that focus on long-term growth and innovativeness if they seek to remain competitive in the future.

Chapter 2 provides an overview of the progression of corporate culture as a management discipline, starting with anthropology and ending with modern management literature. The chapter also summarizes the literature of organizational culture, including dimensions of national and corporate culture and organizational typologies. Finally, the chapter concludes with recommendations on how to fill the gaps in culture-performance research literature. In particular, the chapter highlights the relevance of a mixed-methods approach when studying an organization's culture.

Chapter 3 sheds light on the essence of Islamic banking and its roots in Shari'ah law. The Islamic banking industry has carved out its position in the international banking environment through legitimation of its Shari'ah-compliant products and with the support and advice of regulators and Islamic financial bodies such as AAOIFI and IFSB. The identity of Islamic banking is primarily based on ideology, which highlights the strong convictions of its employees and customers alike.

Chapter 4 provides an overview of the methodology design relating to this study through two interconnected research phases. Primary and secondary data were examined methodically and rigorously to ensure satisfactory reliability and validity results. The corporate values that emerged in phase one will be further discussed in detail in Chapter 5 (mixed methods). The chapter concludes with a number of relevant ethical issues pertaining to this study.

Chapter 5 used mixed methods to: (a) categorize and code the qualitative data, (b) examine the best-performing financial institutions, and (c) identify the most important organizational values for the two best-performing banks. The five organizational values identified are Clarity of Vision and Strategy, Corporate Governance, Customer Orientation, Innovativeness and Meritocracy. I used the OCP or Q-sort to complement the findings of the previously examined qualitative study.

Chapter 6 provides relevant background on the descriptive statistical findings, which reveals a pattern of consistent correlations among each section of the five corporate values. This implies that these cultural values are clear, well understood, and strategically important for the success of the two institutions (Generalist 1 and 2). The regression analyses imply a positive relationship between the two generalists' NOI and Innovativeness. Although there is also a positive relationship between Corporate Governance and NOI, it is less significant than the aforementioned because of lower R^2 . Conversely, Innovativeness is found to be negatively related to ROAE; there is also a negative relationship between Corporate Governance and Customer Orientation with ROAE.

1.6 Study Contributions

This study makes a number of theoretical contributions to our understanding of positive corporate culture, as well as practical contributions to knowledge about the effect of culture on a financial institution's performance, as follows:

- 1) The study examines the importance of the five evolved cultural values to both conventional and Islamic financial institutions, as well as whether they differ by type of financial institution and how these results compare with similar studies in other countries. Two notable similarities of cultural values exist between the cultural values identified in this study and the finding of other studies: (a) Gordon and DiTomoso (1992) identified Clarity of Strategy/Shared Goals, Innovation/Risk-taking, and Fairness of Rewards, in their study of 11 US insurance companies; (b) Deshpande et al. (1993) identified Innovativeness and Customer Orientation in their study of 50 Japanese vendors.
- 2) Results from the study imply a positive relationship between Innovativeness and financial performance as measured by Net Operating Income (NOI) for Generalist 1 and 2, which is consistent with the findings of others in the field (e.g., Deshpande et al., 1993; Lee & Yu, 2004). Results also imply a positive relationship between Corporate Governance and NOI, and, conversely, there is a negative relationship between Return on Average Equity ("ROAE") and Innovativeness, Corporate Governance, and Customer Orientation.

- 3) I extended the OCP (O'Reilly et al., 1991) by adding Clarity of Vision and Strategy, Corporate Governance, and Customer Orientation as cultural profiles to the original 54 cultural profiles; this demonstrates that the OCP is applicable to contexts other than those originally studied in the US.
- 4) I used the integrated framework of institutional ecology to analyse data and test the notion that corporate culture is a vital part of a financial organization's effectiveness. This demonstrates the validity of this approach, as well as the theories that are associated with institutional ecology.
- 5) Study findings show that the best-performing banks, as measured by net operating income and return on average equity over a period of 10 years, were two conventional banks. This implies that Islamic banks' sustainability of profitability in general was lower than that of conventional banks during this period.
- 6) Study results imply that the majority of Islamic banks that participated in this research need to improve their organizational infrastructure, especially in the area of risk management and product innovation.
- 7) The study implies the non-sustainability of the hybrid model in Islamic banks; some of the financial institutions that advocated this type of model have experienced more financial turbulence than other segments of the population (e.g., retail).
- 8) Preservation of the original corporate culture appears to be important for the sustainability of business in general. Study results show that financial institutions that preserved their original corporate culture performed better than those that did not, either as a result of a change in CEO, or business strategy.
- 9) The study of corporate culture in financial institutions in general and Islamic banking in particular has been limited in the management/economic literature. This is the first study in Bahrain to address this important topic.

CHAPTER TWO: LITERATURE REVIEW

Executive Summary

This chapter provides an overview and discussion of the various areas of the literature of culture and organizations that inform this study. The chapter begins with a general discussion of the definition of culture, followed by an overview of organizational culture literature including dimensions of national and corporate culture. Finally, the chapter points out the gaps in culture-performance literature and describes how the findings of this study could fill these gaps.

2.1 Background

The term “culture” incorporates many meanings and interpretations, including many aspects of life that can be understood tacitly rather than by expressing through words. According to Kotter & Heskett, 1992, culture is defined in a broad way:

“Arts; belief; institutions; and all other products of human work and thought characteristics of a community or population (p.4)”.

The concept of organizational culture had its roots in anthropology (Sir Edward Tylor, 1871) and Kroeber and Kluckhohn (1952), who acknowledged the word "culture" is associated with three basic meanings: (a) a high-quality taste for the fine arts and humanities; (b) a comprehensive view of human knowledge, beliefs, and behaviour that relies on symbolic reflection and social learning; and (c) a set of shared attitudes, values, goals, and practices that characterize an institution, organization, or even group. The second and third definitions are relevant to organizational studies.

Modern anthropologist Clifford Geertz provided many definitions of culture and one of his notable ones is provided in his book *The Interpretation of Cultures* (1973) where he states:

“Culture denotes a historically transmitted pattern of meanings in symbolic forms by means of which men communicate, perpetuate, and develop their knowledge about and attitudes toward life (p.89)”.

Clifford Geertz’s interpretations of culture in the 1970s were recognized and transferred into the context of organizational science, and consequently to “corporate culture” studies by

well-known scholars (Allaire & Firsirotu, 1984; Deal & Kennedy 1982; Pettigrew, 1979; Schein, 1985; Smircich, 1983).

According to Schein (2009), there is no consensus on the definition of corporate culture because of the plethora of culture definitions in use by many researchers from a number of theoretical and research traditions. The majority of scholars, however, are inclined to agree on the following characteristics of the corporate culture profile:

“A pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (Schein, 2009, p. 27).”

Corporate culture as a major topic in management studies proliferated in the 1980s and 1990s. Early scholars who postulated the absolute claims on culture-performance relationship (Deal & Kennedy, 1982; Peters & Waterman, 1982) came under scrutiny by many scholars (such as Sackmann, 2011; Saffold, 1988). These scholars demanded more clarity and rigour in terms of robust research design and statistical analysis. Much of the early debate on culture and effectiveness centred around the arguments made by several scholars who favour the phenomenological approach, stressing the qualitative interpretation when examining and studying culture (Trice & Beyer, 1993). On the contrary, several scholars saw the need to integrate both the phenomenological and functionalist perspectives (Denison, 1990; Denison & Mishra, 1995; Hofstede et al., 1990) and presented empirical studies on culture that combined both qualitative and quantitative studies.

According to Alvesson (2011), despite the popularity of corporate culture as a major theme in management studies in the early 2000s, closely related subjects started to emerge and compete such as organizational discourse (e.g. study of language, metaphors, and stories) and organizational identity (e.g. “who we are” and “what we do”).

Modern scholars like Giorgi et al. (2015) argued that corporate culture has become a more diversified theme and identified five integrative frameworks to view and examine culture: a) categories (social classifications that provide audiences with a mechanism to judge the value and legitimacy of objects, people and practices, e.g. “organizational ecology”); b) frames (filter

events to those that influence meaning and actions); c) stories (verbal or written narratives linked to sequence of events); d) toolkits (sets of frames or practices that actors draw upon to make meaning or take action); and e) values (what we prefer and hold dear).

Sackmann (2011), who has investigated 55 empirical studies since 2000, claimed that there are five general observations concerning the study of culture-performance studies: (a) the examination of this relationship became more specialized; (b) the research methodology designs became more sophisticated; (c) the interest in this field of study became more internationalized; (d) few research studies have emerged based on new validated standardized questionnaires; and (e) the measurement of this relationship remains diverse and debatable.

It is evident that the study of corporate culture has become a more diversified and fragmented subject within itself and most likely this phenomenon will continue in the foreseeable future. More recent studies on organizational culture have explored such topics as visual culture (e.g., Styhre, 2012); gender and organizational culture (e.g., Aaltio & Mills, 2002); and conflicts between cultures in organizations (e.g., Martin, 2004).

Despite the large number of theory-based and different approaches and frameworks to study and construct culture, all this knowledge has added richness and diversity to the subject. Undoubtedly, the study of corporate culture will remain a popular theme in the many years to come.

The next paragraphs will review the relevant aspects of national culture, and the creation and assessment of corporate culture.

2.2 Dimensions of National Culture

Due to the relevance of Bahrain's national culture to the topic of this thesis, national culture and organizational literature, as well as cross-cultural organizational literature, is deemed important.

Two of the most important early studies in this field were conducted by Hofstede et al. (1990, 1993). According to their findings, based on a survey of more than 100,000 IBM middle managers in more than 50 countries, five main dimensions (indices) reflect how the concept of culture differs from one country to another. These are: power distance; uncertainty avoidance,

individualism vs. collectivism, masculinity vs. femininity, and long-term vs. short-term orientation. However, Hofstede et al.'s findings came under strong scrutiny by many researchers, including McSweeney (2002), who argues that conceptualizing national culture into five dimensional categories is problematic. He stresses that issues of national diversity, non-cultural issues that are perceived as cultural, and, ultimately, the oversimplification of national culture as a whole were not dealt with appropriately in Hofstede et al.'s research. Their work was soon superseded by a number of scholars, like Branine (2011); Mead (1998); Trompenaars and Hampden-Turner (2004); and Trompenaars and Woolliams (2003).

A group of researchers headed by House et al. (2002) extended Hofstede et al.'s (1990 and 1993) findings on national culture by conducting global research on culture and leadership in what is known as the Global Leadership and Organizational Behaviour Effectiveness (GLOBE) study. The GLOBE researchers advanced the study on national culture, both in terms of scope and geographic reach. This research involved the study of more than 17,000 middle managers in more than 950 organizations that represented 62 different cultures around the world. The GLOBE study stresses how different cultures view leadership attributes. Researchers identified six global leadership attributes: charismatic/value-based, team-oriented, participative, humane-oriented, autonomous, and self-protective.

The GLOBE researchers (House et al., 2002) divided the information collected from 62 countries into 10 cultural clusters, each of which had its own preferences for leadership behaviours. This led to the conclusion that each cluster was influenced by its own culture. However, there were a number of shortcomings in this research. First, some respondents did not easily understand all of the leadership traits used in the study, which could produce inaccurate data on these topics. Second, the study does not provide a clear set of propositions under which a single theory describes how culture relates to leadership or how it affects the leadership process (Northhouse, 2007).

It could be concluded from the above two studies (Hofstede et al., 1990 and 1993; House et al., 2002) that framing culture at the national level is complex, mainly because of each organization's special identity and the characteristics of its society and country; it is difficult, therefore, to justify condensing national culture into only a few dimensions. This complexity has been acknowledged by a number of scholars in the cross-cultural organizational and

management literature that focuses on national cultures, such as Li and Harrison (2008); and Ringov and Zollo (2007).

Culture can manifest itself in three layers, as shown in the pyramid diagram (**Figure 2.1**) below. The lowest level of the pyramid represents the universal meaning of culture, which consists of but is not limited to, behaviours, arts, beliefs, and all other products of human work and thought as defined by anthropologists Kroeber and Kluckhohn (1952) and Geertz (1973). The middle layer represents the national culture, which includes research conducted by the groups mentioned above (e.g., Hofstede et al.’s findings, the GLOBE study of House et al., 2002 and others). The third layer represents corporate culture, which is at the pinnacle of the pyramid. The cultural dimensions include the observable artifacts, basic assumptions, and espoused values of an organization; within every institution there are also specific jobs or task requirements that need to be filled and performed in order to survive economically. Such function is referred to as “occupational culture” and examples of such culture are operator, engineering and executive, as defined by Schein (2009).

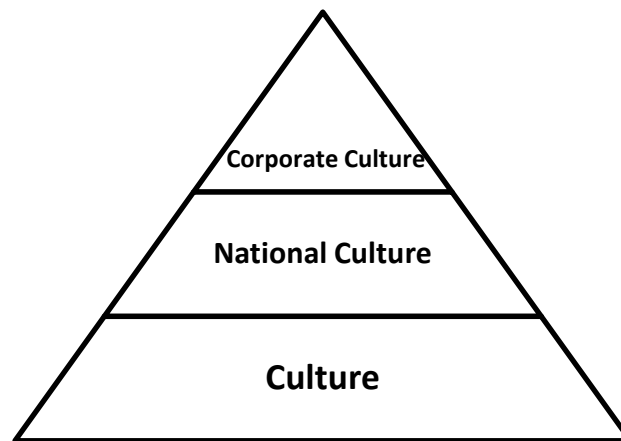


Figure 2.1 - Layers of Culture

2.3 Corporate Culture

“Organizational culture” and “corporate culture” have always been used interchangeably, and are based on the same concept and meaning; conceptions of corporate culture are derived from the organizational culture literature (e.g., Kotter & Heskett, 1992). It is generally recognized that all corporations are organizations, but not all organizations are

corporations. This is because some organizations are nonprofit institutions, government agencies, or loose networks.

The addition of the word “corporate” was introduced to management literature in the late 1970s and early 1980s by researchers who applied Geertz’s (1973) work in anthropology to organizational and corporate culture (e.g., Allaire & Firsirotu, 1984; Pettigrew, 1979).

Initial interest was focused on national culture and its effect on multinational corporations through the work of Hofstede et al. (1990 and 1993), quickly followed by a number of scholars like Trompenaars (1994), whose work has superseded that of Hofstede and colleagues. The topic quickly became a hot subject in organizational culture through the study of best-performing American corporations. This prompted a wave of research that examined the relationship between corporate culture and its effects on financial performance in multinational companies (Denison & Mishra, 1995; Gordon 1991; Kotter & Heskett, 1992).

For this study, the functionalist definition of Schein (2004) is adopted in which he views corporate culture consisting of three broad categories: observable artifacts, basic assumptions, and espoused values. Artifacts consist of an organization’s buildings, offices, awards, products, and published mission statement. Espoused values consist of personal values, goals, and standards which are championed by the founder of an organization. Basic assumptions include those elements of culture that are invisible (hidden, implicit or tacit). These are the founder’s beliefs and values that are taught to new members and, if validated by organizational success, become assumptions.

2.3.1 Creation of Corporate Culture

Schein (2004) argues that the effectiveness of corporate culture rests primarily with the ability of the founder or entrepreneurial originator of an organization to articulate his beliefs and values to new members of an organization. These espoused beliefs, once proven to work, become coded work procedures and policies and are ultimately institutionalized as a blueprint in the form of rules, regulations procedures, etc. Barney (1986) goes one step further by arguing that a firm with a strong culture can develop a competitive advantage if these factors are subtle, valuable, and difficult to imitate by their competitors, a factor demonstrated to be effective over a long time at HP before its merger with Compaq (Burgelman & McKinney, 2006). This has led

to increased interest in this subject by professional practitioners (e.g., The “HP Way” or the “Wal-Mart Way”, *The Economist*, 2014). The importance of corporate culture is also emphasised by Herb Kelleher, CEO and Chairman of Southwest Airlines, who stated, “Everything in our strategy our competitors could copy tomorrow, but they can’t copy the culture - and they know it” (Harvard Business Review, 2013, p.17).

Leadership and corporate culture are interconnected. For corporate culture to be effective an organization should first develop strong leadership; with poor leadership, it is difficult to communicate the organization’s values and business strategy to employees. This weakens the corporate culture from the outset. In fact, corporate culture is a historical image that mirrors the founder’s beliefs and values (Selznick, 1957).

2.3.2 Assessment of Corporate Culture

Corporate culture can be examined through different lenses, and this study only considers two relevant different perspectives: functional and interpretive (Allaire & Firsirotu, 1984; Giorgi et al., 2015). The functionalist approach views culture as a set of values that, if validated by organizational success, can assist in creating a positive and vibrant culture (Denison & Mishra, 1995; Schein, 2004; Sorenson, 2002). The interpretive school examines culture more from the perspective of shared stories, symbols and rituals that are created and shared by members of an organization, and can be evaluated and understood (Deal & Kennedy, 1982). Some scholars argue that framing events or stories could be perceived as a myth and may conflict with organizational reality (Hobsbawm & Ranger, 1983; cited by Giorgi et al., 2015).

There are ongoing debates regarding the best research method to examine and interpret corporate culture. The main point of disagreement is whether a qualitative approach alone is appropriate to measure corporate culture profiles in natural settings given the subtle nature of culture. Conversely, others argue that using a quantitative approach alone in measuring corporate culture’s climate is adequate. The perspective I adopt is that of Chatman and Jehn (1994); Denison and Mishra (1995); and Cameron and Quinn (2006), who take the view that the two approaches, in the form of mixed methods, allow them to complement each other in terms of rigour, depth, scope, and efficiency. The argument for this approach is that since the underlying values and assumptions of a corporation are naturally very difficult to measure

(tacit), these are ultimately translated into corporate practices and actions (Schwartz & Davis, 1981) that are observable, and consequently, measurable.

In the next paragraph, I will point out the gaps in culture-performance literature and describe how the findings of this study could fill these gaps.

2.4 Culture-Performance Relationship

Reichers and Schneider (1990), cited by Lee and Yu (2004), argue that although cultural researchers have committed a great deal of effort to the definition of culture, only limited attention has been paid to the study of the relationship between culture and performance. The authors acknowledge this deficiency as contributing to the difficulty of constructing and framing cultural profiles in the literature of management and organizational behaviour.

The popularity of books such as *In Search of Excellence* (Peters & Waterman, 1982) and *Corporate Cultures: The Rites and Rituals* (Deal & Kennedy, 1982) provided a stimulus for many scholars and practitioners who were linking corporate culture and performance. However, these two books were criticized for a lack of methodological rigour. This is because of the weak performance by a number of the so-called strongly performing firms presented in both books; it was evident that the weakness in the relationship between culture and performance was mainly due to the lack of rigorous and valid empirical data to substantiate this relationship. Other sceptics demanded more clarity and rigour in terms of robust research design and statistical analysis (e.g., Sackmann, 2011; Saffold, 1988).

I examined 15 articles from the culture-performance literature between 1982 and 2008 (Appendix **Exhibit A2.1**). These research articles and books are among the most popular and most cited materials on culture-performance literature in modern times. The study identified important gaps in the literature as it relates to the construction of cultural profiles, as described below:

1. Inconsistent definitions of corporate culture, resulting in different approaches in assessing and examining culture. Quite often, the link between culture and performance is not well established due to rigorous theoretical and research methodology issues (Peters & Waterman, 1982).

2. Use of one-dimensional research methods such as a quantitative survey to identify and measure culture (Calori & Sarmin, 1991; Gatignon & Xuereb, 1997; Gordon & DiTomaso, 1992; Yilmaz & Ergun, 2008).
3. Over-generalizing cultural traits from specific industries to others (“population”) (Chow & Liu, 2007; Denison, 1982; Denison & Mishra, 1995; Fey & Denison, 2003; Christensen & Gordon, 1999; Gatignon & Xuereb, 1997; Lee & Yu, 2004; Ogbonna & Harris, 2000; Yilmaz & Ergun, 2008).
4. Many lack longitudinal data or at least 10 years of data collection on organizations to establish more credibility on research findings (Deshpande et al., 1993; Denison & Mishra, 1995; Gatignon & Xuereb, 1997; Christensen & Gordon; 1999; Ogbonna & Harris, 2000; Sorensen, 2002; Fey & Denison, 2003; Lee & Yu, 2004; Chow & Liu, 2007; Yilmaz & Ergun, 2008).
5. Some lack a cross-sectional study in organizations to gain a deeper understanding of the organizational culture constructs. This is because interviews were limited to executive management only (Denison & Mishra, 1995; Fey & Denison, 2003; Gatignon & Xuereb, 1997).

To overcome these gaps and weaknesses, I used the following methods in this study:

1. I adopt a functionalist view of corporate culture and defined culture as shared values, beliefs and assumptions, following Schein (2004). These shared values are ultimately translated into behaviours and corporate practices in organizations (Schwartz & Davis, 1981; Wilkins & Ouchi, 1983). Also, I used the Organizational Culture Profile (OCP) (O’Reilly et al., 1991) to capture an organization’s cultural values. Research on organizational behaviour examines the shared value and beliefs of an organization and operationalizes culture in terms of personal and organizational fit. This has yielded more credible, consistent, and reliable measures of corporate culture (Weinzimmer et al., 2008).
2. I used a mixed-methods approach, which has been established as credible for examining cultural profiles in organizations. The methods used complement each other in terms of rigour, depth, scope, and efficiency (Cameron & Quinn, 2006; Chatman & Jehn, 1994; Denison & Mishra, 1995).

3. For the majority of the study sample, I collected data covering a 10-year period to examine how each bank participating in the study performed financially.
4. I used net operating income (NOI) and return on average equity (ROAE) to measure the financial performance of the selected institutions. These two benchmarks are particularly relevant to this research study. Also, well-established research in this area has used similar performance-measurement tools (Denison & Mishra, 1995; Kotter & Heskett, 1992).
5. I used reasonable cross-sectional study analyses of organizational employees, consisting of executive, senior and middle-managers that are based on interview and survey methods.

In the next paragraph, I will provide relevant background on organizational typologies and change.

2.5 Organizations and Change

The notion of imprinting is defined by Hannan et al. (2003) as the external environmental forces that initially shape the features of an organization during its establishment or founding stage. These taken-for-granted characteristics subsequently resist any major environmental alterations. This aspect of an organization becomes like a blueprint that, once it has been imprinted, will be both risky and costly to change; this includes the organization's culture (Stinchcombe, 1965). Change could also increase the organization's mortality risk. Although Stinchcombe (1965) did not specifically use the word "imprinting," it became synonymous with his research on this subject. Stinchcombe's (1965) research on organizational mortality was expanded to include organizational inertia (which refers to an organization's resistance to change) by Hannan and Freeman (1977, 1984), who argue that if an organization decides to undertake a change, four primary issues could affect the reorganization period and ultimately increase its mortality hazard. These are referred to as core features: mission statement, form of authority, application of technology, and marketing strategy.

Another relevant study was conducted by Hannan et al. (2007), who are organizational ecologists; they argue that a change in organizational architecture as a result of code alteration in feature value (e.g., policies and work procedures) can trigger a cascade of changes in other

connected units of the organization's architecture. Four structural features can prolong the time required for an architectural change in an organization: how complex the organizational architecture is, how long it takes to implement the change, the opportunity cost of the change, and how deep and strong the embedded culture is in the organization.

As noted above, corporate culture may prove difficult to alter, as Apple illustrated in 1997 when Gilbert Amelio was appointed CEO. He started by introducing a new culture that was based on centralized decision making. Because Apple had always championed individual innovation and the freedom of its organizational members, the new culture was viewed as a departure from Apple's historic foundations (Hannan et al., 2003).

Researchers such as Hannan et al. (2003) also argue that a change in organizational culture can affect, for example, the code system, which ultimately triggers cascading changes in the overall organizational architecture. How fast an organization recovers from change depends on its intricacy (interconnection among different units) and viscosity (sluggishness of response among units). This view is shared by Schein (2004), who argues that organizational practices are influenced by assumptions that are deeply rooted in the fabric of an organization and translated into actions and deeds. According to Redmon and Mason (2001), a change in organizational behaviour requires effective transmission by members of the organization to those whose behaviours must change.

2.6 Organizational Typologies

Organizational typologies are important for this study, because culture plays a pivotal role in terms of organizational identity and direction. Two main models are relevant to the discussion: those of Martin (2004); and Cameron and Quinn (2006). They provide a range of types that correspond to the corporate cultural elements of both Islamic and conventional banks that I developed for this study.

2.6.1 Martin's Typology

The justification for the selection of Martin's (2004) typology is because it contains the integration perspective which I adopted for this study. The integration perspective established more credibility than other perspectives in academic literature because it assumes culture is

clear, consistent and shared broadly within the organization (Alvesson, 2011; Cameron & Quinn, 2006; Sorensen, 2002).

Martin (2004) adopts a non-unitary approach to organizational culture and argues that organizations can be classified into three types as described below.

The Integration Perspective

This type assumes employees' firm commitment to the organization, and shared values and beliefs. Culture is viewed as the social glue that holds the organization together. This interpretation is consistent with the views of Smircich (1983) and Schein (2004). Because there is consensus among employees about what type of culture exists within an organization, it is possible to identify the cultural profile or pattern (Cameron & Quinn, 2006). Many researchers view integration as a key element for enhancing organizational performance (Sorensen, 2002; Wilkins & Ouchi, 1983).

The Differentiation Perspective

This type assumes that culture is not well represented in all layers of the organization and that sub-culture units are visible. These units either co-exist in harmony or in conflict with the dominant culture. Major decisions are made through consensus rather than unilaterally. Changes in this kind of setting are likely to be triggered by the surrounding environment. Therefore, it is not surprising that an advocate of this viewpoint emphasises environment as the determining aspect of organizational behaviour. Organizational culture is resisted by diverse management groups, who tend to constantly engage in redefining shared values and routine management practices. Multinational corporations with overseas branches could develop this type of organizational culture due to cross-cultural issues.

The Fragmentation Perspective

This type assumes that culture is unclear and difficult to identify. Employees are confused about the stability of the overall culture's theme, and events are managed through specific decisions. Fragmentation studies view ambiguity as the overwhelming feature of this type of organizational culture; culture has no precise point of origin and is constantly changing.

2.6.2 Competing Values Framework

The updated version of the Competing Values Model (CVM) developed by Cameron and Quinn (2006) is one of the most frequently used models in management research. The model, which was created in the early 1990s by a group of researchers (Cameron & Freeman, 1991; Quinn, 1988; cited by Deshpande et al., 1993) has been widely adopted and has influenced research by relating values to organizational types. According to scholars in this area, most organizational typologies correspond to one of four main types: clan, adhocracy, hierarchy, and market. The CVM model is presented to illustrate how to assume a change in either the differentiation or fragmentation perspectives as postulated by Martin (2004). A brief description of the four types is provided below:

- 1) Clan culture (supportive) emphasises building consensus, teamwork, and individual development that focuses on flexibility and internal integration. This type of organization is likely to be owned and managed by extended families.
- 2) Adhocracy culture (also known as entrepreneurial or innovative) emphasises innovation and growth with a focus on flexibility and market positioning. Success is measured by new products, services, knowledge, and experimentation.
- 3) Hierarchical culture (bureaucratic) emphasises internal procedures and a high level of formalization. It stresses long-term goals with a focus on stability and control.
- 4) Market cultures emphasise specific goal achievement, competitive advantage, market share and penetration with a focus on stability and control. The underlying goal here is productivity and profitability.

As a hypothetical case scenario, the CVM is presented below with the profile of a corporation that needs a culture change by focusing on a new strategy while solidifying the internal integration among the different units of the organization. Historically, the corporation has focused more on the hierarchy and market quadrants, as shown by the solid line in Figure 2.2. This implies that the existing strategy is more focused on market penetration and internal control. Based on the new strategy, the new profile is plotted with the dotted line. It is obvious that the company wants to focus more on clan and adhocracy quadrants and less on hierarchy and market. This implies that the company wants to endow their managers with more authority

(decentralizing authority) and to focus more on product innovation and market positioning, but with particular attention to flexibility and internal integration.

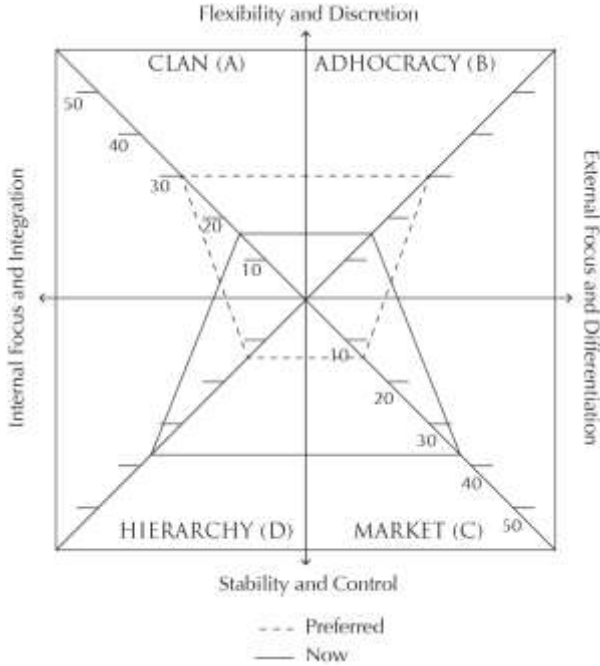


Figure 2.2 Quinn and Cameron’s CVM Model

(Source: Cameron & Quinn, 2006)

As demonstrated above, a researcher should realize the varieties and complexities of organizational typologies when conducting an in-depth assessment of corporate culture.

CHAPTER THREE: THE FOUNDATIONS OF ISLAMIC BANKING

Executive Summary

This chapter commences with relevant background on the history of Islamic banking, current market size, and key features of the industry. The chapter also highlights the major steps in the industry legitimation process, as well as key differences between Islamic and conventional banking. The chapter concludes with the reasons why this industry has a special identity and authenticity.

3.1 Background

The history of Islamic finance dates to the 8th century, when Islamic financiers (known as *sarraf*) founded it. They operated small boutiques that provided financial intermediation and an international payment system, and extended trade finance products such as promissory notes (Oliver Wyman, 2009).

In 1975, following the First International Conference on Islamic Economics organized by King Abdul Aziz University in Saudi Arabia, the first Islamic institution in the Middle East region, the Dubai Islamic Bank was founded. It was followed by the establishment of the International Islamic Development Bank (IDB) in Jeddah, Saudi Arabia. Many private and semi-private commercial Islamic banks were subsequently established in Egypt, Sudan, Kuwait, and Bahrain (Archer & Karim, 2002). Islamic banking established itself not only as a viable method of financial intermediation, but also as an efficient and productive way to conduct financial intermediation between the surplus revenues generated by hydrocarbons especially between 2001 and 2007 and the deficit economic establishment, as represented by the financial sector in the Gulf region; refer to Appendix **Exhibit A1.1** (Al Saie, 2011). Today there are more than 700 active Islamic financial institutions operating in more than 80 countries worldwide (Berg & Kim, 2013). The global Islamic financial market is growing by 10% to 15% annually (Ernst & Young, 2013), and reached nearly US\$ 1.9 trillion in value for the first half of 2014 (World Bank and Islamic Development Bank Report, 2015). Total global Shari'ah-compliant products and services include the following: Islamic banks (80%); Islamic sukuku (15%); Islamic mutual funds (4%); and 1% takaful or Islamic insurance (*The Economist*, 2014).

It will be helpful in discussing the essence of Islamic finance, to highlight some of the most important terms such as Shari'ah, *Sunnah* and *Fiqh*. For Muslims, Shari'ah is an ethical path of life that must be followed, as revealed by God, in order to succeed in this life and hereafter (Ginena & Hamid, 2015). Shari'ah law is defined as normative principles as given by the Qur'an and *Sunnah* which contains the teachings of the Prophet Muhammed (pbuh⁶), and embodies all aspects of the Islamic faith, including beliefs and practices (Chapra & Khan, 2000).

The word *fiqh* in Arabic means a deep understanding of something. Because *fiqh* has a broad meaning, Muslim scholars narrowed its definition over time to matters relating to creed, morals, and behaviours. Later, *fiqh* became more restrictive in meaning, as scholars excluded its association with creed (Ginena & Hamid, 2015). Islamic finance has evolved based on the prevalence of commercial transactions called *Fiqh al-Mu'amalat*, which are the Islamic rules for such transactions (Abedifar et al., 2015).

Islamic finance takes a broader vision in terms of individual and societal development and prosperity through the *Maqasid al-Shari'ah* (goals of Shari'ah). According to Chapra (2008), Imam Abu Hamid Al-Ghazali, a well-known and highly respected reformer in the fifth century Haijah (eleventh century Gregorian), outlined the benefits of the *maqasid* in preserving five major pillars: (a) faith of people; (b) human self; (c) posterity; (d) intellect; and (e) wealth. Chapra (2008) argued that safeguarding these five principles accrues to the benefit and interest of human beings.

Islamic banking has a unique identity. In essence, Islamic Shari'ah-compliant banking is defined as the use of financial products and services that conform to Islamic banking laws and Shari'ah practices (Cihak & Hesse, 2008). More specifically, these services must be free from the payment and receipt of interest income that is either fixed or predetermined. The prohibition of interest is based on a social justice argument which requires both lenders and borrowers to share the profit and loss emanating from a business transaction in an equitable manner (Iqbal & Mirakhor, 2013). In this context, the industry offers profit-and-loss sharing (PLS) arrangements, and the purchase and resale of goods and services (Vogel & Hayes, 1998). In PLS, the rate of

⁶ Pbih stands for "peace be upon him" and inserted after Prophet Muhammed as a sign of respect by Muslims.

return on financial assets should not be known or fixed prior to commencement of the transaction. However, in the case of a purchase-resale transaction, a mark-up can be determined by the prevailing rate in the international markets. One such reference rate is the London Interbank Offered Rate (LIBOR).

Another characteristic of Islamic banking is the prohibition of trading in certain financial transactions (such as derivatives, because such instruments entail a form of gambling) and trading in or financing alcoholic beverages, pork, pornography, or any activities connected to gambling (Vogel & Hayes, 1998).

Islamic banks, like many conventional institutions, are exposed to financial losses and failures, such as bankruptcies of Islamic money management companies in Egypt in 1988-89, the downfall of Ihlas Finance House in Turkey in 2001, the frauds which led to the huge losses at Dubai Islamic Bank in 2004-2007 (Ginena & Hamid, 2015) and the Arcapita bankruptcy (Chapter 11) in US courts in December 2011 due to the bank's inability to meet its financial obligations (*Financial Times*, 2012). All of these are examples of financial losses resulting either from poor management practices or poor corporate governance implementation.

In the aftermath of the financial crisis of 2008, regulators worldwide put more emphasis on the implementation of good corporate governance, including the Islamic financial sector. Archer and Karim (2002) claim that financial risk management is more developed in conventional banks than in Islamic banks, and hence all Islamic banks need to improve in this area. It is obvious that corporate governance is important for enhancing efficiency, mitigating risk, increasing stability, and promoting economic development and wealth.

Ginena and Hamid (2015) have highlighted five key components for successful and prudent governance: Shari'ah compliance, business model, stakeholders' interests, social responsibility, and business ethics and culture. In fact, both Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), both domiciled in Bahrain, have emphasised the importance of successful implementation of Shari'ah corporate governance (<http://aaoifi.com/?lang=en>; <http://www.ifsb.org/standard/IFSB>).

Failing to address issues relating to corporate governance compliance could increase the financial risk for a financial institution. Ginena and Hamid (2015) define Shari'ah compliance risk as:

“The risk of financial losses that an Islamic financial institution may experience as a result of non-compliance in activities with Shari'ah precepts, as ascertained by the Shari'ah supervisory board or the pertinent authority in the relevant jurisdiction”. (p. 97).

Shari'ah risk is not the only risk an Islamic bank can be subject to in the business environment; other types of internal and external risks are also present: credit, financial, market, legal and compliance, and reputational (Ginena & Hamid, 2015). All of these have negative consequences for a bank's stakeholders and, most significantly, shareholders.

Iqbal and Mirakhor (2004) and Chapra and Ahmed (2002) take a much wider view on the definition of stakeholders' model by including, for example, senior management and employees of an organization, depositors, internal, external and Shari'ah audit committee. These scholars argue that all stakeholders have the right to participate and engage in corporate decision-making because such decisions do affect them financially too.

The key stakeholders of an Islamic bank (as identified by Chapra & Habib, 2002, and Ginena & Hamid, 2015) have designated corporate governance responsibilities as set out in **Table 3.1** below:

Table 3.1 - Stakeholders and their Responsibilities

Stakeholders	Key Responsibilities
1. Government and legislative bodies	Promote strong and efficient economic, business and legal environments for Islamic and other financial institutions to grow and thrive.
2. Regulators and central banks	Pass banking laws and regulations relevant to the Islamic banking sector including corporate governance practices, transparency requirements, alignment of stakeholders' interests, and maintain effective supervision practices.
3. Islamic Financial Institution Body Specific - (AAOIFI and IFSB)	Provide clear and objective accounting and audit procedures. Propose written codes for corporate governance implementation.
4. Board of Directors	Set business strategies and policies. Adopt solid governance standards that manage risk and promote transparency, aligning management incentives with stakeholders' interest and closely monitor internal audit and Shari'ah compliance reporting.
5. Shari'ah Supervisory Board	Issue regular reports to shareholders and other parties. Review banks' transactions and issue their Shari'ah compliance reports. Publish them together with relevant fatwas based on supportive evidence.
6. Shareholders	Elect board members and ensure their compliance with the institution's policies and regulations.
7. Senior Management and Employees	Implement and execute the policies set by the board in a satisfactory and responsible manner.
8. External Auditors	Examine the accuracy and quality of information and consequently issue their independent financial reports. Also, the auditors should be familiar with Islamic finance knowledge so as to report any violation in the financial accounts that are not compatible with Shari'ah.
9. Shari'ah Audit Committee	Ensure compliance with the Shari'ah board verdicts.
10. Depositors or Customers	Monitor the performance of the bank and act responsibly.

Source: Chapra & Habib, 2002 ; Ginena & Hamid, 2015.

Because of the uniqueness of Islamic banking, I provide a comprehensive list of Islamic banking products and services and their definitions in Appendix **Exhibit A3.1**. The main difference between Islamic and conventional banks and between interest and profit are illustrated in **Tables 3.2 and 3.3** below:

Table 3.2 - Comparing Islamic and Conventional Banks

Islamic Bank (IB)	Conventional Bank (CB)
Source of funds: Mainly investors who share the risk and return with an IB. There is no guarantee on the return and it depends on the bank’s performance.	Source of funds: Mainly depositors who transfer the risk to the bank. The bank guarantees the rate of return to the depositors in advance.
Uses of funds: The IB deploys/invests the funds into normal business transactions through Mudaraba contracts (acting as agent). The IB shares the return and risk with the investors according to the contract.	Uses of funds: The CB lends the money to borrowers who are required to return the money, together with the interest due, on a specified date.

Source: Hassan & Dridi (2010), p. 8

Table 3.3 - Comparing Interest and Profit

Interest	Profit
Return on capital	Return on project
Interest is guaranteed	Risk of loss is involved
Fixed return	Variable return
Return on deposit	Return on joint ventures

Source: Asutay (2010), p. 40

3.2 Organizational Identity of Islamic Banks

Organizational identity, which is the sense of “who we are” and “what we do” as an organization (Albert & Whetten, 1985) has a profound impact on many organizational behaviours and, therefore, on how the organization functions and achieves its objectives. In a

broad sense, organizational identity plays a pivotal role in shaping organizations across the spectrum. It reflects the identity and image of an organization (Gioia & Thomas, 1996). Identity and culture are interrelated, and can affect each other at different levels of the organization (Giorgi et al., 2015). Hatch and Schultz (1997) claim that culture influences identity dynamics in organizations. Many researchers adopt a different perspective on this matter, and argue that identity affects culture in an organization through the role and influence of the leader (Schein, 2004; Selznick, 1957). Selznick (1957) states:

“The leader must specify and recast the general aims of his organization so as to adapt them, without serious corruption, to the requirements of institutional survival (p. 66)”.

Albert and Whetten (1985) also view organizational identity from the perspective of its members and postulate three characteristics: (a) what members view as pivotal attributes of the organization, (b) what makes an organization distinctive and unique in the perception of the members of other organizations, and (c) employees’ convictions regarding the organization’s sustainability. These three characteristics imply that an organization with a strong identity, as perceived by its members, will be more likely to succeed in the long run than other organizations.

Early research on organizational identity focused on the core features of organizational mission, forms of authority, core technology, and general marketing strategy (Hannan & Freeman, 1977, 1984). However, organizational ecologists have adopted a much wider perspective by considering an audience’s involvement in determining the identity of an organization. “Audience” is defined here as the stakeholders, customers, regulators, and other agencies that influence the organization’s identity and grade of membership (Hannan, 2005; Hannan et al., 2007).

Matters relating to the establishment of legitimation, Shari’ah compliance, coding, and conformity with the financial sector’s features and requirements are all aspects of the industry’s overall identity, as described below.

3.2.1 Legitimation

According to Hannan et al., (2007), the legitimation of an organization is “the conformity of feature value to type or category of an organization,” and increases with the consensus of the audience based on the organization’s grade of membership within the class or category to which it belongs (e.g., Sony Corporation has a grade of membership in the known consumer-electronics segment but also competes in a different grade of membership in the film production).

Legitimation in the Islamic banking system has proceeded in two phases: First, as Islamic banking institutions started to grow, prosper, and establish track records, they became a substitute for conventional banks, and especially for a segment of the society (customers) who wanted to conduct their banking transactions in accordance with Islamic principles. Second, in recognition of this kind of banking system, the host regulators of Islamic banks developed a regulatory framework within which existing and new Islamic institutions can operate, grow and thrive. However, the UK regulatory authorities opted for a “no favour” policy in relation to the Islamic banking sector, and the same regulations are applied to all banks uniformly. Moreover, the Bank of England granted banking licenses for Islamic banks seeking to operate in the United Kingdom; the Islamic Bank of Britain and the European Islamic Investment Bank were established in 2004 and 2005, respectively (*Huffington Post*, 2014).

3.2.2 Shari’ah Compliance

From the standpoint of Shari’ah, both Islamic and non-Islamic banks that offer Islamic banking services through their windows are required to issue a certificate from their Shari’ah boards (which are composed of religious scholars) confirming that all transactions the bank enters into will comply with Shari’ah guidelines and practices (Cihak & Hesse, 2008). This provides a bank with the necessary legitimacy to continue operating as an Islamic institution. Islamic finance is based on the principles established by Shari’ah and by other jurisprudence or rulings, known as *fatwa*, which are issued by qualified Muslim scholars (Hayat & Malik, 2014).

As such, the first step for any institution that wishes to offer Islamic banking products and services is either to appoint a Shari’ah board, or at least a Shari’ah counselor within the institution. This is essential in order to provide legitimacy and credibility for the organization

and to minimize Shari'ah risk, which could emanate from incompatible interpretations of Islamic jurisprudence (Sole, 2007). However, Islamic banks may encounter limitations with regard to the enforceability of Shari'ah rulings, because Shari'ah governance practices have not been standardized; also, in countries with secular jurisdiction, such as the US and UK, laws can vary.

Many Islamic banks clearly differentiate themselves in terms of Shari'ah compliance to attract customers. For example, statements issued by Islamic banks to define their vision, mission and values emphasise that the institution pledges to adhere to Shari'ah principles. For instance, Qatar Islamic Bank describes itself as follows on its website (<https://www.qib.com.qa/en/about-us/mission-vision-values.aspx>).

“A leading innovative and global Islamic bank adhering to the highest Shari'ah and ethical principles; meeting international banking standards; partnering the development of the global economy; and participating in the advancement of the society”.

Clearly, Islamic banking has distinctive characteristics and features. According to El-Gamal (2007), Islamic finance is first and foremost about religious identity (*Financial Times*, 2007), and the identity of an Islamic bank is derived primarily from the legitimacy of its Shari'ah board (Ginena & Hamid, 2015). Moreover, a study by Kocak et al. (2015) of 21 Turkish banks, including four Islamic banks, found that Islamic banks' relationships with their employees are based more on the identity of Islamic ideology than other considerations; this implies employees' strong ideological convictions toward their own organizations.

3.2.3 Code

There are many important codes for Islamic banking such as prohibition of interest or usury payments as well as trading in unethical items or industries that include but not limited to tobacco, alcohol, and pornography. All these codes should be viewed in the context of *Maqasid al-Shari'ah* five primary pillars as mentioned earlier (e.g. preservation of faith, human life, posterity, intellect and wealth). Chapra (2008) argues that these five elements represent one of the primary objectives of Shari'ah that reflect positively on the well-being of the individual and society.

3.2.4 Conformity

Islamic financial institutions are required to meet customer expectations in terms of services, product lines, and distributions, and to compete with conventional banks in terms of services and pricing. Ahmed (1988) argues that the Islamic financial industry must create new products while satisfying the needs of various segments of the market. Of course, the nature of the industry dictates that the new entrant should first ensure that its products conform to industry and incumbents' standards; otherwise it will be unable to penetrate and compete in the market effectively.

3.2.5 The Form of Financial Institutions

The creation of an organization, in this case a financial organization, starts with regulators' (agents') actions in assigning labels to appropriate clusters. The agent then attaches a label to convey the type and feature value of membership in the category (e.g., whether a retail or investment bank; Hannan et al., 2007).

In its earliest forms, Islamic financial institutions were solely concentrated in the commercial banking sector. Retail banking licenses were first issued in the late 1970s; subsequently, licenses were issued for other forms, such as investments and takaful institutions. Islamic banking products through Islamic windows started to grow among conventional banks (Sole, 2007). More diverse products and services evolved later, mainly to cater to different segments of the society and customers' needs. Islamic banks' identity categories usually correspond to organizational forms (Kocak et al., 2015). In this context, and according to Ginena & Hamid (2015), typical Islamic banking customers can be divided into four market categories: (a) religiously driven customers, who appear to remain loyal to an Islamic bank irrespective of its uncompetitive financial returns to investors; (b) ethically motivated customers, who tend to agree with general Islamic banking practices, but do not have religious motives; (c) economically focused customers, who are mainly concerned with the bank's performance and financial returns; and (d) both religiously and economically motivated customers. Although the last type is driven by religious values, he or she is likely to change between Islamic banks based on financial returns benchmarks.

According to Archer and Karim (2002), regulators classify the Islamic financial industry according to the following general categories:

- a. Fully fledged Islamic commercial banks
- b. Islamic investment banks and companies
- c. Islamic windows (offered through conventional bank outlets)
- d. Islamic mortgage companies
- e. Takaful companies (Islamic insurance institutions)

The next paragraph will examine the definition of authenticity in management literature as well as the Islamic finance definition of authenticity.

3.3 Authenticity

Authenticity in management literature means heritage (Peterson, 1997), real and transcendent conception of value (Caroll, 2014; Podolny & Hill-Popper, 2004). Authenticity is an important organizational feature, because an organization incorporates its unique authenticity, identity and cultural blueprints that govern codes, work procedures, and employee relationships (Hannan et al., 2006). This, in essence, promotes reliability and accountability in organizations and enhances their survival rate (Hannan & Freeman, 1984).

Baron (2004) defines authenticity as follows:

“Authenticity refers to the power of the organization’s commitment to clientele and mode of relating to its constituencies, not simply to the stability of its product offerings, clientele, and mode of operating. The most authentic identities - or credible commitments are ones that invoke a non-economic logic of action, inasmuch as they require that actors do certain things that cut against their narrow self-interest and not do certain things that might further their own interest” (p.12).

Podolny and Hill-Popper (2004) argue that organizations that try to gain an opportunity through “authentic identity” usually focus on a superior conception of the value of their products or services; some consumers prefer to buy products that are manufactured based on tradition and authenticity, as opposed to mass production.

Chapra (2008) also defines the word “authenticity” as “genuine” or conformity between “word and deed” which is similar to the conventional management literature definition. However, the scholar has a different interpretation of authenticity in the context of Islamic finance. He argues that authenticity means the full implementation of not only the rules or verdicts of Shari’ah rules but also its true spirit to fully realize and cherish the objective of *Maqasid al-Shari’ah*. He argues that the present Islamic banking system needs to make significant progress in many deficient areas in order to gain more credibility in the banking industry as well as with their mass customers. Chapra (2008) stated:

“The way the Islamic financial system has progressed so far is only partly, but not fully, in harmony with the Islamic vision. It has not been able to come out of the straitjacket of conventional finance” (p. 11).

Chapra (2008) identified at least 10 important areas where Islamic banks need to improve in order to fully realize the authenticity of Islamic finance. A number of these areas have been mentioned in **Table 3.1**- Stakeholders and their Responsibilities (e.g. establishment of Shari’ah audit, the need for the external auditors to be familiar with the Islamic finance products and Shari’ah rulings, the establishment of a legal framework by the central bank for Islamic banks to operate and prosper based on Shari’ah principles, and the need to hire a competent management team to manage and operate Islamic institutions more effectively). I will only shed light on the remaining dimensions as identified by Chapra (2008) as set out in **Table 3.4** below:

Table 3.4 – New Body Dimensions

Body	Roles
Centralized Shari'ah Board	Acts like the Supreme Court; provides verdicts on Shari'ah conformity and assists in standardizing the offered products by Islamic banks.
Credit Rating Agencies	Although such institutions exist in the industrial countries for conventional banks, there is a need to establish similar set-ups exclusively to rate banks in the Islamic banking sector.
Depositors' Association	There is a need to establish a mechanism to protect depositors' own interest in a PLS system. This could be achieved through electing a representative on behalf of depositors on the bank's board of directors and a voice in the shareholders' meetings.
Islamic Financial Market	There is a need to establish a secondary market for Islamic financial instruments in order for Islamic banks to manage their liquidity more effectively. The establishment of the Liquidity Management Centre (LMC) in Bahrain is a right step in this direction and more similar institutions are needed.
Lender of Last Resort	Islamic banks may need an urgent banking facility to overcome liquidity crisis due to unforeseen circumstances. Such a facility is available on conventional terms by central banks. There is a need to offer a similar Islamically structured facility.
Stock Market	Reforming the stock market by prohibiting short sales and derivative products is necessary to bring stability and minimize fluctuation caused by speculative forces.

CHAPTER FOUR: RESEARCH METHODOLOGY

Executive Summary

The methodology design of this study consists of two linked phases. In the first phase, I collected, examined, and categorized raw qualitative data using a deductive coding procedure. Subsequently, data were tested for reliability and validity purposes. In the second phase, I examined the two best-performing banks in terms of key financial ratios and identified and analysed their most important corporate values. The corporate values that emerged were used to create a questionnaire that was later tested for validity and reliability. Finally, the questionnaire was administered to obtain respondents' feedback on these corporate values.

4.1 Background

The purpose of this study of the Islamic and conventional banking industries in Bahrain is threefold: (a) to examine the best-performing banks among a group of selected financial institutions in terms of key financial ratios based on net operating profit growth and return on equity over a period of 10 years; (b) to identify and analyse the most important organizational values for the best-performing banks; and (c) to examine the relationship between selected corporate values that relate positively with financial performance. The nature and scope of this study conforms to Saffold's (1988) recommendation to perform contrasting comparison between two populations when assessing the culture-performance relationship. The population in this study is divided into generalist, specialist, and hybrid institutions. All of these are examined in the context of the Islamic and conventional banking industries.

This study has two phases. The first phase is a mixed-methods study that primarily focuses on developing and constructing cultural profiles. The study also collected data that covers a period of 10 years for majority institutions to examine how each bank had performed financially. The second phase, which is quantitative in nature, examined the effects of five evolved cultural values, which will be discussed thoroughly in Chapter 5, on selected banks' performance using descriptive statistical and regression analysis. The five cultural values are the *independent variables* for this study. For more information on the methodology and research design, refer to Appendix **Exhibit A4.1**.

Assessment of Corporate Culture

There has been ongoing debate as to the best research method for examining and interpreting corporate culture. Disagreement mainly rests on whether a qualitative approach alone is appropriate to measure corporate culture profiles in a natural setting, given the nature of what culture consists of (e.g., beliefs, values, behaviours; Carroll & Harrison, 1998). Some argue that using a quantitative approach alone in measuring corporate culture is indeed adequate, because it only measures the respondents' perceptions of their organization's 'climate' (Denison, 1996). I adopt the perspective of Chatman and Jehn (1994); Denison and Mishra (1995); and Cameron and Quinn (2006), who assert that the two approaches, in the form of a mixed-methods approach, complement each other in terms of rigour, depth, scope, and efficiency, although there are a few scholars, such as Symond and Gorard (2010), who do not favour the use of mixed methods.

The argument for the suitability of the mixed methods approach rests with the fact that a corporation's underlying values and assumptions are difficult to measure, since they are mostly tacit and are ultimately translated into corporate practices and actions (Schwartz & Davis, 1981), which, in contrast, are observable and, consequently, measurable. Defenders of the mixed-methods approach argue that this type of research design is valid, as long as the mixed methods are applied methodically and rigorously (Bryman & Bell, 2007).

Martin (2004) asserts that for corporate culture to be effective and sustainable, employees must be firmly committed to the organization based primarily on shared values and beliefs. This is what she refers to as the 'integration' perspective; she assumes culture to be the social 'glue' that forms organizations and is responsible for holding them together. This interpretation of culture is consistent with Schein's (2004). In addition, in this study I assume that the corporate cultures of the best-performing banks will remain stable for a relatively long time (i.e., through the 10-year data collection period).

4.2 Mixed Methods and Data Collection

Data for phase one were gathered through both primary and secondary sources. Qualitative data were gathered through semi-structured guided interviews with open-ended questions. According to Martins and Terblanche (2003), a study based on Schein's (1985) model

of values, norms, and beliefs plays a positive role in influencing individuals and group behaviours in terms of creativity and innovation in organizations.

Five questions were used to form the backbone of the qualitative research study. The research questions and wording were carefully selected and mainly derived from well-known research papers and textbooks (Brown, 1998; Bryman & Bell, 2007; Parker, 2012; Chatman & Jehn, 1994; Kotter & Heskett, 1992; Schwartz & Davis, 1981), all of which are relevant to this study. The research questions conform to the need to enquire about the interviewee's organization and his or her attitudes, beliefs, and knowledge (Bryman & Bell, 2007). Appendix **Exhibit A4.2** contains the list of questions.

The first question was designed to identify the key challenging issues, as viewed by the respondent. The second question was designed to obtain the respondent's perception of the reasons for the success of certain conventional and Islamic financial institutions. The third question was intended to investigate the main factors that enhance an organization's ability to execute its business plans and/or strategies effectively. The fourth question sought to investigate the relationship between the business plan and/or strategy and the corporate culture. The fifth question aimed to identify each institution's uniqueness in terms of narrative impressions about organizational values and traditions.

4.2.1 Sample Selection

Three relevant institutional population types (generalist, specialist, and hybrid) were chosen for this study to provide variation among the selected population as well as a means of labeling them. Brief descriptions of the three types are listed in **Table 4.1** below:

Table 4.1 - Audience Definition

Category	Definitions
Generalist	A generalist is a financial entity with a commercial banking license that focuses on a wide niche of the market comprising both retail and wholesale segments. A typical conventional generalist offers a wide range of retail and corporate banking products and services, such as operating current accounts, term financing, and treasury products. An Islamic generalist also offers operating banking accounts but in addition extends Shari’ah-compliant products such as <i>Murabaha</i> (mark-up financing), <i>Mudaraba</i> (trustee finance contract), <i>Ijara</i> (lease finance structure) and <i>Istisna</i> (deferred financing structure for the industrial sector). Typical generalist customers include the mainstream individuals, corporations, and government agencies.
Specialist	A specialist is a financial entity with an investment banking license that focuses on a narrow niche of the market. Investment banking activities include real estate, private equity, and infrastructure and venture capital investments. A typical Islamic specialist offers investment products much like the conventional specialist but these products must be structured to comply with Shari’ah guidelines. Customers participate in these investments via <i>Musharaka</i> (unit trust or equity participation). Typical specialist customers include high net worth individuals, insurance (takaful) companies, and sovereign wealth funds.
Hybrid	In addition to their retail core business, a number of Islamic banks also engage in investment banking activities, such as trading, real estate development, and private equity investment. One of the early adopters of this model was the Kuwait Finance House.

The aim of the qualitative study is to select an equal number of Islamic and conventional banks, circa 10-12 institutions from both the retail and investment banking sectors, with a view to conducting 3 interviews per each institution with their senior and executive managers. The selection and reliance on the top management team for this study is essential because they are directly responsible for executing their institutions’ business and strategic plans. The selection of the participating institutions is based on the following criteria: first, the sample to represent an equal number of Islamic and conventional institutions and similarly a mixture of retail, investment and hybrid institutions; second, the need to maintain a minimum of 3 years and ideally 10 years of audited financial accounts. The administration of the qualitative study is summarized in the following steps:

1. Before starting to conduct the interview phase, first I collected financial data on the targeted sample institutions to satisfy the financial criteria of the study.
2. I approached 14 financial institution that conform to the above criteria and only 11 financial institutions (six Islamic and five conventional, representing four retails, three hybrids and four investment banks) agreed to the interview process, and the 3 remaining institutions took longer to respond and eventually dropped out.
3. The majority of the interviews were selected by me, and I scheduled each interview at least three weeks prior to the actual date, depending on the interviewee's availability and all interviews were conducted on a first-come-first-served basis.
4. Before each interview, I provided an introduction to the project and highlighted the general aim of the study. All the interviews were conducted at the interviewees' offices.
5. Five major questions guided the interview and follow-up questions were used to obtain further information on each of the five dimensions.
6. All interviews were audio recorded and kept in safe custody. Each interview was transcribed within 7-10 days, mostly with the help of a qualified typist. All interviews were completed within 8 weeks from the start of the project.
7. Of the total of 27 interviews conducted, 11 were CEOs and 16 were senior managers. All interviews, which lasted for 30-45 minutes, were transcribed.

4.2.2 Organizational Culture Profile

The Organizational Culture Profile (OCP or Q-sort; O'Reilly et al., 1991) has been widely used in culture-performance studies (Chatman & Jehn, 1994; Lee & Yu, 2004), and especially in research that emphasises person-organization fit in the organizational behaviour (OB) literature. For the OCP, the respondents are handed 54 'value statements' that capture organizational values and asked to sort them according to their relevance to the characteristics of the respondent's organization. There are two advantages to using the OCP to examine organizational culture compared to other instruments. First, Q-sort provides an accurate and realistic reading for dimensions, since each item is categorized according to its significance for a specific organization. Second, the rating is based on each member's perception of culture as opposed to a researcher imposing his/her crafted organizational typologies on interviewees; for example, from the value most characteristic of a firm's culture to the value least characteristic.

The 54 cards are divided into nine categories that contain 2, 4, 6, 9, 12, 9, 6, 4, and 2 cards each. The respondent places each card into the category he or she considers most relevant. Based on the rating preferences generated, a profile of an organization's culture is created and analysed. Another advantage of the OCP is the ability to cross-check and reinforce the findings of qualitative interviews as they relate to the organizational values that emerge.

I modified the OCP by adding seven cultural values and amending two. Corporate Governance, Customer Orientation, Delegation, Follower, Open Door Policy, Passion, and Strict Dress Code were added, while OCP value 36 was amended by adding the word 'Meritocracy', and similarly value 52 was amended by adding the word 'Strategy'. For more information, refer to Appendix **Exhibit A4.3**; added and amended values are in bold type. The modifications I made to the OCP were a result of the feedback received from the interviewees, since they stated that the added/amended values were more reflective of their cultural values. Based on this, the now 61 cards were again divided into nine categories: 2, 5, 7, 10, 13, 10, 7, 5, and 2. This was done to maintain equal distribution.

The OCP was administered immediately after conducting the interview described above. Interviewees were given the 61 OCP cards and asked to insert each under the category the respondent considered most relevant. The OCP was administered to 23 out of a total 27 participants who had completed the semi-structured interview. Ten out of 11 organizations were represented by at least one participant; one institution did not participate in the OCP due to time constraints.

Q-sort data were analysed using factor analysis, which is a statistical interpretation technique mostly used in psychological studies to simplify and organize otherwise complex data into understandable form. Essentially, it is used to reduce a dataset to new variables by establishing a linear relationship among variables that are highly correlated (Adams et al., 2014). Kline (1994) stipulates that confirmatory factor analysis is said to exist if the number of factors and the loadings of measured variables on them conform to what is expected on the basis of pre-established theory.

4.2.3 Coding Strategy

According to Zhang and Wildemuth (2009), coding categories and coding plans can be drawn from previous research and theories or from a coding plan that is developed either inductively or deductively. Additionally, a coding manual should be established to provide consistency of category names and definitions.

A rigorous and reliable deductive coding manual was developed for the qualitative phase of the study and is presented in Appendix **Exhibit A4.4**. Coding categories were mainly drawn from previous studies. For example, Hax and Majluf (1991) provide a clear definition for Business Strategy: ‘A coordinated set of business action programmes intended to secure a long-term sustainable business advantage’ (p. 405). This code was used to list all emerging sub-categories that fell under this master category. However, in some cases I modified the coding strategy. For example, the International & Regional Accounting Reporting Bodies category is not based on the definition used in the literature, but instead reflects the sub-category that includes the International Financial Reporting Standards (IFRS) and guidelines for regional organizations, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Fourteen coding categories were established to encompass all respondents’ feedback in the qualitative study (refer to Appendix **Exhibit A4.4**).

4.3 Research Method – Data Analysis

4.3.1 Reliability

According to Krippendorff (2013), it is important to maintain reliability and consistency when conducting content analysis. He defines stability as ‘the extent to which coding procedure yields the same results on repeated trials.’ (p. 270). I created a Likert scale based on respondents’ feedback on the five interview questions, with scores ranging from 1 to 5 (1=*Strongly Disagree*; 2=*Disagree*; 3=*Indifferent*; 4=*Agree*; 5=*Strongly Agree*). Scoring was based on the relevance of the reply and the soundness of the respondent’s argument when answering the question. In this data analysis, I converted the feedback of the respondents into

quantified data. It should be realized that due to using personal judgement to rate respondents' feedback, an element of bias could be associated with this exercise.

For example, when asked about the key challenging factor(s) facing his bank today, Respondent 23 attributed the challenge to corporate governance. He says:

“BoD that do not represent the shareholding structure of the business, that are overweight, certain minority shareholders that have disproportionate influence on the board, extended longevity of directors, and absence of external pressure from other shareholders to force the board to look at developing the value of business”.

Corporate governance was categorized in the coding manual. Because of the strong argument the respondent made for his response, it was rated as 5 (*Strongly Agree*).

Based on the feedback of 26 respondents (one participant did not answer one of the five primary interview questions, and his feedback was omitted), reliability testing yielded a Cronbach's alpha of 82%. This is well above the 70% threshold required to be considered satisfactory (Bryman & Bell, 2007). A complete assessment of this exercise is provided in Appendix **Exhibit A4.5**.

4.3.2 Validity

Creswell (2009) defines validity as ‘whether or not a measure is measuring what it is supposed to measure’ (p. 49). Based on the five research dimensions and the definition of the coding categories, I found a valid and constant relationship. Furthermore, two qualified reviewers assessed the validity. The first, a professional accountant who holds a PhD, agreed with 75% of the content; the second, who is also a professional accountant and consultant, agreed with nearly 90% of the content. The majority of both reviewers' remarks were incorporated into the coding manual.

4.3.3 Selection of Organizational Values

Respondents' feedback on the five-dimensional construct was reviewed to determine whether it should be included in my analysis. First, if the respondent was a CEO and the feedback concerned strategic issues, his feedback was given priority over other interviewees

from the same organization, because the CEO is directly responsible for strategic issues that relate to business prosperity and sustainability. Second, if at least two respondents from the same institution reached consensus on a specific issue, I included their feedback. In addition, even if feedback did not satisfy either criterion, it could be included based on the respondent's assertiveness about his or her feedback.

After completing the assessment of the five-dimensional constructs for each interviewee, five organizational profiles were selected from a list of the 54 OCP value statements, plus the seven that were added, based on feedback from the 27 interviewees (see Appendix **Exhibit A4.3**).

4.3.4 Financial Performance Measurement

I also collected data that covered a period of 10 years for the majority of institutions to examine how each of the 11 institutions performed financially. Initially, I selected three financial measurements and retained two:

- a) Net Operating Income (NOI) adopted;
- b) Return on Average Shareholders' Equity (ROAE) adopted;
- c) Capital Adequacy Ratio (CAR) dropped.

Performance Indicators

I considered a number of measures for assessing an institution's financial performance, and in particular, the financial benchmarks that are most critical to the banking industry: Net Operating Income (NOI), Return on Average Shareholders' Equity (ROAE) and analysis of risk management. Rosenberg (1982, p. 350), defines NOI as 'Net current operating income after minority interest and taxes but before securities (investments) gains and losses and preferred dividends for the closing financial period'.

Return on average equity (ROAE) is an adjusted version of the return on equity (ROE) measure of company profitability, in which the denominator, shareholders' equity, is changed to average shareholders' equity. Return on Equity measures an institution's profitability by disclosing how much income a bank generates with the money shareholders have invested and

is calculated by dividing net income over the book value of total shareholders' equity (Sharp & Alexander, 1990, p. 810; Rosenberg, 1982, p. 436).

Data for the 11 different financial institutions that covers a 10-year period (2003-2012) were obtained from the participating financial institutions' websites (audited annual reports) and Zawya Financial Services <https://www.zawya.com/mena/en/companies/>. Many culture-performance studies have used similar financial performance benchmarks (Calori & Sarnin, 1991; Christensen & Gordon, 1999; Denison & Mishra, 1995; Fey & Denison, 2003; Kotter & Heskett, 1992; Lee & Yu, 2004; Sorenson, 2002).

The third measurement, CAR, was dropped due to the difficulty of establishing a criterion for this measurement. For example, although a high CAR may imply good financial performance, it could also imply inefficient asset utilization, and consequently result in poor profitability. Therefore, only NOI and ROAE were selected for the study. The two financial indicators are the *dependent variables* for this study.

Financial Performance Rating

In order to rank the participating financial organizations in terms of key financial performance indicators based on profitability and growth-rate ratios over a period of 10 years, three ratings were used, as shown in **Table 4.2** below:

Table 4.2 - Performance Ranking

Rank	Description
Class A	Strong and sustainable financial performance
Class B	Moderate but satisfactory financial performance
Class C	Lacklustre and mediocre financial performance

4.4 Quantitative Study

In the second quantitative phase, I examined the effects of five cultural values that emerged from phase one - Innovativeness, Meritocracy, Clarity of Vision and Strategy,

Corporate Governance, and Customer Orientation on selected banks' performance using descriptive statistical and regression analysis. A total of 74 employees of two different (generalist) financial institutions participated in the primary survey. The process started with the formation of the questionnaire and later tested for validity and reliability through the pilot survey exercise. Finally, the questionnaire was administered to obtain respondents' feedback on these corporate values.

4.4.1 Formation of Questionnaire

Questions were mainly derived from well-known studies and books in the literature. Amendments were made in terms of style and presentation. **Table 4.3** provides a summary of the cultural values from the literature and their corresponding studies:

Table 4.3 - Cultural Values & Relevant Studies

Cultural Values	Questions	Literature Studies
1. Innovativeness	1-7	Deshpande et al., 1993; Homburg & Pflesser, 2000; Denison et al., 2006
2. Meritocracy	1-5	Cameron & Quinn, 2006
3. Clarity of Vision & Strategy	1-6	Hax & Majluf, 1991; Denison et al., 2006; Kotter & Heskett, 1992
4. Corporate Governance	1-6	Clarke, 2007
5. Customer Orientation	1-7	Deshpande et al., 1993; Homburg & Pflesser, 2000

All data relating to phase one were gathered through primary sources. I used a 5-point Likert scale to examine respondents' feedback on five cultural traits (1=*Strongly Disagree*, 2=*Disagree*, 3=*Indifferent*, 4=*Agree* and 5=*Strongly Agree*). Scoring was based on assessment of the respondent's perception of his/her own organization. The instrument initially contained 31 questions that were divided into five sections to reflect the five organizational values. A reverse type of question was included in almost every section to minimize the risk of respondent bias and to increase the validity and reliability of the instrument (Bryman & Bell, 2007).

Instrument Validation

The instrument was cross-checked for validation with two experts in academic/scientific research. The first is the Director of Scientific Research at the Higher Education Council, Bahrain, and the second is the Head of the Assessment & Development Centre at the Bahrain Institute for Banking & Finance (BIBF). They recommended a number of changes and the majority were incorporated, including omitting certain questions altogether.

4.4.2 Pilot Survey

A pilot survey was conducted to test the questionnaire's scale for validity and reliability. Other objectives were: (a) to ensure that the questionnaire would be clear to all respondents and could be completed easily and b) to identify any negative feedback if certain questions appeared to be problematic for respondents (Adams et al., 2014). The pilot survey was administered through sending a soft copy of the questionnaire by e-mail simultaneously to three contact managers at three different financial institutions, representing one conventional and two Islamic financial institutions (two from the investment sector and one from the retail sector; none of these banks participated in the primary survey). I collected hard copies of the questionnaire from the three contact managers after one week from the start of the pilot survey. A total of 18 respondents participated in the pilot survey, of which fifteen participants were Bahraini and the remaining three were non-Bahraini. Seven participants held positions at the executive level, seven at the senior level, and four from middle management.

4.4.3 Instrument Reliability

In addition, each section of the instrument was tested for reliability, as shown below in **Table 4.4.**

Table 4.4 - Cronbach's Alpha for Each Scale

Scale	Number of Items	Cronbach's Alpha
Innovativeness	7	0.870
Meritocracy	5	0.860
Clarity of Vision & Strategy	6	0.732
Corporate Governance	6	0.715
Customer Orientation	7	0.836
Total 31		Average: 0.802

Following the feedback of respondents on the pilot test, three questions were omitted from the final version of the survey questionnaire due to lower means and high standard deviations ('SDs'), but, more importantly, to improve the overall reliability ratio of 0.802. **Table 4.5** lists the questions that were deleted from the instrument.

Table 4.5 – Instrument Amendments

Item	Question Number
a) Section A - Innovativeness	4
b) Section C - Clarity of Vision & Strategy	5*
c) Section E - Customer Orientation	4

* This was a reverse type of question.

- a) Section A – Innovativeness (question number 4) Q: Your organization is not afraid to test new products/services for the sake of improving the overall customer service
 - b) Section C - Clarity of Vision & Strategy (question number 5) Q: Short-term thinking often compromises our long-term vision
 - c) Section E - Customer Orientation (question number 4) Q: Your organization conducts periodic market research with the aim of serving their customers more effectively
-

4.4.4. Administration of the Primary Survey

The administration of the primary survey was conducted through the following steps:

1. I contacted the two CEOs of Generalist 1 and 2 to explain that, based on the study analysis, their organizations were selected to participate in the primary survey because they were the best-performing banks in terms of the two key financial ratios, NOI and ROAE, from 2003 to 2012. Both welcomed the idea and nominated their secretaries as a focal point to assist in administering the survey operation.
2. I stressed to both secretaries the need to complete the entire questionnaire including the profile of the respondent. Also, I emphasized the need to obtain a minimum sample number of 35, represented by their executive, senior and middle-management in order to have a reasonable cross-sectional of respondents' categories. I also mentioned that completing the entire questionnaire would take a maximum time of 10 minutes.
3. A soft copy was distributed to all targeted respondents in both institutions including a brief introduction regarding the study, and recommendations on how to complete the entire questionnaire. A deadline of one week was given to all respondents to complete the document.
4. Within two weeks, the secretaries collected hard copies of the questionnaires and they were hand delivered to me.
5. A total of 74 individuals participated in the primary survey representing two different financial institutions (Generalist 1 & 2). Forty-nine employees participated from Generalist 1 and 25 employees from Generalist 2; the latter stressed that only qualified managers were targeted to provide valuable feedback on the questionnaire.

Once all questionnaires were received, I started conducting the descriptive statistical and regression analysis for this study.

Reliability

Cronbach's alpha for all 71 respondents' replies (three were disqualified due to non-completion of the entire questionnaire) was high at 0.939, as shown below in **Table 4.6**.

Table 4.6 – Cronbach’s Alpha for Each Scale

Scale	Number of Items	Cronbach’s Alpha
A. Innovativeness	6	0.872
B. Meritocracy	5	0.814
C. Clarity of Vision & Strategy	5	0.839
D. Corporate Governance	6	0.700
E. Customer Orientation	6	0.870
Total	28	Overall: 0.939

Complete assessment of the reliability test is provided in Appendix Exhibit A4.6

4.5 Ethical Issues

Study ethical issues are summarized below:

1. The anonymity and confidentiality of all participants and their respective financial institutions was preserved. Only fictitious names are used for the participants in this study.
2. All audio recordings of the participating interviewees were kept in safe custody.
3. I selected the majority of the interviewees, but a number of participants were chosen by their respective organization’s executive management.
4. Since I have worked in the banking sector for nearly 25 years, a number of interviewees are either friends or ex-colleagues. To the best of my knowledge, I conducted the research project in a professional manner and in line with the codes and ethics of scholarly research.
5. On three questionnaires, the respondent did not complete one part of the secondary profiling (e.g., ‘How many staff members reports?’). In those cases, I made an intelligent guess based on the respondent’s overall feedback.
6. Because I used personal judgements to convert all respondents’ feedback in the qualitative study into quantified data based on the five main questions, there could be an element of bias associated with this exercise.

CHAPTER FIVE: MIXED METHODS

Executive Summary

Mixed methods were used in this study to: (a) collect and categorize the raw qualitative data using a coding procedure, (b) examine the two best-performing financial institutions among a group of selected financial institutions, (c) identify and analyse the most important organizational values for the two best-performing banks, and (d) use the OCP to complement the cultural values that emerged from the interviews. These values served as independent variables for the study; the financial ratios of net operating income and return on average equity were the dependent variables for this study.

Popularity of Mixed Methods

Mixed-methods research has been widely endorsed (Bryman 2009; Bryman & Bell, 2007; Creswell, 2009; Creswell & Plano Clark, 2011; Johnson et al., 2007). Two newly established journals, *Mixed Methods Research* and the *International Journal of Multiple Research Approaches* have published articles in a broad range of disciplines, and the use of mixed methods in the social sciences literature tripled between 1994 and 2003 (Bryman, 2009).

5.1 Qualitative Study

Of the 27 interviewees, 26 were male and one was female; 11 were CEOs and 16 were senior managers. All of the interviews, which lasted for 30-45 minutes, were transcribed. Appendix **Exhibit A5.2** presents participant profiles. Phase one is depicted in **Figure 5.1** below.

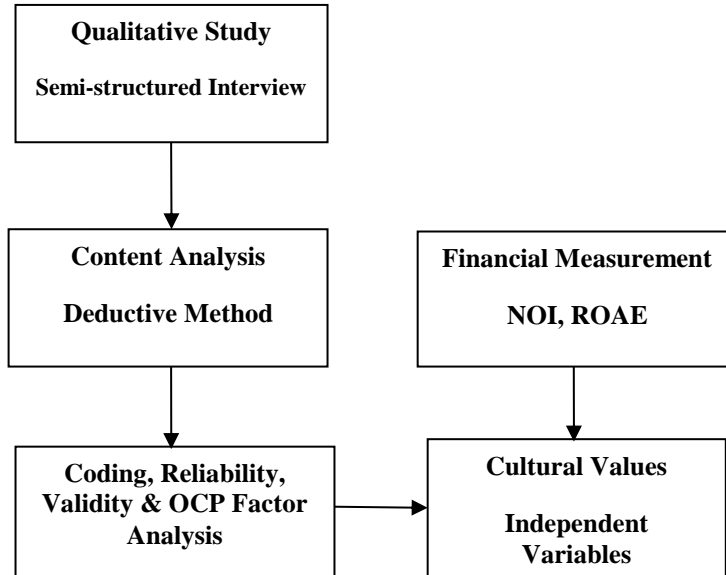


Figure 5.1 - Phase One Methodology Diagram

Five questions formed the backbone of the qualitative research study. Questions were carefully selected and worded, and were mainly derived from well-known studies and textbooks relevant to this study (Brown, 1998; Bryman & Bell, 2007; Parker, 2012; Chatman & Jehn, 1994; Kotter & Heskett, 1992; Schwartz & Davis, 1981). Research questions satisfied the requirement of enquiring about the respondent’s institution and his/her attitudes, beliefs, and knowledge (Bryman & Bell, 2007). The list of questions is attached in Appendix **Exhibit A 4.2**. The main purpose of the semi-structured interviews was to develop and construct cultural profiles by eliciting narrative stories.

Five dimensions of the construct were used, as listed below in **Table 5.1**.

Table 5.1 – Five-Dimensional Construct

Dimension	Construct
1. Challenge and Reality	This dimension was selected to elicit interviewees’ perceptions of the key challenges facing his financial institutions in particular, and how each interviewee’s bank not only addressed the challenges relevant to their own banks in terms of priorities, but, more importantly, how they had been dealt with. Parker (2012) argues that leaders should first examine their business challenges and later deal with them appropriately.
2. Thought and Rationale	This dimension sought to obtain respondents’ opinions about why certain financial institutions, both conventional and Islamic, had been successful and to explore strategic factors related to business sustainability, such as market lucrativeness and barriers to entry, monopoly positions of incumbent players, and distinct competitive advantages.
3. Vision, Reality, and Execution	This dimension was selected to identify (a) the main factors that can assist an organization in executing its business and/or strategy effectively and (b) the issues related to clarity of vision, realistic ambitions, and resources. I also sought to obtain narrative feedback on how each interviewee’s organization crafted its business plan.
4. Goals, Behaviour, Leadership, and Integration	The purpose of this dimension was to explore, in terms of each interviewee’s perceptions of his or her organization, (a) the intensity of the relationship between its business plan/strategy and corporate culture and (b) how well the two were aligned (Schwartz & Davis, 1981). This entailed eliciting perceptions of the organization’s shared goals, the role of leadership in reinforcing the organization’s vision and culture, and communication within the organization.
5. Organizational Values and Perception	The goal here was to investigate each institution’s uniqueness in terms of the interviewee’s narratives about organizational values, attitudes, vocabulary, traditions, rites, and rituals (Brown, 1998). Also, the dimension examines whether the culture in each remained the same or has changed over time due to CEO turnover, mergers, or acquisitions.

Follow-up questions were used to obtain additional information relevant to each dimension, using an open-ended format to elicit the narrative (interpretive story) from respondents’ feedback.

5.1.1 Measurement of Financial Performance

The purpose of measuring financial performance was to identify the two best-performing of 11 financial institutions. This was accomplished using net operating income growth, return on average equity, and analysis of risk management. Financial data were collected to examine how each of the 11 institutions performed financially. The two financial indicators, NOI and ROAE, served as the *dependent variables* for this study.

Financial Performance Rating

Each participating financial institution's performance was ranked, as shown in **Table 5.2**.

Table 5.2 - Performance Ranking

Rank	Description
Class A	Strong and sustainable financial performance
Class B	Moderate but satisfactory financial performance
Class C	Lacklustre and mediocre financial performance

Ten-year average financial ratios for NOI and ROAE were computed for the 11 financial institutions, as shown in **Table 5.3**.

Table 5.3 - Summary of Financial Performance Indicators 2003-2012

Audience	ROAE %*	Growth in NOI %*	Category
Generalist 1	16.1	10.4	A
Generalist 2	12.4	20.8	A
Generalist 3	0.4	6.1	C
Islamic Generalist	11.9	20.5	B
Specialist 1	-5.5	-94.6	C
Specialist 2	6.9	39.6	B
Islamic Specialist 1	11.8	-151.6	C
Islamic Specialist 2	9	-11.5	C
Hybrid 1	9	5.9	B
Hybrid 2	14.7	26.6	B
Hybrid 3	2.3	66.1	C

*Average over 10-year period

As shown above in Table 5.3, the four best-performing financial institutions in terms of ROAE and NOI are:

1. Generalist 1 (16.1% and 10.4%)
2. Generalist 2 (12.4% and 20.8%)
3. Islamic Generalist (11.9% and 20.5%)
4. Hybrid 2 (14.7% and 26.6%)

For more information on the statistical trend on the above institutions refer to Appendix **Exhibit A 4.6**.

Both the Islamic Generalist and Hybrid 2 were ranked as Class B, rather than Class A, for the following reasons:

1. The Islamic Generalist's financial standing was downgraded by Standard & Poor's from BBB- to BB+ (junk status) in August 2013. This was mainly due to the increased sovereign and economic risks in the Middle East and North Africa regions, where the institution operates (*Reuters*, 2013), and the implications for the bank's risk management portfolio.
2. The Hybrid 2 delivered strong financial results from 2003 to 2007, but subsequently (2008-2011) became lacklustre. In addition, the bank increased its capital base by nearly 20% through the issuance of rights issue shares to its shareholders in 2012; in order to strengthen the bank's capital base because of its heavy reliance on volatile investment income (*Zawya* and *Reuters*, 2012).

For the same period, Generalist 1 and 2 delivered consistent financial results. Also, they were rated BBB by Fitch and BBB⁺ by Standard & Poor's, respectively; both ratings qualify as investment grade. More financial analysis of 11 financial institutions is provided in Appendix **Exhibit A5.1**.

Since the financial data are summaries from the financial institutions' historical financial results, I assume that the corporate cultures of the two best-performing banks (e.g. Generalist 1 and 2) will remain stable for a relatively long time (e.g. through the entire 10-year financial

period). This is important when conducting a multiple regression analysis between the five cultural traits and the financial data for the two banks.

5.1.2 Method of Analysis

Because the essence of the study was to examine the notion that financial institutions with strong corporate culture are likely to demonstrate more sustainable financial performance, I performed deductive content analysis on the primary data. Krippendorff (2013) states:

“The rationale of deductive inference is to proceed from a general proposition that is considered true, to specific propositions that are logically implied and are therefore considered true as well. (p. 383)”.

A coding procedure was used to organize the data, by which raw data were condensed into categories or themes based on valid inference and interpretation (Zhang & Wildemuth, 2009). Interview transcripts were analysed line-by-line using the content analysis method to answer research questions, as depicted in **Figure 5.2**:

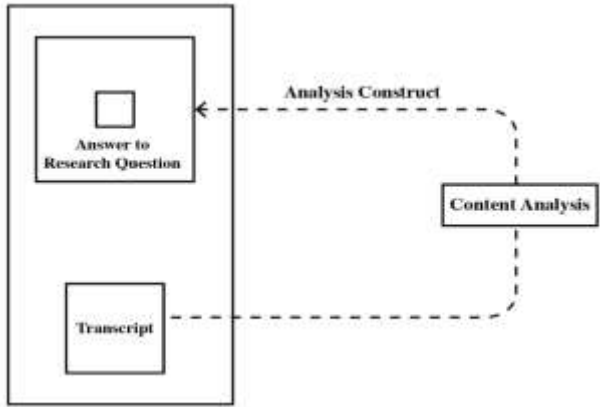


Figure 5.2 - Content Analysis Diagram (adopted from Krippendorff, 2013, p. 83).

Data were grouped into sub-categories by emergent themes and later classified under final headings. A rigorous and reliable deductive coding manual was created to ensure consistency of category names and definitions, as listed in Appendix **Exhibit A4.4**.

I used deductive reasoning to examine and test the hypothesis of this study, and I also used deductive coding manual to analyse the qualitative data. For example, a number of coding

categories used in this study are derived from the Harvard IV Dictionary Categories such as Doctrine and Economic (Weber, 1990), management literature such as Generalist and Specialist (Caroll, 1985), and from the definition of organization functional terminology such as Business Strategy (Hax and Majluf, 1991) and Corporate Governance (Clark, 2007). These generated coding categories are not only relevant and applicable to the analyses of respondents from western type financial institutions, but also for global institutions, including those who participated in this study from Bahrain. Moreover, these coding categories were established to encompass all respondents' feedback whether they are from conventional or Islamic institutions.

One example of the coding category definition that is derived from the literature relates to Hax and Majluf (1991). The scholars define business strategy as 'a coordinated set of business action programs intended to secure a long-term sustainable business advantage' (p. 405).

Fourteen coding categories were established that reflected the emerging feedback of all respondents in the qualitative study, as illustrated in Appendix Exhibit **A4.4**. In addition, I analysed respondent feedback in terms of reliability and validity. A complete assessment was performed, as described in **Sections 4.1.4** and **4.1.5** of Chapter 4.

5.2 Discussion

5.2.1 Dimension 1 - Key Challenging Factors

Q1: What are the key challenging issues that conventional/Islamic banks face today?

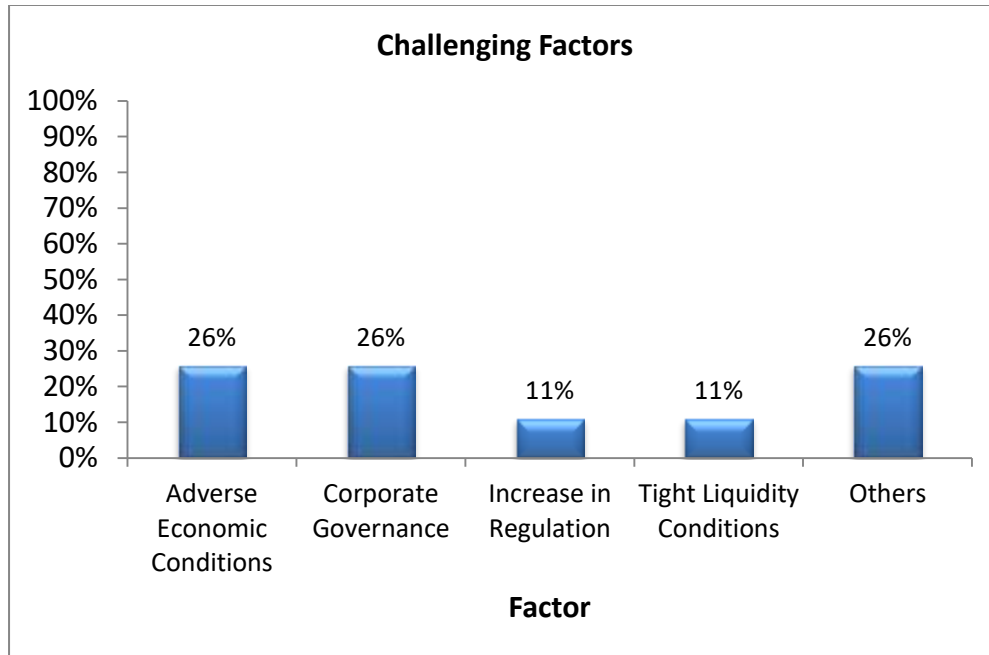


Figure 5.3 - Challenging Factors

Based on respondents' feedback, as shown above in **Figure 5.3**, corporate governance and adverse economic conditions were identified as the top two key challenging factors facing interviewees' banks today (26% each). The inability to access liquidity and an increase in regulatory influence followed, with 11% each.

Class A

Generalist 1

The bank labeled Generalist 1 was represented by three participants. A profile of these individuals is provided in **Table 5.4**.

Table 5.4 - Generalist 1 Respondent Profile

Respondent Number	6	7	8
Position	CEO	GM - Operation	GM – Banking
Age	Above 50	Above 50	Above 50
Gender	Male	Male	Male
Number of years with bank	12	30	7

Respondent 6 stressed the need to preserve and safeguard the bank’s assets in light of the adverse economic conditions as a top priority. He stated:

“The main challenges that are faced by all banks in Bahrain are basically to safeguard the quality of its assets on one hand, and on the other to continue business activity”.

Generalist 2

The bank labeled Generalist 2 was represented by two participants. A profile of the two individuals is provided in **Table 5.5**.

Table 5.5 - Generalist 2 Respondent Profile

Respondent Number	23	24
Position	CEO	Deputy CEO
Age	Above 50	Above 50
Gender	Male	Male
Number of years with bank	12	10

Respondent 23 of Generalist 2 identified the key challenge as one of corporate governance:

“This challenge is reflected by the BoD that does not truly represent the shareholding structure of the business, minority influence of certain shareholders on the board, and extended longevity of directors”.

These issues are considered to be impediments to future business growth. It will be interesting to see how Generalist 2 will deal with this issue, in light of the constant changes in the BoD’s composition as a result of the bank’s frequent acquisition strategy.

Class B

Respondent 14 of Islamic Generalist 1 considers that corporate governance is a key issue, especially for selective Islamic banks. These institutions were founded by pioneering

individuals who wanted to create institutions with proper corporate governance. (Complete profiles of participants are provided in Appendix **Exhibit A5.2**.) The same is supported by Respondent 27 of Conventional Specialist 2, who believes that disclosure of the Knowing Your Customer (KYC) document, especially in the Middle East region, is an important issue. The KYC, which the opening bank must complete, contains full information on a prospective customer who wishes to open a new bank account and is required by regulators.

Respondent 17 of Hybrid 1 views adverse economic conditions as the main challenge; in essence, the difficulty of maintaining an acceptable credit risk in turbulent market conditions. Respondent 4 of Hybrid 2 regards the increase in regulatory influence as a key challenge due to capital adequacy ratio requirements (Basel III). In this context, the bank's capital adequacy ratio (CAR) was tight at the end of 2012 (13%, with a 12% minimum). The bank has made a sizable provisioning in the past three years against its investment portfolio (mainly real estate). It is not surprising that the bank has asked its shareholders to increase the capital base through the issuance of rights issues (*Zawya and Reuters, 2012*). This raises the question of whether the hybrid model is a sustainable business model over time.

Respondent 19 of Islamic Specialist 2 considers regaining investor confidence to be the main challenge. The bank started operations in late 2009, which is regarded as a difficult time for investment boutiques in light of the 2008 financial meltdown. Because many investors have suffered significant losses to their investment portfolios, regaining investors' confidence is seen as a challenging issue, especially for banks that do not establish robust track records.

Class C

Respondent 10 of Conventional Generalist 3 stated that local market competition is the biggest challenge. Hybrid 3 considers corporate governance to be the biggest challenge, based on the feedback from Respondent 1 (a former CEO of the bank), who argued that most Islamic banks are not fully institutionalized and that implementation of this particular issue is rather 'weak'. This view is shared by many industrial practitioners. This problem could hamper the growth of newly established Islamic banks if it is not addressed effectively.

The situation is different for the bank labeled Islamic Specialist I, which has suffered from a tight liquidity condition since late 2008. Consequently, the bank was unable to raise

enough liquidity to meet its financial obligations over time, and therefore could not satisfy its creditor banks' demand that it reschedule its US\$ 1.1BN Murabaha facility. Subsequently, the bank filed for bankruptcy (Chapter 11) in US courts in December 2011. This appears to demonstrate the inability of the bank's management to quickly address the liquidity issue and adapt to emerging market conditions.

Respondent 15 of Conventional Specialist 1 viewed the adverse economic conditions as the most challenging factor, given the sizable net losses the bank had suffered since 2008 due to write-downs of its investment portfolio. The bank has gone through a major restructuring in an effort to adapt to the new market conditions. The key question is whether the bank can refocus on its business lines and remain profitable after a major restructuring exercise, which could trigger code violations. This supports Hannan et al.'s (2003) argument that the longer the reorganization period, the higher the opportunity cost (opacity) for the organization.

5.2.2 Dimension 2 - Sustaining Financial Performance

Q2: What are the reasons for the sustained financial success of certain retail/investment and conventional/Islamic banks over the years?

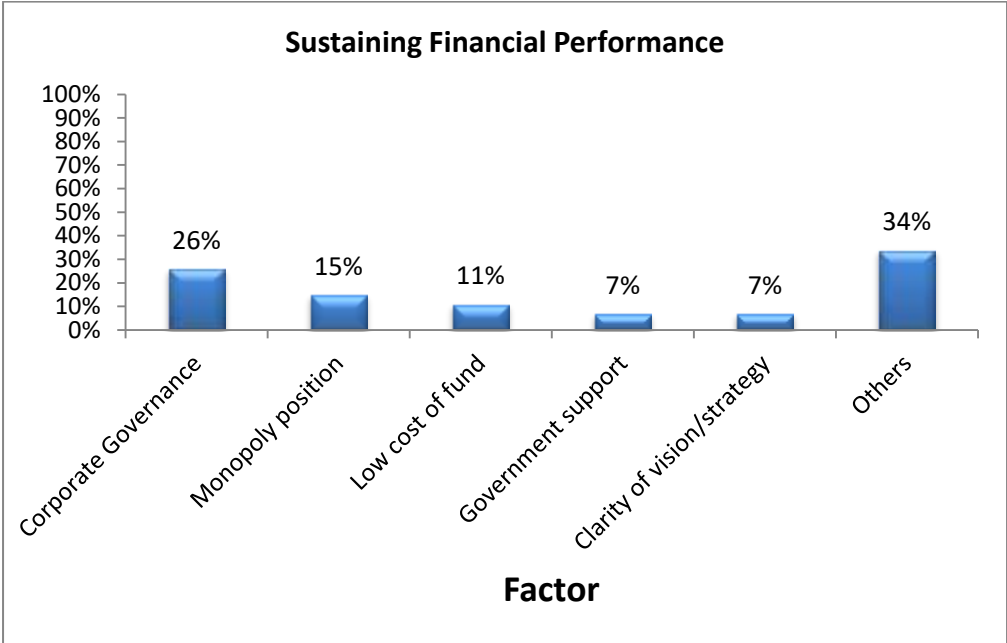


Figure 5.4 - Sustaining Financial Performance

As shown in **Figure 5.4**, the largest share of respondents (26%) attributed the success and sustainability of certain financial institutions to corporate governance, followed by the monopoly position (15%). Other less significant factors were the low cost of finance or ‘fund’ (11%) and government support and clarity of vision and/strategy at 7% each.

In terms of the monopoly position, this was achieved by early movers in the Islamic banking sector, which have occupied some type of monopolistic position for a number of years. The banks that have benefited from this position are Al-Rajhi in Saudi Arabia, Kuwait Finance House in Kuwait, and Dubai Islamic Bank in the UAE. These banks are perceived as depending heavily on non-core revenue to increase their overall profitability. One could question, however, whether this strategy is sustainable in the long term, due to increased competition and a fast-changing environment.

Class A

Respondent 6 of Generalist 1 believes that access to a low cost of finance (i.e., customer deposits) is a key factor. This rationale is based on the hefty margin that retail banks generate when they advance financing to customers. He stated:

“I think the most important reason for the sustained financial success in the conventional banks is the cheaper source of funding, and that is the customer deposit”.

Respondent 23 of Generalist 2 identified clarity of vision as a key factor; he argued that banks can use good times to develop sustainable lines of business:

“If they have clarity, then banks use good times to develop two or three lines of business. And if they have selected well, then they would be strong enough to resist when the problem arises. Lack of clarity of vision prompted banks to try many products, and when one product fails, they try to do different things. There is a saying that you are the jack of all trades but the master of none”.

Class B

The adoption of proper corporate governance was regarded as the most important factor by Respondent 12 of Islamic Generalist 1, who claimed that risk management is one of the key reasons banks prosper or fail today. This view was echoed by Respondent 19 of Islamic Specialist 2. From the perspective of Respondent 27 of Conventional Specialist 2, customer orientation is an important factor, and especially for those who operate in the private banking industry. The bank believes that sustaining profitability and long-term value for shareholders is centred on client focus. Respondent 4 of Hybrid 2 argues that the Islamic hybrid is the best banking model, because it prohibits them from entering into risky transactions (e.g., derivatives). It also provides the opportunity to invest in non-core business segments (e.g., real estate and others).

Class C

Respondent 9 of Generalist 3 believes that the reputation of the brand is an important factor, while Respondent 25 of Hybrid 3 views government support of certain financial institutions as a key factor. Respondent 20 of Islamic Specialist 1 considers aligning management's incentives to a long-term plan is important for the success and sustainability of financial institutions.

5.2.3 Dimension 3 - Successful Business Plan

Q3: What are the main factors that can assist a bank to execute its business plan more effectively?

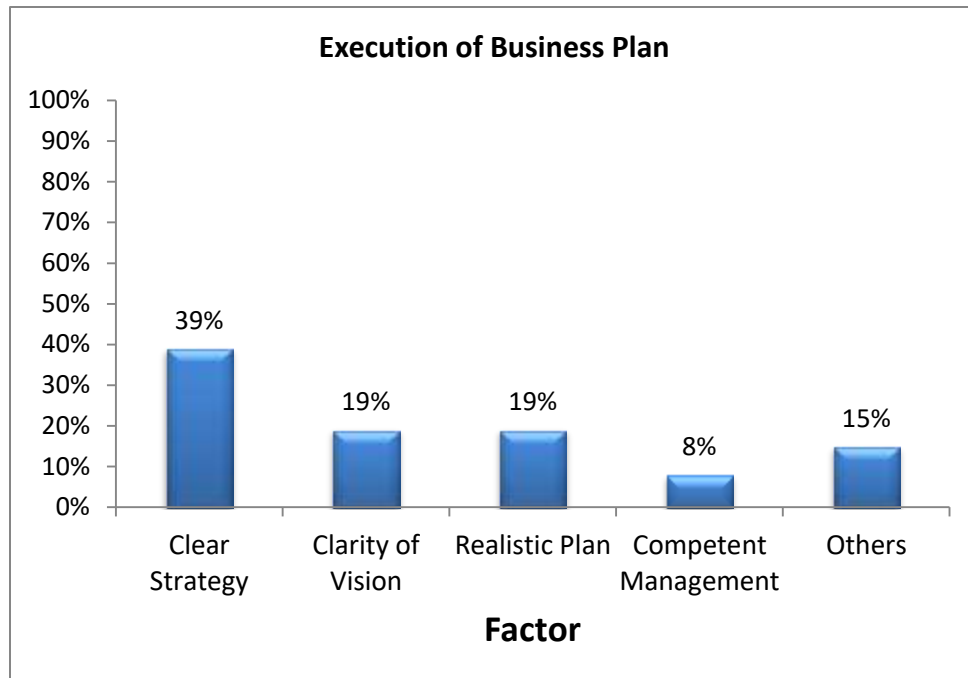


Figure 5.5 - Execution of Business Plan

As shown in **Figure 5.5**, the majority of respondents (39%) named clarity of strategy as the most important factor in executing an effective business plan, followed by clarity of vision and having a realistic plan (19% each). Competent management was named by only 8%.

In crafting business plans, a mixed approach in which management, directors, and staff members reach consensus and a top-down approach were each named by 36% of respondents, followed by a bottom-up approach at 28%. There is no clear advantage, therefore, for any of the approaches, as this depends on management style and market requirements. However, a majority of Generalist bank respondents favoured a bottom-up approach.

Class A

Respondents from the best-performing banks (Generalist 1 and 2) emphasised the importance of the key components of the business plan and strategy. For example, Respondent 6 of Generalist 1 highlighted the clarity of the bank’s strategy, which is based on diversifying their income stream from the GCC markets and away from problematic international markets. Respondent 23 of Generalist 2 argued that the bank’s strength is not its size, but rather the

clarity of vision. He defines its strategy as growth by acquisition, and this is evident in the bank's website.

It could be argued that since both organizations have clearly identified their respective visions and strategies, this has assisted them in delivering strong and sustainable financial performance over the past 10 years.

Class B

Respondent 12 of Islamic Generalist 1 underlined the need to first understand your business model and the market you are serving. Respondent 26 of Hybrid 1 stressed the importance of also adopting a clear vision, strategy, and realistic goals; the bank's vision is to increase its market share non-organically through acquisitions and mergers. Conventional Specialist 2 has been downsizing its investment banking division and focusing more on its private banking activities since the financial crisis of 2008. Respondent 27 of the bank emphasised the importance of vision in striving to be the bank known for its financial performance. This target could only be achieved through customer orientation.

Class C

Respondent 10 of Generalist 3 stated that the bank is in a transition period due to the bank's shift in strategy, which is to focus more on local retail activities instead of wholesale regional business. Also, the bank has had at least three CEOs in the past 10 years. Together with the shift in the bank's strategy, high CEO turnover has clearly impacted the bank's performance during this transition. Hybrid 3 is also in a transition following a shift in its business model from investment to retail activities. These findings are in line with studies by Hannan & Freeman (1977, 1984) and Hannan et al., (2006), who argue that changes in an organization's blueprint and CEO have negative effects on the organization's performance.

Islamic Specialist 1's business model came under scrutiny after 2008, when it was unable to adapt to new market conditions and was forced to file for bankruptcy. This is supported by Hannan & Freeman's (1977) findings, which demonstrate that specialists (investment banks) cannot operate well in an unstable business environment.

Similarly, Conventional Specialist 1 has gone through extensive restructuring and downsizing since 2008, which has since impacted the organization's financial performance significantly.

5.2.4 Dimension 4 - Relationship between Business Plan/Strategy and Corporate Culture

Q4: How strong is the alignment between the institution's business plan/strategy and its corporate culture? Can you elaborate?

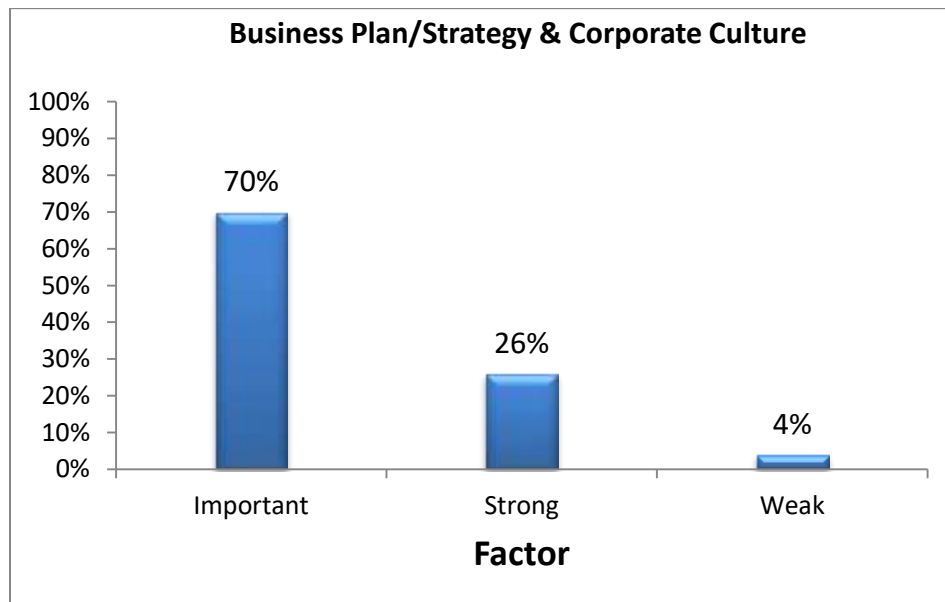


Figure 5.6 - Business Plan/Strategy & Corporate Culture

As shown in **Figure 5.6**, in terms of intensity of the relationship between business plan/strategy and corporate culture, 70% of respondents indicated that the relationship is important, while 26% stated that the relationship is strong. Only one participant described the relationship as 'weak'.

Class A

Schwartz & Davis (1981) underline the need to harmonize and integrate corporate culture and business strategy if an organization wants to be successful in the future. Respondents from Generalists 1 and 2 stated that the relationship is strong and supported their opinions with examples. For instance, Respondent 7 of Generalist 1 emphasised the importance of corporate governance and leadership in enforcing the corporate culture:

“The performance of any organization has a lot to do with the internal culture as well as proper leadership, reading the market, implementing proper risk management, understanding your risk, transparency with everybody, including your customers, shareholders and regulators”.

Respondent 23 of Generalist 2 emphasised the importance of clarity of vision, hard work, meritocracy, communication, and integration among the organizational units. He stated:

“So step one in ensuring the vision is clarity. We work hard, we are a meritocracy and we have no preferences for people based on religion, sex, nationality, etc. We give out the highlights of our investment policy to all staff”.

It could be argued that the CEO’s leadership style in Generalist 2, through his articulation of clarity of vision and strong conviction of interdepartmental cooperation, has positively affected the organization’s performance. This conforms to Wilderom et al.’s (2012) findings on the correlation between charismatic leadership and firm performance.

Class B

Respondent 14 of Islamic Generalist 1 emphasised the importance of clear strategy and customer profiling to fit the culture and business plan, while Respondent 19 of Islamic Specialist 2 stressed the role of aligning performance to remuneration. Respondent 18 of Hybrid 1 highlighted the need to first define organizational goals as set by the management, then lead by example through senior managers’ behaviour. This is reflected in the bank’s performance; he believed that corporate culture has a high degree of correlation with the business plan. Respondent 4 of Hybrid 2 pointed out the need to create a workable, achievable, and realistic strategy backed by competent management and right leadership, while Respondent 27 of Conventional Specialist 2 stressed the need to focus on client requirements and strategy integration.

Class C

Respondents from financial institutions in this category did not provide a compelling narrative for how this relationship is founded, integrated, and solidified. Coincidentally, there was only one respondent from this category who stated that this relationship was ‘weak’.

5.2.5 Dimension 5 - Organizational Values and Perception

Q5: Are there specific ways of doing things, traditions, vocabulary, artifacts, rites, and rituals in your organization?

In this section, I will only highlight the organizational values as portrayed by the best-performing groups, namely Classes A and B.

Class A

The three respondents from Generalist 1 (6, 7, and 8) attributed the bank’s financial success to its strong emphasis on corporate governance, innovativeness, customer orientation, and clear strategy implementation. Further, the bank has a strong cultural tradition that was established by a former CEO who is currently serving as the bank’s chairman. The bank embraces these organizational values and considers them to be the cornerstone of its organizational establishment. Respondent 23 from Generalist 2 stressed the importance of being a greenfield organization and said that the bank had only had one CEO since its inception. This has helped the bank to establish strong cultural values, as set out by the founding CEO. Respondents 23 and 24 stated that the bank’s values are focused on clarity of vision and strategy, meritocracy, customer orientation, and internal communication. For more details on this section, refer to Appendix **Exhibit A5.1**.

Class B

Despite the fact that the bank operates in 13 countries, Respondents 12, 13, and 14 of Islamic Generalist 1 emphasised the importance of institutionalization through corporate governance, social responsibility, consensual agreement, and customer orientation. Respondents 17, 18, and 26 of Hybrid 1 attributed its success to strong corporate governance, an open-door

policy, teamwork, and clarity of vision, while Respondents 4 and 5 of Hybrid 2 focused on ethical banking, staff socialization, confidentiality, and a friendly environment.

Respondents 19 and 22 of Islamic Specialist 2 highlighted the importance of performance-related pay, an open-door policy, cultural fit, and alignment with shareholders’ values, while Respondent 27 of Conventional Specialist 2 stressed the importance of corporate governance, customer orientation, the bank’s reputation, and confidentiality.

Based on the above, five organizational values were selected, as shown below in **Table 5.6**. These values were selected from the top three named by respondents from Class A banks (i.e., Generalist 1 and 2), as listed below:

1. Clarity of Vision and Strategy
2. Corporate Governance
3. Customer Orientation
4. Innovativeness
5. Meritocracy

These values were selected based on the following proposition:

- a) The selected values were clearly emphasised by interviewees from Generalist 1 and 2 banks.
- b) A significant portion of respondents from Class B banks also emphasised the importance of these organizational values.

Table 5.6 - Selection of Organizational Values

Organizational Values	Generalist 1	Generalist 2	Class B
Clarity of Vision & Strategy	√	√	√
Corporate Governance	√		√
Customer Orientation		√	√
Innovativeness	√		
Meritocracy		√	

5.3 Organizational Culture Profile (OCP) Analysis

The OCP was used as a secondary research instrument and to complement the findings of the previously conducted qualitative study as they relate to the five organizational values (Clarity of Vision & Strategy, Corporate Governance, Customer Orientation, Innovativeness, and Meritocracy). For more information on OCP values, refer to Appendix **Exhibit A4.3**.

Rotation of Factors

There are several methods of extracting factors in factor analysis; one is rotation of factors. This important step enhances interpretability and offers better discrimination of which factor loads more significantly with which indicator. Several rotation procedures are available; I chose varimax rotation to produce a cleaner set of loadings as near as possible to 0, -1, or +1; this obviously facilitates easy interpretation of factors (Buglear, 2014). If factor loading is high, e.g., absolute value greater than 0.5, this indicates that the factor is loading significantly on the corresponding variable. In Buglear’s (2014) study, a factor loading of nearly 0.50 or higher is considered significant.

Based on feedback of the 23 participants, I generated the Scree plot shown in **Figure 5.7**

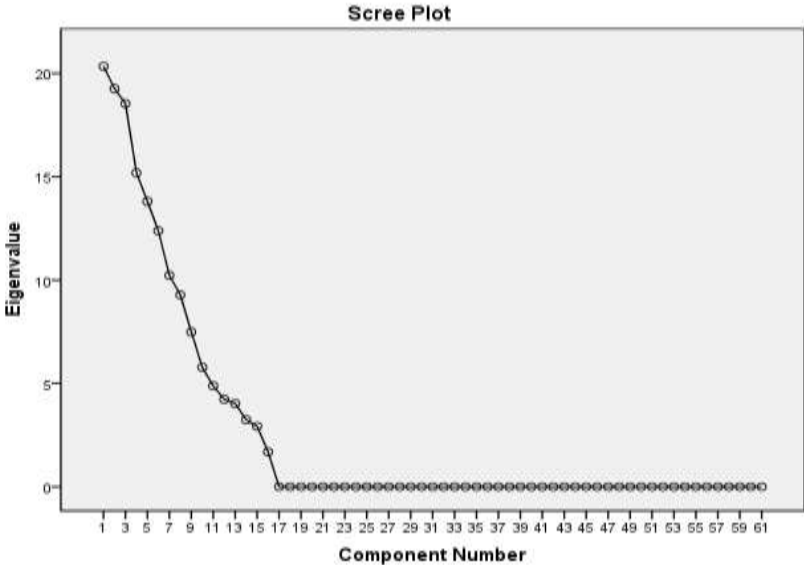


Figure 5.7 – Scree Plot Diagram

Interpretation

Based on orthogonal varimax rotation analysis (**Figure 5.7**), there are 17 factors of interest before the slope curve changes to zero. The top five factors were selected representing 56.8% of observed variance. This is considered to fall within an acceptable statistical range. Furthermore, there are 15 allowable organizational values of interest based on significant loading at a level of approximately 0.50, as highlighted in bold type (refer to Appendix **Exhibit A5.4**). Among the top 15 factors, five values are of interest, as these were chosen as important cultural traits based on the qualitative study. The five important values are highlighted below in **Table 5.7**.

Table 5.7 - Factor Analysis Loading

Values	Factor 1	Factor 2	Factor 3	Factor 5
1.Meritocracy	-0.843			
2.Clarity of Vision	- 0.703			
3.Innovativeness		- 0.444		
4.Customer Orientation				0.459
5.Corporate Governance			-0.101	

Both Meritocracy (-0.843) and having a Clarity of Vision (-0.703) had the largest loadings. The negative loadings for these variables reflect the fact that they were rated as relatively low by participants. The third and fourth values, Innovativeness (-0.444) and Customer Orientation (.459), had similar loading ranges, but are nevertheless considered important. The positive loading for the fourth value suggests that this variable is rated relatively high by participants. The fifth value, Corporate Governance, had a low loading of -.101. Both Customer Orientation and Corporate Governance were not available in the OCP list, and specifically not for the initial three interviewees, since they were later added to the list based on feedback from participants in the qualitative study.

Discussion

Out of the 23 interviewees who completed the OCP, four were from Class A banks (three from Generalist 1 and one from Generalist 2) and the remaining 19 were from banks in Classes B and C. Based on participants' feedback, Customer Orientation was the most important value, followed by Corporate Governance, Innovativeness, Clarity of Vision and lastly Meritocracy. The low ratings for the first three values as shown in **Table 5.7** implies that the majority of respondents, who mainly represented Classes B and C, did not rate the first three values to be the most characteristic of their institutions. Meanwhile, Corporate Governance had a low negative rating, which reflects this value's neutrality. Although both Corporate Governance and Customer Orientation were only added to the OCP list after completion of the three interviews, the former showed a nearly significant loading, which implies that interviewees assigned a relatively high rating to this organizational value.

CHAPTER SIX: QUANTITATIVE STUDY

Executive Summary

The second phase of this study relates to the examination of five cultural values: a) Clarity of Vision and Strategy; b) Corporate Governance; c) Customer Orientation; d) Innovativeness; and e) Meritocracy. These organizational values are tested with the two best-performing banks in terms of NOI and ROAE, using descriptive statistical and regression analysis. A total of 74 managers representing two different financial institutions participated in the final primary survey.

6.1 Descriptive Statistical Analysis

6.1.1 Data Frequency and Profile

A total number of 74 respondents participated in the survey study based on the questionnaires (see Appendix **Exhibit A6.1**). Profiles of the participants are listed in **Table 6.1** below:

Table 6.1 - Profile of Participant Matrix

Item	Gen 1	Gen 2	Bahraini	Non-Bah	Male	Female	Executive	Senior	Middle
Participant	49	25							
Nationality			51	23					
Gender					56	18			
Position							17	25	32

Of the total 74 respondents, 49 represented Generalist 1 banks and the remaining 25 Generalist 2. Fifty-one of the participants were Bahraini and 23 were non-Bahraini; 56 were male and 18 females. Seventeen of the 74 respondents were executives, 25 seniors, and the remaining 32 managers. This represents a reasonable cross-section of all levels of management in both institutions. Therefore, the data collected for this study are representative in terms of nationality, gender, and bank management. It is known that sample size affects the significance

of statistical testing and, hence, the final results. According to Hair et al. (2006), multiple regressions require a minimum sample size of 50 and, ideally, 100. In this study, the collected sample size was 74, and therefore is within the set parameter.

6.1.2 Section A: Clarity of Vision and Strategy

Table 6.2 – Scale Reliability Testing Results : Clarity of Vision and Strategy

Construct	Items	Cronbach's Alpha	Mean	Standard Deviation
Clarity of Vision & Strategy	5	0.839	3.952	0.778

As shown in **Table 6.2**, internal reliability for Section A is 0.839 and the mean is 3.952. The SD is relatively low, at 0.778.

Table 6.3 - Mean, SD, and Correlation : Clarity of Vision and Strategy

Variables	Mean	SD	1	2	3	4	5
Sc1	3.96	0.786	1				
Sc2	4.49	0.602	0.251	1			
Sc3	3.58	0.844	0.566**	0.406	1		
Sc4	3.92	0.856	0.579**	0.476**	0.654**	1	
Sc5	3.81	0.822	0.488**	0.410	0.536**	0.737**	1

N: 74; ** Correlation is significant at the 0.01 level (2-tailed).

Discussion

As shown above in **Table 6.3**, the overall pattern of correlations indicates an overall positive relationship and a degree of consistency among all five questions. This is illustrated by the satisfactory ratio of reliability of 0.872.

Significant correlations exist between **Sc4** and **Sc5** at **0.737** (the second-highest in the study), as shown below:

Sc4: *Your organization's business strategy is well thought out and is based on realistic goals;*

Sc5: *Your organization's business strategy is based on a balance between ambitions and available resources.*

Naturally, there is a link between setting realistic organizational goals and a business strategy based on a balance between ambitions and available resources.

Another notable correlation is found between **Sc3** and **Sc4** at **0.654**. Significant relationships are found in seven of the 10 correlations, which represent 70% of this section at the 0.01 level.

6.1.3 Section B: Corporate Governance

Table 6.4 - Scale Reliability Testing Results : Corporate Governance

Construct	Items	Cronbach's Alpha	Mean	Standard Deviation
Corporate Governance	6	0.702	4.271	0.780

Although reliability (0.702) is the lowest of the five sections, it remains satisfactory and within the accepted threshold of 0.70 level (Bryman & Bell, 2007). Meanwhile, the mean, at 4.271, is the highest of the five sections, while the SD is relatively low at 0.780.

Table 6.5 – Mean, SD, and Correlation : Corporate Governance

Variables	Mean	SD	1	2	3	4	5	6
Sd1	4.31	0.739	1					
Sd2	4.68	0.576	0.305	1				
Sd3	4.55	0.724	0.186	0.305	1			
Sd4r*	4.07	0.915	0.070	0.173	0.192	1		
Sd5	3.79	0.897	0.286	0.269	0.409	0.237	1	
Sd6	4.23	0.837	0.393	0.356	0.217	0.392	0.432	1

N = 74; * **Sd4r** represents a reverse question.

Discussion

Since the internal reliability of this section is the lowest of the five sections, I generated **Table 6.6** (below) to illustrate how the overall reliability ratio changes if a certain question is deleted.

Table 6.6 – Reliability Improvement : Corporate Governance

Values	Cronbach's Alpha if Item Deleted
Sd1	0.675
Sd2	0.663
Sd3	0.666
Sd4r	0.626
Sd5	0.602
Sd6	0.692

As shown above in **Table 6.6**, **Sd5**, with the lowest ratio, has the most influence on the reliability ratio, and **Sd6** has the least influence.

As illustrated above in **Table 6.5**, the overall pattern of correlations for the six questions indicates an overall positive relationship, but without any significant ratio at the 0.50 level for all six questions.

6.1.4 Section C: Customer Orientation

Table 6.7 - Scale Reliability Testing Results : Customer Orientation

Construct	Items	Cronbach's Alpha	Mean	Standard Deviation
Customer Orientation	6	0.870	4.113	0.822

Internal reliability for Section C is found to be 0.870, which is satisfactory. The mean is 4.113, and the SD is relatively low at 0.822.

Table 6.8 – Mean, SD, and Correlation Matrix : Customer Orientation

Variables	Mean	SD	1	2	3	4	5	6
Se1	4.01	0.842	1					
Se2	4.22	0.750	0.479**	1				
Se3	4.12	0.798	0.494**	0.627**	1			
Se4	4.01	0.790	0.417	0.627**	0.768**	1		
Se5	4.18	0.805	0.283	0.463**	0.505**	0.476**	1	
*Se6r	4.14	0.947	0.538**	0.661**	0.547**	0.628**	0.386	1

N = 73; * Se6r represents a reverse question; ** Correlation is significant at the 0.01 level (2-tailed).

Discussion

As shown above in **Table 6.8**, the overall pattern of correlations for the six questions indicates an overall positive relationship and a high degree of consistency among all six questions. This is illustrated by the satisfactory ratio of 0.870. A significant relationship exists between **Se3** and **Se4** at the **0.768** level (the highest of the five sections), as listed below:

Se3: *Your organization understands how the entire business can thrive through creating customer value;*

Se4: *Customers' feedback is treated with respect and with careful thought.*

The above illustrates the relationship between the selection of customer value as a strategic choice and the need to treat customers' feedback with high regard and consideration.

Another notable significant relationship exists between **Se2** and **Se6r** at **0.661**.

Significant relationships are found in 12 of the 15 correlations, representing 80% of this section at the 0.01 level; this is the highest of the five sections. This implies the importance of this value to the majority of respondents.

6.1.5 Section D: Innovativeness

Table 6.9 - Scale Reliability Testing Results : Innovativeness

Construct	Items	Cronbach's Alpha	Mean	Standard Deviation
Innovativeness	6	0.872	3.904	0.867

I computed the internal reliability test for Section D, as shown in **Table 6.9**; it contained six questions and had the highest rate (0.872) of the five constructs. The mean was 3.90 (the lowest of the five) and the standard deviation (SD) was 0.867, indicating a relatively low volatility rate.

Table 6.10 - Mean, SD, and Correlation : Innovativeness

Variables	Mean	SD	1	2	3	4	5	6
Sa1	3.77	0.786	1					
Sa2	3.77	1.00	0.611**	1				
Sa3r*	3.99	1.02	0.549**	0.674**	1			
Sa4	4.22	0.641	0.420	0.223	0.345	1		
Sa5	3.93	0.861	0.630**	0.619**	0.613**	0.461**	1	
Sa6	3.77	0.869	0.684**	0.513**	0.513**	0.356	0.534**	1

N = 73; because one respondent did not complete this section; * Sa3r represents a reversed question; ** Correlation is significant at the 0.01 level (2-tailed).

Discussion

As shown above in **Table 6.10**, the pattern of correlations for the six questions reveals a high degree of consistency among all six questions. This is indicative of the satisfactory reliability ratio of 0.872. Notably high correlations exist between **Sa1** and **Sa6** at **0.684**, as highlighted below:

Sa1: *Your organization comes up with new creative ideas relating to financial products and services;*

Sa6: *Your organization is a dynamic and entrepreneurial place.*

Apparently there is a relationship between the need to come up with innovative products/services and the entrepreneurial culture of an organization. Another important correlation is found between **Sa2** and **Sa3r** at the **0.674** level. Significant relationships at the 0.50 level and above are found in 11 of the total 15 correlations, which represent 73.3% of this section at the 0.01 level of significance. This implies the importance of this corporate value to the majority of respondents.

6.1.6 Section E: Meritocracy

Table 6.11 - Scale Reliability Testing Results : Meritocracy

Construct	Items	Cronbach's Alpha	Mean	Standard Deviation
Meritocracy	5	0.814	4.016	0.845

The internal reliability test for Section B is 0.814, as shown in **Table 6.11**. The mean and SD are 4.016 and 0.845, respectively.

Table 6.12 - Mean, SD, and Correlation : Meritocracy

Variables	Mean	SD	1	2	3	4	5
Sb1	4.18	0.782	1				
Sb2	4.16	0.811	0.647**	1			
Sb3	4.04	0.784	0.347	0.291	1		
Sb4	3.72	0.958	0.524**	0.659**	0.471**	1	
Sb5r*	3.986	0.944	0.422	0.486**	0.241	0.571**	1

—

N = 74; * Sb5r represents a reversed question; ** Correlation is significant at the 0.01 level (2-tailed).

Discussion

As shown in **Table 6.12**, the pattern of correlation for five questions indicates a degree of consistency among them. Notably high correlations are found between **Sb2** and **Sb4** at **0.659**, as listed below:

Sb2: *The organization emphasises competitive actions and achievements with measurable goals and objectives;*

Sb4: *Your organizational reward system is primarily tied to individual performance.*

Obviously, there is a link between setting organizational goals and objectives and the need for a correspondingly appropriate reward system.

Another important correlation is found between **Sb1** and **Sb2** at **0.647**. Significant relationships are found in six of the 10 correlations, which represent 60% of this section at the 0.01 level.

6.2 Factor Analysis

Based on orthogonal varimax rotation analysis, as shown below in **Figure 6.1**, there are three factors of interest before the slope curve level changes to zero.

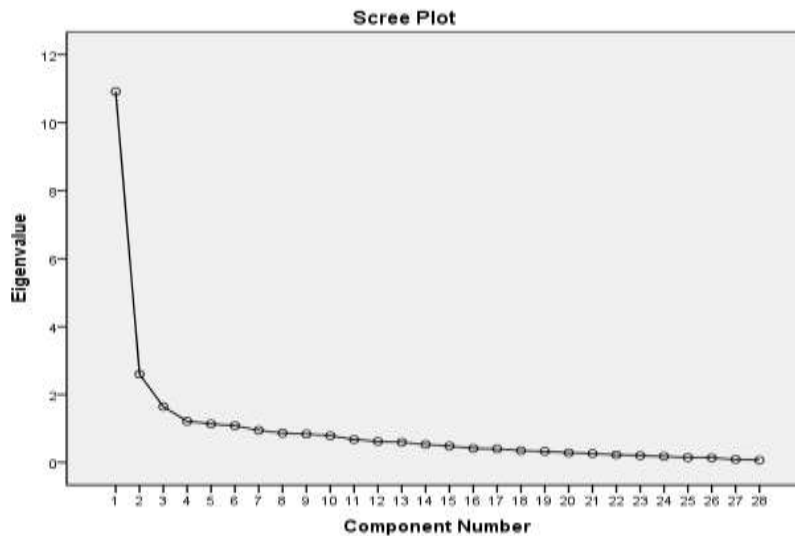


Figure 6.1 Scree Plot

The selected top three factors represent nearly 48% of the observed variance. This is considered as an acceptable statistical range. There is no benefit in dividing the loadings into more sub-factors to extract more meaningful variables. This is due to the highest-ranking variables reported in the first three factors and, more precisely, from the first factor. Twenty-eight allowable values are of interest based on significant loading of approximately 0.50 level or higher; I will concentrate solely on the five organizational values, as reported in factor 1, as shown below in **Table 6.13**. Results of all six factors can be found in Appendix **Exhibit A6.2**.

Table 6.13 - Factor 1 Analysis

Label	Innovativeness	Meritocracy	Clarity of Vision and Strategy	Corporate Governance	Customer Orientation
Sa1	<u>0.785</u>				
Sa2	<u>0.690</u>				
Sa3r	-0.690				
Sa4	0.495				
Sa5	<u>0.727</u>				
Sa6	<u>0.673</u>				
Sb1		0.585			
Sb2		0.532			
Sb3		0.640			
Sb4		0.669			
Sb5r		-0.543			
Sc1			0.666		
Sc2			0.534		
Sc3			<u>0.761</u>		
Sc4			<u>0.808</u>		
Sc5			<u>0.683</u>		
Sd1				0.460	
Sd2				0.404	
Sd3				0.371	
Sd4r				-0.484	
Sd5				0.549	
Sd6				<u>0.681</u>	
Se1					0.474
Se2					0.643
Se3					0.664
Se4					<u>0.754</u>
Se5					0.475
Se6r					-0.730

As observed, four of the top 10 positive variables, which are underlined, are located under the Innovativeness value; it is not surprising that this organizational value reported the highest internal reliability of 0.872. Clarity of Vision and Strategy reported three variables, with the highest, 0.808, in Sc4; the remaining two variables came from the Customer Orientation value, with the highest value, 0.754, in Se4. The remaining variable, Sd6 (0.681) came from Corporate Governance. Although none of Meritocracy variables are represented in the top 10, it did report significant loadings, as four of its five loadings are above the 0.50 level. The reason why a number of loadings are reported in negative numbers (e.g., Sa3r, Se6r, etc.) is because of the reverse order of questions. The above findings imply the importance of the five organizational values for participants, since nearly 75% of the overall loadings, either positive or negative, were above the 0.50 mark.

I also conducted a separate factor analysis for each of the five organizational values as shown in Appendix **Exhibit A6.2**. As shown, the slope curve for all five values' scree plot drops significantly after the first factor. This implies that the significant loading of variables is reported in the first factor.

6.3 Regression Analysis

6.3.1 NOI as Dependent Variable

Regression analysis is used to identify the effects of the independent variable on the dependent variable and ultimately develop this relationship into a statistical model (Adams et al., 2014).

In this regression analysis, I am testing the relationship among the five organizational values as independent variables with NOI as dependent variables by taking the 10-year averages for Generalist 1 and 2. Therefore, five hypotheses are examined, as listed below:

Hypothesis 1: *Innovativeness is positively related to NOI*

Hypothesis 2: *Meritocracy is positively related to NOI*

Hypothesis 3: *Clarity of Vision & Strategy is positively related to NOI*

Hypothesis 4: *Corporate Governance is positively related to NOI*

Hypothesis 5: *Customer Orientation is positively related to NOI*

Table 6.14 - NOI (Dependent Variable)

Independent Variable	Constant	B	Significance	Adjusted R ²	F
A. Innovativeness (Sa)	11.478	0.877	0.003**	0.102	9.213
B. Meritocracy (Sb)	12.828	0.516	0.12	0.02	2.474
C. Clarity of Vision & Strategy (Sc)	13.286	1.393	0.245	0.005	1.372
D. Corporate Governance (Sd)	11.167	0.875	0.043*	0.043	4.238
E. Customer Orientation (Se)	13.495	0.338	0.324	0	0.985

N =73; * p ≤ 0.05; **p ≤ 0.01; ***p ≤ 0.001.

Result - Hypothesis 1

As observed, Innovativeness is positively related to NOI at 0.003, as a significant relationship is found at the $p \leq 0.01$ level. This relationship takes the shape of a nearly nonlinear relationship and is illustrated in **Figure 6.2** below.

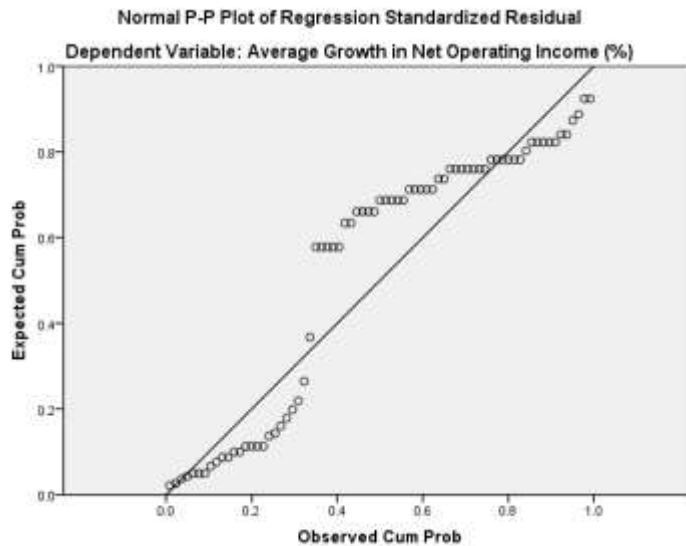


Figure 6.2 - Innovativeness vs. NOI

The influence of the independent variable on the dependent variable can be expressed in the following regression equation:

$$Y = a + b*x \quad \text{(Equation 1) (Source: Buglear, 2014)}$$

where:

Y is the dependent variable (NOI)

a is a constant coefficient

b is the beta coefficient

x is the independent variable

Using the above equation and inserting the regression findings from **Table 6.14**, the equation can be written in the following format:

$$\text{NOI} = 11.478 + 0.877 * \text{Sa} \quad \text{(Equation 2)}$$

where:

Sa is the independent variable (Innovativeness)

This relationship indicates that for a unit change in **Sa** (Innovativeness), there will be 0.877 times change in NOI. This implies that Innovativeness has a positive relationship with NOI.

Hypothesis 2: No evidence that this hypothesis is true.

Hypothesis 3: No evidence that this hypothesis is true.

Hypothesis 4: There is evidence that this hypothesis is true at 0.043. However, this relationship is relatively low at the $p \leq 0.05$ level, as shown in **Table 6.14**. The relationship is less significant than the one generated from Innovativeness and NOI (i.e., at the $p \leq 0.01$ level).

Hypothesis 5: No evidence that this hypothesis is true.

6.3.2 ROAE (Dependent Variable)

In this regression analysis, I tested the relationships between the five organizational values (independent variables) and ROAE (dependent variables) for the two conventional generalists. Therefore, I investigated five hypotheses:

Hypothesis 6: *Innovativeness is positively related to ROAE*

Hypothesis 7: *Meritocracy is positively related to ROAE*

Hypothesis 8: *Clarity of Vision & Strategy is positively related to ROAE*

Hypothesis 9: *Corporate Governance is positively related to ROAE*

Hypothesis 10: *Customer Orientation is positively related to ROAE*

Table 6.15 - ROAE (Dependent Variable)

Independent Variable	Constant	B	Significance	Adjusted R2	F
A. Innovativeness (Sa)	24.367	-2.723	0.001**	0.123	11.202
B. Meritocracy (Sb)	20.119	-1.596	0.095	0.025	2.871
C. Clarity of Vision & Strategy (Sc)	19.119	-1.529	0.126	0.019	2.395
D. Corporate Governance (Sd)	26.134	-2.908	0.017*	0.063	5.917
E. Customer Orientation (Se)	19.218	-1.328	0.012*	0.012	1.901

N = 74; *p ≤ 0.05; **p ≤ 0.01; ***p ≤ 0.001.

Using equation 1 and inserting the regression findings from **Table 6.15**, the equation can be written in the following format:

$$\text{ROAE} = 24.367 - 2.723 * \text{Sa} \quad (\text{Equation 3})$$

where:

Sa is the independent variable (Innovativeness).

This relationship stipulates that for a unit change in **Sa** (Innovativeness), there will be negative 2.7 times change in ROAE.

Result

Hypothesis 6

As observed, Innovativeness is negatively correlated with ROAE at 0.001, as a significant relationship is found at the $p \leq 0.001$ level. This takes the shape of a nearly nonlinear relationship, as illustrated in **Figure 6.3** below.

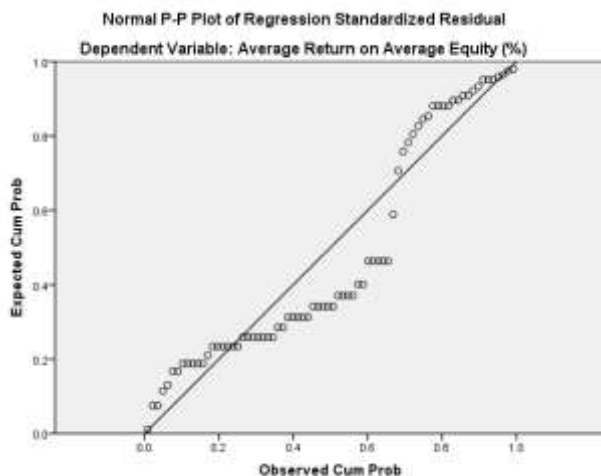


Figure 6.3 - ROAE as Dependent Variable

Unlike the positive relationship between Innovativeness and NOI, the relationship between Innovativeness and ROAE is expressed in negative terms. This could be interpreted as suggesting that if a bank invests in innovative products or services, the monetary result would be a negative return on shareholders' value in the short term. This is logical, because any investment will be deemed as cash outflow and have a negative and immediate impact on shareholders' value. Because Innovativeness is negatively related to ROAE, there is no evidence that hypothesis 6 is true.

Hypothesis 7: No evidence that this hypothesis is true.

Hypothesis 8: No evidence that this hypothesis is true.

Hypothesis 9: No evidence that this hypothesis is true. There is evidence that Corporate Governance is negatively related to ROAE at 0.017. However, this relationship is relatively low at the $p \leq 0.05$ level, as shown in **Table 6.15**.

Hypothesis 10: No evidence that this hypothesis is true. There is evidence that Customer Orientation is negatively related to ROAE at 0.012 level. However, this relationship is relatively low at the $p \leq 0.05$ level as shown in **Table 6.15**.

CHAPTER SEVEN: CONCLUSIONS AND RECOMMENDATIONS

7.1 Discussion

The study results show the applicability of using deductive reasoning together with a functionalist perspective which views corporate culture not only as shared values and beliefs but also as a set of variables that can be tested and quantified (Denison & Mishra, 1995; Kotter & Heskett, 1992; Sorensen, 2002). The two theories are used to validate the notion that a positive relationship exists between certain corporate values and financial performance. The study finding should add to the findings of many culture-performance researchers that culture is a vital component of organizational effectiveness. Given the fact that the sample contains only 11 banks, this study could be interpreted as limited in terms of scope and depth. Therefore, this field study should be viewed as exploratory work and further research is recommended to generalize study results to a larger sample size.

In terms of research methodologies, the use of institutional ecology, which is a combination of ecological insights and institutional perspective, allowed me broader flexibility to analyse and interpret the qualitative data. Similarly, the use of mixed methods allowed for a wider and deeper interpretation of the whole data analysed than either research method (e.g., quantitative or qualitative) could do separately. A concluding observation is that a researcher should maintain an open mind when selecting one or more research theory and/or methodology if this proves to be beneficial in terms of providing more flexibility and insight to data analyses.

One of the challenges I faced in undertaking this study is the close relationship that I have with many of the interviewees since these are either friends or ex-colleagues, given my previous employment background with this sector for more than 25 years. I tried to conduct this study in a manner in line with conventional codes and ethics of scholarly research. A notable issue regarding data analysis for the qualitative study is that I relied on personal judgement to rate respondents' feedback on the five primary interview questions using the Likert scale for the reliability test. As with all self-judgement rating tests, there is always a possibility of bias affecting this type of exercise.

The undertaking of the pilot survey was an important step to execute the primary survey successfully, and was essential in terms of validating the questionnaire and ensuring that it is within the acceptable range of reliability. The participation of 25 participants from Generalist 2 in the primary survey fell short of the study target number of 35, and, therefore, must be regarded as one of the limitations of this study.

The use of the Organizational Culture Profile (OCP) test not only provided me with an additional dimension to analyse respondents' feedback in the semi-structured interview, but also showed that these cultural values are applicable to contexts other than the one for which it was developed (e.g. the US market). Meanwhile, administering the OCP proved a challenging task from an administration and technical standpoint. Only 23 of 27 interviewees accepted to take this test. This is because the test was administered immediately after the interview session; the interviewees who did not take this test felt it was time consuming and hence elected to pass on this exercise. Also, analysing 61 "value statements" based on the feedback of 23 participants proved to be a lengthy process as this entails feeding and consequently analysing the output data from the statistical software SPSS. Nevertheless, this exercise was a learning curve and rewarding experience for me. Moreover, there is inconsistency between the five cultural values identified by the best-performing banks of Generalists 1 and 2 and the OCP results. Data analyses from the OCP test showed that four of the five cultural values identified in this study (Clarity of Vision and Strategy, Corporate Governance, Innovativeness and Meritocracy) were not highly rated by the OCP test. This discrepancy seems to be logical because while the five organizational values were important to the best-performing banks, the same values were not highly rated by the OCP test with the exception of Customer Orientation. This implies that the majority of respondents, mainly represented by Class B and C, did not rate the remaining four values to be most reflective of their institutions.

Although the Islamic banks who participated in this study may have their own cultural values such as strict dress code and being socially responsible, a number of these institutions also share the same cultural values identified in this study (e. g. Corporate Governance, Clarity of Vision and Strategy, and Customer Orientation).

Two notable similarities of cultural values exist between the cultural values identified in this study and the finding of other studies: (a) Gordon and DiTomo (1992) identified Clarity

of Strategy/Shared Goals, Innovation/Risk-taking, and Fairness of Rewards, in their study of 11 US insurance companies; (b) Deshpande et al. (1993) identified Innovativeness and Customer Orientation in their study of 50 Japanese vendors. Also, study results showed the importance of an entrepreneurial environment as a strategic choice for financial institutions, and implied a positive relationship between Innovativeness and financial performance which is consistent with the findings of others in the field (e.g., Deshpande et al., 1993; Lee & Yu, 2004).

Finally, the scope of this study focused on the internal culture values that affect a financial institution's performance and did not cover other contextual forces that might also impact corporate culture. To name a few, banking regulation and business environment are two factors that had a significant impact on the behaviour of financial institutions, especially in the aftermath of the 2008 financial crisis. These two subjects are a suggested avenue for future research, in addition to other avenues as mentioned in Section 7.6 Future Research.

7.2 Conclusion

Much of the literature relevant to this study emphasises the relationship between cultural values and organizational performance (Calori & Sarnin, 1991; Chatman & Jehn, 1994; Denison & Mishra, 1995; Gordon & DiTomaso, 1992; Kotter & Heskett, 1992; Lee & Yu, 2004; Sorensen, 2002; Yilmaz & Ergun, 2008). I have taken a similar philosophical approach in this study, but I used an integrated framework based on institutional theory and organizational ecology to analyse and interpret the data. Also, I focused more on the financial industry's specific requirements and needs when measuring the financial performance of the participating financial institutions.

The "institutional ecology" integrated framework I applied in this study to analyse qualitative data and test the research hypotheses was introduced in the 1990s by a group of scholars at Stanford University; these include Ruef (2010) (cited in Baum & Oliver, 1996) and Scott et al. (2000). Ruef (2010) argues that the cross-fertilization of organizational theories has yielded a new paradigm for analyzing and examining organizational studies, and predicts that this approach will continue to grow in popularity.

In the first phase of this study, I collected raw data from 27 interviewees. This qualitative data was later subjected to analytical and refinement processes using content analysis

and deductive coding. I also examined the two best-performing banks in terms of key financial ratios. In this context, five organizational values emerged from the two banks, which I later tested for reliability and validity. In the second phase, the corporate values that emerged were used to create a questionnaire that was administered to 74 participants to obtain feedback on these organizational values. Finally, feedback from the 74 managers who participated in the primary survey was tested using the NOI and ROAE of the two banks by employing descriptive statistical and regression analysis.

The descriptive statistical findings show a pattern of consistent and positive correlations among each of the five corporate values. This suggests that these cultural values are clear and strategically vital for the success of these two institutions.

The regression analyses imply a positive relationship between the two generalists' NOIs and Innovativeness and Corporate Governance. Conversely, Innovativeness, Corporate Governance, and Customer Orientation were found to be negatively related to ROAE. This implies that any investment the bank makes is regarded as a cash outflow and would then have a negative return on shareholders' value.

The study findings reveal the importance of the entrepreneurial environment and innovativeness as a strategic choice for all financial institutions. Study methodology model is summarized in **Figure 7.1** below.

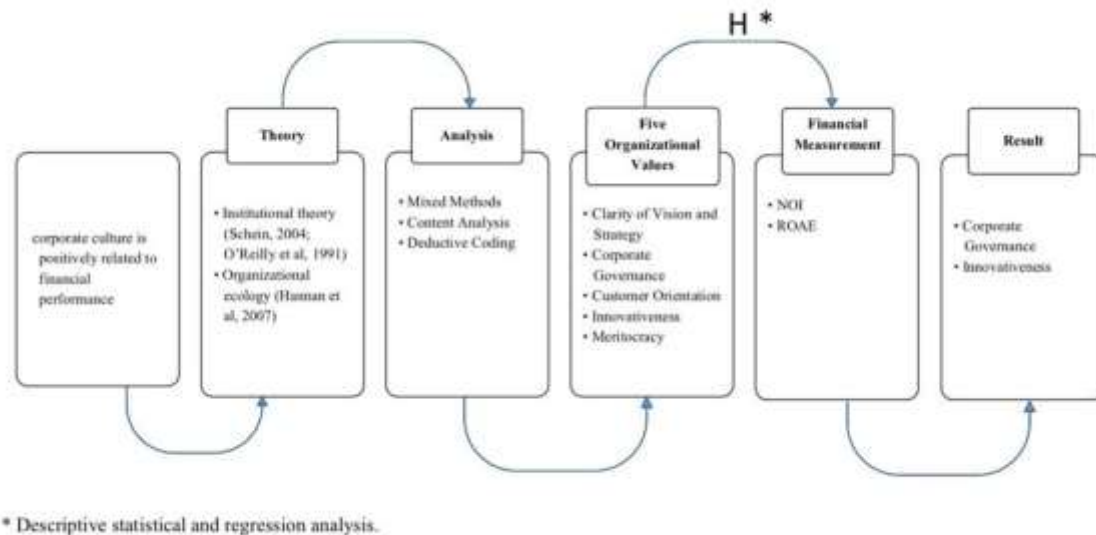


Figure 7.1 – Study Methodology Model

7.3 Implications for the Bahrain Economic and Banking Sector

The study results have a number of implications for Bahrain’s economic and banking sector, as outlined below:

1. The study findings reveal the strategic importance of the five cultural values, not only to the two best-performing banks but also to the majority of the participating institutions (both conventional and Islamic). Moreover, two of the identified cultural values in this study (Innovativeness and Customer Orientation) were clearly emphasised by both Mr. Rasheed Al-Maraj, Governor of the Central Bank of Bahrain, and Mr. Hussain Qemzi, CEO of Noor Bank, at the outset of **Chapter 1**. Both gentlemen stressed the need to improve on these two cultural values if Islamic banks are to remain competitive in the prevailing banking environment.
2. The Islamic finance industry is not only strategically important for the Kingdom of Bahrain, but also provides significant economic contribution to its GDP. As such, investing in this industry’s infrastructure and regulatory framework is important to enhance Bahrain’s

economic prosperity as well as position the country as one of the premier Islamic finance centres in the world. Bahrain is already a hub for a number of organizations such as AAOIFI, LMC, IIFM and IIRA, and more similar institutions are needed in the future to strengthen the industry base.

3. The study implies that the majority of Islamic banks and a number of conventional banks need to improve in the area of risk management. This improvement can be achieved by expanding and strengthening the role of the risk management committee in order to monitor the banks' assets and liabilities more effectively.
4. The study also implies the non-sustainability of the hybrid model in Islamic banks. Banks that adopted this strategy were exposed to higher volatility in their profitability than other participating banks, because of the higher holding of real estate investments on their balance sheets. Hybrid institutions need to alter their business model by concentrating more on sustainable core business opportunities. The regulator also needs to impose a cap on all financial institutions that invest heavily in real estate assets. Such a limitation is necessary to reduce the volatility trend in banks' year-to-year profitability.
5. The study reveals the importance of establishing an independent body to provide faster verdicts on Shari'ah conformity and assists in standardizing the products offered by Islamic banks (Chapra, 2008; Karbhari et al., 2004). One product that needs immediate standardization is the Murabaha agreement among Islamic banks. Standardizing this product will not only ensure faster, but also higher trading volumes among financial institutions.
6. Only one senior female out of 27 interviewees participated in the semi-structured interview study and only eighteen females out of 74 participants took part in the survey study. Although the overall female participation in this study is not necessarily a true reflection of their workforce percentage in the overall banking industry, it appears that only a few women occupy executive positions in the Bahraini banking sector. Enabling more talented

women to take more executive roles in the banking industry is essential to realize their full potential and contribution to this sector and to society at large

7.4 Recommendations

This study makes a number of contributions to our understanding of a positive corporate culture, along with theoretical and practical contributions to our understanding of the effect of culture on a financial institution's performance.

Theoretical Contributions

1. The study examines the importance of the five evolved cultural values to both conventional and Islamic financial institutions, as well as whether they differ by type of financial institution and how these results compare with similar studies in other countries. Two notable similarities exist between the cultural values identified in this study and the findings of other studies: (a) Gordon & DiTomo (1992) identified Clarity of Strategy/Shared Goals, Innovation/Risk-taking, and Fairness of Rewards in their study of 11 US insurance companies; (b) Deshpande et al. (1993) identified Innovativeness and Customer Orientation in their study of 50 Japanese vendors.
2. Results from the study imply a positive relationship between Innovativeness and financial performance, which is consistent with the findings of others in the field (e.g., Deshpande et al., 1993; Lee & Yu, 2004). Conversely, there is a negative relationship between ROAE and Innovativeness, Corporate Governance, and Customer Orientation.
3. I expanded the Organizational Culture Profile (OCP) (O'Reilly et al., 1991) by adding Clarity of Vision and Strategy, Corporate Governance, and Customer Orientation as cultural profiles to the original 54 cultural profiles; this demonstrates that the OCP is applicable to contexts other than those originally studied in the US.
4. I used the integrated framework of institutional ecology to analyse data and test the notion that corporate culture is a vital part of a financial organization's effectiveness.

This demonstrates the validity of this approach, as well as the theories that are associated with institutional ecology.

Practical Contributions

1. Study findings show that the best-performing banks, as measured by net operating income and return on average equity over a period of 10 years, were two conventional banks. This implies that Islamic banks' profitability was lower than that of conventional banks during this period.
2. Study results imply that the majority of Islamic banks that participated in the research need to improve their organizational infrastructure, especially in the areas of risk management and product innovation.
3. The study implies the non-sustainability of the hybrid model in Islamic banks; some of the financial institutions that advocated this type of model have experienced more financial turbulence than other segments of the population (e.g., retail).
4. Preservation of the original corporate culture appears to be important for the sustainability of business in general. Study results show that financial institutions that preserved their original corporate culture performed better than those that did not, either as a result of a change in CEO or business strategy.
5. The study of corporate culture in financial institutions in general and Islamic banking in particular has been limited in the management/economic literature. This is the first study in Bahrain to address this important topic.

7.5 Strengths and Limitations

This study has a number of strengths that can be summarized as follows. (1) This was a field study, in which I concentrated on current employees in the financial sector in Bahrain. The executives and senior managers I interviewed were at least partly responsible for setting and implementing their banks' business strategies. The five organizational values found to be important for Generalist 1 and 2, and implied a positive effect on their financial performances.

(2) The use of mixed methods allowed for a broader interpretation of the data analyzed than either research method (i.e., quantitative or qualitative) could do separately. (3) The use of data covering a 10-year period allowed for more depth and insight regarding cultural dynamics in Generalist 1 and 2 institutions.

The study has several limitations. (1) Because the sample consisted of only 11 financial institutions, the study could be viewed as narrow in terms of scope. Nevertheless, this research should be viewed as exploratory; further research is recommended to generalize study findings to a larger sample size. (2) Only 25 employees from Generalist 2 participated in the primary survey, because the bank asserted that only qualified managers could provide valuable feedback on the questionnaire. (3) Study participants were limited to employees on the executive, senior, and middle-management level. A more cross-sectional study of organizational employees would have been preferable if that had been possible. (4) The study plan necessitated the participation of three interviewees from each organization; however, for logistical reasons, some institutions were not able to supply three participants. (5) The transcribed interviews provided a rich material to develop an inductive grounded theory based narrative analysis of this study should I opt in the future to use this theory to interpret the qualitative data. (6) I collected data covering a 10-year period for the majority of the participating institutions, but because the remaining institution had not completed 10 years of banking operations, the supply of such financial records was not possible.

7.6 Future Research

Culture plays significant and varying roles in different organizations, and therefore no single study can capture all levels and dimensions of organizational culture (Sackmann, 2011). Therefore, a researcher should be clear and precise about his or her study aim, parameters, financial measurement, data collection, and applied research methods.

Three avenues are suggested for future research. The first is to replicate this study using a larger sample population and with more geographic reach. It would be interesting to see whether the cultural values that emerge are shared among different employees in different financial institutions. The second would be to examine the role business strategy plays in influencing corporate culture; for instance, Schwartz and Davis (1981) argue that corporate

culture can be more effective if aligned with business strategy. It would be worthwhile to conduct a study that treats business strategy as a mediator, with cultural values as independent variables and financial measurements as dependent variables. The third avenue relates to the influence and effect of leadership on corporate culture; in this case, leadership traits can be viewed as either independent or dependent variables.

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APPENDIX EXHIBIT A1.1 - ECONOMIC GROWTH IN THE GCC

YEAR (2001-2009)	1	2	3	4	5	6	7	8	9
(Amount in US\$)									
(Population in millions)									
Gulf States Economic Structure									
Bah Nominal GDP	7,929	8,448	9,579	10,303	13,004	15,852	18,472	22,157	19,319
Population	0.68	0.70	0.71	0.73	0.74	1.00	1.00	1.10	1.10
GDP per head	11,660	12,070	13,490	14,170	17,480	23,344	24,069	24,599	25,552
Kuwait Nominal GDP	34,062	38,122	46,202	55,718	72,452	101,550	114,627	148,013	109,482
Population	2.31	2.42	2.55	2.75	2.86	3.20	3.40	3.40	3.50
GDP per head	14,750	15,760	18,150	20,240	25,310	37,729	37,952	41,706	39,630
Qatar Nominal GDP	17,741	19,707	23,604	28,451	36,588	60,497	80,751	100,407	96,800
Population	0.60	0.62	0.64	0.74	0.80	1.10	1.30	1.60	1.60
GDP per head	29,720	31,890	37,110	38,290	46,410	58,367	59,775	58,747	61,832
KSA Nominal GDP	183,016	188,552	214,573	250,557	301,734	356,630	384,942	476,305	375,766
Population	22.10	22.70	23.33	23.95	24.60	24.00	24.70	25.50	26.30
GDP per head	8,200	8,310	9,200	10,460	12,270	21,817	22,212	22,935	22,574
UAE Nominal GDP	69,227	74,297	87,599	103,120	117,806	175,222	206,406	254,394	248,925
Population	3.49	3.75	4.04	4.32	4.67	5.30	5.90	6.80	6.50
GDP per head	29,720	31,890	37,110	38,290	40,000	28,715	27,884	26,848	27,330

Sources: Economic Structure of the Gulf States (excluding Oman), Economic Intelligence Unit (Dec. 2010)

APPENDIX EXHIBIT A2.1 - UPDATE OF RELEVANT STUDIES ON CULTURE-PERFORMANCE (1982-2008)

Researchers and Origin of Study	Year	Defined Cultural Dimensions	Sector & Research Methodology
1. Peters and Waterman, USA	1982	Customer orientation, autonomy, entrepreneurship, motivation and “shared value”	Diversified, case study – no empirical analysis
2. Denison, USA	1984	Set of values and beliefs – core of organization culture, reinforced by practices	Diversified, qualitative and quantitative (“mixed methods”)
3. Calori and Sarnin, France	1991	Values and management practices	Single business, case study (quantitative approach)
4. Gordon and DiTomaso, USA	1992	Adaptability as a value and culture strength	Insurance sector, case study (quantitative)
5. Kotter and Heskett, USA	1992	Customers, employees and stakeholders’ orientation	Diversified, quantitative approach
6. Deshpande, Farley & Webster, Japan	1993	Customer orientation, innovativeness, and corporate culture (market strategy)	Diversified, mixed methods
7. Denison and Mishra, USA	1995	Involvement, consistency, adaptability, and mission	Diversified, case study followed by mixed methods
8. Gagnon and Xuereb, USA	1997	Customer, competitive and technological orientation	Diversified, quantitative approach
9. Christensen and Gordon, USA	1999	Widespread cultures that are industry specific	Diversified, mixed methods
10. Ogbonna and Harris, UK	2000	Assumptions, values and artifacts that are commonly shared in an organization	Diversified, case study (quantitative approach)
11. Sorensen, USA	2002	Coordination and control, goal alignment of members and employee effort	Diversified, quantitative method
12. Fey and Denison, Russia	2003	Denison and Mishra’s four cultural traits	Diversified, mixed methods in tandem
13. Lee and Yu, Singapore	2004	Innovation, supportive, team oriented, humanistic and task orientation	Diversified, mixed methods analysis
14. Chow and Liu, China	2007	HR- organizational culture and business strategy fit	Diversified, mixed methods
15. Yilmaz and Ergun, Turkey	2008	Mission and involvement strategy	Diversified, quantitative approach

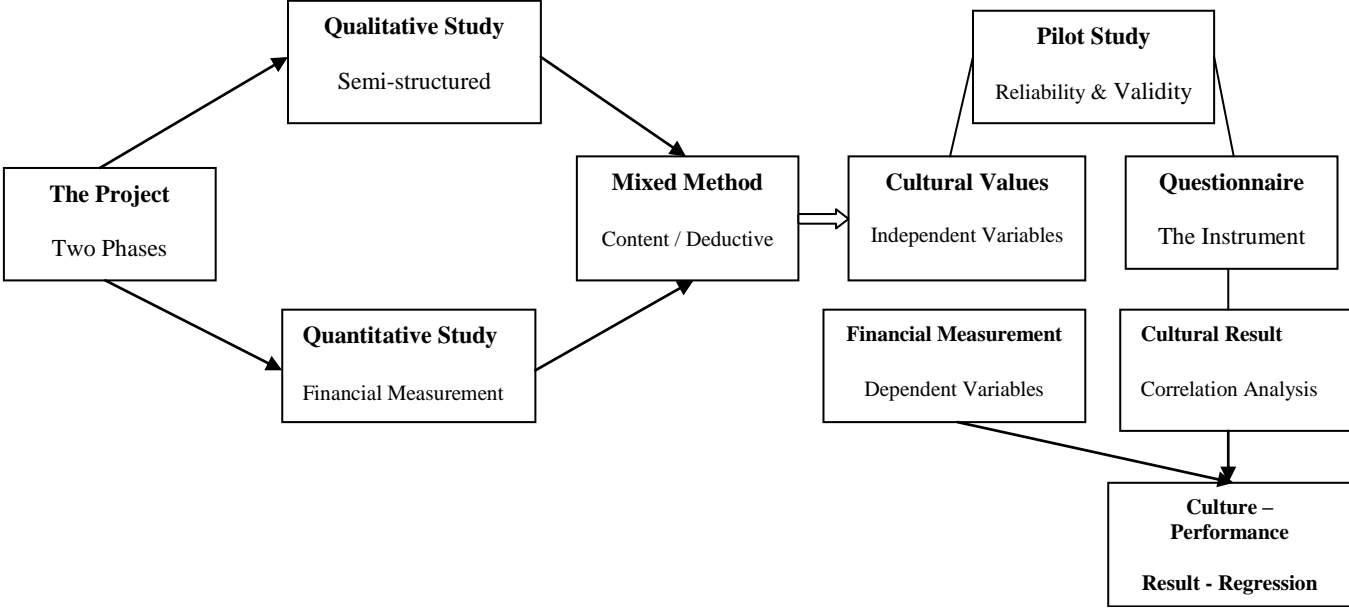
Source: Originally cited from (Weinzimmer et al., 2008) with major updates.

APPENDIX EXHIBIT A3.1 - ISLAMIC BANKING BASIC DEFINITIONS

Term	Explanation
<i>Amana</i> (Demand Deposits)	Deposits held at the bank for safekeeping purpose. They are guaranteed in capital value, and earn no return.
<i>Bay mu'ajal</i> (Pre-delivery, Deferred Payment)	The seller can sell a product on the basis of a deferred payment, in installments or in a lump sum. The price of the product is agreed upon between the buyer and the seller at time of the sale, and cannot include charges for deferring payment.
<i>Bay salam</i> (Pre-payment, Deferred Delivery)	The buyer pays the seller the full negotiated price of a product that the seller promises to deliver at a future date.
<i>Ijara</i> (Instant Delivery, Deferred Payment)	A party leases a particular product for a specific sum and a specific time period. In the case of a lease purchase, each payment includes a portion that goes toward the final purchase and transfer of ownership of the product.
<i>Istisna</i> (Deferred Payment, Deferred Delivery)	A manufacturer (contractor) agrees to produce (build) and to deliver a certain good (or premise) at a given price on a given date in the future. The price does not have to be paid in advance (in contrast to <i>bay salam</i>). It may be paid in installments or part may be paid in advance with the balance to be paid later on, based on the preferences of the parties.
<i>Kifala</i> (Pledge)	It is a pledge given to a creditor that the debtor will pay the debt, fine or liability. A third party becomes surety for the payment of the debt if unpaid by the person originally liable.
<i>Mudaraba</i> (Trustee Finance Contract)	Rabb-ul-mal (capital's owner) provides the entire capital needed to finance a project while the entrepreneur offers his labour and expertise. Profits are shared between them at a certain fixed ratio, whereas financial losses are exclusively borne by rabb-ul-mal. The liability of the entrepreneur is usually limited only to his time and effort.
<i>Murabaha</i> (Instant Finance, Deferred Payment)	Sale of goods with an agreed-upon profit mark-up on the cost. The Islamic bank typically purchases the goods against the customer's promise to repurchase the item from the institution based on deferred payment terms.
<i>Musharaka</i> (Equity Participation)	The bank enters into an equity partnership agreement with one or more partners to jointly finance an investment project. Profits (and losses) are shared strictly in relation to the respective capital contributions.
<i>Qard Hassana</i> (Beneficence Loans)	These are zero-return loans that the Qur'an encourages Muslims to make to the needy. Banks are allowed to charge borrowers a service fee to cover the administrative expenses of handling the loan. The fee should not be related to the loan amount or maturity.

Sources: Archer and Karim (2002); Hassan, & Dridi (2010)

APPENDIX EXHIBIT A4.1 - RESEARCH DESIGN & METHODOLOGY



APPENDIX EXHIBIT A4.2 - QUALITATIVE STUDY QUESTIONS

1. What are the key challenging issues that conventional/Islamic banks face today?
2. What are the reasons for the sustained financial success of certain retail/investment and conventional/Islamic banks over the years?
3. What are the main factors that can assist a bank to execute its business plan more effectively?
4. How strong is the alignment between the institution business plan/strategy and its corporate culture? Can you elaborate?
5. Are there specific ways of doing things, traditions, vocabulary, artifacts, rites and rituals in your organization?

APPENDIX EXHIBIT A4.3 - ORGANIZATIONAL CULTURE PROFILE (OCP)

1	Flexibility	31	Achievement Oriented
2	Adaptability to External Environment	32	Being Demanding
3	Predictability	33	Taking Individual Responsibility
4	Innovative	34	Having High Expectation for Performance
5	Opportunistic	35	Emphasising Growth Strategy
6	A Willingness to Experiment	36	Performance-related Pay (Meritocracy)
7	Risk Taking	37	Job Security
8	Being Careful	38	Offers Praise for High Performance
9	Autonomy	39	Low Level of Conflict
10	Being Rule Oriented	40	Confronting Conflicts Directly
11	Being Analytical	41	Friendly Environment
12	Paying Attention to Detail	42	Cultural Fit
13	Being Precise	43	Teamwork
14	Team Oriented	44	Emphasising Motivation
15	Sharing Information Freely	45	Working for Long Hours
16	Emphasising a Single Culture Throughout the Organization	46	Not Constrained by Many Rules
17	Being Employee Oriented	47	Quality Orientation
18	Fairness	48	Being Distinctive from Others
19	Respect for Individual Rights	49	Having a Good Reputation
20	Tolerance	50	Being Socially Responsible
21	Informality	51	Being Results Oriented
22	Easy-going	52	Having a Clear Vision and Strategy
23	Being Calm	53	Being Competitive
24	Being Supportive	54	Being Highly Organized
25	Being Aggressive	55	Follower
26	Stability	56	Customer Orientation
27	Decisiveness	57	Passion
28	Action Oriented	58	Strict Dress Code
29	Taking Initiative	59	Delegation
30	Being Reflective	60	Corporate Governance
		61	Open Door Policy

APPENDIX EXHIBIT A4.4 - CODING MANUAL

- ACCT** **International & Regional Accounting Reporting Bodies:** Disclosure of accounting reporting for financial institutions as per the guidelines set by international regulatory bodies such as the International Financial Reporting Standards (IFRS) and regional organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- BUS** **Business Strategy:** A coordinated set of business action programmes intended to secure a long-term sustainable business advantage (Hax & Majluf, 1991).
- CHAL** **Key Challenging Issues:** A set of challenging factors that could impede the growth of business. These could be economic, political, regulatory, or others.
- COMP** **Regulators and Shari’ah Compliance:** Compliance of all transactions and services with regulatory and Shari’ah guidelines.
- CORP CUL** **Corporate Culture: Consists of three broad categories which are observable artifacts, basic assumptions, and espoused values (Schein, 2004).** Also, includes a list of 54 ‘value statements’ from the Organizational Culture Profile (OCP) originally developed by O’Reilly et al. (1991). The list was further expanded to 61 values based on feedback received from the 23 interviewees in the study.
- CORP GOV** **Corporate Governance:** The relationship between the company’s management and its board, shareholders, and other stakeholders. This relationship is based on creating a clear framework within which objectives of a company are established, then monitoring those objectives through the company’s performance on a regular basis (Clarke, 2007).
- DOCTR** **Doctrine:** Organized systems of beliefs or knowledge. Includes all formal belief systems (Christianity, Islam, and others) as well as bodies of knowledge (e.g. Islamic banking; Weber, 1990).

- ECO** **Economic:** All words that relate to economic, commercial, and industrial matters. Includes all economic roles, acts, and symbols (Weber, 1990).
- GEN** **Generalist:** A population type that relies on a wide range of environmental resources to survive. An organizational generalist can be a daily newspaper or mainstream bank. For the purpose of this study, I define a mainstream retail bank as a Generalist (Carroll, 1985).
- HYBR** **Islamic Hybrid Model:** An Islamic Generalist that also engages in investment banking activities, such as real estate.
- LEAD** **Leadership Role:** The ability to attain organizational goals and induce compliance and change (Bass, 2008).
- MKT PSY** **Market Psychology:** This includes market behaviours, phenomena, and sentiment.
- POP** **Population:** The population that is associated with the audience segment's category or label. This would include customers, regulators, stakeholders, and others (Hannan et al., 2007).
- SPEC** **Specialist:** In contrast to the Generalist, a Specialist institution focuses on a narrow market range. For the purposes of this study, I define an investment bank as a Specialist (Carroll, 1985).

APPENDIX EXHIBIT A4.5 – RELIABILITY TEST

RELIABILITY

/VARIABLES=Q1 Q2 Q3 Q4 Q5

/SCALE ('ALL VARIABLES') ALL

/MODEL=ALPHA

/STATISTICS=DESCRIPTIVE CORR

/SUMMARY=MEANS CORR.

Reliability

Notes

Output Created		28-Oct-2014 06:49:30
Comments		
Input	Data	C:\Users\Sony\Documents\OCP Excel Sheet rating.Final.sav
	Active Dataset	DataSet1
	Filter	<none>
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	Matrix Input	
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on all cases with valid data for all variables in the procedure.
Syntax		RELIABILITY /VARIABLES=Q1 Q2 Q3 Q4 Q5 /SCALE('ALL VARIABLES') ALL /MODEL=ALPHA /STATISTICS=DESCRIPTIVE CORR /SUMMARY=MEANS CORR.
Resources	Processor Time	00 00:00:00.015
	Elapsed Time	00 00:00:00.016

[DataSet1] C:\Users\Sony\Documents\OCP Excel Sheet rating.Final.sav

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	26	96.3
	Excluded ^a	1	3.7
	Total	27	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.822	0.832	5

Item Statistics

	Mean	Std. Deviation	N
Q1	4.46	0.811	26
Q2	4.19	0.801	26
Q3	4.31	0.838	26
Q4	4.27	0.604	26
Q5	4.46	0.582	26

Inter-Item Correlation Matrix

	Q1	Q2	Q3	Q4	Q5
Q1	1.000	0.412	0.548	0.389	0.463
Q2	0.412	1.000	0.564	0.633	0.489
Q3	0.548	0.564	1.000	0.304	0.518
Q4	0.389	0.633	0.304	1.000	0.657
Q5	0.463	0.489	0.518	0.657	1.000

Summary Item Statistics

	Mean	Minimum	Maximum	Range	Maximum / Minimum
Item Means	4.338	4.192	4.462	0.269	1.064
Inter-Item Correlations	0.498	0.304	0.657	0.353	2.160

Summary Item Statistics

	Variance	N of Items
Item Means	0.014	5
Inter-Item Correlations	0.011	5

APPENDIX EXHIBIT A4.6 - PRIMARY SURVEY RELIABILITY TEST

	Cronbach's Alpha Based on	
Cronbach's Alpha	Standardized Items	N of Items
0.939	0.939	28

Item Statistics

	Mean	Std. Deviation	N
Your organization comes up with new creative ideas relating to financial products and services	3.7887	0.75433	71
Your organization fosters an innovative environment where staff members are encouraged to generate new ideas	3.7887	0.98439	71
Your organization pays attention to new products/services offered by its competitors	4.1831	0.63942	71
Your organization considers innovativeness as a strategic choice	3.9155	0.89037	71
Your organization is a dynamic and entrepreneurial place	3.7746	0.86515	71
Your organization fosters a sense of competitiveness where members are expected to perform at high level of achievements	4.1972	0.68909	71
The organization emphasises competitive actions and achievements with measurable goals and objectives	4.1831	0.78029	71
Your organization hires individuals with distinguished academic/ professional degrees and with high personal expectations	4.0282	0.79232	71
Your organizational reward system is primarily tied to individual performance	3.7324	0.94048	71
Your organization clearly articulates its vision and mission to all levels of the company	3.9718	0.77408	71
A successful implementation of your organizational business strategy will enhance its financial results	4.4930	0.60647	71
Your organizational vision creates excitement and motivation for its employees	3.5915	0.82076	71

Your organization business strategy is well thought out and is based on realistic goals	3.9296	0.83365	71
Your organization business strategy is based on a balance between ambitions and available resources	3.8310	0.79257	71
Your organization clearly defines the internal process perspective measures (i.e. risk management, internal audit committee, procedures & policies and others)	4.3099	0.74817	71
Your organization strives to comply with domestic regulatory directives	4.6761	0.58002	71
Your organization considers the completion of Know Your Customer (KYC) format as a key part of business compliance before entertaining new business with prospective customers	4.5493	0.73268	71
Independent board members at your organization provide a neutral element among other members	3.8028	0.87210	71
Your organization considers the transparency issue as an important element in building and maintaining credibility with the various stakeholders	4.2394	0.85297	71
Your organization is more customer focused than your competitors	4.0141	0.85345	71
Your customers' needs are treated with priority	4.2254	0.75965	71
Your organization understands how the entire business can thrive through creating customer value	4.1127	0.80266	71
Customers' feedback is treated with respect and with careful thoughts	4.0000	0.79282	71
Your organization considers customers' interests as very important, and a key element in sustaining present and future business	4.1972	0.80391	71
Sa3r1	3.9718	1.02778	71
Sb5r1	4.0000	0.92582	71
Sd4r1	4.0563	0.92408	71
Se6r1	4.1549	0.92037	71

APPENDIX EXHIBIT A5.1 - SUPPLEMENTARY ANALYSIS

(refer to Appendix Exhibit A4.2 – Qualitative Study Questions)

Conventional Generalist 1

Financial Highlights - Amount in US\$ millions

Highlight	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Operating Income	123.4	138.0	144.4	168.9	212.8	280.1	218.9	232.5	272.6	273.9
Net Income	62.0	68.3	77.9	87.2	79.5	71.8	93.1	104.0	84.8	113.0
ROAE%	19.4	18.2	17.7	18.2	14.1	12.1	15.9	16.6	13.3	16.1
CAR	16.7	18.8	19.6	16.2	23.3	20.1	17.5	18.6	14.9	14.3

Source: Zawya Financial Services

Financial Interpretation

The bank was able to deliver consistent and steady performance, as measured by ROAE, with an overall average of 16.2% over the past 10 years. Average CAR stood at 18% (minimum required 12%), although this ratio showed a decline in the past two years. Average Operating Income and Net Income have been growing annually at rates of 10.4% and 19%, respectively, indicating sustainable performance over the past 10 years.

In view of the above, the bank is ranked Class A.

Data Interpretation

The following is based on the feedback of three interviewees. One is the CEO and the others are senior managers. Complete profiles on all three interviewees are provided in Appendix **Exhibit A5.2**.

Dimension 1

According to Respondent 6, the key challenge is ‘basically to safeguard the quality of its assets on one hand, and on the other is to continue business activity’.

The key challenging factor is the ‘adverse economic conditions’^{6,8} and the second is ‘the increase in regulatory influence’^{7,8}.

Dimension 2

Respondent 6 said, ‘I think the most important reason for the sustained financial success in the conventional banks is the cheaper source of funding, and that is the customer deposits’.

The most important factor is ‘the access to low cost of funding’⁶ and the second is ‘adapting to external environment’⁸.

Dimension 3

Respondent 6 stated, ‘The most important factor, I would say, is to have a clearly set strategy, especially in difficult times’.

Respondent 7 stated, ‘First defining what is the strategy, and what is your plan’.

The most important factor is ‘clarity of strategy’^{6,7} and the second is ‘adequate risk management policy’⁸.

The bank is adopting a bottom-up approach when preparing its business plan.

Dimension 4

Respondents emphasised the important role of internal procedures, corporate governance, and leadership in reinforcing its corporate culture. Also, there is a tradition of preserving the original culture of the organization. Respondent 7 stated, ‘The performance of any organization has a lot to do with the internal culture as well as proper leadership, reading of the market and proper risk management, understanding your risk, transparency with everybody, including your customers, shareholders, and regulator’.

Respondent 6 stated, ‘Because the corporate culture and corporate governance was so strong and strict in our bank, we have managed to stay away from many problems. You know that our bank has for the second time won the corporate governance award in the entire GCC. Our corporate culture is supervised by the corporate governance in the bank’.

Respondent 6 stated that this corporate culture started with previous CEOs and their leadership. He said, ‘Luckily our bank has gone through a number of leaders who had a strong and positive culture that has been implanted in the majority of the staff and they sort of gained or accepted that culture’.

Respondents from the bank described the relationship between the business plan/strategy and its corporate culture as ‘very strong’.

Dimension 5

1. Corporate Governance^{6,7}; 2. Innovativeness^{7,8} 3. Clarity of Vision and Strategy^{6,7} 4. Customer Orientation^{6,7,8}.

Conventional Generalist 2

Financial Highlights - Amount in US\$ millions

Highlight	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Operating Income	172.5	198.2	291.0	461.2	579.8	758.9	697.5	703.1	785.4	831.3
Net Income	87.1	106.5	189.8	257.8	359.8	309.7	226.1	292.2	335.8	377.7
ROAE%	10.5	11.4	14.5	15.0	16.1	12.3	9.1	11.0	11.9	12.4
CAR	20.6	23.7	16.4	14.8	16.3	13.8	15.1	14.1	16.0	15.6

Source: Zawya Financial Services

Financial Interpretation

The bank has been delivering a consistent performance, as measured by the ROAE (range 10% -16%), with an overall average of 12.4% for the last 10 years. Meanwhile, the CAR stood at a satisfactory level of 15.6% at the end of 2012. Average Operating Income and Net Income have been growing at rates of 20.7% and 21.3%, respectively, over a 10-year period, demonstrating a strong financial performance. As such, the bank is ranked Class A.

Data Interpretation

The following is based on the feedback of two interviewees, the CEO and a senior manager. Complete profiles on the two interviewees are provided in Appendix **Exhibit A5.2**.

Dimension 1

Respondent 23 provided examples of the challenging corporate governance issues: 'BoD that do not represent the shareholding structure of the business, that are overweight, certain minority shareholders that have disproportionate influence on the board, extended longevity of directors, and absence of external pressure from other shareholders to force the board to look at developing the value of business'.

The key challenging factor is 'corporate governance'²³ and the second is 'adverse in economic conditions'²⁴.

Dimension 2

Respondent 23 stressed the importance of clarity of vision and its definition. He said, 'If they have clarity then banks used good times to develop two or three lines of business. And if they have selected well, then they would be strong enough to resist when the problems arise. There is a saying that you are a jack of all trades but a master of none'.

Respondent 24 stated, 'We were able to adopt a clear strategy and that has helped us weather this particular storm'.

The most important factor is 'clarity of vision and strategy', and the second is the 'stability of the shareholders' and management relationships'²³.

Dimension 3

Again, clarity of vision and business strategy/plan, and alignment of remuneration with goals (meritocracy). Respondent 23 stated, 'We see our vision as our main strength; our strength is not our size. This has been crystal clear and we put it in our website. We defined our strategy to be growth by acquisition - buying investments, and then making them work together as one bank'.

The most important factor is ‘clarity of the vision and business strategy’²³ and the second is ‘attention to details’²³.

The bank uses a top-bottom approach to craft its business plan. The senior management agrees with the BoD, then relays it down to the middle-management level and beyond.

Dimension 4

Respondents from the bank stressed the importance of hard work, quality, meritocracy, clear strategy, and internal communication and integration among units to achieve their desired goal. Respondent 23 stated, ‘Our bank is greenfield and 10 years old. We work hard, we are a meritocracy and we have no preferences for people based on religion, sex, nationality, and we align the remuneration to goals. We are very keen on communication and integrating people across the organization’.

Respondents from the bank described the relationship between the business plan/strategy and its corporate culture as ‘very strong’.

Dimension 5

1. Clarity of vision and strategy^{23, 24}, 2. Meritocracy^{23, 24}, 3. Customer orientation²⁴, 4. Internal communication and integration²³.

Conventional Generalist 3

Financial Highlights - Amount in US\$ millions

Highlight	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Operating Income	n.a.	n.a.	17.0	19.2	14.5	-3.6	-14.0	-26.6	-4.0	0.60
Net Income	n.a.	n.a.	10.9	13.6	13.0	-8.0	-45.0	-70.5	-9.0	1.3
ROAE%	n.a.	n.a.	17.0	19.2	14.5	-3.6	-14.0	-26.6	-4.0	0.60
CAR	n.a.	n.a.	13.1	13.9	13.1	20.3	21.8	19.7	19.4	18.4

Source: Zawya Financial Services

Financial Interpretation

The bank has been posting inconsistent and rather poor financial performance since 2008. This is evidenced by the negative Net Income during the period 2008-2011. The bank has changed CEOs at least three times since 2005, and currently is embarking on a new strategy that focuses on local retail business instead of regional wholesale business (the previous strategy).

In view of the above, the bank is ranked Class C.

Data Interpretation

The following is based on the feedback of three interviewees. One is the CEO and the remaining two are senior managers. Complete profiles of the interviewees are provided in Appendix **Exhibit A5.2**.

Dimension 1

Respondent 9 stated, 'I think the main challenge is the market size, because it is a small market. There is saturation in the market because there are so many players in the market'.

Respondent 10 said, 'The main challenge we face in Bahrain is the number of conventional banks available on the island given the size of the population'.

The most challenging factor is 'market competition',^{9, 10} and the second is 'adverse economic conditions',¹⁰.

Dimension 2

Respondent 9 stated, 'I think this has to do with the credibility of the brand'.

The most important factor is the 'reputation of the brand,'⁹ and the second is the 'monopoly position',¹¹.

Dimension 3

Respondent 10 stated, 'The business plan is really about how you can expand your market share. Now the strategy has changed and we are focusing on the local market and trying to build up our brand name'.

Respondent 10 considers adopting ‘a clear strategy’^{10, 11} the most important factor, and ‘customer orientation’¹¹ the second most important.

The bank uses a ‘bottom-up’ approach when crafting its business model.

Dimension 4

Respondent 10 emphasises the importance of communication among staff and the need to build a brand name. Respondent 10 stated, ‘The situation here is different and we need to satisfy our internal customers through training them and trying to sell the idea of where the bank is now and where we are trying to reach’.

Respondent 9 said, ‘The culture is the main driver for us in gaining market share, building a brand, and being profitable, because without it, we cannot do it’.

This implies that the bank is in the process of modifying its original culture in light of the new management team and the change in the organization’s strategy.

Respondent 10 describes the relationship between the business plan/strategy and its corporate culture as ‘important’.

Dimension 5

1. Open-door policy^{9, 10}, 2. Reputation⁹, 3. Staff socialization¹⁰, 4. Customer orientation¹¹.

Islamic Generalist

Financial Highlights - Amount in US\$ millions

Highlight	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Operating Income	185.9	171.8	254.2	334.6	444.3	585.8	633.5	658.5	740.9	896.6
Net Income	39.3	54.1	102.9	123.7	200.8	201.0	167.4	193.2	212.3	235.2
ROAE%	8.1	10.2	15.4	12.5	14.4	12.9	10.1	10.9	11.8	12.5
CAR	n.a.	n.a.	n.a.	31.1	33.6	22.8	22.8	19.7	20.7	17.3

Source: Zawya Financial Services

Financial Interpretation

The bank has been delivering moderate but consistent performance as measured by the ROAE (overall average of 11.4%) over the past 10 years. CAR remained in a comfortable range of 17% at the end of 2012 (minimum 12%). Both Operating Income and Net Income have been growing at an average rate of 20.2% and 24.7%, respectively, over the past 10 years. The only year in which profitability declined was in 2009; after that it recovered well. The bank is regarded as a moderate performer, and therefore ranked as Class B.

Data Interpretation

The following is based on the feedback of three interviewees. One is the CEO and the other two are senior managers. Complete profiles of the three interviewees are provided in Appendix **Exhibit A5.2**.

Dimension 1

Respondent 13 said, 'The challenge which is facing the Islamic banks in the coming 5-10 years is Basel 3'. Meanwhile, Respondent 14 stated, 'You have the challenge of corporate governance, which is always one of the main issues. I believe that Islamic banks - which were started by individuals who felt that they had a mission to open this up, like Sheikh Saleh Kamil or Prince Mohamed Al Saud - these people created institutions, but then they have to draw back and give them the chance to be true institutions, and what that means is that they have to have good corporate governance'.

The key challenging factor is corporate governance^{13, 14}, and the second is to regain confidence in the banking sector in the aftermath of 2008 crisis¹⁴.

Dimension 2

Respondent 12 stated, 'The sustained financial success of some retail banks, the very fact that it is a retail bank in today's world is itself a success, provided they manage their risk properly. So, risk management is one of the key reasons for why banks can succeed or fail today'.

The most important factor is ‘corporate governance’^{12, 13}, and the second is ‘low cost of funds’¹⁴.

Dimension 3

Respondent 12 stated, ‘First, I would say, is a solid understanding of your existing business model. Second, you need to understand your markets very clearly. Even if you do predict, let me tell you the best predictions are 50%. Nobody can be accurate. If your decisions are 50% correct, you are brilliant’.

The most important factor is ‘clarity of your strategy and the market you are serving’¹².

The bank adopts a consensual approach between the BoD and management to prepare its business plan.

Dimension 4

Respondent 14 said that the bank always emphasises on having a clear strategy based on select customers’ segmentation. He stated, ‘From day one, from the beginning of this bank there was a clear strategy laid down, approved by the directors and my input as Risk Manager. We have some big clients, but our clients are either retail or SMEs who own small businesses and with whom we work closely. That culture and that customer base fits our culture, and therefore fits our business plan.’

Respondent 13 stated, ‘You cannot go and do business without believing in your culture or your philosophy’; implying the importance of the relationship between the business plan/strategy and its corporate culture.

Dimension 5

1. Corporate governance^{12, 13, 14}, 2. Social responsibility¹³, 3. Consensual culture¹², 4. Customer orientation¹⁴.

Hybrid 1

Financial Highlights - Amount in US\$ millions

Highlight	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Operating Income	n.a.	n.a.	n.a.	54.3	90.2	106.1	53.2	69.4	64.6	61.4
Net Income	n.a.	n.a.	n.a.	43.4	61.3	67.8	37.2	19.4	1.3	27.4
ROAE%	n.a.	n.a.	n.a.	15.1	17.0	14.8	7.5	3.6	0.3	5.0
CAR	n.a.	n.a.	n.a.	79.8	48.7	24.7	28.6	24.7	24.9	20.9

Source: Zawya Financial Services

Financial Interpretation

I do not have financial information prior to 2005, since the bank started its operations in late 2004. The bank's performance was strong, as measured by the ROAE (average return 15.6%) from 2006 to 2008. After that, the bank delivered inconsistent results (average return 4.1%) during the period 2009–2011 before bouncing back with net income of US\$ 27.4MM in 2012. CAR is maintained at a comfortable level (20.9% in 2012). The bank is focusing mainly on retail operations, but also engages in investment banking activities. Its current retail strategy revolves around growth through acquisitions. Based on the bank's overall financial performance, it is ranked Class B.

Data Interpretation

The following is based on the feedback of three interviewees. One is the CEO and the others are senior managers. Complete profiles of the three interviewees are provided in Appendix **Exhibit A5.2**.

Dimension 1

Respondent 17 stated, 'The biggest challenge is the deployment of funds - where I can invest my money.'

The key challenging factor is 'adverse economic conditions'^{17, 18, 26}.

Dimension 2

Respondent 26 indicated that because some banks were early movers to this segment, they established a sort of monopoly position. He stated, 'They have enjoyed a sort of monopoly in the market and they established a brand and that helped'.

The most important factor is the 'monopoly position'^{17,18,26}, and the second is the 'lucrative market'^{17, 18}.

Dimension 3

Respondent 26 stated, 'The main thing is that management should have a vision and strategy and then a business plan, and all have to be achievable. We are lucky enough to have a clear vision. This vision is to grow non-organically through acquisitions and mergers and to grab the opportunities.'

Respondent 17 stated, 'Your business plan and strategy have to be realistic, very focused, and have a time limit'¹⁷.

The most important factor is 'clarity of vision, strategy and realistic goals'^{17, 26}.

The bank is implementing a consensual approach when crafting its business plan.

Dimension 4

Respondent 18 from the bank stresses the importance of first defining its goals, as set by the management, and then leading by senior managers' behaviour.

Respondent 18 stated, 'Our corporate culture is reflected in our performance - who writes the business plan. If the management is writing, then they must lead by example. Corporate culture has a high degree of correlation with the business plan'.

The bank describes the relationship between the business plan/strategy and its corporate culture as 'strong'.

Dimension 5

1. Corporate governance^{18, 26}, 2. Open-door policy¹⁷, 3. Teamwork¹⁷, 4. Clarity of vision and strategy²⁶.

Hybrid 2

Financial Highlights - Amount in US\$ millions

Highlight	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Operating Income	351.2	447.9	803.4	1,105.3	1,723.4	1,970.6	1,911.4	2,088.4	2,397.3	2,492.5
Net Income	206.3	262.3	442.1	668.2	1,191.9	632.7	250.3	255.9	133.2	438.5
ROAE%	20.8	22.6	22.8	23.2	27	11.3	4.6	4.6	2.4	7.8
CAR	n.a.	n.a.	n.a.	18.9	23.3	22.0	15.2	14.2	13.7	13.9

Source: Zawya Financial Services

Financial Interpretation

The bank has delivered strong performance for the period 2003–2007. However, results are inconsistent over the period 2008-2012 before bouncing back in 2012. Also, CAR remained tight, at 13.9% at the end of 2012. The bank increased its capital base by 20% through the issuance of rights issues (Zawya, June 3, 2012). Based on the bank’s overall performance, it is classified Class B.

The following is based on the feedback of two interviewees. One is the CEO and the other is a senior manager. Complete profiles of the two interviewees are provided in Appendix **Exhibit A5.2**.

Data Interpretation

Dimension 1

Respondent 4 stated, ‘One is that the Islamic banking industry finds it very difficult in dealing with regulatory requirements that come from sources that are not related to the Islamic banking industry; e.g., Basel II and III and the different bodies that issue regulations’.

The key challenging factor is the increase in ‘regulatory influence’⁴ and the second is ‘corporate governance’⁵.

Dimension 2

Respondent 5 stated, ‘No Islamic bank - or the overwhelming majority of Islamic banks -can enter into the business of derivatives’.

Respondent 4 said, ‘There are certain aspects of the Islamic banking model that would always protect a bank and make it successful to a degree’.

The most important factor is the ‘Islamic banking model’^{4, 5}.

Dimension 3

Respondent 4 stated, ‘Having the right people, having the right leadership. Actually, to start with, creating a strategy that is workable, achievable, and realistic - though demanding, it is realistic and can be achieved - taking and understanding the markets and relationships’.

The most important factor is ‘clarity of strategy and achievable goals’⁴ and the second is ‘employee competency’⁵.

Dimension 4

Respondent 4 stated, ‘You cannot ask for a plan to be executed if you are not part of it. If the leadership is not part of the execution of the plan, no plan can be executed right, so involvement from the top is very important; the culture has to be unified when it starts executing’.

Dimension 5

1. Ethical banking^{4, 5}, 2. Staff socialization⁴, 3. Confidentiality⁴, 4. Friendly environment⁵.

Hybrid 3

Financial Highlights - Amount in US\$ in millions

Highlight	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Operating Income	n.a.	n.a.	46.1	167.6	473.7	285.1	85.0	198.1	154.5	178.2
Net Income	n.a.	n.a.	37.6	183.8	188.3	85.2	-251.5	-140.0	-61.9	-26.9
ROAE%	n.a.	n.a.	14.9	29.7	16.60	7.0	-24.10	-15.3	-7.30	-3.3
CAR	n.a.	n.a.	36.8	18.1	25.8	14.4	12.8	13.2	12.9	12.6

Source: Zawya Financial Services

Financial Interpretation

The bank reported a healthy performance, as measured by ROAE (average 24%), for the period 2005–2008. Afterward, the performance was poor, as evidenced by the negative return on the bank’s ROAE since 2008. This could be explained by the frequent write-offs against investments (mainly in real estate) during this period. The bank is shifting its model from hybrid to retail banking operations.

Based on the above, the bank is ranked as Class C.

Data Interpretation

The following is based on the feedback of three interviewees. One is the CEO and the others are senior managers. Complete profiles of the three interviewees are provided in Appendix **Exhibit A5.2**.

Dimension 1

Respondent 1 stated, ‘Most of the Islamic banks, as you hinted, are not fully institutionalized. There might be some institutionalized in terms of infrastructure, but implementation is very weak’.

The key challenging factor is ‘corporate governance’^{1,25}, and the second is a ‘shortage of liquidity’³.

Dimension 2

Respondent 25 stated, 'Let's look at the National Bank of Bahrain. They are enjoying and making easy profits because they have the government's money. National Bank of Kuwait also has a lot of government money and that is giving you cheap money'.

The most important factor is 'government support'²⁵, and the second is 'low cost of funds'^{3, 25}.

Dimension 3

Respondent 25 stated, 'You have to have the right strategy. It has to be clear and not just a strategy written on paper. It is a strategy that can be executed, and you need to have the right team to execute it.'

Respondent 1 said, 'If a bank is institutionalized and has a good management and puts forth a viable business plan that could be implemented - these factors make it a more successful plan.'

The most important factor is 'clarity and viability of strategy'^{1, 25}.

The bank is implementing a mixed-methods approach when preparing its business plan. However, Respondent 1 disagreed with this approach. He stated, 'There is no commingling between the board and executive management and the rest of the employees. There is what it should be and what it is! The business plan should be a bottom-up approach if you are a retail bank; input to the business plan should be done at the branch manager level'.

Dimension 4

The bank is shifting its model from hybrid to retail business.

Respondent 25 stated, 'We have also changed from investment to retail, so that also has to shift because we were used to investment and it's different. So we had to adapt to the retail operations'.

Respondent 1 said, 'So, the business plan usually, in many organizations, is not drawn by the concerned employee. Basically, it is imposed on them. Not absolutely there - it is weak'.

Two of the interviewees stated that the relationship between the business plan/strategy and its corporate culture is ‘important’, while one said it is ‘weak’.

Dimension 5

1. Open-door policy ¹, 2. Reputation ²⁵, 3. Friendly atmosphere ³, 4. Teamwork ²⁵

Islamic Specialist 1

Financial Highlights - Amount in US\$ millions

Highlight	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Operating Income	120.6	178.4	187.5	321.5	358.7	573.2	51.7	-349.1	300.9	n.a.
Net Income	44.8	70.5	104.3	137.5	190.5	362.2	-87.9	-559.4	50.2	n.a.
ROAE%	25.5	27.5	27.9	20.4	19.2	29.0	-5.8	-42.1	4.6	n.a.
CAR	36.0	29.0	27.1	40.0	37.1	18.6	17.1	12.7	15.8	n.a.

Source: Zawya Financial Services

Financial Interpretation

The bank posted a strong performance, as measured by ROAE, during the period 2003–2008. However, the bank reported poor results from 2009 to 2010 before returning to modest profitability in 2011. This is attributed to the 2008 financial meltdown. Since the bank has been unable to agree with its creditor banks on a plan to reschedule its US\$ 1.1 BN Murabaha facility, it was forced to file for bankruptcy in the US in December 2011.

In view of the above, the bank is ranked as Class C.

Data Interpretation

The following is based on the feedback of three interviewees. One is the CEO and the others are senior managers. Complete profiles of the three interviewees are provided in Appendix **Exhibit A5.2**.

Dimension 1

Respondent 20 stated, ‘Our balance sheet started to be challenged big time. Like all investment banks, liquidity started drying up and the challenge was to stop doing new deals and really trying to protect your balance sheet and your existence. And that has been a challenge faced not just by us but by all investment banks’.

The key challenging factor is ‘access to liquidity’^{2,20} and the second is ‘regaining investor confidence’²¹.

Dimension 2

Respondent 20 stated, ‘What happened during the financial crisis is, greed kicked in and that greed made the long-term sustainability of the institution less important to, especially, senior management. Also, aligning the incentives of management to be long term in nature and not short term in nature, that is very important’.

The most important factor is the ‘long-term sustainability of the business’² and the second is ‘customer orientation’²¹.

Dimension 3

The management stressed the importance of building long-term vision. Respondent 20 stated, ‘The long-term strategy has to be clear. A business plan shouldn’t look at a year or two years. It has to have a very solid strategic framework of ‘Where do you want to see yourself 10 years from now?’

The most important factor is ‘clarity of long-term strategy’²⁰, and the second is ‘internal communication’²¹.

The bank uses a top-bottom approach in preparing its business plan.

Dimension 4

Respondent 20 emphasises the need to align management interests with those of its stakeholders and the need to preserve the original culture.

Respondent 20 said, ‘So I think you need to be very mindful to build a culture that believes in the long term. So you have to align management, investors, shareholders, and stakeholders to a long-term vision’.

Respondent 2 stated, ‘I think it is very important and to be honest, in our case it would have been very difficult to have navigated the financial crisis if we did not have this culture that had been built up over a number of years’. The feedback implies the relationship importance between corporate culture and business strategy.

Dimension 5

1. Teamwork^{2, 20}, 2. Informality²⁰, 3. Culture fit^{21, 2}, 4. Friendly environment^{21, 2}

Islamic Specialist 2

Financial Highlights - Amount in US\$ millions

Highlight	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Operating Income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.1	7.6	8.2
Net Income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.5	2.3	3.1
ROAE%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15.6	4.9	6.6
CAR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	20.0	17.4	17.5

Source: Zawya Financial Services

Financial Interpretation

The bank started operations in 2009, and therefore only three years’ worth of comparative audited financial information (2010–2012) is available.

The bank’s performance has fluctuated from year to year, but remains satisfactory overall. Average ROAE was 9% for the three-year period. Similarly, net income also showed inconsistent results for the past three years (average net income US\$ 4.0 MM).

Based on the above, the bank is ranked as Class B.

Data Interpretation

The following is based on the feedback of two interviewees. One is the CEO and the other is a senior manager. Complete profiles of the two interviewees are provided in **Appendix A.5.2.**

Dimension 1

Respondent 19 stated, 'I think it is regaining the trust of the investors, trust in the industry, due to the failures and the collapse of some of the investment banks and their experiences with these banks, especially in Bahrain'.

The most challenging factor is 'regaining investor confidence'¹⁹ and the second is 'lack of liquidity'¹⁹.

Dimension 2

Respondent 19 stated, 'Sustainability, of course. And you will meet this only if you do the proper asset liability management.'

The most important factor is 'corporate governance'¹⁹ and the second is 'prudence in investing and lending'²².

Dimension 3

Respondent 19 stated, 'I would say, first, the board's vision. The board's vision has to be clear, what do they want and where are they heading. Of course, management's understanding of the vision and management's understanding of the culture. And then you need qualified teams to implement.'

The most important factor is 'clarity of vision and alignment to goals'¹⁹.

The bank uses a bottom-up approach for preparation of its business plan.

Dimension 4

The management emphasises the role of aligning performance to remuneration.

Respondent 22 stated, ‘Culture needs to be developed - where, again, it comes back to alignment of interests and remuneration’.

Respondent 19 said, ‘We are trying to implement an incentive scheme; so we want to align the incentive scheme to what we have been doing in terms of the performance’.

The bank describes the relationship between business plan/strategy and its corporate culture as ‘important’.

Dimension 5

1. Performance-related pay¹⁹, 2. Open-door policy^{19,22}, 3. Culture fit¹⁹, 4. Alignment with shareholders’ values²².

Conventional Specialist 1

Financial Highlights - Amount in US\$ millions

Highlight	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Operating Income	n.a.	n.a.	n.a.	n.a.	39.4	-29.3	2.9	4.8	-19.1	5.9
Net Income	n.a.	n.a.	n.a.	n.a.	36.4	-29.5	-10.1	-6.6	-30.1	-0.800
ROAE%	n.a.	n.a.	n.a.	n.a.	20.8	-17.9	-6.8	-4.6	-23.6	-0.72
CAR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Zawya Financial Services

Financial Interpretation

Only six years’ worth of audited financial information is available, starting from 2007. The institution’s performance, as measured by ROAE, indicates lacklustre performance over the past five years. The institution reported a negative net income over the past five years. This could be attributed to the ongoing decline in the investment portfolio in light of the difficult investment environment. As such, this institution is classified as Class C.

Data Interpretation

The following is based on the feedback of two interviewees. One is the CEO and the other is a senior manager. Complete profiles of the two interviewees are provided in Appendix **Exhibit A5.2**.

Dimension 1

Respondent 15 stated, ‘All asset classes have been hit, and this is the first time in my career, which goes back to 1985 in the investment field, that I have seen something like this’.

The most challenging factor is ‘adverse economic conditions’^{15,16} and the second is the ‘increase in the regulatory influence.’¹⁶

Dimension 2

Respondent 15 stated, ‘The main success and why these banks grew a sustainable business is because of government help, a lot of it.’

The most important factor is ‘government support’¹⁵ and the second is ‘corporate governance.’¹⁶

Dimension 3

Respondent 15 stated, ‘Effectively, the business plan requires teamwork between the CEO and senior management in putting it together and relaying it to the board to get their feedback.’

Respondent 16 said, ‘A more realistic plan, achievable. An implementation process that you can go through as well as rely on the strength of the management that you have that would give you a proper implementation.’

The first important factor is ‘realism and achievability of the plan’¹⁶ and the second is ‘BoD and management involvement and implementation.’¹⁵

Dimension 4

The management stresses the need to implement professionalism and corporate governance in the organization. Respondent 15 stated, ‘I think the alignment is relatively strong because I think the plan that we put through is achievable. I think we always had as a culture, at least since I have been here - we are trying to implement professionalism in our business operations in terms of conducting our business at the highest level of ethical code of conduct. In terms of corporate governance, we are trying to be even ahead of the requirement of the Central Bank of Bahrain.’

The company describes the relationship between business plan/strategy and its corporate culture as ‘important’.

Dimension 5

1. Adapting to external environment¹⁵, 2. Teamwork^{15,16}, 3. Open-door policy^{15,16}, and 4. Flexibility¹⁵.

Conventional Specialist 2

Financial Highlights - Amount in US\$ millions

Highlight	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Operating Income	22,499	22,908	21,612	28,718	31,151	6,608	34,580	30,532	24,319	25,861
Net Income	598	4,981	4,380	8,781	8,062	-7,613	6,211	6,301	2,965	1,838
ROAE%	1.1	7.4	11.6	10.2	15.9	-15.6	13.6	13.6	6.6	4.1
CAR	17.4	16.6	13.70	18.4	14.5	17.9	20.6	21.9	24.2	22.3

Source: Zawya Financial Services

Financial Interpretation

The bank’s performance showed fluctuations over a 10-year period, but most noticeably in 2008. Similarly, the bank’s profitability was also inconsistent, especially in 2008, 2011, and 2012. The inconsistent performance is most likely associated with difficulties in the global investment environment.

In view of the above, the bank is ranked as Class B.

Data Interpretation

The following is based on the feedback of one manager. A complete profile of the interviewee is provided in Appendix **Exhibit A5.2**.

Dimension 1

Respondent 27 stated: 'I think one of the key things from a local perspective - and absolutely, particularly in the Middle East region - is know your client.'

The most challenging factor is 'corporate governance' and the second is 'increase in regulatory influence.'

Dimension 2

Respondent 27 stated, 'Sustaining profitability, and it's about long-term value for shareholders, clients, and the staff of an organization. And it is, again, ultimately client focus. When there is a client issue and when there is something to be done for the client, there is incredible teamwork within the organization, which is in part driven by shared big rewards, at least in the past.'

The most important factor is 'customer orientation.'

Dimension 3

Respondent 27 stated, 'The thing that is required is vision. The bank strives to be the most admired bank - known for its financial performance, its returns to its shareholders, its regulators, commitment to its employees, its sustainability, its philanthropic work, its corporate governance, etc. That's the vision of our bank. And how do we want to do that? We want to be a proactive, principled partner for our clients.'

The most important factor is 'clarity of vision and building sustainable business.'

The bank uses a consensual approach when crafting its business plan.

Dimension 4

The bank emphasises the focus on client needs and strategy integration.

Respondent 27 stated, 'For us, culture is about having the client at the centre of everything we do and being extremely client focused. We achieve that, as we say, by being a proactive, principled partner. So we are proactive, we are going to try and help our clients, so the culture there is linked to the business plan. So the strategies have to work across the divisions together, and then there are the geographic elements of the strategy, and then there is aligning the strategy from front to back.'

The bank describes the relationship between business plan/strategy and its corporate culture as 'strong'.

Dimension 5

1. Customer orientation, 2. Corporate governance, 3. Reputation, 4. Confidentiality.

APPENDIX EXHIBIT A5.2 - INTERVIEWEE PROFILES

Interviewee 1- Hybrid 3 (Age: above 50)

Ex-Chief Executive Officer (ex-CEO) of a major Islamic retail and investment bank in Bahrain. He has more than 30 years of banking experience in both conventional and Islamic banking. Currently, he is serving as a board member in a number of Islamic financial institutions.

Interviewee 2 - Islamic Specialist 1 (Age: 40-49)

Executive Director in charge of Corporate Finance and Administration. The interviewee is a chartered accountant, worked previously with Ernst & Young and has been member of this institution for more than 15 years.

Interviewee 3 - Hybrid 3 (Age: above 50)

General Manager - Retail Banking for a major Islamic bank in Bahrain (Hybrid). His past experience includes HR and corporate administration. He has more than 35 years of banking experience, including 10 years with this institution.

Interviewee 4 - Hybrid 2 (Age: 40-49)

CEO of an Islamic retail and investment bank (Hybrid). The bank is a subsidiary of a major Islamic bank located in Kuwait. He has more than 15 years of Islamic banking experience and is a certified accountant from the US. He has been with this bank since its inception (14 years).

Interviewee 5 - Hybrid 2 (Age: 40-49)

Senior Vice President in charge of the Legal Department. He interacts frequently with Shari'ah board members on issues relating to deal structuring. Previously, he worked for the Norton Rose law firm. He has been a member of this institution for more than 10 years.

Interviewee 6 - Conventional Generalist 1(Age: above 50)

CEO, a seasoned banker of a major conventional retail bank in Bahrain. The bank is one of the major commercial retail banks in Bahrain and has branches in the GCC and India. The interviewee has more than 35 years of banking experiences, including 12 years with this institution.

Interviewee 7 - Conventional Generalist 1 (Age: above 50)

General Manager - Operations and Support. He has more than 30 years of banking experience, all with this institution.

Interviewee 8 - Conventional Generalist 1 (Age: above 50)

General Manager, in charge of retail and corporate banking activities. He has more than 35 years of banking experience, including seven years with this institution.

Interviewee 9 – Conventional Generalist 3 (Age: above 50)

CEO of a retail bank that offers a window of Islamic banking services. He is part of a new management team that was appointed four years ago to change the bank strategy on domestic retail operations. He is a chartered accountant and has more than 30 years of banking experience, most of which has been in accounting and auditing.

Interviewee 10 - Conventional Generalist 3 (Age: above 50)

GM - Support Services. The interviewee has more than 28 years of banking experience, including three years with this institution. Most of his banking experience has been in the retail sector.

Interviewee 11 - Conventional Generalist 3 (Age: 40-50)

Vice President of Corporate Banking. He has more than 20 years of banking experience, including 10 years with this institution. Most of the interviewee's experience has been in the corporate banking sector.

Interviewee 12 - Islamic Generalist (Age: above 50)

Senior Vice President – in charge of Strategic Planning for a major banking group located in Bahrain. The group has a presence in the form of subsidiary banking units and representative offices in 15 countries. The interviewee is a chartered accountant, has more than 33 years of accounting and banking experience, and has been with the group for more than nine years.

Interviewee 13 - Islamic Generalist (Age: above 50)

Group CEO – a very experienced banker, with more than 30 years of banking experience, mostly in wholesale banking. He has been with the group for the past 10 years. He was instrumental in restructuring and rebranding the group's marketing strategy.

Interviewee 14 – Islamic Generalist (Age: above 50)

Group Head – Risk Management. A very experienced banker with more than 35 years of banking experiences, mostly in wholesale banking. He has been with the group for the last eight years.

Interviewee 15 - Conventional Specialist 1(Age: 40-50)

CEO - In charge of a medium sized investment institution that invests mainly in the MENA region. He has more than 25 years of experience, mostly in investment portfolio management. He is a Certified Financial Analyst and has been with this company for more than 15 years, including five years as the company's CEO.

Interviewee 16 - Conventional Specialist 1 (Age: 31-39)

Senior Manager - in charge of Direct Investment Unit. She is responsible for the company's private equity and real estate activities regionally and internationally. She is a CFA and has been with the company since 2005.

Interviewee 17 - Hybrid 1 (Age: 40-49)

CEO of a major Hybrid bank in Bahrain that was established eight years ago. He is a certified accountant from the US and worked for Ernst & Young for more than 20 years. He has been in this position since the bank's inception.

Interviewee 18 - Hybrid 1 (Age: Above 50)

Chief Operating Officer (COO) – Primarily responsible for risk management policy and overall administration. He has more than 20 years of banking and auditing experience and has been with this bank since its inception eight years ago.

Interviewee 19 - Islamic Specialist 2 (Age: 40-49)

CEO - In charge of a privately-owned investment bank. He is a chartered accountant from the US. He has more than 15 years of banking experience, and was the head of banking operations at the CBB. He has been with the bank since its inception (six years ago).

Interviewee 20 - Islamic Specialist 1 (Age: 40-49)

CEO - In charge of a major Islamic investment bank that was established in 1997. He is a chartered accountant from the US and has been the bank's only CEO since its inception (15 years).

Interviewee 21 - Islamic Specialist 1 (Age: 40-49)

Executive Director in charge of private equity; he has been with the institution since its inception (15 years). He has more than 20 years of banking experience, mostly in the investment banking area.

Interviewee 22 – Islamic Specialist 2 (Age: 40-49)

Executive Director –in charge of the Direct Investment Unit. He has been with the bank since its inception (six years) and has more than 15 years of experience in investment banking activities.

Interviewee 23 - Conventional Generalist 2 (Age: above 50)

CEO of a major regional retail and wholesale banking group. He is regarded as one of the top Arab bankers in the region, and was instrumental in establishing this group nearly 12 years ago. He has more than 30 years of banking experience, mostly in the wholesale banking area.

Interviewee 24 - Conventional Generalist 2 (Above: 50)

Deputy CEO - Head of Risk & Compliance. He is a chartered accountant, has more than 25 years of banking experience, and has been with this group for the last 10 years.

Interviewee 25 - Hybrid 3 (Above: 50)

CEO - Head of an Islamic retail and investment bank. He has more than 30 years of banking experience, and has been with this group for the last 15 years.

Interviewee 26 - Hybrid 1 (Above: 50)

Deputy CEO of a major Hybrid bank in Bahrain that was established eight years ago. Previously, he worked as a deputy governor for the CBB and holds a PhD in management from a UK university.

Interviewee 27 - Conventional Specialist 2 (Age: 40-49)

Executive Director - Head of GCC operations for a major European private bank that is more than 100 years old. He has more than 25 years of banking experience, including 12 years with this bank.

APPENDIX EXHIBIT A5.3 – RESPONSES WITH REFERENCE TO CODING MANUAL*

(refer to Appendix Exhibit A.4.4– Coding Manual)

* superscript numbers correspond to Respondent numbers

ACCT

International & Regional Accounting Reporting Bodies

- ❖ For example, as soon as a certain product is approved, there is an accounting standard to it as per Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) guidelines ¹.
- ❖ The problem with AAOIFI standards is that they haven't kept pace with recent changes in international accounting standards; I think AAOIFI needs to do a big push to bring many of their accounting standards in line with the latest international accounting standards ².
- ❖ There is no regulation and individual countries need to impose it, it's not like IFRS which has to be followed (not enforceable) ².
- ❖ So I think AAOIFI has done a lot of good I would say developing those standards¹¹.
- ❖ When the AAOIFI was formed, it started a complete revolution as far as Islamic banking knowledge is concerned. They made a more disciplined structure and once that happened, in my opinion that was a catalyst for many of the known Islamic banking fraternity to recognize that there is such a thing as Islamic banking ¹².
- ❖ Because we are available in too many locations, our accounts are issued in compliance with the International Financial Reporting Standards (IFRS) requirements. And then we convert it into AAOIFI standards, because when you submit it to the Central Bank of Bahrain, you have to submit it based on the AAOIFI standards ¹³.
- ❖ For examples Turkey, Egypt, Jordan, Saudi Arabia, Oman, and UAE. They are now trying to find ways of implementing them. But Bahrain was very clear; they said that all Islamic banks should apply AAOIFI standard ¹³.

Business Strategy

- ❖ We here in Islamic banking, we do it as per the request and shelve it. Just to be fair, certain parts of the Business Plan ('BP') are achieved and implemented. BP should be a bottom-up approach if you are a retail bank, the input of BP should be done at the branch manager levels, but, what is happening – the approach is top-to-down. So, BP usually in many organizations is not drawn by the concerned employee. So, the alignment between corporate culture and the BP is not there? Not absolutely there, but is basically not founded there – it is weak¹.
- ❖ In our bank, there is a strong alignment between the business plan that we have and the corporate culture and in a way this has safeguarded a lot of organizations⁶. So there is definitely a strong relationship⁶.
- ❖ I think it is strong. The performance of any organization has a lot to do with the internal culture as well as proper leadership, reading of the market and proper risk management, understanding your risks, transparency with everybody including your customers, shareholders and regulators⁷.
- ❖ So, in order to have a culture where there is a full alignment between the business plan and the organization, so from day one we don't impose it⁸.
- ❖ I think the alignment of the business plan and corporate culture is very important and it plays a key role in the success of any institution, not only banks, any company. There is a very clear correlation between the two⁹.
- ❖ So, yes, culture does have a key role in executing the business plan of any institution. And I think this is what we are trying to do here⁹.
- ❖ So we are aligning it up with the local culture here and trying to keep individuals responsible. It's not only the management, it's individuals responsible to come up with innovative ideas¹⁰.
- ❖ So your corporate culture should be aligned to your business as well as your plans. You can do all the planning you want; you can do all the numbers you can do and all the charts to fit in. If those guys can't deliver what you are looking for, then there is no use¹².

- ❖ Well, we have some big clients, but most of our clients are either retail or SMEs, individuals who own small businesses and with whom we work closely. That culture and that customer base fits our culture and therefore fits our business plan ¹⁴.
- ❖ I think the alignment is relatively strong because I think the plan that we put through is achievable ¹⁵.
- ❖ We develop a forecast on a year by year basis and our performance is going to be measured to it and any incentives are based on that. So in general I would say it is aligned and it should be aligned ¹⁶.
- ❖ Your business plan and strategy has to be realistic and very focused and have a time limit ¹⁷.
- ❖ You should have a culture and this must be related to your business plan. Example, the compliance culture in an organization is vital. Same as risk appetite as defined by the BoD should be reflected in the human behaviour based on the risk/culture compliance. This all has to be aligned – what will be a reflection of your performance is the corporate culture and not the plan ¹⁸.
- ❖ When we write the business plan, what is reflected in our bottom-line is our commitment and culture (management style) to the organization. And our corporate culture is reflected in our performance and who writes the business plan – if management is writing, then they must lead by example ¹⁸.
- ❖ Corporate culture has a high degree of correlation with the business plan ¹⁸.
- ❖ It is usually strong and this is what we are trying to implement - an incentive scheme. So we want to align the incentive scheme to what we have been doing in terms of the performance ¹⁹.
- ❖ We are a big believer in that, and I started my first comment on the first question you asked about the sustainability of that. We believe everything should be long-term related and if the management that you hire has short-term objectives, don't hire them ²⁰.

- ❖ So you have to align management, investors and shareholders. All stakeholders have to be aligned on a long-term vision ²⁰.
- ❖ If I read it as is, I would say the relationship is very strong and difficult to detach yourself from the cultural part of it. I think it will really have a measurable impact on your business plan ²¹.
- ❖ I think in our case the answer to it is that the alignment is very strong ²³.
- ❖ I think it is strong because the overall vision is quite understood ²⁴.
- ❖ If people do well then we give them nice bonuses and if they don't perform then we have to know what is the problem and why. Because in the end you are responsible towards the board to achieve your business plan. The management will be kept accountable by the board ²⁵.
- ❖ I think we are lucky enough that we have a clear vision. The vision was to grow non-organically through acquisitions and mergers and to grab the opportunities, because it will take time to do it through organic add-ons ²⁶.
- ❖ So the strategies have to work across the divisions together and then there are the geographic elements of the strategy and then there is aligning the strategy from front to back. And therefore consistency of vision and strategy while yes making amendments, you have to know what you want to do ²⁷.
- ❖ We have seen business plans (BP) that were not viable ones and I will blame the Board of Directors (BoD) as a body responsible for achieving the BP. Go back to my earlier statement, whether BoDs are qualified ¹.
- ❖ I think the number one priority is to have good quality people (qualified) if you want to implement a good business ².
- ❖ Actually to start with, creating a strategy that is workable, achievable, realistic, though demanding it is realistic and can be achieved, taking and understanding the markets and relationships ⁴. Continuously updating the plan, face up to the realities of the time of the day, of the changing markets, become aware of those aspects and do change; don't sleep on your plans and resist the huge currents. Being very proud, face conflicts

and handle them with courage. Don't hesitate in changing and going to the board and saying look we've missed it or the circumstances have changed and we need to change ⁴. What I mean to say is that when you have a plan, if the people who are trying to work out that plan don't feel they are part of it, believe in it and monitor it, they will tend to relax ⁴.

- ❖ The most important factor I would say is to have a clearly set strategy, especially in difficult times during crisis. If you don't have a strategy that you stick to, you tend to be operating in a haphazard situation. But when you have a clear cut strategy and you know where you want to go then you tend to focus ⁶. It's like a blueprint, you may need to adjust according to the situation but at least you have a clear cut strategy with a target that you want to achieve ⁶.
- ❖ To have a strategy that has been thought out very well and to stick to this strategy. If you operate without a strategy you will be going left right and centre⁶.
- ❖ It is a bottom up approach rather than top to bottom approach. With bottom up, people in the field they know what is going on and they can't be influenced by the wish of a promoter or of a shareholder ⁶.
- ❖ First, defining up front what your strategy is and what is your plan. You need to have flexibility where you can adjust your plan based on external environment ⁷.
- ❖ Of course we have bottom-up approach where we first analyze the market and see where the opportunities exist. Based on that, we define certain initiatives that we would like to undertake, but to be frank with you the word that you used 'crafting your business plan' is very crucial for our business ⁷.
- ❖ Even the environment in which we are operating in which I have described, I think this does become a necessity and to be successful you really have to plan your business plans and future strategies very carefully ⁸.

- ❖ First, for a bank to be successful you really have to be well tuned-up to the environment that you are operating in ⁸.
- ❖ Second, you need to have to have very good vision and detection of what is going on in your market ⁸.
- ❖ An organization needs to be lean, agile and also flexible ⁹.
- ❖ Business plan is really based on how can you expand your market share, How can you gain more. Our business plan is very aggressive in trying to attract newcomers to our products. That's why we are renovating our systems¹⁰.
- ❖ The strategy of the department has to be in line with the overall strategy of the bank. The direction of course will come to the board and then cascaded to the CEO and then to the different business units. The strategy has to be in harmony with your customers' needs ¹¹.
- ❖ I would say first is a solid understanding of your existing business model. That is the starting point. If you don't understand your existing business model, your business plan will never be successful. Second you understand your markets very clearly ¹².
- ❖ Actually ours is a mix of top down and bottom up. It's both; it's a mix of both ¹².
- ❖ In our case because it's a small company then you would probably involve maybe top senior management and the CEO with the board to put the business plan together, but this is a unique case ¹⁵.
- ❖ But what assists an organization to execute its business plan more effectively, as I said, it has to be clear. The business plan has to be realistic ¹⁵.
- ❖ Effectively the business plan is kind of a team work between the CEO and the senior management in putting it together and relaying it to the board to get their feedback ¹⁵.
- ❖ A more realistic plan, achievable. An implementation process that you can go through as well as rely on the strength of the management that you have that would give you a proper implementation ¹⁶.

- ❖ I would say it's a mixture of two ¹⁶.
- ❖ Your business plan and strategy has to be realistic, and much focused and has a time limit and has action plans that really execute any vision ¹⁷.
- ❖ I would say first the board's vision. The board's vision has to be clear, what do they want and where are they heading. Of course management understanding of the vision and management understanding of the culture. And then you need qualified teams to implement ¹⁹.
- ❖ The long-term strategy has to be clear. A business plan shouldn't look at a year or two years. It has to have a very solid strategic framework of where do you want to see yourself 10 years from now ²⁰.
- ❖ I am more of a top down type of thing. Where is the big picture? To whom are we trying to sell? What is the product? What is the margin? If you don't have these big picture variables identified then it will be useless just sitting down and cascading down numbers ²⁰.
- ❖ A lot of institutions we saw want to capture the success in the short term and they don't really want to keep it on the long term ²¹.
- ❖ Be ambitious but aim for achievable goals. Communication of your plan to your team is really vital ²¹.
- ❖ I will do it bottom up ²¹.
- ❖ I really meant is whenever you implement and have your business plan, what I'm saying is try to feed it from bottom up ²¹.
- ❖ Very much so, I think that is also lacking to a great extent. As you said mostly it is driven from top down ²².
- ❖ The first and foremost and this is something we are trying that one has come to appreciate or understand is the interest of the shareholders; because that feeds through ²².
- ❖ I believe in very close attention to the annual budget and having a vision and a business strategy where the bank as a whole wants to go. But a business strategy is different from a business plan ²³.
- ❖ The second thing you need is to have clarity of vision. So clarity of vision needs to be defined ²³. And most people in the good times are over

ambitious and in the bad times are over depressed. I think the problem is lack of clarity²³.

- ❖ The third key point is defining one's destiny. There are two ways of defining the destiny. Either the management or the boards do it or you retain outside help²³.
- ❖ And why is that very important? Because if the strategy is built between the management and the board, the management is accountable for the strategy²³.
- ❖ So when I say defining one's destiny, I think there has to be greater pressure and obligation by the board and the senior management to define this vision and to define the strategy. And strategy is an overused word, everybody uses it and what does it really mean²³.
- ❖ The third thing is a general rule that we all tend to forget in the banking business, which is prudence²³.
- ❖ In doing your business plan the first key role is realism in ambitions and resources²³. Number two is attention to details. Number 3 is focus on sustainability. You have to make money this year but how you make money this year should help you make money next year. The fourth point is alignment of remuneration to goals. You set your goals but make sure you pay your people according to the goals you set ('Meritocracy')²³.
- ❖ I think one of the problems that can happen in organizations is that the plan or the objectives really aren't understood, they are not clear. Not all that is communicated is understood²⁴.
- ❖ In the actual crafting of the plan it is senior management with the board and relaying the plan down to the middle management. But it's a partnership between board and management in the actual crafting of the plan and the agreement of the plan. The communication of the plan in our case essentially goes all the way down in the organization²⁴.
- ❖ We have always believed in something that is sort of sustainable. So our compensation packages and bonuses are really focusing on sustainability²⁴.

- ❖ You have to put the right strategy and you focus on that strategy. It has to be clear and not just a strategy written on paper. It is a strategy that can be executed and you need to have the right team to execute it ²⁵.
- ❖ The main thing is that the management should have a vision and then strategy and then business plan. And it has to be achievable. You also need to have the resources, the manpower to implement the strategy ²⁶.
- ❖ I think we are lucky enough that we have a clear vision. The vision was to grow non-organically through acquisitions and mergers and to grab the opportunities, because it will take time to do it through organic add-ons ²⁶.
- ❖ Yes of course and they are given a target. The target should be achievable. The business plan has to address the potential growth of the bank. How much will you grow in investments, how much will you grow in retail and corporate and what are the expected profits ²⁶.
- ❖ And now for the sustainability going forward it's about getting that business model right, which balances the challenges we were speaking about before like Basel 3, national requirements, difficult markets, profitability and cost cutting. So you have to have a strategy that balances all of that out ²⁷.
- ❖ Absolutely, the development of strategy comes in many forms. There is the top down vision that has to listen to the bottom up approach as to what's happening on the ground. That has to fit in with the market conditions at the time ²⁷.
- ❖ So we are proactive, we are going out to try and help our clients so the culture there is linked to the business plan ²⁷.

CHAL

Key Challenging Issues

- ❖ Now we do not have unified Shari'ah guidelines/background fundamentals – being acceptable in one bank, does not mean the same is acceptable in another bank ¹.

- ❖ So, the issue is on the conceptual side – some banks do not accept what others approved. This can be regarded as one of the challenges that Islamic banks face today ¹. Of course, on the negative side, you cannot produce enough products which are acceptable to all ¹.
- ❖ For example, if one bank accepts the concept of ‘Tawarq’, the other might not¹.
- ❖ I will hand out many challenges; one thing is just liquidity, the bank lending market has really dried up., even the lending in commercial banking is much less but for investment banks it’s very difficult at this stage ².
- ❖ I think within the control, I think the management teams of many of these banks are very thin; they don’t have enough qualified experienced people in many of these organizations ².
- ❖ The first one is really the ability to introduce new products because of the Shari’ah compliance nature of the product. Each and every product or even processes and various Islamic services will have to go through the Shari’ah supervisory board ³.
- ❖ So it is also the turnaround time for launching new products and services is very_slow compared to conventional banks ³.
- ❖ We have realized that there are shortages of scholars not in Bahrain but worldwide and in the region mostly ³.
- ❖ So on one hand, as I said, the deposit funding cost is high; that is because they are taking deposit at a higher rate ³.
- ❖ Islamic banking cost of funds is higher –because they are paying higher profit on deposit and that raises their cost of fund ³.
- ❖ I think they still need more talents. What is happening, I have seen over the years that majority of those that are now at senior level or middle management level, they have come up from within. The influx of new blood is very little as compared to the people that are coming from within. But we always need experience from the other side ³.

- ❖ There is one challenge with this; the central bank still thinks more of conventional banks. They still deal with Islamic banks in the same way they deal with conventional banks³.
- ❖ One is that the Islamic banking industry finds it very difficult in dealing with regulatory requirements that comes from sources that are not related to the Islamic banking industry e.g. Basel 2 and 3 and the different bodies that issue regulations⁴.
- ❖ In the Islamic banking industry especially, normally the practices come faster than regulation and if you don't have sufficient regulation coming from different sources you are bound to follow a set of regulations that might not really meet your requirements⁴.
- ❖ The absence of entrepreneurs creates a bigger role for the Islamic banking industry to take that money and funnel it through to developing projects⁴.
- ❖ Now I think one challenge we have as an Islamic bank is what is the legal position of the Shari'ah board? Because when you look at their power and where they sit in the organizational chart, they are very much at the top. They have the power to stop transactions. Now this brings you to an interesting issue, accountability⁵.
- ❖ We expect the Shari'ah scholar to be knowledgeable in Shari'ah, but also knowledgeable in banking and you know yourself there are so many different types of banking⁵. You need the Shari'ah qualification, but also you need the banking qualification and sometimes that means saying I'm sorry I really don't have experience in this area, and I'm going to have to spend a bit more time looking into it⁵.
- ❖ Another problem we have here in this region is where do you get the data from? How reliable is the data? Are you just looking at annual reports? To what extent is the true day to day operation of a bank included in there⁵.
- ❖ But, if you ask me what are the most challenging factors these days, I think banking in general, the interference of regulators even to the issue of having a say on executive management rewards⁷.

- ❖ We are operating in an environment that is way over-banked and so added together to the market volatility, it is increasingly difficult to predict future market conditions. So, putting a business plan is becoming increasingly more difficult ⁸.
- ❖ The other challenge that we face today is an overly increasing regulatory environment, overly increasing processing environment that is primarily emanating from the regulatory concerns ⁸.
- ❖ The maintenance of higher than usual liquidity has become a necessity and that would also create challenges on your profitability; higher liquidity means lower profitability of course ⁸.
- ❖ The challenges today are as I said market size, saturation, competitiveness – cut throat interest rates, which is driven by good abundance of liquidity in the market ⁹.
- ❖ Significant challenges that are faced by the bank are due to not only increase in regulations but the nature of those regulations. The regulator has been seen as interfering in the business of the banks ⁹.
- ❖ The main challenges we have faced in Bahrain is the number of conventional banks available on the island with the size of the population. Trigger it with the recent restrictions that we have from the regulator ¹⁰.
- ❖ So the real challenge we are facing is how to retain the customers that you have and how to increase your market share within such a limited or sizeable population ¹⁰.
- ❖ When the credit rating of a country is affected, our credit rating as a bank gets affected. When our rating gets affected, then we are suffering from borrowing. Cost of fund becomes very expensive ¹⁰.
- ❖ I think what banks have been facing since two or three years is the liquidity (main issue) and finding acceptable credit risk - customers or banks ¹¹.
- ❖ Competition is high. Our rivals are competing with us not only on the services, but also on margin and tenor ¹¹.

- ❖ The cost of fund for us as a bank is definitely higher than the other local banks that have been in the market for 50 years or more. The cost of fund, whether like interbank borrowing or customer's deposits is not cheap anymore ¹¹.
- ❖ In addition, we are getting pressure from the Central Bank of Bahrain (CBB) to lower our commissions charged to customers ¹¹.
- ❖ In addition, we need to be ready for Basel 3 requirement which might come into effect in 2014 ¹¹.
- ❖ Now as far as the challenges, it will always have its challenge of credibility to start with, that was the first challenge ¹².
- ❖ One of the challenges we have is corporate governance ¹².
- ❖ One of the challenges that we had was communication; we have five different languages in the group ¹².
- ❖ I think the major one is the new Basel 3 requirements, which is now being discussed and there is a big debate on this Basel 3. I hope that Islamic banks will be able to abide by Basel 3 ¹³.
- ❖ The second thing is you know to keep the standard. In the past few years Islamic banks spent a lot of money on IT and their corporate image. This is to enable them to bring it to the level of the international institutions ¹³.
- ❖ The third issue is that Islamic banks have become big and they are expanding regionally and internationally, you have to face new cultures, environments, competitions and all these are challenging issues to any local Islamic bank ¹³.
- ❖ The fourth one is updating our standards to be in line with AAOIFI standards, which is the accounting standard obviously ¹³.
- ❖ You have the challenge of corporate governance, which is always one of the main issues ¹⁴.
- ❖ I will not go into details about what good corporate governance is but this is another challenge ¹⁴.
- ❖ The regulatory environment, yes that's another one. It has increased or it's still missing in some countries. The Islamic banks in Lebanon,

Tunisia and Algeria are still facing very tough times because the regulatory environment is not there for Islamic banking ¹⁴.

- ❖ The first thing I would say is regulations, changing regulations ¹⁶.
- ❖ The one important factor I would say is the funding. Whether it comes from a strong shareholder base that will provide the support and the funding for the growing need of capital ¹⁶.
- ❖ The biggest challenge is the deployment of fund - I would say where I can invest my money – the biggest challenge I have. Second, trying to find an acceptable credit risk. Third, is finding growth? These are my local challenging issues ¹⁷.
- ❖ I think it is regaining the trust of investors, trust in the industry, due to the failures and the collapse of some of the investment banks and their experiences with these banks especially in Bahrain ¹⁹.
- ❖ Also the downgrading of credit rating on Bahrain. Some of the international banks withdrew their credit lines and this again affected the liquidity of banks. Not being able to get finance or borrow from international banks ¹⁹.
- ❖ Our balance sheet started to be challenged big time. Like all investment banks' liquidity started drying up and the challenge was to stop doing new deals and really trying to protect your balance sheet and your existence ²⁰.
- ❖ And fortunately the adoption was going very quickly but events around us were direr and more tense than we could manage and that's why we have gone to Chapter 11 ²⁰.
- ❖ And the lesson learned is that whenever a huge issue like this comes up, which is the global financial crisis, is that people need to confront it quicker. I think we were a little bit slower in confronting the problem ²⁰.
- ❖ But we were big and a big bank like us needs access to liquidity. And if the Islamic banking industry has limited liquidity access and limited hedging techniques, then it is very hard to see sustainable models like us if there is no financing market ready to support it. This is very

fundamental now we are realizing, it's not just because we had a mismatch, and the mismatch is because we didn't have tools to work with²⁰.

- ❖ Finding core investors. Those who have in a way lost confidence in a lot of institutions because of the crisis²¹.
- ❖ The liquidity issue is very important and it's the basis to drive any organization. If you take an example when you buy an asset or divesting from an asset, the liquidity is playing a big part of it²¹.
- ❖ The third one is responding to the regulators, I think this is also a big challenge because of what happened, Basel 1, 2 and 3²¹.
- ❖ I think the biggest challenge they face is strategy and focus and the reason I say that is I think it goes back to the boom years in the Gulf where the bulk of investment companies were setup²².
- ❖ First of all shareholder intervention. Boards that do not represent the shareholding structure of the businesses that are overweight, certain minority shareholders that have disproportionate influence on the board. Extended longevity of directors and boards. Absence of external pressure from other shareholders to force the board to look at developing the value of the business²³.
- ❖ This is not just an impediment in the context of a bank like us seeking to grow by acquisition; it shows the mentality of the directors, that their primary responsibility should be towards the shareholders and not to themselves²³.
- ❖ The second thing that I see as a key challenge is overreaching and sometime excessive regulatory interference²³.
- ❖ I think the right balance between regulator interference and management accountability is a key challenge and that's my second point²³.
- ❖ My third point is really the obvious one, in economic conditions and market conditions that are quite negative. If the economy is smiling and happy and prosperous then banks are too. If it is not then the banks will look like the real economy that they have to deal with²³.

- ❖ So those are my three key challenges that I thought are relevant, corporate governance, regulatory interference and adverse economic conditions²³.
- ❖ Obviously the economic conditions, the economic conditions are difficult globally and in the MENA region things have been exacerbated obviously by the Arab Spring which has created uncertainties²⁴.
- ❖ What we have also seen as banks which are a different type of challenge is some more regulation really²⁴.
- ❖ The bank in 2010 everybody thought that this bank will go down because of liquidity²⁵.
- ❖ Confidence as well as I think that the banking sector was moving faster than the regulators²⁶
- ❖ If you see now Basel 3 has been postponed because there are some countries that were not able to cope with it²⁶.
- ❖ I think one of the key things from a local perspective and absolutely particularly in the Middle East region is Know Your Client²⁷.
- ❖ So I think the challenge which we are seeing internationally is the increase in regulation generally²⁷.

COMP

Regulators and Shari'ah Compliance

- ❖ Now we do not have unified Shari'ah guidelines/background fundamentals – being acceptable in one bank, does not mean the same is acceptable in another bank¹. Some scholars see this issue as a healthy sign as it leads into more research into this topic and is regarded as 'different of opinion issue'¹.
- ❖ So, the issue is on the conceptual side – some banks do not accept what others approved. This can be regarded as one of the challenges that Islamic banks face today. This is also regarded as one of the religious 'Shari'ah issues' as well¹. I do remember that our Shari'ah boards are open minded 'think conventionally and we will do it Islamically'. If you

bring a bond issue structure (conventional) and we will look to do it Islamically. But, finding the way is not always acceptable by others ¹.

- ❖ Even the Central Bank of Bahrain at one stage – why we do not establish a Shari’ah board within the Central Bank to standardize approved products ¹. However, one well-known scholar (Sh. Nizam Yaquby) disagreed because he saw this as Ejtihad – to allow scholars to make efforts to come up with new Shari’ah structure and if you want to progress the industry, then you should have different view of opinions. If you do not have this skill, then the industry will be stand-still and that is a positive side to it. ¹.
- ❖ True, yes that part of it, but even when there are products, investors are shying away at the moment. There are always going to be less products because of Shari’ah restrictions and especially interbank market, treasury products because you can’t deal with fixed income products ². And also going back to your point on the scholars, that also have made some innovative rulings, for example Islamic private equity, there is a lot of innovation that took place in terms of Shari’ah structuring ². I think KFH and Al-Rajhi because they have good incumbent positions. KFH they didn’t allow other Islamic banks to function, they are the only Islamic bank and they captured the market in the beginning and there are barriers to entry in those markets, I think it has less to do with ².
- ❖ But the first one is really the ability to introduce new products because of the Shari’ah compliance nature of the product. Each and every product or even processes and various Islamic services will have to go through the Shari’ah supervisory board. Unlike the conventional because they don’t have restrictions and the sky is the limit for them that side ³. So the turnaround time for launching new products and services is very slow compared to conventional banks ³. We also have Shari’ah audit, we have auditors, we have compliance and we have risk management. So the business is really cornered between these four dimensions ³.

- ❖ I think it is very important as a challenge for Islamic banks to face today is how well they adhere to Islamic values. I think we can see that there is a potential danger certainly before the current financial crisis that the Islamic banks were trying to copy conventional banks and basically come up with Shari'ah-style solutions to methods of conventional banking ⁵. I think the challenge for Islamic banks today is actually to have the confidence to follow Shari'ah and follow Islamic values ⁵.
- ❖ I think increasingly regulators are playing more roles in defining what is the minimum risk management that should be in place? ⁷.
- ❖ I believe it is to do with more involvement from the regulators, from the public, as well as the transparency issue for banks ⁷.
- ❖ I would say the fastest growing department in any commercial bank today is the Compliance Department ⁸.
- ❖ Islamic banks today do state upfront the profit rate, which cannot be. If you have a Mudaraba account or a Musharaka account, you cannot state the interest rate or the profit rate because it depends on how the project does. At the end of the day, you find your profit and you share it between the Mudaraba and Rab Al Mal. But today some Islamic banks will state you a profit rate regardless of the type of investment and how it does. So this in its way also is not in my opinion Shari'ah compliant ⁹.
- ❖ There is an increase in regulation. Recently for example, Central Bank came up with some regulation to control the fees and commission imposed on individuals in the retail banking market. So they want to monitor that, which most of the banks are against it ¹⁰.
- ❖ For example in Malaysia the banks follow some different fatwas and Shari'ah ruling than, say, in Bahrain ¹⁴.
- ❖ Better regulation definitely should help the market but at the same time to some extent it might also restrict the business so it needs to be balanced ¹⁹.
- ❖ Now increasing the level of regulation does not necessarily reduce the level of risk. It depends if the regulation is effective or bureaucratic ²³. In

my assessment, regionally the pendulum has gone too far. With the regulators in many cases adopting a line which is closer to management decisions than it is to regulatory oversight ²³.

- ❖ It is a bit autocratic. They have not just tried to change the prudential regulations of liquidity and capital but also bringing in some corporate governance roles. Some of which might not fit in with our particular region and the way we are in terms of economic development ²⁴.
- ❖ Regulation should be there. I am one that believes that you have to have a regulator, because there was no regulator that's why we had problems with some of the banks ²⁵.

CORP CUL Corporate Culture

- ❖ In our bank, we always focused on the slogan 'style of life' in our organization. If a customer comes, 'we do things differently that makes your life much better ¹'. So, we have done few things to be seen as the first – possible feature of our organizational culture ¹.
- ❖ Other issue of our bank – management style important to attract qualified staff and by that – having an open door policy - friendly but yet a tough by the rule policy. Co-mingling – emphasising staff socialization, from low to high staff, and support your staff to the full extent by listening to their needs ¹. A few staff left the organization for money, but return back because they said 'I'd rather work for a healthy organizational environment, rather than for more money'. In my opinion, yes there is innovation/creativity in organizations, but also personal touches in the management style ¹.
- ❖ I think it is very important to be honest, in our case it would have been very difficult to have navigated the financial crisis if we did not have this corporate culture that had been built up over a number of years ².
- ❖ Obviously a good corporate culture should have accountability, not just being friendly; you shouldn't tolerate bad performance for example. I think it is essential that people are held accountable and you have

performance benchmarks that you are judged against and you know these things in advance. Good culture has to make people accountable ². Yes, and also if you want to say something that is slightly critical or aggressive to somebody you just call him ‘Sheikh’ and it makes it softer and a nicer way of saying things, this is something that is particular to our organization ².

- ❖ If you walk into any of our offices, the look and feel is the same so people feel at home, so the furniture the furnishings and the carpets are all similar, so you feel that you are part of one organization ².
- ❖ I think our culture is very different, if I have to describe our corporate culture, we emphasise team work, working collaboratively across functions, we are very collegiate, you see that we are very friendly and we look after each other ².
- ❖ We like our colleagues and we recruit people who fit our culture ².
- ❖ People are not working here just for money; they enjoy working with their colleagues and even if somebody offered them a higher salary etc., they would not necessarily just move for the higher money because they are giving up this culture that they may not be able find in other places ².
- ❖ Let me talk about my own institution, we have very high respect for transparency ³.
- ❖ In any Islamic bank you should see modesty in dressing. Also confidentiality regardless of regulation and what is required of you in that regard ⁴.
- ❖ We have a dress code where ladies are required to wear head cover and people are required to be Islamic in their outlook, not to do un-Islamic things ⁵.
- ❖ But I think we are looking at the accountability of that board. And also the quality of the advice they give. When I looked into this a little bit deeper, how much time do the Shari’ah scholars at some of the financial institutions, how much of their time do they spend looking at paper work.

But in this time of corporate governance and accountability, where is the accountability at that point ⁵.

- ❖ Now you know the CEO is accountable to the board and the board is accountable to the shareholders. Who is the Shari'ah board accountable to? And I think this is a challenge ⁵.
- ❖ I would describe our corporate culture as Islamic. We try to create a family friendly atmosphere and I think you can see this in our business plan ⁵.
- ❖ I would say again of all the Islamic banks I've been involved with, either advising them from a legal perspective or as a private practice law firm, I would say there is a need for looking smart, for looking like bankers to inspire confidence and respect. I think we like showing respect to others and receiving respect for values and culture - ours is the strongest I have seen of all the Islamic banks ⁵.
- ❖ We have a social committee which encourages people to go to social events but also encourages putting things back into society, helping out society. At the same time as well, I think we are quite traditional and conservative, we want people to come in on time_and we want offices to look like bank's offices ⁵.
- ❖ I think we attract people who are serious about their religion, who are interested in their religion and really want to further Islamic banking. I'm not sure of too many other institution that you could go to and really practice Islamic banking like the way we do. You've got Shari'ah adherence embedded in the culture, in the code of conduct, in the dress policy, in the decision making ⁵.
- ❖ We very traditional, very conservative⁵. I think we are looking at professionalism and education. We need more of the Islamic bankers to have professional qualifications; we need them to be thoroughly ingrained in their educational qualifications ⁵.

- ❖ So we have strong corporate governance in Bahrain and the culture of course is supervised by the corporate governance that we have here in the bank ⁶.
- ❖ By the way you know that our bank has for the second time won the corporate governance award in the entire GCC ⁶.
- ❖ Poor corporate culture has led banks and organizations to deep trouble. But when we have good corporate culture it safeguards your business definitely and it makes the process of making decisions in a much more professional manner ⁶. But because our corporate culture and corporate governance was so strong and strict in our bank and well politicized, we have managed to stay away from many problems that we would have been dragged into because of poor corporate culture and poor corporate governance ⁶.
- ❖ Whenever you can, introduce new culture, professional culture, efficient culture, a few matters, I did introduce to this bank as a culture definitely. Our slogan now is 'brighter banking' but in the past it was 'together we grow', that was the slogan of the bank. And indeed it has been reflected in the culture of doing business ⁶.
- ❖ Our bank is a local bank and we have to stay with our customers in the bad and good days. Another unique thing which I think is very much appreciated by our clients is the promptness in our response time ⁶.
- ❖ Yes we do have socialization; it is a very friendly environment here. Our CEO and our GM and the people under them are easy going and reached by others ⁶. It probably could be an attribute for staff motivation ⁶. The style followed by the CEO in this organization is truly very unique. He gives a lot of freedom to the head of the departments ⁶.
- ❖ The thing that cannot be copied is your internal culture, the way you do things in a flexible atmosphere as ours. And I am proud of our bank, we are known as the people bank. Very friendly in dealing with customers, they like to deal with us, they feel that we are more open and we listen to them ⁷.

- ❖ And you know the innovation, this is something that you can have as written values for your organization, but the real challenge is how you make them happen ⁷.
- ❖ We are lucky that we have a board that always appreciate the introduction of new products/services based on a new technology in the bank. And it is our internal culture that pushes us to introduce new products after appraising it carefully. Sometimes we are successful, sometimes not ⁷.
- ❖ You need to develop some plans to adjust to this environment ⁸.
- ❖ In order to implement it properly, you need to have a very lean and flexible organization. If you have a very rigid organization, if you have a very rigid culture and structure you are highly unlikely to succeed ⁸.
- ❖ How quickly you can adapt and sustain that. And that is very key; you find that some banks are very good at this where some banks the culture is very rigid and not easy to adapt to change ⁸.
- ❖ Has created a very open environment that is very inductive for cooperation and in executing our plans together ⁸.
- ❖ I think we in Bahrain with our main market here, we are very much viewed as user friendly, very easily approachable. We have a very broad client base and we are the people's bank ⁸.
- ❖ We have one of the best, if not the best user-friendly e-banking. It has recently been complemented with SMS and mobile banking and we will continue to be open and pro technology and we will invest in innovation ⁸.
- ❖ So I think overall we view innovation as important for us. We invest in it; we take care of our clients ⁸.
- ❖ I don't know whether you have seen our corporate values, we have pioneering, creativity, reliability and passion. So we have those four corporate values ⁸.
- ❖ My way of doing business is very simple. I call it accessibility. If you accept a job, any job, no matter what, even if you are a CEO, you have to be accessible to the people you provide services to ⁹. So I think that

creates a culture also and you are accessible and so does everyone in the organization⁹.

- ❖ At Arthur Andersen we had a policy there and I stayed there for 22 years. We call it the open door policy⁹.
- ❖ Credibility, brand name and history of the bank itself play a key role in not only attracting deposits but attracting very good cheap deposits⁹.
- ❖ Here we employ the open door culture. We are accessible at any time, from the CEO till the lower level¹⁰.
- ❖ Here there is a lot of confidence. A lot of assignment of responsibility given to a lower level, who can really decide, take a decision and be responsible for a decision¹⁰.
- ❖ So we have to work as a team¹¹.
- ❖ We have to stay very close with the customers since our relationship with them is very important. If you fulfill the customer requirements, and if you have clear vision about your plan as a bank, this will pay off¹¹.
- ❖ I think for corporate culture first you should know your customer and their requirements, tailor made or come up with products which suit their requirements and try to be close to them¹¹.
- ❖ And what we found that by staying close to our customers, we benefited a lot in terms of new business and sustainability in general¹¹.
- ❖ So our corporate governance structure is very robust, so now that added to the fact that our low risk and added to the fact that we are retail has resulted in this kind of performance that we had¹².
- ❖ I think we have one of the finest corporate governance structures in the region¹².
- ❖ So the way of doing things is very collegial and I would say the corporate culture and the business model we have, it is called consensual. The decisions are made on a consensual basis¹².
- ❖ There is a culture where people don't face up to the difficulty. First there is a problem, and secondly who is responsible for it. There is a sense that

some of the problems will disappear, they never disappear, and they always come back and hit you much stronger than the first time¹⁴.

- ❖ Taking our group corporate culture is that we as a retail bank feel very strongly and we say in the branding too that we are your partner bank¹⁴.
- ❖ The relationship between the individual account officer and the client is close and that is really what is happening all over the branches we have. So that corporate culture is positive, somebody referred to it as coffee and tea culture¹⁴.
- ❖ People say why our group is so successful? I say because, from the General Manager down in the operating units in all these countries they are very well connected. They know their markets; they know who not to deal with and who to deal with¹⁴.
- ❖ With the rebranding of the group, I think the corporate culture, the awareness of the corporate culture, the focus on the corporate culture became very strong¹⁴.
- ❖ I think BBK is actually more successful because they keep adapting and they keep innovating things because they don't get as much preferential treatment as NBB¹⁵.
- ❖ But overall your culture is like genes, your genetic things, now culture is evolving like genetics. How does mutation happen in terms of culture, like mutation happens in genes is because you have different people coming in whether at the board level or management level. The old culture never dies and then the battle happens and then you have to build on it¹⁵.
- ❖ My philosophy is to have a balance between very strict and disciplined attitude and behaviours and to inducing flexibility and work satisfaction¹⁵.
- ❖ The culture, as I said, is more open door, it's more team work and people out of their own they stay very late if they have a specific assignment to finish; so it is that kind of culture¹⁵.

- ❖ The other thing that I think our company always had as a culture at least since I have been here is that we are trying to implement professionalism in our business operation in terms of conducting our business at the highest level of ethical code of conduct ¹⁵.
- ❖ Also communication I would say between the management and the board in terms of what they need to achieve and proper reporting ¹⁶.
- ❖ What I would say is that the culture complements achieving the business plan. If we are talking about our organization for example I would say it is aligned ¹⁶.
- ❖ We always maintained a very friendly working environment which I would say it is one of the best which I have experienced ¹⁶.
- ❖ An open door policy which helps a lot in certain issues ¹⁶.
- ❖ The management overall here works together as a team which enables the junior staff to learn and develop ¹⁶.
- ❖ You have to earn your money (sense of responsibly and accountability). This concept applies to all whether you are a CEO or a normal manager. Sometimes managers unfortunately work to protect their image rather than working hard to justify their salaries by making customers satisfied ¹⁷.
- ❖ I implemented an ‘open door’ policy – especially when there is a legitimate reason to see the CEO, since I do not believe in hierarchy structure of management ¹⁷.
- ❖ I do believe to work as a team and not ‘a dictatorship style’. I believe in team work and I am still influenced by E&Y culture since I stayed there for a period of 20 years ¹⁷.
- ❖ Finally, our culture has changed over the years – based on my personal experience and job preferences – to do certain things (desired culture) based on the ongoing job experience and adaptation to market condition ¹⁷.
- ❖ So, risk management is a key function. Therefore, I do not see why Islamic banks’ organizational structure is different from those of

conventional banks. An organization in general has to be robust and must be aligned to functions ¹⁸.

- ❖ We have a CEO who places a lot of trust and reliance on the support and control functions ¹⁸.
- ❖ Selection of management team was very closely done (culture fit) since the inception, although we have gone through a lot of changes ¹⁸.
- ❖ If you really want to be successful in the market, we must meet clients' expectations, so that we take and prioritize these complaints, filter them and try to solve them quickly ¹⁸.
- ❖ Yes we want to differentiate between someone who is performing but all the team should be rewarded ¹⁹.
- ❖ We have a very friendly environment. We make sure when we recruit someone he fits the culture ¹⁹.
- ❖ It is very open; we have an open door policy with less formality. This is something that we want to continue ¹⁹.
- ❖ Corporate culture that is truly cultivated and shows at the worst of times. We are in Chapter 11, if we were a greedy Wall Street hit and run type of mentality, then we would have left by now ²⁰.
- ❖ Technically we use collective wisdom and this is important to us ²⁰.
- ❖ The good thing is that where the culture was nurtured, initially it was in Bahrain, the culture is still there. The further the offices are the more the culture is being eroded. We need to rebuild it if things happen well with Chapter 11; we just have to rebuild that culture ²⁰.
- ❖ We do things very casually, like the offsite meetings that we have; and things really get discussed more seriously over lunch and dinner than the presentations that we see. So we used the cultural intimacy that we developed to get things resolved and move along ²⁰.
- ❖ So I think you need to be very mindful to build a culture that believes in this long term ²⁰.
- ❖ It's a challenge even as part of our culture, how to downsize ²¹.

- ❖ Each organization has its own uniqueness I would say. We are unique in different ways. We are family oriented, we are Islamic ²¹.
- ❖ And you will relate to the client in calling him ‘Sheikh’ or calling him ‘friend’ or calling him ‘buddy’. That has a good impact actually ²¹.
- ❖ A general theme would be focusing on client needs is a major thing to keep and sustain your business. So you have to adhere to your clients, you have to listen to them; you have to know what they are looking for and in a way try to drive your business plan ²¹.
- ❖ It is very important. I think communication in any relationship, if you are talking about a domestic relationship or an employee relationship that is key because it helps prevent misunderstandings and it’s clear why you are doing certain things²².
- ❖ That in terms of openness and in terms of treating everybody as a team ²².
- ❖ And we see our vision as our main strength, our strength is not our size, we are not the biggest. Quality, I never argue that I’m better than others because there is always somebody better than you ²³.
- ❖ We work hard, we are a meritocracy and we have no preferences for people based on religion, sex, nationality etc ²³.
- ❖ The third point is to work cross border; people have to know and trust each other ²³.
- ❖ The final point I think is because we don’t have the luxury of being very big in size, we don’t have the luxury of being a government bank with government money bailing us out or giving us easy profitability as you have many banks across the region that are very dependent on the government. So we really have to work harder and be professional. And I see this as a big strength to compensate for our lack of advantages in size or in shareholding ²³.
- ❖ Accountability is there and that is reinforced through particularly the compensation type of packages and the bonus type of structures ²⁴.
- ❖ The concepts we do have which are a part of the fabric is kind of hard work, commitment and dedication and that’s what we try to pass along ²⁴.

- ❖ It is a meritocratic organization based on hard work and ethics. Perhaps it is the nature of the bank we are in but a lot of the success is based on just commitment, discipline and a focused approach ²⁴.
- ❖ Then we have an overall review and we keep the people accountable ²⁵.
- ❖ I think in terms of accountability it has improved no doubt. Better discipline also. Now I think for the past two or three years staff are aware of their responsibilities and their contribution ²⁶.
- ❖ The thing that is required is vision. The management must have a vision about what they want to do. And that vision can come in various forms. The bank strives to be the most admired bank known for its financial performance, its returns to its shareholders, its regulators, commitment to its employees, its sustainability, its philanthropic work, its corporate governance etc. that's the vision of our bank ²⁷.
- ❖ And it is again ultimate client focus and when there is a client issue there and when there is something to be done for the client, there is incredible team work within the organization which is in part driven by shared big rewards, at least in the past ²⁷.
- ❖ The senior management of the bank 10 or 12 years ago has absolutely focused in on the reputation. For a while we had an internal motto which was 'Stay out of trouble' and that was it. So we focused and focused and focused on that and I think that culture is ingrained in our organization ²⁷.
- ❖ For us culture is about having the client at the centre of everything we do and being extremely client focused ²⁷.
- ❖ So there is a certain element to our brand which we obviously carefully manage our brand and our reputation and all this comes together ultimately. For me it's about the client being at the centre and that proactive principled partnership. That for me is what's fundamental ²⁷. Now in 156 years of private banking tradition a key thing for Swiss banks has been banking secrecy. The banking secrecy rules are extremely tight ²⁷.

- ❖ Conflict of interest within Shari'ah board also exists (by virtue of serving two or more competing institutions) ¹.
- ❖ Most of the Islamic banks as you hinted are not fully institutionalized. There might be some institutionalized in terms of infrastructure, but implementation is very weak¹. In Islamic banking, there are some infrastructure policies but not comprehensive as you would see them in conventional banks. But the implementation of those is not to full-speed, full-extent ¹.
- ❖ There are a lot of loopholes and gaps in these policies if compared to advanced conventional banks. I do not see fully institutionalized Islamic institutions as yet. Basically, whether this issue relates to board of directors (BoD) or management fault. Also, it is usually 'a one man show' or 'founder issue' ¹.
- ❖ I will take this further to say that we do not have qualified BoD members including independent members who are specialized in the industry ¹. But, this is not facing the Islamic banks only, but also the conventional banks. I see a big diversion from the BP because of management – not institutionalizing all the organization and there are not sort of measure for the implementation of the business plan ¹. I will answer on this, if a bank is institutionalized and has a good management and put a viable BP that could be implemented – these factors making it more successful BP ¹.
- ❖ Risk management (RM) in Islamic banks, I will call it as 'substandard' – less than standard. Now, a basic element of RM is the diversification of exposure¹. Asset risk rather than management risk. Lack of diversifications in respect of industry, sector, country, maturity and profit rate. All Islamic banks ignoring this, and instead focusing on where you/I making more money – short sighted ¹. There are also certain operational risks which are not dealt with: infrastructure, and human capital. Therefore, RM is less what it should be ¹.

- ❖ You are absolutely right, I have been in this region and sector for the last 15 years and you still see the same group of scholars still being represented in most boards. I'm not sure what the solution is, even the scholars they need to take steps to train their students.²
- ❖ The board also needs to be involved and needs to monitor implementation progress, etc. I think boards need to be more hands on and if things are not going according to plan they need to take corrective action even with senior management². We should encourage banks to have more independent board members, people with specialist skills, because usually they are represented by the shareholders².
- ❖ Some Islamic banks carry foreign exchange risks or other risks just because of lack of hedging instruments, in the same way that are available in the conventional bank³. Islamic banks the majority they don't have high rating. That is also another reason why there isn't interbank lending³.
- ❖ You need to strengthen your risk management, your investment guidelines, the human resource guide, a strong board, all of that without giving up the model, because the model actually is important for society and it's also important as a diversification to the balance sheet⁴. A diversified pool of assets, Islamic banking is very conducive to having that diversified pool⁴.
- ❖ Those that stuck to the Islamic values in this regard and they said sorry that this securitization structure does not work; I think that was not only good for them as an individual bank, but also good for the Islamic banking sector⁵.
- ❖ We have policies and procedures that cater for all sorts of business⁶.
- ❖ I think one of the challenges for most of the banks in the country is to ensure that they have enough liquidity, because liquidity is the safety net for any bank during any crisis⁶. Luckily, I would say that our bank did not have the liquidity problem during the crisis, after the crisis and until

now. What we have suffered as a commercial bank is excess liquidity and not a shortage or lack of liquidity⁶.

- ❖ In Bahrain overall things that are happening is that most of the Islamic banks' management of risks has been a bit weaker than the conventional banks. But that is not by design and it cannot be generalized⁶.
- ❖ When you have cheap sources of funding you can always find good avenues of deploying these assets and basically make that margin that you desire as a bank to make up your bottom line⁶. On the other hand in Bahrain there is a tendency of lending secured⁶.
- ❖ But commercial banks always have the source of customer deposits and that's what has safeguarded those⁶.
- ❖ In our bank, we have already taken a decision in this strategy that we wanted to diversify or to retrench our lending from international markets into more GCC markets. Because we believed in the GCC markets, we believed in the stability of the GCC markets⁶.
- ❖ So you need to have proper conservative and clear risk management policies where deploying your money and customers' money should be done in a very safe manner⁷. So for the risk you are taking by lending and investing that money, you need to make sure that you have proper risk management⁷.
- ❖ First, I think the capital adequacy is a very important thing, so the shareholder needs to put their money first because they are getting more rewards than others. So the capital they invested in operations should be more than enough for the underlying risk⁷.
- ❖ Second, the risk management policies should be adequate as dictated by regulators⁷.
- ❖ And I think so many banks in Bahrain have learned it unfortunately the wrong way because there was so much heavy concentration in one sector of the market namely 'real estate', which proved to be not a good strategy⁷.

- ❖ These measures by regulators are necessary to make sure that all stakeholders, shareholders, and depositors' interest are protected. And that there are clear and transparent mechanisms to measure financial performance of a bank to justify the rewards for management ⁷.
- ❖ When a bank lends money, it must have a clear direction about risk appetite, which sector you chose to lend to, there is proper diversification of portfolio where a bank does not concentrate on sectors like real estate or manufacturing. This of course should be triggered by proper analysis of the market, and reading the future ⁷.
- ❖ There are a number of banks unfortunately who made a good fortune in the short term, but the real challenge is the sustainability of profitability rather than having a short-term profit ⁷.
- ❖ There will be always some pressure to have short-term profit. You need to strike a balance from all these aspects to make sure as management to properly monitor the risk so you can sustain your business profit for longer periods ⁷.
- ❖ Specifically, if you go into what banks do, the reliability of funding is increasingly becoming challenging. The funding as a whole, if you are relying on interbank or part of it, this source is drying up ⁸.
- ❖ You also need to have a very well diversified revenue stream amongst your business sectors or business lines. In our case anything more that 30% to 35% in one sector means we are running a risk ⁸.
- ❖ We have tried to move from one product relationship to at least three or four product relationships ⁸.
- ❖ Yes, core business and they don't have concentration. I mean if you interpret their balance sheet, you will see that they have equal percent lending to retail, investment, and commercial, which really they benefited from the diversification concept ¹¹.
- ❖ So risk management is one of the key reasons for why banks can succeed or fail today ¹².

- ❖ So the best and most professional way of handling this, the investments, the financing and the assets on your balance sheet is always to make sure that there is diversity ¹⁴.
- ❖ Yes the most important thing is that Islamic banks should not just do opportunistic business and sort of follow a herd mentality ¹⁴.
- ❖ So definitely over time this is not sustainable, so you need to downsize and reduce the cost from the operations which are not making money ¹⁵.
- ❖ In terms of corporate governance we are trying to be even ahead of the requirement of CBB ¹⁵.
- ❖ Proper risk controls and measure, proper credit rating and everything; or proper conduct of business ¹⁶.
- ❖ Sustainability of course. And you will meet this only if you do the proper asset liability management ¹⁹.
- ❖ For the proper management of a bank definitely you need strong infrastructure, systems, policies and procedures and risk management system. All this should be in place ¹⁹.
- ❖ And I think it is a big issue that needs to be addressed from even a legislative, if we look at the US, is to align the incentives of management to be long term in nature and not short term in nature and that is very important in doing all of that. Sustainability, one thing we have as an issue here is really and very important, we never saw it this way but lately and even the Central Bank of Bahrain (CBB) is seeing it ²⁰.
- ❖ So we couldn't match our balance sheet because exits dried up. But some of the conventional banks could have sustained themselves by financing through secondary markets ²⁰.
- ❖ One more thing, having a very effective risk management is important for sustainability. And add to that corporate governance ²¹.
- ❖ I think with those two names the first thing that comes to mind is conservative ²².
- ❖ Prudence seems to have gone out of the window in the way some banks handle their risk management. I do not subscribe to the theory that

modern technology and the emphasis that the regulators have done on the risk management have necessarily improved risk management of the banks and the proof of what I'm saying is the losses you keep seeing across the board ²³.

- ❖ We were able to kind of adopt a clear strategy and that has helped us weather this particular storm and the problems that have been experienced ²⁴.
- ❖ We felt to be competitive we have to adapt to the market condition quicker than our competitors and that was going to give us an edge ²⁴.
- ❖ You have to draw your road map - the culture and the corporate governance are important; because if you have not set up your corporate governance right then you will face these difficulties ²⁵.
- ❖ The main thing is that there should be segregation of duties. Proper risk management and as I said, visionary proactive management ²⁶.
- ❖ Now banking is a risky business and there is risk you take anytime you do anything, but trying to maintain your reputation for the bank, for the client, for the regulators and for the shareholders is critical ²⁷.

DOCTR

Doctrine

- ❖ Now, it was around 1975 when the first Islamic bank started (Dubai Islamic Bank). At that time, there were only two products: Mudaraba and Murabaha. Everything else is not acceptable. In 37 years, the industry has advanced and progressed well. We have today sukuks and certain hedging products ¹.
- ❖ Because when you talk about Islamic banking you're talking about ethical banking ³. Islamic banks generally are not greedy, you find that they are taking their deposit for example, the pricing in their deposit is much higher, and the profit rate of the offer is much higher than the profits offered by conventional banks that are on the liability side ³.
- ❖ Islamic banking, as I said, it is ethical banking, their margin is very small, and they are working in turnover, very heavy turnover. So that is my own

analysis³. In many cases the bank at times make less money than what is expected but never charge it to the customers and they take within their own and they give the customer what they have promised him, so it's about ethics³.

- ❖ The third attribute of Islamic banking is people like to move to Islamic banking on religious grounds³.
- ❖ And lack of some products for corporate, for retail, such as overdraft for example. It is another hurdle that you cannot get a lot of customers banking with you because you don't have that³. Finance is a 'Murabaha' in Islamic finance which means it is buying and selling³.
- ❖ On the retail side for any finance transaction for example, it takes longer because 'Tawarq' and other third parties are involved³.
- ❖ The Islamic banks really have got an advantage with the Shari'ah board, because the Shari'ah board is, this is an important aspect of banking under the Islamic model, the Shari'ah board is more pro customers than they are, as the perception goes, pro the shareholders. They are very pro customer and I have attended many Shari'ah board meetings and the fatwas are there, they can't allow a bank to take advantage of a customer because of his absence⁴.
- ❖ For example, no Islamic bank, or the overwhelming majority of Islamic banks, they cannot enter into the business of derivatives⁴. They have lost the underlying mortgage because they have done so many derivatives at the end of the day they ended up referring to almost the paper mortgage because the value has spread over billions of dollars that there is no match between the existing assets and the papers issued. This is not allowed in the Islamic banking industry and therefore the big hit that has happened to the industry did not come and would have never come from the Islamic banking industry⁴.
- ❖ Actually the Islamic banking model is that of investment. Investment in the form of loans, investment in the form of developing a country,

developing a society, and developing across the border. Islamic banking funds ought to be used to develop societies⁴.

- ❖ I think the best way to describe Islamic banking in the international arena without raising an alarm is ethical banking⁵. So we feel there is ‘Ajur’ in this whereas conventional banks don’t think of ‘Ajur’, they just think of how much money they are making and how much time⁵.
- ❖ There are certain aspects of the Islamic banking model that would always protect a bank and make it successful to a degree⁴.
- ❖ Within number one there is abiding to the Islamic Shari’ah principle, taking the social responsibilities, taking the culture, taking the philosophy with Islamic principles. We don’t just lend for lending. We lend because there is some need for it. And we don’t take deposits unless we know that we can employ it¹³.

ECO

Economic

- ❖ I think the second thing is, because of the corrections in the global investment markets and especially the real estate market in the Middle East, a lot of investors have lost a lot of money during the financial crisis in 2008 and they have burned their fingers, so even when they need to invest and they have money set up, they are a bit reluctant to invest these days and that’s on the customer side of the investment banks².
- ❖ First of all just talking about banking generally, I think the whole sector has got a number of issues and principally a lack of confidence, certainly worldwide in the whole banking system and the banking structure⁵.
- ❖ Today you know in Bahrain after the political crisis that has started in February of 2011, the main challenges that are faced by all banks in Bahrain, all the commercial local banks in Bahrain, our bank is included. It is basically to safeguard the quality of its assets on the one hand. And on the other, is to continue the business activity knowing that these business activities have slowed down tremendously⁶.

- ❖ All the excess cash that the Middle Eastern banks used to place with the international banks has now been brought back into the region ⁶.
- ❖ All asset classes have been hit and this is the first time in my career – similar incident happened 1985 in the investment field, that I have seen something like this ¹⁵.
- ❖ There are issues that could impede the growth of the world economy like the on-going dispute between US and China on trade issues, the Euro-zone crisis, US debt crisis and the near emergence of China as the biggest economy in the world ¹⁷.
- ❖ Finding a core and good asset or divesting from your current asset because of the market conditions today ²¹.
- ❖ If you see Europe today, Europe is economically going through a very difficult time. This has impacted the banking sector now which is very awkward. Now if you take RBS or Lloyds, the main shareholders are the tax payers which shows that the public is lending money to the bank while it should be the other way around ²⁶.

GEN

Generalist (which means Retail Banking)

- ❖ I think among Islamic banks there is cut throat competition between all Islamic banks; there are so many players now in the market in the retail ³.
- ❖ And it won the trust of the people, so it's a very trusted organization and it weathered the storms of the financial crisis 'Al Hamdulelah', because the model has been retail and investment and also as we said as an Islamic bank you are heavily collateralized. You are heavily backed by assets because physical tangible assets are an important article to be in any transaction whether it is funding or of course investment ⁴.
- ❖ On the other hand in Bahrain there is a tendency of lending secured ⁶. Of course you have most of the commercial banks, the security they have on hand is real estate. At the outset, when we lend to customers, we take a margin, for a possible fall in the price of the real estate, even if the price of the real estate goes down, because of the long-term relationship there

may be corrections and banks may suffer temporarily but they will recover later on because of the movement in the real estate prices ⁶. We have to lend but more cautiously, more securely ⁶.

- ❖ People are now shifting from investment banks to commercial retail because they believe that this is the right banking – sustainable and secure. But it has some challenges, competition; international banks are moving now and also trying to compete with you in your home markets, namely HSBC and Standard Chartered ⁷.
- ❖ I think these banks have been in the market for ages and benefited from the new monopoly ¹¹.
- ❖ So retail banks are in a better position and also had better assets and liabilities structure. This is because their funding is more reliable and generally lower cost¹⁴.
- ❖ Well, in Islamic banking we do not have a similar Islamic bank with so many subsidiaries and such international reach. In conventional banks, you could say some of the Al Ahli United, I mean talking Bahrain only, and Al Ahli United could be a bit similar ¹⁴.
- ❖ But given the financial crisis, local retail conventional banks were probably safer than the investment banks, but in general this crisis has hit not only the financial institutions but almost every aspect of the economy¹⁴.
- ❖ Al-Rajhi started as one of the first Islamic banks in the region. Their success is initially based on the free fund (float) – this allows them to invest this fund on short -term basis and achieve decent return ¹⁷. They are not necessary as very bright or a smart institution. We should also point out that Al-Rajhi is located in a lucrative market which accounts for nearly 75% of the overall GCC economy ¹⁷.
- ❖ Meanwhile, KFH – although they are similar position like Al-Rajhi – benefited from being first mover to the market, they also benefited from the government support, their 49% ownership of the bank ¹⁷.

- ❖ The fifth point and final point on why some conventional banks are more successful is stable low cost deposits ²³.
- ❖ So we weren't adversely affected on the interbank side but even so I think banks have fully understood the reliance on interbank is a dangerous thing. So customer's deposits are the answer in all our units and not just in Bahrain and that has been our focus ²⁴.
- ❖ We are always thinking about what type of business is sustainable, and the business which is sustainable is always retail ²⁵.
- ❖ It has changed because we have also changed from investment to retail so that also has to shift because we were used to investment and it's different. So we had to adapt to the retail operation ²⁵.

HYBR

Hybrid Model

- ❖ None of the retail Islamic banks have been successful and if some institutions made good money in the past 2-3 years, these are not sustainable-core business from the market ¹. Some banks like Al-Rajhi in KSA and KFH in Kuwait made a good profit because of the non-earning accounts. In general, the big income does not come for example from retail product developments, but from the exceptional non-earning accounts - usually coming from a single obligor ¹.
- ❖ Taking about Bahrain, some of the retail Islamic banks – in good times, they made good money because of the revaluation of real estate assets and they made big losses in bad times. So, no sort of consistency here ¹. Now, but unfortunately, there is no co-mingling between the boards and executive management and the rest of the employees ¹.
- ❖ The good thing about Islamic banking is it focuses on the asset ⁵. I think that will come back, but I think that is the main driver for the success of the retail banks in the boom time. They got into the retail mortgage business ⁵.
- ❖ Therefore, first movers benefited from this 'hybrid' model over the 30 years and replicating this module by newcomers with limited capital

resources may not work. KFH is a time tested model. That's why they are a leader and profitable¹⁸.

LEAD

Leadership Role

- ❖ Having the right people, having the right leadership.
- ❖ I think it's the leadership of the bank; it's difficult to put a cultural test. A culture is intangible, it is the way you handle yourself, the way you handle your business as you go on. And starting from the leadership, luckily we have gone through a number of leaders who had strong and positive culture that has been implanted in the bank and the majority of the staff have sort of gained or accepted that culture. But when I arrived here there was very strong culture in the bank, a very healthy culture I would say⁶.
- ❖ That culture is a main driver of us gaining market share, building the brand and being profitable, because without it we cannot do it. And in my opinion it always has to come from the top. It can never be bottom up⁹.
- ❖ There was a desired culture – CEO implanted this initially, but maybe this desired culture was not achieved immediately. We worked-worked-worked and established the desired culture over the 5-6 years time¹⁸.
- ❖ If the leadership is not part of the execution of the plan, no plan can be executed right, so involvement from the top is very important⁶.
- ❖ In the bad times that's really the real test where you get the true differentiation between who has the inner strength or not²³.

MKT PSY

Market Psychology

- ❖ The Islamic banks do not have a good relationship with each other and they do compete with each other fiercely rather than complementing each other. There are certain personal and ego issues – 'I want to be a head of others'¹. 'Why I build a relationship, why I co-invest, co-share if I can do it myself'. These are not structural issues but sort of moral or

'intangibles' ¹. Nobody wants to deal with me. Unlike, the conventional banks where we see a lot of transactions, all the big banks participate with each other even if one bank participate as a lead-manager in a deal, others joined the deal as co-lead managers ¹.

- ❖ It's a psychological issue and that going to take some time. People need to forget what happened and have confidence that things are not going to get any worse, because it started in 2008 and got worse in 2009 and 2010 and we don't have real signs that we have permanently come out of the crisis, and they hear about Europe and US in recession, all that is creating negative sentiments for the investors ². I think the second thing would be that we enjoyed good economic success for a number of years, oil prices were high, liquidity was available and people had money to invest and obviously that led to the success of the Islamic financial institutions ².
- ❖ People are very reluctant to deal with investment banks because they perceive that to be more risky ².
- ❖ I think there should be more cooperation between Islamic banks ³.
- ❖ Another challenge is that the public at large is not well aware about how Islamic banking works. It is a very unique form of banking though it could be similar in some aspects but it is significantly different in spirit, as opposed to what really people think that at the end of the day they are the same, no they are very different ⁴.
- ❖ Perception versus reality, so the public need lots of education to know the real essence of Islamic banking, especially the ethical aspects of Islamic banking and the Shari'ah aspects of Islamic banking that pushes it ⁴. Another important difference that people are not very aware of is that the Islamic banking industry commingles the funds, and in commingling the funds of the depositories and its own assets, the share capital and borrowed money are obligations on the balance sheet of the Islamic bank through the shareholders. When you bring those monies together, whatever is generated of profits, the profits are distributed

proportionately after the deduction of the appropriate expenses and therefore in most cases if not in all of the cases⁴.

- ❖ So it is an embarrassing situation in the country today, you have a certain sector of banks who are too much in need of liquidity and you have another sector of banks who are enjoying an ample amount of liquidity⁶. The psychological effect that has affected the Islamic banks in Bahrain has made this imbalance in the liquidity between the conventional and Islamic⁶. So they think conventional banks are safe and Islamic banks are not as safe as conventional banks⁶.
- ❖ The ordinary customer in the street cannot distinguish between an Islamic commercial bank and an Islamic investment bank. He just groups all the Islamic banks in one part and he says, this is an Islamic bank so the risk is high because we have seen some Islamic investment banks go through trouble. He does not recognize that the commercial bank whether Islamic or conventional is under the umbrella of the Central Bank of Bahrain⁶.
- ❖ Now, I would say the conventional banks are in a better liquidity position⁶.
- ❖ I think it has a lot to do with the brand and the credibility of the brand⁹.
- ❖ See that was one of the problems, they didn't connect with each other; they didn't talk to each other¹².
- ❖ Banks are going today since 2008 through one of the biggest banking crisis we have seen certainly for a long time. Now this crisis is a crisis of confidence and banking is a business of confidence¹⁴. Now the interesting thing and this is what I mentioned in the beginning, Islamic banks had no crisis of confidence. They largely escaped this crisis of confidence¹⁴.
- ❖ But again conventional banks have wider products than us²⁵.

POP

Population (which means Customers, Investors, Regulators, and Stakeholders)

- ❖ The Central Bank of Bahrain is acting as the vendor of last resort for them so the possibility of an Islamic commercial bank to fall down is much lower than an Islamic investment bank to fall down ⁶. We handle all clients, from small clients to the most important mainstream clients ⁶. The other aspect that I think is very unique in our bank which I have not seen in other banks is that we stick to our clients, in the bad and good times. We don't try to get away from our customer when they are in trouble. We stick with them and hold their hand until they go through their problems until they are sort of winning. I have many cases of customers who were on the brink of collapse. We went with them and almost managed their business for them ⁶.
- ❖ This is very critical for customers in Bahrain and also for the culture of business in Bahrain. And you know the culture of Bahrainis, whether retail or whether corporate they always want it by tomorrow or by yesterday. If you don't respond quickly, they will go to another bank tomorrow ⁶. Customers in Bahrain have the tendency of wanting to know and getting the money in their hand as quick as possible, if you take your time you will lose market share definitely ⁶.
- ❖ The stability of the shareholders and management relationships ²³.
- ❖ Sustaining profitability and it's about long-term value for shareholders, clients and the staff of an organization ²⁷.

SPEC

Specialist (which means Investment Banking)

- ❖ Banks like National Bank of Bahrain (NBB) and Bank of Bahrain and Kuwait (BBK) have been making money in good and bad times. Maybe they are making less money in good times. But, Islamic banks are making big money in good times and also big losses in bad times ¹.
- ❖ I will hand out many challenges; one thing is just liquidity, the bank lending market has really dried up and people are very reluctant to deal

with investment banks because they perceive that to be more risky, even the lending in commercial banking is much less but for investment banks it's very difficult at this stage ².

- ❖ I think there are a number of factors; one of the factors is that they brought products that weren't available to Islamic investors in the past ².
- ❖ Now you heard about the stories of Arcapita, you've heard about the stories of many other banks that have either gone to Chapter 11 or have gone out of business. Like Bahrain International Bank in the past, why is that? Because the source of funding has dried for them. They could not even borrow to fund their assets ⁶.
- ❖ Unlike some other banks, especially the investment banks in Bahrain who are suffering from the lack of liquidity ⁶.
- ❖ Yesterday's so called great investment banks, well performing, they have all disappeared now. The only banks that are still remaining are the banks that have very deep pockets and very good fundamentals ¹².
- ❖ All investment banks - stabilizing balance sheets, finding liquidity and downsizing your business and trying to stay alive through the process ²⁰.
- ❖ What happened during the financial crisis is greed kicked in and that greed made the long-term sustainability of the institution less important to especially senior management and more important to them was the yearly performance target that would maximize their current bonus ²⁰.

APPENDIX EXHIBIT A5.4 – FACTOR ANALYSIS OF ORGANIZATIONAL VALUES

(refer to Appendix Exhibit A4.3 – Organizational Culture Profile (OCP))

Number	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
1	Meritocracy - 0.843	Being Aggressive - 0.081	Taking Responsibility - 0.078	Being Reflective 0.205	Easy Going .263
2	Strict Dress Code 0.825	Opportunistic 0.031	Flexibility -0.214	Being Precise 0.017	Emphasizing Single Culture 0.263
3	Having Clear Vision & Strategy - 0.703	Being Demanding 0.252	Autonomy 0.003	Informality 0.065	Customer Orientation 0.459
4	Being Careful 0.668	Innovativeness -0.444	Emphasizing Growth 0.192	Delegation -0.310	Team Work 0.158
5	Stability 0.628	Being Competitive -0.352	Paying Attention to Details -0.080	Action Oriented 0.125	Low Level of Conflict 0.427
6	Team Oriented -0.618	Job Security 0.244	Being Analytical -0.042	Being Socially Responsible 0.121	
7	Being Calm 0.586	Tolerance -0.383	Achievement Oriented -0.170	Being Supportive 0.155	
8	Having Great Reputation - 0.579		Corporate Governance - 0.101	Quality Orientation -0.182	
9	Follower 0.564		Decisiveness -0.220	Being Result Oriented 0.460	
10	Being Rule Oriented 0.559			Working for Long Hours -0.280	
11	Passion -0.495				
12	Having High Expectation for Performance -0.492				

APPENDIX EXHIBIT A6.1 – QUESTIONNAIRE DOCUMENT

Confidential

7th May, 2014

Questionnaire

Please respond to the items below based on your self-assessment towards the various statements as this may take you few minutes to complete. First, circle the appropriate answer in the profile section. Second, circle the appropriate rating as you see fit for each and all the statements.

This questionnaire is part of a DBA research that examines the notion of the effect of corporate culture on a firm's financial performance currently undertaken at the University of Durham, United Kingdom.

All responses will be treated with confidentiality.

Thank you for your efforts in advance

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E mail address: riyadss@gmail.com

Mobile No: +973 3 968 0021

Profile

Nationality::	1. Bahraini	Gender:	1	Male
	2. Non-Bahraini		2	Female
Position:	1. Executive Position	Numbers of years with organization	1	≤ 5 years
	2. Senior Management		2	6-9 years
	3. Middle Management		3	≥ 10 years
Sector:	1. Retail	Number of staff reporting to you	1	≤ 5
	2. Investment		2	6-14
			3	≥ 15
Type:	1. Islamic	Age:	1	≤ 30
	2. Conventional		2	31-39
			3	40-49
			4	≥ 50

Kindly use the following scale in your ratings:

- 5 - Strongly Agree
- 4 - Agree
- 3 - Indifferent
- 2 - Disagree
- 1 - Strongly Disagree

For each of the following statements, please mark ONE response only in the appropriate row to indicate the extent to which you either agree or disagree with the statement in question. **Please attempt to answer each and all statements.**

Strongly Agree = 5	Agree = 4	Indifferent = 3	Disagree = 2	Strongly Disagree= 1
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	Section A	5	4	3	2	1
1.	Your organization come up with new creative ideas relating to financial products and services (Sa1)*					
2.	Your organization fosters an innovative environment where staff members are encouraged to generate new ideas (Sa2)*					
3.	Innovations are not encouraged and rewarded in your organization (Sa3r)*					
4.	Your organization pays attention to new products/services offered by its competitors (Sa4)*					
5.	Your organization considers innovativeness as a strategic choice (Sa5)*					
6.	Your organization is a dynamic and entrepreneurial place (Sa6)*					

Strongly Agree = 5	Agree = 4	Indifferent = 3	Disagree = 2	Strongly Disagree = 1
---------------------------	------------------	------------------------	---------------------	------------------------------

	Section B	5	4	3	2	1
1.	Your organization fosters a sense of competitiveness where members are expected to perform at a high level of achievements (Sb1)*					
2.	Your organization emphasises competitive actions and achievements with measurable goals and objectives (Sb2)*					
3.	Your organization hires individuals with distinguished academic/professional degrees and with high personal expectation (Sb3)*					
4.	Your organizational reward system is primarily tied to individual performance (Sb4)*					
5.	Your organization does not pay careful attention to the annual performance review of staff members (Sb5r)*					

Strongly Agree = 5	Agree = 4	Indifferent = 3	Disagree = 2	Strongly Disagree= 1
---------------------------	------------------	------------------------	---------------------	-----------------------------

	Section C	5	4	3	2	1
1.	Your organization clearly articulates its vision and mission to the appropriate levels of organization (Sc1)*					
2.	A successful implementation of your organizational business strategy will enhance its financial results (Sc2)*					
3.	Your organizational vision creates excitement and motivation for our employees (Sc3)*					
4.	Your organization business strategy is well thought out and is based on realistic goals (Sc4)*					
5.	Your organization business strategy is based on a balance between ambitions and available resources (Sc5)*					

Strongly Agree = 5	Agree = 4	Indifferent = 3	Disagree = 2	Strongly Disagree= 1
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	Section D	5	4	3	2	1
1.	Your organization clearly defines the internal process perspective measures (i.e. risk management, internal audit committee, procedures & policies and others) (Sd1)*					
2.	Your organization strives to comply with domestic regulatory directives (Sd2)*					
3.	Your organization considers the completion of Know Your Customer (KYC) format as a key part of business compliance before entertaining new business with prospective customers (Sd3)*					
4.	There is unclear alignment and balance between management, customers and shareholders' interest (Sd4r)*					
5.	Independent board members at your organization provide a neutral element among other members (Sd5)*					
6.	Your organization considers transparency as an important element in building and maintaining credibility with the various stakeholders (Sd6)*					

Strongly Agree = 5	Agree = 4	Indifferent = 3	Disagree = 2	Strongly Disagree= 1
---------------------------	------------------	------------------------	---------------------	-----------------------------

	Section E	5	4	3	2	1
1.	Your organization is more customer focused than your competitors (Se1)*					
2.	Your customers' needs are treated with priority (Se2)*					
3.	Your organization understands how the entire business can thrive through creating customer value (Se3)*					
4.	Customers' feedback is treated with respect and with careful thought (Se4)*					
5.	Your organization considers customers' interest is very important, and a key element in sustaining present and future business (Se5)*					
6.	The interest and feedback of the customer often gets ignored in our decisions (Se6)*					

* All questions are marked with abbreviation for ease of reference in the researcher's statistical works and the write-up.

APPENDIX EXHIBIT A6.2 - FACTOR ANALYSIS FOR FIVE FACTORS

Component Matrix^a

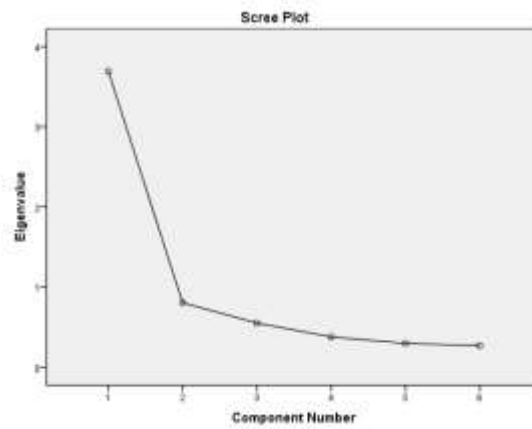
	Component					
	1	2	3	4	5	6
Sa1	0.785	-0.186	-0.054	-0.083	0.063	0.056
Sa2	0.690	-0.381	-0.178	0.149	-0.226	-0.119
Sa3r	-0.690	0.315	0.196	0.221	0.109	0.298
Sa4	0.495	-0.188	0.195	-0.294	0.483	0.178
Sa5	0.727	-0.271	0.131	-0.009	0.012	-0.048
Sa6	0.673	-0.219	-0.207	-0.064	0.109	0.106
Sb1	0.585	-0.399	-0.126	0.172	-0.001	0.161
Sb2	0.532	-0.561	0.265	0.073	0.160	-0.010
Sb3	0.640	0.001	0.017	0.286	0.191	-0.113
Sb4	0.669	-0.452	-0.071	0.067	-0.092	0.147
Sb5r	-0.543	0.350	-0.019	0.483	0.063	0.204
Sc1	0.666	-0.083	0.380	0.123	0.072	-0.221
Sc2	0.534	0.283	0.020	0.405	-0.063	0.278
Sc3	0.761	-0.042	-0.006	0.161	-0.330	-0.041
Sc4	0.808	0.110	0.202	0.116	0.029	0.065
Sc5	0.683	0.138	0.174	0.022	0.057	-0.116
Sd1	0.460	-0.128	0.491	0.104	0.279	0.081
Sd2	0.404	-0.079	0.491	0.112	-0.366	0.386
Sd3	0.371	0.238	0.307	-0.467	-0.096	0.361
Sd4r	-0.484	-0.128	0.334	0.193	0.470	-0.246
Sd5	0.549	0.209	0.345	-0.357	-0.154	-0.223
Sd6	0.681	0.296	0.119	0.099	0.105	-0.053
Se1	0.474	0.337	-0.426	-0.185	0.242	0.368
Se2	0.643	0.483	-0.102	-0.030	0.193	-0.033
Se3	0.664	0.502	-0.101	0.029	0.056	-0.113
Se4	0.754	0.316	-0.106	0.132	0.139	-0.127
Se5	0.475	0.504	-0.057	-0.023	-0.157	-0.334
Se6r	-0.730	-0.249	0.355	0.032	-0.076	-0.084

Extraction Method: Principal Component Analysis.

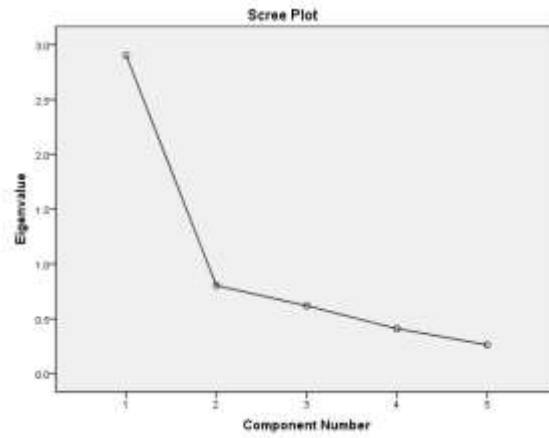
a. 5 components extracted.

Component	Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %
1	5.830	20.821	20.821
2	5.726	20.450	41.271
3	1.881	6.717	47.988

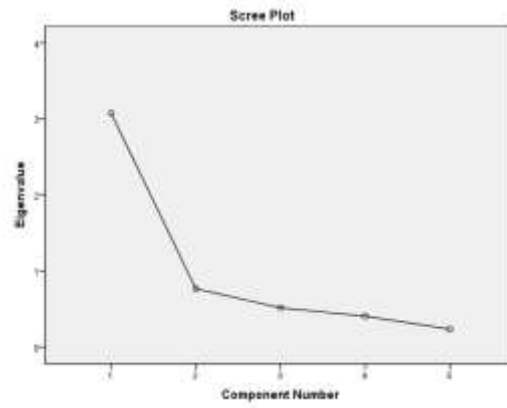
Factor Analysis - Innovativeness



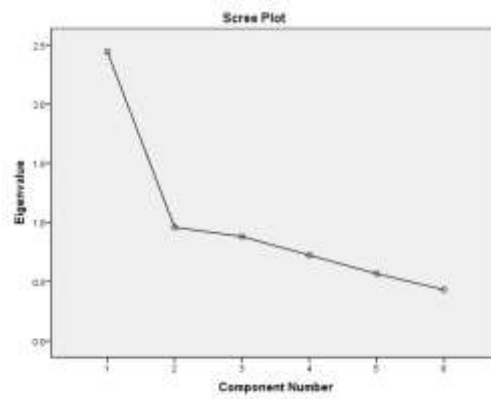
Factor Analysis - Meritocracy



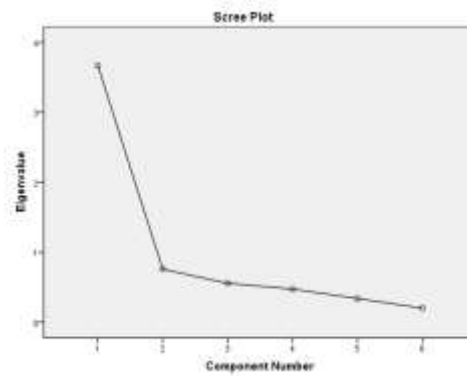
Factor Analysis - Clarity of Vision & Strategy



Factor Analysis - Corporate Governance



Factor Analysis - Customer Orientation



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