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Influence of Risk Management on Performance: An Empirical Study of International Islamic Bank

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ABSTRACT: Qatar Government is taking active role in promoting its banking sector and International Islamic Bank (IIB) has grown by leaps and bounds since the past decade. Risk Management is becoming a very important aspect in banking industry today and there was a felt need to study its relevance in the context of business performance of IIB. So, this research has primarily focused on the establishment of a link between the various dimensions of risk management with the business performance of IIB. While risk management had seven distinct dimensions, business performance was measured in terms of financial and non-financial performance of the IIB. Based on the contemporary research in risk management, 14 hypotheses were built to link the dimensions of risk management with business performance. The research was undertaken as an empirical study with grounded theory approach. Multiple regression analysis was the method used for establishment of causal relationships between the variables of research interest. The research has developed the mathematical relationships between the research variables of interest. The hypothesis testing has indicated that risk assessment analysis, risk management practices, risk identification, and credit risk assessment are the specific dimensions which influence the business performance. Based on the hypotheses testing results implications are drawn and suggestions are made to the strategic managers of IIB to enhance their business performance.

Keywords: Risk management; Risk assessment; Risk analysis; Risk mitigation; Islamic banks.
JEL Classifications: G21; G32; G38

1. Introduction

1.1. Concept of Islamic Banking

The concept of Islamic banking cannot be defined in any standard format. The broad arena of Islamic Banking involves mobilization and investment of financial resources as per the principles of Islamic Sharia, with an attempt of achieving predetermined social and financial objectives which are acceptable as per the religion of Islam. The basic principles of Islamic Banking are:

- Prohibition of Interest or Usury: The principles of Islamic Banking prohibit receiving and charging of interest. The principle lies on the belief that money cannot generate profit on its own. This can infect the entire society and its wellbeing.
- Ethical Standards: The next important principle of Islamic Banking is to ensure that the investment is done in ethically Right Avenue. This also leads to serious consideration of

business and its policies and impact before their involvement in the business. There are also certain rules and regulations about how the business should be conducted.

- Moral and Social Values: The next guiding principle is concerned with moral and social values. The financial institutions are expected to extend their support to those in need. This may not be just confined to charitable donations only but extended to support such as profit-free loans, etc.
- Liability and Business Risk: The base of this principle lies in the concept of fairness. There should be fair share of all parties in profit and risk of any business venture.

Each Islamic Financial Institution needs to follow these basic principles. The institutions need to establish an advisory council known as 'Sharia's Board' who's main function is to ensure that the principles of Islamic Banking are taken care of.

1.2. Islamic Banking in Qatar

The latest central bank data gives Islamic banks a market share of 33.5 percent of total banking assets in Qatar, little changed from the past two years. The country's four full-fledged Islamic banks are Qatar Islamic Bank, Qatar International Islamic Bank, Masraf Al Rayan, and Barwa Bank. The Banking industry in Qatar consists of 11 local banks registered with the central bank and 1 foreign bank with branches in Qatar. Under the list of local banks, there are 4 Islamic banks fully operating under Shariah principles, 3 conventional banks with Islamic windows and 1 conventional bank with no Islamic banking operations. Despite the fact that the Qatari banking sector is one of the smallest in the GCC in terms of total assets, loans and deposits, it achieved significant growth over the past years. On the whole, Qatari banks are enjoying stellar financial performance, adequate capitalization, as well as good asset quality. Besides that, banks enjoy government support, which is continuously working on regulating and improving the efficiency of the financial services sector (Blominvest report, 2011). Over the years, financial performance has been supported by fast increasing volumes, despite pressure on net margins, due to mounting price competition. Some leading players have started to diversify geographically to gain scale. However, since the change in QCB regulation on Islamic windows in 2001, some conventional Qatari banks created Islamic subsidiaries or branches (Tabash and Dhankar, 2014).

The Islamic Banking industry in Qatar has a great potential for growth backed by a booming economy, new line of projects and people's increasing acceptance of Shariah-based products. With the increased awareness, the Islamic banking industry in Qatar is expected to grow well in the near future. At the same time it is important to study if the risk management influences the business performance, and hence this study

1.3. Background and Rationale of Research

Credit risk management is one of the important areas of research since the past few decades (Sensarma and Jayadev, 2009). It was observed that risk management can decide the success or failure of the bank and during the global bank crisis ineffective risk management practices was a possible cause (KPMG International, 2009; Sabato, 2009; Holland, 2010, Bank for International Settlements, 2009). A large amount of money is keep aside for the control of risk management related issues in the western countries (Roger Williams et al., 2006). There is research evidence that in several surveys conducted regarding the success or failure of banks among the other variables one of the highly scored variable is Risk management (Economist Intelligence Unit, 2010). These researches underscore the importance of an efficient Risk Management practice in the context of banks.

International Islamic Bank (International Islamic) (IIB) has a history of about two decades and it has grown rapidly over the past few years. It has nearly 20 branches in convenient locations and the ATM counters are approaching 100 and has the reputation of providing 24 hour service through internet baking. The bank is actively involved in multiple customer service projects and has almost all the services offered by the other banks in the region.

2. Literature Review

Islamic Bank has established various processes and practices to enhance the quality of service in the gulf region since the past several years. But the general observation among the researchers is that the Islamic Banks have not considered Risk Management very seriously despite the growing awareness of this field worldwide (Al-Tamimi, 2002; Fatemi and Fooladi, 2006; Al-Tamimi and Al-Mazrooei, 2007; Al-Tamimi, 2008; and Hassan, 2009). It is important to study the environment where

the banks work (Richard et al., 2008). Credit risk management is not properly handled it is sure to affect the bank's revenue (Fan and Shaffer, 2004; Hahm, 2004). While various credit risk models are available identifying the right model applicable to a particular bank depends upon various issues such as the geographical location, amount of transactions, nature of services, type of customers etc., (Fatemi and Fooladi, 2006). The range of products has significant influence on the risks involved (Hassan, 2009). There is a need to develop a framework for risk management which will come to rescue during the crisis situation (Van Greuning and Iqbal, 2008; Iqbal and Mirakhor, 2011).

One of the biggest challenges to be faced by Islamic Banks in comparison to their counterparts is the adherence to Islamic Sharia (law) (Khan and Bhatti, 2008). Beck (1992) and Cairncross (1997) recommend the application of the cause and effect relations to the various components which are interdependent in banking and the time and space has to shrink when it is a matter of risk management. There is also a need to focus on the processes, systems and practices to make the operation of the bank very effective (Collingridge, 1984).

Risk Management is a part of the operational strategy of most of the leading banks round the globe and QIB is keen on considering the issues related to Risk Management. This research has undertaken a preliminary study to test some of the basic elements of risk management as applicable to QIB so that a hypothetical model may be developed which can be tested and used for making recommendations to the strategic managers of the bank. In this context the following dimensions of risk management become vital and hence discussed in detail.

2.1. Understanding Risk and Risk Management (URRM)

The URRM is the basic step involved in the management of risk. There is a need to identify the various alternatives available in a problem situation. A thorough exploration of all the alternatives would ease the process of decision making (Hussain and Al-Ajmi, 2012).There must be a common understanding across the bank about the components of risk involved in banking. The responsibility of each of the employees in the bank should be made clear to all. There is also a need to set out the accountability of risk management. 'Who is responsible for what' is to be clearly spelt out in the bank and it should be recorded. If this is missing then it will be 'blame game' during the crisis situation. Understanding the accountability and responsibility is a must for the URRM. There must be a growing awareness among the employees that risk management has an influence on the business performance. The employees should be eager to understand the most sophisticated tools and techniques of risk management. Application of risk management techniques to various problem situations must also be made known to the employees. Continuous review an evaluation is an important component of the URRM. Employees must also be aware of the fact that risk management reduces cost or unexpected losses. Risk management strategy has to be set by the bank and there should be a team to monitor the same. All these issues constitute the efficient URRM.

2.2. Risk Identification (RI)

The RI has a role to play in the success of risk management. Unless the risk management team has the required competencies to identify the possible risks the bank cannot anticipate the risk in advance and prepare itself to face the challenges it may cause. The bank's roles and responsibilities must have a provision for risk identification when things could go wrong (Hassan, 2009). Knowledge about the strengths and weaknesses of other banks is also important for the risk identification of a bank. So a systematic procedure for risk identification for the risk will have to be developed by a bank and it differs from bank to bank.

2.3. Risk Assessment & Analysis (RAA)

There must be an assessment regarding the likelihood of risk (Hussain and Al-Ajmi, 2012). There are several quantitative techniques which are available to assess the risk. A team must be constituted to study those quantitative techniques and pick the relevant ones which are applicable to a QIB. Qualitative methods of risk assessment should also be used such as those which classify risk to be low, medium and high qualitatively. Cost-benefit analysis plays an important role in the RAA. An active management is required for analyzing risk includes identifying, prioritizing of risk and selection. A resource constraint on risk treatment implementation is the banks response to analyze risk which includes identifying, prioritizing risk treatment. Human judgment should not be undermined when it comes to RAA.

2.4. Risk Monitoring (RMO)

The RMO must be an integral part of routine management reporting. The level of control by the bank must be appropriate for the risk that it faces. There must be an effective reporting and communication processes within the bank to handle risk. The bank's response to risk must also include action plans in implementation decisions about identified risk. A team has to be constituted by the bank to constantly monitor the risk on a timely basis. Quantitative methods need to be employed to monitor the deviation from the normal mode of operation.

2.5. Risk Management Practices (RMP)

For the RMP to be successful regular reviews of organization performance by the bank's executive management in managing its business risk (Hussain and Al-Ajmi, 2012). There must be a highly effective continuous review/ feedback on risk management strategies and performance. The bank's risk management procedures and processes should be well documented and it must provide guidance of staff about managing risks. The policy of the bank should encourage training programs in the area risk management as well as ethics. Selection of qualified people who have a rich knowledge in risk management pertaining to Islamic banking should be emphasized for the success the RMP. It is to be realized by the bank that it is too risky to invest in one specific sector of the economy. The application of standardized procedures has to be improved on timely basis. The RMP should always lead from the top to bottom.

2.6. Credit Risk Assessment (CRA)

A credit worthiness analysis should be taken into consideration before granting credit or executing credit transaction on CRA. The bank should undertake specific analysis including the applicant's character, capacity, collateral and conditions before granting capital or credit. CRA would be easier if the bank borrowers have to be classified according to risk factors (risk rating). It is essential to take sufficient collateral from small borrowers. For granting credit or executing transactions the bank requires applicant to adhere to certain covenants as pre-conditions so that level of capital or credit granted to defaulting clients can be reduced. These policies if considered then the CRA become relatively easier.

2.7. Risks Faced by Islamic Banks (RFIB)

There are various forms of risks faced by Islamic Banks. It is very important to understand the various forms of risk faced by Islamic banks such as liquidity risk, regulatory risk, credit risk, operating risk strategic risk, price (equity risk) residual risk, settlement risk, solvency risk, country (political risk), foreign-exchange risk, legal risk, reputation risk, concentration risk. A thorough understanding of these risks by the managers could enable them to prepare for the unforeseen circumstances. Ultimately the only tool in risk management jargon is preparedness and this has to be taught at all levels of operation in a bank.

3. Research Methodology

This is basically an empirical research, which essentially involves the analysis of quantitative data to test the hypotheses that is built on the theoretical models. The grounded theory approach is the foundation for this research. The data is collected from the Islamic Banks in Doha using the metric in the form of a questionnaire which adopts the Likert 5-point scale. The data is subjected to descriptive statistics and inferential statistics. While the former involves the calculation of mean, standard deviation, skewness and kurtosis the latter involves hypotheses testing using the t-test and multiple-regression analysis.

3.1. The Hypothetical Model

The hypothetical model is built to study the influence of risk management practices on the business performance in the banks (Figure-1).

Following hypotheses have been formulated:

H_{1a}: Understanding of risk management has significant influence on financial performance of the organization.

H_{1o}: Understanding of risk management has no significant influence on financial performance of the organization.

H_{2a}: Risk identification has significant influence on financial performance of the organization.

H_{2o}: Risk identification has no significant influence on financial performance of the organization.

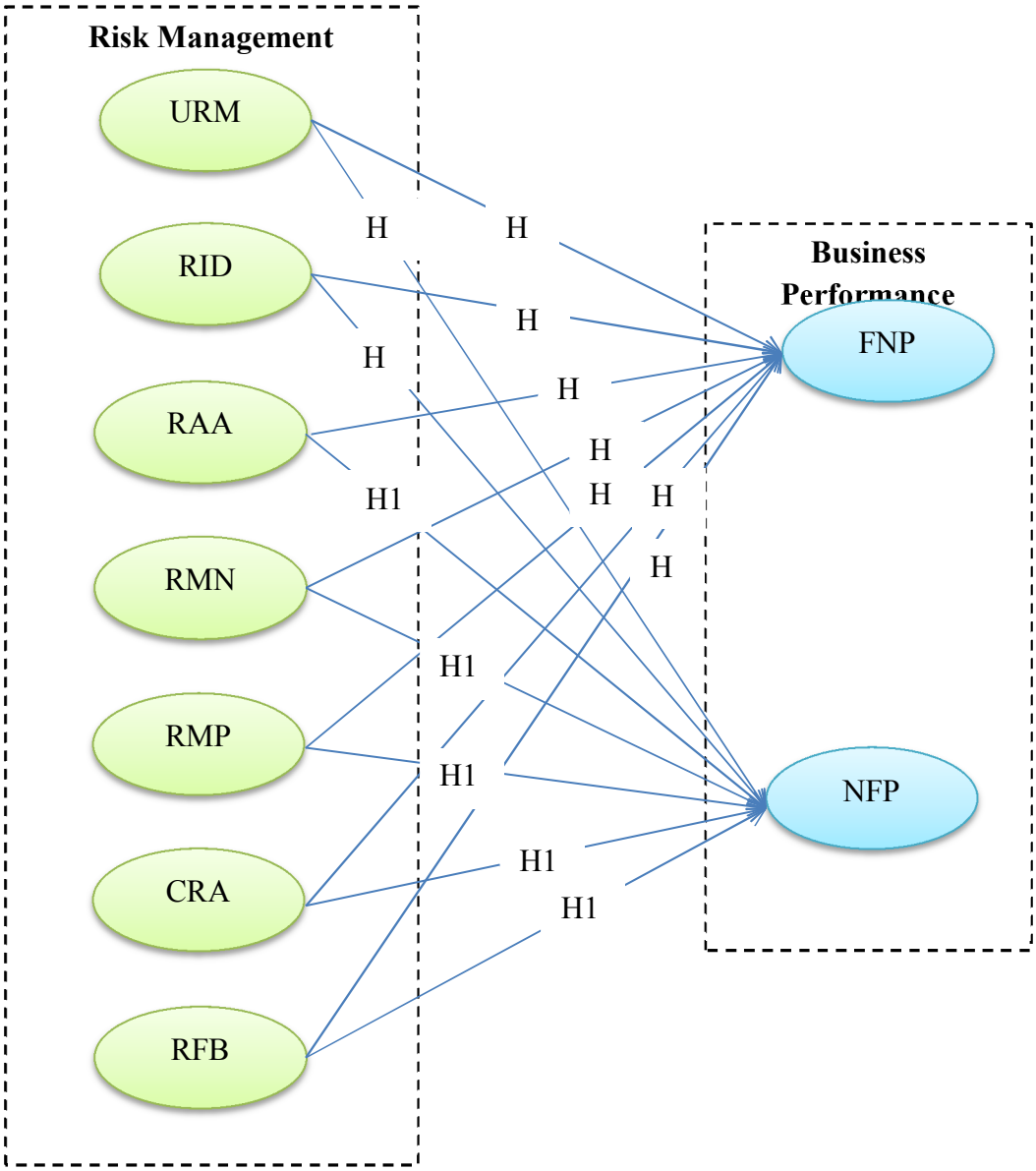
H_{3a}: Risk assessment analysis has significant influence on financial performance of the organization.

H_{3o}: Risk assessment analysis has no significant influence on financial performance of the organization.
H_{4a}: Risk monitoring has significant influence on financial performance of the organization.
H_{4o}: Risk monitoring has no significant influence on financial performance of the organization.
H_{5a}: Risk management practices have significant influence on financial performance of the organization.
H_{5o}: Risk management practices have no significant influence on financial performance of the organization.
H_{6a}: Credit risk assessment has significant influence on financial performance of the organization.
H_{6o}: Credit risk assessment has no significant influence on financial performance of the organization.
H_{7a}: Risks faced by Islamic banks have significant influence on financial performance of the organization.
H_{7o}: Risks faced by Islamic banks have no significant influence on financial performance of the organization.
H_{8a}: Understanding of risk management has significant influence on non-financial performance of the organization.
H_{8o}: Understanding of risk management has no significant influence on non-financial performance of the organization.
H_{9a}: Risk identification has significant influence on non-financial performance of the organization.
H_{9o}: Risk identification has no significant influence on non-financial performance of the organization.
H_{10a}: Risk assessment analysis has significant influence on non-financial performance of the organization.
H_{10o}: Risk assessment analysis has no significant influence on non-financial performance of the organization.
H_{11a}: Risk monitoring has significant influence on non-financial performance of the organization.
H_{11o}: Risk monitoring has no significant influence on non-financial performance of the organization.
H_{12a}: Risk management practices have significant influence on non-financial performance of the organization.
H_{12o}: Risk management practices have no significant influence on non-financial performance of the organization.
H_{13a}: Credit risk assessment has significant influence on non-financial performance of the organization.
H_{13o}: Credit risk assessment has no significant influence on non-financial performance of the organization.
H_{14a}: Risks faced by Islamic banks have significant influence on non-financial performance of the organization.
H_{14o}: Risks faced by Islamic banks have no significant influence on non-financial performance of the organization.

3.2. Research Design

This is basically and empirical research which mainly arrives at conclusions based on the results of hypothesis testing. A sample size of 62 respondents who are the managers of QIB has been used for testing the hypotheses which are built based on the grounded theory approach. The data is subjected to descriptive statistics and inferential statistics based analysis. While the former mainly deals with the calculations of mean, standard deviation, skewness, and kurtosis, the latter deals with multiple regression analysis. Analysis of variance has been adopted finding the significance of influence of the independent variables on the dependent variable. The goodness of model fit is measured trough R^2 value. The regression standardized residual and normal plot have been drawn using IBM SPSS® software.

Figure 1. The Conceptual Model of Risk Management



4. Results and Discussion

4.1. Descriptive Statistics

Descriptive statistics mainly involve the calculation of mean, standard deviation, skewness & kurtosis, reliability analysis, and demographics. These are explained in the following sections.

4.1.1. Skewness and Kurtosis

The descriptive statistics basically describes the data obtained such as mean, and standard deviation. It is also important to note the normality of the data so that it could be subjected to further statistical analysis. Table 1 depicts the descriptive and it can be observed that the skewness and kurtosis are in the permissible range.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
VAR00001	62	2.00	5.00	3.4762	.93752	-.109	.263	-.860	.520
VAR00002	62	1.00	5.00	3.3929	.72839	-.383	.263	.618	.520
VAR00003	62	1.00	5.00	3.5952	1.09895	-.416	.263	-.547	.520
VAR00004	62	2.00	5.00	3.5714	.82558	.030	.263	-.515	.520
VAR00005	62	3.00	5.00	3.6667	.60785	.318	.263	-.624	.520
VAR00006	62	2.00	5.00	3.7024	.91546	-.333	.263	-.627	.520
VAR00007	62	1.00	5.00	3.2619	.95840	-.384	.263	.311	.520
VAR00008	62	1.00	5.00	2.7619	1.17831	-.246	.263	-1.166	.520
VAR00009	62	2.00	5.00	3.7024	.80330	-.261	.263	-.287	.520
VAR00010	62	1.00	5.00	3.5833	.76376	-.122	.263	.645	.520
VAR00011	62	1.00	5.00	3.6429	.81615	-.884	.263	2.222	.520
VAR00012	62	2.00	5.00	3.4405	.81183	.128	.263	-.416	.520
VAR00013	62	2.00	5.00	3.2500	.78962	.122	.263	-.433	.520
VAR00014	62	1.00	5.00	3.2619	.83765	.351	.263	.311	.520
VAR00015	62	1.00	5.00	2.9167	.90791	-.228	.263	-.566	.520
VAR00016	62	1.00	4.00	2.5833	1.00850	-.233	.263	-1.006	.520
VAR00017	62	1.00	5.00	3.0000	.91835	.287	.263	.130	.520
VAR00018	62	1.00	5.00	2.6071	1.08681	.093	.263	-.685	.520
VAR00019	62	2.00	5.00	3.5714	.81086	-.167	.263	-.396	.520
VAR00020	62	2.00	4.00	3.3929	.56007	-.195	.263	-.840	.520
VAR00021	62	1.00	5.00	3.2738	.90980	.112	.263	.067	.520
VAR00022	62	1.00	5.00	3.2500	.86254	-.050	.263	.214	.520
VAR00023	62	1.00	5.00	3.0833	.85318	.076	.263	.633	.520
VAR00024	62	1.00	5.00	3.2262	.94870	-.299	.263	.383	.520
VAR00025	62	1.00	5.00	3.2024	.80330	-.243	.263	.371	.520
VAR00026	62	1.00	5.00	2.7619	1.10442	-.170	.263	-.973	.520

VAR00027	62	1.00	5.00	3.2619	1.03107	.328	.263	-.742	.520
VAR00028	62	2.00	5.00	3.6310	1.01530	-.119	.263	-1.080	.520
VAR00029	62	1.00	5.00	3.2500	1.06279	-.089	.263	-.552	.520
VAR00030	62	1.00	5.00	2.9881	.96310	-.473	.263	-.533	.520
VAR00031	62	1.00	5.00	3.2619	.93292	.087	.263	-.139	.520
VAR00032	62	1.00	5.00	2.8929	.79179	.195	.263	.999	.520
VAR00033	62	1.00	5.00	3.0952	.88657	.342	.263	-.196	.520
VAR00034	62	1.00	5.00	2.8810	.82732	-.165	.263	-.083	.520
VAR00035	62	1.00	5.00	3.1190	.85595	.003	.263	-.005	.520
VAR00036	62	1.00	5.00	3.0000	.89173	.104	.263	-.531	.520
VAR00037	62	1.00	5.00	3.1310	1.07300	.332	.263	-.789	.520
VAR00038	62	1.00	5.00	3.4048	.99540	.232	.263	-.647	.520
VAR00039	62	1.00	5.00	3.1310	1.11701	.001	.263	-.630	.520
VAR00040	62	1.00	5.00	2.8452	.96310	-.096	.263	-.890	.520
VAR00041	62	2.00	5.00	3.3571	.95240	-.093	.263	-1.029	.520
VAR00042	62	1.00	5.00	3.0000	.83594	.254	.263	.336	.520
VAR00043	62	2.00	5.00	3.3810	.96823	.305	.263	-.838	.520
VAR00044	62	2.00	5.00	3.0119	.87114	.537	.263	-.377	.520
VAR00045	62	1.00	5.00	3.0714	.75707	-.291	.263	.258	.520
Valid N (listwise)	62								

4.1.2. Reliability Analysis

The internal consistency is tested through Alpha Cronbach analysis (Table 2) and the value indicated moderate level of acceptance (0.792).

Table 2. Reliability analysis of knowledge about risk faced by Islamic Banks

Cronbach's Alpha	No. of Items
.792	46

4.2. Inferential Statistics

Inferential statistics mainly involves the hypotheses testing. There were 14 hypotheses which have been established using the contemporary theoretical models.

4.3. Hypothesis testing

Fourteen hypotheses have been tested to establish the causal relationships between the risk management dimensions and the business performance dimensions. These are discussed in the following sections.

4.3.1. Financial Performance

Following hypotheses stand supported (Table 3):

H_3: Risk assessment analysis has significant influence on financial performance of the organization.

H_5: Risk management practices have significant influence on financial performance of the organization.

On the overall basis Risk Management has significant influence on the financial performance of the organization (Table 4). While the Figures 2 & 3 indicate the normality of the distribution, the R^2 (Table 5) indicates the goodness of fit.

Table 3. Regression table for financial performance Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.194	.870		1.373	.174
	URM	-.316	.192	-.188	-1.649	.103
	RID	-.532	.528	-.461	-1.009	.316
	RAA	.977	.350	.858	2.793	.007
	RMN	-.154	.129	-.131	-1.191	.237
	RMP	1.189	.175	.616	6.803	.000
	CRA	-.256	.521	-.150	-.492	.624
	RFB	-.250	.227	-.123	-1.100	.275

a. Dependent Variable: FNP

ANOVAa

Table 4. The influence of risk management on financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.301	7	1.757	11.860	.000[b]
	Residual	11.261	76	.148		
	Total	23.562	83			

a. Dependent Variable: FNP

b. Predictors: (Constant), RFB, RMP, RMN, URM, RAA, CRA, RID

Table 5. The R-square of financial performance

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.723[a]	.522	.478	.38493

a. Predictors: (Constant), RFB, RMP, RMN, URM, RAA, CRA, RID

b. Dependent Variable: FNP

Regression equation:

NFP = 1.194 – 0.316*URM – 0.532*RID + 0.977*RAA – 0.154*RMN + 1.189*RMP – 0.256*CRA + 0.2*RFB

Figure 2. The distribution of financial performance

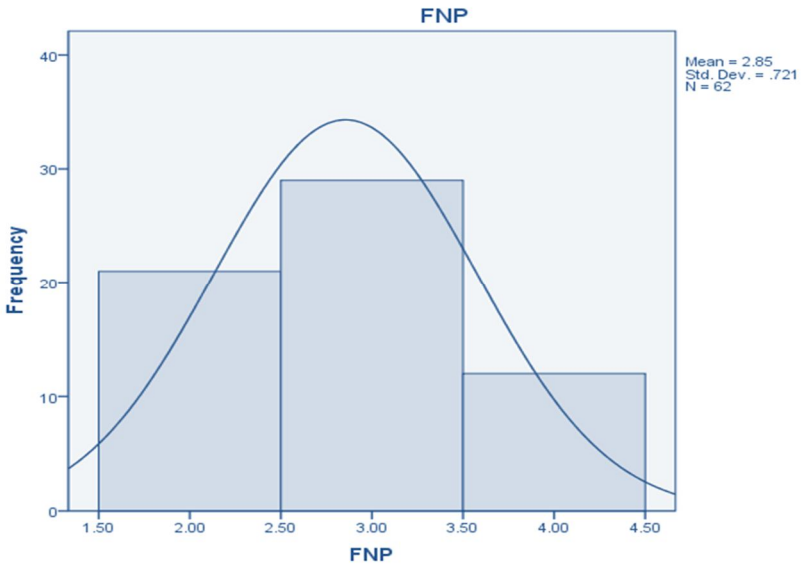
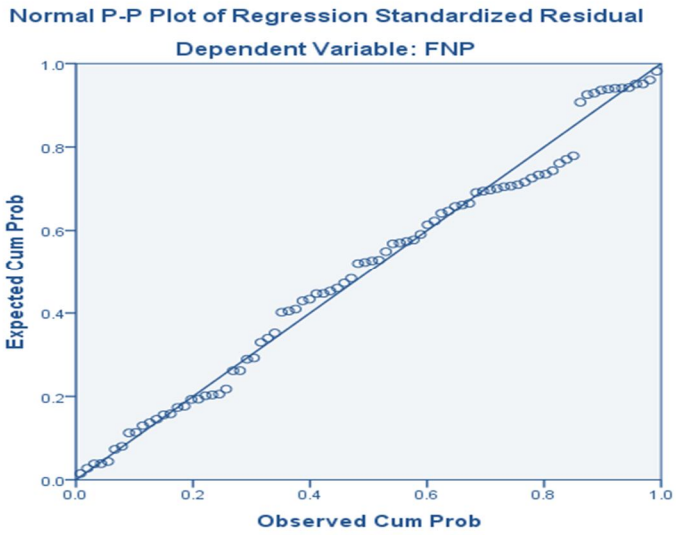


Figure 3. Normal plot of financial performance



4.3.2. Non-financial Performance

Following hypotheses stand supported (Table 6):

H_9: Risk identification has significant influence on non-financial performance of the organization.

H_{13}: Credit risk assessment has significant influence on non-financial performance of the organization.

On the overall basis risk management has significant influence on non-financial performance (Table 7).While the figures 4 & 5 indicate the normality of the distribution, the R^2 (Table 8) indicates the goodness of fit.

Table 6. Regression table for non-financial performance Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.133	.934		1.213	.229
	URM	-.134	.206	-.098	-.650	.517
	RID	-1.131	.567	-1.201	-1.996	.050
	RAA	.592	.376	.638	1.577	.119
	RMN	-.118	.139	-.123	-.851	.397
	RMP	.315	.188	.200	1.677	.098
	CRA	1.077	.559	.775	1.926	.050
	RFB	.028	.244	.017	.116	.908

a. Dependent Variable: NFP ANOVAa

Table 7. The influence of risk management on non-financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.659	7	.380	2.224	.041[b]
	Residual	12.980	76	.171		
	Total	15.640	83			

a. Dependent Variable: NFP
b. Predictors: (Constant) RFB, RMP, RMN, URM, RAA, CRA, RID

Table 8. The R^2 of non-financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.134[a]	.018	.006	.53124

a. Predictors: (Constant), URM

Figure 4. The Distribution of non-financial performance

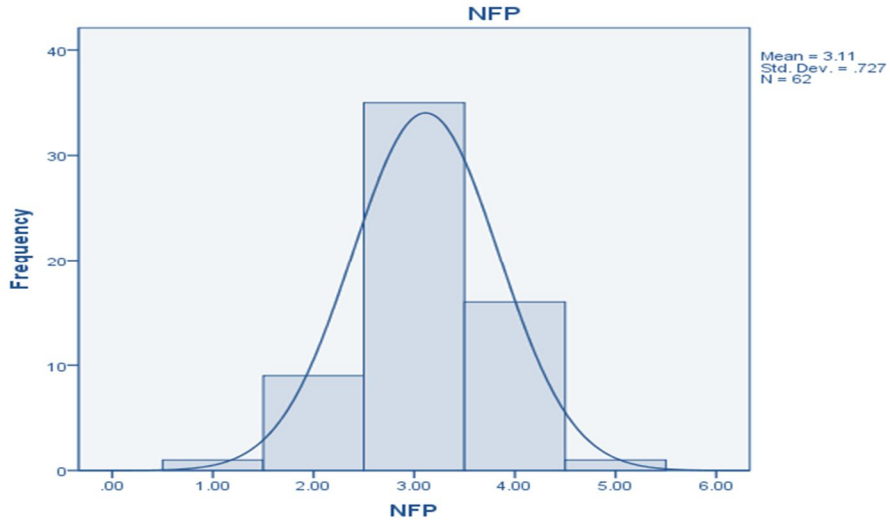
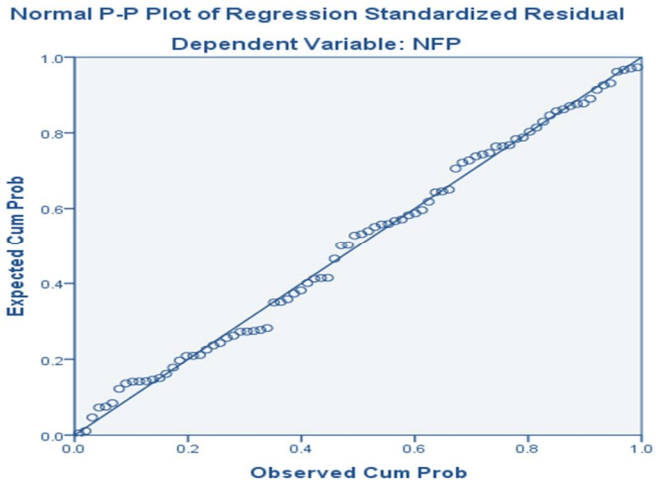


Figure 5. Normal plot of non-financial performance



Regression Equation
NFP = 1.133 – 0.134*URM – 1.131*RID + 0.592*RAA – 0.118*RMN + 0.315*RMP + 1.077*CRA + 0.028*RFB

5. Implications and Suggestions to the Bank Managers

The results obtained through hypotheses testing has clearly indicated that one the overall basis risk management has significant influence on both financial and non-financial performance of the organization and under no circumstances its importance may be undermined. Further, it is important to note that risk assessment analysis, risk management practices, risk identification, and credit risk assessment are the variables which need to be closely monitored by the strategic managers. Following are the specific implications of the study and the suggestions.

- In addition to the quantitative risk assessment the managers need to consider seriously the qualitative risk assessment analysis, also called as 'soft risk assessment' in Islamic banks. This may require the manager's partial grading of the bank's internal governance, capital adequacy assessment, risk in the interest rate, and other qualitative risk categories. Validation and additional distress information which includes information on passive bank mergers, bank moratoria (capital support from insurance schemes) which has not been tried in Islamic banks may have to be explored.
- A rating tool for the risk assessment capability may have to be devised by the strategic managers. The rating tool will provide inputs on how the managers would rate the risk assessment analysis of a bank and the comparison would provide vital information regarding what could be lagging in the current system of risk analysis.
- The risk assessment analysis should include all the four potential losses: personnel loss, property loss, expenses, and liability losses. Personnel loss risk assessment is vital as it may adversely affect the efficiency of operations, especially in a knowledge intensive service organization like bank. Property losses should be assessed in terms of loss due to theft, wrong handling of the equipment, or the natural or human caused emergency. Expenses incurred due to emergencies need to be assessed more closely and it may include the supplementary staff, additional supplies required, and unforeseen transportation costs. Finally, the losses due to the alleged wrongful acts of an organization's agents must also be assessed appropriately and it could be the expenses required to defend or administer a claim.
- The two step approach to risk assessment analysis that is successfully used in other service sectors may be tried in Islamic banks which includes assessing the challenges and opportunities based on the 'inherent risk' and also focus on the 'residual risk', which includes the remaining adversity after the risk assessment has been undertaken.
- Risk management practices should have more structured approach in Islamic banks. It must start with the understanding of the objectives of the government and the fiscal responsibility. This understanding should lead to the setting of the vision, purpose, risks, strategies, and

performance indicators. It is then essential to form continuous processes, which ensure that the objectives are accomplished. Internal controls are required to mitigate or control risks. This has to be supported well by the internal audit to assess if the controls are effective and risk treatments are appropriate. Internal performance monitoring and reporting system must also be made a part of risk management practices to produce the desired results.

- Risk identification is the most crucial aspect of risk management. The Islamic bank should explicitly allocate time for discussing the emerging risks. Reviewing the past risk data, compliance study, and regulatory reporting activities may have to be undertaken. Risk identification has been made very effective by encouraging the employees to be more creative and communicative in several organizations and this is worth the try. It is important to consider both probable and potential risks. Focus on second and third order effects may also be required so that a long term perspective of risk identification can be in place. There must be awareness that all the employees collectively must create an environment where risk information is usable. It has been a common observation that the major failure has been in the stage where data is converted into information. One more important aspect in risk identification is the transparency in the interconnectedness of the system. Unless transparency is ensured and there is a free flow of information across the organization risk identification may not be practiced effectively.
- The strategic managers need to understand that credit risk is more important than market risk, but unfortunately more resources are spent on the understanding and mitigation of the latter. But at the same time it is necessary to know that many of the credit risk drivers relate to market risks such as impact of market conditions on default probabilities. Low credit risk regions could be large credible databases, loans as securities, appropriate portfolio strategies and offensive credit risk products such as derivatives, credit insurance, and securitizations. Also the high credit regions could be lack of credit culture, losses from credit assets, banks becoming insolvent, economy stagnation etc. A thorough understanding of these two risk regions could help in better credit risk assessment.
- In addition to the specific implications based on the hypothesis testing, the risk management in Islamic banks should consider the fact seriously that both financial and non-financial factors are influenced by risk management in general. Financial factors include debt service coverage, leverage, profitability, liquidity, net worth etc., Non-financial factors include size of the bank, experience of the key managers, locational advantage, investment in R & D, information and knowledge available etc. Managers of Islamic bank have to explore the possibility of developing linkage of rating system to profitability of default estimation. Two stages are recommended here, which includes the mapping of internal ratings with local banks' external ratings and then, mapping of external ratings of the bank with the international experience of senior managers. Considering the Loss Given Default Estimation (LGDE) is also an option to be explored by Islamic banks. This will necessitate the centralized database on recoveries by asset type and collateral and capital structure. The central bank will have a crucial role to play in this case as a coordinator and sanctioning authority. The informal discussions with the managers of Islamic banks indicated that they do not have many credit risk measurement tools. So, the strategic managers need to expose the key officials who are responsible for credit assessment to understand the measurement tools such as: JP Morgan's Credit Metrics™, CSFP's Credit Risk™, KMV's Credit Monitor™, McKinsey's Credit Portfolio View™, etc.

6. Conclusions

This research has a focus on Islamic Banks in the Qatar region of Middle East. Qatar having recorded one of the fastest growing GDP in the world is very active in the banking sector. More and more concepts, tools, and techniques are being developed in the country to make the banking sector flourish since the past several years. Having realized the initiatives taken by the Islamic Banks to improve their business performance, the issue of Risk Management was considered as the focal theme of this research. The literature review projected seven distinct dimensions of risk management which were to be analyzed in detail to study their influence on business performance which included both financial and non-financial performance.

The sample size of 62 provided the data for the analysis. The hypothesis testing revealed the fact that risk management had significant influence on business performance which included financial and non-financial performance. Specifically, out of the seven dimensions chosen risk assessment analysis, risk management practices, risk identification, and credit risk assessment were the dimensions of risk management which had significant influence on the business performance. This has led to the drawing of the implications and suggestions to the strategic managers of Islamic Banks in Qatar. The suggestions could be of immense value to the Islamic Bank authorities as it would help them enhance their business performance through strengthening of the risk management. The study has its major limitation in the size of the sample and reliance on empirical study. However, for a relatively small country like Qatar with smaller number of banks the generalization of the results could be possible. However, there is scope for extending this research with a larger sample size and taking other measures of performance such as operational performance which has been extraneous to this study. The study has very clearly revealed the fact that risk management can never be ignored as it has bearing on the business performance and as Qatar is growing in its size in terms of the business round the globe the implications of this study could be of value to the strategic managers.

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