Success Factors of Collaboration in Islamic Banks

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Abstract

This paper aims to explore how Islamic banks form collaborations with other organizations and the factors which affect the success of these collaborations. Literature suggests that communication process, leadership, identity loss, diversity, collaboration cost, and organizational capacity affect these collaborations. The phenomenon is further explored by three in-depth interviews from Islamic bankers in Peshawar, Pakistan. A broader framework is developed which first explains how an Islamic bank comes in collaboration with other organizations. Second, theoretically and empirically found success factors are outlined. The contextually-identified new factors are the prohibitions in Islamic finance and regulations of State Bank of Pakistan and Securities and Exchange Commission of Pakistan which force Islamic banks to collaborate.

Keywords: Collaboration, integration, Islamic banking, beliefs

1. Introduction

Collaboration, in general, refers to a cooperative arrangement in which two or more parties work together to accomplish a common purpose. In business terms, different businesses come together and work to achieve shared goals which may result in benefit for the collaborators, such as those in Islamic financial services (Ullah, 2014). The collaboration includes both formal and informal negotiations, jointly created rules, and structures governing their relationships and ways to act or decide on the issues which bring these businesses together. It is a process of shared norms and mutually beneficial interactions.

Business collaborations exist within as well as among organizations which range from simple partnerships to complex and diversified multinational business organizations. Many business problems faced are beyond the managerial capacities of a single organization. Therefore, organizations need to work jointly with other organizations to

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exploit new facilities and solve the problems or achieve new mutual goals. For example, an organization can provide better services to its consumers by working together with other organizations because combining skills and resources from each other result in better outcomes than either could do alone as happens in Islamic banks.

This paper aims to explore how this collaboration happens in the Islamic banking context and what are the factors which affect the success of this collaboration. Knowing the collaboration process and the factors affecting its success can enhance our understanding of the current collaborating Islamic banking services and can facilitate organizations to develop strategies for collaborative banking.

1.1 Collaboration

It is believed that collaboration has been directed and explained by two classes of theories namely rational choices theories and socialized choices theories (Dowling, 2004). Rational choices theories keep focus on the economic rationales and efficiency achievement through collaboration while on the socialized choices theories focus on multiple motives, social benefits, and effectiveness as the main gears of collaboration. The phenomenon of collaboration, however, varies in different contexts so does its application too. For example, collaboration may be used interchangeably with terms as partnerships, ventures, integration, cooperation, coordination, alliance, strategic alliance, consortium, and coalition. However, more abstractly, collaboration is working together to achieve a shared goal (Roberts & O’Connor, 2008). Usually, it is believed that forming collaboration results in an enhanced quality, quantity, accessibility, and cost effectiveness of services (Majumdar, 2006). Collaborating tends to find ways to work better together efficiently and result in having greater outcome. It helps to facilitate and operate in multi-organizational platforms to solve an issue which cannot be dealt by a single soiled organization. Collaboration tends to co-labor and co-operate to achieve common goals working across organizations (Eppel, 2008). By collaborating, business can leverage the differences among them. It can reduce rivalry and can promote alliance among businesses in terms of information, resources, skills and knowledge sharing (Hardy, Lawrence, & Grant, 2005).

2. Success of Collaboration

The success of collaboration depends on many factors discussed in this section:

2.1 Personal Relationships

Personal relationships among the employees of collaborating organisations greatly affect the success of collaboration (Mattessich & Monsey, 1992; Hosley, Gen-
sheimer, & Yang, 2003). For instance, having a joint event can greatly be motivated by the employees of collaborating organizations. These personal relationships cause effectiveness in collaboration because ultimately these personnel will represent and establish collaboration and its success. These employees are not the priorities of the institutions and rationale behind that (Putnam, Feldstein, & Cohen, 2004). These personal relationships, with increase in collaborative projects, forces to create strong bonds among organizations (Austin, 2000). The stronger these the relationships among the employees of these collaborative organizations the more chances to restrain crisis and resolve problem inefficiently within the collaboration process (Takahashi & Smutny, 2002).

2.2. Communication Process

Clear, open, and consistent communication is also important for a successful collaboration. This communication includes both formal as well as informal communications links and usually among the employees known to each other. Communication enables each partner of the collaborative network to take active part in decision making process (Hosley et al., 2003). It is necessary that communication must be cultural sensitive and tends to be empowering members of the collaborative network (Warburton, Everingham, Cuthill, & Bartlett, 2008). Communication makes it clear to each partner of the collaborative group about its contribution and benefits. Regulator communication flourishes trust among collaborative partners (Austin, 2000).

2.3. Shared Vision

It is also important for the success of collaboration that the collaborative network should have a shared vision, mission, and guiding principles (Mattessich & Monsey, 1992; Roussos & Fawcett, 2000; Butterfoss, Goodman, & Wandersman, 1993). A shared vision brings congruence in the aims of the collaborations. Such congruence motivates the collaborators to strengthen each other in achieving mutual objectives. Realizing the value of this diversity of resources becomes an integral part of the success of the collaboration if the utilization is mono directed and this mono direction can be achieved through clear agreement on the shared vision and aims of collaboration.

2.4. Diversity Management

Diversity management is also important for the success of collaboration. When many organizations come under a collaborative network, they create a mix of structures, target audience, histories and different values. Such diversity may become barrier to the success of the collaboration if there is a lake of mutual respect and members of the collaborative network do not realize each other’s value. There is a need of under-
standing and trusting how other partners operates in the collaborative network. Each collaborative organization’s norms and cultural values should be realized (Mattessich & Monsey, 1992). Honoring the ability, skills and values that each and every member brings into collaborative network leads to the success of collaboration (Bergstrom et al., 1995; Butterfoss et al., 1993).

2.5. Collaborative Leadership

Collaboration cannot be implemented without the important element of strong leadership as an ingredient of coalition and maintenance of coalition activities (Hosley et al., 2003; Lasker, Weiss, & Miller, 2001; Butterfoss et al., 1993). Collaborative groups that have gained the role of leadership in the community are considered to be more successful (Mattessich & Monsey, 1992). Strong leaders in a collaborative group make the collaboration credible and give it a glow and make it progressing fast. Top leadership by having authority plays a good role in strengthening an alliance as they are involved actively (Austin, 2000).

2.6. Governance Structure

When diversified organizations come together in forming collaboration then it is highly certain that there will be various kinds of different working practices. Good governance and managing partnership play an important role (Takahashi & Smutny, 2002). The Governance Structure cause implementation of the strategies and decisions (Mattessich & Monsey, 1992; Warburton et al., 2008) and assign precise responsibilities that brings in transparency (Austin, 2000; Mattessich & Monsey, 1992). While establishing collaborative arrangements, members are supposed to reveal flexibility, transformability and an ability to accommodate (Mattessich & Monsey, 1992) and having like hood to adapt acceptable means and procedures for cooperation (Le Ber & Branzie, 2009). Right of power and capacity should not be exploited (Warburton et al., 2008).

2.7. Relevance of the People

It is extremely important that the strings of collaboration must be in the hands of right people for collaboration to make effective progress in the future. For this it is important that, the meetings should be attended consistently by the same people, they should be the best representation of the organization, and they should be able to make the resources available. These people are authorized to make decisions and are able to follow decisions (Craig, 2004). A suitable cross-section of members should essentially be maintained (Mattessich & Monsey, 1992), as well as domestic people working together to resolve local problems (Curtis, 1998).
2.8. Atmosphere for Collaboration

The need to collaborate arises whenever it is found that a problem or issue is so complicated that cannot be resolved by the attempts of a single soiled organization or attainment of an opportunity is so difficult that a single organization fails to provide the required resources for exploiting that opportunity (Bryson, Crosby, & Stone, 2006). This can provide a suitable and appropriate social, political, and economic environment for organizations to collaborate (Mattessich & Monsey, 1992; Eppel, 2008; Roussos & Fawcett, 2000; Warburton et al., 2008). Appropriate environment can also arise when groups are being established and have gone with a limited progress till the rise of social political and economic changes.

2.9. Organizational Capacity

For the collaboration to be developed and be maintained, organizations tend to invest financial resources, intellectual capital, and energy (Bradshaw, 2000; Mattessich & Monsey, 1992). While intending so the opportunity cost may appear as a barrier in collaboration for some organizations (Nowland-Foreman, 2008). Various organizations with different agendas come together in collaboration and they all work with different paces so it makes the collaboration to take time. A strict framework of time is thus considered as a factor of failure in collaboration (Gray, 2002). Capacity of organization is considered to be a huge hurdle in the way of successful collaboration. While collaborating, organizations have a mix of participants which are equipped with different skills to make them able of working together. While working together they face issues like how to cooperate, understand diversity, and build capabilities to manage collaboration, organizational development process, member roles, and responsibilities (Foster-Fishman, Berkowitz, Lounsbury, Jacobson, & Allen, 2001).

3. Methodology

This exploratory study builds the concept based on literature and qualitative interviews. In qualitative methods data is collected in the field where the problem or issue under study is faced (Creswell, 2009). Data is mainly collected by meeting and talking to the three managers face-to-face in a natural setting. In a qualitative research the researcher has a key role because he examines the documents and observes the behaviors of the participants directly (Creswell, 2009). The qualitative research specifies strategy of inquiry which focuses on the data collection, analysis and writings (Yin, 2003). There are many strategies among which a researcher may select one as appropriate (Creswell, 2009). After strategy is adopted the qualitative research proceeds with data collection in which type of the site for data collection is identified. The site may include four aspects as the setting, actors, event and process. The nature of
this paper is qualitative because the authors are interested to know how the success of collaboration occurs in the context of Islamic financial institutions and

3.1. Theoretical Framework

Collaboration may take different kinds and types. It ranges from networking where a low level of commitment, resource investment is present through a partnership. As shown in the literature, the following factors affect the success of collaboration.

1. Relationships
2. Communication Process
3. Shared Vision
4. Diversity Management
5. Collaboration Leadership
6. Governance Structure
7. Relevance of the People
8. Atmosphere for Collaboration
9. Organizational Capacity

The paper aimed to identify factors affecting collaboration in Islamic banking. Collaboration by the identified factors can affect its success or failure. A service can be better designed and delivered if the collaboration process is strong. That means all the parties of the collaborative network should actively ensure the strength of factors that leads collaboration to the success.

3.2. Analysis of the Factors Affecting Collaboration

Previously, the literature showed that the success of collaboration is dependent upon communication, leadership, identity, management of diversity, imbalances among organizations. So this paper will now proceed to investigate whether these variable truly effects collaboration in Islamic banks or not. Islamic banking system is governed by Sariah rules and regulations and it is why it is different from the conventional banking system. People who are committed to Islam and not want to indulge in Riba (Interest) see Islamic banking as a best alternative to acquire banking service.
3.3. Collaboration in Islamic Banking

“Islamic banks are being collaborated with other business in a wide range. In fact, it is not possible for an Islamic bank to carry out its business without being participated with other businesses. In fact, it is even not possible for any bank that may be conventional or Islamic, but collaboration is the core factor for banks to develop their operations. To be specific for Islamic banks, we have such modes of financing which depends upon collaboration I am certain in saying that we are tired to collaborate. Islamic banks participate business services in many sectors like livestock, dairy farms, agriculture industry etc.”

As discussed by the banker, collaboration a very important factor that contributes to the emergence of Islamic banking practice. The financing modes that Islamic banks
offer are developed cannot work without the participation of collaborative entities. For example Islamic banks under Musharikah financing do participations with other businesses and customers. It is not possible to run Musharikah without the involvement of other participants. It is evident in the practice that traders such as auto suppliers and property business supply assets within the Islamic banking services and their facilitating banks also collaborate with the focal bank offering auto Ijarah. Similarly, Takaful companies collaborate to arrange coverage for the assets involved in the Ijarah.

3.4. Factors Influencing Collaboration

“Islamic banking is based on belief, faith and niyyat (intension) so it is largely depended upon honesty and truthfulness of the counterparty regarding collaboration. Know your customers is the base of investigation for entering into a business with other participants and when we find any risk out of our bearings we do not enter into business with that participant. But we cannot be sure all the time about our counterparties as it is very difficult to know the intensions of others, they may express something in words but may have something else in their hearts and we cannot always be assured of that. So this largely effects our collaboration or participation with other businesses. Islamic banks are allowed to participate with any one until and unless the counterparty is being indulged in the prohibitions”

The banker here took only one thing as a factor that effects collaboration and that is honesty. It makes a sense that we cannot judge people accurately. Honesty and trust are the internal and hidden facts and are difficult to judge. Islamic finance is based on the belief and intentions. This belief comes from the core of Islamic fundamental principles. Muslims have a belief in Akhirah (Day of Judgment) and any wrong doing or any bad intention in any transaction will lead to punishment on the day of judgement. This is what Allah want from Muslims to be true in our intentions. There should be congruence in the man intentions, words, and actions. It looks, however, very hard to exactly know who is true and honest in doing business with the Islamic Bank. So, the hidden intension, faith, do effect collaboration among an Islamic bank and other participants.

3.5. Diversity in Collaboration

“Islamic banks have certain modes of financing which can fit in any context. Our products are customized. The system of Islamic banking is derived from the holy Quran and the Sunnah. So this is not a system developed by a human. In this system anyone can fulfill their needs. Customers from any race, any ethnicity and any religion can opt to participate with us. Diversity and collaboration go hand in hand. Bringing different views and different voices to a collaborative effort, creates opportunities for people of different cultures, backgrounds, and experiences to create something together. Diversity in just about anything is incredibly important
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for continued growth."

When we take on a collaborative effort we are not saying that we want a group of the same people to work on the project because they would consistently agree with each other, or what the best course of action is in making the collaboration process only beneficial to those within the group. Diversity in collaboration as expressed by the Banker shows the differences in needs of the customers, which needs the services or products of the Islamic bank to be very customized and he says that Islamic banks offers such products which meets the needs of their customers. For example, they offer Musharikah, Mudaribah, Diminishing Musharikah, Salam and Istesna for exceptional cases.

3.6. Unfavorable Climate for Collaboration

“Every business has some limitations and every organization some time feels reluctance to take part and form collaboration with others. Islamic banks also sometime face such situations where it is not preferable to collaborate or it is more certain to say that sometime we are not permissible to collaborate”

4. Conclusion and Implications

The study finds out how an Islamic bank tends to collaborate with other organizations. With the help of literature, a theoretical concept was build which aimed to identify factors that influence collaboration. The framework leads the authors to broaden the subject matter further to investigate the additional factors that influence collaboration specifically in the area of Islamic Banks and to analyze the process of service co-creation in the particular field.

Collaboration in Islamic banking is not an easy issue to investigate. It is a very huge area and needs excessive time and expertise to investigate. However, this paper concludes that it is not possible for Islamic banks to survive without collaboration parties. If we trace back the roots of Islamic banking system, it comes out from 1400 years ago. It is a system which is initiated by the last holy Prophet, the most respected Muhammad (P.B.U.H). It is true that all the features of today’s Islamic banking do not perfectly matches with the Islamic financial system of that era but its essence is the same.

The literature has identified factors which plays vital role in the success of collaborations among organizations. But in addition to those factors, in Islamic banking system there are some more elements which plays important role in the success and as well as in the failure of collaboration. These elements are not just limited to influence collaboration in Islamic banks. These factors also effect the collaboration
process in organizations other than Islamic banks but until now these factors has not been identified before.

Furthermore, this study concludes that there are some additional factors that effects collaboration in Islamic banks with their counterparties. These factors include such regulations which are only issued from the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan. Such regulations are just being imposed on Islamic Banks as like other conventional Banks. These regulators consider all the banks similar in the sense of making and imposing guidelines, rules and regulations, for them with some additional regulations for Islamic Banks. As it is a fact that Islamic banking system is different from that of conventional banking system and Islamic banks have limitations from the religion so these banks are already bounded to be in limit. There are certain businesses which are forbidden in Islam and Islamic banks cannot enter into those businesses. There are also some elements in the presence of which it is Haram for Islamic banks to do business. On the other hand, conventional banks are free of such limitations. The SBP and SECP regulate both the conventional and Islamic banks. Islamic banks also come under the same umbrella with conventional banks. So Islamic banks here are inbounded twice, first they follow the rules of religion and secondly follows SBP and SECP. In many cases the limits being imposed by the SBP and SECP on Islamic banks are not considered forbidden in Sharia’s. These regulations have nothing to do with the Islamic law, as Islamic banks are based on the Islamic ideology. In this scenario Islamic banks should only be governed by Islamic regulatory bodies and should not come under all those regulations which are for conventional banks as well.

References


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Sage Publications.


