



Participatory Banks in Turkey: Issues and Proposed Strategy Based on SWOT Analysis

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Abstract

Turkey has a long history in Islamic civilization. However, there is still lack of research to examine participatory banks in Turkey. This is despite the fact that the legacy of strong Islamic law, the majority Muslim population, and the strategic location of the country have failed to serve as catalyst to boost market share of participation banks in the country. This study is aimed at developing priority ranking of SWOT factors and strategies on the participatory bank development in Turkey. Data are collected from experts and practitioners of Participation (Islamic) bank in Turkey. Analytic Network Process (ANP) is used as the methods of analysis. The finding shows that the aspects of participatory banks in Turkey are derived from strengths, opportunities, weakness and threats factors. Sharia board is the main strength of this study, while inadequate competitive product is the main weakness. In the future, government support stands as the first priority from opportunity aspect. Islamic bank in Turkey also needs to aware on the absence of separate law as the main priority of threats aspect. Another finding shows that separated law and regulation is the main strategies of the study. Concomitantly, the study suggests separate law and regulation as the main strategy to enhance banks participation in Turkey. This study could serve as reference point for the regulator in formulating appropriate policy strategies to increase market share of participatory banks in Turkey.

Keywords: Participation Bank, Turkey, SWOT, Solutions, Strategies

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I. Introduction

1.1. Background

Islamic banking (hereinafter referred to as IB) has been undergoing an unprecedented growth over the past few decades across the globe. The number of full-fledge IB coupled with its window have been flourishing not only in Muslim majority countries but also in non-Muslim countries such as United Kingdom (UK), France, Luxembourg, France, Australia, Singapore and others. Even so, IB has started its operations in South America following the successful conversion of a conventional bank in Suriname into full-fledge IB in the early 2018. This has paved the way to the better development of Islamic banking and finance industry. At the global market, IB has been growing enormously with the volumes approaching US\$ 1.7 billion as in June, 2020, marking a banking asset share 72.4% globally (IFSB, 2020). The share of Islamic banking industry is expected to have less impact because of the pandemic Covid-19. This statistical figure, therefore, indicates that IB has performed very well thus far and gaining well acceptance in many countries.

According to the Islamic Financial Services Industry Stability Report 2020 (IFSB, 2020), there is a presence of IB in at least 36 jurisdictions in the world. The share of IB has continued to increase in many countries, and hence deepening its penetration. The increases in IB market share were experienced across 19 countries, including Gulf-Cooperation Countries (GCC), Middle East and North Africa (MENA, exclude GCC), and Asia region. In this regard, the International Monetary Fund (IMF) has highlighted the key success factors of the IB market penetration as follows: (i) the ethical principles and socially responsible business, (ii) the resilience during global financial meltdown, (iii) the increasing demand for shariah compliant instruments, (iv) the innovation of shariah compliant products, and (v) the sound regulatory framework and infrastructure (IMF, 2015).

Although its rapid penetration, IB industry is still at the infancy stage of its development. The modern IB has just started in the early 1970s, while the conventional banking system has firmly established for more than 400 years. At this level, IB faces various challenges from the regulatory and market perspective. Among of the challenges faced by IB such as (i) the difficulty of regulatory harmonization of IB across jurisdictions, (ii) the poor shariah governance framework in some countries, (iii) implementing the Basel III¹ particularly in the inclusion of Tier-1 and Tier-2 capital and those regulatory

¹ The Basel III regulatory capital has been issued to strengthen banking sector ability against the shocks arising from economic difficulties. Basel III has increased the minimum capital levels to 10.5% by 2019 compared to the current 8% of risk-weighted assets (RWA).

capital should be comply with Islamic principles (ISRA and Thomson Reuters, 2016).

Moreover, it is worth noting that the IB industry is highly concentrated in few countries. As of June 2020, it has been observed that Iran, Sudan, Saudi Arabia, Brunei and Kuwait appear as the top five largest IB markets beat Malaysia which in the previous year entered into the top 5. In comparison with conventional banks, it remains to be seen that the market share for IB industry far below the conventional banking industry. As reported by IFSB (2020) shows that emerging economies like Indonesia, Egypt, and Turkey have only less than 15% share of their total domestic banking assets. Share of the current global Islamic Banking assets of across several jurisdiction in 2020.

The current progresses of Participatory Banking in Turkey (also called as Islamic Banking in Turkey [Yanikkaya and Pabuccu, 2017]) have been discussed by many studies. The journal wrote by Yanikkaya and Pabuccu (2017) about the current issues of Participation Bank in Turkey could be the important source to see the condition of Islamic Banking progress in this country nowadays. This article explained that the problems or concerns inhibiting an expansion of the Turkish Islamic banking sector have summarised as follows: (1) Lack of Sharī'ah governance causes misperceptions.

Table 1. Share of Global Islamic Banking Assets (%) (3Q19)

Country	Total Assets (in million US\$)	Percentage (%)
Bahrain	31,860	1.8%
Bangladesh	37,170	2.1%
Brunei	7,080	0.4%
Egypt	14,160	0.8%
Indonesia	35,400	2.0%
Iran	506,220	28.6%
Jordan	12,390	0.7%
Kuwait	111,510	6.3%
Malaysia	196,470	11.1%
Oman	12,390	0.7%
Pakistan	19,470	1.1%
Qatar	107,970	6.1%
Saudi Arabia	440,730	24.9%
Sudan	10,620	0.6%
Turkey	46,020	2.6%
UAE	153,990	8.7%
Others	27,435	1.6%
TOTAL	1,770,885	100%

Source: IFSB Report (2020)

Except for Saudi Arabia, all Muslim countries have Sharī'ah governance frameworks at the bank level and some even have nationwide boards. It is hard to standardize practices among IBs without the jurisdiction of a higher board; (2) There is a lack of regulatory institutions focusing specifically on Islamic banking constraints and legal improvements.; (3) Lack of instrument variety pushes IBs to operate almost solely on murābahah transactions. Only Saudi Arabia has achieved high Islamic banking penetration by using murābahah schemes dominantly. All other prominent countries have introduced various instrument schemes; (4) the perception of Islamic banking is very weak within the society. A significant portion of the society thinks that IBs are not necessarily interest-free and makes choices based on cost-benefit considerations. IBs have to express their moral merits more and be cost-efficient at the same time; (5) The operational efficiency of IBs is lower compared with CBs. Worse, the gap is not closing; and (6) The lack of academic research and educational institutions to study the aforementioned problems further aggravates them.

Orhan (2018) studied on business model of Islamic banks in Turkey, and stated that convenience policies is required to attract more deposit as well as develop Islamic Bank in Turkey. Erol, et al (2013) examined the comparison between the performance of Islamic bank and conventional banks in Turkey. As the implication, since the finding shows that Islamic Bank has better earning management than the counterpart, this due to IB in Turkey has good opportunity to attract more capital from outside countries. Therefore, IB in Turkey needs to be aware on the future challenge that might be faced. Study on existing condition and future challenge of Islamic banks has been considerably conducted in many countries. Such as study by Muhammad, Basha, and AlHafidh (2019) regarding the promotional strategies of Islamic Banking in UAE by using empirical review. The latest study conducted by Al Arif, Masruroh, Ihsan, & Rahmawati, (2020) adopted SWOT analysis to determine alternative strategies to improve the role of sharia business units in accelerating business growth in Indonesia. In addition, Amrani and Najab (2020) also presented the exploratory study of participative banking in Morocco by utilizing SWOT analysis. SWOT refers to S (*Strength*), W (*Weakness*), O (*Opportunity*), and T (*Threats*). Hence, SWOT analysis is widely used to explore alternative strategies by considering perspective opportunities and challenges in many research areas.

It can be widely considered that there is still lack of study on the determining alternatives strategies to enhance the Participation Bank in Turkey. The strategy means alternative actions that can be taken in short and long term by policy makers involve practitioners and regulators of participatory banks

in Turkey. The need to hunt the issue and to fill the research gap motivates us to do study on issues and proposed strategies based on SWOT analysis for participatory bank in Turkey. This study contributes to fill the gap that previous studies did not include SWOT and ANP (Analytic Network Process) analysis in their investigation to determine the best strategies to enhance participatory bank in Turkey. The significance of this study is also served as reference point for the regulator in formulating appropriate policy strategies to increase market share of participatory banks in Turkey

1.2. Objective

According to the problem as discussed, this study intends to fill the gap by critically examining the issues and challenges faced by participatory banking based on SWOT analysis. It will propose the strategies to increase the development Islamic finance in the country. In doing so, this study will design the appropriate methods to discover these issues and challenges faced by participatory banking in Turkey.

II. Literature Review

2.1 Background Theory

Islamic Banking in Turkey is so called as 'Participation Banks'. The IB in Turkey has experienced a dramatic development since its establishment in 1985 (Yanikkaya and Pabuccu, 2017). In the beginning, IB in Turkey was established under the name 'Special Finance Houses' (SFH) without making any reference to the shariah tenets due to the secular political system of the country. As the name implies, they were not considered as banks. The secular sensitiveness of public policies is no less significance precluded the development of IB in Turkey and making them at the crawling stage for a long time. This has caused Turkey to catch up with the global development and innovations of IB (Asutay, 2013). The IB conditions were started to improve following the triumph of the Justice and Development Party (AKP) as the majority in Turkish Parliament in 2002. Since then, IB in Turkey had began the new development and significantly improved.

Turkey enacted its Banking Act No. 5411 in 2005, which promulgated the transformation of the status of 'Special Finance Houses' (SPH) into Participation Banks (hereinafter referred to as PB). The former were regarded non-bank financial institutions and were not governed by the regulator. Because of this reason, they were covered by the deposit insurance. Meanwhile, the latter have the status of banks and therefore have the same regulatory treatment as conventional banks. PB, in this

regard, is also covered by the Saving Deposit Insurance Fund (Ayse et al., 2012). PB in Turkey is clearly untapped and still remains as a 'big potential'. Moreover, the decline in the value of Turkish Lira against the US Dollar in the year 2016 and 2017 has important ramification to the decline in PB asset growth rate (IFSB, 2020). It is worth noting that the drop of overall PB asset in this country has gained serious attention from the regulators and policy makers in Turkey.

2.1.1. An overview of Turkish Economic and Financial Conditions

The Republic of Turkey is a contiguous transcontinental country, located mostly on Anatolia in Western Asia, and on East Thrace in South-eastern Europe. Turkey is bordered by eight countries, Bulgaria to the northwest; Greece to the west; Georgia to the northeast, Armenia, Iran and the Azerbaijani exclave of Nakhichevan to the east, and Iraq and Syria to the southeast. The Mediterranean Sea is to the south; the Aegean Sea is to the west, and the Black Sea is to the north. Turkey is a democratic, secular, unitary, constitutional republic with a diverse cultural heritage.

Turkey had population of 84.805 million in January, 2021 and expected to reach 86.705 million by 2025. Turkey's unemployment rate was 10.794% of total labour force. Turkey's real gross domestic product (GDP) was worth US\$ 754.41 billion in 2019 which represents 0.63% of the world economy. Per capita GDP was at US\$ 28167.40 in 2019 with the Purchasing Power Parity is adjusted to 159% of the world's average.

In 2016, Turkey government's revenue was TRY 808.819 billion whereas the expenditure was TRY 867.358 billion. This resulted Turkish government's net lending / borrowing negative at TRY 58.539 billion in 2016 indicating that enough financial resources were not made available by the government to boost economic growth. The current account balance for Turkey was negative at USD 32.602 billion for the year 2016 and is expected to decline at a CAGR of 1.59% and reach USD 35.879 by 2022. This negative current account balance indicates the Turkey is a net borrower from the whole world. Despite the current political turmoil and manifold uncertainties, Turkey remains a significant market and economic partner for German companies. Unfortunately, substantial structural deficiencies counteract fundamentally high growth potential. With around 79 million inhabitants and a young population with an average age of 31 years, Turkey remains an attractive market and investment location for international companies despite the current political upheavals and geopolitical uncertainties.

2.1.2. The Current Development of Participatory Banking Industry

In recent years, the Turkish banking sector including Participation banking (PB) has been undergoing a robust performance. The annual growth rate of Turkish banking sector in the last six years is accounted for 18 percent. Even so, the asset growth of banking sector is higher the growth of Turkish GDP and reached more than USD 800 billion as the end of 2015. As of November 2016, there are more than fifty banks in Turkish banking system, which consists of 34 deposit banks, 13 development and investment banks, and 5 PBs. There is no separate legislation that regulates PBs in Turkey. The PB including Albaraka Bank, Kuveytturk, Turkey Finance, Ziraat Participation Banks, and Vakif Participation Banks. We notice that the license of Bank Asya (Asya Katilim Bankasi A.S) was terminated in 2016 by the Banking Regulation Supervision Agency (BRSA). According to the Turkish Banking Law No.5411, Bank Asya was audited by the BRSA in 2015 and it was found that the bank had made a numerous of illegal transactions and given credit to customers without obeying regulatory rules. In short, the bank license was terminated in July 2016.

As we mentioned previously, PB in Turkey only have only around 5 percent of market share. However, Aysan, Dolgun, & Turhan (2013) believed that PB in Turkey still can play a critical role in channelling untapped capital into more productive activities. It is important to note that these PBs, in their 'liability' side of their balance sheets, use profit and loss sharing methodology. On the 'asset' side, almost all of their financing facilities are channelled to tangible projects in the real sector (both households and companies). Next, to have a complete picture on the development of Turkish PB, Table 2 shows an overview of PB total assets from 2001 to 2015.

Referring to the Table 2, total assets of Turkish PB increased gradually from as low as 1.08 percent in 2001 to 5.10 percent in 2015. Nevertheless, shareholders equity remains at the same level as of December 2015. Next, the non-performing loans (NPL) ratio worsened due to the problems of Bank Asya in 2016. Moreover, the performance ratios (ROA and ROE) were decreased substantially from 2 percent in 2010 to 0.4 percent in 2015, and from 16.9 percent in 2010 to 4.1 percent in 2015, respectively (BRSA Tukey, 2015). This statistic reveals that PB in Turkey becomes less profitable throughout the period 2010 – 2015. We notice that the decreasing profit occurred concurrently with Basel III liquidity standard implementation, particularly after 2013.

Table 2. Total Assets (Thousand TL), Asset Growth, and Market Share of Turkish Banking Sector and Participation Banks

Year	Banking Sector	PBs	Growth Rate (%)	Share (%)
2001	218,873,000	2,365,000	4.37	1.08
2002	216,637,000	3,962,000	67.53	1.83
2003	254,863,000	5,112,000	29.05	2.01
2004	313,751,000	7,298,000	42.75	2.33
2005	406,915,000	9,945,000	36.26	2.44
2006	498,587,000	13,729,000	38.05	2.75
2007	580,607,000	19,435,000	41.55	3.35
2008	731,640,000	25,769,000	32.59	3.52
2009	833,968,000	33,628,000	30.50	4.03
2010	1,006,672,000	43,339,000	28.88	4.31
2011	1,217,711,000	56,079,000	29.39	4.61
2012	1,370,614,000	70,279,000	25.33	5.13
2013	1,732,413,000	96,086,000	36.72	5.55
2014	1,994,329,000	104,319,000	8.56	5.23
2015	2,347,715,000	119,719,000	14.76	5.10
2020				

Source: Banking Regulation and Supervision Agency (BRSA)

The current progress of PB development in February 2019, Turkish banking authority BDDK has approved for operations Emlak Katilim Bankasi, making it the sixth Islamic bank in this country. The state-owned Emlak Bank converted to become a participation bank. It focuses on the construction and real estate sectors. Turkey's government aims to increase the share of participation banking assets to 15 percent of the country's total banking sector by 2025.

In December 2018, participation banks held 206.8 billion Turkish liras (\$38.9 billion) in assets, accounting for 5.3 percent of the banking sector, according to data from the Participation Banks Association of Turkey (TKKB). This was up from 160.7 billion liras in December 2017, when Islamic banking assets made up 4.9 percent of the banking sector. To expand the sector, the government opened two Islamic banks prior to Emlak, They were Ziraat Katilim in 2015 and Vakif Katilimin 2016. The other participation banks are Albaraka Turk, Kuveyt Turk and Turkiye Finans (Global Islamic Economy Gateway, 2019).

2.1.3. SWOT Analysis in Determining Banking Strategy

Some previous studies were found in identifying the strategy for banking by employing SWOT model analysis. Latest study by by Al Arif, et al (2020)

applied SWOT model to determine alternative strategies to improve the role of sharia business units in accelerating business growth in Indonesia. Another study is also conducted by Amrani and Najab (2020), where they presented the exploratory study of participative banking in Morocco by utilizing SWOT analysis. Some other previous articles also was found where SWOT analysis is employed to obtain alternative strategy for banking institutions (Goksu and Becic, 2012; Imtiaz and Shahid, 2013; ElMassah, 2015; Beg, 2016). Helms and Nixon (2010) mentioned that SWOT (Strengths Weakness, Opportunities, and Threats) is strategic management tool which provides guidance not only for practitioners in institutions but also policy makers.

SWOT was firstly practically introduced in Harvard academics in the 60s by Ansoff (1987). In the academics term, SWOT analysis was described by Learned, et al (1969). Currently SWOT analysis has been widely used as a main tool in order to solve complex strategic conditions by minimizing the information and improve decision-making result. This is also supported by Glaister and Falshaw (1999) that SWOT is an appropriate tool for strategic planning. Further, Pandya (2017) explained that SWOT analysis provides the outcomes to help individual or organization to make the improvement by considering current and probable future situation which will be benefitting to the institution. Helms and Nixon (2010) assert that SWOT has becoming a popular tool in business marketing research particularly to define the strategy for business. This tool is favorite for countless practitioners due to its simplicity and practice in the usage. SWOT is also able to capture a very complex variables as well as complex decision factors. In addition, Buukozkan and Ilicak (2019) assert that SWOT analysis is a powerful method to evaluate the internal and external perspective of an organization.

To obtain the proper alternative strategy for institutions, managers (as decision makers) normally will consider internal condition of the company (strengths and weakness factors). Proctor (1992) elaborates some internal factors such as image of company, organizational structure, access to the natural and financial resources, and financial and operational efficiency. After identifying their internal conditions, managers are required to observe their external factors (opportunity and threats). According to Proctor (1992) external factors might be in the form of customers and competitors conditions, market trends and risks, partners, suppliers, infrastructures, information and technology, and political issue. Those factors are considered to help managers to make better decision making particularly on strategy for future direction of company. As for most studies denote SWOT as Strength, Weakness, Opportunities and Threats, Pandya (2017) developed LISA framework as description to modern SWOT, where LISA, L stands for

Leveraging (strengths), I stands for Improving (weakness), S stands for Seizing (Opportunities), and A stands for Awareness (threats).

2.2. Previous Studies

Yanikkaya and Pabuccu (2017) evaluated the root causes of the stagnation of the participatory bank in Turkey. This study provided an interesting finding that participatory bank in Turkey in practice is deviating from the practice of Islamic banking in general in other countries. One of them is the participatory bank in Turkey does not have a sharia governance framework for both banking and national level. The implication of this research is that Turkey needs a good sharia governance framework for both levels. In addition, the Turkish government also needs to increase public perceptions about Islamic banking. There is also limited number of regulatory and research institutions that focus on Islamic banking in Turkey. Therefore, this study provides a recommendation that participatory banks in Turkey should improve business models, operational efficiency and infrastructure to increase the growth of participatory bank.

Several previous studies also evaluated the performance of Islamic banks in Turkey compared to conventional banks. Yanikkaya and Pabuccu (2017) stated that the financial efficiency of Islamic banks in Turkey is less efficient than conventional banks. However, in the previous year, a study conducted by Erol, et al (2013) stated that the participatory bank in Turkey performed better in profitability and asset management. Otherwise, participatory bank in Turkey is considered more sensitive to market risks. The reason behind this was PB allows lower provisional losses than conventional one. Besides, PB also contains some tax advantages.

Study by Orhan (2018) attempted to identify the business model of participation banks in Turkey by utilizing balance sheet ratios. This study explains that the value proposition of the participatory bank in Turkey is depending on the collected-fund. Customer segmentation in participatory banks in Turkey is dominated by private sector. The majority of funds disbursed were loans with a murabahah contract, so PB was very dependent on the mark-up income that was seeded in the murabahah contract. This study concludes that PB practices in Turkey are basically similar to conventional banks but still have some peculiarities. However, unfortunately, this research based on empirical study does not provide an overview of the challenges faced by PB in the future.

Knowing the challenges that Islamic bank might face is vital to determine the best strategy in order to enhance the Islamic bank's development in a country. Several previous studies have raised the topic of the challenge and strategy of Islamic banks in several countries. For instance, Sa'id (2020) conducted 25 semi-structured interviews to analyze the evolution of Islamic banking in Nigeria by applying actor-network theory perspective. The findings of this research include the Islamic banking evolution in Nigeria arose due to a relationship between human and non-human actors. Other research was conducted by Al Arif, et al (2020) which was adopting SWOT analysis to determine alternative strategies to improve the role of sharia business units in accelerating business growth in Indonesia. This study implied two approaches (qualitative and quantitative), where in-depth interview is conducted to obtain qualitative data, and ARIMA method is utilized to analyze the secondary data. The findings of this study also provide two main results, namely as for qualitative, conversion from unit to full-fledge bank, merger among units, and acquisition of units by commercial banks. Meanwhile, as for quantitative, none of units can achieve 50% of the asset share from its parent bank. In addition, Amrani and Najab (2020) also presented the exploratory study of participative banking in Morocco by utilizing SWOT analysis.

From the above previous studies, we can conclude that there is still lack of study discuss on the issue and challenge faced by participatory bank in Turkey. Considering that by identifying the challenge it can help policy makers to select better strategies and reduce cost. Several studies on the topic of challenge and strategy to improve the role of Islamic banks utilized SWOT (Strength, Weakness, Opportunity, and Threat) approach to extract the best strategy. Therefore, this study is attempted to explore the issue from SWOT perspective and derive the best alternative strategy by employing decision making method.

III. Methodology

3.1 Data

The objective of this study is intended to explore the issues and challenges of participatory bank in Turkey by adopting SWOT (Strength, Weakness, Opportunity, and Threats) model. Therefore, the data obtained in this study is primary data from the expert opinion.

This study involves several expertise respondents to gather their opinion and view regarding the issues and challenges participatory bank in Turkey. Generally, respondent of this study is divided into two groups of respondent,

Academics respondent and Practitioners respondent. Overall, the expert respondents in this study are selected based on the criteria, as follows:

- a. The expert has good experience in the participatory banks in Turkey and deals directly with the Islamic banks agenda.
- b. The expert has good knowledge and understanding about theory and practice of Islamic bank.
- c. The expert from academics are regularly publish their research work on Islamic banks and present their finding in both local and international conferences.

There are nine (9) selected respondents who properly contribute to the model decomposition and synthesis. Four respondents are coming from practitioners and five respondents are coming from academics. According to Nyumba, et al (2018) asserted that the number of participants for FGD could range from 3 to 21 participants. However, in the ANP, big issue is not emerging from the number of respondents, but from the quality of respondent. Therefore, selecting proper and knowledgeable respondents is vital in this method.

3.2 Model Development

SWOT model decomposition is conducted through study literature and focus group discussion (FGD) by inviting nine experts who have good understanding about the problem discussed in this study. Some relevant journals and papers on participatory banking in Turkey are utilized to obtain the variables or elements regarding the issue and challenge of participatory banking in Turkey. Further, focus group discussions by inviting experts who have better knowledge on this topic are invited. In order to have an effective FGD, an experienced moderator is selected to lead the discussion. According to Dawson, Manderson, and Tallo (1993), FGD begins with the opening and participant introduction and followed by the presentation on the main topic and the overall research questions. The moderator would then lead and manage the flow of discussion based on specific research questions. The FGD will end with a closing statement from each participant and conclusion from the moderator. The constructed SWOT model based on FGD is subsequently validated by one expert who is deemed the most knowledgeable respondent among the peers.

ANP (Analytic Network Model) is applied to decompose SWOT model, where ANP is using both qualitative and quantitative approach to get the priority for each variables. Model on issue and challenge participatory bank in Turkey is provided in three main levels, first, goal cluster, second, SWOT aspect clusters, and third, strategy cluster. Goal cluster involves issue and

challenge participatory bank in Turkey based on SWOT. Meanwhile, there are 4 elements under strength cluster, namely strategic of geographic between Europe and Asia/Market Leader, Central Board of shariah advisory board in Internal PB, experiences more than 30 years, and there are 6 PB with over 1,100 branches and 15,650 personal. The weaknesses in this study are the asset of PB still not significant compare with potential market share, banker's shariah awareness on PB still need to improve, inadequate competitive product (majority in Murabahah). The opportunities involve legal legacy from Ottoman, majority Muslim population/potential market share, significant supporting from government, and become the world centre of halal industry. The threats that might be faced by participatory bank in Turkey involve people awareness on PB still weak, there is no separate law for PB in Turkey, taxation; it's effect to pricing, higher than CBs (in several akad/transactions), Secular constitution. The strategies consist of massive education for practitioners and public, separated law and regulation for PB, convert strong government banks to PB or open PB window, and incentive or tax discount for BP to publish competitive product. Issues and challenges participatory bank in Turkey based on SWOT ANP network model can be seen through Figure 1.

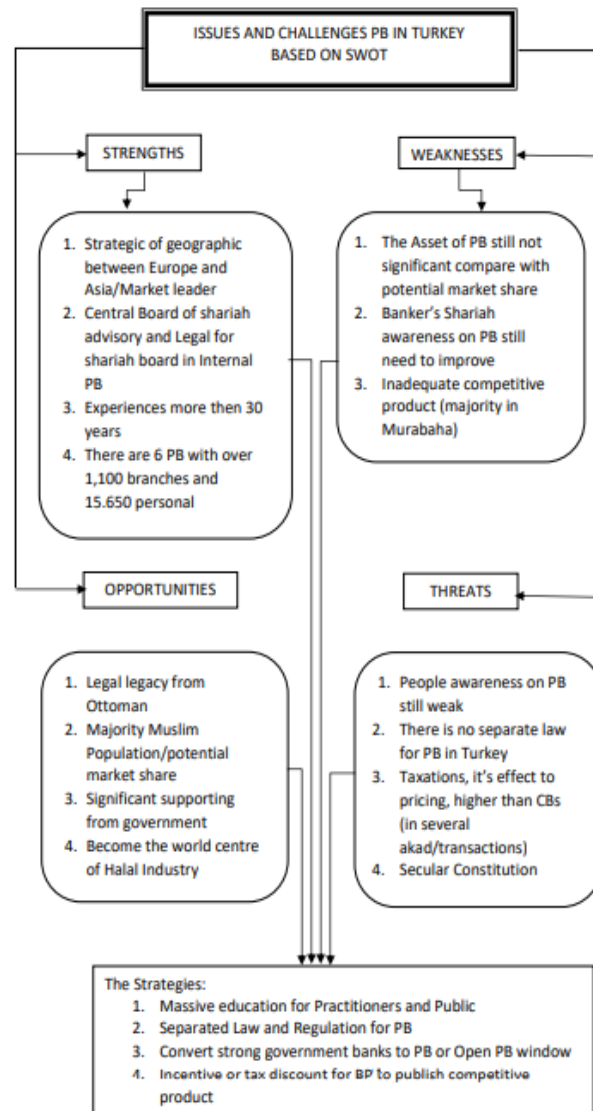


Figure 1. ANP Framework Model

3.3 Method

To provide a comprehensive result from the model decomposition and synthesize activity, this study employs both qualitative and quantitative approaches. Qualitative approach is conducted to decompose the ANP framework by utilizing SWOT model approach and validate the model by doing study literature and in-depth interview, meanwhile quantitative approach is conducted by doing synthesize to get the weight of priority by using pair-wise comparison questionnaire. Therefore, this study is utilizing mix-method, qualitative and quantitative method.

The methodology used in this study is ANP (Analytic Network Process). ANP is commonly used as decision making tools in various discussion subjects. Decision making by ANP is based on the priority value (eigenvalue), which is generated from mathematical calculations through matrix and supermatrix

calculations. ANP is part of the multiple criteria decision making (MCDM) technique which allows researchers to prepare a number of complex criteria in a model. Contrary to its predecessor method, AHP (Analytic Hierarchy Process), ANP allows researchers to make a relationship of the feedback network on the model. Due to this study adopts the SWOT model, and with the consideration that each SWOT sub-criteria may have a relationship or are interrelated, the authors considered that ANP is the suitable tool / method to answer the objective of this study. Adopting SWOT model into ANP framework has been utilized by some previous studies, such as Cindy, Mohammad, and Teguh (2019) study on the banking and financial technology and Rusydiana and Devi (2013) study on the baitul Maal wat Tamwil in Indonesia.

Overall, there are three steps of ANP methodology, first ANP model decomposition. As already mentioned earlier, model decomposition is conducted in two ways, study literature and in-depth interview to some experts in Islamic bank in Turkey. The results of interviews which is obtained from the experts can be utilized to form the SWOT-ANP framework (model) consisting several clusters and elements. In this case, the expert is selected by determining some criteria (as already explained in the 'data' sub section). Model validation is also important part in this step. Researcher requests to one of the expert to validate the constructed model (popular with 'expert validation'). The second step is quantifying the model to get the weight of priority. Due to this, pair-wise comparison questionnaire is prepared for the respondents to answer. The questions in the ANP questionnaire are in the form of pairwise comparisons (comparisons of pairs) between elements in the cluster to find out which of the two has the greater influence (more dominance) and how big the difference is seen from one side. The numerical scale 1-9 employed as the translation of verbal assessment (See table 3).

Saaty and Vargas (2006) proposed the use of ratio ratings of each pair of factors in the hierarchy to obtain (not directly provide a value) measurement of the ratio scale. Any methodology with a hierarchical structure should use a ratio-scaling priority for elements above the lowest level of the hierarchy. This is important because the priority (or weight) of an element at any level of the hierarchy is determined by multiplying the priority of the element at the level by the priority of the parent element. ANP uses a ratio scale at all the lowest levels of the hierarchy / network, including the lowest level (alternatives in the choice model). The ratio scale is from 1 to 9 where 1 denotes for and 9 denotes for extreme importance.

Filling out the questionnaire by the respondent must be accompanied by a researcher to maintain consistency of the answers given. In general, the

questions on the ANP questionnaire are numerous. So that non-technical factors can cause a high level of inconsistency.

The last step of ANP analysis is synthesis. Synthesis is derived from the multiplying of all local priority to obtain global priority. Matrix and supermatrix calculation is used in this step. However, ANP software super decision does not provide the feature to see the consensus value of respondents. Therefore, geometric mean calculation is required in the end of the synthesis to obtain the consensus priority value. The geometric mean is a type of average calculation that shows a certain tendency or value which has the following formula (Ascarya, 2011):

Equation:

$$GM_k = \sqrt[n]{(R1 * R2 * ... * Rn)}$$

Where, GM = geometric mean; R = judgment of individual respondent; n = number of respondents; and k = number of pair-wise comparisons.

After measuring geometric mean value as consensus value of all respondents, addition calculation is organized to get the agreement value among raters. Kendall's coefficient of concordance technique is used to get the rater agreement value. This kind of calculation is quite vital in the ANP as additional analysis and validating the priority result. Rater agreement is indicated by how the column totals differ, or, in another word, rater agreement is expressed to the extent of numbers differ; variance or standard deviation. The formula can be expressed as:

$W = \text{Variance over column totals} / \text{Maximum possible variance over column totals}$

As a result, Kendall's value (W value) has the value between 0 and 1. If W is 0 means that all respondents is completely disagree to the priority in a cluster. On the other hand, if W is 1 means that all respondents is completely agree to the priority in a cluster. P-value is calculated to indicate the significance of Kendall's value.

IV. Result and Analysis

4.1 Results

The result of interview and data processing of pair-wise questionnaire will be discussed in the following narration. To begin with, the discussion on finding and analysis of ANP on the Issues and challenges PB in Turkey will be divided into several parts, starting from the discussion on the priority of aspect, priority of strength cluster, priority of weakness cluster, priority of opportunity cluster, priority of threats cluster, and priority of proposed strategy. The ANP synthesis results which is resulting from the pair comparison questionnaire will be discussed by presenting a priority table consisting of three (3) components, namely geometric mean results of the group of practitioners (GM Practitioners), geometric mean results of the academic group (GM Academics), and the overall geometric mean results / consensus (GM Overall). Each geometric mean value will also be supported by the calculation result of the rater agreement (W) and the significance value of W (p-value). As explained in sub-chapter research methodology, the rater agreement explains how much the respondents agree on the priority results obtained from the geometric mean in one cluster. The discussion on finding is also supported by previous literatures and underpinning theory in the next sub discussion.

Figure 2 describes the finding of priority from the aspect cluster. According to geometric mean value, both groups (Academics and practitioners) have the same priority level to determine the most important SWOT aspect of the model, where Opportunity stands as the first priority (0.364 and 0.314 respectively), and then followed by strengths (0.237 and 0.256 respectively), academics and practitioners are in the different opinion to determine the third and forth priority. Academics put weakness as the third priority (0.211) and threats as the last priority (0.169), otherwise practitioners put threats as the third priority (0.192) and weakness as the last priority (0.188). Figure 2 also provides information regarding the geometric mean value by all groups of respondent. Geometric mean overall show the most priority from aspect cluster is opportunities (0.341), followed by strength (0.245), weakness (0.201), and threats (0.179). The results of the rater agreement show that respondents from group of academics and all respondents agree that opportunity is the most priority aspect with value of $W = 0.812$ and $W = 0.548$ respectively. On the other hand, respondents from practitioner group did not agree with the priority results in this cluster, as indicated by the value of $W = 0.325$.

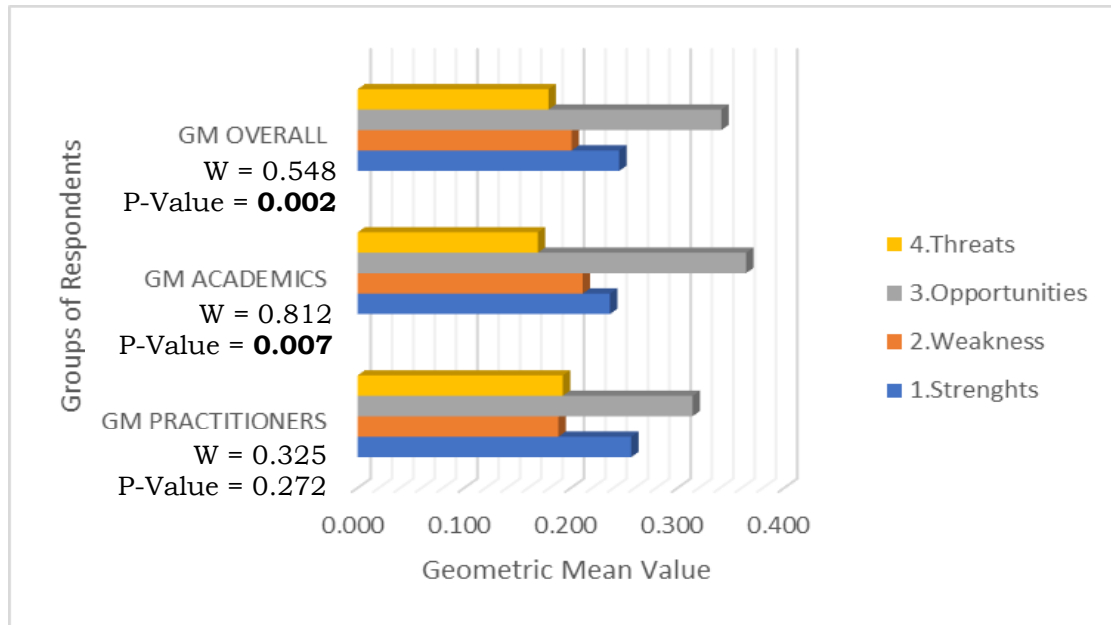


Figure 2. Geometric Mean Cluster of Aspect

Figure 3 provides the priority from the strength cluster. According to geometric mean value, both groups (Academics and practitioners) have the same priority level to determine the most important strengths of the model, where Central Board of shariah advisory board in Internal PB stands as the first priority (0.291 and 0.304 respectively), however, academics and practitioners are in the different opinion to determine the second and third priority. Academics put strategic of geographic between Europe and Asia/Market Leader as the second priority (0.288) and there are 6 PB with over 1,100 branches and 15,650 personal as the third priority (0.251), otherwise practitioners put number of branches and personal as the second priority (0.236) and strategic of geographic as the third priority (0.231). Nonetheless, they are in opinion to the last priority, where experiences became the last priority in this cluster (0.148 and 0.173 respectively). Figure 3 also explains the geometric mean value by all groups of respondent. Geometric mean overall show the most priority from strength cluster is sharia board (0.297), followed by strategic of geographic (0.261), number of branches and personal (0.244), and experiences (0.158). The results of the rater agreement show that respondents from group of academics and all respondents agree that sharia board is the most priority aspect with value of $W = 0.600$ and $W = 0.482$ respectively. On the other hand, respondents from practitioner group did not agree with the priority results in this cluster, as indicated by the value of $W = 0.125$.

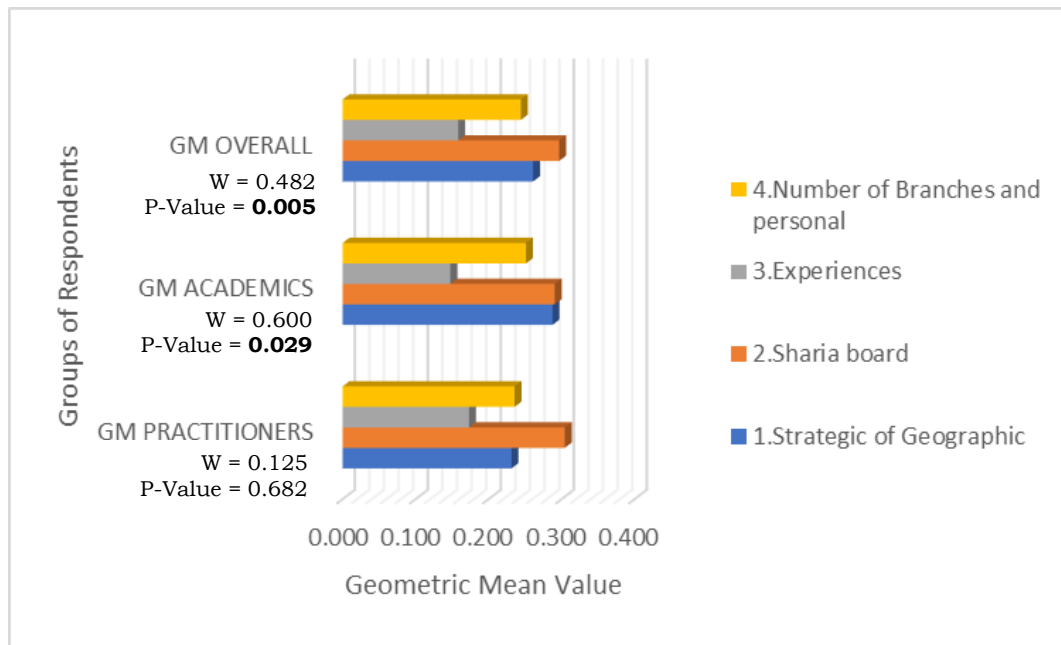


Figure 3. Geometric Mean Cluster of Strength

The priority of weakness cluster is showed through figure 4. According to geometric mean value, both groups (Academics and practitioners) have the same priority level to determine the most priority of weakness of the model, where inadequate competitive product (majority in Murabahah) stands as the first priority (0.422 and 0.336 respectively), however, academics and practitioners are in the different opinion to determine the second priority and last priority. Academics put lack of banker's sharia awareness as the second priority (0.334) and asset is not compatible as the last priority (0.222), while practitioners put asset is not compatible as the second priority of the model (0.335) and lack of banker's sharia awareness as the last priority (0.267). Figure 4 also explains the geometric mean value by all groups of respondent. Geometric mean overall show the most priority from weakness cluster is inadequate competitive product (majority in Murabahah) (0.381), and then followed by lack of banker's sharia awareness (0.302), and asset is not compatible in the last priority (0.267). The results of the rater agreement show that respondents from group of academics and all respondents agree that inadequate competitive product (majority in Murabahah) is the most priority aspect with value of $W = 0.840$ and $W = 0.346$ respectively. On the other hand, respondents from practitioner group did not agree with the priority results in this cluster, as indicated by the value of $W = 0.062$.

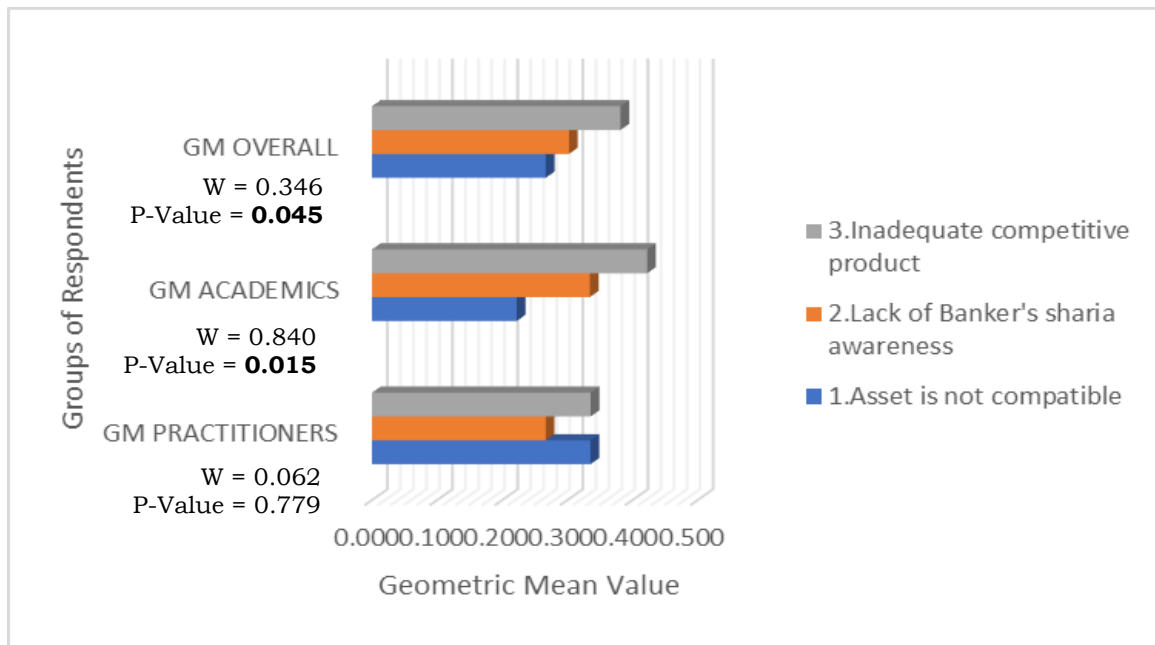


Figure 4. Geometric Mean Cluster of Weakness

Furthermore, the priority of sub-clusters of opportunity factors is provided in figure 5 to have a more detailed framework on the Issues and challenges PB in Turkey. Geometric mean value indicates that, both groups (Academics and practitioners) are in different opinion on the priority level of opportunity cluster, Academics set majority Muslim population/potential market share as the most priority of the cluster (0.270), while supporting from government stands in the second rank (0.256). Diversely, practitioners set supporting from government as the first priority (0.329) and majority Muslim population/potential market share as the second priority of the cluster (0.302). On the other hand, they are in the same opinion to the third and fourth priority, where world centre halal industry stands as the third priority (0.214 and 0.216 respectively) and legal legacy from Ottoman stands in the last priority (0.210 and 0.126 respectively). Figure 5 also describes the geometric mean value by all groups of respondent. Geometric mean overall shows the most priority from opportunity cluster is government support (0.286), followed by majority Muslim population (0.284), world centre halal industry (0.215), and legal legacy from Ottoman (0.167). The results of the rater agreement show that respondents from group of academics and all respondents disagree to the priority of the cluster with value of $W = 0.04$ and $W = 0.220$ respectively. Otherwise, respondents from practitioner group agree with the priority results in this cluster, as indicated by the value of $W = 0.700$.

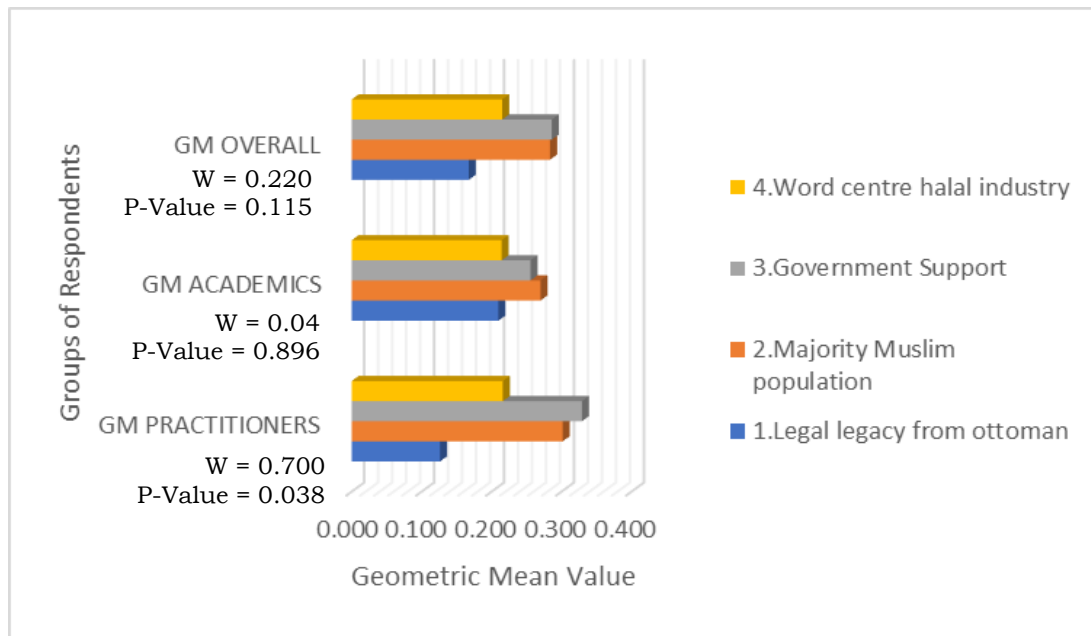


Figure 5. Geometric Mean Cluster of Opportunity

Figure 6 also presents ANP analysis on threats cluster. Geometric mean value indicates that, both groups (Academics and practitioners) are in the same opinion on the priority level of threats cluster, where there is no separate law becomes the most priority of the cluster (0.386 and 0.390 respectively), meanwhile both groups of respondent are arguing to the second and third priority. Academics set taxation is becoming the second priority of the model (0.241) and people awareness is still weak as the third priority (0.219). On the other side, practitioners put people awareness is still weak as the second priority (0.266) and taxation is becoming the third priority of the model (0.197). Meanwhile, these two groups are in the same opinion regarding to the last priority, where secular constitutions stand in the last rank of threat cluster (0.133 and 0.108 respectively). Geometric mean overall shows the most priority from threats cluster is no separate law (0.338), followed by people awareness still weak (0.239), taxations (0.220), and secular constitution (0.122). The results of the rater agreement show that respondents from group of academics, practitioners and all respondents agree to the priority of the cluster with value of $W = 0.808$, $W = 0.900$ and $W = 0.842$ respectively.

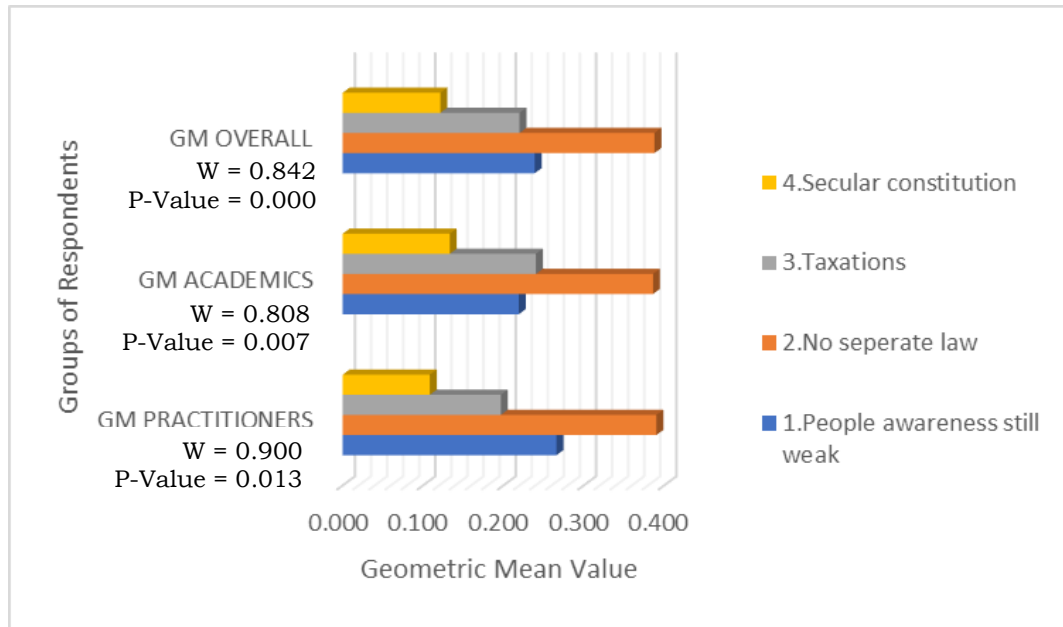


Figure 6. Geometric Mean Cluster of Threats

Final figure describes the priority of strategies cluster. According to the finding, all groups of respondent are in the same opinion to the priority of strategy cluster. This is definitely showing us that a geometric mean consensus result is also similar. The most priority of strategy on issues and challenge participatory bank in Turkey based on SWOT is separated law and regulation (0.307), and then followed by massive education (0.246), inventive or tax discount (0.201), while strong government stands as the last priority (0.159). The results of the rater agreement show that respondents from group of academics and all respondents agree to the priority of the cluster with value of $W = 0.552$ and $W = 0.323$ respectively. Meanwhile, respondents from practitioner group disagree with the priority results in this cluster, as indicated by the value of $W = 0.175$.

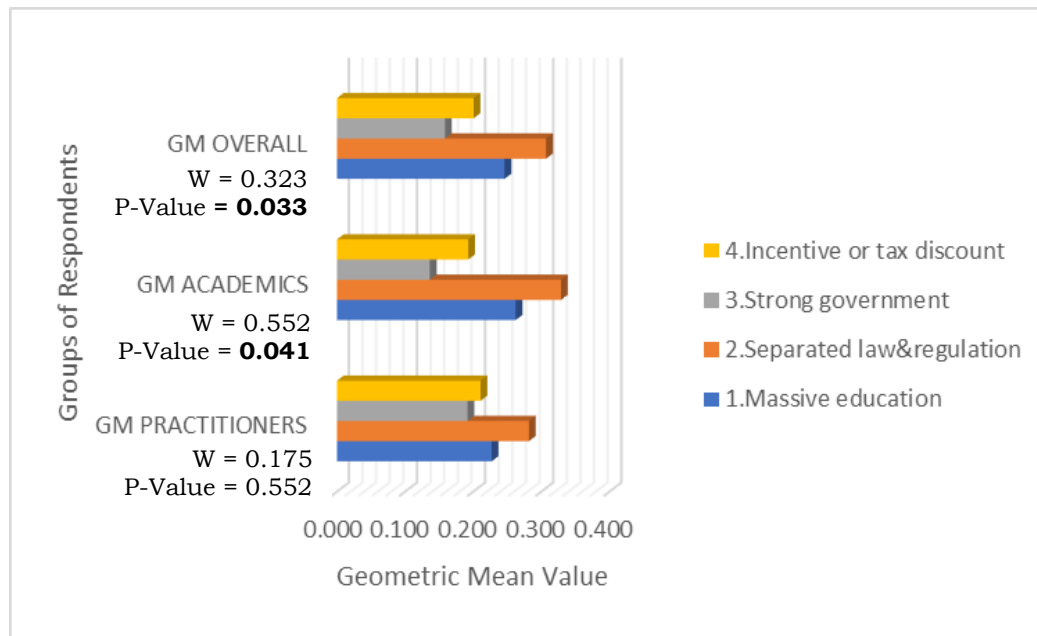


Figure 7. Geometric Mean Cluster of Strategy

4.2 Analysis

The first finding indicates that both groups (Academics and practitioners) have the same priority level to the most important strengths, where Central Board of shariah advisory board in Internal PB stands as the first priority. In Turkey, each PB has its own sharia advisory board which helps the bank to ensure that their operational activities are running in the sharia corridor (Aysan, et al, 2013). By ensuring that the operational activities in Islamic banking are in line with sharia principle, this will bring trust to the society on financial system. Moreover, Adem (2014) mentioned the need of a nationwide board in Turkey for a healthier infrastructure in Islamic financial institution.

Gun (2016) presents the case of sharia advisory board mechanism in the term of participation banks in Istanbul, Turkey. Sharia advisory board is presumably able to resolve agency cost as well as assist Istanbul to reach the objective of being the financial center in the world. The establishment of sound sharia advisory board will help Islamic financial industry to operate in a fully sharia principle, therefore the trust on financial system can be thoroughly delivered to the society and effect to the augment of the volume (Esen & Karabacak, 2014). Baklouti (2020) asserts the point that good characteristics of sharia advisory board in Islamic banking will affect to the financial performance of the bank. However, this finding contradicts to the study conducted by Yanikkaya & Pabuccu (2017) that the sharia governance in participatory banks in Turkey is still not optimal. This means that the role of the shara advisory board still needs to be improved.

As for weakness, both groups (Academics and practitioners) have the same priority level to determine the most priority of weakness of the model, where inadequate competitive product (majority in Murabahah) stands as the first priority. PLS (Profit and Loss sharing) – based financing product should be an advantage in Islamic banking, unfortunately sale-based contract ‘murabahah’ dominates Islamic banking product. Orhan (2018) asserts that PB’s Turkey financing is dominated with murabahah contract. In regard to this, Orhan (2018) attempted to conclude that this practice basically similar to the practice in the traditional bank, where the bank mostly rely on giving the loan. While simultaneously, murabahah contract that dominates Islamic banking products do not only occur in Turkey. Several countries also have experienced similar problems, such as in Indonesia, Malaysia, Bahrain and several other countries (Samad, et al, 2005; Juliana, et al, 2019; Miah & Suzuki, 2020). There are some reasons underpinning this situation, for instance, Miah & Suzuki (2020) assert that the risk behind PLS-based financing product contains higher risk and uncertainty. At the same time, PLS-based financing will be limitedly used unless the regulations are changed. Kadir (2016) added the point that the importance of adequate competitive product will lead to the customer intention to use Islamic banking product. The customers automatically seek the product which is compatible to their need as well as competitive in pricing. Masood, Sheikh, & Abbasi (2017) also supported the case of bankers’ awareness problem in Islamic bank is still low and need to be optimally improved through education and socialization specifically from related government.

Another finding arises from this study is the priority of opportunity cluster, where both groups (Academics and practitioners) are in different opinion, Academics set majority Muslim population/potential market share as the most priority of the cluster, while practitioners set supporting from government as the first priority aspect. Nugroho (2014) addresses the issue of supporting from government is becoming a very significant role to enhance the potency of Islamic bank through their capacity building function (government as an agent of change and an agent of development). Massive socialization also can be the responsibility of the government to enhance Islamic financial literacy of the society. On the other hand, the lack of government support (lack of political will) will affect to the delay of Islamic bank enhancement (Sari, Bahari & Hamar, 2016; Reni & Ahmad, 2016; Nugroho, et al, 2017). The effectiveness of government support to boost the market share of Islamic bank in the country can be seen from the practice in Malaysia, where government support leads to the fast-growing of Islamic banking system in that country. In addition, Al Nasser and Muhammed (2013) supported the view that one of government support to develop Islamic Bank in Malaysia is in the form of sound infrastructure. Therefore,

this finding is expected to take the edge off government support problems in Turkey as previously mentioned by Yanikkaya and Pabucu (2017) that the lack of government support in Islamic Banking development between 80s and 90s can be properly abolished.

As for strategy, separated law and regulation is becoming the most priority of strategy cluster. Lamiha, (2012); Esen & Karabacak (2014) support the view that separated law and regulation on Islamic bank is becoming the critical factor to establish sound participatory banking in Turkey. Further, the existence of participatory bank's law and regulation separated from traditional banking can generate the trust of public to such institutions.

Overall, the issues and challenges faced by participatory banking based on SWOT analysis can be divided into five important implications. Participatory banks stakeholder is required to be focus on several aspects which is in high level priority. The central board of shariah advisory in Internal Participatory bank in Turkey becomes the strength of the model. Therefore, the role and function of such board need to be frequently evaluated and improved in order to accelerate the Islamic finance in Turkey (Esen & Karabacak, 2014; Gun, 2016; Yanikkaya & Pabuccu, 2017; Yas, Aslan & Ozdemir, 2018). There is no doubt that in Islamic financial industry, sharia advisory board has the vital role to ensure that the product and services which are offered by the institutions are compliance to sharia. The board is scheduled to review the existing product as well as review the upcoming profitable product before delivered to the market. Nevertheless, participatory banks in Turkey is also demanded to put concern on the issue of Murabahah financing product as dominant product in Islamic bank. However, as the complementary of traditional banking, since its establishment, Islamic bank in almost all countries declared themselves as Profit and Lost Sharing (PLS) banks. Islamic banks should have different approach to deliver the financial product to the society (Samad, et al, 2005; Rusydiana & Devi, 2013; Kadir, 2016; Juliana, et al, 2019; Miah & Suzuki, 2020). This result reinforced earlier studies completed by Khan & Mirakhor (1990); Iqbal (1997) that profit and loss sharing (PLS) paradigm which is predominantly by mudharabah (profit-sharing) and musyarakah (joint venture) concept becomes a unique feature of Islamic banking. Consequently, political willingness from local government is vital to boost the volume of profit and lost sharing contract in Islamic bank.

Participatory banks practitioner also need to take a look to the opportunity from the Turkey's government support as motivation to develop Islamic financial product and services needed by the community. In this case, there are several things that can be formed as government support, for instance, massive socialization and education on financial literacy, supporting regulation, tax subsidies on Islamic financial product, etc (Nugroho, 2014;

Sari, Bahari & Hamar, 2016; Reni & Ahmad, 2016; Nugroho, et al, 2017) On the other hand, there is no separate law for PB in Turkey takes the highest priority in the threat cluster. The key-element strategy that tailored to the goal is separated law and regulation.

V. Conclusion and Recommendation

5.1 Conclusion

Overall, this study ascertained the current and future analysis of participatory bank in Turkey. The analysis contains four main aspects, strength, weakness, opportunity and treat. The discussion on strategy has been provided in this article. As the model developed, we can conclude that there are four important aspects that can be considered as the factors to develop participatory banks in Turkey, namely, strength, weakness, opportunity, and threat. Each aspect in this level consisted of 3 (three) to 4 (four) sub-element and has been validated by the experts. The most priority under strength cluster is Central Board of shariah advisory board in Internal PB, while the most priority under weakness cluster is inadequate competitive product (majority in Murabahah). While other parts like opportunity cluster, significant supporting from government stands in the first rank. On the other hand, there is no separate law for PB in Turkey takes the highest priority in the threat cluster. The key-element strategy that tailored to the goal is separated law and regulation.

5.2 Recommendation

The finding also provides managerial implications for practitioners of participatory bank, regulators in Turkey, at the same time also provides a theoretical implications for prospective researcher. As the finding imply, the participatory banks need to adopt four meaningful strategies to enhance the participatory bank in Turkey according to its priority, namely separated law and regulation, massive education, incentive or tax discount, and sound government where can be in the form of strong Islamic banking framework and sharia governance practice for both local and national levels.

Finally, this study has also contributed to the existing knowledge related to Islamic banking theory and practice, particularly in Turkey. As the novelty of this study, authors presented the case of participatory bank in Turkey and explored the issue and challenge by developing SWOT-ANP framework as well as determine the relevant strategy by applying decision-making method. However, in the process of obtaining the data, this study has several limitations. First, since this study captured the data from expert,

Islamic banks consumer perspective might be applied to seek the strategy of participatory bank development in Turkey. Secondly, further research might employ another approach to prioritize the strategy of participatory bank development in Turkey; for instance, Interpretative Structural Modeling and other quantitative approaches might be applied to obtain result from different perspective and angel of studies.

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