

TURNAROUND STRATEGIES: A CASE STUDY OF BANK ISLAM

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AUTHOR DECLARATION

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

I hereby declare that the work in this dissertation is my own except for quotations and summaries which have been duly acknowledged.

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ABSTRAK

Bank Islam di Malaysia, ditubuhkan pada tahun 1984 dan kewujudannya berterusan hingga kini. Bank Islam adalah merupakan contoh sebuah bank Islam yang mempunyai prestasi pengurusan yang baik di peringkat Asia dan antarabangsa. Krisis kewangan yang berlaku dari tahun 1997 hingga 1998 dan 2008 hingga 2009, telah memberi kesan yang ditunjukkan melalui perubahan prestasi ekonomi, termasuk aktiviti perbankan di Malaysia. Kajian ini mengetengahkan prestasi sebuah bank Islam, iaitu Bank Islam, yang mampu bertahan pada waktu krisis kewangan.

Data bagi kajian ini dikumpulkan dari dokumen-dokumen yang diterbitkan, bermula dari tahun 1984 hingga 2015, yang berkaitan dengan prestasi Bank Islam dan petunjuk perubahan ekonomi Malaysia. Dalam analisis pertama, dapatan kajian ini menunjukkan perubahan dalam prestasi Bank Islam semasa krisis kewangan dengan menggunakan model tanda-tanda kesukaran oleh Yakola (2014). Terdapat empat petunjuk dalam model Yakola yang digunakan dalam kajian ini: Modal kerja/kecairan, kewangan, keuntungan dan prospek industri, dan pekerja. Dalam analisis kedua, kajian ini meneroka strategi pemulihan Bank Islam menggunakan model yang dibangunkan oleh Schoenberg et al. (2013), iaitu strategi berorientasikan kandungan dan berorientasikan proses. Kajian ini adalah berdasarkan metodologi kajian kes dengan menggunakan analisis kandungan untuk menganalisis data.

Hasil kajian menunjukkan bahawa Bank Islam mengalami masalah kewangan berdasarkan empat petunjuk; i) modal kerja/kecairan (seperti aliran tunai bebas yang menurun atau negatif, tanggungan luar jangka yang besar, tempoh matang hutang jangka pendek yang tidak dapat diselesaikan, penarikan balik revolver, penggunaan syarat kontrak vendor, dan kenaikan hutang tertunggak), ii) kewangan (iaitu, penurunan harga saham, penurunan harga bank atau bon, ketidakupayaan untuk memenuhi perjanjian kewangan, penurunan mudah tunai, pindaan bank berulang, dan penurunan penilaian hutang), iii) keuntungan dan prospek industri (seperti pengurangan keuntungan sebelum zakat dan margin cukai, masalah yang berterusan, kemerosotan asas industri, dan pertanyaan-pertanyaan berkenaan peraturan), dan iv) pekerja (iaitu, penyusunan semula organisasi pengurusan). Kedua-dua krisis kewangan (Krisis Kewangan Asia dan Krisis Kewangan Global) telah menunjukkan kesan ke atas prestasi Bank Islam yang merosot. Namun demikian, Bank Islam berjaya melakukan pemulihan prestasi mereka.

Kajian ini juga mengetengahkan pengalaman Bank Islam dalam rancangan pemulihan berdasarkan model Schoenberg et al. (2013) untuk strategi berorientasikan kandungan (iaitu, kecekapan kos, pemberhentian aset, fokus pada aktiviti teras, dan pembangunan aktiviti) dan strategi berorientasi proses (iaitu, memperbaharui semula kepemimpinan firma dan perubahan budaya). Berdasarkan Pelan Perubahan Bank Islam, strategi tersebut telah berjaya dalam melakukan prestasi pemulihan dari tahun 2006 - 2009. Bagi perancangan strategi lain di bawah Bank Islam, iaitu Pelan Pertumbuhan Lestari (dari 2010 hingga 2012) dan Kecemerlangan Hijrah 2 (dari 2013 hingga 2015), kajian ini juga mengetengahkan prestasi pembangunan dan pertumbuhan Bank Islam setelah pelaksanaan Pelan Pemulihan.

ABSTRACT

In Malaysia, Bank Islam was established in 1984 and its existence continues to present. Bank Islam is the sample of Islamic bank that has a good management performance in both Asian and international rankings. When the financial crisis occurred from 1997 to 1998 and 2008 to 2009, it gave an impact through the changes in economic performance, including banking activities in Malaysia. This study highlights the performance of an Islamic bank, namely Bank Islam, which was able to withstand the financial crisis.

The data were collected from published documents from 1984 to 2015 that are related to the performance of Bank Islam and the changes indicator of Malaysian economy. In the first analysis, the study expose changes in the performance of Bank Islam during the financial crisis by using signs of distress model by Yakola (2014). There are four indicators in Yakola's model used in this study: Working capital/liquidity, financial, profitability and industry outlook, and employees. In the second analysis, the study explored the turnaround strategies of Bank Islam using a model developed by Schoenberg et al. (2013), which are: content-orientated and process-orientated strategies. This study adopted the case study methodology by utilizing content analysis to analyze the data.

The findings show that Bank Islam experienced financial distress based on four indicators; i) working capital/ liquidity (such as declining or negative free cash flow, large contingent liabilities, unresolved near-term debt maturities, revolver draw-down, contracting vendor terms, and increase in outstanding account payable), ii) financial (namely, declining stock price, declining bank or bond price, inability to meet financial covenants, diminishing liquidity, repeated bank amendments, and downgrades in debt ratings), iii) profitability and industry outlook (such as shrinking profit before zakat and tax margin, going concern opinion, deteriorating industry fundamental and regulatory inquiries), and iv) employees (namely management organizational restructuring). Both financial crises (Asian Financial Crisis and Global Financial Crisis) showed the declining performance and Bank Islam managed to do the recovery of their performance.

The study also highlights Bank Islam's experiences in the turnaround plan based on the model of Schoenberg et al. (2013) for content-orientated strategies (namely cost efficiencies, asset retrenchment, focus on core activities, and build for the future) and process-orientated strategies (namely reinvigoration of firm leadership and culture change). Based on the Turnaround Plan of Bank Islam, the strategy was successful to handle the recovery performance from 2006 to 2009. As for other strategic plan under Bank Islam, namely the Sustainable Growth Plan (from 2010 to 2012) and Hijrah 2 Excellence (from 2013 to 2015), the study also highlights the development and growth performance of Bank Islam after the implementation of the Turnaround Plan.

المخلص

تأسس بنك إسلام في ماليزيا عام 1984 وما زال وجوده مستمراً حتى يومنا هذا. بنك إسلام هو مثال للبنوك الإسلامية الحاصلة على أداء إداري جيد في آسيا وعلى الصعيد الدولي. كان للأزمات المالية التي حدثت في الفترة من 1997 إلى 1998 ومن 2008 إلى 2009 آثاراً سلبية وكان ذلك واضحاً في التغيرات على الأداء الاقتصادي، بما في ذلك الأنشطة المصرفية في ماليزيا. سلطت هذه الدراسة الضوء على أداء بنك إسلام، وهو البنك الإسلامي الذي كان قادراً على الصمود في فترات الأزمات المالية.

تم جمع بيانات هذه الدراسة من الوثائق المنشورة، بدءاً من عام 1984 إلى 2015 والمتعلقة بأداء بنك الإسلام ومؤشرات التغيير في الاقتصاد الماليزي. في التحليل الأول، أظهرت نتائج هذه الدراسة تغيرات في أداء بنك إسلام خلال الأزمات المالية باستخدام نموذج مؤشرات الأزمات التابع لياكولا (2014). استخدمت أربعة مؤشرات لنموذج ياكولا في هذه الدراسة وهي رأس المال العامل/السيولة، والتمويل، والربحية وتوقعات القطاع، والموظفون. في التحليل الثاني، استكشفت هذه الدراسة استراتيجيات التعافي لبنك إسلام باستخدام النموذج الذي طوره شوينبيرغ (2013)، وهي الاستراتيجيات المعتمدة على نحو المحتوى والاستراتيجيات المعتمدة على العمليات. اعتمدت هذه الدراسة على طريقة دراسة الحالة بواسطة تحليل المحتوى لتحليل البيانات.

أظهرت النتائج أن بنك إسلام قد واجه مشاكل مالية بناءً على أربعة مؤشرات وهي: (1) رأس المال العامل/السيولة (مثل التدفقات النقدية الحرة المتناقصة أو السلبية، والالتزامات الطارئة الكبيرة، وأجال استحقاق الديون قصيرة الأجل غير المسددة، وإلغاء القروض القابلة للتجديد، وتطبيق شروط عقود البائعين، وزيادة الديون المستحقة)، و(2) التمويل (أي انخفاض أسعار الأسهم، وانخفاض أسعار البنوك أو السندات، وعدم القدرة على الوفاء بالاتفاقيات المالية، وانخفاض السيولة، والتعديلات المصرفية المتكررة، وانخفاض تقييم الديون)، و(3) الربحية وتوقعات القطاع (مثل انخفاض الأرباح قبل حساب الزكاة وهوامش الضرائب، والمشاكل المستمرة، وتدهور أساسيات الصناعة والاستفسارات التنظيمية)، و(4) الموظفين (أي إعادة الهيكلة التنظيمية للإدارة). كان لكل من الأزمته الماليتين (الأزمة المالية الآسيوية والأزمة المالية العالمية) تأثير على الأداء المتدهور لبنك إسلام. ومع ذلك فقد تمكن بنك إسلام من رفع أدائه.

سلطت هذه الدراسة الضوء أيضاً على تجربة بنك إسلام في خطط التعافي بناء على نموذج شوينبيرغ وآخرون (2013) للاستراتيجيات المعتمدة على المحتوى (أي كفاءة التكلفة، وتسريح الأصول، والتركيز على الأنشطة الأساسية، وتطوير النشاطات) والاستراتيجيات المعتمدة على العمليات (أي تجديد قيادة الشركة والتغيير الثقافي). استناداً إلى خطة بنك إسلام للتغيير فقد نجحت الإستراتيجيات في تعافي ورفع الأداء من عام 2006 إلى 2009. أما بالنسبة للتخطيطات الاستراتيجية الأخرى لبنك إسلام أي خطة النمو المستدام (من 2010 إلى 2012) والتميز في الهجرة 2 (من 2013 إلى 2015) فقد سلطت هذه الدراسة الضوء أيضاً على أداء التنمية والنمو لبنك الإسلام بعد تنفيذ خطة التعافي.

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LIST OF GLOSSARIES

No	Words	Meaning
1	Akhlak	Moral; moral values
2	Aqidah	Faith, belief, creed
3	aAzarar va la zihar	Prohibit the bringing of sadness to others
4	Bai' Bithaman Ajil ("BBA") contract	Buy-sale property instrument Sale contract based on deferred payment at certain price
5	Bai' Murabahah	Cost plus margin
6	Bai-salam	Postponed delivery sale
7	Falah	Welfare
8	Gharar	Uncertainty
9	Hablumminallah	The relationship between Man and Allah
10	Hablumminan-nass	The relationship between Man and Man
11	Hadith	Prophetic tradition
12	Haqqullah	Allah's right
13	Ibadah	Worship
14	Ijarah	Leasing
15	Ijarah Muntahiah Bit Tamlik	Leasing ending with transfer of ownership
16	Interest	Riba
17	Istisna	Sale contract by way of order for certain product with certain specifications and certain mode of delivery and payment (either in cash or deferred)
18	Istisna'	Manufacture
19	Khalifah	Caliph, successor Vicegerent, viceroy
20	Khazanah	Ready to do more if the nation needs us, within our parameters
21	Maal	Money , property
22	Mafsada	Minimize the social disutility
23	Manfaat	Benefit
24	Mashwara	Meeting
25	Maslaha	Maximize public social interest utility
26	Maysir	Gambling
27	Mu'amalah	Transactions ,dealings
28	Muawikif	Beneficiaries
29	Marhun	Pledgee
30	Mudaraba	Profit-sharing contract
31	Musharaka	Profit and loss sharing
32	Mudarib	Entrepreneur
33	Mudharabah	Profit-sharing
34	Murabahah	Cost-plus/ Credit sales
35	Murtahin	Assets owner
36	Musharakah	Partnership

LIST OF GLOSSARIES

No	Words	Meaning
37	Muwakkel	Principal
38	Osr va haraj	Difficulties and hardship
39	Qard al Hassan	Interest-free loans
40	Rabbul mal	Capital provider
41	Ribawi	Interest
42	Salam	Forward delivery
43	Shariah	Body of the canonical law of Islam.
44	Takaful	Insurance
45	Tawakkal	To trust in God
46	Tawarruq or Commodity Murabahah	Purchasing an asset with deferred price, either based on musawamah or murabahah, then selling it to a third party to obtain cash
47	Tazkiyah	Purification of the self
48	Wakeel	Agent
49	Wakf	Another form of social finance
50	Wakif	Contributor
51	Zakat	The third Pillar of Islam, the official alms tax levied on certain types of property and payable by every adult Muslim of sufficient means
52	Zarurat va izterar	Necessity and imperative needed

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LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AEC	Audit and Examination Committee
AFC	Asian Financial Crisis
AHB	Affin Holdings Berhad
AIM	Amanah Ikhtiar Malaysia
ALCO	Asset-Liability Committee
ALM	Asset Liability Management
AMF	Asset Management Firm
AMK	Ahli Mahkota Kedah
AMN	Ahli Mangku Negara
APFT	Atlantic-Pacific Air & Transport
ASEAN	The Association of Southeast Asian Nations
ATM	Automatic Teller Machine
BASEL	Basel Accords
BBA	Bai Bithamam Ajil
BBB	Medium class companies, which are satisfactory at the moment (investment grade)
BBMB	Bank Bumiputera Malaysia Berhad
BDC	Bureau de Change
BIC	Bank Islam Card
BIMB	Bank Islam Malaysia Berhad
BNM	Bank Negara Malaysia
BRC	Board Risk Committee
BRMC	Board Risk Management Committee
BSN	Bank Simpanan Nasional
BVD ID	Bureau van Dijk
CAFIB	Capital Adequacy Framework for Islamic Banks
CAMELS	Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risks
CAR	Capital Adequacy Ratio
CDRC	Corporate Debt Restructuring Committee
CEO	Chief Executive Officer
CF	Corporate Finance
CFO	Chief Financial Officer
CFP	Contingency Funding Plan
CI	Capital Intelligence
CIP	Corporate Integrity Pledge
COSO	Committee Of Sponsoring Organizations
CPI	Consumer Price Index
CRC	Credit Review Committee
CRCC	Credit Risk Control Committee
CRNCPS	Convertible Redeemable Non-Cumulative Preference Shares

LIST OF ABBREVIATIONS

CRO	Chief Risk Officer
CSI	Customer Satisfaction Index
CSR	Corporate Social Responsibilities
DCM	Debt Capital Market
DCI-i	Dual Currency Investment-i
DIG	Dubai Islamic Investment Group
DSDK	Dato' Setia Di Raja Kedah
DPMJ	Darjah Dato' Paduka Mahkota Johor
DPMK	Dato' Paduka Mahkota Kedah
DPMT	Dato' Paduka Mahkota Terengganu Peringkat Kedua
DSM	Darjah Seri Melaka
DV	Dependent Variable
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortisation or earnings before interest, taxes
ECB	European Central Bank
IIIB	Islamic Investment Bank plc
ERC	Executive Risk Committee
ETP	Economic Transformation Plan
ESG	Environmental, Social and Governance
Forex	Foreign Exchange
FDI	Foreign Direct Investment
FL	Financial Leverage
FIDF	The Financial Institutions Development Fund
FRA	The Financial Sector Restructuring Agency
FRS	Financial Reporting Standards
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GDI	Gross Domestic Income
GNP	Gross National Product
GFC	Global Financial Crisis
GIFF	Global Islamic Finance Forum
GMCC	Group Management Credit Committee
GORMC	Group Operational Risk Management Committee
GP8-i	Guidelines on Financial Reporting for Licensed Islamic
GTFS	Green Technology Financing Scheme
H2E	Hijrah to Excellence
HR	Human Resources
HRIS	Human Resources Information System
HRS	Human Resource Strategy
IA	Investment Account
IAP	Investment Account Platform
IBA	Islamic Bank Act
IBRA	Indonesian Bank Restructuring Agency
IFRS	International Financial Reporting Standards

LIST OF ABBREVIATIONS

IFSA	Islamic Financial Services Act
IFSB	Islamic Finance Services Board
IMF	International Monetary Fund
IPO	Initial Public Offering
IO	Industrial Organization
IRR	Internal Rate of Return
IT	Information and Technology
IV	Independent Variable
KAMCO	Korea Asset Management Corporation
KDB	Korea Development Bank
KLSE	Kuala Lumpur Stock Exchange
KMN	Ksatria Mangku Negara
KPI	Key Performance Indicators
KPMG	Klynveld Peat Marwick Goerdeler
LCCT	Low-Cost Carrier Terminal
LDR	Loan Deposit Ratio
LTH	Lembaga Tabung Haji
IPO	Initial Public Offering
JMN	Johan Mangku Negara
JSM	Johan Setia Mahkota
MARC	Malaysia Rating Corporation Berhad
MASB	Malaysian Accounting Standards Boards
MDA	Multiple Discriminant Analysis
MFRS	Malaysian Financial Reporting Standards
MIS	Management Information System
MOSTI	Kementerian Sains, Teknologi dan Inovasi
MOU	Memorandum of Understanding
MPC	Malaysian Productivity Centre
MPO	Murabahah Purchase Orderer
MR	Marginal Revenue
MRCC	Management Risk Control Committee
NASDAQ	National Association of Securities Dealers Automated Quotations
NBER	National Bureau of Economic Research
NEAC	National Economic Action Council
NERP	National Economic Recovery Plan
NEV	Net Economic Value
NII	Net Interest Income
NIM	Net Interest Margin
NPF	Non-Performing Financing
NPL	Non-Performing Loan
NROI	Notional Return on Investment
OECD	Organization for Economic Cooperation and Development
OPR	Overnight Policy Rate



LIST OF ABBREVIATIONS

ORCC	Operational Risk Control Committee
PBZT	Profit before zakat and tax
PCF-i	Procurement Contract Financing-i
PER	Profit Expense Ratio
Ph.D	Philosophies Doctor
PMD	Performance Management and Development
PMN	Panglima Mangku Negara
PSM	Panglima Setia Mahkota
R & D	Research and Development
RAM	Rating Agency Malaysia
RIA	Restricted Investment Account
RM	Ringgit Malaysia / Risk Management
RMC	Risk Management Committee
ROA	Return on Asset
ROE	Return on Equity
ROI	Return on Investment
RQ	Research Question
RTC	Resolution Trust Corporation
RTS	Recovery and Transformation Services
RWCR	Risk-Weighted Capital Ratio
SAC	Shariah Advisory Council
SAW	Shallallahu`alaihi Wa Sallam
SCC	Structure Capital Control
S-C-P	Structure-Conduct-Performance
Sdn Bhd.	Sendirian Berhad
SGP	Sustainable Growth Plan
SMEs	Small and Medium-Sized Enterprises
SMS	Short Message Service
SPLN	Sistem Perakaunan Luar Negeri
SSC	Shariah Supervisory Council
SWT	Subhanahu wa Ta'ala
TAMC	Thai Asset Management Corporation
TARP	Troubled Asset Relief Program
TAP	Transact-at-Palm
TMT	Top Management Team
TP	Turnaround Plan
UKM	Universiti Kebangsaan Malaysia
UMK	Universiti Malaysia Kelantan
UniDebit	University Debit Card-i
US	United States
USA	United State of America
USIM	Universiti Sains Islam Malaysia
VE	Voucher Encashment



LIST OF ABBREVIATIONS

Y.A.B.	Yang Amat Berhormat
YB	Yang Berhormat
YM	Yang Mulia
YSP Southeast Asia Holdings Berhad	Yungshinggroup Southeast Asia Holdings Berhad
ZIRP	Zero Interest Rate Policy

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