

CHAPTER IV

METHODOLOGY

4.1 Introduction

The research Methodology is defined as the technique of identification of specific issues to discuss and identify strategies to solve the research problems (Industrial Research Institute, 2010). Therefore, to achieve the purposes and findings of this research, this chapter discusses the suitable methodology to use. Firstly, this chapter will present the choice of study, perspective and preconception, and thus proceeds to the discussion on the research approach and philosophy, the methodology and design of the study, and, lastly, is the discussion of the techniques that will be used in data collection.

4.2 Choice of Study

With the concern being the Islamic banking system and finance, the study decided to examine credit risk management; because various studies have shown that effective credit risk management comes from effective management and control. To fill the gaps, it was decided to conduct a study on the role of credit risk management in the conventional banking system and Islamic banking system in Malaysia when carrying out financing decisions. It is interesting to understand the current practice of the credit evaluation process in the conventional banking approach and Islamic banking approach, and then identify how Islamic principles are used in the credit evaluation process in Islamic banks.

The topic was found to be relevant and challenging because the study proposes to implement good parameters for the credit evaluation process in the Islamic banking approach after having in-depth interviews with experts in the area of interest in the study (bank officers who conduct the business loan/financing and *Shariah* advisers). The growth of banking activities in the industry, and the concern for socially responsible banking for Islamic banking, as well as the need to be more proactive in their credit risk management techniques and strategies before giving financing to their customers is necessary because Islamic banks differ from the conventional banking system in terms of the nature of the contracts conducted.

In addition, the choice of subject is one that asks “what is the current practice of credit evaluation process in conventional banking and Islamic banking system?” and “Is there any difference in the current practice or are they the same?” Therefore, by using the inductive approach, the study provides knowledge, before conducting interviews with *Shariah* advisers to obtain their points of view regarding how Islamic principles are used in the credit evaluation process. It is anticipated that based on the findings from the study it will be possible to propose good parameters for the credit evaluation process in the Islamic banking approach to show that Islamic banks must be more proactive in risk management and strategies because Islamic banks offer different types of Islamic mode of financing in their banking business. Thus, the findings can be used by Islamic banks to determine whether they have to implement some of the findings in their credit risk management.

4.3 Perspective

According to the Macmillan dictionary, perspective can be defined as a way of judging how well and bad something is in comparison with other things and it is a way of thinking. Blindness is the contrasting concept to perspective. Therefore, a person does not have the same perspective as others due to the differing perspective in thinking.

Therefore, how an individual judges something depends on the individual's perception. To maintain the perspective in this study, the study will identify and focus on the perspective from the financial management in the dual banking system perspective, as different types of banking system have their different strategies and techniques albeit the purpose is the same, which is to maintain in the financial industry. To achieve this, banks should maintain their performance and value towards their customers because, as an intermediary in the industry, banks play an important role, and, if they do not perform well in the financial industry, an adverse effect on the bank's performance might occur.

Hence, each type of banking system may look at the two-way direction in managing sound credit risk management. In addition, benefit comes to the banks if they can perform well to have a return and bank value, and thus good information among them.

4.4 Preconception

A preconceived idea or prejudice relates to the concept of preconception. Thus, the idea of writing this thesis is derived from the author's preconceived idea about credit risk management in the dual banking approach, which was derived from

four (4) years of degree studies on Islamic banking and finance, which motivated her to write on this topic.

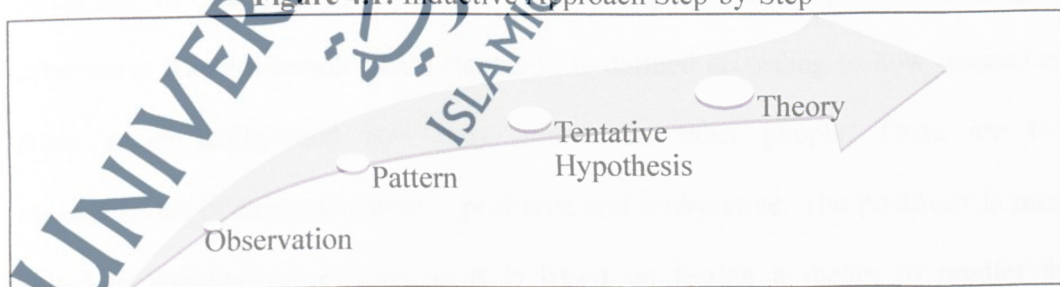
Thus, this directed the study to determine how in reality applications in the dual banking system (conventional and Islamic banking approaches) delegate risk in credit before giving financing to the customers. Therefore, the current area of interest in the course of the master's degree in *Muamalat* Administration encouraged the study on this topic.

4.5 Research Approach

There are two types of research approach – deductive approach and inductive approach (Dowson, 2002). The top-down approach refers to the theories that conduct hypotheses and thus are referred to as deductive. The deductive approach uses hypotheses to test whether to accept or reject and then confirm a theory. Meanwhile, the bottom-up approach refers to the inductive approach, as it moves from the observations to broader generalizations and theories, as the outcome of the study (Bryman and Burgess, 1998).

Therefore, the inductive approach was chosen because it is the most suitable for the purpose of this study since the study uses qualitative data. Bryman and Bell (2007) stated the stages in the induction approach, as shown in figure 4.1 below:

Figure 4.1: Inductive Approach Step-by-Step



Source: Bryman & Bell, 2007

The inductive approach starts with observation, pattern, developing tentative hypotheses and then develops a theory therefrom. Cooper and Emory (1995) viewed that from the inductive approach, between a reason and a conclusion; there is no strength in them as both of them use the deductive approach.

Therefore, to develop a theory from the observation, face-to-face interviews will be used to gain the perceptions from the bank officers of the business loan/financing department and *Shariah* advisers in Malaysia. By using the interview guide, it is expected that the person's perception of the different types of banking approach might be different. In addition, the conclusion of the study will discuss the facts, situations, experiences and thus, ultimately, will support the conclusion.

4.6 Research Philosophy

What reality is defined actually refers to the philosophy (Creswell, 2013). Therefore, behind the tools of research used, the assumption is very important because it gives the researcher guidance for conducting the research. Based on this, a researcher must not feel guilty for not interviewing many people, unlike in quantitative research, as this philosophy of research helps the researcher to recognize whether or not the strategies he or she is working with do well (Patton, 2014).

According to Bryman and Bell (2007), and Patton (2014), there are two categories of research philosophy – epistemological orientation and ontological orientation. The epistemological orientation is defined according to how researchers study social reality and how they inform the other people. There are two classifications of this orientation – positivist and interpretive. The positivist is more suited to quantitative research as it is based on testing a theory to predict the understanding of a phenomenon. On the other hand, the interpretive is one of the

studies through which researchers understand phenomena by interpreting the reality that the people assign to the meanings.

In addition, ontological orientation raises the question: what is the nature of the reality that can be other knows about it? Therefore, this is the nature of the study based on the understanding of the researcher. There are two categories of the ontological orientation – objectivist and constructionist. According to Lakoff and Johnson (1980), objectivist is the existence of the objective and unconditional truths and thus the reality exists independent of what is in the researcher's mind that has appeared from the thought. Constructionist, on the other hand, explains that the existing phenomena are continually being accomplished by the social actors and is only being constructed.

Therefore, since this study is based on the qualitative approach, the study will use interpretive and constructionist in the philosophy of the research study. The study chose these because of the interpretation of the reality, and will interpret these by using face-to-face interviews and identifying the current practice of the credit evaluation process and how different types of bank mitigate their credit risk before giving financing to the customers. After that, the outcomes from the interviews will allow the study to construct a point of view concerning their credit risk management, and, thus, interviews will be conducted with *Shariah* advisers to validate the parameters for the credit evaluation process in Islamic banks.

4.7 Research Method

Byman and Bell (2007) divided the research methods into two: qualitative and quantitative. Qualitative methods concern the behavior and the tool is the interview to understand the human behavior and the reasons for the behavior. In addition,

quantitative methods concern the hypothesis testing, which include the numeric data and collected data by using a questionnaire.

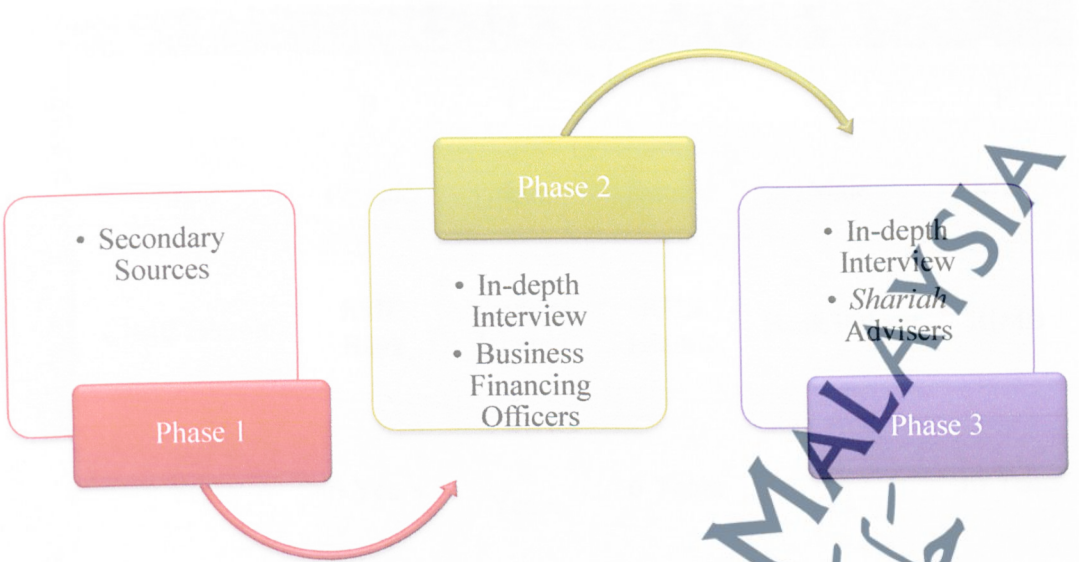
Since this study is inductive, the qualitative method is preferred because the study uses the relationship between the research and the theory, and, as there is no measurement, hypothesis testing is undertaken. This helps to answer the research questions by in-depth interviewees with the authorities concerned in the area of study, and then the outcomes from the interviews are compared in terms of their answers with the theory.

4.8 Research Design

Before collection of the data, a research needs a design that comes from the work plan and it is important for answering the research questions (Bryman and Bell, 2007). Therefore, to have the information needed, the study conducted face-to-face interviews with the bank officials of those banks that offer different types of banking system. This is because it is believed that, from the expert's point of view on the credit risk management, they know more about the related area of topic based on their experience of credit risk in terms of making financing decisions in the banking system.

The design of the qualitative data is mainly based on in-depth interviews with the related persons. However, before conducting the interviews, the study produced an interview guide to make it easier for them to answer the questions. Figure 4.2 shows the design/framework of the research study:

Figure 4.2: Research Design



Based on the research design explained, table 4.1 below shows summary of respondents with a total of eleven (11) respondents, however divided into (2) types and phases of respondents. Six (6) of them are business financing officers and put under the phase one (1) of analysis as well as to answer the phase one (1) of research questions and objectives. Then, five (5) of them are *shariah* advisers and put under the phase two (2) of analysis as well as to answer the phase two (2) of research questions and objectives. All of respondents in this research study are viewed based on their experiences in area of interests, education level plus with their job positions in the industry.

Table 4.1: Summary of Respondents (Business Financing Officers)

Respondents						
Gender	Phase I					
	A	B	C	D	E	F
	Male	Female	Male	Female	Male	Male
	CIMB Islamic	SME Bank	Maybank Islamic	RHB Islamic	Bank Rakyat	BIMB
Work Experiences	8 Years	6 Years	8 Years	6 Years	8 Years	30 Years
Education Levels	Degree level					Master Level

Table 4.2: Summary of Respondents (Shariah Advisers)

Respondents					
Gender	Phase II				
	G	H	I	J	K
	Male	Male	Male	Female	Male
	6 Years				
Work Experiences					
Education Levels	PhD Level				

4.9 Data Collection Method

The data collection method is different from the research design because it is the way the researcher finds the information related to answering the research questions by using the sources included. The two sources are the primary and secondary sources. Saunders (2000) defined that when a researcher obtains new information it is called a primary data source, and that secondary sources are defined as those sources that come from previous data.

Therefore, the study was conducted using primary and secondary sources but started by using secondary sources. The study started from the use of library-based sources, the Internet, textbooks, journals and articles, which helped to answer the research questions. In addition, the next phase was conducting face-to-face interviews with the experts in credit risk management in the pre-approval of commercial loans in the banking system and *Shariah* advisers who are experts in the related area of study based on the interview guide to validate the proposed parameters. The next phase was the proposed parameters in the business financing approval of credit risk management after interviews with the *Shariah* advisers. After drafting the proposed parameters, the study undertook the validation process with the business financing officers and *Shariah* advisers to approve the proposed parameters for the credit evaluation process in the Islamic banking approach.

The tools used during the interviews included a tape recorder. From the tape recorder, the study analyzed the findings using NVivo software before inclusion in the thesis. Since they are experts in the area of study, the banks that offer an Islamic window of finance and full-fledged Islamic banks are suitable for the research since the research study is to identify the current practice for the credit evaluation process in the conventional banking approach and Islamic banking approach. These types of

bank will help through obtaining their responses from which the findings and conclusions will be derived. By using the tape recorder to record the answers, it is easier for the researcher to maintain eye contact and understand their experience in managing the financing decisions. Thus, it is easier to discuss with them without the need to take notes and thus helps the interviewees to feel comfortable.

In addition, after conducting the in-depth interviews with the experts, all the recordings are transferred into the software and the copies sent back to the interviewees to enable them to make the necessary corrections before their inclusion in the thesis.

4.10 Chapter Summary

This chapter discussed the choice of study, deliberated regarding the perspective and preconceptions of the study, and thus goes to the discussion on the research approach and philosophy. Furthermore, this chapter discussed the methodology and design of the study. Lastly, this chapter discussed the techniques used in data collection.