

STRATEGY IS ALL ABOUT DELIBERATELY MAKING CHOICES AND TRADE-OFFS: ANALOGY BETWEEN FULLY-FLEDGED ISLAMIC BANKS AND CONVENTIONAL BANKS WITH ISLAMIC WINDOWS

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ABSTRACT

The purpose of this study is to examine the effect of business strategies (low-cost and differentiation) on the performance of Fully-Fledged Islamic Banks (FFIBs) and conventional banks with Islamic windows (Islamic window banks). In order to go deeper, the mediating role of enterprise risk management practices and moderating role of managerial expertise is also explored. To this end, partial least square-structural equation modeling and multi-group analysis is employed to compare and test the hypothesis for both types of banks. The disjoint two-stage approach is used to assess the hierarchical component model and the judgmental sampling method is employed to collect data from 247 FFIBs and 250 Islamic window banks. The results reveal that there is no significant difference for the effect of low-cost strategy and differentiation strategy toward performance between both banks. Further, no difference for the mediating role of enterprise risk management practices between business strategies and performance is observed. Besides, significant difference is found for the moderating role of managerial expertise between the ERM practices and performance.

Keywords: Low-Cost Strategy, Differentiation Strategy, Enterprise Risk Management Practices, Bank Performance, Managerial Expertise, Full-Fledged Islamic Banks, Islamic Window Banks

INTRODUCTION

Conventionally, business institutions use distinct sources and resources to enhance the performance and strive to make a competitive position in the marketplace (Evans & Bosua, 2017). While in the current competitive era, business institutions focus on others requirements to compete in the market such as Enterprise Risk Management practices (ERM) (Rehman & Anwar, 2019), and managerial expertise (Ali et al., 2020) which significantly contribute to the organizational performance. In order to understand the competitive moves of business institutions, one landmark in the strategic management field is Michel Porters' competitive strategies (Finney et al., 2005; Salavou, 2010).

This study extends the strategic management literature to Islamic banking in context of Porters' competitive strategies and performance of Fully-Fledged Islamic Banks (FFIBs) and conventional banks with Islamic windows (Islamic window banks). Specifically, this study attempts to explore the association between business strategies (low-cost and differentiation strategy) and performance and then go on to investigate the mediating role of ERM practices and moderating role of managerial expertise on the relationship between business strategies and bank performance. This study considers a unique study setting of Islamic banking because we argue that

Islamic window banks face a strong competition from the fully-fledged Islamic banks, which already have strong Shariah roots. Hence, it is important to examine whether Islamic window banks use competitive strategies to overcome the competition pressure exerted by the FFIBs counterparts. Meanwhile, competitive strategies adopted by FFIBs to contend with the emerging competition from Islamic window banks within the industry should also be studied.

The unique competition-performance nexus between Fully-Fledged Islamic Banks (FFIBs) and Islamic window banks provides an exceptional setting to study the said association in Pakistani market. Because, in Pakistan, the shift from the conventional to the Islamic banking system from 2003 to 2019 resulted in approximately 2,913 Islamic window banks branches and 1,456 branches of Fully-Fledged Islamic Banks (FFIBs) in Pakistan (SBP, 2019). Banking sector in Pakistan has developed in three stages including conventional banking (1948–1980), Profit And Loss Sharing (PLS) banking (1980s & 1990s) to the current mix of PLS and Shariah-compliant banking. The Islamic banking was incepted in Pakistan in February 1979 with the intention to make interest free economy (Rashid et al., 2017). However, in 2002 a swift progress has been observed in Islamic banking sector when it declared as a parallel mode of banking alongside conventional banking.

This study contributes to the existing literature in following ways. First, this study considers business strategies (low-cost strategy and differentiation strategy) as antecedents of ERM practices and firm's performance. These business strategies has been considered a key predictors of firm's performance in highly competitive market (Porter, 1980) in accordance with Porter's generic theory. This premise received ample empirical attention in the domain of strategic management literature (Ali et al., 2020; Li et al., 2019; Liu et al., 2020; Rehman & Anwar, 2019; Soltanizadeh, Rasid et al., 2016). Hence, this study extends the body of knowledge on the competitive strategies-performance nexus for emerging literature of Islamic banking (fully-fledged Islamic banks and Islamic window banks).

Second, from resource based-view theory perspective, we argue that expertise of mangers to perform the ERM practices effectively and efficiently lead to high performance. We sought to compare the managerial expertise of fully-fledged Islamic banks and Islamic window banks. These findings beneficial for the regulators, trainers and top managers to assess the expertise level of managers which can enhance performance. To the best of our knowledge, this is the first study in strategic management literature in context of Islamic banking to compare the effect of business strategies on performance in the presence of mediated mechanism of ERM practices. This study provides more clear insight regarding the business strategies-performance relationship in highly competitive market. Furthermore, this study explores the moderating role of managerial expertise between the ERM practices-performance nexus.

The rest of the article is organized as follows: Second section provides the brief literature review and hypothesis development. Third section explains the methodology and data collection. Fourth section discusses the empirical results. Finally, fifth section concludes the article.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

In 1980, Porter came up with three general ways through which the firms can achieve the competitive edge in the marketplace over their competitors, particularly in price leadership, differentiation, and focus (Karyani & Rossieta, 2018) through competitive moves. Particularly, cost leadership strategies help companies especially to get a competitive advantage (Karyani & Rossieta, 2018). Low-cost strategies need a high level of managerial skills to come up with unique products in the market with capital investments. Likewise, the firms adopting differentiation strategies also needs uniqueness in their products, consistent innovations and needs aggressive marketing (Berman et al., 1999). However, differentiation strategy demands more expenditures from the firms, and due to high expenditures firms offer high prices as compared to

their competitors (Karyani & Rossieta, 2018). In the case of banks, differentiation strategy results in higher interest rates as compared to the market prevailing prices (Berman et al., 1999). Overall, business strategies can succeed in the banking sector if the banks have adequate knowledge and understanding of the types of market dynamics or market competition (Richard, 2000).

The resource-based view guides the firms to achieve consistency in their competitive advantage over the long run through valuable resources (Burisch & Wohlgemuth, 2016), and resources can be in the form of decisions, actions, skills or practices (Barney, 1991). The resources that meet the VRIN (valuable, rare, inimitable, non-substitutable) criteria, can achieve a long-run or sustainable competitive edge over their competitors (Bogodistov & Wohlgemuth, 2017). Moreover, ERM practices is a tool that helps to analyses the risks associated with each resource (Bogodistov & Wohlgemuth, 2017). Hence, this study attempts to investigate the mediating role of ERM practices between business strategies and bank performance.

Low-Cost Strategy and ERM Practices

ERM practices help the firms to manage the different types of risks through different strategic moves in order to enhance performance. It is essential for all firms to lower the risks by adopting various strategies and low-cost strategy is one of them (Parry & Lind, 2016). There are three primary purposes of ERM (Anderson & Frigo, 2012), first, the ERM should be in line with the strategy of the firm, second, the ERM helps to identify the factors or situations which are supportive for achieving sound business performance, and third, the ERM helps to attain long-run goals (Rehman & Anwar, 2019). A unique concept of strategic risk management originates when risk management practices are linked with business strategies like low-cost strategy (Anderson & Frigo, 2012). Firms cannot achieve competitive advantage in the successful implementation of business strategies like low-cost strategy and differentiation strategy without considering the ERM practices (Gualandris & Kalchschmidt, 2015). Moreover, the firms can reduce marginal costs to achieve cost leadership with the help of ERM practices (Eckles et al., 2014) and implementation of low-cost strategy helps to reduce the accounting-risk (Bui & de Villiers, 2017). ERM also suggests to decentralize the authority and empower the employees, auditor and other vital stakeholders to minimize the risks related to firm performance (Cohen et al., 2017). ERM focuses on low-cost strategies to help businesses in achieving their outcomes (Soltanizadeh, Abdul Rasid Siti et al., 2016) while cost leadership and differentiation strategies lead to adjust the ERM (Brustbauer, 2014; Ramadan, 2015). Based on aforementioned studies, this study proposes the following hypothesis:

- H1* There is a significant difference for the effect of low-cost strategy toward the ERM practices between FFIBs and Islamic window banks.

Low-Cost Strategy and Bank's Performance

Businesses develop strategies for different purposes like for cost reduction, for building marketing strategies, for the development of new products and for exploring new markets (Rehman & Anwar, 2019). Achieving high levels of performance and managing consistent competitive advantage over time are the major concerns of the business strategies particularly low-cost business strategy (Zott & Amit, 2008). Porter's low-cost strategy has a significant impact on the performance of firms (Acquaah & Agyapong, 2015). Different types of costs related to different stakeholders can be reduced to achieve profits and overall high performance (Batista & Francisco, 2018). Business strategies are the best resources to achieve sound performance as they involve fewer resources and less risk (Anwar et al., 2018). In this way the firms can adopt low-cost strategy in minimum resources to achieve high levels of performance with maximum satisfaction (McAdam et al., 2017). Hence, this study conjectures as:

- H2 There is a significant difference for the effect of low-cost strategy toward the bank's performance among FFIBs and Islamic window banks.*

Differentiation Strategy and ERM Practices

Differentiation strategy means offering the unique products in the market as compared to the competitors and to gain an edge over the competitors (Palladan et al., 2016). The current study proposes to investigate the impact of differentiation strategy on the ERM practices in the Pakistani banking sector. In the case of differentiation strategy market players develop innovative products keeping in mind that this type of product has not been offered before by their competitors (Chege, 2018). Chamberlin introduces the concept of differentiation strategy in the monopolistic-competition theory 1933 (Chege, 2018). Differentiation strategies help to achieve a competitive advantage in long-run and result in increased sales (Palladan et al., 2016). Differentiation strategy is considered as an essential resource for a business but at the same time different risks are associated with this strategy. Therefore, the differentiation strategy has a significant impact on ERM practices (Le & Kroll, 2017). The present study is also aimed at investigating the effect of differentiation strategy on ERM practices. Hence, this study assumes that:

- H3 There is a significant difference for the effect of differentiation strategy toward the ERM practices among FFIBs and Islamic window banks.*

Differentiation Strategy and Bank's Performance

Successful implementation of the differentiation strategy depends on the flexibility of the organizational structure. In complex structures such as banking structure, the differentiation strategy is associated with multiple risks (Gorondutse & Hilman, 2019). However, the firms adopt differentiation strategy to achieve high levels of performance (Le & Kroll, 2017). The firms cannot easily go for a differentiation strategy to achieve high performance because different resources and risks are involved in this action (Dibrell et al., 2014). Differentiation strategy is hard to adopt for the services businesses such as banks to adopt because it is not possible for the competitors to come up with the same services in short run (de Sousa Batista et al., 2016). In these circumstances, the firms can only be successful in implementing a differentiating strategy if the target-market segment is well aware of the newness and uniqueness of the services offered which is again tricky (Chege, 2018). In the banking sector, the level of a differentiation strategy is subject to rules and regulations by the central banks (Volonté & Gantenbein, 2016). High level of performance, customer loyalty and satisfaction are the significant outcomes of the differentiation strategy (de Sousa Batista et al., 2016) thereby it gained attention in the extant literature (Lisboa et al., 2016). Hence, this study conjectures as follows:

- H4 There is a significant difference for the effect of differentiation strategy toward the bank's performance among FFIBs and Islamic window banks.*

ERM Practices and Bank's Performance

ERM practices are beneficial in enhancing the performance of firms and also help to minimize the exposure to risk (Florio & Leoni, 2017). Different types of risks can be managed efficiently in the presence of ERM practices (Lechner & Gatzert, 2018). Moreover, ERM practices reduce managerial costs and risks associated with the equity returns, which in turn, enhance firm profitability (Eckles et al., 2014). Likewise, higher operational performance is observed for firms having proper enforcement of ERM practices in comparison to those

businesses having lack of ERM practices (Callahan & Soileau, 2017). Moreover, firms always motivate their managers to work out and pay attention to the proper enforcement of ERM practices to enhance the value and the performance of the firms (Liao et al., 2020). Finally, significant and positive association is observed between ERM practices and firm performance (Callahan & Soileau, 2017; Florio & Leoni, 2017). Therefore, this study also attempts to investigate the impact of ERM practices on bank performance and assumes as:

H5 There is a significant difference for the effect of ERM practices toward the bank's performance among FFIBs and Islamic window banks.

Competitive Strategies and Bank's Performance: Mediating Role of ERM Practices

Business strategies have a significant impact on the performance of firms (Parnell John, 2010; Shirokova & Shatalov, 2010). The direct effect of business-strategies on performance is studied by extant researchers (Ryu et al., 2015). Some researchers are of the view that this relation can be mediated by the number of essential factors (Soltanizadeh, Abdul Rasid Siti et al., 2016). Business strategies act as vital contributing factors for the ERM practices (Cescon et al., 2013), and in turn, ERM practices have a significant effect on the firm performance.

Moreover, innovative business strategies are vital for firms to achieve high performances through strong ERM-practices (Jun & Rowley, 2014). Stated by the contingency theory, firm performance is indirectly affected by the business strategies, through ERM practices (Cadez & Guilding, 2008). According to the contingency theory, organizational performance is dependent on ERM practices and the related factors (Mikes & Kaplan, 2015). Specifically, in developing countries like Pakistan, ERM practices are significantly associated with business-strategies and firm performance (Yang et al., 2018). ERM can be a mediator between business-strategies and performance (Soltanizadeh, Abdul Rasid Siti et al., 2016). Therefore, it is proposed in the current study by considering ERM as a mediator between business strategies (Low-cost strategy and differentiation strategy) and bank performance. This study assumes that:

H6 The ERM practices mediates differently the relationship of low-cost strategy and performance for both fully-fledged Islamic banks and Islamic window banks.

H7 The ERM practices mediates differently the relationship of differentiation strategy and performance for both fully-fledged Islamic banks and Islamic window banks.

Competitive Strategies and Bank's Performance: Moderating Role of Managerial Expertise

Managerial skills are the blend of different behavior and capabilities and have a significant effect on the firm-performance (Al-Madhoun & Analoui, 2002). Ali, et al., (2020) noted the significant and positive relation between managerial expertise and bank efficiency. Likewise, ERM practices lead to high levels of performance in the presence of good managerial expertise (Karyani & Rossieta, 2018). It is also observed that the strong managerial expertise are required to manage the ERM practices and to achieve higher level of performance (Burisch & Wohlgemuth, 2016). Moreover, banking activities are not without risk, this has increased the importance of managerial expertise to deal with the number of risks faced by financial institutions (Berman et al., 1999). Therefore, the current study proposes that managerial expertise moderates the relationship between ERM practices and bank performance. Specifically, this study assumes that:

H8 The moderating role of managerial expertise will be different for the ERM practices and performance for FFIBs and Islamic window banks.

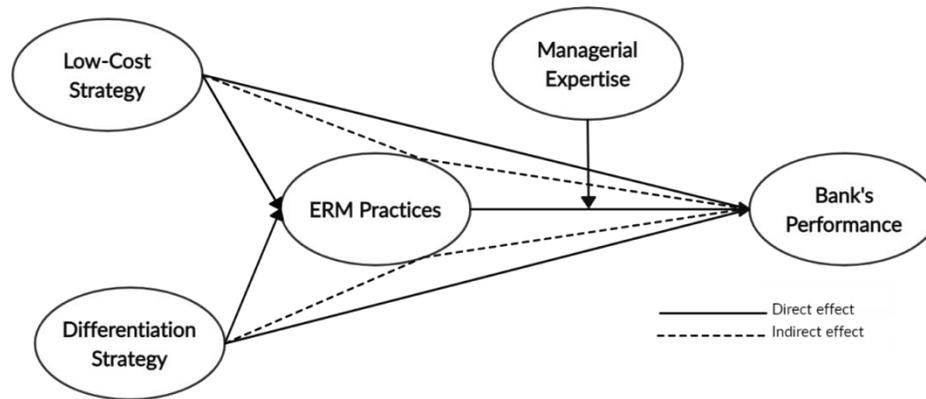


FIGURE 1
THEORETICAL FRAMEWORK

DATA AND METHODOLOGY

Data Collection Process and Sample of the Study

A quantitative study is conducted based on several questionnaires. The data are collected from the branch manager, area manager, regional manager, and regional heads of fully-fledged and Islamic window banks. For the purpose of data collection, the five point Likert scale opted that ranges from (1=strongly disagree) to (5=strongly agree). The Islamic bank inscribed as the backbone for any developed and developing economy due to the fastest-growing chunk in the financial sector (Abduh & Azmi Omar, 2012). Punjab is the biggest province of Pakistan that has approximately 110 million population (Rehman Zia et al., 2020).

Thus, the data are collected from the Punjab province from the cities of Jhelum, Lahore, Gujranwala, Faisalabad, Gujrat, Rawalpindi, Sahiwal, Sialkot, Bahawalpur & Hafizabad. By using judgmental sampling, 497 (247 for fully-fledged and 250 for Islamic window banks) questionnaires were collected. Total 600 questionnaires distributed, and 497 consider after omitted those not appropriately filled and having >5% missing values. Prior studies show 100 sample size was enough for PLS-SEM (Reinartz et al., 2009). Therefore, the sample size for both segments was considered acceptable for the purpose of the current study.

Measurement Scale

This study adopted the structured questionnaire with three sections. First section includes the demographics characteristics of the respondents. Second section includes constructs of the study, and third section includes questions of social desirability to assess the common method variance by using construct level corrections. Following existing literature, low-cost strategy and the differentiation strategy were measured with eight items scale (Teeratansirikool et al., 2013).

Moreover, this study used four components of risk management practices (ERM), namely, Understanding Risk (UR), Risk Identification (RI), Risk Assessment (RA), and Risk Monitoring (RM) Boehm (1991). In this regard, Lam (2001) noted that implementation of ERM practices in a firm accelerates its ability to reduce loss, increases its returns, reduces market volatility, increases investor confidence, and help in managing risk in a better way (Zaleha et al., 2014). Particularly, we used seven items to measure UR, five items for RI, seven items for RA, and six items for RM, adopted from the work of Al-Tamimi & Al-Mazrooei (2007).

Bank's performance was measured with two components (financial and non-financial performance). Both financial and non-financial performance were measured using eight item scale

(Khan et al., 2019). Besides, managerial expertise was measured with nine items scale (Dominic & Theuvsen, 2015). Finally, social desirability was measured with seven items scale adapted from (Fischer & Fick, 1993).

Data Analysis Process

The current study used Smart PLS 3.3.2 to perform the measurement assessment, the structural assessment, and the multigroup analysis (MGA) (Hair Jr et al., 2016). Multigroup analysis is a non-parametric test to compare the effect of two groups. Moreover, measurement invariance for composites methods was applied to test the hypotheses (Rasoolimanesh et al., 2016).

FINDINGS

Assessment of the Measurement

In our study, low cost, differentiation strategy and managerial expertise were used as exogenous constructs while ERM practices and bank's performance were considered as endogenous construct. For the assessment of measurement and structural model, this study employed the disjoint two-stage technique (Sarstedt et al., 2019). In the first stage, only lower-order components for an assessment of the measurement model are considered. Furthermore, in the second stage, latent scores were used to construct relationships for structural model assessment (Becker et al., 2012).

| | Loadings | | CR | | AVE | | | Loadings | | CR | | AVE | |
|--------------------------|----------|----------------------|-------|----------------------|-------|----------------------|---------------------------|----------|----------------------|-------|----------------------|-------|----------------------|
| | FFIBs | Islamic window banks | FFIBs | Islamic window banks | FFIBs | Islamic window banks | | FFIBs | Islamic window banks | FFIBs | Islamic window banks | FFIBs | Islamic window banks |
| Differentiation strategy | | | 0.889 | 0.891 | 0.503 | 0.508 | Risk Monitoring | | | 0.887 | 0.891 | 0.568 | 0.577 |
| DS1 | 0.796 | 0.782 | | | | | RM1 | 0.774 | 0.817 | | | | |
| DS2 | 0.689 | 0.762 | | | | | RM2 | 0.769 | 0.777 | | | | |
| DS3 | 0.776 | 0.791 | | | | | RM3 | 0.693 | 0.737 | | | | |
| DS4 | 0.767 | 0.753 | | | | | RM4 | 0.817 | 0.775 | | | | |
| DS5 | 0.715 | 0.692 | | | | | RM5 | 0.73 | 0.783 | | | | |
| DS6 | 0.655 | 0.661 | | | | | RM6 | 0.732 | 0.656 | | | | |
| DS7 | 0.626 | 0.605 | | | | | | | | | | | |
| DS8 | 0.628 | 0.627 | | | | | | | | | | | |
| Low-cost strategy | | | 0.887 | 0.879 | 0.53 | 0.511 | Financial performance | | | 0.888 | 0.903 | 0.501 | 0.539 |
| CL1 | 0.705 | 0.807 | | | | | BF1 | 0.743 | 0.749 | | | | |
| CL2 | 0.74 | 0.781 | | | | | BF2 | 0.763 | 0.805 | | | | |
| CL3 | 0.756 | 0.623 | | | | | BF3 | 0.766 | 0.779 | | | | |
| CL4 | 0.661 | 0.648 | | | | | BF4 | 0.759 | 0.769 | | | | |
| CL5 | 0.73 | 0.757 | | | | | BF5 | 0.702 | 0.786 | | | | |
| CL6 | 0.766 | 0.728 | | | | | BF6 | 0.6 | 0.696 | | | | |
| CL7 | 0.732 | 0.636 | | | | | BF7 | 0.659 | 0.669 | | | | |
| | | | | | | | BF8 | 0.648 | 0.595 | | | | |
| Understanding Risk | | | 0.87 | 0.9 | 0.536 | 0.6 | Non-financial performance | | | 0.889 | 0.907 | 0.501 | 0.551 |
| | 0.817 | 0.827 | | | | | NF2 | 0.75 | 0.794 | | | | |
| UR2 | 0.784 | 0.863 | | | | | NF1 | 0.707 | 0.83 | | | | |
| UR3 | 0.751 | 0.876 | | | | | NF3 | 0.75 | 0.709 | | | | |
| UR4 | 0.721 | 0.77 | | | | | NF4 | 0.729 | 0.735 | | | | |

| | | | | | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|----------------------|-----|-------|-------|-------|-------|-------|--|
| UR5 | 0.651 | 0.629 | | | | | | NF5 | 0.704 | 0.721 | | | | |
| UR6 | 0.653 | 0.646 | | | | | | NF6 | 0.733 | 0.772 | | | | |
| | | | | | | | | NF7 | 0.627 | 0.679 | | | | |
| | | | | | | | | NF8 | 0.657 | 0.685 | | | | |
| Risk Identification | | | 0.842 | 0.823 | 0.571 | 0.541 | Managerial expertise | | | 0.784 | 0.773 | 0.548 | 0.532 | |
| RI1 | 0.808 | 0.826 | | | | | | ME1 | 0.791 | 0.727 | | | | |
| RI3 | 0.766 | 0.787 | | | | | | ME2 | 0.709 | 0.786 | | | | |
| RI4 | 0.701 | 0.62 | | | | | | ME6 | 0.718 | 0.671 | | | | |
| RI5 | 0.745 | 0.69 | | | | | | | | | | | | |
| Risk Assessment | | | 0.857 | 0.844 | 0.545 | 0.52 | | | | | | | | |
| RA1 | 0.732 | 0.736 | | | | | | | | | | | | |
| RA2 | 0.741 | 0.719 | | | | | | | | | | | | |
| RA3 | 0.775 | 0.733 | | | | | | | | | | | | |
| RA4 | 0.752 | 0.711 | | | | | | | | | | | | |
| RA5 | 0.688 | 0.706 | | | | | | | | | | | | |
| Note: FFIBs=fully-fledged Islamic banks, CR=composite reliability and AVE=average variance extracted | | | | | | | | | | | | | | |

Assessment of measurement model conducted for fully-fledged Islamic banks and Islamic window banks. To the evaluation of reflective measure outer loadings, internal consistency (CR), and convergent validity (AVE) has examined (Hair et al., 2019). Table 1 indicates the statistical results for the reflective constructs. The threshold for the outer loading and CR should be >0.70, and for AVE should be >0.50. Though, some outer loading were below the cutoff point. According to Hair, et al., (2016) outer loading <0.70 were acceptable if CR and AVE achieved their thresholds. Conclusively, reliability and convergent validity established for FFIBs and Islamic window banks.

In the next step, we assessed the discriminant validity for FFIBs and Islamic window banks. Table 2 demonstrates the assessment of discriminant validity through Heterotrait-Monotrait (HTMT) ratio (Henseler et al., 2015). Several recent studies applied HTMT method due to some deficiencies in traditional Fornell & Larcker method. Fornell & Larcker method has sensitivity problem (Henseler et al., 2015). HTML method is proficient for providing more robustness results as compared to Fornell & Larcker. Researchers recommended that two thresholds for HTMT method, namely, liberal and conservative. This study adapted HTMT0.90 liberal approach to assessing discriminant validity (Henseler et al., 2015). Results indicate satisfactory discriminant validity for fully-fledged and Islamic window banks.

| LVs | Fully-fledged Islamic Banks | | | | | | | | Islamic window banks | | | | | | | | | |
|-----|-----------------------------|-------|-------|-------|-------|-------|-------|-------|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-----|
| | DS | FP | ME | LCS | RA | RI | RM | UR | NFP | DS | FP | ME | LCS | RA | RI | RM | UR | NFP |
| DS | | | | | | | | | | | | | | | | | | |
| FP | 0.645 | | | | | | | | | 0.61 | | | | | | | | |
| ME | 0.529 | 0.483 | | | | | | | | 0.215 | 0.326 | | | | | | | |
| LCS | 0.7 | 0.702 | 0.514 | | | | | | | 0.691 | 0.556 | 0.239 | | | | | | |
| RA | 0.715 | 0.592 | 0.386 | 0.726 | | | | | | 0.648 | 0.666 | 0.299 | 0.625 | | | | | |
| RI | 0.732 | 0.592 | 0.464 | 0.769 | 0.9 | | | | | 0.689 | 0.636 | 0.316 | 0.765 | 0.814 | | | | |
| RM | 0.813 | 0.693 | 0.578 | 0.83 | 0.805 | 0.871 | | | | 0.756 | 0.688 | 0.378 | 0.707 | 0.866 | 0.859 | | | |
| UR | 0.742 | 0.705 | 0.354 | 0.74 | 0.751 | 0.831 | 0.774 | | | 0.7 | 0.655 | 0.332 | 0.652 | 0.72 | 0.805 | 0.766 | | |
| NFP | 0.756 | 0.686 | 0.475 | 0.742 | 0.658 | 0.691 | 0.74 | 0.668 | | 0.742 | 0.673 | 0.249 | 0.681 | 0.656 | 0.629 | 0.714 | 0.667 | |

Variance Inflation Factor (VIF) is also assessed to avoid multicollinearity among the indicators of constructs. The threshold for the VIF should be <5 (Hair Jr et al., 2016). This study established acceptable multicollinearity because VIF values are from 1.124 to 2.555 and 1.139 to 3.046 for fully-fledged and Islamic window banks, respectively.

Assessment of the measurement invariance must be established before executing multi-group analysis (Henseler et al., 2016). The primary purpose is to perform the MGA to compare the difference between two path coefficients. Prior literature suggested measurement invariance for composites (MICOM) technique for the measurement invariance (Henseler et al., 2016). This method requires three steps; (i) computing configural invariance (including same indicators, data treatment and algorithm for both groups), (ii) compositional invariance, and (iii) the equality of the composite mean and variance for both groups. Table 3 indicates that partial invariance is established for FFIBs and Islamic window banks. Hence, a prerequisite is successfully fulfilled to execute the MGA.

Table 3
MEASUREMENT INVARIANCE FOR COMPOSITE (MICOM)

| | Configural invariance | Compositional invariance | | Partial measurement invariance established | Equal mean assessment | | | Equal variance assessment | | | Full measurement invariance established |
|-------------|-----------------------|--------------------------|-------|--|-----------------------|---------------------------|-------|---------------------------|---------------------------|-------|---|
| | | C=1 | 5% | | Δ | Confidence Interval (CIs) | Equal | Δ | Confidence Interval (CIs) | Equal | |
| CLS | Yes | 0.999 | 0.997 | Yes | 0.276 | [-0.176, 0.175] | No | -0.15 | [-0.235, 0.222] | Yes | No |
| DS | Yes | 1 | 0.997 | Yes | 0.113 | [-0.172, 0.176] | Yes | -0.18 | [-0.325, 0.302] | Yes | Yes |
| ERMP | Yes | 0.998 | 0.978 | Yes | 0.084 | [-0.174, 0.164] | Yes | -0.15 | [-0.318, 0.290] | Yes | Yes |
| BP | Yes | 1 | 0.977 | Yes | 0.291 | [-0.184, 0.165] | No | -0.3 | [-0.302, 0.281] | Yes | No |
| ME | Yes | 0.928 | 0.901 | Yes | 0.362 | [-0.168, 0.171] | No | 0.037 | [-0.196, 0.175] | Yes | No |
| Mod | Yes | 1 | 1 | Yes | 0.154 | [-0.185, 0.184] | Yes | -0.57 | [-0.468, 0.432] | No | No |

Note: Δ indicates original difference

Structural Model Assessment and Multigroup Analysis

Table 4 shows the assessment of the structural model and MGA for FFIBs and Islamic window banks. There were two non-parametric tests performed to compare the difference. First, MGA based on the bootstrapped method developed by (Henseler et al., 2009), and second, the permutation analysis developed by (Chin & Dibbern, 2010). For the assessment of structural model, coefficient of determination (R^2), Stone-Geisser (Q^2) and the significance of path coefficient need to be assessed (Hair et al., 2019). Results show that the R^2 value of ERM practices and the bank's performance is 0.696 and 0.649, respectively, for FFIBs. While, for Islamic window banks the value of 0.584 for ERM practices and 0.624 for bank's performance is observed. Furthermore, the Q^2 values are 0.497 and 0.500 for ERM practices and the bank's performance, respectively for FFIBs. Likewise, the value of ERM practices and the bank's performance is 0.417 and 0.462, respectively, for Islamic window banks.

Table 4:
HYPOTHESIS TESTING USING MGA: PARAMETRIC TEST

| # | Nexus | Path coefficient | | Confidence interval biased corrected (95%) | | Path coefficient difference | p-value difference | | Supported |
|----|-----------------|------------------|----------------------|--|----------------------|-----------------------------|--------------------|-----------------|-----------|
| | | FFIBs | Islamic window banks | FFIBs | Islamic window banks | | MGA | Parametric test | |
| H1 | LCS → ERMP | 0.475 | 0.375 | [0.363, 0.554] | [0.269, 0.486] | 0.1 | 0.159 | 0.156 | No/No |
| H2 | LCS → BP | 0.266 | 0.142 | [0.128, 0.405] | [0.028, 0.260] | 0.124 | 0.19 | 0.188 | No/No |
| H3 | DS → ERMP | 0.458 | 0.479 | [0.373, 0.556] | [0.346, 0.588] | -0.021 | 0.771 | 0.78 | No/No |
| H4 | DS → BP | 0.212 | 0.251 | [0.078, 0.352] | [0.106, 0.387] | -0.039 | 0.726 | 0.711 | No/No |
| H5 | ERMP → BP | 0.32 | 0.472 | [0.127, 0.464] | [0.273, 0.628] | -0.152 | 0.239 | 0.232 | No/No |
| H6 | LCS → ERMP → BP | 0.152 | 0.177 | [0.063, 0.240] | [0.103, 0.266] | -0.025 | 0.676 | 0.676 | No/No |
| H7 | DS → ERMP → BP | 0.147 | 0.226 | [0.068, 0.232] | [0.138, 0.326] | -0.079 | 0.255 | 0.255 | No/No |
| H8 | ERMP*ME | -0.146 | 0.059 | [-0.225, -0.071] | [-0.067, 0.154] | -0.205 | 0.011 | 0.004 | Yes/Yes |

The main findings are discussed in the following manner. First hypothesis states that low-cost strategy will have a positive effect on the ERM practices of both FFIBs and Islamic window banks. Our results found a positive effect of LCS on ERM practices for FFIBs and Islamic window banks. This result is consistent with the findings of (Soltanzadeh, Abdul Rasid et al., 2016). However, this hypothesis is not supported because no hypothesized significant difference found for the impact of LCS on ERM practices between fully-fledged and Islamic window banks.

Our second hypothesis assumes that low-cost strategy will have a positive effect on the performance of both FFIBs and Islamic window banks. In the case of this hypothesis, the study found a positive and significant effect of LCS on the bank's performance in FFIBs and Islamic window banks. This finding is in line with (Islami et al., 2020; Kankam-Kwarteng et al., 2019). However, these results are also indicating the insignificant difference between FFIBs and Islamic window banks.

Third hypothesis states that differentiation strategy will have a positive effect on the ERM practices of both FFIBs and Islamic window banks. Our results found a positive effect of DS on ERM practices for FFIBs and Islamic window banks. This finding is consistent with (Soltanzadeh, Abdul Rasid et al., 2016). However, this hypothesis is not supported because no hypothesized significant difference found for the impact of DS on ERM practices between fully-fledged and Islamic window banks.

Fourth hypothesis conjectures that differentiation strategy will have a positive effect on the performance of both FFIBs and Islamic window banks. Again, in the case of this hypothesis, the study found a positive and significant effect of DS on the bank's performance in FFIBs and Islamic window banks. This finding is consistent with (Islami et al., 2020; Semuel et al., 2017). However, these results are also indicating the insignificant difference between FFIBs and Islamic window banks.

In the similar vein, our fifth hypothesis states that ERM practices will have a positive effect on the performance of both FFIBs and Islamic window banks. The results demonstrate the positive as well as a significant effect of ERM practices on the bank's performance in FFIBs and

Islamic window banks. This result is consistent with the findings of (Gordon et al., 2009; Pagach & Warr, 2011). However, no significant difference is found for the impact of ERM practices on the bank's performance between FFIBs and Islamic window banks.

Moreover, this study tested mediation effect of ERM practices between low-cost strategy and performance in hypothesis six and hypothesis seven. Specifically, hypothesis six assumes that ERM practices mediate the relationship between low-cost strategy and performance of both FFIBs and Islamic window banks. Likewise, hypothesis seven states that ERM practices mediate the relationship between differentiation strategy and performance of both FFIBs and Islamic window banks. The positive and significant results found for the effect of LCS and DS on the bank's performance in the presence of ERM practices in FFIBs and Islamic window banks.

Finally, the moderation effect of managerial expertise on the relationship between ERM practices and the performance is tested in hypothesis eight. Particularly, we conjecture that managerial expertise strengthens the positive effect of ERM practices on the performance of Islamic window banks but negatively on FFIBs banks. The results show significant difference for the moderating effect between the relationship of ERM practices and the bank's performance of FFIBs and Islamic window banks.

CONCLUSION AND DISCUSSION

The main purpose of this study is to investigate the impact of low-cost and differentiation strategies on the performance of fully-fledged Islamic banks and conventional banks with Islamic windows. Further, the mediating role of enterprise risk management practices and moderating role of managerial expertise is also investigated. Prior studies show a distinct pattern of performance in the presence of ERM practices (Rehman & Anwar, 2019). In recent decade, a rapid conversion of conventional banking system into the Islamic banking system is observed in Pakistan due to directions of the State Bank of Pakistan (SBP). The conversion of conventional banks with Islamic windows instigates a unique competition within Islamic banking industry. Therefore, the present research study investigates the impact of business strategies on performance of banks in Islamic banking industry where fully-fledged Islamic banks and conventional banks with Islamic windows operating alongside.

The PLS-SEM and multi-group analysis illustrated the insignificant difference for the effect of low-cost strategy on ERM practices and bank's performance between fully-fledged and Islamic window banks. However, the results indicate that low-cost strategy has significant and positive impact on ERM practices and bank's performance. There is no significant difference in both groups is found because both type of banks may try to compete with each other by offering lower prices of their product and service for customers. Nevertheless, the effect size of fully-fledged Islamic bank is much larger than Islamic window banks.

Likewise, the PLS-SEM and multi-group analysis again not observed significant difference between fully-fledged and Islamic window banks for the effect of differentiation strategy on ERM practices and performance. While, the effect size of fully-fledged Islamic banks is much larger as compared to Islamic window banks. This study shows that Islamic window banks may trying to contend fully-fledged Islamic banking by offering unique product and service but the fully-fledged Islamic banking still offers better Islamic products and service than Islamic window banking.

Moreover, this study found an insignificant difference in the effect of ERM practices on the bank's performance across both types of banks. Although, the impact of ERM practices on Islamic window banks' performance is far higher as compared to fully-fledged Islamic bank performance. Islamic window banks have more focus on ERM practices by getting influences from parental banks (conventional banks) than fully-fledged Islamic banks. This study

recommended to fully-fledged Islamic banks to pay more attention to ERM practices to accelerate the performance and makes business strategies successful.

Furthermore, this study found an insignificant difference for the specific indirect effect of ERM practices between the business strategies (low-cost strategy and differentiation) performance between fully-fledged and Islamic window banks. Nonetheless, the effect size of low-cost strategy and differentiation strategy on performance in the presence of ERM practices is slightly larger in Islamic window banks than fully-fledged Islamic banks. This effect size was more extensive due to higher ERM practices of Islamic window banks. Gualandris & Kalchschmidt (2015) argue that organizations lose their competitive advantage if it fails to implement ERM practices. So, this study recommended to the policy makers and regulators fully-fledged Islamic banks to enhance ERM practices in order to survive in growing competitive environment in the Islamic banking industry.

Interestingly, the multi-group analysis and parametric test reveal a significant difference in the interaction effect of managerial expertise on performance between fully-fledged and Islamic window banks. However, on the one hand, the results further indicate that the effect of managerial expertise is insignificant on the performance of Islamic window banks. On the other hand, the significant effect of managerial expertise is found on performance of full-fledged Islamic banks. This is because the managers of Islamic window banks have less experience and knowledge about Islamic products and services as compared to full-fledged Islamic banks. Moreover, the managers of Islamic window banks might also unable to convince their customers about Islamic product and services due to their conventional banking background. Hence, this study recommended to the policy makers and regulators in Islamic window banks to pay attention to the training and development of managers to achieve the targets.

This comparison between fully-fledged Islamic banks and Islamic window banks makes a unique theoretical contribution in a competitive business environment's literature. Importantly, one the one hand, fully-fledged Islamic banks face dual competition from pure conventional counterparts as well as conventional banks with Islamic window. On the other hand, Islamic window banks also face a strong competition from the fully-fledged Islamic banks due to their strong Shariah roots. Hence, this competitive pressure on both types of banks calls for more attention to focus on competitive strategies and enterprise risk management practices to accelerate their performance and overcome the bank risk. These implications are beneficial for owner, managers, and policymakers as this study shed lights on the highly competitive sector which has been ignored by prior researchers.

Moreover, this study has several practical implications. First, this study indicates that less focus on ERM practices leads to less effective competitive strategy. Thus, policy makers and regulators should more focus on ERM practices while implementing competitive strategies to get a competitive advantage. Second, managers of Islamic window banks have a lack of managerial capabilities which leads to low performance. Responsible authorities of Islamic window banks should conduct training and development programs for managers to enhance the managerial experience, skills, and competency. Third, this study will also helpful for institutions planning to shifts from one mode to another mode of business.

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