

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

According to Jesson et al. (2011), a literature review is used to demonstrate interpretation and point out inconsistencies and differences in established information. The study explains the powerful information to promote a new dimension or fresh viewpoint that makes a distinct contribution using the literature review. However, the study participant should be mindful of the study's objectives and ensure that the analysis meets those objectives.

For this study, the first explanation is that Bank Islam as the firm or business organisation that implicates the performance as a bank that follows the Sharia law and simultaneously that also focuses on a certain aspect of what firms do, especially in the condition of financial crisis and recovery process.

The review continues with the business cycle theory, which discusses how financial crises, such as the AFC and GFC affected the success of Bank Islam and other banks. It should be noted that this research began by collecting information that was relevant at the time of the AFC and GFC crises. This made the feasibility analysis of this study possible because it relates to the current situation, in which changes in Bank Islam output occur during the financial crisis. The discovery of some public records revealed many cases of changes in the business cycle at Bank Islam. According to Merriam (2009), the researcher's flexibility in construing the issue and related questions determines the congruence between documentation and the research problem.

Qualitative studies, by their very nature, are emergent in design and inductive in interpretation, so this viewpoint is particularly appropriate. Documents of all kinds may aid the researcher in deciphering meaning, gaining comprehension, and gaining insights into the research issue.

The next subtopic of Minsky's Financial Instability Hypothesis is discussed, such as qualitative studies of economic developments and literature review on signs of distress and turnaround strategies. Sign of distress is an important index to display transformation success for a profitable company into a loss-making situation. The firm's plan and action to rebound from a market crisis is known as a turnaround strategy. Both of these theories were explored further in order to obtain a clearer understanding of the measures and the study's intent. Each was addressed in depth in chapters that follow.

2.2 Theory of Firm

Banks' performance has an important role in the economic growth of a country. According to Dermine (2007), bank is the firm with primary assets from financial claims issued by borrowers, such as households, corporate firms, government, or other financial intermediaries, and liabilities, which are secondary claims to be sold for capital surplus in various forms, such as demand deposits, savings deposits, term deposits, subordinated debt (loan capital), or equity shares. Other functions are carried out by the bank, such as maintaining financial innovations, like introducing various credit insurance-related activities, and letters of credit, note issuance facilities, credit derivatives or introducing contingent claims or financial derivatives, such as forwards, options or swaps, and the payoffs, which are related to movements in interest rates, exchange rates, equity or commodity prices. As stated by Ahmad (2014), the banking

system has assisted countries by formulating monetary and fiscal policies to monitor the financial transactions of the society. According to Hart (2011), the firm is led by a manager who has the overall authority to operate on behalf of the owners, under a perfect market competition.

The analysis describes firm because it is the most fundamental unit of study in strategy. Bercerra (2009) describes a firm in a way that has important implications for how management researched them and, ultimately, the types of recommendations management makes to top executives about how to improve their performance. There are many different approaches to considering the essence of a company, each of which focuses on a different aspect of what companies do. Although there is no universally agreed or formal definition of strategy, they all have something to contribute to the analysis of how businesses competes and performs.

According to Bogner et al. (1993), considering the origin, evolution and function of the strategic group concept with the concept of the firm as a set of resources (e.g., human, physical, relational, and intellectual) not only offers insight for connecting the strategic group concept with the concept of the firm as a collection of resources (e.g., human, physical, relational, and intellectual), but it also clarifies the concepts when examined separately. Indeed, some social scientists argue that a complete comprehension of concepts (or institutions) necessitates analysis of their genesis, evolution, and work (Elster, 1983; Langlois, 1986; Ullmann-Margalit, 1978). The origins of the resource-based concept and the strategic community concept are discussed in depth. An evolutionary-functional argument elucidates the processes that maintain a concept once it has been developed and also the concept's usefulness (function). To use Kaplan's (1964) terminology, investigating both the logic-in-use (idle

logic of concept formation, i.e., its origin) and the reconstructed logic of a concept is needed to fully comprehend it (the logic of justification, i.e., its function).

There is some meaning of strategic groups. According to McGee (1985), the strategic group concept serves as a connection between market structure and firm-level strategy. Meanwhile, Bogner et al. (1993) argue that the strategic group concept's evolution and application should be defined as one of "dual citizenship." The strategic group definition has enriched both industry-level and firm-level analysis, and it has the ability to explain and forecast both conduct (strategy) and performance. Strategic group analysis appeals to strategists due to its emphasis on patterns of emergent strategies across industries (Bogner & Thomas, 1994; Mintzberg, 1978) and representation of firm-level activity among close rivals (Bogner & Thomas, 1994; Cool, 1985; Mintzberg, 1978). Firms can be mapped in a strategic space in terms of level of strategy, components of strategy (e.g., scope and resource commitment), and time span, and using the dimensions strategy researchers have applied to the basic concepts of heterogeneity in a sector (Eiegenbaum & Thomas, 1990). Bogner et al. (1993) agree that, under certain demand conditions, collusive behaviour combined with sunk cost investments is appropriate for strategic group members to achieve superior efficiency, and that intended oligopolistic cooperation is not needed to maintain superior strategic group profitability. The strategic intent of community members does not always decide the long-term profitability of a strategic group. The argument is a derivative of the works of both Hayek (1978) and Mintzberg (1978). While the creation of frameworks for capturing strategic group dynamics and models to provide the required and appropriate conditions for strategic group effects on performance are current areas of strategy activity, these do not explain how strategic groups shape, according to Bogner et al.

(1993). Indeed, authors such as Barney & Hoskisson (1990), Hatten & Hatten (1987), and others question the existence of strategic groups. The evolution and implementation of the strategic group definition include economic, behavioural, and cognitive approaches, according to the response established in this section (Tang & Thomas, 1992; Thomas & Carroll, 1994).

The definition of strategic groups focuses on both business- and firm-level analyses, in order to clarify and forecast both conduct and performance by mapping in a strategic space in terms of level of strategy, components of strategy, and time period. Using the dimensions strategy, researchers have applied to the basic concepts of heterogeneity in a field. In Table 2.1, there are more examples on strategic groups from different researchers' perspectives.

Table 2.1: The Evolution of Strategic Group

No	Theory	Originating	Mentioned	Resources
Origins of the Strategic Group Concept				
1	The Structure-Conduct-Performance (S-C-P) Approach Deserves The Designation of a Paradigm.	Harvard School of industrial economics (Bain, 1956, 1968; Mason, 1957)	The S-C-P paradigm posits a causal relationship wherein an exogenous industry structure determines firm strategy or “conduct”, which, in turn, determines performance. Industry.	<ol style="list-style-type: none"> 1. Bain, J. S. (1956). <i>Barriers to New Competition</i> Cambridge, Mass.: Harvard University Press. 2. Bain, J. S. (1968). <i>Industrial Organization</i>. New York: John Wiley. 3. Mason, E. S. (1957). <i>Economic Concentration and the Monopoly Problem</i> Harvard University Press.
2	Industrial Organization	<p>Began to raise doubts about the S-C-P paradigm.</p> <p>In the 1950s the Chicago School. (Stigler, 1968), (Demsetz, 1974). (Coase, 1937, 1960)</p>	<p>Stigler (1968) emphasis on the applied price theory that gradually gained the upper hand in industrial organization (I.O.) research and developed a new theoretical perspective (Demsetz, 1974)</p> <p>Coase (1937, 1960) Instead, the principal object of management may have been (cost-saving) efficiencies.</p>	<ol style="list-style-type: none"> 1. Stigler, G. (1968). <i>The Organization of Industry</i> Chicago, IL: University of Chicago Press. 2. Coase, R. H. (1937). <i>The Nature of the Firm</i>. <i>Economica</i> 4: 386-405. 3. Coase, R. H. (1960). <i>The Problem of Social Cost</i>. <i>Journal of Law and Economics</i>. 3: 1-44. Collis, 4. Demsetz, H. (1974). <i>Two Systems of Belief about Monopoly</i>. In H. J. Goldschmid, H. Mann, and J., 5. F. Weston (eds.). <i>Industrial Concentration: the New Learning</i>. (pp. 164-184). Boston: Little, Brown. Dess.
3	Industrial Organization	<p>For example, at the University of Pennsylvania, Almarin Phillips and Oliver Williamson</p> <p>Williamson (1986, p. xiv). Williamson (1975, 1985) does not follow either party line (i.e., Harvard or Chicago)</p>	<p>For example, at the University of Pennsylvania, Almarin Phillips and Oliver Williamson “shaped an [industrial organization] curriculum that had somewhat non-standard features”.</p> <p>Williamson: In some areas, there is a close alignment to Chicago School efficiency arguments (e.g., efficiencies of vertical contracts and vertical mergers), while in other areas Harvard School views are supported (e.g., capital market imperfections induce organizational responses, such as the M-form).</p> <p>Phillips (1970) questions the theoretical underpinnings of the Harvard S-C-P paradigm.</p>	<ol style="list-style-type: none"> 1. Williamson, O. E. (1975). <i>Markets and Hierarchies: Analysis and Antitrust Implications. A Study in the Economics of Internal Organization</i>. New York: Free Press. 2. Williamson, O. E. (1985). <i>The Economic Institutions of Capitalism</i>. New York: Free Press. Firms, markets, relational. 3. Williamson, O. E. (1986). <i>Economic organization</i> New York University Press. Firms, Markets and Policy Control. New York. 4. Phillips, A. (1970). <i>Structure, Conduct and Performance and Performance, Conduct and Structure?</i> In J. Markham and G. Papanek (Eds.), <i>Essays in Industrial Organization and Economic</i>

			Instead of structure determining strategy, Phillips (1970) suggests strategy (conduct) can determine industry structure, and this insight could be applied to a variety of structural variables well established in the S-C-P paradigm. Auerbach summarizes and extends Phillips's critique of S-C-P suggesting that: "The behavior of participants in a market can never be determined exclusively by a set of market parameters which are exogenous to this behaviour" (1988: 46).	Development in Honor of R S. Mason (pp. 26-37). Boston: Houghton-Mifflin.
4	Observation of Persistent Strategic + Structural and Strategic (Behavioral) Variables	Hunt's (1972) observation of persistent strategic, firm-level heterogeneity in the home appliance industry. Combining structural and strategic (behavioral) variables (Caves & Porter, 1977). Thus, Edith Tilton Penrose 1959.	Thus, the strategic group concept may be understood as an adaptive response by Harvard School industrial organization economists to the growing dissatisfaction with the S-C-P paradigm.	1. Hunt, M. S. (1972). Competition in the Major Home Appliance Industry 1960-1970. Doctoral Dissertation. Harvard University. Unpublished, Itami 5. Caves, R. E., & Porter, M. E. (1977). From Entry Barriers to Mobility Barriers: Conjectural. Decisions and Contrived Deterrence to New Competition. Quarterly Journal of Economics 91: 241- 2

Source: Bogner et al (1993)

Table 2.1: The Evolution of Strategic Group

No	Theory	Originating	Mentioned	Resources
Origins of the Resource-based Concept				
1	Neoclassical Theory Of Firm		Edith Tilton Penrose provided a new conceptual schema for the firm as "both an administrative organization and as a collection of resources" (1959: 31). Penrose (1959) noted that the neoclassical theory of the firm is a conceptual schema designed for the theory of price determination and resource allocation but she insisted that it is "inappropriate to try to reconcile [the neoclassical theory of the firm] with 'organization theory'" (1959: 14). In particular, Penrose makes explicit that the resource-based perspective is a distinct conceptual schema to understand the process of growth.	Penrose, E. T. (1959). <i>The Theory of the Growth of the Firm</i> New York: John Wiley & Sons, Inc.
The Evolution and Function of the Strategic Group Concept and Resource-Based Theory of Firm				
1	Evolutionary Change Of S-C-P	Porter (1980)	Porter (1980), following Phillips (1970), essentially rewrote the structure-conduct-performance chain as conduct (strategy)-structure-performance. Porter (1980: 129) also proposed the strategic group concept for explaining and predicting firm conduct and performance. Porter's (1980) perspective represents an evolutionary change of S-C-P concepts since Mason (1957)-Bain (1968) and marks the beginning of an identifiable paradigm shift in the industry and strategic group analysis.	Porter, M. E. (1980). <i>Competitive Strategy</i> New York: Free Press.
2	The Conceptual Development In Strategic Management (The Strategic Group)	McGee (1985)	McGee (1985) asserts that the strategic group concept provides a bridge and a linkage between industry structure and firm-level strategy. The strategic group concept has enriched both industry-level analysis and firm-level analysis, and the concept can provide explanatory and predictive power for both conduct (strategy) and performance	McGee, J. (1985). <i>Strategic Groups: A Bridge Between Industry Structure and Strategic Management</i> . In H. Thomas and D. Gardner (eds.), <i>Strategic Marketing and Management</i> . New York: John Wiley & Sons. (pp. 293-313).

Source: Bogner et al (1993)

Table 2.1: The Evolution of Strategic Group

No	Theory	Originating	Mentioned	Resources
The Evolution and Function of the Strategic Group Concept and Resource-Based Theory of Firm				
3	Firm As The Basic Unit of Analysis	Rumelt (1984, 1991)		<ol style="list-style-type: none"> 1. Rumelt, R. P. (1984). Toward a Strategic Theory of the Firm. In R. Lamb (Ed.) <i>Competitive Strategic Management</i> (pp. 556-570). Englewood Cliffs, NJ: Prentice-Hall. 2. Rumelt, R. P. (1991). How Much Does Industry Matter? <i>Strategic Management Journal</i>. 185.
4	Aggregated Firms Into Strategic Groups	Cool & Schendel (1988) Hatten & Schendel(1977) Fiegenbaum & Thomas (1990)		<ol style="list-style-type: none"> 1. Cool, K., & Schendel, D. (1988). Performance Differences among Strategic Group Members. <i>Strategic Management Journal</i>. 9: 207-223. 2. Hatten, K., & Schendel, D. (1977). Heterogeneity within an Industry: Firm conduct in the U.S. <i>Brewing Industry: 1952-1971. Journal of Industrial Economics</i>. 26: 97-113. 3. Fiegenbaum, A., & Thomas, H. (1990). Strategic Groups and performance: The U.S. Insurance, Industry, 1970-1984. <i>Strategic Management Journal</i> 11. (pp. 197-215.)
5	Strategic Group	Hunt (1972)	Describe strategic groups as an amalgam of (1) volitional, behavioral, and strategic factors (as the name “strategic groups” suggests, pp. 249-257), (2) structural factors derived from the S-C-P tradition (e.g., degree of vertical integration; and level of product differentiation, p. 251), and (3) imperfect capital markets (following the Harvard School I.O. tradition, pp. 246-247). Thus in the I.O. view, strategic groups, supported by their mobility barriers, are partly structural and partly endogenous (p. 241). Or put differently, strategic groups are determined partly by the competitive environment and partly by strategic choice.	Hunt, M. S. (1972). <i>Competition in the Major Home Appliance Industry 1960-1970</i> . Doctoral dissertation. Harvard University.
6	Strategic Group Analysis	Bogner & Thomas (1994)	Strategic group analysis appeals to strategists because of its focus on the patterns of emergent strategies across an industry (Bogner & Thomas, 1994; Mintzberg, 1978) and the representation of term-	<ol style="list-style-type: none"> 1. Bogner, W. C., & Thomas, H. (1994). Core Competence and Competitive Advantage: A Model and Illustrated Evidence from the Pharmaceutical Industry. Forthcoming in G. Hamel and A. Heene.

Mintzberg (1978)	level interaction among close rivals (Cool, 1985). With the dimensions strategy researchers have added to the basic concepts of heterogeneity in an industry, firms may be mapped in strategic space in terms of the level of strategy, components of strategy (e.g., scope and resource commitment), and the time (Fiegenbaum & Thomas, 1990).	(eds.), Competence-Based Competition. New York: John Wiley & Sons.
Cool (1985)		2. Cool, K. (1985). Strategic Group Formulation and Strategic Group Shift: A Longitudinal Analysis of the U.S. Pharmaceutical Industry. 1963-1982. Unpublished Doctoral Dissertation, Purdue University, West Lafayette, Indiana.
Fiegenbaum & Thomas (1990)		3. Fiegenbaum, A., & Thomas, H. (1990). Strategic Groups and Performance: The U.S. Insurance Industry, 1970-1984. Strategic Management Journal 11. (pp. 197-215).

Source: Bogner et al (1993)

Bogner et al. (1993) avow that the first introduction of the concept of organizational structure is in the framework of structure-conduct-performance (S-C-P) paradigm as pioneered by Bain (1956, 1968) and Mason (1957), who are known to be economic experts from Harvard. Martin (2005) states that the SCP paradigm is the analytical framework developed in the 1930s and it is based on a mathematical formula to calculate the imperfect pricing in competitive markets of industrial economics. According to Lee (2007), the SCP paradigm was spearheaded by Edward Mason, the Harvard Economist in the 1930s. Mason's idea gave inspiration to his student (Joe S Bain) who learned about the determination of price and production policies (for big companies). Lee (2007), further states that Mason (1939) explained that, the market share is an important point to determine the pricing policies and production. The 1930s Mason's description is that there are two approaches to determine the pricing policy for the firm's items, which are:

1. Theoretical approach; for oligopoly and monopoly markets to reduce the production and pricing policy in a firm;
2. Empirical approach; for observation between prices and economic variables to represent a different market structure.

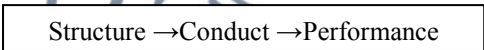
Weiss (1979) discloses the main goal of the SCP paradigm by Joe Bain is to explain the concentration of price that is raised above the minimum average cost, which is due to either higher than normal profits or increased costs. Lee (2007), also explains the structure-conduct-performance paradigm as follows:

1. Structure refers to a market that describes seller concentration, the level of differential product, and the market barrier. This variable is broken down into two classes, namely:

- Intrinsic structural variables which are categorized by product nature, the availability of product and technology for marketing.
 - Derived structural variables that are categorized by the firm and government circumstances, such as barriers to enter the market, the concentrate of the buyers and sellers, and the variety of products.
2. Conduct refers to the companies' behavior, which includes the pricing strategy, collusion, marketing, R&D, and investment.
 3. Performance refers to the result of the efficiency of allocation used to measure the profitability and price-cost margins.

Some firms have internal factors that have been impacted by the market situation, such as the growth of corporate bureaucracies (management decisions), the control of separate ownership, and the making of policy on labor organizations (Mason, 1939). He also explains that these factors cannot be impacted upon in a competitive monopoly market. This is because, price is difficult to determine in a perfect market (or monopolistic), because there is no policy and judgment for pricing in a perfect market, resulting in buyers and sellers to deliberate on the price.

SCP paradigm identifies the different relation that the market structure determines conduct and behavior, which in turn, determines the performance (Lee, 2007):



Others, however, point to Lee's (2007) SCP paradigm relationship, which states that market structures are dictated by demand or supply factors. There is a counter-intuitive effect in the causality between structure and actions, such as predatory

behaviour or entry prevention in a firm's behaviour, which may result in the formation of operating companies within the business structure.

This implies that market structure is determined by endogenous factors, such as:

$$\text{Structure} \leftrightarrow \text{Conduct} \rightarrow \text{Performance}$$

Another SCP model is about the gap in the relationship between behaviour and efficiency, and how performance can influence conduct. It can be summarised as follows:

$$\text{Structure} \leftrightarrow \text{Conduct} \leftrightarrow \text{Performance}$$

According to Weiss (1979), Bain's SCP analysis reveals (1) implicit or explicit assumptions about collusion concentration, and (2) predicts entry barriers and the firm's optimum price-cost margin.. The hypothesis of Bain's (S-C-P) paradigm is a positive postulate between industry concentration and profitability that is based on quantitative research.

$$P = f \langle CR, B, D \rangle$$

Note: P is the measure of profitability, CR is a measure of concentration, B is the size of one or more barriers to entry, and D represents the demand conditions.

Another viewpoint, defined by Alfred Chandler, differs somewhat from Bain's in that the structure does not decide the strategy, but rather the strategy defines the structure. Chandler made a significant contribution to the interpretation of company bureaucratization, according to Diehi-Taylor (1997). Chandler (1977) had previously examined some of his predecessors' views on structural-functional ideologies, such as those of Max Weber, Talcott Parsons, and Neil Smeltzer, which later developed into managerial capitalism. He places a greater focus on management hierarchies and functional organisation as a single enterprise with many operating units, and the division of manager salaries. He also states that bureaucratic frameworks serve specific functions, particularly in terms of maximising economic efficiencies for an increasing economy, emerging technology, and increased sales.

Chandler discovered that bureaucratization would take several different forms, such as a divisional structure with various operations and procedures. As a result, middle managers should be familiar with the operations and procedures of the department in which they serve, while senior managers should be designing a plan and top management should be aware of managers' work in the business organization for those enrolled in technical and nontechnical programmes.

Chandler avows that organization's strength comes from the "learning path" that began with individual entrepreneurs and evolved into organisational knowledge, according to Wheelen et al. (2012). Technical skills, functional knowledge (production and marketing), and managerial expertise, according to him, are the three powers that make up organisational knowledge. This knowledge allows the firm to gain a competitive advantage over other businesses, allowing it to become a market leader.

According to Galbraith (2012), the transition in structure to become an organization consists of man and process management, which is also related to evolution and diversification strategy in a multidivisional structure. Similarly, Kavale (2012) cited Chandler as a forerunner in the strategic-structure concept, claiming that Chandler's opinion of the diversification strategy not only addresses the organisational issue but also provides a new cooperative strategy. Furthermore, according to Galbraith (2012), Chandler's idea of "structure follows strategy" is the most well-known organisational principle in business, as it not only provides a structured complexity but also addresses management and the contradiction resulting from the concatenation of simple strategies.

Alfred Chandler was the first economist to discover that if structure follows strategy, a decentralised structure emerges from the plurality of strategies, as

acknowledged by Waterman et al. (1980). Waterman et al. (1980) define a strategy as “a corporate planning act in response to or anticipation of the external environment” (customers or competitors). According to Waterman et al. (1980), the strategy leads businesses to set a goal of achieving a good market place, which includes low-cost production or distribution, high-achieving sales, and high-satisfaction service.

It can be inferred that the firm would develop its own distinct business model. However, in a competitive market, the firm can experience both losses and profits. As a result, large corporations can not always adhere to the strategic plan. That is to say, the strategy has a flaw in that it is dependent on the organization’s designed work’s effectiveness (Waterman et al, 1980).

Galbraith (2012) expands on Chandler’s definition, stating that in Chandler’s simple strategy-structure relationship, there is managerial influence and coordination (including the processes, policies, and practices). From Chandler’s point of view, organisational structure is evolving into an organisational form through organisational design (Galbraith, 2012), such as:

1. Strategy and structure to strategy and organization.
2. There are three different kinds of strategy and structure.
 - The easiest type of functional organisation to execute a single business strategy is the U-form or unitary structure.
 - The diversified into several related companies would be handled by the M-form or multidivisional framework.
 - H-form or, in the case of a holding company, diversification strategies are implemented through many unrelated companies.

Kavale (2012) agrees with Chandler that the structure should be an organisation design that provides a strategy for the organisation to improve such that new challenges can be created to ensure the effectiveness of new strategies. Staff can recognise their duties, obligations, and reporting based on structural design, which will benefit the firm. As a consequence, areas of vulnerability will arise as a result of the structure's inaccurate implementation. Chandler (1962) outlines two structural principles: (1) The chief executive does not have a limited responsibility for any duty in each operation; instead, he should propose policies and a rational growth strategy, and (2) the central agency has distinct functions for corporate development.

The firm's long-term direction and main activities are the subject of strategic decisions, which are usually the responsibility of top management. Since the firm is the most critical unit of analysis in strategy, the first step is to understand what it is, how it produces value, and what its organisational limits are. This, however, must be done in such a way that strategic analysis and decision-making are possible. Theory of firm provides a framework for demonstrating how companies can use business, corporate, foreign, and social strategies to generate value for consumers while also capturing economic gains for their owners (Becerra, 2009).

As a consequence, a firm theory for strategy should primarily answer four types of questions (Becerra, 2009):

1. Definition: What is a firm? What are its defining features? How should they be conceptualized so that we can study them?
2. Role: Why do firms exist? What is their role in society? How do firms emerge?

3. Scope: What determines their size? How far can they grow? What drives their scope of activities with regard to products (vertical/horizontal integration) and geographical presence (internationalization)?
4. Performance: What determines their performance? Why do performance differences exist among firms? How are they sustained through time?

Other economists have different perspectives on the concepts of the theory of the firm, such as:

1. According to Coase (1990), businesses emerge as a result of their ability to produce and the expense associated with business transactions. Because of the availability of a relative cost in various firms with regards to coordinating specific operations, transaction costs become the justification for the life of the business and can replace certain dominant factors in output. The optimization of planning and operating business quantities that is correlated with the accounting method, it seems to many that this would improve firm productivity. Coase went on to suggest that the accounting system is a part of the firm theory because it can be used to gather data on firm activity.
2. According to Perrow (1967), the creation of organisations must be based on performance and goals. This approach differs from Chandler's in that it places a greater focus on goods and services in determining organisational objectives. As a result, the firm is intertwined with its surroundings. He went on to look at another target of a firm that is linked to the aspirations of investors, which include both short and long-term objectives.

3. According to Minsky (1996), the framework of the world economy is an economic organisation with units, such as firms, households, governments, and countries, rather than fundamental data, such as endowments, technology, and preferences. However, as the economy transitions from weak to more stable finance, the economic units gain a better understanding of how things function, allowing them to predict potential future cash flows by shaping future expectations. The euphoria of economic fluctuation leads to problematic potential cash commitments, which erodes the margin of protection, resulting in less commitment and a cash flow deficit. (Source: Mehrling, 1999).
4. According to Hart (2011), the firm is headed by a manager who wields half of the owner's control and is tasked with increasing the firm's profitability on behalf of the owner's wealth.

The Islamic and Western theories of the firm, on the other hand, have different perspectives. According to Iqbal (1998), the firm is more focused on making decisions on how to run the company (firm behavior). There is a significant connection between company performance and the contractual agreement. Furthermore, Iqbal said that the guiding principles of a behavioural firm based on Islamic law of contracts are established by the production organisation. He clarifies that the Islamic viewpoint on operating business is one in which the firm disregards a portion of the financing. This is because the debt-equity ratio has no bearing on the level of firm output or the valuation of its shares in the Modigliani-Miller Theorem study. It is shown that the debt financing approach has little effect on operating decisions or firm equilibrium.

According to Sarker (1999), the Islamic firm theory takes into account both internal and external factors in order to maximise the welfare of producers and consumers, while adhering to Islamic law's target. Based on this, the salaries are provided for their skill and integrity to business contracts and planned and approved by the Sharia to reduce the principal-agent problem according to the Islamic framework.

The firm plays a significant role in economic growth, which includes societal, manufacturing, and business processes (Azid et al., 2007). They also accept that the firm's theoretical model in conventional economics is focused on economic variables for maximising earnings and minimising the cost to achieve the primary target, which is also linked to the opportunity cost. Since there is no maximising of benefit in Islamic ethics (economy), an Islamic firm conducts economic activities in accordance with Islamic practise. Islamic firms adopt the justice and benevolence act as their corporate strategy to prevent exploitation, bigotry, and restrictive trade practises.

Sarker (1999) clarifies that in the Islamic economic system, each man maximises profit based on the logic of each goal and acceptable conduct that is in accordance with Islamic procedure. According to him, contract arrangements should be cleared by *fuqahas* or jurists as to the parties' rights and obligations. He went on to say that an Islamic firm has laws in place to regulate human behaviour (such as producer and consumer) in order to achieve a balance of wellbeing (*al-falah*) in this world and hereafter. Nomani & Rehnuma (1994) added some limitations for Islamic producers, such as:

1. Maximize public social interest utility (*maslaha*),
2. Prohibit the bringing of sadness to others (*a zarar va la zarar*) or minimize the social disutility (*mafsada*), and

3. Prioritize the social benefit over individual benefit, facilitation and relieve people from difficulties and hardship (*osr va haraj*) in necessity and imperative needed (*zarurat va izterar*).

Moreover, Sarker (1999) states that there are two objectives of an Islamic firm which are: (1) Profit maximization and (2) *falah* maximization. The importance of profit and welfare maximization have also become part of the main goal of the theory of Islamic firm. Islamic firms will use internal and external functions to achieve the firm's goals. However, as an Islamic firm, it must also obey the goals of Sharia, which is for achieving the social welfare and the whole end to maximize production at the level, which the firm has a total revenue that is equal to the total cost. Besides, Sarker (1999) mentions the company contracts were indeed designed and approved following Sharia rules. So that, it can minimize principal-agent problems and improve welfare for the society and firm. Therefore, Islamic firms must consider the advantages of whole societies. According to Sarker (1999), there are several basic characteristics of Islamic firm such as:

1. Ethical rules among product quantities and placement price, in which societies get a satisfactory product.
2. Islamic firm has the concept of the total revenue which is equal to the total cost. However some economist justify that production will be optimal under the equalization of marginal cost with marginal revenue ($MR = MC$).
3. The Islamic producer might reject the prevailing market wage as "uniform" and adjust to a higher wage that is deemed to be "just".
4. The firm controls the mutual responsibilities between labor and capital *vis a vis* the entrepreneur and capital.

5. The clear content in contractual agreements, such as *mudaraba*, *musharaka*, *bai-salam*, *istisna* and so on will avoid *usury*, *gharar*, and *maysir*.
6. Adjustment of the rights and responsibilities of the contracting parties in contrast to following the nature of the contract.

The final definition of an Islamic firm is one in which contracts were structured and accepted in compliance with Sharia law, with benefit and welfare maximisation being part of the main objective based on the rationale of each goal and appropriate behaviour that is in accordance with the Islamic procedure.

Shamsudin & Ismail (2013) define principal-agent relationships in an Islamic economy as capital provider (*rabbul mal*) and entrepreneur (*mudarib*), among capital providers or partners, buyer and seller, agent (*wakeel*) and principal (*muwakkel*), contributor (*wakif*) and beneficiaries (*muawikif*), pledgee (*marhun*) and assets owner (*murtahin*). Furthermore, according to Sarker (1999), an Islamic firm considers capital, labour, managerial decisions, and risk as a type of Islamic legal business or contract. In general, there are three types of financial contracts or contract modes in an Islamic industr:

1. Business contracts based on direct financial accommodation (*uqud al-ishtirak*); profit-sharing principle, profit-loss sharing principle, and output sharing principle.
2. Business contracts based on indirect financial accommodation (*uqud al-muawadhat*); mark-up based principle, lease based principle, and advance purchase principle.
3. Other forms of permissible contracts are direct investment, finance on development charge, rent-sharing based on construction/purchase of

houses/flats, godowns, sheds, etc. on co-ownership basis, investment auctioning, syndication and consortium financing.

Ahmad (2014) lists some general Islamic banking activities on the three most popular business transactions in the Islamic banking system, such as:

1. *Musharaka* activities: Islamic banks lend money to a firm as a business investment and issue a floating rate of return (pegged to the individual business firm rate of return). Islamic banks and business firms share the same profit and loss.
2. *Mudaraba* activities related venture capital (financing investment as capital for a company over a set period of time) is a type of funding provided by an Islamic bank that focuses on labour skills and management capabilities. The creditor cannot afford the entire loss of money in this type of relationship.
3. Islamic banking activities result in virtually full-reserve banking due to a high reserve ratio.

Despite the fact that both are classified as organisational businesses, there are several distinctions between a bank and a non-financial firm. There are some gaps between banks and non-financial firms, according to Mehran et al. (2011), including:

1. The bank has 90 % debt rather than 40 % for nonfinancial firms
2. The bank has a higher number of stakeholders than nonfinancial firms
3. The bank has shareholders and stakeholders (including debtholders which are the depositors and the holders of subordinated debt).

The majority of these types of businesses have a production-based organisational structure. In general, a firm offers a business, such as a financial institution, such as a bank, and is often classified as a firm because it has an

organisational structure of several divisions and responsibilities. The banking system, according to Ahmad (2014), organises financial transactions that can assist the government in managing the fiscal and monetary policy. The banking system is constantly introducing new banking products in order for banks to earn money (profit) from their customers' deposits. As previously stated, a bank is a firm that offers people savings and loan services. Ahmad clarifies some of the differences between the conventional and Islamic systems, including:

1. The primary goal of conventional banking is to make money from depositors and then lend the money to investors. Fund transfers, shares, and guarantees, credit notes, and currency exchange are among the other banking services available in conventional systems, all of which are equally important. However, according to Ahmad (2014), these services are a conventional system's only ancillary feature.
2. Conventional banking is based on the capitalist system and uses interest as a means of making profits, which is prohibited by Islamic law.
3. Islamic Bank accepts money lending and investing and provides financial products that are interest-free. Islamic banks, on the other hand, are based on Sharia values (Islamic Law).
4. Profit-and-loss sharing as a business risk has been addressed in Islamic banking. "Deal not unjustly, and ye shall not be dealt with unjustly," says Surah Al-Baqarah (2: 279). This clarifies the main reason for Islamic economics' emphasis on ethical and moral ideals in society.

According to Azid et al. (2007), the discrepancies between conventional banking and Islamic banking are that in the conventional banking system, resources are

allocated efficiently but it is still unnecessarily equitable. On the other hand, Islamic banking establishes a welfare balance between the present and the hereafter. To defeat the uncontrollable firm behavior, including both conventional and Islamic business, its principles should not solely be based on the law, but should also endogenize the moral element of the socioeconomic menus, preferences, institutions, and interactions to create the firm to be a cooperative-competitive organization. Cooperative implies participation and complementarity, and a unification epistemology known as (give-and-receive). Competitiveness refers to a firm's ability to gain sources of growth, efficiency, market transformation, and social well-being in order to improve its market performance. Cooperation and competition, on the other hand, will complement each other in terms of sharing resources (*mudarabah-musharaka*) and improving firm efficiency.

According to Almahy et al. (2014), Islamic banking arose in the 1970s as a paradigm change in international banking. In commercial and business activities, banks encourage and apply interest-free financing, social justice, and social responsibility. In its use of debt-based modes of finance, Islamic banking principles differed from conventional banking structures. Islamic banking, on the other hand, has received as much attention in society as the conventional system, but it is still subject to some constraints (Ahmad, 2014), such as:

1. An Islamic bank benefits from lending funds to a borrower for a specific time is not predetermined,
2. The Islamic bank accepts the advantage and splits the profit with the profitable business borrower,

3. The Islamic bank is not a creditor, but rather an alliance in any banking contract,
4. The Islamic bank prohibits the accrual of interest (*riba*),
5. The Islamic bank does not allow contractual uncertainty and gambling (*gharar* and *maysir*); and
6. The Islamic bank would not give or lend money to businesses that are prohibited by Islamic law.

Islamic banking is rapidly expanding (Tabash & Dhankar, 2014). This is based on a 2013, IFSB study, which found that between 2004 and 2011, there was a 38.4 percent rise in cross-border Islamic finance, which was accompanied by an increase in domestic Islamic finance. Conventional banks were affected by the financial crisis in 2008, but Islamic banks were largely shielded from the crisis because Sharia values governed their operating climate. The explanation for this is that Islamic banks forbid the types of investments that harmed conventional banks and contributed to the crisis. According to Mokhtar et al. (2007), there are three structured mechanisms for implementing the Malaysia's Islamic financial system's growth system:

1. From 1983 to 1992, the BIMB developed and adopted Sharia principles, and the IBA was formally implemented.
2. By establishing the Islamic Window in 1993, the conventional indigenous Islamic banking system was developed between 1993 and 2003. Islamic banking is attempting to gain a greater share of the market.
3. The year 2004 marked a new age of financial liberalisation. New international Islamic banks have been granted licences to operate in Malaysia by the BNM.

Malaysia is the first nation to adopt a dual banking structure, in which Islamic banking and conventional banking coexist. Since then, several Islamic countries have acknowledged and adopted the Malaysian banking system as a model for future banking (Mokhtar et al., 2007). In addition, Mokhtar et al. (2007) compiled the growth of Islamic banking's total assets, total deposits, and total funding (Bank Islam, Bank Muamalat, and Islamic Windows) from 1997 to 2003, as shown in Table 2.2.

Table 2.2: The Growth of the Islamic Bank in Malaysia

	1997	2003
Total Asset	RM17.8 billion	RM77.4 billion
Total Deposit	RM9.9 billion	RM55.9 billion
Total Financing	RM10.7 billion	RM48.6 billion

Source: Mokhtar et al. (2007); Annual Report Banks

Bank Islam, Malaysia's first Islamic bank, started its operation in July 1983, and that the government gradually permitted conventional banks to implement the Islamic system in their existing infrastructure and branches (regulation BNM in 1993, 1994, and 1999). This increases diversity and competition in the banking industry, allowing full-fledged Islamic banks and Islamic windows to boost their output efficiency.

Based on the above, it is clear that from an Islamic viewpoint, there exists an attitude of justice and well-being in terms of both system institutions and customers for both the world and the hereafter. The conventional view, on the other hand, presents the firm theory as a division of the corporate structure based on a profit-driven approach.

To summarise, Islamic banking, as an institution with an operational structure based on a variety of strategies, must strive for a sustainable prosperity (hereafter), which must include Islamic values. As a result, the study focuses on Bank Islam as a firm that has implemented a restructuring plan in order to achieve a balance between global well-being and prosperity.

2.3. Introduction of Bank Islam as a Firm

The Malaysian Pilgrims Fund Board established a pilgrims' fund, which was followed by the establishment of the Muslim Welfare Organization in 1963, which provided the financial basis for the establishment of Bank Islam Malaysia Berhad in 1983 (Ahmad Tajudin, 2000).

According to Jamalluddin et al. (2011), after the establishment of the Pilgrims Fund Board in 1963, Malaysian Muslims approached the government with a request to create Bank Islam. As a result of being pushed into the Islamic Development Bank in Jeddah, Malaysia has become increasingly involved in developing Islamic banking. Malaysia began forming a steering committee in 1981 with the aim of establishing an Islamic bank.

Raja Tun Mohar bin Raja Badiozaman, Chairman of the National Steering Committee for the Establishment of Islamic Banking in Malaysia, wrote a letter to the Prime Minister on July 2nd, 1982, that includes reports on aspects of Islamic banking based on religious, legal, and operational issues from other countries in comparison to the situation in Malaysia. The initiative establishes Bank Islam as a centre of Islamic banking in Malaysia, with the aim of meeting this need in Malaysian society. From this simple goal, Bank Islam grew into a vast structure that included takaful, capital markets, and other Islamic financial components. Furthermore, Ahmad Tajudin (2000) characterises the choice of Bank Islam's name as a "trendsetter success of the Sharia bank in Malaysia." According to him, Bank Islam began operations on July 1st, 1983, and has continued to evolve as a new and competitive Islamic banking system in comparison to the current traditional system until 2017. According to Zukri Samat (as

Managing Director in 2013), the development and growth of Islamic banking in Malaysia is divided into three phases, as shown in Table 2.3.

Table 2.3: Historical of Islamic Banking Development in Malaysia

Stage	I	II	III
Year	1983-1992	1993-2000	2001-2010
Focus on	Instituting Foundations	Institutional Building, Activity Generation & Market Vibrancy	Strategic positioning & International Integration
Activity	<ul style="list-style-type: none"> • Enactment of dedicated Acts for Islamic banking, takaful and Sharia-compliant government funding • Establishment of first full-pledged Islamic bank (Bank Islam) and first full pledged takaful firm 	<ul style="list-style-type: none"> • Legislative amendments to allow window concepts • Establishment of national Sharia Advisory Council to expedite the expansion of products and services • Establishment of the Islamic interbank money market 	<ul style="list-style-type: none"> • Creation of efficient progressive and comprehensive Islamic financial system • Financial Sector Master Plan was launch – Malaysia as an Islamic financial hub • Establishment of Islamic Financial Services Board • Liberalize domestic Islamic finance sector • Integrate with Islamic finance sector • Establishment of Malaysia International Financial Centre

Source: Samat n.d

They also had a certain amount of funds to carry out banking operations in the early stages of the establishment of Bank Islam. Bank Islam had an initial approved capital of RM500 million and a paid-up capital of RM79.9 million when it was established in 1983. Bank Islam received RM133.4 million in paid-up capital in 1991 for potential expansion and development properties, and they were listed on the Kuala Lumpur Stock Exchange on January 17th, 1992. (Ahmad Tajudin, 2000).

Bank Islam became fully Islamic banking owned by BIMB Holdings Berhad and it was turned into a fully Islamic bank, with the lowest ranking among Malaysian commercial banks (Huei & Kong, 2014). After Bank Islam purchased shares in Dubai Financial Group and Tabung Haji on December 19th, 2013, Tabung Haji now owns the majority of their shares. Tabung Haji, on the other hand, has completely subscribed for

the purchase of rights issue shares and Sukuk on Bank Islam. However, the operating activities are an extension of Tabung Haji's activities as a non-bank savings institution for Muslims, with a range of Sharia-compliant banking facilities to supplement its operations. Tabung Haji's activities often save customers money, which is a contribution. Tabung Haji's activities also save customers money, which is a contribution from Malaysia's Muslim community, which is covered by Sharia law. The Tabung Haji Act of 1995, which replaced the Lembaga Urusan Tabung Haji Act of 1969, governs these funds. Tabung Haji's history with Bank Islam is summarised in Table 2.4.

Table 2.4: Historical of Financial Support from Tabung Haji

Year	Detail
2006	Tabung Haji injected RM186 million in Bank Islam following the latter's RM1.0 billion recapitalization exercise.
2009	Subscribed for Bank Islam RM 540.0 million of Islamic redeemable, convertible non-cumulative preference shares, which qualified as tier-1 capital.
2013	Fully subscribed for BIMB's RM 1.7 billion Sukuk, which was issued to fund the acquisition of the 49 % -interest in Bank Islam that BIMB did not own.

Source: Huei & Kong (2014)

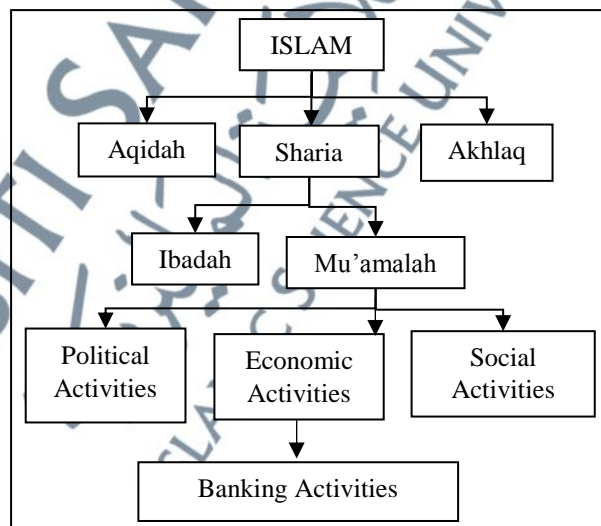
Bank Islam also requires a legal basis that is regulated by BNM in order to perform banking activities. BNM is a statutory body that ensures a conducive environment for the Malaysian economy's sustainable growth, including overseeing the performance of Malaysian banks and financial institutions. Some regulations serve as a basic concept to be applied in Bank Islam to supervise operational banking activities based on (1) BNM, (2) securities commission, and (3) other related authorities (Ahmad Tajudin, 2000). According to Thijs (n.d.), Bank Islam has introduced several regulations, which are summarised in Table 2.5.

Table 2.5: Regulation Implemented in Bank Islam

IFSB Standards	Bank Negara Malaysia
IFSB-1 Guiding Principles of Risk Management	Islamic Banking Act 1983
IFSB-2 Capital Adequacy Standard	Guidelines on Capital Adequacy (CAFIB)
IFSB-3 Corporate Governance	Guidelines on Financial Reporting
IFSB-4 Transparency and Market Discipline	Guidelines on Anti Money Laundering
IFSB-5 Supervisory Review Process	Guidelines on Prudential Limits and Standards
IFSB-6 Islamic Collective Investment Schemes	
IFSB-7 Sukuk, Securitizations and Real Estate	
IFSB-8 Takaful	
IFSB-9 Conduct of Business	
IFSB-10 Sharia Governance Systems	

Source: Thijs (n.d)

In addition, Bank Islam adopted the IFSA 2013, which combines many different laws into a single legislative structure, including the IBA 1983, the Takaful Act 1984, the Payment System Act 2003, and the Exchange Control Act 1953. (Elizabeth Frasier-Nelson, 2014). Figure 2.1 provides an understanding of the IBA (1983).



Source: Jamalluddin et al (2011)

Figure 2.1: The Islamic Banking Act (IBA 1983)

Latiff (n.d.) elaborates that BNM has guided Bank Islam's compliance in controlling its banking activities based on the IBA 1983. In terms of conventional banking, BNM's operations are governed by the Banking and Financial Institutions Act 1989. Islamic Banking is required to follow the SAC through IBA regulation (the 13A IBA 1983). According to Elizabeth Frasier-Nelson (2014), the key goal of IFSA 2013 was to track financial stability and Sharia enforcement in Islamic banking operations. IFSA 2013 was released on the date of royal assent on March 18th, 2013 and the date of publication in the Gazette was March 22nd, 2013. IFSA (2013) aims to provide regulatory and supervisory oversight of Islamic financial institutions, payment systems, and other relevant entities as well as oversight of the Islamic money market and Islamic foreign exchange market, in order to promote financial stability and Sharia enforcement as well as for associated, consequential, or incidental matters (BNM website, 2017). The regulation demonstrates the Malaysian government's determination, through the BNM, to promote Malaysia as a reference for Islamic banking. There are six pillars in Bank Islam for running banking activities, namely, (Jamalluddin et al., 2011): (1) Fairness/no exploitation, (2) risk-sharing, (3) materiality, economic purposes, (4) prohibition of interest (*riba*), (5) sanctity of contracts and (6) no financing of activities prohibited by Islam.

The study focuses on the growth of Bank Islam's assets and liabilities, as well as the effect of the AFC and GFC on Bank Islam's assets and liabilities. Before learning more about Bank Islam's assets and liabilities, it is important to understand what assets and liabilities mean in Islamic terms. Jamalluddin (2012) explains the sense of asset and liability in Bank Islam is as follows:

1. Asset is “capable of generating of positive cash flow or other economic benefits in the future either by itself or in combination with other assets which the bank has acquired the right to hold (rightful ownership of *maal*) and, use of dispose (rights on manfaat) as a result of past transactions or events” (AAOIFI).
2. Liability is “a measurable present bank’s obligation to another party to transfer asset, extend the use of the asset or provides services to that party in the future as a result of past transaction or events.” Islamic bank’s obligation must not be reciprocal to an obligation of the other party to the bank. The duty of an Islamic bank must not be reciprocal with the obligation of another party to the bank.

For further understanding of assets and liabilities in Bank Islam, Table 2.6 shows the list of banking products under assets and liabilities owned by Bank Islam.

Table 2.6: List Asset and Liabilities in Bank Islam

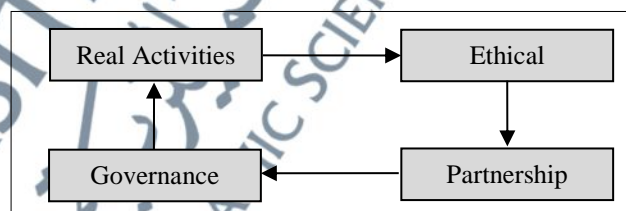
NO	Bank Islam Malaysia Berhad (GP8-I)	
	Asset	Liabilities
1	Cash and short term funds	Deposits from Customers
2	Deposits & placement with banks and other financial institutions	Deposits and placements of banks
3	Securities held-for-trading	Bills and acceptance payable
4	Securities available-for-sale	Other liabilities
5	Securities held-to-maturity	Zakat
6	Financing, advances, and others	Subordinated financing
7	Other assets	
8	Statutory deposits with the Central Bank	
9	Current tax asset	
10	Deferred tax asset	
11	Investment in subsidiary	
12	Property & equipment	
13	Prepaid lease payments	

Source: Jamalluddin (2012)

For accounting standards and balance sheet reporting, Bank Islam follows the BNM GP8-I rule. GP8-I is a Sharia Supervisory Board regulation on Specimen

Financial Statements for Licensed Islamic Banks for operation accounting and reporting. Jamalluddin (2012) propounds that the Sharia standard, governance standard, financial reporting standard, accounting standard, and auditing standard are all implemented by the Standard Financial Reporting by Bank Islam. The Islamic accounting definition in Bank Islam is a “accounting mechanism” that provides stakeholders with accurate information (related to financial data) (Jamalluddin, 2012). Islamic accountability, as described by Bank Islam, is based on five principles: (1) Transcendental accountability to Allah S.W.T. (*hablumminallah*), (2) social accountability to society (*hablumminan-nass*), (3) individuals as trustees or *khalifah*, (4) performance in this world and the hereafter (*al-falah*), and (5) economic aims that go beyond mere financial gain, such as *tazkiyah* (purification of self and wealth).

Furthermore, Jamalluddin (2012) states that Islamic and conventional banking are similar in that they both offer information to stakeholders or consumers of financial statements. Islamic accounting, on the other hand, seeks to provide greater transparency and accountability through the application of Sharia values to banking strategies. According to Jamalluddin et al. (2011), Sharia values are compatible with universal values, as shown in Figure 2.2.



Source: Jamalluddin et al. (2011)

Figure 2.2: Consistency of Sharia Values Consistent with Universal Values

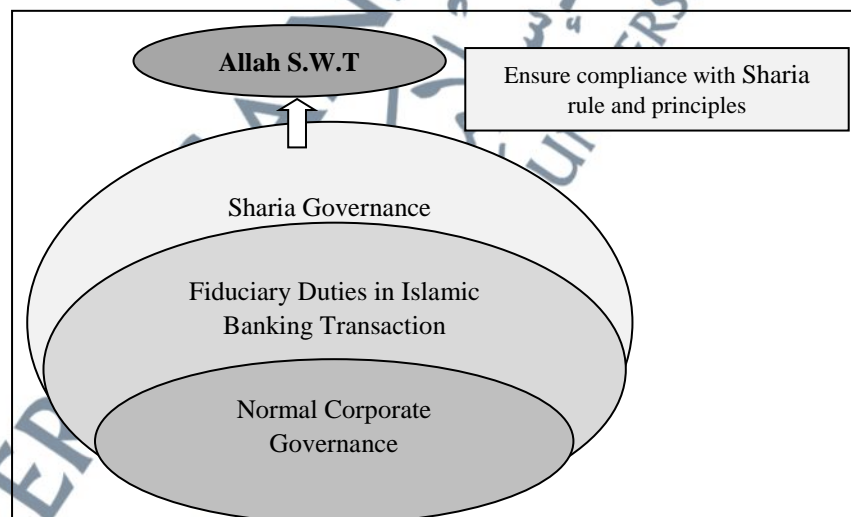
Further explanation of Table 2.7 about the consistency of Sharia value had been followed by Bank Islam with universal values such as:

Table 2.7: Explanation of Consistency of Sharia Values

Real Activities	Ethical	Partnership	Governance
Direct link to the real economy	Avoidance of unethical activities e.g., hoarding.	Different contractual relationship.	Greater transparency and disclosure: <ul style="list-style-type: none"> • Additional Sharia governance. • Unique risks.
Certainty – supported by underlying activities (avoidance of <i>gharar</i> -uncertainty)	Avoidance of <i>maysir</i> (gambling), <i>riba</i> (interest) and nonpermissible goods and services	Equity-based and risk-sharing transactions.	Greater fiduciary duties and accountability.
Prohibits excessive leveraging	Screening investment	Clearly defined that risk and profit-sharing characteristic serves as additional built-in mechanisms	Emphasis on clear documentation and contract. Add to soundness and stability.
Money is not a commodity	Forbearance for customers in difficulties		

Source: Jamalluddin et al. (2011)

Bank Islam also has a governance principle that emphasises obedience to Allah SWT. This is explained in Figure 2.3.

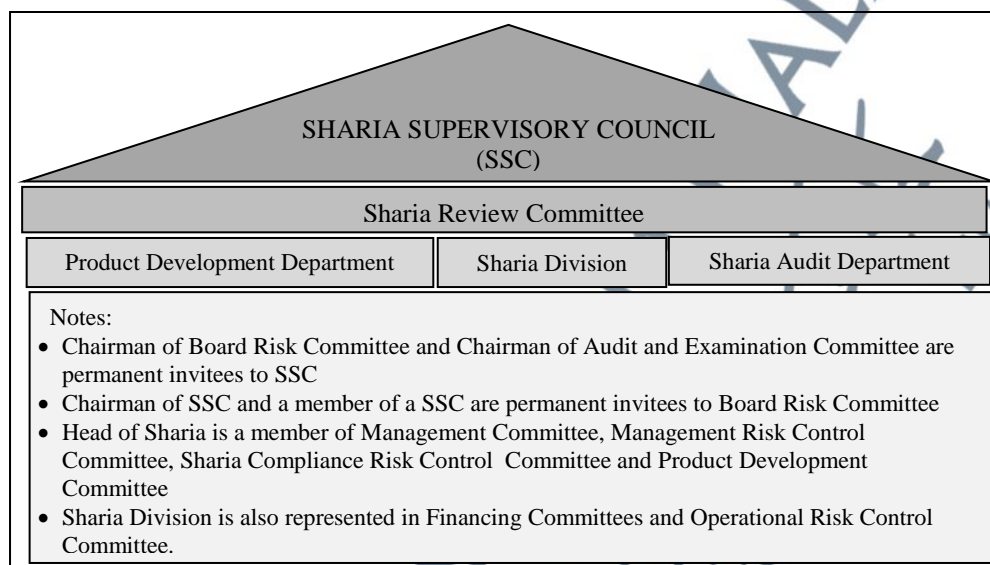


Source: Jamalluddin et al. (2011)

Figure 2.3: Concept of Governance in Bank Islam

Bank Islam also supports financial stability while adhering to corporate and Sharia governance standards. According to Ahmad Tajudin (2000), Bank Islam

established the Sharia Supervisory Council in 1983 to oversee banking activities in accordance with Sharia law. The National Sharia Advisory Council was established by Bank Islam in 1997 to take over the role of the Bank's Sharia Supervisory Council. This council has the authority to keep the Islamic system's Sharia discrepancies in Islamic banking operations in line. It is explained in Figures 2.4 and 2.5.

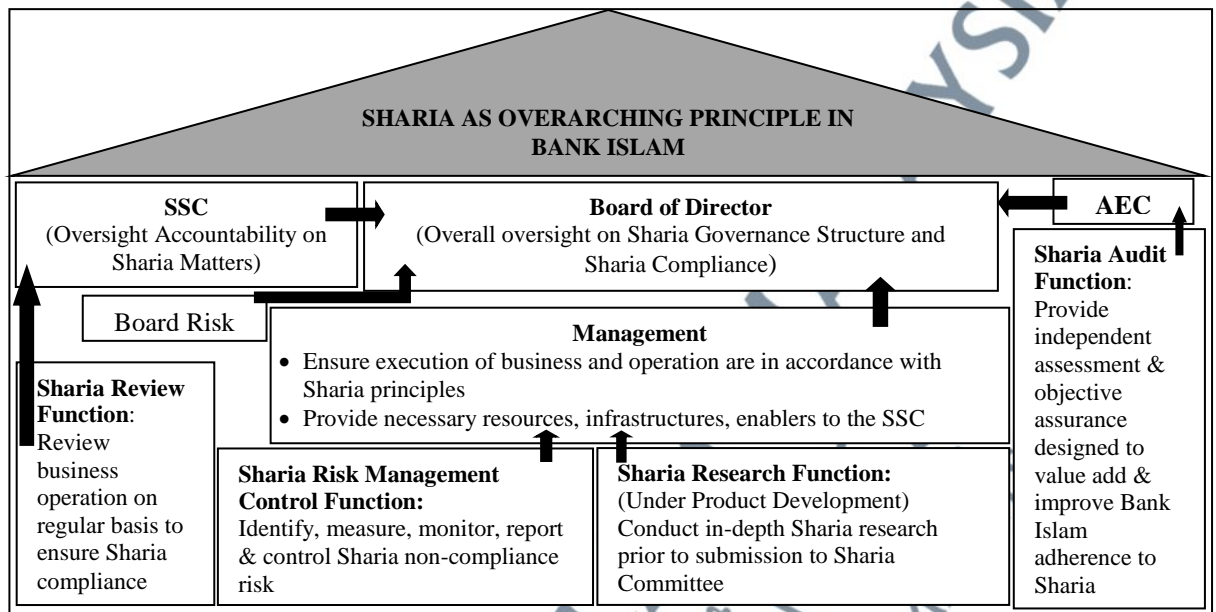


Source: Jamalluddin (2012)

Figure 2.4: Sharia Supervisory Council in Bank Islam

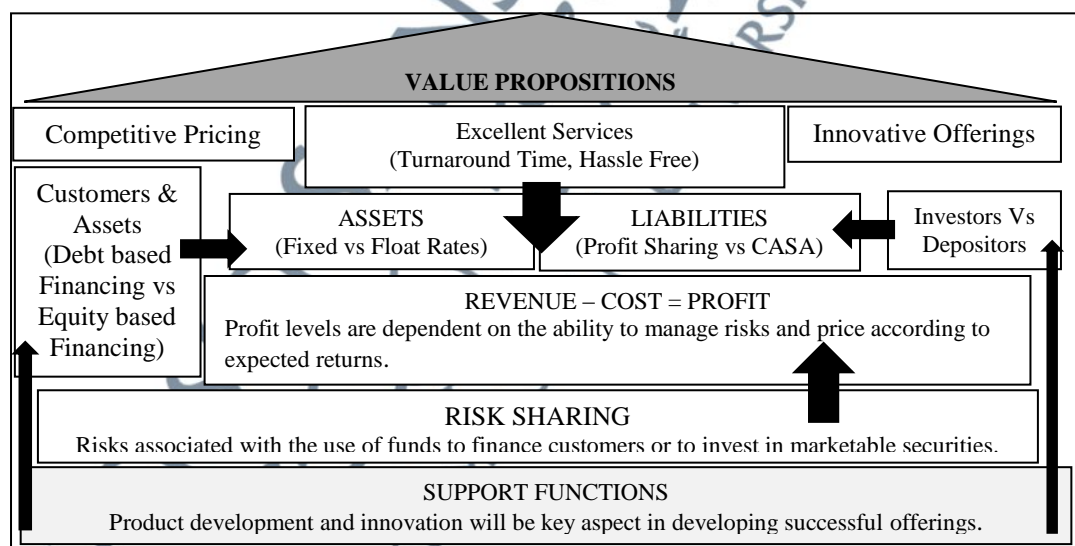
The SAC's role, according to Latiff (n.d.), is to ensure that Islamic law is well enforced in Islamic banking, takaful (insurance), Islamic financial business, Islamic financial business, or any other business based on Sharia principles that is supervised and controlled by BNM. The Central Bank of Malaysia Act 2009 also reinforces the importance of the SAC as the only body with full authority to handle Sharia matters on Islamic banking, takaful, and Islamic finance, according to the BNM. The significance of SAC's role in Bank Islam is seen in a different light. Even though Bank Islam has its own SAC, it will seek approval from it last when determining if new products or actions are permissible. Figure 2.4 depicts the Sharia concept in Bank Islam, while Figure 2.5

depicts an introduction to Bank Islam's general market. Bank Islam has its own wealth and liability management policy.



Source: Jamalluddin (2011)

Figure 2.5: Sharia Principle in Bank Islam



Source: Jamalluddin et al. (2011)

Figure 2.6: General Business Model in Bank Islam

Table 2.8: Bank Islam Balance Sheet

	Assets	Liabilities
Financing	Inventory (Real Estates, Automobiles, etc)	Current/Demand Deposits: (<i>Wadiah</i> (Safe Custody), <i>Wakalah</i>)
	Asset-backed Transactions: <i>Murabahah</i> (cost plus)/ <i>Ijarah</i> (leasing)/ <i>Istisna'</i> (manufacture)/ <i>Salam</i> (forward delivery)	Unrestricted Investment Accounts: (Mudharabah-based GIA, SIA)
	Profit-Sharing Transactions: <i>Mudharabah</i> (profit sharing & loss bearing) / <i>Musharakah</i> (profit & loss sharing)	Restricted Investment Accounts: (Mudharabah PSIAs)
	Fee-Based Services: (<i>Ujr, Sarf, Wakalah</i> , etc) i.e. for Trade Financing	Profit Equalization Reserves
		Shareholders' Equity

Source: Jamalluddin et al (2011)

Table 2.9: Bank Islam action on Asset and Liabilities

Asset	Liabilities
To manage risks associated with <i>Mudharabah</i> (profit-sharing) and <i>Musharakah</i> (partnership) contract: Equity-based transaction: <ul style="list-style-type: none"> • Board to ensure IBIs have sufficient expertise and capability • Allow appointment of Board representatives on entities involved in such transaction as a monitoring mechanism • Establishment of dedicated oversight function, e.g., in house property development or research department for property investment and development strategies. 	To safeguard the interest of Investment Accounts Holders (IAH)-profit sharing contracts: <ul style="list-style-type: none"> • IBI's fiduciary responsibilities in protecting depositors (profit sharing investment account) • Sound investment and financing strategies-to align with IAH risk and return expectation • Proper disclosure and transparency

Source: Jamalluddin et al. 2011

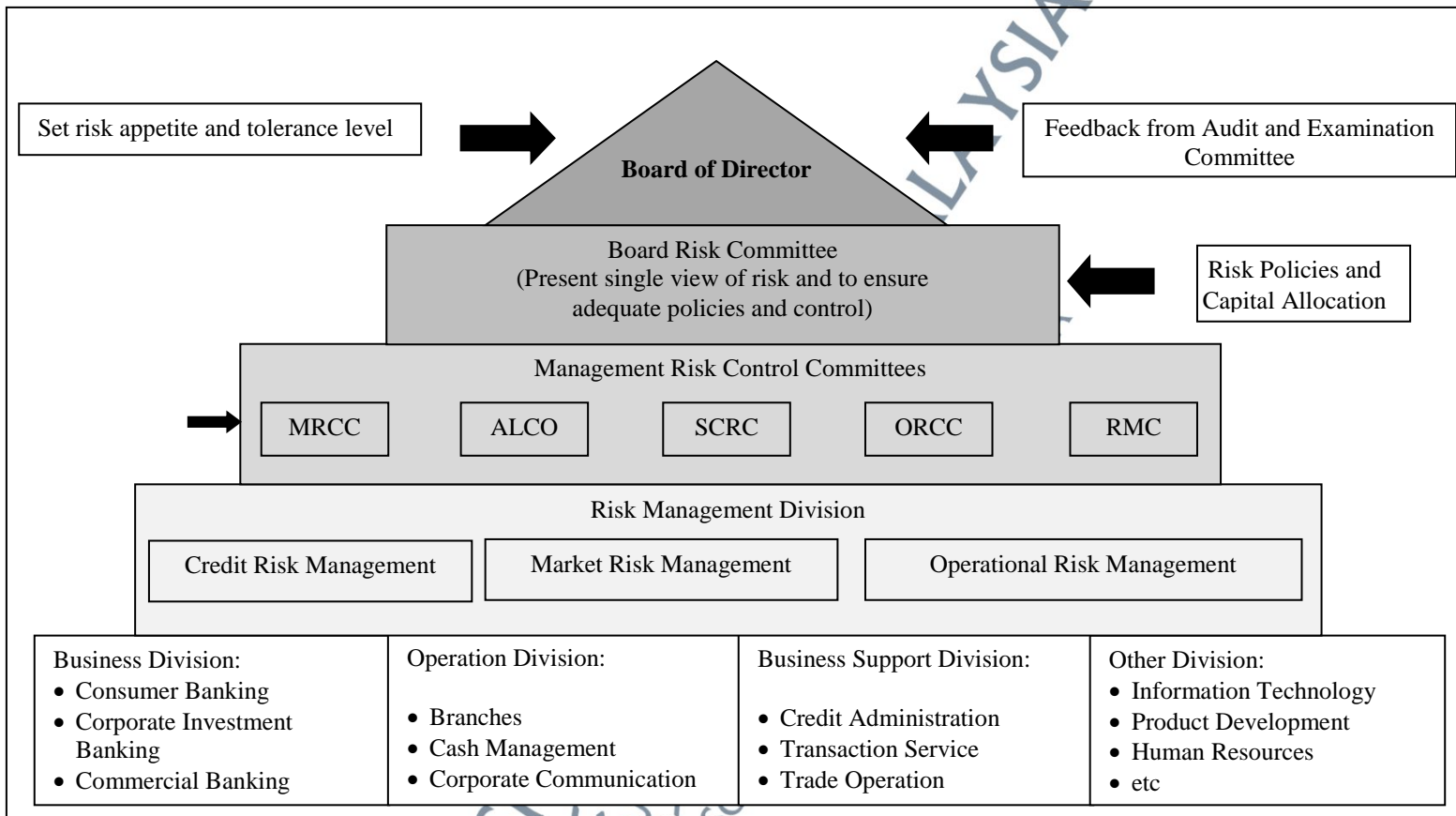
A list of Bank Islam behaviour related to asset and liability items from the financial report can be found in Figure 2.6, Table 2.8, and Table 2.9. Asset liability management is critical for maintaining a healthy balance of profits and risks (Mun & Hassanudin, 2017). In this financial climate of heightened uncertainty and increased potential for financial vulnerabilities, bank strategic planning, especially effective risk management, is critical. As a result, asset liability management is one of the most important decision-making tools for banks in order to minimise risk and maximise benefit. Asset liability management in a bank refers to the simultaneous preparation and organisation of both asset and liability positions on the bank's balance sheet when

considering various bank management priorities as well as legal, administrative, and market constraints in order to maintain liquidity, reduce interest rate risk, and increase the bank's valuation (Gup & Brooks, 1993; Mun & Hassanudin, 2017). There are also some operational activities in Bank Islam. Table 2.10 provides the summary of the key pillars in Bank Islam operations.

Table 2.10: Key Pillars in Bank Islam Operational

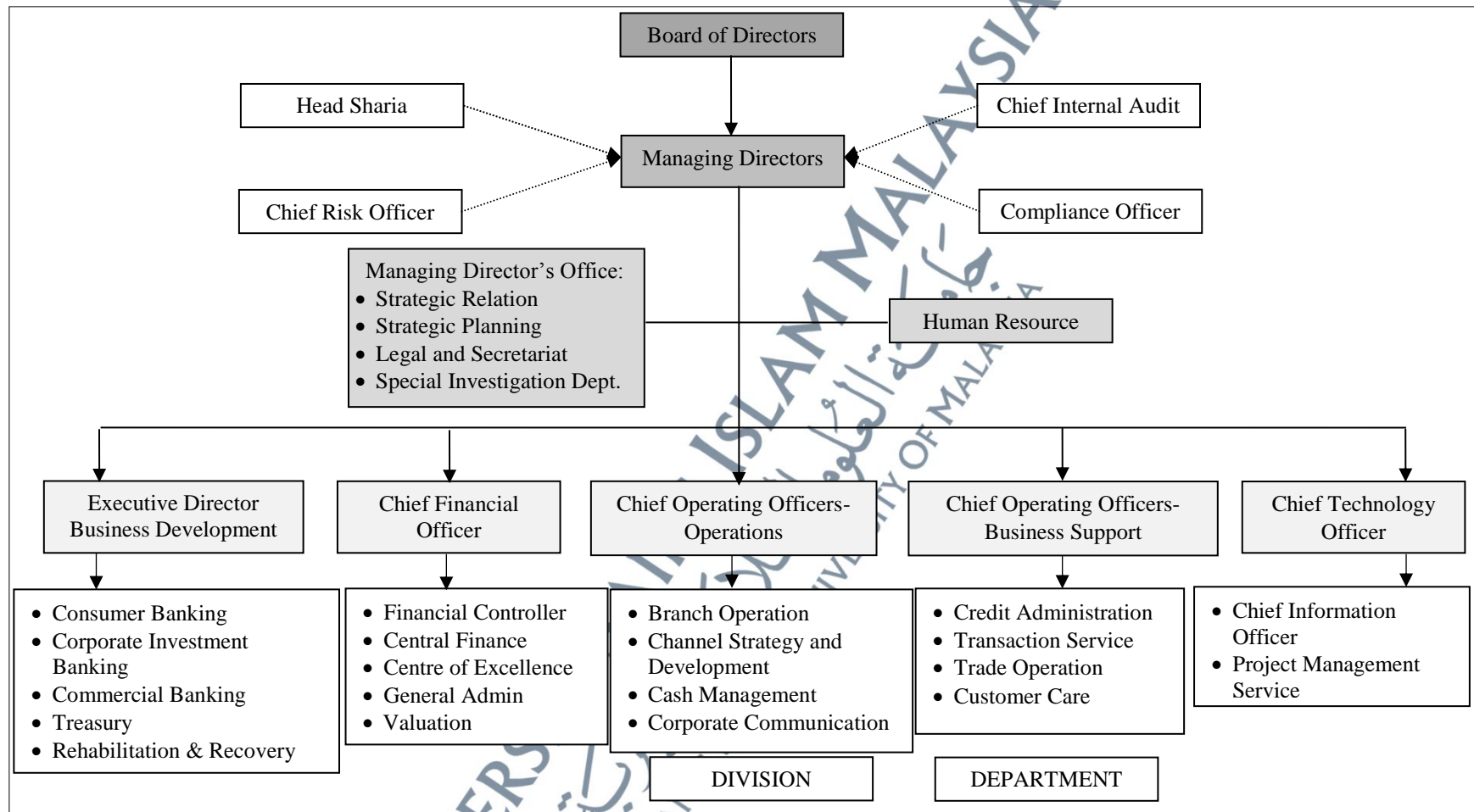
Revenue Generator		Operations	Business Support
	Consumer Banking: 1. Personal Financing 2. House Financing 3. Automobile financing 4. Bank Islam Card 5. Wealth Management 6. Banca Takaful 7. Bureau de Change 8. Electronic Banking 9. Deposit and Payment Service Corporate Investment Banking: 1. Corporate Banking 2. Capital Market 3. Corporate Finance Commercial Banking: 1. Business Premises 2. Emerging Corporate 3. Contract and Vendor Financing 4. SME and SBU Treasury Rehabilitation and Recovery: 1. Consumer Recovery 2. Corporate Recovery	Branch Operation: 1. Business Process Reengineering 2. Branch Supervision 3. Branch Performance Channel Strategy and Development: 1. Channel Strategy 2. Channel Development Cash and Channel Management: 1. Cash Management 2. Electronic Banking Corporate Communication: 1. Public Relations 2. Corporate Branding 3. Corporate Responsibility 4. Contact Centre	Credit Administration: 1. CA-Consumer 2. CA-Business Transaction Services: 1. Treasury Operation 2. Payment Services 3. Correspondent Banking Trade Operation Customer Care: 1. Complaint Management 2. Service Quality Assurance

Source: Jamalluddin et al. (2011)



Source: Jamalluddin (2012)

Figure 2.7: Integrated Oversight Framework of Bank Islam



Source: Jamalluddin (2012)

Figure 2.8: Organisation Chart in Bank Islam

Figures 2.7 and 2.8 depict Bank Islam's organisational structure, which is divided into various functions and responsibilities in order to achieve good growth from the bank's results. It also means that Bank Islam is an entity of the firm. Banking, according to a paper presented at the ICOSAH 2017 conference, is a structural organisation that is related to firm theory.

The requirements in the four principles of firm are: (1) The firm as a development unit, (2) the firm as a decision unit, (3) the firm as a contracting solution, and (4) the firm as a pool of resources, according to Becerra (2009).

It also indicates Bank Islam shows an entity of the firm. According to the presented paper at a conference ICOSAH 2017, banking is a structural organization that relates to the theory of a firm. Becerra (2009) discloses the criteria in the four concepts of firm being: (1) The firm as a production unit, (2) the firm as a decision unit, (3) the firm as a contracting solution, and (4) the firm as a collection of resources. As can be seen, Bank Islam meets all four criteria as a firm, such as:

1. The firm as a production unit can be implemented into banking performance. The bank also does not merely focus on the changes in profitability because profitability can be influenced by many factors. Bank Islam also focuses on the flexibility of managerial performance, thoughts to deliver decisions on better banking performance changes in each period.
2. The concept of the firm as a decision unit could be also implemented into banking performance, which means the formation of the bank is not merely for pursuing profit only, but the manager should focus more on strategy to keep saving money submitted by the community, and the same time Bank Islam also manages the rotation of money and develops another service for

the community. Following this concept, the community also prioritizes the satisfaction of the managerial performance that will also bring benefits to all parties.

3. So, if the concept of the firm as a contracting solution could be implemented on the banking performance, it is related to the contracts. Bank Islam should have a detailed explanation of efficiency in banking performance. However, there is a possibility the bank can also handle the same problem as mentioned in the firm's concept of the firm and the boundaries of the firm (property rights). On the other hand, there is a different boundary on the performance or business between firms and banking.

The study concludes that a firm is a set of resources managed by a single administrative structure that provides a sustainable competitive advantage. Bank Islam, on the other hand, supports this idea, but the reality is that the firm handles all of the firm's administrative functions. The bank's resources have also changed as the economy and government policy changed.

2.4 Assets-Liabilities Management (ALM) of Bank

A bank is a government-licensed financial institution that plays a critical role in the country's financial infrastructure growth. The bank is typically required to keep its asset-liability management under control while still managing risks. Changes in economic cycles will also affect banking efficiency, especially in terms of asset and liability banking. A crisis may be the catalyst for reform. Changes in the recession would have an effect on plans, ranging from lower funding levels to lower asset prices, while also rising debt levels (Elliot, 2010).

After the crisis, according to Brick (2012), regulators in the 1980s focused more on balance sheet structure as a response action. Similarly, bank management must maintain a constant awareness of and emphasis on the ALM (Asset Liability Management) or IRR (Internal Rate of Return) mechanism. Furthermore, bank management should be concerned about effective risk management in an exposed enterprise (such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, and so on) (Dedu & Vasilache, 2008). Management should be managed separately, with reasonable decisions made depending on the circumstances.

Risk is linked to assets, interest, and currency exchange risks (Rao, 2015). ALM is a risk management technique used by banks and other financial institutions to manage risks such as liquidity and interest rate risk. According to Dedu & Vasilache (2008), the primary aim of bank management is to monitor the net interest margin as a protective or offensive control on banking assets and liabilities management. The role of asset-liability management in managing risks and returns from individual asset classes is discussed in conjunction with Elliott (2010). Choudhry (2017) describes that ALM has concentrated not only on the bank's risk management system. However, it is also concerned with the form of a bank's balance sheet as well as its liquidity, funding strategy, and supported assets. He concludes that in order to continue the business organization process, the bank needs to handle risk and return from the side of the balance sheet. The bank must consider the interest rate and liquidity risks when implementing this strategy and follow a high-level strategy. As shown in Tables 2.11 and 2.12, there are several variations in the asset and liability reports on the balance sheets of conventional and Islamic banking.

Table 2.11: The Balance Sheet in Conventional Banks

Assets	Liabilities and Shareholders' Equity
Reserves with Central Banks	Retail Deposits
Retail Loans	Demand deposits
	Savings deposits
	Term deposits
Corporate Loans	Corporate Deposits
	Demand deposits
	Term deposits
Interbank Loans	Interbank Deposits
Government Bonds	Subordinated Debt
Fixed assets	Equity

Source: Dermine (2007)

Table 2.12: The Balance Sheet in Islamic Banks

Asset	Liabilities and Shareholders' Equity
Cash and short-term funds	Deposits from customers
Deposits and placements with banks and other financial institutions	Deposits and placements of banks and other financial institutions
Short term investment (i.e. Sukuk)	Bills and acceptances payable
Allowance for bad and doubtful financing	Other liabilities
Financing and advances based on Islamic contracts	Provision for taxation and zakat
Direct investment	Ordinary share capital
Other assets	Reserves
	Shareholder's equity
Fixed Assets :	
Property, plant, and equipment	Bank commitment and contingencies
Other tangible assets	
Intangible assets (i.e. goodwill)	
Off Assets :	
Customer commitment and contingencies	

Source: Bidabad & Allahyarifard (2008)

ALM is the part of management that controls the balance sheet in terms of risks and asset-liability structure decision-making in order to optimise interest earnings (Brick, 2012). According to Ali (2007), many banks had an unstable banking system at the time of the banking crisis, which led to the outbreak of the crisis. During the recession, the bank, as a deposit-taking entity, would be responsible for liabilities, interest, and the possibility of maturity mismatch. He also stated that the banking crisis created a fragile situation and lowered depositor trust. If the ALM is well managed,

banks' liquidity, profitability, and solvency can all be regulated at the same time by reducing risks such as credit, liquidity, interest rate, and currency risk, among others.

The aim of asset and liability management, according to Singh (2013), is to reduce interest rate movement, provide liquidity, and increase stock market value. Dedu & Vasilache (2008) specify two types of ALM strategies: Defensive and aggressive control. The early is the net interest margin that is unaffected by interest rate fluctuations, regardless of whether the bank's volatility is positive or negative. The above seeks to maximise the net interest margin by altering the balance structure of banks. In order to ensure the effectiveness of a policy, proactive regulation plays a larger role in forecasting interest rates. Furthermore, Choudhry (2017) discovered that Basel III can be used to manage ALM risk on the balance sheet. This allows it to create assets and liabilities independently of one another while still "optimising" the balance sheet.

The study concludes that ALM is an essential tool for a firm's financial report that controls risks and asset-liability framework decision-making, especially it relates to the study. Based on the research problem of the study, the study determined how banking performance has changed since the financial crisis.

The aim of ALM analysis is to start looking at financial issues that arise from adjustments in interest rates on the balance sheet and income statement (Brick, 2012). The prevailing mismatch between assets liabilities is due to the cost, which is increasing faster than the return on the asset in the balance sheet, as the return on assets will be decreased in the falling rate market. Similarly, Zawalinska (1999) states that ALM plays an important role in risk management because it enables banks to shield themselves from risk by increasing their profitability in a competitive market. Dermine (2007), explained the systematic progress of the ALM performance as:

1. Controlling the value of liquidity risk and foreign exchange risk of the loan and investment portfolio and check if this risk will impact the liabilities.
2. Controlling the value fluctuations will impact the credit risk, contingency risk, and assess the asset quality.
3. Reviewing the actual net profit performance, interest spreads, and other - balance sheet ratios.
4. Planning and budgeting the strategy to manage interest rates for assets and liabilities.

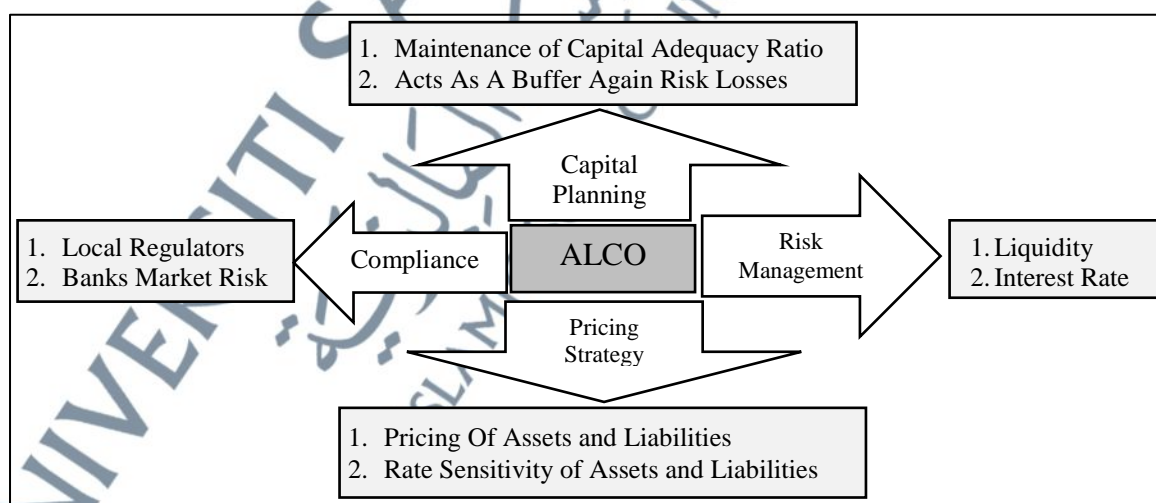
Romanyuk (2010) states the benefits of ALM, which are: (1) To understand the circumstances of the firm's position through asset and liabilities, (2) to understand the strategic management and investment from liabilities side, (3) to understand and measure risk, and (4) to understand the uncertainties in future decisions and the preparation of asset-liability performance better. Furthermore, Romanyuk (2010) describes the difficulty in ALM as follows: (1) it is difficult to implement the ALM strategy based on specific objectives, risk tolerances, and constraints, (2) the firm does not prepare long-term strategic decisions based on forecasts factors, and (3) risk measurement using specific measurements makes it difficult to form ALM models.

In addition to the conventional banking structure, the Islamic bank plays an important role in optimising shareholder assets (Bidabad & Allahyarifard, 2008). Similarly, in order to execute the best ALM strategy, the bank must define ALM technique teamwork in order to increase the quality of banking performance and effectiveness. As a result, ALM is a risk management device, since risk can be reduced, with the benefit of net interest income uncertainty in the short term and beneficial support for economic entities in the long term. Although there are always risks in

banking, the managerial board must mitigate them with ALM in order to monitor the value of net profits, net interest margin, capital adequacy, and liquidity risk, as well as maintain an acceptable balance of profitability, growth, and risk.

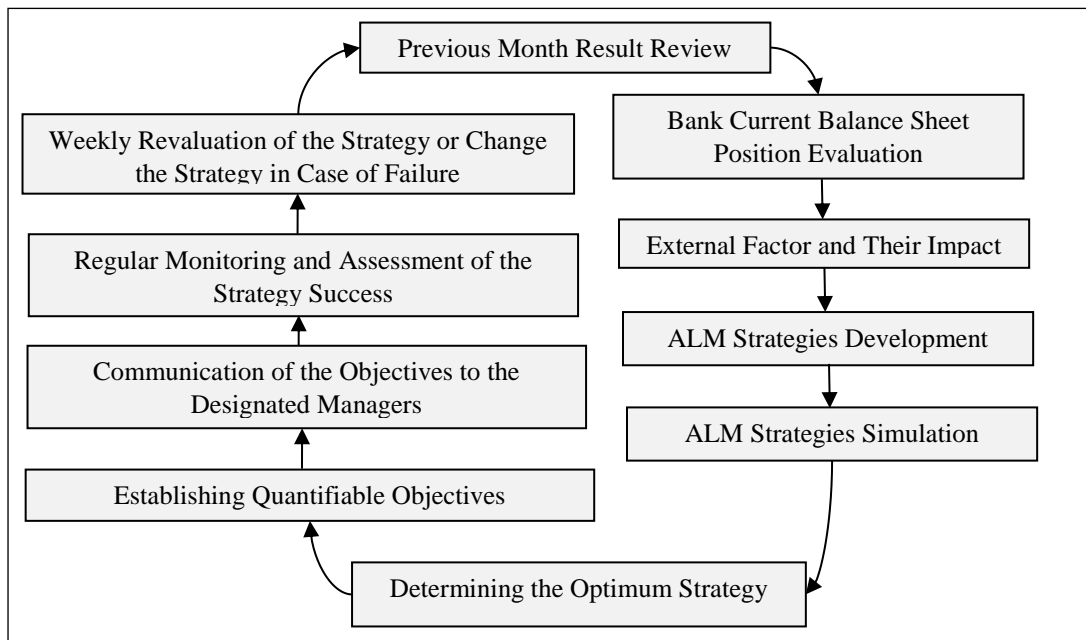
2.4.1 Asset and Liabilities Committee (ALCO)

According to Zawalinska (1999), the bank has both ALM and ALCO policies. ALCO is a banking department with a special function in dealing with ALM (Dedu & Vasilache, 2008). ALCO's job is to create a policy for banks' assets and liabilities based on a synthesis of data (from interest rates and liquidity information). According to Dugar (2015), ALCO is a balance sheet planning unit that manages the risk-return perspective and is in charge of strategic interest rate and liquidity risk management. ALCO, according to Pieniazek (2012), is in charge of managing balance sheet risks in a structured manner. ALCO is, therefore, a crucial department for managing the banking balance sheet (assets-liabilities), which is focused on interest rate and liquidity risk adjustments. ALCO's processes and diversity goals are depicted in Figures 2.9 and 2.10.



Source: Dugar (2015)

Figure 2.9: Asset Liabilities Committee



Source: Dedu & Vasilache (2008)

Figure 2.10: Asset Liability Committee Processes

ALCO is a committee charged with maximising net interest income over the course of a business cycle by managing risk (credit risk, liquidity risk, interest rate risk, and capital risk) in the short and long term (Pieniasek, 2012). ALCO is the Asset and Liability Management Committee, which is in charge of overseeing and controlling the bank's liquidity and profit rate deficits (Annual Report Bank Islam, 2009). ALCO uses a detailed collection of instruments to calculate the liquidity and benefit rate differences in the banking book, which are discussed weekly. Bank Islam has adopted BNM's liquidity structure, which is based on contractual and behavioural cash flow expectations drawn from the bank's assets, liabilities, and off-balance sheet commitments.

Furthermore, according to Singh (2013), implementing ALM necessitates a number of processes, including the management of liquidity risk, interest rate risk,

market risk, trading risks, and other factors, as well as several ALCO tasks, including to:

1. Determine interest rates and commodity prices for both assets and liabilities in order to maximise the NIM/NII) and asset/liability ratio.
2. Assess and monitor liquidity, interest rate, currency, operational, and trading risks, as well as stock price risk.
3. Choose a funding strategy that works for firm (such as fixed or floating rate funds, wholesale or retail deposits, money market or capital market funding, domestic or foreign currency funding).
4. Create an asset and liability maturity profile.
5. Allow and track the use of derivative instruments to mitigate risks, while adhering to all relevant regulatory norms and guidelines.

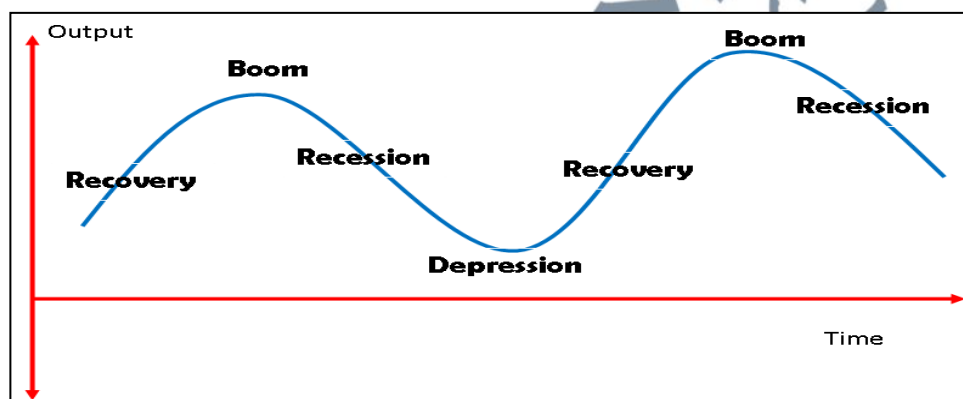
Where there are asset investment and future liability optimization targets, ALM becomes effective (Romanyuk, 2010). There are three challenges in handling a bank's ALM. For starters, since each department serves a different function, it is difficult to make decisions on how to formulate a real portfolio allocation strategy. The application of a long-term plan, on the other hand, is challenging. Finally, calculating the risk preference modelled in a mathematical formula is difficult. Importantly, a good ALM model must put all of its different components (assets, liabilities, goals, institutional and policy constraints, etc) in the same place.

ALM can be summarised as a bank's mechanical mechanism for controlling mismatched asset liabilities based on interest rate and liquidity shifts. Following that, the ALCO sector is in charge of measuring, monitoring, and controlling the processes relevant to the bank's assets and liabilities.

2.5 Business Cycle Theory

The business cycle is linked to the lopsided surges of growth that characterise economic change (Burns, 1969). Hamilton (2005) propounds that the term cycles refers to shifts that can be defined cyclically, as noted by economists in the nineteenth and early twentieth centuries during the business cycle. Under the sinusoidal pattern, each country will experience different shifts in business cycles (Bidabad, 2010).

The shifts in the business cycle are depicted in Figure 2.11.



Source: Papnet (E-learning; Papnui, 2015)

Figure 2.11: Business Cycle Model

Expansion (recovery), peak (boom), contraction (recession), and trough (depression) are the four distinct phases of business cycles described in Figure 2.11. Increased jobs, economic growth, and upward market pressure are all signs of an expansion (recovery). When the economy reaches its maximum allowable production, full jobs, and price inflationary pressures, the economy is said to be at a peak (boom). As a downturn (recession) occurs, inflation slows, employment falls (unemployment rises), and pricing pressures decrease. There is still a high unemployment rate in the through process (depression = deflation = disinflation), along with low business morale, which leads to reduced spending, which decreases productivity and results in loss (Papnet Papnui, 2015). There are often expansion and recession cycles in the business

cycle, which are affected by a variety of factors like GDP growth, jobs, consumer spending, and other variables. GDP is the most commonly used metric in determining a country's economic or market cycle. When a country's GDP growth is positive, the economy is expanding, and the country's business activities are perceived to have benefited it. The country's economic cycle is in recession if GDP growth is negative. A recession is known as a disaster because it disrupts the country's economic cycle. However, recessions may be examined earlier in order to help predict a potential economic decline.

Figure 2.11 depicts shifts in market cycles using an up-down-up-down flow (look at the same flow in Appendix 5 until Appendix 12). It can also be seen from the macro-environmental factors (such as GDP growth, inflation, current account balance/GDP, central balance government/GDP, large money growth, private sector credit, and quantitative information) provided in Appendices 5 to 11 across Asian countries. Furthermore, from 1990 to 2013, Malaysia only experienced macroeconomic shifts, which are recorded in Appendix 12 as GDP, CPI, inflation rate, interest rate, unemployment rate, and exchange rate. Changes in the economic indicators of the countries affected can also be interpreted as a change in the business cycle.

According to Burns (1969), the business cycle is influenced by a number of factors, including firm formation, pricing, manufacturing, employment, cost and benefit, consumer expenditure, saving and investment, export-import, securities trading, loans, money supply and turnover, and government fiscal operations.

The business cycle can be studied on a regular, weekly, or annual basis (Burns, 1969). The business cycle will still repeat itself, but the intensity and scope will be different. Furthermore, according to Hamilton (2005), the term "cycle" refers to

periodic shifts in economic indicators based on a sequence of phases. Zarnowitz (1999) opines, due to economic volatility and growth patterns, each country experiences various changes in the business cycle. According to Zarnowitz (1999), along with economic development, the business cycle has various symptoms and triggers. The business cycle moves because of changes in business earnings, investment, and credit, or because the business cycle is declining. He also states that the common function of profit, investment, and credit fluctuation in the business cycle has a different meaning in monetary and regime change, through inflation and deflation, whereas the difference is in the nineteenth and twentieth centuries, including the different factor that occurred in European and Asian countries.

The business cycles theory is concerned with fluctuations that result in a minor shock, a short-term or a constantly fluctuating economy. This is due to the fact that fluctuations trigger various changes, primarily in the rate of growth and economic activity, as well as changes in three main cycles (corporate profit cycle, credit cycle, and inventory cycle) as well as changes in the job backdrop and monetary policy. The business cycle is divided into cycles of growth and periods of recession. This is because the economy grows in real terms (i.e., excluding inflation) during expansions, as evidenced by increases in indicators of employment, industrial production, sales, and personal incomes. Also, the economy is contracting during recessions, as measured by the decrease in the above indicators. The expansion is measured from the trough (or bottom) of the previous business cycle to the peak of the current cycle, while the recession is measured from the peak to the trough. The changes in the business cycle usually follow the profitability of business, investment, and credit that could be mutually reinforced, or otherwise, that could lead to inflation and deflation.

Similarly, Bidabad (2010) claims that there is a technological shock factor in the business cycle that includes political parties and decision-making cycles. The state would be able to deliver growth and development through the repeated cycles of industry. The market cycle, according to Lucas (1977), is the repeated variations in demand around the trend and co-movements. While every business cycle is different, according to Mattingly et al. (2014), some trends appear to replicate themselves over time. In Yusuf (12: 46 to 49), there is an *ayah* (verse) in the Qur'an that explains the shifts in the business cycle.

يُوسُفُ أَيُّهَا الصِّدِّيقُ أَفْتِنَا فِي سَبْعِ بَقَرَاتٍ سِمَانٍ يَأْكُلُهُنَّ سَبْعُ عَجَافٍ وَسَبْعِ سُنبُلَاتٍ خُضْرٍ وَأُخَرَ يَابِسَاتٍ لَعَلِّي أَرْجِعُ إِلَى النَّاسِ لَعَلَّهُمْ يَعْلَمُونَ (٤٦)

[He said], "Joseph, O man of truth, explain to us about seven fat cows eaten by seven [that were] lean, and seven green spikes [of grain] and others [that were] dry - that I may return to the people; perhaps they will know [about you]."

قَالَ تَزْرَعُونَ سَبْعَ سِنِينَ دَائِبًا فَمَا حَصَدْتُمْ فَذَرُوهُ فِي سُنْبُلِهِ إِلَّا قَلِيلًا مِمَّا تَأْكُلُونَ (٤٧)

[Joseph] said, "You will plant for seven years consecutively; and what you harvest leave in its spikes, except a little from which you will eat.

ثُمَّ يَأْتِي مِنْ بَعْدِ ذَلِكَ سَبْعٌ شِدَادٌ يَأْكُلْنَ مَا قَدَّمْتُمْ لَهُنَّ إِلَّا قَلِيلًا مِمَّا تَحْصِنُونَ (٤٨)

Then will come after that seven difficult [years] which will consume what you saved for them, except a little from which you will store.

ثُمَّ يَأْتِي مِنْ بَعْدِ ذَلِكَ عَامٌ فِيهِ يُغَاثُ النَّاسُ وَفِيهِ يَعْرِضُونَ (٤٩)

Then will come after that a year in which the people will be given rain and in which they will press [olives and grapes]."

Source: Al-Quran, Yusuf (12: 46 to 49)

According to the Qur'an, Allah s.w.t. provided guidance on economic volatility when He told the tale of a king who dreamed of his country going through both cycles of prosperity and stagnation in seven years, which was later interpreted by Prophet Yusuf. The business cycle is influenced by the cycle of economic changes brought about by financial crises such as the AFC and GFC. The country's economy is not conducive when a crisis occurs. In general, the term "financial crisis" refers to a situation in which the nominal value of certain financial assets drops dramatically. Many financial crises are linked to panics in the banking or stock markets, which also correlate with macroeconomic conditions, such as recessions, depressions, and stagnation. Financial crises are often attributed to the bursting of financial bubbles, currency crises, and sovereign defaults. As a consequence, financial crises cause a loss of paper wealth, but they do not always result in changes in the real economy. In fact, however, when debtors or borrowers are unable to satisfy the banks' or creditors' demands for additional assets or securities collaterals, the paper loss may become a real loss. As a result, the liquidity effect could morph into the wealth effect, resulting in an economic downturn.

As shown in Figure 2.12, Sutthirak & Gonjanar (2012) depict the period of firm performance during the financial crisis:



Source: Sutthirak & Gonjanar (2012)

Figure 2.12: Firm Cycle on Crisis

Since the business cycle typically lasts two to ten years, the firm's manufacturing, economic, and financial processes may be synchronised for greater stability. The business cycle is used as a media controller in modern countries to

determine exchange and investment practises for individuals and businesses. Zarnowitz (1999) points out that the economy becomes vulnerable because of a number of factors, including (1) slowing business growth, which lowers profits, (2) decreased profitability, which raises the percentage rate; (3) many businesses fail, which cannot be ignored, (4) the credit market's shift away from risk and leverage toward liquid assets, and (5) an increase in disappointing earnings reports from companies.

Zarnowitz (1999) observes that there is no direct connection between business cycle shifts and stock market crashes, financial panics, or credit crises. He clarifies that the financial crisis often occurs after or before a business cycle downturn, with the latter causing concern in jobs, price and wage patterns as well as household assets and debts. However, as expertise, technology, and organisational skill improve, improvements in the business cycle are often affected, so there is no shortage of information asymmetry as transcription factors of business performance. The recession, on the other hand, should not be a cause for concern if people continue to analyse the key factors that influence economic fluctuations so that forecasts for the future of the economy can be made and plans, such as supplies, can be made ahead of time.

The conclusion of business cycle theory explains how businesses expand and contract as a result of a variety of complex factors with boom period and a crisis phase are a recurring condition in economic cycles, and people and countries should be prepared to face these various periods at different times. The linkage business cycle theory is applied to improvements in profitability for banking results during periods of expansion and recession.

On the contrary, Zarnowitz (1999), states that there is no specific relationship between changes in the business cycle to stock market crashes, banking panics, or credit

crunches. He further explained that the financial crisis sometimes follows on the business cycle downturn or sometimes preceded it while the slowdown in the business cycle due to a greater consumption that will change the investment then continues, causing concern in the employment, price and wage trends, and household assets and debts. However, changes in the business cycle are also influenced by the increase of knowledge, technology, and organization skill so there is no lack of information asymmetry as transcription factors of business performance.

However, the recession should not be worrying if people continue analyzing the essential factors that could affect the economic fluctuation so that predictions for the future of the economy can be made, and preparations, i.e., supplies, for worse times to come can be organized in advance. The conclusion on the business cycle theory describes the change of expansion and recession in business due to many dynamic factors. The conclusion on the business cycle is that the recurring condition in economic cycles consists of a boom phase and a depression phase hence, people and countries should be prepared to face these different phases at different times. This study presents the linkage between the business cycle theory and changes in profitability during the period of expansion and recession for banking performance.

2.5.1 Impact of AFC on Malaysia

Many economists refer to the AFC (1997 to 1998) and the GFC (2007 to 2008) as two of the greatest financial crises in history during the 1990s. Due to international speculative attacks, the AFC occurred on July 2nd, 1997 (Furuoka et al., 2012; Kaplan & Rodrik, 2002; McGuire & Conroy, 1998; Ping, 2007). The AFC began when the value of the Baht Thai currency dropped, prompting many foreign investors to withdraw their

funds from Thailand, resulting in a significant drop in business growth. The contagion effect occurred as the financial crisis spreads through Asia. The government released massive capital outflows and currency devaluations since Malaysia, Indonesia, the Philippines, and South Korea were all facing the same economic decline as the stock market indices. Appendix 4 contains information on the date of the AFC, which impacted a number of countries. The contagion effect, according to Kogid et al. (2009), is a phenomenon that occurs when one country's currency crisis spreads to other countries, unwittingly revealing the economic chain's weakness. A comparison graph of Asian countries' economic growth impacted by the AFC 1997/98 crisis can be seen in Figure 2.13.



Source: Goldstein & Xie, 2009; IMF database 2009

Figure 2.13: Economic Growth Asian Countries during Crisis

However, only Thailand, Indonesia, and South Korea experienced the greatest negative effects on their economic development after being struck by the AFC, prompting them to seek assistance from the IMF. The IMF aided and designed projects

to help countries deal with the financial crisis (Kaplan & Rodrik, 2002). Finally, the countries should be committed to floating exchange rates, rising interest rates, tightening fiscal policy, opening the capital system to foreigners, closing distressed banks and financial institutions, and implementing structural reforms. Tables 2.13 and 2.14 show the data from various countries and their improvements in annual growth (by GDP) from the IMF and the World Economic Outlook Database.

Table 2.13: Economic Growth in Different Countries (by GDP)

No	Countries	Annual Growth GDP 1998	Annual Growth GDP 1999-2000	The Annualized per capita growth rate (2003-2005)
1	Indonesia	13%	0.8%	5.3%
2	Thailand	11%	4.4%	5.5%
3	South Korea	7%	9.5 %	3.8%
4	Malaysia	7%	6.1%	6%
5	Philippines	1%	3.4%	5.1%
6	Hong Kong	-5 %	3.4%	5.9%
7	Singapore	-0.8 %	6.8%	
8	Japan	-1.0%	-0.1%	2%
9	China	7.8 %	7.1%	7-8%
10	Taiwan	4.3%	5.3%	4.1%

Source: Lee & McKibbin (2007)

Table 2.14: Economic Indicators in Different Countries

Years	Selected Economic Indicators									
	Real GDP Growth					Inflation				
	Ind	Kor	Malay	Phil	Thai	Ind	Kor	Malay	Phil	Thai
1990	9	9.5	9.6	3	11.6	7.8	8.6	2.8	14.1	6
1991	8.9	9.1	8.6	-0.6	8.1	9.4	9.3	2.6	18.7	5.7
1992	7.2	5.1	7.8	-0.3	8.2	7.5	6.2	4.7	9	4.1
1993	7.3	5.8	8.3	2.1	8.5	9.7	4.8	3.5	7.6	3.4
1994	7.5	8.6	9.3	4.4	8.6	8.5	6.3	3.7	9.1	5.1
1995	8.2	8.9	9.4	4.7	8.8	9.4	4.5	3.4	8.1	5.8
1996	8	7.1	8.6	5.8	5.5	7.9	4.9	3.5	8.4	5.9
1997	4.6	5.5	7.7	5.2	-0.4	6.6	4.4	2.7	6	5.6
1998	-13.6	-5.5	-7.5	-0.5	-8	60.7	7.5	5.3	9.7	8.1
1999	-3.9	2	-1.6	2.3	1	25.4	1.8	3.8	9.5	0.5

Source: Lindgren et al (1999)

Table 2.14: Economic Indicators in Different Countries

Years	Selected Economic Indicators									
	Current Account Balance/GDP					Central Balance Government / GDP				
	Ind	Kor	Malay	Phil	Thai	Ind	Kor	Mal	Phil	Thai
1990	-2.8	-0.8	-2.1	-5.8	-8.3	1.34	-0.67	-3.08	-3.8	4.6
1991	-3.4	-2.8	-8.8	-1.9	-7.5	0.04	-1.62	-2.48	-2.4	4.14
1992	-2.2	-1.3	-3.8	-1.6	-5.5	-1.15	-0.49	0.13	-1.3	2.53
1993	-1.5	0.3	-4.8	-5.5	-5	-0.71	0.64	0.52	-1.6	1.98
1994	-1.7	-1	-7.8	-4.6	-5.4	0.01	0.32	1.45	-1.7	1.98
1995	-3.3	-1.9	-10	-4.3	-7.9	1.77	0.35	1.3	-1.3	2.49
1996	-3.2	-4.7	-4.9	-4.4	-7.9	1.16	0.28	1.07	-0.6	1.04
1997	-3	-1.8	-5.1	-5.1	-1.9	-0.67	0.28	2.58	-0.7	-1.62
1998	-0.1	13.1	12.3	1.8	12.2	-4.46	-3.78	-1.91	-2.6	-2.88
1999	2.8	7.1	8.7	2.1	8.8	-6.48	-5.12	-6.05	-2.7	-3.84

Source: Lindgren et al (1999)

Table 2.14: Economic Indicators in Different Countries

Years	Selected Economic Indicators									
	Broad Money Growth					Private Sector Credit/GDP				
	Indo	Kor	Mal	Phil	Thai	Ind	Kor	Mal	Phil	Thai
1990	29.7	17.2	18.2	15.5	26.7	46.1	52.5	71.4	20.5	64.5
1991	24.6	21.9	24.4	15.5	19.8	45.8	52.8	75.3	18.9	67.7
1992	22.6	14.9	18.1	11	15.6	45.5	53.3	74.3	21.5	72.2
1993	21.1	16.6	23.8	24.6	18.4	48.9	54.2	74.1	27.2	79.8
1994	21.8	18.7	15.8	26.5	12.9	51.9	56.8	74.6	30	90.9
1995	26.7	15.6	18.2	25.3	17	53.5	57	84.8	38.2	97.5
1996	27	15.8	23.7	15.8	12.6	55.4	61.8	89.8	50	100
1997	27.4	14.1	9.6	20.9	16.4	61	69.8	100.4	57.6	116.3
1998	61.7	25.2	1.3	7.4	9.5	51.6	73.6	108.7	50.5	109.5
1999	15.6	0	6.1	15	4.7	0	0	0	46.9	0

Source: Lindgren et al (1999)

According to Cheng & Sayed Hossain (2001), Malaysia's economic and financial conditions performed better than those of other Asian countries. Malaysia declined to consider IMF assistance at the time. Nonetheless, the Malaysian government reformed several policies in order to improve the country's economic and financial structure and stabilise the Malaysian Ringgit Ringgit. According to Yoshitomi & Shirai (2000), there are many reasons for the AFC to occur:

1. Financial liberalisation, such as having access to overseas finance, which weakens their domestic finances.

2. Bank incompetence in risk management as a result of regulatory imprecision.
3. A flaw in the organisational structure of financial institutions, resulting in a moral hazard.
4. Domestic credit growth, resulting in an increase in the current account deficit. Inflation and a high fiscal deficit emerged as a result of the higher deficit generated by the current account surplus.
5. The presence of bad loan categories in short-term foreign currency loans that did not mature.
6. The disruption of the balance sheet by financial institutions and firm, such as a rapid fall in capital flows, resulting in an unstable payment deficit and the depletion of foreign exchange reserves.

According to Furuoka et al. (2012), following the AFC, Malaysia's former Prime Minister, Tun Dr. Mahathir Mohamad, developed a new economic policy to prevent outsider countries from controlling the movement of Malaysian Ringgit, which includes the following steps:

1. The government ordered for the return of every Malaysian Ringgit that was not in Malaysia.
2. The ban on foreigners selling their stocks and repatriating money, until a year had passed after the transaction.
3. The introduction of a capital-control policy, with Malaysia lowering interest rates to combat the recession without causing the Malaysian Ringgit to crash.

4. The introduction of monetary policy regulation for the Malaysian economy's protection as it recovered from the economic crisis.

Table 2.15 contains several summaries of the Asian countries' turnaround strategies during the financial crisis's recovery.

Table 2.15: Summary of Financial Restructuring Strategies Adopted

Measure	Indonesia	Korea	Malaysia	Thailand
Emergency Measures				
1. Liquidity Support	√	√	√	√
2. Introduction of blanket guarantee	√	√	√	√
Institutional Measures				
1. Establishment of an overarching restructuring authority	√	√	√ ¹	x
2. Establishment of a separate bank restructuring authority	√	x	√	x
3. Establishment of a centralized asset management corporation	√	√ ²	√	x ³
4. Adoption of a special corporate debt restructuring framework	√	√	√	√
5. Operational autonomy of restructuring agencies	Limited	√	√	
Restructuring Measures				
1. Intervention in financial institutions that were weak or insolvent	√	√	√	√ ⁴
2. Mergers of weak institutions	√	√	√	√
3. Closure of insolvent institutions	√	√	√	√
4. Use of public funds to purchase nonperforming assets	√	√	x	x
5. Use of public funds to recapitalize institutions	√	√	√	√
6. State intervention in banks	√	√	√	√
7. Elimination/dilution of current shareholder stakes of insolvent Bank	√	√	√	√
8. New direct foreign investment	√	√	Limited ⁵	√
Other Measures				
1. Measures to encourage corporate restructuring	√	√	√	√
2. Steps to improve prudential supervision and regulation	√	√	√	√

Source: Lindgren et al. (1999)

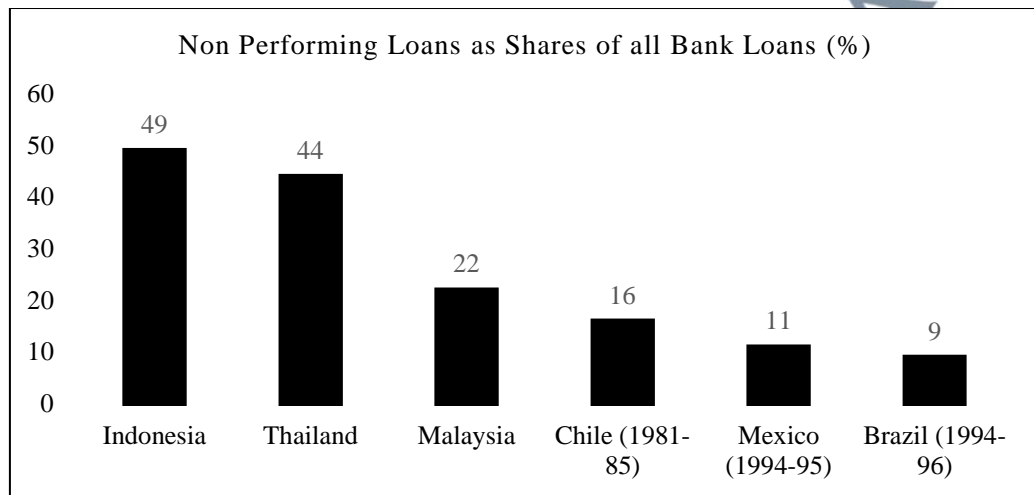
Note:

1. Steering committee was chaired by the central bank.
2. The powers and resources of a preexisting asset management firm were substantially increased.
3. FRA was established to liquidate 56 closed finance companies, and the asset management firm to deal with residual FRA assets .
4. This happened between government-owned intervened institutions.
5. Foreign banks were allowed to purchase up to a 30 % stake.

During the AFC, international fund organisations such as the IMF were the only ones to suggest funding sources for countries experiencing financial difficulties. Nonetheless, the IMF injection fund will enable the IMF to intervene in the respective countries' politics and culture as an outsider. The IMF had three stabilisation plans in place for the crisis: Funding packages, structural reforms, and macroeconomic policies. Following acceptance of the financing package impacted by currency depreciation, structural reforms and macroeconomic policies recommended by the IMF must be implemented. As a result, Malaysia became the only nation to oppose the IMF and its proposed policies, demonstrating Malaysia's opposition to the Western capitalist economy (Ping, 2007).

Sundaram et al. (2007) revealed that the IMF issued more than USD100 billion emergency loan fund to alleviate the financial crisis and regain investor trust. However, there have been critiques of the IMF's own policies, which have harmed Asian countries' economic development. According to Radelet & Sach (1998), the IMF's economic programmes merely aggravated investors' confidence in Asian economic development, stressing domestic financial vulnerabilities. Radelet & Sach (1998) emphasised that the IMF programmes had presented a different reality than the ASIAN countries' perceptions of economic problems caused by public sector debts and government overspending, through the proposed recovery programmes of the IMF. Otherwise, the real financial challenges in Asian countries stemmed from the private sector. Radelet & Sach (1998) expressed that the IMF's initiatives only resulted in poorer results when the Asian countries were struck by the recession. Then, Furuoka et al. (2012) reported that Malaysia's initiative of refusing IMF financial aid and enforcing the capital control policy was an acceptable step to avoid the AFC's contagion effect.

According to Paul Krugman, Malaysia's capital control policy saved the country by lowering interest rates to combat recession, as opposed to the IMF's strategy of raising the deadly high-interest rate loans, which would ultimately stifle the country's economic growth (Furuoka et al., 2012):



Source: The World Bank (1999)

Figure 2.14: Non-Performing Loans during AFC

Based on Figure 2.14, Malaysia had a 22 percent banking output in non-performing loans during the AFC. The Malaysian government adopted several measures to address the economic challenges created by the financial crisis. According to Wee (1999), the Malaysian government launched NEAC on January 7th, 1998, in the face of economic recovery from the recession. The NEAC was chaired by Malaysia's Prime Minister, Tun Dr. Mahathir Mohamad, and the Executive Director was Tun Daim Zainuddin, the country's first Minister of Finance.

Cheng & Sayed Hossain (2001) stated that the NEAC was established in August 1998. Similarly, the establishment of NERP also helped to bring Malaysia back to the economic recovery by exceeding the pre-crisis growth performance. Both NEAC and NERP implemented many steps under their policies, such as reducing the interest rate,

improving the bank liquidity, and reinstating the public expenditure (especially in public services, like low-cost housing, education, and health care). The Malaysian government established the Danamodal, Danaharta, and CDRC to recapitalize banking efficiency, limit corporate debt, and integrate bank programmes among local institutions. Cheng & Sayed Hossain (2001) describe the effects of AFC on Malaysia, especially in the banking sector, as harming the stock market, exchange rates, and the Malaysian banking sector. Furthermore, the withdrawal of panicked investors following the large-scale floating of Thai Baht on short-term capital generated confusion and volatility in the foreign exchange and stock markets, resulting in a significant depreciation of the currency and a rise in interest rates. As shown in Table 2.16, several techniques from various countries were used to handle asset management companies during the AFC.

Table 2.16: Centralized Asset Management Companies in Asian Crisis Countries

Countries	Purchase or Take Over Assets from	Funding	Criteria for Asset Purchase or Transfer	Purchase or Transfer Price	Pays with	Asset Disposition
Indonesia "IBRA"	Recapitalized banks and closed banks. Took over assets from former shareholders of failed banks	Mostly from the liquidation of its asset holdings	Loss loans of recapitalized banks and closed banks	Bought at zero price		Cash collection; IPOs
Korea "KAMCO"	Banks and non-bank financial institutions	Contribution from financial institutions; borrowing from KDB and KAMCO's guaranteed bond issues	Ordinary NPL: Loans in default for 3 months or longer. Special NPLs: Loans that have obtained court approval for restructuring as part of a corporate reorganization	Ordinary NPL - 45 % of collateral's appraisal value minus senior lien amount, special NPL - the present value of DCF, unsecured loans - 3% of the face value	70 % in KAMCO bonds and 30 % cash	Foreclosure auctions, public sale, outright sale, equity partnership, securitization

Table 2.16: Centralized Asset Management Companies in Asian Crisis Countries

Countries	Purchase or Take Over Assets from	Funding	Criteria for Asset Purchase or Transfer	Purchase or Transfer Price	Pays with	Asset Disposition
Malaysia "DANA HARTA"	Bank, finance companies and merchant banks, according to the relative strength of institutions	Govt. contribution; loans from Khazanah, zero-coupon govt., guaranteed Danaharta bonds. For Sime Banking Group, separate govt. funding	NPLs over RM 5 million at market value. For Sime Banking and BBMB Group, NPLs over RM 1 million	Secured loans; the value of collateral; unsecured loans; 10 % of the principal. Surplus of recovery shared with sellers on a 20/80 basis. Acquired NPLs of Sime Banking Group at book value	Zero-coupon Danaharta bonds	Private auctions, public tenders, securitization
Thailand "TAMC"	Purchased assets from auctions of closed finance companies	Initial capital from govt. Borrowing from domestic and international sources (limited to a maximum of 12 times capital fund)	All assets that failed to be sold in the second round of auction of assets of closed finance companies. Bad assets of from institutions taken over by FIDF	Market value calculated based on collateral appraisal, and evaluation of the financial conditions of the debtors and guarantors		

Source: Woo (2000)

This financial crisis led to the declined performance of businesses thus affecting the banking performance. Young (2014) also explained that the impact of the financial crisis gave different results to both banking and non-banking sectors, which can be summarised as follows:

1. The bank's bankruptcy can affect the social cost depositors and payment system, or even worse, it can destabilize the entire banking sector.
2. The banks must access the capital markets to provide payment to their clients, whereas the non-banking firms do not have to.

3. The banks are interconnected in credit networks that a bank has more than 90 % debt as opposed to 40 % in other non-financial institutions. This will create the “contagion effect” if the bank fails.

Zaherawati Zakaria et al. (2010) opine that one of the consequences of the AFC is the ambiguous relationship between firms, the government, and banks. Many Malaysian firms had a difficulty with guided lending because there were no specific policies allowing it. At the time, the Malaysian government implemented a high-growth strategy focused on a high investment-to-GDP ratio, supplemented by the promotion and funding of specific megaprojects. The policy also provided an implicit presumption because the government did not approve any failed project that was made by the lending banking decision, which was focused not just on a project’s cash flow, but also collateral and implied government support. As a result, there were shortcomings in risk management in Malaysian companies, such as mismatches between enterprise assets and liabilities, which impacted excessive liquidity, interest rate, and currency risks. Currency mismatches occurred in Malaysia as well, when the Ringgit fell in value. Consequently, many firms faced significant foreign exchange losses or insolvency as a result of their currency mismatches and inability to hedge exposures.

According to McGuire & Conroy (1998), Malaysia founded the AIM as an organization to deal with the problem of microfinance and to alleviate poverty in 1987. During the AFC, AIM’s initiative served as a serious solution to alleviate poverty as a second source of income. Unfortunately, the crisis had a different outcome when banks pursued tougher lending practises, preventing AIM from negotiating a bank loan. The AFC had a negative impact on the growth of foreign banks in Asian countries.

According to Bernhardtson & Billborn (2010), before the crisis, international banks had a small presence. Malaysia allowed foreign banks to establish 22 percent wholly owned subsidiaries, compared to South Korea that allowed only 6 percent and 4 percent of limited presence. The same thing happened in Thailand, where foreign-owned banks were granted limited assets. Following the AFC, foreign banks performed poorly in terms of lending to domestic banks due to the depreciation of the currency, which reduced capital inflows. The Asian countries then restructured the banking system by increasing the presence of foreign banks in the region, by selling the government's shares of the domestic banks to foreign investors. BNM acted quickly to overcome the AFC, such as through capital management (Zumkehr & Andriessse, 2008). Despite the criticism from other countries about on Malaysia's policy, the country demonstrated its commitment to the decision by preserving economic development. Malaysia was in a stronger financial condition as a result of the capital management policy, with less NPLs, less foreign borrowing, less debts of short-term maturity, and reduced number of banks closure.

2.5.2 Impact of GFC on Banking Industry

The GFC was another financial crisis that influenced global economic development. According to Kawai (2009), the GFC did not begin in Asian countries, but it did have an effect on them financially, though not as severely as it did on European and US. Toth (2011) agrees that the GFC was the greatest crisis that impacted the world economy after the United States encountered an issue that arose from overproduction of housing products and expanded to become a mortgage crisis, disrupting the financial system, leading to cuts in spending, income decreases, increased instability, and a rise

in the unemployment rate. Kawai (2009) described that the GFC had a negative impact on the United States, which has the highest economic growth and is the world's centralised force, with the dollar currency being the most established financial system weapon.

Similarly, Merrouche & Nier (2010) stated that the GFC was a “subprime” crisis that began in the summer of 2007 in the United States and spread to other countries as a result of subprime assets in financial markets. The crisis was triggered by financial imbalances caused by the banking system's overreliance on wholesale funding sources and an asset bubble in the financial markets. McKibbin & Stoeckel (2009), on the other hand, argue that the GFC occurred in 2007 as a result of the housing market bubble burst, which then affected the collapse of the subprime mortgage market and the financial market, such as the collapse of Lehman Brothers in September 2002. As a result of this tragic event, panic has spread across the world of the financial market. Choudry (2010) identified many causes of the 2008 global financial crisis in the United States:

1. The financial crisis as a result of large debtors' problematic mortgage payments on housing assets.
2. The amount of debt owing as a result of mortgage funds lent from banks and paid to mortgage markets.
3. The takeover of real estate assets by owners and developers as a result of unwieldy debts accumulated on an excessive number of real estate properties.
4. The increased interest payment as a result of the increased value of real estate assets in 2006. House prices had fallen as a result of the real estate

market correction. As a result, rather than the loss of interest payments on the lending banks, owners and investors experienced losses in real estate properties in 2007 and 2008 because of lower returns on the uncapped value of their financed assets.

5. The stock market dropped as a result of fluctuating short-term interest rates and uncertainty concerns caused by investor speculations that spread across the financial market.
6. The spread of fragile financial instability and corporate insolvency in the United States to the rest of the world through international trade and the real economy.
7. Increased debt-service costs for the vast amount of borrowed funds used to bail out large banks all over the world. During the global stock market recovery, the financial rescue had little impact on consumer spending or investor trust. It deteriorated because, under neoliberalism, western capitalism was unable to maintain the relationship between the financial sector, the real sector, and foreign traded flows and institutional backing.
8. The constant fear of chaos tainting the long-term foreboding of the Western capitalist and neoliberal systems. The neoliberal western capitalist system had systemic issues that could not be solved by hollow phrases like 'new global financial architecture,' 'new international economic order,' 'western democracy,' 'new world order,' and the faded theories, structures, and applications of an unworkable free market.

Chudik & Fratzscher (2012), stated that the GFC also impacted the European region in terms of debt crisis throughout 2010 and 2011. The banks

had difficulties in overcoming liquidity deterioration in 2008 and 2011, forcing the banks and investors to repatriate capital to finance investment and meet redemption calls. Young (2014) also alleged that the debt crisis which affected Greece began in 2010 and spread to Ireland, Portugal, and Spain as well as Italy and that the sovereign debt crisis was as much as a banking crisis. He further said that the cause of Greece's debt crisis was more of a private debt rather than public debt, while the debt crisis in Spain and Ireland was caused by household debts. Information on the debt crisis which happened in the European region is shown in Table 2.17.

Table 2.17: Public Debt as a Percentage of GDP (2007) vs. Households and Non-Profit Institutions Serving Households (NPISHs) Debt as a Percentage of GDI (2007)

No	Countries	Public Debt as % GDP	Household Debt as % GDI
1	France	73 %	87 %
2	Germany	66 %	96 %
3	Greece	115 %	70 %
4	Ireland	29 %	210 %
5	Portugal	76 %	143 %
6	Spain	42 %	140 %

Source: Public Debt Data from OECD Economic Outlook No. 92 (database) as of December, 2012; Households and NPISHs debt data from OECD Factbook, 2013: Economic, Environmental and Social Statistics, OECD, 2012.

According to McMahon (2010), ECB issued a policy to solve the crisis in Ireland by introducing the facilitated lending policies to retrieve the property price bubble to protect Ireland's sovereign rating. Both Irish banks and Eurozone membership could borrow money from the central bank to stabilize the banking system and government, and to prevent the bank's default on external debts through funding guarantees and capital injections. He also stated that the banking crisis in Ireland had different solutions by the Irish government, as new policies were introduced, like the cleansing of bank balance sheets of 'bad assets' and the bank re-capitalization. However, one of the

challenges for Ireland is that the banking system was not structured for providing credit for the benefit of the real economy and the diversification of bank revenue. Acharya (2013) stated that the financial crisis made undercapitalized banks unable to roll over the short-term debt. As such, the bank suffered financial troubles in the short-term aggregate impacted on a coincident loss of capital, and efficient re-intermediation could not take place because of disorderly liquidations or allocation inefficiency. McKibbin & Stoeckel (2009) explained the baselines of the GFC in 2007 to 2008 as follows:

1. The rapid transition of Asian stock markets to the US stock market during the AFC) in 1997 and 1998.
2. The NASDAQ's booming bubble from 1998 to 2000, which exploded in 2001.
3. The monetary policy leniency employed by the US Federal Reserve in 2001 to combat deflation.
4. The rise in home loans coincides with the rise in the housing market.
5. The rise in China's demand, which coincided with the rise in oil, mineral, and food prices from 2004 to 2007, affecting the global economy.
6. Monetary authorities' tightening of policies to combat rising rates and inflation from 2004 to mid-2006.

Athukorala (2010) opined that the GFC was triggered by the burst of a speculative bubble in the US housing crisis sector. This is because the GFC affected each nation differently, based on their financial policies, trading links, and government policies in the world. This included the economic growth of Malaysia. During the GFC, Malaysia, according to Abidin & Rasiah (2009), experienced a drop in FDI and a drop in exports. After the GFC's monetary transmission, Malaysia was forced to compete in

the real market. Despite not being as poor as the AFC, Malaysia still enforced capital controls in order to stabilise the exchange rate. During the GFC, the Malaysian government, on the other hand, concentrated on monetary policy to broaden credit and increase access to financing in order to resurrect economic growth by increasing domestic demand.

Alp et al. (2012) disclosed that the 2008 bankruptcy of Lehman Brothers had an effect on Malaysia's deteriorating liquidity. As a result of domestic demand, especially in fixed investments, the country's exports in global trade fell by 15 % in the first quarter of 2009. As a result, in October 2008, the BNM announced short-term funding for interbank lending protections and resolved capital outflow pressures through foreign exchange intervention and exchange rate depreciation. In addition, the BNM cut policy interest rates by 150 basis points to 2 %. According to Muhammad Ibrahim (2009), Malaysian policies used several liberalisation steps with specific targets, such as (i) emphasising the domestic market despite the current crisis and (ii) adopting a separate protectionist policy from another country in order to handle Malaysia's economy after the GFC. Furthermore, Muhammad Ibrahim (2009) clarified more information about Malaysia's financial sector liberalisation measurement, such as: (1) the introduction of new banking licences and takaful licences in the domestic sector to the global market, (2) the opening of opportunities for international investors to obtain capital to engage in domestic investment banks, insurance firms, and takaful, and (3) the opening of opportunities for foreign institutions to open new branches. In another study by DeHaas & Van Lelyveld (2011), they found that the banking and the core of the international financial system were more affected by the GFC rather than the local crisis (which happened in Europe). These required financial stability reappraisal to get the evidence

on multinational banking implication. During the local crisis (in Europe), the subsidiaries were supported by parent banks. After the GFC, the support was discontinued because of the funding limitation from parent banks. As a result, the interbank liquidity and other funding were reduced, and the parent bank may use the internal capital market to refund from subsidiaries to headquarters. Table 2.18 displays information about bank loans during the GFC from the IMF report.

Table 2.18: Bank Nonperforming Loans to Total Loans, 2003–2008 (in %)

Economy	2003	2004	2005	2006	2007	2008	Latest Month
Bangladesh	22.1	17.6	13.6	13.2	14.0	13.0	June
PRC	20.4	12.8	9.8	7.5	6.7	2.5	December
Hong Kong, China	3.9	2.3	1.4	1.3	0.9	1.0	September
India	8.8	7.2	5.2	3.3	2.5	2.3	March
Indonesia	6.8	4.5	7.6	6.1	4.1	3.5	November
Japan	5.2	2.9	1.8	1.5	1.5	1.5	September
Korea	2.6	1.9	1.2	0.8	0.7	1.1	December
Malaysia	13.9	11.7	9.6	8.5	6.5	5.1	September
Philippines	16.1	14.4	10.3	7.5	5.8	5.2	June
Singapore	6.7	5.0	3.8	2.8	1.5	1.4	September
Thailand	13.5	11.9	9.1	8.4	7.9	6.5	December

Sources: IMF 2009a; Kawai (2009)

Table 2.19 shows the information about banking indicators in Malaysia based on the comparative performance during the AFC and GFC.

**Table 2.19: The Changes in Banking Performance in Malaysia:
Key Financial Indicators**

	1996	1997 to 1998	2006	2007	2008	Jan- Sep 2009
Number of institutions	89	80–86	42	47	33*	33*
Average total assets per institution (USD)	2.8bn	2.1bn	11bn	11.2bn	11.7bn	11.9bn
Risk-weighted capital ratio (%)	10.6 %	10.5 %	13.5 %	13.2 %	12.6 %	14.5 %
Core capital ratio (%)	9 %	8.9 %	10.7 %	10.2 %	10.6 %	12.9 %
ROA (%)	2 %	-0.9 %	1.3 %	1.5 %	1.5 %	1.2 %
ROE (%)	27.5 %	-12.3 %	16.2 %	19.8 %	18.6 %	13 %
Net NPL ratio (%)	3 %	13.2 %	4.8 %	3.2 %	2.2 %	2.1 %
Gross NPL ratio (%)	13.9 %	18.7 %	8.5 %	6.5 %	4.8 %	4.4 %
Financing loss coverage ratio (%)	N/A	55.1 %	64.6	77.3	89	89.7

* including nine domestic banking groups and three foreign banking groups.

Source: Bank Negara Malaysia (Muhammad Ibrahim, 2009)

Furthermore, according to Muhammad Ibrahim (2009), Malaysia began the transformation of the financial system in March 2001 by establishing the Financial Sector Master Plan. The strategy centred on solid formation, diversification, and efficient strategies for developing the domestic financial sector and the firm's economic growth. The key goal of the liberalisation initiatives was to establish a system of traditional and Islamic banking that would lead Malaysia to a better financial sector in terms of both economic growth and financial stability. The Malaysian government declared the steps in April 2009 and the country experienced a stronger economic growth following the GFC than the AFC. Following the AFC struggle, the Malaysian government used some improvements in the restructuring of the financial system. These were carried out by strengthening the government structures, risk management and infrastructural framework, as well as the management of the financial stress risk and the credit risk of banks, until Malaysia was able to operate in the capital market developed.

Following the GFC, many studies began to examine the transition of the financial system to the Islamic economic system, so that positive reactions to the Islamic economic system could be noted, claiming to provide positive economic growth following the GFC. This was done due to the ability of Islamic finance to deal with credit issues and the debt arose from the capitalist system of the traditional banking system. As Mohamed Yusuf & Salina (2012) stated, many studies began to compare the traditional and Islamic financial and banking systems following the GFC in 2008 and 2009. Mohamed Yusuf & Salina (2012) mentioned the conventional system has shown weaknesses in decreased assets following the financial crisis. Some financial institutions faced bankruptcies, however, and therefore government funds supported their financing. They also state that an investment portfolio, leverage and solvency can

evaluate the comparison between Islamic and conventional systems, and the Islamic financial system has performed better. However, other results show that the Sharia banks faced numerous losses compared to conventional banks due to Islamic banks' weakness in risk management, which reduced Sharia banks' profits rather than conventional banks' profits. However, their study carefully analysed the comparative approach between Sharia and conventional banking system because the various policies for conventional and Sharia would be applied in each country.

Toth (2011) states that in most countries of the Middle East, the Sharia system is implemented. On the other hand, in Bahrain, Malaysia, Pakistan and the United Arab Emirates banking systems a combination of Sharia and conventional banking is used, whereas Iran and Sudan have a pure Islamic banking. Toth explains that the differences in principle can be distinguished from the Sharia and conventional systems. The conventional debt system is based on the Sharia system, while justice and risk-sharing are moral principles. Toth also stated the IMF report revealed the resilience of Islamic banks to conventional banks. Similarly, Shafique et al. (2012), stated that GFC's performance was also affected by Islamic banking, but the performance of Islamic banks was more stable and secure than conventional banks due to low risk in Islamic banks based on the principles of free interest. Another evidence is the increasing demand for Sharia banking system to be implemented in the Western world.

2.6 Bank Islam Reaction to Crisis

Ahmad Tajudin (2000) stated due to the changes experienced by Bank Islam after the shock of the AFC, Bank Islam restructured in 1997, part of which entailed BIMB Holdings Berhad (BIMB Holdings) - as the new holding firm incorporation - in

place of Islamic Bank. It was listed on Kuala Lumpur Stock Exchange on September 16th, 1997. They also divided the group's activities into specific divisions, such as banking (Bank Islam and subsidiaries), takaful (Syarikat Takaful), capital market (BIMB Securities), property (Syarikat Al-Ijarah), and others (BIMB Institute of Research and Training, and Pembiayaan Perumahan Nasional).

Bank Islam had a purpose for the rationalization of group structure, increase competitiveness, and accommodated future expansions. The impact of Bank Islam's performance after the restructuring was that their basic capital increased to RM 2 billion and paid-up capital to RM 500 million, making it possible for them to continue to grow. This is reinforced by the study of Wan Nursofiza & Madden (2014). It is evidenced that in the same year Bank Islam developed the first step of extending overseas by the incorporation of an offshore subsidiary in the Federal Territory of Labuan, Malaysia. Wan Nursofiza & Madden (2014) also showed another good performance of Bank Islam after they did the restructuring, which explained that until 1993, Bank Islam had the monopolistic position into three commercial banks (Maybank, Bank Bumiputra, and United Malayan Banking Corporation) after being allowed to operate Islamic windows under the Islamic Banking Scheme. This is because the implementation of Islamic windows under the Islamic Banking Scheme was successful, while the minister of finance decided to extend the scheme to all financial institutions. In 1999, Malaysia released the second full-fledged Islamic bank, Bank Muamalat Malaysia Berhad, because of the merger between Bank Bumiputra and Bank of Commerce in the aftermath of the AFC. This success of implementing Islamic window on commercial banks and the liberalization of foreign banks were allowed to implement an Islamic

banking unit. Thus, this made Bank Islam no longer the sole single domain of Islamic banking.

Additionally, Wan Nursofiza & Madden (2014) state that performance growth on Bank Islam showed a positive performance from 2001 to 2004. While Latiff (n.d) also explained that Bank Islam conducted two major capital restructuring which happened in 1997 and 2006. He further mentioned the first restructuring conducted by Bank Islam in 1997, where they established a newly formed firm of BIMB Holdings Berhad. More so, during the five-year financial review (1993 to 1997), there was a positive number in which Bank Islam had an increase in the performance of reserves, deposits, and total assets. Conversely, Latiff (n.d) said the second time capital restructuring was conducted by Bank Islam was in 2006. The comparison of both capital restructuring conducted between 1997 and 2006 showed that capital restructuring conducted in 1997 was more operational than financial than in 2006. However, Bank Islam was more focused on capital injection to cover the equity deficit. As such, the deficit phase experienced by Bank Islam began in 2005 and brought huge losses suffered by the conversion of its Labuan offshore subsidiary, Bank Islam (L) Ltd. to a branch. As an impact of this loss, there was a depreciation of capital so that the capital holders experience deficit funds. However, to get a better understanding in detail about the losses suffered by Bank Islam during that year, there is no available information disclosed as this kind of information is confidential within the Bank Islam management. Also, the restructuring of capital was done in 2006, while the ownership of Bank Islam had 51 % of interest, Dubai Financial LLC owned 40% interest and Tabung Haji had 9 % interest. However, the share ownership of Tabung Haji to Bank Islam had increased to 43.5 % after Tabung Haji took up the 2009 issue of Islamic convertible redeemable

non-cumulative preference shares (CRNCPS) which made Tabung Haji the ultimate control of the shareholder.

Wan Nursofiza & Madden (2014) stated that the loss experienced by Bank Islam in 2005 was caused by bad credit management (specifically caused by weak credit control) which caused the Islamic bank to restructure its capital. It made Bank Islam receive negative perceptions from the public during their long period of operation. Wan Nursofiza & Madden (2014) explained the sources of Bank Islam failure were not solely derived from bad corporate financing from the Labuan subsidiary only, but there was also a huge delinquent portfolio mainly in consumer financing. Bank Islam started to be aware of the source of loss due to the lack of understanding of the risks involving the state and projects over the financing that was rendered generously over the years from the Labuan project.

Meanwhile, the loss of consumer financing was caused by the hire-purchase program vehicle from Bank Islam. At that time, Bank Islam did not have a robust risk management framework to evaluate credit financing in processing their financings. The huge loss suffered by them in 2005 brought the bank to become the center of public attention that potentially provoked a negative perception of them to the point that the Prime Minister at that time gave a decision for them to make a turnaround. They carried out the management restructuring on a large scale during the turnaround process, by inaugurating Zukri Samat. With his background as one of the managers in Danaharta (a national asset management firm in Malaysia formed as implementation strategy recovery during AFC) and his previous position as Executive Director in charge of investments at Khazanah Nasional, made Zukri Samat able to make changes to Bank Islam's performance. With the new management team, Bank Islam decided to write off

the huge amount of non-performing financing. Based on this, Bank Islam could still grow and eventually developed under the management of Zukri Samat as the Managing Director until 2017.

The big impact on Bank Islam's performance was caused by the AFC. The restructuring of capital by Bank Islam in 2006, which was two years before the GFC, proved that the impact of the GFC was not so great on Bank Islam compared to that of the AFC. However, there was a little bit of decrease in performance of Bank Islam during the GFC (which happened in 2007 to 2008, but changes in Bank Islamic performance could be seen in changes of ROA, ROE, ROI, and NPF in Appendix 14), but still it was not as bad as Bank Islam's performance in 2005.

2.7 The Performance of Bank Islam and Selected Banks

The financial crisis may bring a negative impact on the business performance, such as: high credit, low liquidity, low asset price, and deflation. The sign of business performance declining can be observed through the low percentages of consumption and investment which may affect the employment percentage, price, salary, household assets and debts. The study examined the performance changes of bank performance during and after the financial crisis.

Karwowski (2009) states the bank functions as an intermediary to channel the surplus of the household into the corporate sector as the investment, rather than letting the internal of direct finance face the deficit. Therefore, the bank has an important role to raise the base of productive investment and the financial market profits funds, consequently improving the economy. Mileris (2014) also claims that the bank is an important constitution managing the financial system in the country and the global

economy that is influenced by many risks. Thus, banks need to focus on risk management by looking at the different types of causes of risks. This study also reveals the performance differences in banks during the crisis by comparing the performances between the Islamic bank and conventional banks. This comparative analysis aimed, by providing the basic comparison data, to eliminate any suspicions on the banks' poor performance, especially of Bank Islam. The three banks used for this comparative analysis were Maybank, Public Bank, and Affin Bank. These banks were selected based on the following criteria: (i) Maybank as the largest bank in Malaysia in terms of assets size and branch networks, (ii) Public Bank as one of the conventional banks and among the most profitable banks, and (iii) Affin Bank as being similar to Bank Islam in terms of assets, size, and growth. The basic profiles of Bank Islam and the other three banks are as follows:

2.7.1 Maybank

Maybank was established on May 31st, 1960 by Khoo Teck Puat. As of June 30th, 2014, Maybank was the largest bank and is listed on the Bursa Malaysia, with a market capitalization of RM 89.6 billion (USD27.9 billion). As of June 1997, its assets were valued at RM 82,905 million, and there were 248 branches in Malaysia only, and 32 branches overseas (22 branches in Singapore, two in Brunei Darussalam, and one in Hong Kong, United Kingdom, United States of America, Cambodia, Vietnam, Uzbekistan, Republic of China as well as Myanmar), making it 280 in total (Maybank website, 10 November 2014).

2.7.2 Public Bank

The second conventional bank used in this comparative analysis is Public Bank (Public Bank website, 10 November 2014). The bank was inaugurated by Tan Sri Dato' Sri Dr. Teh Hong Piow with the concept of “a bank for the public” on August 6th, 1966 in Kuala Lumpur and was listed on Bursa Malaysia Securities on April 6th, 1967 with stock name PBBANK (code 1295). More so, Public Bank has 258 branches distributed in Malaysia and 124 branches overseas with 83 branches in Hong Kong, 3 in China, 25 in Cambodia, 7 in Vietnam, 4 in Laos, 2 Sri Lanka and 2 representative offices in Shanghai and Shenyang. In the record firm's financial statements of Public Bank, the bank has a total asset size of RM 305.73 billion in 2013 and RM 68.67 billion as the market capitalization in the Bursa Malaysia.

2.7.3 Affin Bank

The third conventional bank is Affin Bank, named Affin Holdings Berhad (AHB) incorporated in Malaysia on May 31st, 1987, and was on Bursa Malaysia on November 4th, 1991, with a network of 100 branches nationwide recorded by December 2012 (Affin Bank, 10 November 2014). Forbes magazine's 2000 website (15 November 2014) stated that Maybank was at 366th in 2011 and 332nd in 2011, while Public Bank was at 651st rank in 2011 and 594th in 2012 in the list of top 2000 public companies of the world, which ranked was based on four criteria: Sales, profit, assets and market value. The summary profiles of the banks are shown below in Table 2.20:

Table 2.20: The Summary Profile of the Banks

	1997				2007		
	Year Est.	Total Assets (RM Mil)	No. of Branches	ROA (%)	Total Assets (RM Mil)	No. of Branches	ROA (%)
Bank Islam	1983	5.797.678	80	2.38	19.121.177	91	3.39
Maybank	1960	82.904.897	280	2.84	227.447.240	449	3.57
Public Bank	1966	29.444.354	175	2.69	158.471.100	324	2.80
Affin ¹ Bank	1987	15.299.470		2.71	4.435.403		9.51

Source: Developed for this Study

2.7.4 Performance Indicator of Banks

This study compared the four banks with reference to in ROA, ROE, and NPL/NPF from 1995 to 2013 (Bank Islam, Maybank, Public Bank and Affin Bank). The four banks' comparative performance can be seen from the 1990 to 2013 periods before, during and after the financial crisis in Figures 1.2, 1.3 and 1.4 (Chapters 1, Pages 4, 5, to 11), using the ROA, the ROE, and the NPF. ROA is the profitability banking measurement function where positive ROA indicate a bank's positive growth and performance. ROE acts to identify the level of investment rendering in which investors are signalled to mark the investment in a positive ROE. In the meantime the total bank loans, which are held by the NPF (for Islamic banking value) or the NPL (for conventional banking value), indicate that the higher NPF/NPL's value is an advisory

¹ Note: Affin Bank started operation in January 2001, following a merger between the former Perwira Affin Bank and BSN Commercial Bank in August 2000. In 2005, it merged with the former Affin ACF finance. In 2007, AHB entered into an agreement with the Bank of East Asia and consequently the Bank of East Asia became one of the substantial shareholders of Affin Holdings. As of December 31st, 2004, the bank had total asset of RM 48.334 billion (US\$ 13.81 billion), customer deposit of RM 38.180 billion (US\$ 10.9 billion), and loans of RM 32.293 billion (US\$ 9.2 billion). As of March 2015, Affin Bank had over 105 branches in Malaysia.

for banks to distribute finance and credit strictly. This is the information describing Bank Islam, Maybank, Public Bank, and Affin Bank's ROA, ROE and NPF/NPL.

2.7.4.1 Return on Assets (ROA)

Kabajeh et al. (2012) indicate that ROA and ROE can be used to measure a corporate financial statements. The managerial efficiency measurement indicator is ROA and ROE (Samad & Hassan, 1999). Norhidayah et al. (2011) indicate that, based on cost measurement over a certain term and managerial efficiency, ROA and ROE can calculate profitability for the bank's revenue. The efficiency of the operation of the profitability firm could be measured by total assets (where the net income divided into the total asset). The higher the ROA, the more effective the company is. This indicates that the bank can earn more from a lower investment if it receives a higher ROA.

In contrast to Affin Bank, which had the highest performing results in 2005 and 2008 and the lowest in 1998 and 2006, Figure 1.1 (in Chapter 1, page 4) illustrates a consistent growth of ROA for Public Bank and Maybank. The ROA of Bank Islam has shown similar improvements, although not so fluctuated as that of Affin Bank.

Following the AFC in 1998, the Public Bank's and Maybank's ROA increased respectively by 37 % and 4.46 %, compared with Bank Islam of only 2.3%. In 1998, Affin Bank experienced a decline in ROA of -0.99 %. Three conventional banks showed remarkable improvement in 2002, the recovery period of 1997, after the AFC, Bank Islam, which experienced a dip of -0,032 percent in the ROA in 2005.

In 2005, Affin Bank alone had the highest ROA of 7.45 %; Maybank was only 5.15 % and Public Bank was only 2.91 %. In 2006, ROA for Affin Bank decreased considerably, from 7.45 % in 2005 to 1.81 %, compared to 6.27 % ROA for Bank Islam.

The ROA figures of Maybank and the Public Bank decreased slightly in 2006. Affin Bank, however, rebounded again in 2005 and showed a significant increase of ROA by 9.51 % instead of 1.81 % in 2006 while Bank Islam was only able to achieve a merger of 3.39 %, a total drop of 2.88 % in the previous year. The figure also shows a slight decline in Public Bank and Maybank's ROA percentages. In 2008, Affin Bank's ROA was 3.3 percent, which improved by 7.46 percent between 2009 and 2013. A minor decrease was observed in the ROA from 2.52 to 2.42 percent achieved by Bank Islam between 2009 and 2010, and continued to fall by 3.34 percent in 2011. From 2010 to 2013, Maybank experienced a decrease of its ROA percentages of 1.67 percent, with only a small decline in ROA between 2009 and 2013 from 2.56 and 2.55 percent.

According to Figure 1.2, ROA fluctuations between 1997 and 2003 were fairly stable for Public Bank and Maybank. This was totally contrary to Affin Bank and Bank Islam' ROA performances. For every Ringgit received from any Ringgit asset invested in the bank, ROA is an indicator. ROA companies are regarded as being in a good position with more than 5 %. Since Public bank and Maybank are Malaysia's first movers, their solid ROA performances can most likely be best explained by the stability of their asset growth management. However, in comparison with Affin Bank and Bank Islam, there are various causes of stability in the ROA by Public Bank and Maybank. In addition, Bank Islam has products and a different financial system from the conventional banking system. So, compared to other conventional banks, it becomes more interesting to look more closely at the various factors affecting Bank Islam's ROA fluctuation.

2.7.4.2 Return on Equity (ROE)

Kabajeh et al. (2012) reported that ROE measures total shareholder equity efficiency for bank operations (the formula is net income divided into a reduction between total assets and total liabilities). ROE is a managerial efficiency metric in analysis of firm profitability, which means that the greater the ROE, the greater the performance of the management and the more profitable it is. The study employed the ratio of ROE to provide common shareholders with details on the efficacy of banking management with shareholders' capital after payment to all the other participants is excluded. According to Figure 1.3, there is an erratic up and down trend in the performance of the banks' ROE. Real changes were demonstrated between 1997 and 2013 in every performance of banks (Bank Islam, Maybank, Public Bank, and Affin Bank).

On the basis of Figure 1.3 (Chapter 1, page 5), the ROE performance of Affin Bank and Maybank was more stable as it dealt closely with the zero value. The ROE of Public Bank began in 2003 at 0.23 percent, then fell precipitously in 2004 to -7.19 percent (a total decline of -6.9 percent), before rising again in 2005 to 0.38 percent (a total rise of -6.81 percent). This deterioration also occurred in Bank Islam, whose ROE began in 2004 at 0.27 percent, fell to -0.07 percent in 2005, fell to -3.29 percent in 2006, and then rose back to 0.62 percent in 2007.

Bank Islam's analysis of ROE changes is another assessment in terms of change in performance of efficiency management. While Bank Islam has a stable value on ROE but not the year prior to the coming into force of the GFC, namely, between 2005 and 2007, the ROE value in Bank Islam has decreased.

2.7.4.3 Non-Performing Financing (NPF) or Non-Performing Loan (NPL)

Non-performing loans (NPLs), as defined by Beck et al. (2013), are the formula used to estimate the economic situation of emerging market economies. Bihong (2014) states that NPL is the most prominent factor in the system's misallocation of capital, whereas Beck et al. (2013) discovered that including NPL as an independent factor in the macroeconomic model allows for precise estimates of a country's economic stress. Calice (2012) claims that NPL is an effective asset management strategy by establishing an organisation called AMF, which handles problematic loans in the banking system.

Figure 1.4 (on page 11 of Chapter 1) depicts a comparison of NPF/NPL flow in Bank Islam, Maybank, Public Bank, and Affin Bank from 1995 to 2013. Based on the four banks' NPF/NPL figures, it is clear that during the early phase (1995 to 2002), Public Bank had a higher NPL rate than the other banks in 1997 and 1998, with 1.1084 percent and 1.1172 percent, respectively. Maybank and Bank Islam also saw an increase in NPL/NPF during the AFC. However, Affin Bank saw a 0.9541 percent decrease in NPL in 1997 and a 0.9659 percent decrease in 1998. Except for Bank Islam, there was a consistent drop in NPLs during the second phase (2002 to 2009). From 1.0441 percent in 2003 to 1.0452 percent in 2004, 1.0952 percent in 2005, 1.2019 percent in 2006, 1.1631 percent in 2007, and 1.1542 percent in 2008, Bank Islam's NPF has steadily increased. Following 2009, both conventional and Islamic banks had similar NPL and NPF performance.

As can be seen, an increase in the NPL/NPF can have an impact on the applicable financials, specifically when the AFC and GFC apply. This is the third assessment of this study, which aimed to determine Bank Islam management's ability to normalise the impact of the financial crisis situation.

A comparison between 1990 and 2013 of the results of the four banks based on the ROA, ROE and NPL/NPF is provided by Figures 1.2, 1.3, and 1.4, which show changes to each bank's performance. The government has taken certain decisions to save economic growth in 1997, owing to this information. Some countries have, thus regarded certain actions undertaken by Tun Dr. Mahathir Mohamad as a courageous step with high risks. The objective of this study, therefore, was to provide more detailed information on changes to the performance of the four banks before, during and after the financial crisis in order to learn more about the Bank Islam's turnaround strategy.

2.8 Minsky's Financial Instability Hypothesis

The study presented Minsky Hypothesis for Financial Instability in order to detect indicators that could influence the economic stability of the firm. One of the most important effects on banking performance after the financial crisis is investment because depositors will withdraw money due to a lack of confidence based on fear of the money. As Wray & Tymoigne (2008) described Minsky as having stated that in 'The Financial Instability Hypothesis' instability of the financial crisis is based on Keynes (1936) and Schumpeter (1934), the theory of "The General Theory of Employment, Interest, and Money". Minsky explained about two theorems; (i) In a stable economy and an unstable economy having similar financing regimes and, (ii) economic prosperity will become an unstable economy in a stable economy. It does not clearly explain the exogenous influence factor of the stable and unstable economic system, but only the role of the capitalist economic system in the Minsky hypothesis. De Antoni (2006) also states that the hypothesis of Minsky does not explain the implicit assumptions of the factors, but that further research is hoped to identify the internal and external financial crisis factors. Minsky had reported that the main cause of the

financial crisis occurs in the absence of nominal debt that affects banking performance by the firm's assets, as explained by Wolfson (2002). The impact of the decline in share prices and the growth of the firm, which results in increased nominal debt is another factor. This debt problem will be solved if the bank has a good cash flow revenue to improve its customer service.

The hypothesis of Minsky is based on the principles of the capitalist economy system that uses the benefits and benefits from encouraging people to boost growth in the market. The investment factor has also maintained an important role in the regulation of public budgets, consumption and wages. In addition, Minsky states that the identification of the internal system error instead of the external system factor is an economic instability. While Detzer & Herr (2014) explains that the Minsky hypothesis is related to investment activities with the output current prices and asset prices (as the valuation of existing investment goods). The hypothesis uses the capitalist system which belongs exclusively to personnel who can pay more income and the owners compete to increase capital assets from total revenue with total labor cost. The capital asset is used as hypothecated or pledged as collateral for loans. Pledged or hypothecated activity is expected to provide the production of future income to be traded because they have a price. However, capital assets are produced and called investment assets. This investment derived from income is a result of capital assets from expecting yields. The output of equity and investment then has a critical effect in the behaviour of the capitalist economy because the expected cost of the owner of equity revenues would affect the demanding output price of the investment. The income would, therefore, be claimed as a bond and equity from these capital assets. The bond is an indebtedness instrument from the firm and equity is the combination of liabilities and owner's equity.

Minsky also discusses cash flow as an important role of liquidity tool, anti-inflation and capital growth in the production investment output activities. Minsky (1986) indicates that capital prices and financial assets depend on the predicted flow of capitalisation that includes investment risks and uncertainty properties in particular. It is explained that the acquisition of the gross figure will have an effect on a good growth investment, since investment today shows that liquidity level of cash flow to comply with previous financial contracts.

The capitalist economic system depends on capital (investment), whereby expected asset prices validate the past debt. When the expected condition is not fulfilled, the financial crisis turns out to be one factor. This is because if the lower capital assets cannot meet the debt contract, it will have a demanding effect on investment. The explanatory formula is therefore :

$$P_o = (1 + M) \frac{W}{A_c}$$

Explanation: P_o = Supply Price; M = Mark upon per unit labor cost; W = wage rate in money and A_c = Average Productivity of Labor.

Minsky hypothesis contains a number of theories that support the future renewal of financial innovation, such as increasing capital gains value, investment, and profitability, all of which affect economic growth, which can be aided by a full-employment state. Minsky (1986) hypothesis also explains how to create a booming investment, which requires several factors such as the existence of a safe country and the expansion of full employment.

According to DeHaas & Lelyveld (2011), the processes of economic growth after the financial crisis between lenders and borrowers must be more consistent after the financial crisis because they require a higher safety margin. They explain some

behaviour in some reinforcement investment based on Minsky hypothesis; investment can mark-up either profit or internal fund when asset price, internal fund, and firm confidence increase. However, when people increase their investment, they must increase their internal financial investment and their external financial investment, which will have an impact on the increased supply of money and a decrease in money demand. Following the financial crisis, Minsky predicts that debt would remain higher than investment and profit, but in a stable state (under control). According to Minsky, behavioural assumption instability will lead to greater confidence. Lenders will reduce the margin of safety, especially when estimating the risk of potential borrowers in the future, and they will provide more assets at a lower cost. The result is a lower supply price for debt-financed investment and an acceptance of the possibility of higher levels of debt-financed investment. Meanwhile, borrowers undoubtedly want to get a good deal on investment demand, and they anticipate higher profit margins and lower safety margins.

De Antoni (2006) states that there are two hypotheses from Minsky's understanding of the financial instability hypothesis. Even though the Minsky hypothesis was developed by Keynesian theory, however, there are two differences in points, because the theory of Keynes referred to the depressed economy view which impacted the critical investment and unemployment. There are the over-investment and over-indebtedness in the depressed economy in Minsky's understanding. Minsky's theory uses the guides for the instability setting in the financial crisis and the debt deflation in a free market (Wolfson, 2002). Minsky's theory uses the capitalist economic system, production owned and personally managed.

Farooq (2011) claims that the capitalist system has two categories: Classical capitalism and monopoly capitalism. Governments in classical capitalism cannot intervene in the economic activity of the country. During a monopoly of capitalism, the government is considered a controlling factor for economic activities in the country. Capitalists have seven main features: 1) The right to own property, 2) profit motive, 3) private ownership of production, 4) consumer sovereignty, 5) economic freedom, 6) social division, and 7) price mechanism.

More self-centered is the focus of the capitalist economy which has affected so many social relations. Islam teaches a better economic system that provides benefits to all parties equitably while avoiding forbidden usury. Suharto (2017) expressed his thoughts on the comparison of Islamic economics to financial instability theory (by Minsky). According to Suharto (2017), Minsky's theory is related to the taxonomy of finance, the hedge, the speculative, and opinion on credit bubbles and financial crises. Another comparison between Suharto and Minsky's views has been explained, such as:

1. Minsky states that the hedge borrowers naturally fall under the spell of interest (*ribawi*) transaction. However, the denial from Islamic finance prohibits the *ribawi* because it does not follow the Sharia-compliant and the interest (*ribawi*) dealing hedge borrower is not good enough to protect the financial system from destabilization. For Islamic commercial finance, the interest-bearing loans would be converted into profit-sharing modes (*mudarabah* and *musharakah*) or credit sales (*murabahah*).
2. Minsky shares two different opinions on the banking system as a speculative finance unit. First, the bank as a profit-seeking activity and gets a label as a merchant of debt (this is related to ALM). Second, banks as hedge units.

According to Suharto (2017), the banking system from an Islamic perspective, that small size full-fledged Islamic banks and the big Islamic windows are more stable compared to big Islamic banks, which is not higher the stability than conventional banks. Suharto (2017) stated that the existence of Islamic banks could be the stabilizing agents within the unstable speculative banking system.

3. Based on Suharto's (2017), on his concern on that interest of the conventional contributions to the instability of the financial system. He states that hedge borrowing and the bank's speculative nature are leading to similar instability and the systematic risk of the financial system, which is the deregulation issue. Minsky states about the major role of government, who should control financial markets and opposing financial deregulation. Suharto also states that financial deregulation could occur in any country because the result of the long-term is financial instability. However, in the implementation of Islamic financial institutions that truly follow the Sharia, it provides preventive on Sharia financial risks, prohibited unbundled sales of trading (like financial derivatives), and prohibits interest (*riba*).

Muslim scholars are more concerned about the effect of debt, which is not illegal (Azid & Chaudhry, 2017). If debt growth is not managed, the Islamic economy will face debt deflation. Economic activities through different methods of funding which generates cost and impact both on economic and social stability should be known to the government and the economic performer. The latter study added that Islamic financial institutions have a role to play in financial intermediaries seeking profit, and have an agenda alone, because that institution is not a charity. However, the Islamic economy is

believed to reduce poverty, promote distributive justice and promote economic growth. Furthermore, banks and customers cooperate through Islamic banks to help the understanding and growth of the Islamic economy. The value of inflation and unemployment is better shaped by economic and moral values. The agenda of Islamic economic policies will however differ (Azid & Chaudhry, 2017).

Suharto (2017) also points out that Minsky's theory of financial stability is part of the capitalist economy that is being caused and burst by financial bubbles. He believes that human psychology and rationality limitation form the bubbles. He felt that people needed to be guided by both paternalism and religion to transcend rationality. The introduction of Islamic finances combines financial rationality with Islamic religion. Similarly, Minsky agrees that all religions reject the kind of finance based on interest, because financial understanding aims to safeguard finances that satisfy human rationality. Suharto (2017) stated that the banking system consists of a rationality identified as a speculative financial system. However, the rules derived from the limitations of human rationality can always be deregulated. Prudential regulation will be reinforced and strengthened from the perspective of Islamic Finance by both Sharia discipline and commitment. The regulation would, therefore, serve as a regulatory policy, whereas Sharia would act as a constitutional right of the Muslim financial institutions. This approach stabilises the financial system in the long term if a coherent regulatory system is established to prevent arbitration between the Islamic and traditional financial sectors. He also believes that the proximity of the asymmetrical information in Islamic commercial finance requires a stable financial system to ensure financial stability. This explains the interest to analyse the comparison between conventional bank performance and Bank Islam as a result of the financial crisis.

2.9 Signs of Distress

There are signs of distress during that will influence banking performance. The firm should find, according to Altman (in Heine 2000) the efficient indicators and predictors of corporate distress to determine the factor of business failure. In the 1960s and 1970s, Altman (in Heine 2000) developed a model of Z-Score model as predictive tests on defaults and bankruptcies in 1999, even though quantitative model stress characteristics had been developed.

According to Peltonen et al. (2015), some signs of bank distress happen based on the following; (1) high liquidity and default as a sign of the bankruptcy of the bank; (2) when bankrupt banks receive funds to help the growth of banking activity; and (3) the occurrence of mergers between banks. Sahut & Mili (2011) reported that insolvency and undercapitalization in banks is responsible for banking distress. In the financial crisis, the majority of governments adopted strategic decisions, such as supervising and encouraging mergers and acquisitions, to resolve the distress. Fusion, however, is an administrative option of the strategic decision. There are four classifications of phases of distress experienced by banks every year, for example, as stated by Blank et al. (2009): (i) Distress category 1, which is the weakest distress with 25 % of the annual operational declined profits or liable capital, (ii) distress category 2, is the official warning from the financial supervisory authority of the state, (iii) distress category 3, is the existence of direct interference of state finance agency to oversee the activities of the banking business, including restrictions on lending and deposits, and (iv) distress category 4 is the category of the worst distress, which caused banks to close and the restructuring of the merger. According to Ali (2007), the banking crisis can lead to a loss and any diversion in macroeconomic policies when it has a negative effect on the

country's economic growth. He identified four main economic agents, i.e., the government, the central bank or the supervisor, banking and bank customers, such as depositors or borrowing customers. The multiple macroeconomic and microeconomic factors have been classified as in Table 2.21.

Table 2.21: Causes of Financial Distress and Banking Crisis

NO	MACROECONOMIC FACTORS	MICROECONOMIC FACTORS	
1	External to the Bank and the Supervisory Authority	Microeconomic Factors External to the Bank (but in the direct control of the supervisory authority, a central bank, and government)	Internal to the Bank (i.e., in control of bank)
2	Macroeconomic situation (currency, exchange rate, growing economy,)	<ul style="list-style-type: none"> • Supervision problems • Inadequate infrastructure • Financial liberalization policies • Political interference • Moral hazard due to deposit insurance • Lack of transparency • Fraud and corruption 	<ul style="list-style-type: none"> • Banking strategy • Poor credit assessment • Taking interest rate or exchange rate exposures • Concentration of lending • Connected lending • Entering new areas of activity • Internal control failures • Other operational failures

Source: Ali (2007)

Ashraf et al (2019) state the firm will suffer the effects of enormous losses, so it is very helpful if the firm can predict financial distress prior to that. Table 2.22 shows some quantitative analysis presented by Ashraf et al. (2019) for the detection of financial difficulties

Table 2.22: Summary of Distress Prediction Models and Variables Employed

N o	Model Analysis	Analysis Techniques	Variables	Description
1	Altman (1968) Z-Score Model	Multiple Discriminant Analysis	1. WCTA 2. RETA 3. EBITTA 4. MCTL 5. STA	1. Working capital/Total assets 2. Retained earnings/Total assets 3. Earnings before interest & taxes/Total assets 4. The market value of equity/Book value of total liabilities 5. Sales/Total assets
2	Ohlson (1980) O-Score Model	Logit	1. OSIZE 2. TLTA 3. WCTA 4. CLCA	1. Log (Total assets/GNP price-level index) 2. Total liabilities/Total assets. 3. Working capital/Total assets 4. Current liabilities/Current assets.

			5. OENEG 6. NITA 7. FUTL 8. INTWO 9. CHIN	5. One if total liabilities exceed total assets, zero otherwise 6. Net income/Total assets 7. Funds provided by operations/Total liabilities 8. One if net income was negative for the last two years, zero otherwise 9. Where NI_t and NI_{t-1} are the net income for the most recent and the preceding year respectively. The variable measures the change in net income.
3	Zmijewski (1984) Probit Model	Probit	1. NITA 2. TLTA 3. CACL	1. Net income/Total assets 2. Total liabilities/Total assets 3. Current assets/Current liabilities
4	Shumway (2001) Hazard Model	Hazard	1. NITL 2. TLTA 3. RSIZE 4. LExReturn 5. LSigma	1. Net income/Total liabilities 2. Total liabilities/Total assets 3. Log (the number of outstanding shares multiplied by year-end share price then divided by total market value) 4. Cumulative return of Company in year t-1 less cumulative return of PSE in year t-1 5. The standard deviation of residual derived from regressing monthly stock returns of a company on market return in year t-1
5	Blums (2003) D-Score Model	Logit	1. NITA 2. TDME 3. META 4. Δ Price 5. Δ S 6. CLTA	1. Net income/Total assets 2. Total Debt/Market equity 3. Market Equity/Total assets 4. 6-month Stock Price change 5. 3-year Sales Growth 6. Current liabilities/Total assets

Source: Ashraf et. al (2019)

It has been said that bankruptcy prediction models are commonly employed, which have been designed especially for developed markets, thus their relevance and accuracy are doubtful.

Ashraf et al (2019) state that the firm can report their situation between financial stability and bankruptcy when using the business failure prediction model. Not only does bankruptcy prevent extends the economic life of the firm and enhances its financial performance, but it also improves the economic well-being of a country. Ashraf et al. (2019) also state that business failure model prediction could also help investors assess the financial problems of companies and judge their future. Ashraf et al. (2019) presented in their analyses of findings concerning business failure models, for example:

1. Blums' D-score model (2003), Ohlson's logit model (1980) and Shumway's Hazard model (2001) did a poor performance with a total prediction accuracy respectively of 42.8 %, 68 % and 70.7 %.
2. Emerging markets are successful in both the Z-score and probit models. However, the model Z-score would be better than the model probit.

However, the five models introduced by Ashraf et al. (2019) continue to be valuable for anticipating the financial troubles of the emerging markets and can be used by companies, financial experts, managers and other parties concerned, for both conventional accounting models from Altman (1968) and Zmijewski (1984). The most commonly introduced models for bankruptcy predictions can be seen in Table 2.22 by using formulas by collecting financial or other secondary information. In this way, the results in numbers and percentages are more practical.

In the meantime, there needs to be a qualitative analysis to measure company performance. Qualitative analysis using the human instrument that can react and adapt immediately seems the ideal means for data collection and analysis (Merriam, 2009). Other advantages of qualitative analysis include enhancing understanding through non-verbal or verbal communication, immediate processing information (data), clarifying and summarising material, checking for interpretative accuracy and exploring unusual and unexpected responses. During most of this research work, the investigator relies on his own instincts and abilities.

Sahut & Mili (2011) reported bank misery involving bankruptcy, dissolved liquidation, and the fourth quartile of the loans provision (for two successive years). In two consecutive years, the identification of troubled banks will be in the highest quartile of credit loss provisions. According to Yakola (2014), there are many signs of distress

and a distressed company usually shows multiple signs, including the quantity and quality analysis, as shown in Table 2.23.

Table 2.23: Signs of Distress

Working Capital/Liquidity	S I G N O F D I S T R E S S	Financial
1. Declining or negative free cash flow		1. Declining stock price
2. Large contingent liabilities		2. Declining bank or bond price
3. Unresolved near-term debt maturities		3. Inability to meet debt covenants
4. Revolver draw-down		4. Resignation of key finance staff
5. Contracting vendor terms		5. Diminishing liquidity
6. Increase in account receivable agent		6. Repeated bank amendments
7. Increase in outstanding account payable		7. Downgrades in debt ratings
		8. Accounting restatement
		9. Inability to file a financial statement
Profitability and Industry Outlook		Employees
1. Shrinking EBITDA margin		1. Large or unplanned reduction in workforce
2. Reduced capital-investment programs		2. Management turnover
3. Going concern opinion		3. Disruption in unionized workforce
4. Deteriorating industry fundamental		
5. Adverse regulatory environment		
6. Regulatory inquiries		

Source: Yakola (2014)

It could be seen that there are significant differences in assessing the Sign of Distress in Yakola's model, as compared to the analysis carried out in Yakola (2014) and in those carried out by Ashraf et al. (2019) (Table 2.22). Diverse qualitative or quantitative measurements, such as the employee indicator, are available from the Yakola's model (2014).

The employee indicator, such as reduced workforce and management turnover which affected the firm's decreased performance during the financial crisis, may have negative or positive findings. Yakola has meanwhile considered that a firm's performance decrease might have had an influence on the indicator for employees .

Yakola examines the assessment of e reduced capital-investment programmes in the profitability section, the opinion, the deteriorating fundamentals of the industry, adverse regulatory environments and the regulatory inquiries. The researcher should interpret the analysis report based on the changing situation due to the financial crisis

from the management report. This is another way of understanding the company's state from most quantitative studies in this study.

On the financial side, Yakola sees qualitative measurements by considering the accounting restatement indicator and inability to file a financial statement. In this manner, the declining performance of the company is not good until the reporting has been re-evaluated.

People who are professionals in their field can use their experience, their thinking and their special skills to handle difficult situations. Since being a good informant is someone who can think about this and explain what is happening to the researcher. By employing experience from someone, this study attempted to assess the impact of the model in various cases. Researchers can use their own expertise and knowledge to interpret behaviour, as they do (Merriam, 2009). The person who creates the model of signs of distress is Yakola (2014), who has experienced being a leader of McKinsey's RTS Group, based in Boston, and has acquired the position of a CRO in a mining company and the CFO of a main helicopter service company serving the oil and gas industries. Most of his jobs were as CROs that had to restructure companies to save the enterprises.

Therefore, the study aimed to examine Yakola's signs of distress indicators, to see whether or not it can be used to measure the performance of Bank Islam. The qualitative assessment of Yakola was, therefore, a main attraction in the study, which wanted not only quantitative observation to show the performance of Bank Islam. However, quality observations are also available.

Song & Oosthuizen (2014) state that both conventional and Islamic banking reacts the same during a banking distress, such as:

1. There is no difference between Islamic and conventional banks in distress resolution process, to the corrective and enforcement actions and processes formulated in the regulatory framework.
2. The regulatory agencies in an Islamic bank can take on the management problem to solve it.

A measure of distress performance in a manufacturing company is indicated both in Tables 2.22 and 2.23. However, banks may also sometimes use the same measurement. The Bank has a key role to play, according to Ebiringa (2011), as a deficit unit resource financial system and surplus economic units. Bank distress is systematically and not intended to be both abrupt and applicable. Early warning signs can predict systematic Bank distress symptoms, such as increasing nonperforming loans, loss of earnings per asset, increasing the sales of employees and depositors, increasing the incidence of fraud, incompetence in the legal and business administration, as well as coherence in the market in the supply of interbank funds. The present study, however, used Yakola's signs of distress (2014) for learning more about the signs of Bank Islam's distress during the financial crisis. After some explanation on signs of financial distress, banks must, therefore, develop certain strategies to improve their performance.

2.10 Turnaround Strategies

Muzny & Simba (2019) described a growing unprevoable and volatile business environment that can lead a firm into rapid decline if the management fails to understand the signals of a business decline (Fubara, 2011; Khandswalla, 2013; Mirchandani, 2012). Technology-driven companies have been found in a decreasing market in which

capital is scarce and risk capitalists are shrinking. The nature of business has shifted into its core through e-commerce. In recent years, there have been thousands of strategic alliances and partnerships, even among competitors.

It is common for firms to modify their business environment to require management to remain aware of the latest market trends by renovating firm strategies. Wheelen et al. (2012) state that the management strategy is always done by large firms from the various industrial models by choosing a professional manager to keep the firm to survive in a competitive market in a stable economic environment.

Nyagiloh & Kilika (2020) propounded that a number of key strategies should be developed by firm aimed at providing guidance for strategic actions. The major strategies are comprehensive plans that provide a basis for coordinated and ongoing efforts to achieve long-term firm goals. Firm can use a combination of various major strategies to achieve the targets. The corporate level strategies expounded at Nyagiloh & Kilika (2020) define the strategic position of the business organisation, set out its general directions and focus on the type of business that is developed to its potential. There are three strategies: Development, stabilisation and survival. Strategies at the business level define the deployment of the firm's resources on the products or markets and cover market and product development, concentration and integration.

Turnaround strategy is part of the management strategy that is used to manage the firm's move during recovery for a better performance. Turnaround strategy is the way to change the fortunes of the firm by doing different things with fundamental adjustments in strategy (Angwin et al, 2015). In this study, as an important point, the study wished to find out Bank Islam's turnaround strategic actions as the financial crisis

changes. Of course, the indicators causing a drop of Bank Islam's performance in regard to signs of distress, as described in section 2.5 can be seen in this change.

The approach to establishing turnaround strategies was identified by Bibeault (2017b) by using a triage concept as a starting point. He wanted to know where the firm is in the turnaround in the first few hours of the tour. Does the firm speak of a poor tune-down or is it in a dire danger of being liquidated? From a more general point of view he tries to: (1) Moderate difficulties, (2) moderate losses and liquidity problems and (3) moderate serious losses and viability problems. The criticism of the firm situation therefore affects the strategy for turnaround.

Bibeault (2017b) has expressed that it is an important question if the firm can be turned around. Just as rotational strategies differ significantly from those used in stable and growing firms, nuanced rotational strategies have a considerable difference depending on three major factors: (1) External market conditions, in particular the demand trends for the industry, (2) the critical nature of a firm environment with particular attention to its cash flow and how far away it is from its breakeven point, and (3) available resources for the turnaround internally in respect of the firm's balance sheet and externally in relation to supporting all parties involved, including stakeholders, creditors and suppliers.

Nyagiloh & Kilika (2020) indicate that the strategic literature has recognised the role of turnaround in management as an essential corporate strategy. Nevertheless, studies carried out on turnaround strategy and corporate performance have been tendentially related to the limited scope and to the methodological as well as conceptualization challenges that influence the generalisation of study results. Each firm has various phases to set up a turnaround strategy to re-establish its performance.

It all depends on the outcome of the firm's strategic management's problem results, which identify the major business performance declines.

Faghfour (2013) explains that the "crisis" is an action and "turnaround management" is a reaction. Thus, firms must understand the crisis deeply first, thereafter the turnaround strategy can be prepared. Bibault (2017a) states that turnaround management is the firm renewal process. It uses analysis, planning and solvency to save troubled firms. It also identifies and rectifies the reasons for market performance failure. The turnaround cycle is not complete unless the firm returns to sustained growth in revenue and profitability. A short period of renewed growth is not a turnaround, but a restructuring. Muzny & Simba (2019) state that various turnarounds strategies have been developed for various organisations, regardless of whether they are profitable or not. Internal development can take the form of investments, including international expansion, in new products, services, customers or geographical markets. It can also be done by external modes, such as acquisitions and joint ventures. Jamal & Salisi (2021) propounded that turnaround strategies typically define how a lost firm is transformed into a profitable firm. Furthermore, a turnaround strategy is dominated by studies on the relationship between firm strategy and business firm performance (e.g., Denis et al., 2002; Fauver et al., 2004; Lee et al., 2012; Lins & Servaes, 2002; Jamal & Salisi, 2021; Khanna & Palepu, 2000). Schoenberg et al. (2013) also reassure that after the economic crisis, management strategy must find many options as interest in business turnaround and strategic recovery revives.

According to Faghfour (2013), the purpose of turnaround management is to keep the firm from bankruptcy, do the reorganization after bankruptcy and liquidation.

Pretorius & Holtzhauzen (2008) state that turnaround is a recovering venture after the

existence is threatened to give a chance for the firm to be rescued. They further explain that turnaround situation requires a manager or leader to manage the turnaround for the firm. The implementation of turnaround strategies is done with unique preconditions (by internal and external combination) with appointed, strategy, structure, control systems or power distribution. Kavale (2012) stipulate that it will take some action to develop its firm performance following environmental change and turbulence, in order to understand the long-term objectives of its strategy. Furthermore, Angwing et al. (2015) state that when a firm's performance decreases, the sign of crisis is too obvious to ignore, thus manager would react sequentially by taking the least risky actions at first, then become progressively more radical if the crisis worsens. The organization knows the status of the decline, if it cannot identify the triggers, then it is the same as not bringing a change of status to the state of the firm even though it has received many warning signs. Once the firm can identify Signs of Distress as the source of the declining performance of the firm, the firm will set a turnaround strategy for the recovery situation to give the firm the ability to perform normal activities and improve.

Freiling & Meyer (2017) have developed that no "rational" input/output ratios for profitability measurement based on rational decision-making can be initiated as a change. Change is more a political and emotional problem in turnaround situations, as small business management fears their role as managers and they tend to defend their routines and positions. Therefore, the emotional approach must be considered so that empathy model creates a situation of harmony through communication and emotional connections. In addition, it recognises fear and feelings.

According to Yakola (2014), there are some steps to implement the turnaround work, such as (i) the firm should not put too much pressure in perception distress, (ii)

be courageous to criticize own turnaround strategy, (iii) be able to think more about objectives achievement, (iv) focus on cash, (v) be able to create the best strategy, (vi) treat each Turnaround Strategies like crisis, (vii) create a control strategy to get quick achievement, (viii) swap the old intensive plan with the new one, (ix) turnover the top management team, and (x) find and train talented workers.

Faghfouri (2013) states that there is no specific model to create a model turnaround strategy because it depends on the cause and severity of the crisis that happened in different types of firms, thus requires a different turnaround strategy. Faghfouri (2013) posits that when the firm implements a turnaround strategy, usually the stock price of the firm will be improved because the purpose of the turnaround strategy is to attract investors back when the firm is in the improvement process.

Santana et al. (2017) state that turnaround strategy is the task of HR management by building HRS models and practices in the face of organizational decline. Santana et al. (2017) revealed that, if management has a quick awareness of the firms' downturn, they can quickly overcome the problem, by using four HR strategies for organizations, such as HR oriented flexibility, HR oriented efficiently, niche-oriented HR, and maintenance-oriented HR. Angwin et al. (2015) introduced three categories of turnarounds strategies, such as traditional asset cost surgery, product-market accounting, and critical strategies. Schoenberg et al. (2013) elaborated two tournaround strategies , such as (i) content-orientated strategies consisting of cost efficiencies, asset retrenchment, focus on core activities and build for the future, (ii) process-orientated strategies which consist of the reinvigoration of firm leadership (such as changing the CEO, top management team or TMT, and the cautionary note regarding CEO or TMT change) and culture change. It is explained in Tables 2.24 and 2.25.

Table 2.24: Content-Orientated Strategy

Content-Orientated Strategies		
	Meaning	Source
Cost Efficiencies	1 The cost-efficiency used as the most prolific turnaround strategy implemented by firms as "belt-tightening" or "fire-fighting" to stabilize the finances in the short-term until devised the complex strategies and to improve cash flow.	Bibeault, (1982); Hambrick & Schechter (1983); Sudarsanam & Lai (2001)
	Cost efficiencies as the first step in implemented recovery strategies with immediate effect and little capital or resource outlay.	Hofer (1980); Robbins & Pearce (1992)
	Cost efficiencies have some analysis consist of reducing R&D, collecting and reducing accounts receivable, cutting inventory, stretching accounts payable, reducing marketing activity and eliminating pay increases.	Hambrick & Schechter (1983); Hofer (1980); O'Neill (1986a); Stopford & Baden-Fuller (1990); Sudarsanam & Lai (2001)
	It will also involve changes in financial restructuring such as a reworking of the firm's capital structure and declined debt repayments.	Sudarsanam & Lai (2001)
	The reducing production costs related to general overhead reductions consist of adjustment of incentive funds, tight control of the stock, financial, and investment capacity for the streamlined processes efficiencies.	Grinyer et al. (1990)
	The cost efficiencies will bring some risk. The cost efficiency will give reduce the impact on employee morale and commitment, and increased staff turnover.	Barker & Mone (1994)
	Cost efficiency will be discontinued after being used in one time so the firm does not lose any assets and resources that should still require by companies.	Sudarsanam & Lai (2001)
	Some companies prove the failure of cost efficiencies in pursuing a turnaround strategy effort that worsened the performance of companies.	Boyne & Meier (2009)
	Cost efficiencies more concerned with R&D cost but it will bring a risk to the firm's performance because R&D could be a contributor to the turnaround strategy.	Hambrick & Schechter (1983)

Source: Schoenberg et al (2013)

Table 2.24: Content-Orientated Strategy

Content-Orientated Strategies			
	Meaning	Source	
Asset Retrenchment	2	The understanding of firm performance to make efficiency on the divest of assets. The second strategy should be implemented after the cost efficiency strategy failed to stabilize the firm finances.	Hofer (1980); Morrow et al. (2007) Robbins & Pearce (1992)
		It depends on the capability firm first to generate cash flow for implementing the asset retrenchment. However, the difficulties are asset specificity, liquidity in the second-hand market and exit barriers for asset retrenchment.	Filatotchev & Toms (2006)
		It consists of the replacement of old assets into a new asset, starting with new investment, exchange the latest technologies, but must be careful to ensure the certainty of cost efficiencies but not disturb the economical of investment costs and expenses.	Sudarsanam & Lai (2001)
		It is a tough decision because it will bring the risk that is related to the future strategy. Reducing the assets will cause more losses, while the firm has to increase profit to improve the performance.	Gopinath (1991)
		Meaning	Source
Focus on Core Activities	3	It is continuously further identified turnaround strategic in parallel with the asset retrenchment.	Boyne & Meier (2009); Pearce & Robbins (1993); Robbins & Pearce (1992)
		This strategy is based on the determination of the potential of the markets, products, and customers to improve the profitability and performance of the firm.	Hambrick & Schecter (1993); Sudarsanam & Lai (2001)
		The firm's activities now could be the same as the best activity of the firm in the past.	Hambrick & Schecter (1983); Hofer (1980)
		There is business activity restructuring that can streamline the firm's goal based on the rationalization and will involve the divestment and reduction of operating activities incompatibility with corporate goals.	O'Neill (1986)
		It will relate to marketing, operational, and financial resources systems for reinvestment to select core activities with appropriate acquisitions with specific capability.	Grinyer, et al. (1990); Hambrick & Schecter (1983); Stopford & Baden-Fuller (1990); Sudarsanam & Lai (2001)
		There is basic to focus on core activities with a strategy no differences in the characteristics to get qualified on the successful recovery.	Hambrick & Schecter (1983)
		There is implementation of competitive strategies to choose core activities to focus on marketing techniques and customer behavior that can improve the quality of the relationship with the consumer and business optimization so the firm can find core activities.	Grinyer et al. (1990)

The characteristics of a firm are determined by the temporary economic downturn and it will reduce some business activity to survive for running the business. The firm will focus on the existing resources and the remaining consumers and maximize the performance by the opportunity with the loyalty of consumers.

Arogyaswamy et al. (1995)

Content-Orientated Strategies

	Meaning	Source
4	This strategy will be carried out after three previous strategies implanted, such as cost efficiencies, asset retrenchment and focus on core activities.	Filatotchev & Toms (2006); Robbins & Pearce (1992)
	It is part of a prudence recovery strategy to focus on the development of the firm in the long term by looking at the reconfiguration of assets, utilizing existing resources, focusing on new products and adapting the new business territories.	Pearce & Robbins (1993); Sudarsanam a& Lai (2001)
	It is also called recomplicating the business to implement the future strategy after deducting costs and operational.	Stopford & Baden-Fuller (1990)
	The successful turnaround strategy identified when the firm is able to go through the self-renewal capacity impacted in the future performance.	Ghoshal & Bartlett (1996); Stopford & Baden-Fuller (1990)
	This is a difficult stage for the firm to replenish and renew from a usual condition converted into a certain state after passing through difficult circumstances adapting their Turnaround Strategies. Managers will act as a leader with significantly responsible for the firm's flexible performance.	Ghoshal & Bartlett (1996)

Build for the Future

Source: Schoenberg et al (2013)

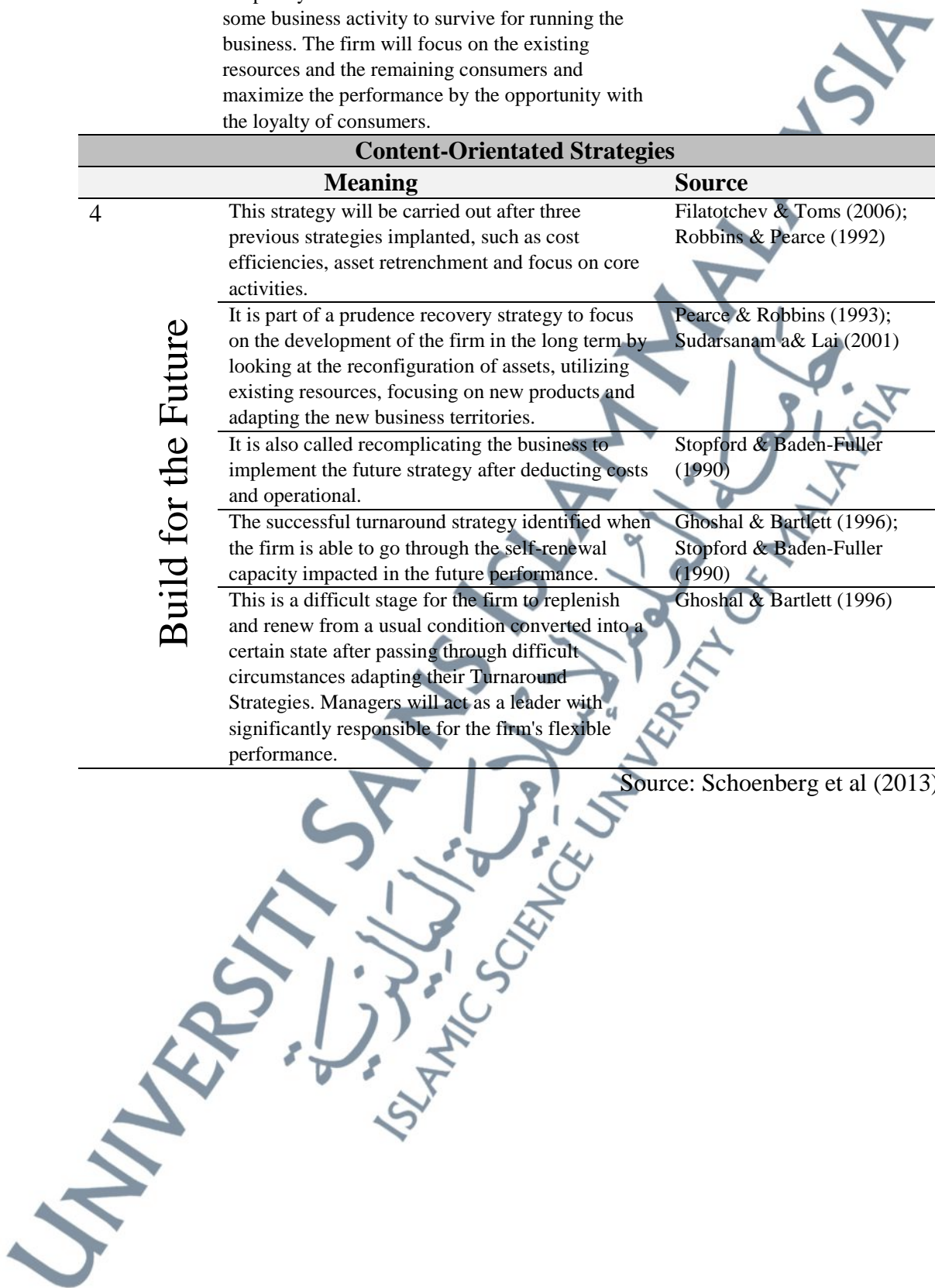


Table 2.25: Process-Orientated Strategies

Process-Orientated Strategies		
Reinvigoration of Firm Leadership		
	Meaning	Source
1	The replacement of the CEO as a prior turnaround process is regarded as a trigger on the problem source.	Stopford & Baden-Fuller (1990)
	There is 75 % of the value of the successfulness significant about CEO turnover is selected from outside the firm during the turnaround situation.	Kesner & Dalton (1994)
	The reason for the CEO turnover is caused by somebody taking the responsibility for negative condition from appointed shareholders and as a signal the change for external and internal management.	Daily & Dalton (1995)
	Change of CEO caused by a decision of the Chairman of the Board on the recommendation of the investors.	Sudarsanam & Lai (2001)
	It is a symbolic strength change when the firm confirmed the willingness to accept the turnaround process.	O'Neill (1986a); Arogyaswamy et al. (1995); Boyne & Meier (2009)
	Charismatic leaders can give hope for the viability of the firm that can guide employees to focus on the difficult circumstances during the turnaround period.	Flynn & Staw (2004)
	Implement the CEO turnover to cover up problems or used to solve problems with past solutions.	Bibeault (1982); Gopinath (1991); Kesner & Dalton (1994)
		Arogyaswamy et al. (1995); Barker & Patterson (1996)
	During CEO turnover, the manager will take over to give any order or decision related to firm performances.	Johnson (1987)
	During the turnover period, the manager will be mentally prepared to handle the declined companies situation by finding a better solution based on the identification information, but the evidence that could be misinterpreted proved so managers will stress to understand the firm.	Arogyaswamy et al. (1995)
	When firms are experiencing poor performance, the bankruptcies and firm failures related to the slow performance management outcome, poor timing, and the rejection of its turnaround strategy by CEO because they are only concerned with their interests.	Sudarsanam & Lai (2001)
	During the CEO turnover will provide a new perspective related to the implementation of the turnaround strategy based on his assumptions and experience.	Barker & Duhaime (1997)

Changing the CEO

Changing the TMT

	Change of leadership has a positive value and plays an important role with positive commitment to provide the action with a new value, strong drive and improved motivation and communication.	Grinyer et al. (1990)
	Meaning of The Concept	Source
2	CEO turnover also involves some or all changes to the TMT. During CEO turnover, the new CEO will bring his own TMT, because so many topics that will be covered so there is twice on processing work during recovery.	Kesner & Dalton (1994); Lohrke et al. (2004)
	TMT plays an important role in changes in the firm's performance, including bringing the firm in bad condition.	Hofer (1980)
	When a firm gets down performance, there are a lot of arguments and difficulties to make a decision, and the new TMT will be required to enable the firm to focus on new strategies to lead the turnaround.	Kesner & Dalton (1994)
	When a firm has a down performance, managers may fear to take responsibility for failure and do not get incentives on the settlement issue affecting companies.	Whetten (1980)
	Management with a higher power in the firm will not mention any difficulties in the firm so it will make the performance of the firm worst.	Gopinath (1991)
	Senior managers who work too long usually prefer to stand with old strategies that can change the firm in a bad situation.	Barker & Patterson, (1996)
	New external senior managers will be prepared to handle the psychological, sociological and general issues present in the firm, but it gives positive sign only for the CEO turnover, not for TMT turnover.	Kesner & Dalton (1994)
	Meaning	Source
	CEO and TMT changes can cause an internal disruption because of their new style in the reporting system that can add a sense of stress to employees who are worried about their position in the firm. So during the recovery process, there is instability in the firm due to internal problems.	Castrogiovanni et al. (1992); Kesner & Dalton (1994)
	The decline changes in the firm's performance can also be caused by external factors and there are certain points which cause difficulties in the firm as profit competition or high costs and poor market products.	Barker & Duhaime (1997); Pearce & Robbins (1993)
	When the firm gets a declined performance, the firm needs a suitable turnaround strategy, like cost retrenchment to increase the required demand.	Barker & Duhaime (1997)
	or change business style according to consumer tastes to get new market opportunities.	Pearce & Robbins (1993)
	Turnover of CEO and TMT will bring any risk because of betting the loss of a competent team in analyzing the firm's business activities. However, the declined changes performance of corporate activity brings the necessary exchange of CEO and TMT as a strategy to gain effective recovery.	Arogyaswamy et al. (1995); Barker & Duhaime (1997); Pearce & Robbins (1993)
	The success of firm changes will depend on the leadership turnover of the firm following the evaluation of evidence of business activity, such as financial performances.	Schoenberg et al. (2013)

A Cautionary Note Regarding CEO/TMT

Change

Table 2.25: Process-Orientated Strategies

Process-Orientated Strategies		
	Meaning	Source
4 Culture Change	When leadership turnover happened, there will also be a cultural turnover to adjustments in the firm's recovery. Changes in the culture of the new firm will make a difference with the past activities so that employees will learn based on the new culture in the firm.	Schoenberg et al. (2013)
	When the CEO and TMT using past decisions on weak performance firm as a sign of the workers who do not provide a solution innovation. Signs of the culture change are also a part of the turnaround strategy that demonstrate the new behavior of the firm to move forward.	Stopford & Baden-Fuller (1990)
	Companies need to collect and disseminate information regarding the latest market conditions that can facilitate the changes in workers' behavior to get quick turnaround and achievement.	Armenakis et al. (1995)

Source: Schoenberg et al. (2013)

The advantage of Schoenberg et al (2013) model that introduces the strategies by content-orientated strategy, is to evaluate the financial and business performance of the firm. In the meantime, the study could identify the changes in the organisational structures of the firm and the culture work in terms of process oriented strategies, which also concerns the human resources of the firm. This study provides the interesting information of the changes of Banks Islam's performance by following the indicator in Schoenberg's model than in previous studies which only assessed the certain performance in the implementation of Turnaround Strategies.

Hopfmüller (2010) explains that the firm needs a turnaround strategy when business activity is unable to produce the profit anymore in the medium term (approximately 4 years), the adequate return on equity, and when the investment cannot be warranted. During the recovery period, the firms have a turnaround strategy to restore the performance. However it requires a leader who is responsible for overseeing the implementation of the turnaround strategy. According to Lawrence (2015), a turnaround

manager has to have a proactive cognition for creating, expanding, and modifying the firm's resources to bring better corporate profits. During the implementation of turnaround strategy, the responsibility of the firm is not only to turn over the leadership but also to improve relationships with stakeholders, and take inauguration and intensive induction for employees. Muzny & Simba (2019) affirm that firm must establish and sustain a workable strategy to survive and flourish in the competitive business environment.

In every implementation strategy business plan, failure or success is probable. However, it is a wrong idea if the management just anticipates the condition only when the firm experiences downturn because even though the firm gets a good performance during the whole of the year, the management still needs a strategy to get a good performance of the firm. When the firm experiences a boom period during the recovery phase, it will execute the corporate strategy. As well when the boom phase leads to the depression phase, the firm should prepare a good strategy to cope with the depression situation and turn it into a better situation. Based on Surah Yusuf (12: 46 to 49), people should be prepared with a good strategy for the seven years in good times, and seven years in bad times.

Freiling & Meyer (2017) describe that the operating reorganisation plan and the planned cash flow for financial commitments can be derived after the development of a turnaround strategy. These tasks require a strong understanding of the reversal situation and a readiness to take decisions and measures. Aside from all legal and financial requirements and burdens, turning around an organisation is a matter of communication and personnel interaction. The driving force is the administration of firms that must be prepared to accept change, accept external expertise and promote the process.

Bank Islam had its own strategies for turnaroud. However, the study used a different model to trace changes after the crisis in order to understand how the Bank Islam changed in comparison to conventional banks that could recover from the 1997 financial crisis and continuously improve their efficiency by 2013 following Sharia rules. After a declining performance in 2005, Bank Islam implemented some strategic planning for changing th bank’s performance. The Bank Islam Seminar (2010) had broadcast this approach itself several times.

Bank Islam developed a corporate plan, which is divided into three phases as shown in Table 2.26:

Table 2.26: Corporate Plan of Bank Islam

Phase Year	I (One) 2006-2007	II (Two) 2008-2009	III (Three) 2010-Onward
Focus on	Recovery Mode Moving out of Crisis & Return to The Black.	It is called Stable Mode. Building Solid Foundation for a Sustainable Growth.	This strategy for High Growth Mode. Operational Excellence & Market Leader.

Source: Bank Islam (2010)

During the corporate plan, Bank Islam provided several strategic steps that focused on changes in Bank Islam’s performance that can be seen in Table 2.27.

Table 2.27: Pillar Strategy of Turnaround and Sustainable Growth Plan in Bank Islam

Pillar	Turnaround Plan (June 2006-June2009)	Sustainable Growth Plan
First	Recapitalization & Balance Sheets Restructuring	Business Innovation
Second	IT Infrastructure Revamp	Robust Risk Management
Third	Transformation Program	Strengthening Enabling Infrastructure
Forth	Cost Rationalization	Building Capability & Capacity
Fifth	Human Capital Development	Franchise Development
Sixth		Inorganic Growth And Corporate Expansion

Source: Bank Islam (2010)

Freiling & Meyer (2017) state that turnaround is a matter of trust, presenting objective and goal-oriented actions. It is not a simple task or a one-time exercise. It is a

time of constant interaction and growth. Nyagiloh & Kilika (2020) contend that the ability to change in organisational processes is a common feature of the strategy. However, while the circumstances leading to its adoption are external, the focus of the turnaround strategy is on internal reorganisation which addresses issues relating to the development of organisations and the change programmes. Organizations aim to move from decreasing to maintaining a positive performance trend. The achievements, experience, and lessons learned are considered to be an important factor in performance breakthroughs that should be documented as part of the mechanism used to achieve the achievements that the firm aims towards the target performance level.

2.10.1. Malaysia's Action during AFC

In Chapter 1, this study examined the decline in Bank Islam performance due to the Asian Financial Crisis. The situation of AFCs (happened in 1997 to 1998) began in Thailand in July 1997 with depreciation of the value of Baht, which then continued to spread in the region of Indonesia, Malaysia and the Philippines (as noted by Furuoka et al., 2012; Kaplan & Rodrik, 2002; Mcguire & Conroy; 1998; Wee, 1999; Ping, 2007). Subsequently, in September and October, Singapore, Taiwan, and Hong Kong were under pressure and then South Korea, with an exchange rate devaluation in November (Ping, 2007). The "contagion effect," which Furuoka et al. (2012) called, spread in the same year from one state to another and almost on the same cause as the crisis. The financial crisis could affect trade growth and business cycle, according to the study by Fidrmuc & Korhonen (2009).

Zarnowitz (1999) states that every country in the business cycle sometimes has different symptoms. Yet, three important factors, such as profitability, investment and

credit, can monitor changes in business cycle, since these factors are volatile and interrelated. Moreover, profit in the business cycle is regarded as the main mover. He also states that profitability encourages entrepreneurship and innovation in the dynamic economic growth. There are some steps for the Malaysian response during crisis according to Zaherawati Zakaria et al. (2010), for instance:

1. Revitalization of the economy. The government of Malaysia took immediate action to revitalise the economy. Malaysia's total foreign exchange reserve value of USD 20,2 billion in 1998 stood at RM 34 billion or 13 percent of GNP, increasing to USD 31,7 billion in July 1999. The interest rate also declined substantially from the base loan rate of 7.24 % in June 1999, compared to 12.27 % in June 1998. Since 1997, the CPI rose from 2.7 % to 6.2 % by June 1998.

2. Restructuring for Financial and Corporate Sector. The Malaysian government has established two transformation processes, stabilisation and reform. The phase of stabilisation consisted of the restructuring of the CDRC, mergers of financial institutions, and bond market development. The administration made the reform by establishing the Dana Modal Institutions, Danaharta and others.

a) Danaharta. The function of high NPL buying for stabilising the financial institutions against economic shock was established in June 1998. Danaharta has purchased from banks NPLs totaling RM 23.1 billion or NPL 31.8 percent. Wee (1999) stated that Danaharta or the Asset Management Firm was suppressing the NPLs and helping the firm recover. In fact, the Danaharta elimination NPLs were sufficiently capitalised on the banks' balance sheet.

b) Danamodal. During the stabilisation procedure, it was established to recapitalize financial institutions. By RM 6,4 billion, the Government has divided the injection

funds into 10 financial institutions that are supported by the merger. Wee (1999) indicated that Danamodal or the Special Purpose Vehicle intended to consolidate banking as additional capital for banks in order to improve resilience through the injection of funds.

- c) *Financial Institution Merger*. The merger was announced on 29 of July in which financial institutions were restructured in 6 groups from 58 different types of financial institutions. In addition to commercial banking and finance companies, this merger of six groups was supported by commercial banking and securities trading.
- d) *Corporate Debt Restructuring Committee (CDRC)*. It was set up in 1998 to help restructure the firm without government assistance during the financial crisis, but the performance of the CDRC has gradually remedied the financial crisis. Based on Wee's (1999) report, the aim of the CDRC was to restructure the company's viable debt so as to reduce losses for some parties (such as the creditor, shareholder and stockholder) and prevent liquidation.
- e) *Bond Market*. The government of Malaysia developed the bond market as financing long-term investment alternatives and increasing capital value.

3. Selective Capital Control (SCC). The SCC represents a step towards reforming and restructuring the bank to stabilise the exchange rates of currency and regain control of monetary policy to lower interest rates and support the fiscal stimulus.

4. Malaysian economy outlook. Economic growth between Asia and the US is strongly opposed, particularly when Malaysia is one of the countries which has been able to meet the conditions of the financial crisis by increasing intra-regional trade such as increasing Malaysia's export sector. Malaysia macroeconomics indicators,

including GDP growth, inflation, interest rates, unemployment rate and exchange rates, are explained in Appendix 12.

5. National Economic Action Council (NEAC). In 1998, the government established NEAC as an advisory body to deal with the AFC issue in 1997 to restore confidence in the market, retain financial stability, and restore the ringgit value.

6. National Economic Recovery Plan (NERP). The Government of Malaysia has also developed the government's approach to address macroeconomic issues in the 1997 to 1998 financial crisis. Malaysia has reconstructed the business after NEAC and NERP have been established (Wee, 1999). The NERP programmes themselves aimed at overturning Malaysia's previously adopted "virtual IMF policy." In NERP, there are six steps :

- a) Stabilisation the position in the ringgit (through the exchange rates, increase the external reserves and adopt the balance of interest rate policy),
- b) Recovery of market trust (through the transparency, rules for the ailing firm, consistency of government policies, and communication),
- c) Maintaining stability of the financial market (through the establishment of the agencies to settle the non-performing loans and recapitalize banks, improve capital market and develop the private debt securities market),
- d) Strengthen the economic foundations (through the improvement of investments quality, the balance of payments, and price stability, adopting an appropriate monetary policy, and increasing labour competitiveness),
- e) Continue with the equity and socioeconomic agenda, and
- f) Revive the sectors which are adversely concerned.

7. The World Bank. The latest effort by the IMF to solve the AFC issue was considered in Thailand, Indonesia and South Korea, but not for Malaysia. After considering many consequences of getting IMF assistance, Malaysia preferred to have its economic saving policy.

Zaherawati Zakaria et al. (2010) revealed that the Malaysian government did all of its implementing strategies to resolve the crisis in 1997. This is the government's turnaround strategy to recover from the AFC. The role of BNM in implementing a few policies during the crisis regarding banking growth in Malaysia. The changes most noticed during crises also affected the performance of banking. After the crisis, the government proposed to converge these financial institutions to acquire 10 major banks; Maybank, for example, had fused the mergers to Phileo Allied Bank Bhd, Maybank Finance Bhd, Aseanbankers Malaysia Bhd, Pacific Bank Bhd, Unified Bhd Finance and Sime Finance Bhd (Furuoka et al. , 2012). The bank also experienced certain changes, such as additional labour, organisational modifications, the introduction of new technologies, and other changes caused by the new banking environment as banks chose to merge and acquire. Furuoka et al. (2013) also added that the "Voluntary Separation Scheme", of which employees receive payments following the agreement, was the solution offered by banks to save excess workers due to acquisitions or merger between the banks.

Young (2014) recommends for the bank to act as financial intermediaries in the market of imperfect information to reduce its transaction costs. Bank bankruptcy is a very different situation to other financial institutions because bank bankruptcy could be caused by bank performance instability. After all, banks should have access to capital

markets for their clients, and bankruptcy will make banks get much of their debt, considering that banks' performance is supported by 90 % of their debt, compared with depositors rather than nonfinancial institutions, which have only 40 % of their debt. If banks get the trouble, it gives them more liquidity and solvency that give the banks trouble to continue operating (Young, 2014). As summarised in Table 2.28 by Kaplan & Rodrick (2002), the Malaysian government took immediate action of the AFC.

Table 2.28: Malaysia Action during the AFC

<u>Malaysian Controls on Capital and Exchange Controls Sept. 1-2, 1998</u>	
1.	Malaysia fixed the exchange rate at RM 3.80 per \$US
2.	Prior approval was required for non-residents to be able to buy or sell ringgit forward.
3.	All sale of ringgit assets was required to be transacted through approved domestic intermediaries. This effectively shut down the operation of the offshore ringgit market.
4.	Nonresidents were required to obtain BNM approval to convert ringgit held in external accounts into foreign currency, except for the purchase of ringgit assets in Malaysia or the purposes of conversion and repatriation of sale proceeds of investment made by foreign direct investors.
5.	Settlements of imports and exports became required to be settled in foreign currency. However, free exchange was maintained for all current account transactions in addition to the supply of trade credit to non-resident exporters of Malaysian goods.
6.	Credits to External Accounts were limited to the sale of foreign currency, ringgit instruments, securities or other assets in Malaysia; salaries, wages, rentals commissions, interest, profits, or dividends.
7.	Debits to External Accounts were restricted to settlement for purchase of ringgit assets and placement of deposits, payment of administrative and statutory expenses in Malaysia, payment of goods and services for use in Malaysia; and granting of loans and advances to staff in Malaysia.
8.	Domestic nationals were forbidden to export more than RM 10,000 during any travels abroad. Foreign nationals were forbidden to export more than RM 1000 upon leaving Malaysia
9.	After September 1, 1998, nonresident sellers of Malaysian securities were required to hold on to their ringgit proceeds for at least 12 months before repatriation was to be allowed.
10.	Ban on the provision of domestic credit to non-resident correspondent banks and stockbroking companies.
<u>1999 Changes in Controls</u>	
1.	As of February 15, 1999, the year-long moratorium on repatriation of investments was replaced with a graduated tax. All capital having entered Malaysia before February 15, 1999 were subject to the following levies on the capital being removed: (a) 30 % if repatriated within the first 7 months after entering Malaysia, (b) 20 % if repatriated between 7 and 9 months after entry, (c) 10 % if repatriated between 9 and 12 months of entering, and (d) no levy if repatriated after one year of entry.
2.	For funds entering Malaysia after February 15, 1999, capital was free to enter and leave without taxation; however, profits were taxed at the rate of 30 % if repatriated within one year of entry and 10 % if repatriated after one year of entry.

Source: Kaplan & Rodrik (2002)

Neely (1999) describes the role of capital control function as a governing arrangements policy on domestic investments from transactions in capital accounts.

Implementation of capital controls was set up in September 1st, 1998 with the aim of controlling certain measures, including: (i) Prohibited any transfer to abroad and foreign banks, (ii) eliminated the credit facilities for overseas, (iii) prohibited the repatriation of investments until 1 September 1999, and (iv) determinate of the exchange rate of the Ringgit against the dollar in 3.8 per dollar.

These actions were used to prevent misappropriation or hidden funds that could decrease interest rates after the AFC hit Malaysia during the restructuring process (Neely, 1999). The reason for success in the control of capital was stated in Abdelal & Alfaro (2003): (i) BNM has the value of foreign reserves, (ii) Malaysia had less debt during the crisis (compared to other countries such as Thailand, Indonesia, and the Republic of Korea), and (iii) the compliance of public authorities with financial institutions system.

However, Johnson et al. (2006) pointed out that the implementation of the capital control had a negative effect on reducing investor interest in FDI. There were many advantages and disadvantages to Malaysia's implementation of the capital control programme. By ignoring IMF support during the crisis, Malaysia took decisive steps to improve the macro-economic system, with Malaysia experiencing not just an economic turbulence, but also a political revolution during this crisis. Zarnowitz (1999) indicates that there are three different ways, in which the investment can increase after the business cycle has been depressed, such as (i) by increasing the profits of business activities in the past as it impacts to the present as expected profit-making of the underway investment, (ii) provided the profits and the least cash flow for financing investment, (iii) the notice profit is used as an indicator of investment adjustments in the past and help to access credit on external investments. After that Malaysia also

experienced the second crisis, the GFC in 2008 to 2009. Subsequent explanations can be explained in the following subtopic about Malaysia's action during the second crisis.

2.10.2 Malaysia's Action during GFC

Secondly, during the global financial crisis which is known to be the second financial crisis after the AFC, Malaysia has had a major effect on its financial performance and economic activity. The speculative housing market bubble of the Lehman Brothers firm in the United States originated in the GFC in 2008 to 2009 (Choudry, 2010; Kawai, 2009; McKibbin & Stoeckel, 2009; Merrouche & Nier, 2010) and had a slight impact on the Asian region, albeit not so much as on the US and Europe (Kawai, 2009). However, to a lesser extent, the changes in the global GFC, particularly those involved in global activities, resulted in a decrease in the economic performance in Malaysia. The government of Malaysia is, therefore, still looking for measures to save the situation, so that the incident like the crisis of the AFC does not occur again.

The economic crisis in Malaysia was explained by Athukorala (2010) because of the rise in non-performing loans. This is because of the decline in BNM's performance, which also affected the declining investor trust in capital loss. BNM pursued monetary policy in 2009 (a further experience of the Malaysian crisis following the AFC), in November 2008 BNM implemented a 2.5 % and 2.0 % deterioration of overnight policy rates and OPR policies in January 2009. The Malaysian government also provided huge funding to develop rural areas, agriculture, transport and community infrastructure such as public services, healthcare, education and housing. According to Athukorala (2010), between two years, 1997/98 and 2008/09, the Malaysian government controlled the crisis, and in 2008, Malaysia had no need of capital control

in order to obtain macroeconomic policies of autonomy. The situation was quite different.

McKibbin & Stoeckel (2009) describe that the impact of the recession after the GFC that happened in the USA had a major impact on the world economy, especially those countries which depended on USA economic growth had negative decline in economic performance and those countries that had more fortunate investment been better than USA's performance during recovery. Gros & Alcidi (2010) exposed that the economic recovery of each country had different healing stages depending on the violent adjustment of the unsustainable bubble, not solely dependent on the strength of financial markets. Abidin & Rasiah (2009) state that, in the recovery process following the GFC, Malaysia has confronted challenges that have helped Malaysia improve the declining export industry. The rescue of the banking sector was not as bad as in 1998 (within the AFC), when more BNM help was needed in the banking sector. In the GFC, the government was more obliged to revive growth through domestic demand expansion, where no banking or exchange rate crises were to be addressed (Abidin & Rasiah, 2009). Muhammad Ibrahim (2009) mentions some regulation of BNM to control the economic crisis:

1. The expansion access supported SME's financing program with Danajamin Berhad in 2009.
2. The distress controlled by borrowers as the intermediary for the bankrupt firms.
3. Set the accommodative monetary policy up to reduce the cost of financing and supporting domestic demand.

4. Transformation of the financial system to The Financial Sector Master Plan that inaugurated in March 2001. The purpose of this transformation was focused on the strength of the financial system growth that could minimize the impact of the crisis such as developing business growth, investment, and employment.

2.10.3 Malaysia Performance on Banking Action

Because Malaysia had gone through two periods of crisis, which was during the AFC, BNM focused on capital control and during the GFC, Malaysia focused on domestic demand, but there were still some changes in performance from the banking system in Malaysia during the AFC and GFC. Muhammad Ibrahim (2009) stated that Malaysia gave the response to the liberalization of the financial system by announcing both of Malaysian financial system such as the conventional and Islamic financing in April 2009. The purpose of the financial liberalization was to attract investors globally by creating a healthy economic competition between foreign and domestic investors based on conventional and Islamic banking systems.

Malaysia's effort got noticed and praised from the world because of the government's action by making policies during the recovery period of the financial crisis, which then became the comparable policies for other countries during the crisis. Some people believe that the financial crisis happened due to the fault of the capitalist economy that led to the recession for the country. So many countries that have Muslim people started to embrace the concept of Sharia economy as a comparison against the capitalist economic system.

Many studies made a comparison between the Islamic economic system and the capitalist economic system, and they gave new perspectives on the Sharia concept. Hassan (2009) points out that the capitalist system has an element of coercion and pressure activities, such as the monopoly, exploitation, greed, injustice, and unfair action to take people's money as well as allow the practice of interest (*riba*), uncertainty (*gharar*) and gambling. Shafique et al. (2012) also mentioned three of the main causes in the financial crisis due to banks being too greedy on profits, banks do not comply with the rules regarding the administration of the credit markets and the banks also disobey the system reform of prudential regulation.

Islamic economic system also has a combination of elements between capitalism and socialism, but it still follows the Sharia law based on Qur'an and hadith. The Sharia law wants to encourage people to work for value and avoid moral taboo. Toth (2011) disclosed that, there is a different way between the Islamic and the capitalist economic system, based on IMF data that Islamic banks were more resistant than conventional banks during the financial crisis. The profitable percentage obtained by Islamic banks was higher compared to conventional banks before the financial crisis and after the financial crisis. Toth (2011) also explains that the difference between Islamic banks systems' principle is that the conventional banks are based on the rules, but Islamic banks follow the Sharia law based on fairness and risk-sharing principle and forbid interest, whereas in conventional banks they follow the principle of debt and allow practices of interests in banking.

More importantly, Malaysia is a country that applies the Sharia law in its banking systems besides having a conventional banking system that is based on the IBA1983 and Takaful Act 1984, and most recently regulation is the IFSA of 2013

(which has been explained very well in previous subtopics). Compared to other ASEAN countries, many countries are taking slower steps to introduce the Sharia concept of Islamic banking rule such as Indonesia that established the Sharia concept in 1998, whereby in Singapore, they started using the Sharia concept beginning in 1998. In Thailand, they endorsed the concept of Islamic banking in 1987, while Malaysia introduced the concept of Islamic banking in 1983. It is an interesting study to observe how the Islamic banking system in Malaysia was able to survive through the financial crisis, even though Malaysia also used conventional banking concepts in their banking system. A more detailed explanation of many strategies that Bank Islam used to settle the risk during the growth performance process can be seen in Table 2.29 (Thijs, n.d).

Table 2.29: Challenges in Islamic Banking

Credit Risk		
Policy	Guidelines	Risk Management Systems Consideration
<p>Credit Risk Policy – The policy addresses the broad credit management framework that covers the objective, strategy, structure and credit processes to establish the best practices in the management of credit risk that are in line with the regulatory requirements.</p> <p>Meaning of Credit Risk: The potential that a counterparty fails to meet its obligations under agreed terms and conditions of a credit-related contract</p>	<ol style="list-style-type: none"> 1. Pricing Matrix Guidelines 2. Acceptance Letter Offer Guideline 3. Negative List Guideline 4. Collaterals Guideline 5. Valuation Guideline 6. Discretionary Power Guideline 7. Sovereign Risk Guideline 8. Consumer Grading Guideline 9. Sectoral Guideline 10. Business Relationship Etiquette Guideline 11. Watch list Guideline 12. Financing Process Guideline 13. Credit Recovery Guideline 14. Guidelines on Risk-Adjusted Pricing for Corporate and Commercial 	<p>Application Scorecards</p> <ul style="list-style-type: none"> • Statistical scorecards for retail • Financial ratio + judgmental scorecards for Corporate • Behavioral application scorecards for SMEs (credit bureau) <p>Behavioral Scorecards</p> <ul style="list-style-type: none"> • Application card only valid for 6-12 months; client circumstances can change • Enable bank to take preventive action <p>Watch list based on:</p> <ul style="list-style-type: none"> • Behavioral triggers including habitual delinquencies, adverse media reports, delay in preparation/fling financial statements • Financial triggers including credit rating downgrade by 2 or more notches, deterioration in financials and or collateral value; financing covenant breaches <p>Other triggers including project delays/cost overruns; Sector weakening and supply/demand concentration</p>

Market Risk (I)		Risk Management Systems
Policy	Guidelines	Consideration
<p>1. Market Risk Policy – Describes the Risk Policy and Analytics, Asset and Liability Management (ALM) and Middle Office functions of the Market Risk Department</p> <p>2. Trading Book Policy - Addresses market risk factors which include but not limited to profit rate or rate of return, foreign exchange, equity and commodity risks inherent in the Bank’s trading and banking books</p> <p>Meaning of Market Risk: The potential impact of adverse price movements such as benchmark rates, foreign exchange rates, equity prices on the economic value of an asset</p>	<p>1. Market Risk Limits Guideline</p> <p>2. Hedging Guideline</p> <p>3. Mark-to-Market Guideline</p> <p>4. Rate Reasonability Check Guideline</p> <p>5. Value-at-Risk (VaR) Guideline</p> <p>Asset and Liability Management Guideline</p>	<p>Market Risk Trading</p> <p>Value at Risk</p> <ul style="list-style-type: none"> • Historical simulation • VaR/CoVaR methodology • Monte Carlo Simulation <p>Issues for Islamic Bank</p> <ul style="list-style-type: none"> • Limited data • Illiquid Instruments • Need to use conventional price proxies <p>Higher confidence interval? Longer time horizon?</p>

Market Risk (II)		Risk Management Systems
Policy	Guidelines	Consideration
<p>Operational Risk Policy – The policy provides effective and efficient operational risk management throughout the bank through its strategies in terms of organization structure, process, risk tolerance, risk measurement, and analytic model management information system</p> <p>Meaning of operational risk: The potential loss resulting from inadequate or failed internal processes, people and system or external events</p>	<p>1. Operational Risk Management Guideline</p> <p>2. Management Awareness and Self-Assessment (MASA) Reporting Guideline</p> <p>3. Fraud Handling and Reporting Guideline</p> <p>4. Takaful/Insurance Guideline</p> <p>5. Key Risk Indicators (KRIs) Guideline</p> <p>6. Outsourcing Guideline</p> <p>7. Operational Risk Management Process for Information Security Management System</p> <p>8. Customer Complaint Guideline</p>	<p>Risk Control Self-Assessment (RCSA)</p> <ul style="list-style-type: none"> • Generic RCSA • Specific RCSA <p>Key Risk Indicators (KRI)</p> <ul style="list-style-type: none"> • Reflective of risk • Measured regularly • Should detect changes in risk profile before op risk events manifest <p>Loss Event Database</p>

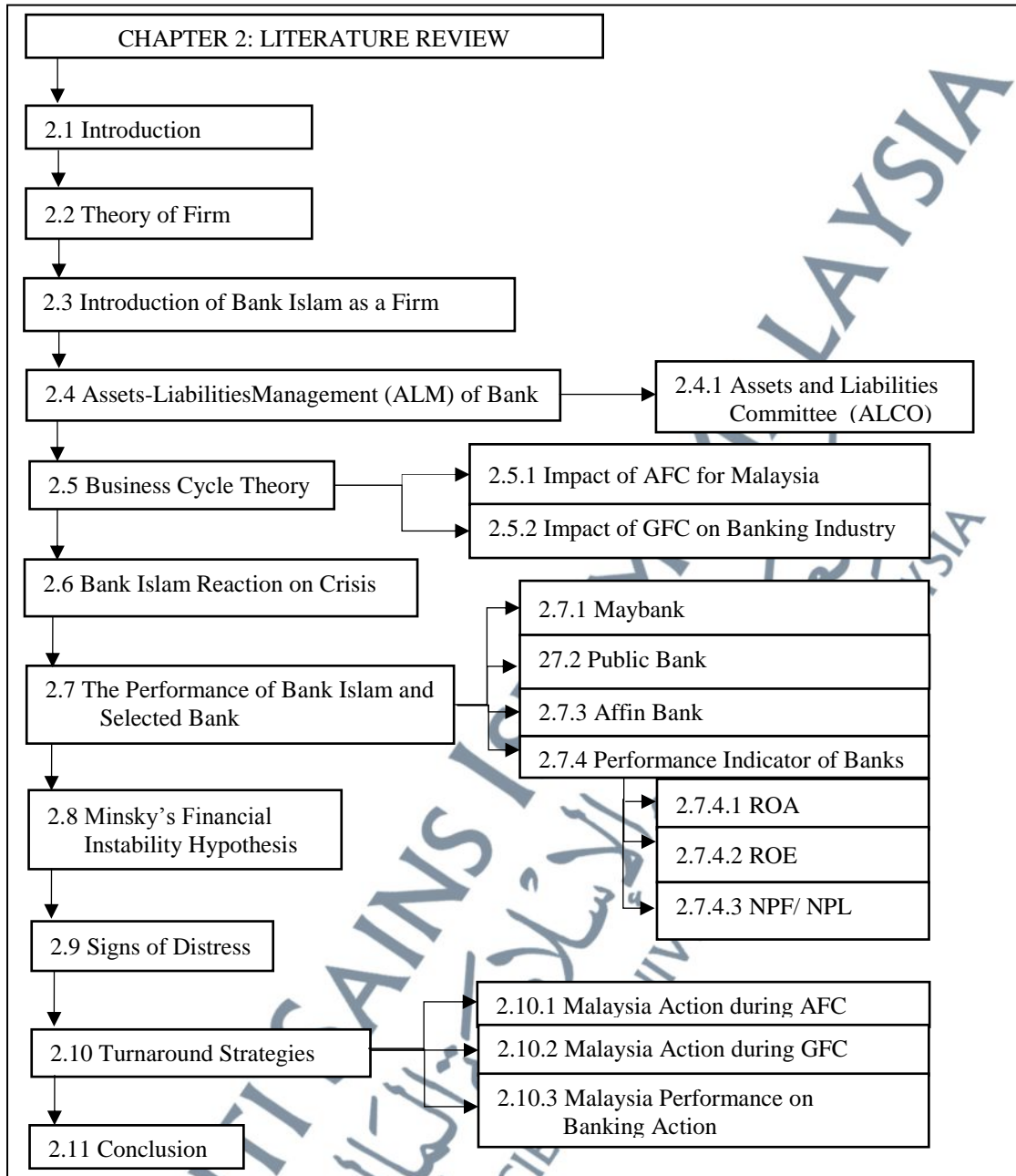
Sharia Compliance Risk	
Policy	Guidelines
<p>Sharia Compliance Risk Management Policy – The policy provides the Sharia requirements applicable throughout the Bank in its activities, products and services in compliance with the Sharia principles, provisions of the Islamic Banking Act 1983 and Bank Negara Malaysia’s rules and regulations.</p>	<p>1. Wadiah Contract Guideline.</p> <p>2. Ijarah and Ijarah Muntahiah Bit Tamlik Guideline</p> <p>3. Murabahah and MPO Contract Guideline</p> <p>4. Mudharabah (financing) Contract Guideline</p> <p>5. Musharakah (financing) Contract Guideline</p> <p>6. Handling and Reporting of Sharia Non-Compliances Guideline</p> <p>7. Mudharabah (Deposit) Contract Guideline</p> <p>8. Musharakah Mutanaqisah Contract Guideline</p> <p>9. Musharakah (Investment) Contract Guideline</p> <p>10. Kafalah Contract Guideline</p> <p>11. Wakalah Contract Guideline</p> <p>12. Tawarruq Contract Guideline</p>

Source: Thijs (n.d)

Then interrelationships in the business cycle theory in this research study were used to see the process of improvement experienced by Bank Islam after recovering from the financial crisis of 1997 to 1998 and 2008 to 2009.

2.11 Conclusion

The background theories of this study are discussed more in detail in Chapter 2. In this chapter, an overview of the literature review on banking is presented by describing the theory of the firm that introduced SCP (Structure-Conduct Performance) paradigm from Alfred Chandler. From SCP, the study introduce Bank Islam as a firm also the explanation of ALM and ALCO. The next theory is the business cycle theory by using surah Yusuf (12: 46 to 49). Before that, the study provided the data about situation business banking performance due to financial crisis from Figures 1.1, 1.2, and 1.3. Musa Ahmad (2015) states that by integrating Aqli-Naqli, USIM has a unique philosophy. Naqli is the philosophy of revealing information and the source comes from the Qur'an and Sunnah and conventional knowledge comes from Aqli. The next theory is Minsky's financial instability hypothesis, the Signs of Distress, Turnaround Strategies, and conclusion. A table outline is included to understand the direction or summary of Chapter 2 (in Figure 2.15).



Source: Developed for this Study

Figure 2.15: A Diagram Outline of Chapter 2

There is a discrepancy, from an Islamical standpoint versus conventional, between the system institutions and customers both in the world and the hereafter: An attitude of justice and well-being. On the other hand, the conventional view presents the theory of firm as a division of the corporate structure based on a business-led approach.

Becerra (2009) discloses the criteria in the four concepts of firm being: (1) The firm as a production unit, (2) the firm as a decision unit, (3) the firm as a contracting solution, and, (4) the firm as a collection of resources

The firm is a set of resources that are managed through a single administrative structure that offers a sustainable competitive advantage. Bank Islam, by contrast, supports the idea but the truth is that all the administrative functions are handled by the firm. As an institution based on various strategies, Bank Islam must strive for a sustainable prosperity that must include Islamic values. In consequence, the study focuses on Bank Islam, as a firm which has implemented a restructuring plan to balance global prosperity.

Within the firm is an administration which has affected the decreasing performance, especially in relation to asset and liability change, which is known as the Asset-Liability Management.

Romanyuk (2010) describes the difficulty in ALM as follows: (1) It is difficult to implement the ALM strategy based on specific objectives, risk tolerances, and constraints, (2) the firm does not prepare long-term strategic decisions based on forecasts factors, and (3) risk measurement using specific measurements makes it difficult to form ALM models. As risk can be reduced, ALM is a risk management instrument, benefiting in the short term from net interest income uncertainty and benefiting economic entities for the longer term. Although there are always bank risks, ALM should mitigate these risk by maintaining an acceptable profit, growth and risk balance in terms of the value of net profit, net interest margin, capital suitability and liquidity risk, and by monitors them with ALM. The bank must develop ALM technical teamwork to increase banking performance and effectiveness in order to implement the

best ALM strategy. Therefore, ALCO as part of banking department manages the banking balance sheet (asset-liabilities) and focuses on the rate and liquidity risk adjustments. Bank Islam has adopted the liquidity structure of BNM based on expectations of contractual and compliance cash flow derived from the bank's assets and liabilities and off-balance sheet commitments.

Following an understanding of Bank Islam's firm theory, both ALM's and ALCO's important roles, the next theoretical study focus on understanding the prevailing situation that can cause Islamic Bank's performance to decline and it is visible from the situation in the business cycle.

In the Qur'an, Allah s.w.t. provided guidance on economic volatility when He told the tale of a king who dreamed of his country going through both cycles of prosperity and stagnation in seven years, which was later interpreted by Prophet Yusuf. The outcome of Surah Yusuf (12: 46 to 49) that providing dalil naqli which describing the business cycle in the country for a period of 7 fertile - 7 dry years. The business cycle is influenced by the cycle of economic changes brought about by financial crises, such as the AFC and GFC. This is due to the fact that fluctuations trigger various changes, primarily in the rate of growth and economic activity as well as changes in the job backdrop and monetary policy. The business cycle theory's conclusion explains how businesses expand and contract as a result of a variety of complex factors with boom period and a crisis phase are a recurring condition in economic cycles, and people and countries should be prepared to face these various periods at different times.

The study used next theory to see which indicators cause the cycle of firm performance to decrease. This study compares Bank Islam's performance with three conventional banks. Figures 1.1, 1.2, and 1.3 show that the crisis caused a decline in the

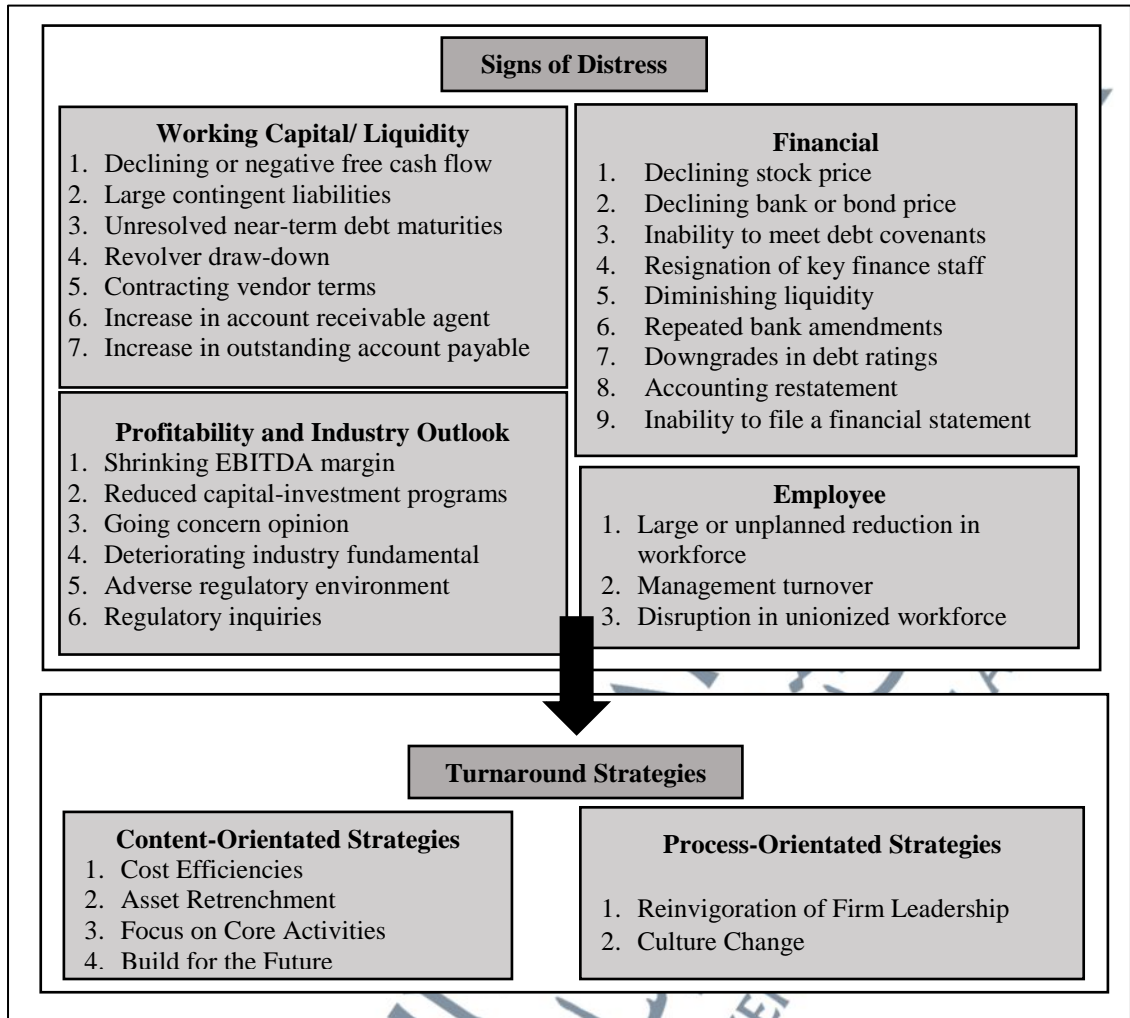
four banks. The study analyses the factor of decreasing firm performance through the “Financial Instability Hypothesis”, theory of Minsky. Minsky’s hypothesis includes a number of theories which promote renewal of future financial innovation, such as increased capital gains and investment gains, and profitability, which all affect economic growth and can be supported by the state of full employment. The Minsky hypothesis was founded on the principles of a capitalistic economy that benefited and benefited from market growth. Minsky also states the identification of internal errors of system rather than an external system factor is an economic volatility. However, the Minsky hypothesis does not explain the factors but further investigations are intended to identify internal and external factors contributing to the financial crisis (De Antoni, 2006).

This study employed the distress signs of Yakola (2014) as shown in Table 2.23, which was used to assess four indicators, namely, working capital/liquidity, financial, profitability and industry outlook, and employee. Yakola differs from other quantitative model appraisals by not only using quantitative assessments but also using qualitative rates such as profitability and financial indicators. Another difference is the use of an employee indicator in the Yakola model to estimate the drop in firm performance.

Once a model has been found which identifies the causes of a performance decline, the study continued to look for a model to present a strategy to improve business performance after a time of financial crisis. The major strategies are comprehensive plans that provide a basis for coordinated and ongoing efforts to achieve long-term firm goals. Firm can use a combination of various major strategies to achieve the targets. Strategies at business level define the deployment of the firm’s resources on the

products or markets and cover market and product development, concentration, and integration. Turnaround strategy is part of the management strategy that is used to manage the firm's move during recovery for a better performance. Thus, firms must first understand the crisis deeply, thereafter, the turnaround strategy can be prepared. Bank Islam's own turnaround strategies learned achievements, experiences and lessons are regarded as an important element of successful achievements that should be documented in the mechanism for achievement of the firm's objectives of achieving the objective level of performance. The implementation of turnaround strategies takes place under unique conditions (internal and external combinations) with designated systems, strategy, structure, control systems or distribution of power. Therefore, the present study used a Schoenberg et al (2013) turnaround model that understands how much Bank Islam has implemented the overall correct strategy to overcome the decline in crisis performance. Schoenberg et al. (2013) elaborated two turnaround strategies, such as (i) content-orientated strategies consisting of cost efficiencies, asset retrenchment, focus on core activities and build for the future, and (ii) process-orientated strategies which consist of the reinvigoration of firm leadership (such as changing the CEO, top management team or TMT, and the cautionary note regarding CEO or TMT change), and culture change. It is explained in Tables 2.24 and 2.25.

Accordingly, this study did not only look at the cause of the decline in Bank Islam's performance by using the signs of Yakola's (2014) distress, but also identified change in Bank Islam's position to improve performance by using turnaround model of Schoenberg et al. (2013). The theoretical context of the study is shown in Figure 2.16.



Source: Developed for this Study

Figure 2.16: Theoretical Framework

This chapter presents some literature, such as the Theory of the Firm, Business Cycle Theory, Minsky's Financial Instability Hypothesis, Signs of Distress, and Turnaround Strategies.

The analysis in this study started because of causes due to the impact the financial crisis that decreased in the Malaysia's performance. The data presented reveal that Bank Islam and three conventional banks were falling in performance due to the financial crisis, Figures 1.1, 1.2, and 1.3. The "contagion effect" from the AFC (happened in 1997 to 1998) began in Thailand in July 1997 with depreciation of the

value of Baht, which then continued to spread in the region of Indonesia, Malaysia and the Philippines. Malaysia itself is the only country that rejects IMF assistance and the government has adopted a number of economic-saving solutions, such as (1) revitalization of the economy, (2) restructuring for financial and corporate sector (including the establishment of Danaharta, Danamodal, Financial Institution Merger, CDRC, Bond Market.), (3) SCC, (4) Malaysian economy outlook, (5) NEAC, and (6) NERP. Malaysia had been impacted on its financial performance and its economic activity during the global financial crisis, which is known to be the second post-AFC financial crisis. Compared to the incident of the AFC, the GFC has a not so dreadful effect as the attacks of the AFC. However, the GFC has still had a negative impact on the performance of the economy in Malaysia, particularly those involved in global activities. Bank Negara continues to seek actions for the sake of the situation to prevent an incident, such as the AFC crisis from happening again. The decline in BNM performance also affected the loss of capital by the declining investor trust.

In November 2008, BNM implemented monetary policies that deteriorated by 2.5 percent, and by 2.0 percent, overnight policy rates, and the policies of OPR in January 2009. Malaysia faced challenges to improve the declining export industry in the recovery following the GFC (Abidin & Rasiah, 2009). The BNM regulatory framework control the economic crisis with transformation, which Muhammad Ibrahim (2009) refers to as the strength of growth in financial system that could reduce the impact of the crisis as business grows, investments, and jobs developed.