VALUE CO-CREATION IN SHARĪʿAH-COMPLIANT BANKING: A SAUDI ARABIAN CASE STUDY

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Abstract

This paper argues that Sharīʿah-compliant Islamic banking is essentially a value co-creation business model that illustrates attributes associated with the emerging service-dominant logic paradigm. The underpinning Sharīʿah philosophy of minimising 'usage' of one party by another results in the sharing of profit, losses, risk and the promotion of interest-free principles. Islamic banks that follow Sharīʿah traditions endeavour to co-create value with their business and corporate customers in a manner that would resonate with the proponents of service-dominant logic. The authors argue that Sharīʿah-compliant business models may be more appropriate for today's volatile and socio-economic climate, evidencing their potential via business case examples. Sharīʿah-compliant Islamic financing, such as ṣukūk (Islamic bonds), istiṣnāʿ (construction finance), murābaḥah (commodity trade finance), muḍārabah (finance trusteeship), mushārakah (joint venture) and ijārah (Islamic leasing), is generally based on a business relationship and partnership approach. Such approaches are now gaining popularity and offer those engaged in service exchange the opportunity to co-create value or at least mutual benefit.

Keywords: Sharīʿah, Islamic banking, Co-created Value, Service-Dominant Logic (S-D logic), Services Science and Innovation.

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I. INTRODUCTION

The emerging service-dominant logic paradigm endeavours to make sense of the changing business landscape, one in which services, or at least service offerings, now predominate. Essentially what is being proposed is a revised business model that seeks to place value co-creation at its core. The authors suggest that Sharīʿah-compliant banking could be regarded as essentially a value co-creation business model, one which illustrates attributes associated with the emerging service-dominant logic paradigm. They point to the growth of Islamic banking services and the underpinning Sharīʿah principles suggest that Sharīʿah-compliant business models may be more appropriate for today's volatile and socio-economic climate, evidencing their potential via business case examples. While doing so, the Sharīʿah model is also linked to partnership-based value co-creation, which in turn is used as practical evidence of a service-dominant logic at work.

Since this paper endeavours to engage both finance and service audiences, the authors have attempted to strike a balance between both literatures. In doing so this paper must provide a basic background of both Islamic banking (growth, spread and underpinning principles and mechanisms) and service logic (growth, nature and rationale). To this end the paper opens with the growth of Sharīʿah banking and its potential within today's challenging socio-economic environment. Next, the emerging paradigm of Service-Dominant Logic (S-D logic) and value co-creation are introduced and subsequently linked to Sharīʿah principles and approaches. This is followed by a brief overview of the research approach adopted in an effort to evidence S-D logic in action. The authors have deliberately provided more detail regarding Sharīʿah principles than this Journal's traditional readership may require. However, because the paper bridges banking, finance, services, value and potentially innovative business models, such a contextual grounding was considered necessary.

The findings of this pilot study suggest that the underpinning principles and practices of both Sharīʿah and S-D logic share much in common. Also, given the lack of hard, practical, non-systems-based evidence for both logic and value co-creation in practice, the authors are content that this paper provides initial proof of concept for S-D logic. The paper also expands, what has been primarily US/Westerncentric development (S-D logic), along with the associated validity and practice debates, into a non-Western setting. Further, it raises the profile of not only Sharīʿah principles to a wider audience but also suggests that Sharīʿah approaches could underpin the emerging business models associated with a more challenging socio-economic climate dominated, for many, by service offerings rather than traditional manufacturing/product philosophies.

II. ISLAMIC (SHARĪʿAH) BANKING

The last three decades have seen a steady growth both in Western and Eastern economies towards Islamic banking (Dudley, 2001, Khan, 2007; Cunningham, 2007; Haron and Azmi, 2008a; Khan and Bhatti, 2008a). The turn of this century showed a rapid growth in Islamic banking (Ghannadian and Goswami, 2004). The Middle East, South Asia and the Indian Subcontinent are the emerging hubs of Islamic banking (Khan and Bhatti, 2008a). The Islamic banking industry and associated customs and practices are strongly influenced, and often governed by, the core Sharīʿah principle of profit, loss and risk sharing between the parties engaged in the business exchange; this principle replaces the interest driven business model adopted by conventional, or Westernised, banking entities (Khan, 2008). Interest-free banking is enjoying both enhanced standing and increased popularity. Iqbal and Mirakhor (1999) were among the first to note the significant rise in the standing of Islamic banking and its popularity within both Muslim and non-Muslim countries. It is currently estimated that Islamic banking is practiced in over 75 countries worldwide (Rammal and Zurbruegg, 2007; Cunningham, 2007; Khan and Bhatti, 2008b). This international growth has also been mirrored domestically. For example, the research cases for this paper were drawn from Saudi Arabia, where according to Cunningham (2007), Sharīʿah-compliant service offerings continue to grow. See Tables 1 and 2 below.

Table 1: Sharīʿah-compliant Credit Facilities of Saudi Banks, 31 December 2005

Banks	Total loans and advances, net of provisions (US million dollars)	Total Sharīʿah-compliant facilities, net of provisions (US million dollars)	Sharīʿah facilities % Total loans and advances
Al-Rajhi	21,310.32	21,310.32	100.00
National Commercial Bank	20,089.71	7,802.93	38.80
Samba Financial Group	16,636.16	5,528.00	33.20
Riyadh Bank	12,161.63	4,686.40	38.50
Bank Saudi Fransi	11,399.36	1,641.87	14.40
Arab National Bank	10,340.96	n/a	n/a
Saudi British Bank	10,892.43	4,714.77	43.30
Saudi Hollandi Bank	6,340.40	1,042.93	16.40
Saudi Investment Bank	5,278.29	1,132.80	21.50
Bank al-Bilad	1,389.76	1,389.76	100.00
Bank al-Jazira	1,842.91	1,739.73	94.40
Total	**117,681.92**	**50,989.52**	**500.50**

Source: Cunningham (2007)

Table 2: Sharīʿah-Compliant Credit Facilities of Saudi Banks, 31 December 2006

Banks	Total loans and advances, net of provisions (US million dollars)	Total Sharīʿah-compliant facilities, net of provisions (US million dollars)	Sharīʿah-compliant % Total loans and advances
Al-Rajhi	23,768.61	23,768.61	100.00
National Commercial Bank	20,598.56	9,163.73	44.50
Samba Financial Group	17,874.05	5,904.03	33.00
Riyadh Bank	13,915.49	5,315.73	38.20
Banque Saudi Fransi	13,605.07	2,812.53	20.20
Arab National Bank	13,265.92	n/a	n/a
Saudi British Bank	11,320.05	5,745.87	50.80
Saudi Hollandi Bank	7,061.28	1,626.67	23.00
Saudi Investment Bank	5,517.68	1,032.00	18.70
Bank Al-Bilad	2,575.71	2,575.71	100.00
Bank Al-Jazira	1,672.29	1,672.27	100.00
Total	**131,174.72**	**59,617.15**	**528.40**

Source: Cunningham (2007)

Furthermore, Khan and Bhatti (2008b) point to the promising future of Islamic banking by highlighting that there are now more than 300 Islamic banking and financial institutions with more than US$13 billion in capital, assets worth US$300 -US$500 and investments of US$500 - US$800 billion. They go on to forecast an annual growth rate of 15% and point to the estimated worth of the Islamic banking industry as being US$4 trillion by 2010. Today, leading global banks such as Citigroup, HSBC and Deutsche Bank have dedicated Sharīʿah-compliant financial services and products (Wilson, 1994; Ebrahim and Joo, 2001; Farook, 2009).

The basic business and governance model that underpins Sharīʿah-compliant banking has a long and resilient history, having been proposed and codified by Islam over 14 centuries ago (De Jonge, 1996; Ghannadian and Goswami, 2004). The religion of Islam argues for the prohibition of interest, known in Islam as *ribā* (Gerrard and Cunningham, 1997; Karim, 2001; Archer and Rifaat, 2007a; Abdul-Muhmin, 2008). Islam strongly argues that interest on a loan is an augmentation of capital without effort and, as such, must be considered a false creation of value (Bellalah and Ellouz, 2004). The growth of income must result from investment, labour and other economic activities (Bellalah and Ellouz, 2004). Islamic banking practices are value driven and seek to ensure the moral and material wellbeing of those parties engaged in the business exchange or investment (Naqvi, 1982; Zarqa, 1983; Ahmed, 1994; Siddiqi, 2000; Choudhury and Hussain, 2005; Cunningham, 2007). Moreover, Islamic banking strives to be fair and just to all parties engaged in the service exchange (El-Gamal, 2006). In order to maintain stable relationships and promote fairness, Islamic banks are discouraged from engaging in activities featuring extreme uncertainties and risk (Archer and Rifaat, 2007b; Iqbal and Mirakhor, 2007).

Indeed, the principles and features of Islamic banking have been recognised as being beneficial for general socio-economic wellbeing (Choudhury and Al-Hallaf, 2001). For example, according to Dar and Presley (1999: p. 1), "the creditor/debtor relationship is redefined in Islam with the creditor becoming a partner in the project, who also shares the profit and loss". Sharīʿah-compliant banking practices are very different from conventional (Western) banking; Table 3 below provides a brief comparison.

Table 3: Conventional banking vs. Islamic banking

	Islamic Banking	Conventional Banking
Main Principle	The customer shares the profit, loss and risk with the bank.	The customer obtains fixed interest from the bank.
Stability	Higher degree of stability especially for new businesses, and in difficult economic times.	Lower degree of stability because the customer bears all the costs in the event of business failure.
Treatment of interest	Uses Profit and Loss Structure (PLS). Interest is prohibited.	Interest based on the loan or finance.
Profitability	PLS is based on partnership with management participation (*mushārakah*) or joint investment (*muḍārabah*).	The bank or the lender benefits from high interest rates and profitability.

Source: Adapted from Al-Rifaee (2008: p.21)

The reader should keep in mind Table 4 below as the following section details the underpinning features of value co-creation. There are clear similarities underpinning Sharīʿah-compliant banking and S-D logic.

III. VALUE AND VALUE CO-CREATION

The creation of value is an essential element of any economic exchange, but the term *value* can be interpreted in many different ways (Vargo, et al. 2008). In economic terms *value* first came to prominence in the market exchange studies through the contribution of early Muslim scholars such as al-Ghazālī and Ibn Khaldūn (Islahi, 2007). Later, in the 19th century, Adam Smith examined notions such as 'value-in-exchange' and 'value-in-use' (Smith, 1776). Smith argued, "the word value, it is to be observed has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys" (Smith, 1776: p. 31). Smith provided further insights into the two forms of value by stating, "things which have the greatest value-in-use have frequently little or no value in exchange; and on the contrary, those which have the greatest value-in-exchange have fundamentally little or no value-in use" (Smith, 1776: p. 31). Smith's economic ideas and thoughts reflect a world driven by manufacture and distribution. However, certainly for the developed economies and increasingly those following closely behind - Brazil, Russia, India and China (BRIC), it is services - both traditional, such as banking and retail, and emerging, such as the solutions-based systems enterprises such as IBM - that are now dominating our socio-economic landscape (Paton and McLaughlin, 2008). With over 75% of the US and UK labour force engaged in a knowledge-led economy (Lyons, 2007; Hefley and Murphy, 2008; Basole and Rouse, 2008), over 30% of the BRIC economies engaged in services, and 75% of the wealth of the US and UK generated through services (Howells, 2000; Drejer, 2002; Bitner and Brown, 2008), there is lack of research and financial backing for service-related innovation research (DTI, 2007; NESTA, 2008a).

It may well be time to take another look at value, services and innovation. Among those in the vanguard of value driven services research are authors such as Chesbrough, Lucsh, Maglio, Spohrer and Vargo (Spohrer and Maglio, 2005; Chesbrough and Spohrer, 2006; Vargo, 2008; Vargo et al. 2008; Vargo and Lusch, 2008; Michel et al, 2008; Merz et al. 2009). As early as 2004, researchers were revisiting Smith with a view to better understand the nature of value within a service- dominant context. For example, Vargo and Lusch (2004) developed Smith's ideas about value exchange into two distinct views of value-creation:

1. *The Goods-Dominant Logic (G-D logic)*
   The G-D logic is based on the concept of value in exchange and, as such, is fundamentally concerned with units of output that are embedded with value during production (Vargo and Lusch, 2008). G-D logic views the central purpose of the firm as being to 'produce and sell outputs' and that 'value is created by the firm and delivered to the customer' (Lusch et al. 2008: p. 10).
2. *The Service-Dominant Logic (S-D logic)*
   In contrast with G-D logic, the S-D logic focuses on the interaction between the service firm and its customers (Lusch et al. 2008), and this logic fundamentally challenges the foundation of economics (Vargo and Lusch, 2004). S-D logic argues that service exchanges can lead to value co-creation and views the customer 'as an operant resource and someone with whom the firm can co-create value. This implies a developing dialog between parties that is founded on trust, learning together and adaptation to each other' (Lusch et al. 2008: p. 10). Appendix III shows the main differences between G-D and S-D logic in relation to value and value creation.

Vargo et al. (2008) are proposing a radical rethink of how we define, manage and exploit value. The S-D logic and co-creation of value aspect can be potentially seen as an important competitive advantage for service firms (Lusch et al. 2008). If firms and their customers are successful in developing a dialogue and business model based on partnership, both parties can co-create value.

Such ideas are grounded in the Sharīʿah practice and form the basis for Islamic banking practice and governance (Table 1), where both the bank and its business customer work together in creating a business model based on the sharing of profit, loss and risk, as previously illustrated. Therefore, if we attempt to take the S-D logic model proposed by Vargo et al. (2008) and link it with the different Sharīʿah finance modes, we can see close linkages and strong relationships with the key S-D logic elements and principles (as illustrated in Table 1) addressed by Vargo et al. (2008).

Table 4: S-D logic and Sharīʿah modes of finance, adapted from (Vargo et al. 2008)

	S-D logic	Sharīʿah Modes of Finance
Value driver	Value-in-use or value-in-context	Value creation for all parties is the principle by which Islamic banking was established
Creator of value	Firm, network partners and customers	Value is created through a joint agreement between the bank and the business customer
Process of value creation	Firms propose value through market offerings, customers continue value-creation process through use	Both the bank and the business client agree on a specific ratio and payment process for the finance arrangement
Purpose of value	Increase adaptability, survivability and systems wellbeing through service (applied knowledge and skills) of others	The purpose of Islamic banking and Sharīʿah finance models is to ensure fairness to all parties as well as ensuring moral and socio-economic wellbeing
Measurement of value	Primarily operant resources, sometimes transferred by embedding them in operand resource-goods	Stronger business relationship, consultancy and new business opportunities
Resources used	Propose and co-create value; provide service	Both the bank and the client share resources and expertise
Role of firm	Vehicle for operand resources; enables access to benefits of firm competencies	Uses the bank's finance but also benefits from the bank's involvement in Board decision-making (especially in the *muḍārabah* agreement)
Role of goods	Co-create value through the integration of firm provided resources with other private and public resources	Sharīʿah finance requires an element of resource or assets integration between the bank and the corporate client

However, as we noted in the Introduction, the emerging value driven services literature tends to be predominantly Western in nature and lacks substantial concrete examples of S-D logic in action (Paton and McLaughlin, 2008), other than anecdotal cases, and there is only limited empirical evidence (Beirne and Cromack, 2009). The authors argue that possibly, many scholars have been looking in the wrong place for evidence of S-D logic in action. Prior to presenting a number of empirically-grounded cases of S-D logic and value co-creation in action, we first need to briefly clarify, especially for the non-Islamic banking scholars and practitioners, the Sharīʿah-associated modes of finance because these will form the basis for the pilot research cases.

IV. ISLAMIC (SHARĪʿAH) MODES OF FINANCE

The underpinning principles of Islamic banking have resulted in the creation of varying modes of finance. According to Choudhury and Hussain (2005: p. 2903), "Islamic modes of financing comprise two basic principles, namely the interest-free financing instruments in the private sector and the development financing instruments based on both cost and profit sharing". Sharīʿah or Islamic financing models include: *muḍārabah, mushārakah, murābaḥah* and, more recently, ṣukūk*, istiṣnāʿ* and *ijārah*.

First, *muḍārabah* is essentially a finance agreement between a capital provider (bank) and a business entity (Usmani, 1998). Fasnachat (2009: p. 70-71) argues that according to the *muḍārabah* agreement*,* any profit made in business activities will be shared between the bank and the business owner based on an agreed 'ratio' (Gafoor, 1996). However, in the event of loss the 'capital provider will bear all the losses and the profit sharing continues until the loan is repaid' (Fasnachat, 2009: p. 70-71). In this form of Islamic financing, the capital provider participates, directly or indirectly, in the management of the venture (Ghannadian and Goswami, 2004).

Second, *mushārakah* (partnership or joint venture) is another popular finance option. *mushārakah,* which in Arabic means sharing, refers to a joint business partnership in which all partners share the profit according to a specific ratio while the loss is shared according to the ratio of the contribution (Haron et al. 1994; Lewis and Algaoud, 2001; Usmani, 2002; Rammal, 2004; Rammal and Zurbruegg, 2007).

Third, *murābaḥah* (cost-plus sale or commodity trade finance) is very popular and commonly practiced by Islamic banks around the world (Cunningham, 2007; Ram, 2009). According to Azam (2008: p. 1), over 66% of Islamic banks worldwide are investing through *murābaḥah*. Siddiqui (2008: p. 382) explains that *murābaḥah* is used for financing 'consumer durables' and real estate as well as for 'purchasing raw materials, machinery or equipment'. One can think of a *murābaḥah* facility as akin to a consumer loan, line of credit, or working capital facility provided by conventional banks.

Fourth, ṣukūk may be regarded as being an Islamic bonds or investment certificate. (Jobst et al. 2008). Wilson (2009) points out that although ṣukūk is still a developmental financing mode, it is becoming increasingly popular for major ventures. *Ṣukūk*-style arrangements are likely to be in the order of £250bn to £500bn within five years in the Middle East and East Asia (Willsdon, 2007). *Ṣukūk* originated in Malaysia and the Gulf Co-operation Council (GCC) countries (Ram, 2009). In Saudi Arabia, for example, leading companies such as SABIC and STC have both financed their business through ṣukūk (Wilson, 2009).

Fifth, *istiṣnāʿ* (construction finance) - according to Ram (2009) - is the purchase contract for an asset whereby the buyer places an order with the seller to purchase the asset on a future date.

Last, *ijārah* (leasing contract) is another recent form of Islamic financing. According to Siddiqui (2008: p. 384), it is an "Islamic leasing facility, which has two sub contracts. First the bank signs a purchasing contract with the seller for the commodity which the buyer wishes to lease. Then the bank pays the seller and then gets the commodity delivered to the buyer from the seller. Second, the bank signs a lease contract with the buyer in which a commodity is leased to the customer allowing him/her the ownership (or simply use) of the asset after payment of lease instalment and residual charges". The commodity in this agreement could be real estate, cars, computer machinery or equipment.

The Islamic financing modes noted above are closely tied with the Sharīʿah principle and philosophy of minimising usage of one party by another while promoting profit, loss and risk sharing practice in the business exchange. This principle replaces the interest driven business model adopted by conventional or Westernised banking entities (Khan, 2008). Moreover, the philosophy of minimising usage of one party by another ensures value as well as moral and socio-economic wellbeing in business practices and exchanges. If we focus on value and tease out what this means from a service exchange perspective, we have the essence of this paper: Islamic banking practices provide the opportunity for both parties to co-create value prior to, during and after the service exchange, and as we have discussed previously, this is what lies at the heart of S-D logic.

The following section further develops the Sharīʿah/S-D logic connections and links them to the difficulties and challenges facing the worldwide financial industry.

V. ISLAMIC FINANCE AND CO-CREATED VALUE

The Islamic banking modes of finance offer all parties mutual benefits and potentially shared value. According to Archer and Karim (2005), Sharīʿah banking offers co-created value through the means of shared risk. The previously noted growth, in both the standing and popularity of Islamic banking, points to an acceptance of a business model that endeavours to minimise risk and usage through business partnership. Sharīʿah banking has proven its robustness and strength in today's global economic and financial crisis (Anjum, 2008; Al-Hamzani, 2008; Farrok, 2009; Reed, 2009; Al Makin, 2009; Haddad and Hakim, 2010). The banking industry in many Muslim nations, such as Saudi Arabia, UAE and Indonesia, has actually enjoyed growth during the credit crisis (Farook, 2009).

Many experts and banking officials have suggested that Islamic banks have weathered the recent financial crisis better than the Western competition due to the very nature of the underpinning Sharīʿah principles (Al-Hamzani, 2008). For example, Dr. Said A. Al-Shaikh, Chief Economist at National Commercial Bank in Jeddah, claims that Saudi Arabia is one of the countries least affected by the financial crisis (Reed, 2009). Moreover, some scholars and political leaders, such as Mr. Abdullah Ahmad Badawi, the former Prime

Minister of Malaysia, have stated that Islamic banking could offer an alternative solution for overcoming the difficulties and challenges facing the worldwide financial industry (Al Makin, 2009). Anjum (2008) argues that Sharīʿah-compliant banking practices could assist in overcoming today's volatile and suspect socio-economic realities. Furthermore, a recent report (Business Monitor International, 2009) argued that Islamic banking managed to reduce the impact of the mortgage crisis since it does not allow dealings in products like derivatives, options or papers that contributed to the meltdown. Similarly, Al-Hamzani (2008) states that because of the nature of Islamic banking (it does not deal in debt trading and distances itself from market speculation) it has not been seriously affected by the current financial difficulties. The point here is not that the quoted commentary is conclusive, but it suggests a realisation that alternatives to Western banking and financing approaches are at least credible and potentially more robust.

It would appear that there is a growing realisation that the banking and financial industry would benefit from business models that are based on partnership and relationship building (Lusch et al. 2007). It could be argued that Islamic banking offers such a partnership approach and can deliver 'co-created value', based on sustainable partnerships and meaningful service exchanges. This basic approach of relationship building and business partnership lies at the core of what many researchers would see as being an essential ingredient of business success (Leavy, 2004; Prahalad and Ramaswamy, 2004; Vargo and Lusch, 2004; Rust, 2006; Gentile et al. 2007; Lusch et al. 2007; Paton and McLaughlin, 2008; Vargo et al, 2008; Vargo, 2008; Michel et al. 2008; Merz et al. 2009). For example, Leavy (2004: p. 10) argues that "value will be interactively co-created by companies and consumers, rather than merely exchanged between them. The emergence of more connected, informed and active consumers is transforming the company-consumer relationship". Furthermore, Paton and McLaughlin (2008) stress the need to better understand the nature of innovation within service driven relationships, arguing that it is likely to prosper in co-created value exchanges.

Initial research suggests that Sharīʿah-inspired Islamic banking may be regarded as an exponent of 'service dominant logic and co-created value' (Vargo, 2008; Vargo et al. 2008; Vargo and Lusch, 2008; Michel et al. 2008; Merz et al. 2009). If so, Sharīʿah business models could assist businesses facing the challenges of a credit downturn and socio-economic uncertainty. Moreover, adopting such a model may result in new business opportunities driven by a more meaningful service relationship with business stakeholders (Merz et al. 2009) and could be regarded as a source of competitive advantage (Vargo and Lusch, 2004).

The following two sections set out the means by which the authors explored the connections and potential of the Sharīʿah/S-D logic interface. It must be stressed that this was an explorative study designed to tentatively confirm the validity of the premise that Islamic banking practices provide evidence of S-D logic in action and may offer alternative business models to the service-dominated world.

VI. RESEARCH METHODOLOGY

As stated earlier, Western management literature lacks substantial concrete examples of S-D logic in action (Paton and McLaughlin, 2008) and very limited empirical evidence (Beirne and Cromack, 2009). In order to address these gaps, the authors decided to conduct eight semi-structured interviews to explore whether there is supporting evidence of S-D logic and value co-creation in practice within Sharīʿah banking.

The authors developed the guide for the semi-structured interviews after comprehensively reviewing both subject (service science and innovation/S-D logic; Sharīʿah principles and Islamic banking) and research methods literature (two of the authors were/are sponsored doctoral students). The authors considered ideas underpinning S-D logic and value co-creation when structuring the interview questions. Furthermore, the authors examined the Islamic banking literature in order to better understand the nature and processes of the six modes of Islamic finance.

The semi-structured interviews were conducted by one of the authors and targeted a number of senior managers in a leading Islamic bank in the Kingdom of Saudi Arabia. Negotiating such access took a great deal of time and effort, along with assurances of confidentiality.

Ideally, the authors would have liked greater access and a larger sampling frame but also recognised, given the sensitive nature of the subject/context, that access and collaboration could only be attained upon trust and mutual benefit. It is hoped that this explorative study will provide leverage for gaining wider participation in the future. The participating managers all work in the corporate banking division and are in charge of signing Islamic finance agreements with large corporate clients in Saudi Arabia. All eight interviews were audio-recorded and transcribed in full. Then, the eight transcripts were analysed. All interviews were conducted in the workplace of the senior managers.

The interviews were structured as follows: Each senior manager was asked to discuss a mode of finance agreement between the bank and a corporate client. The interviewees were then asked to evaluate processes and anticipated outcomes for the parties involved. The focus then moved to establishing the extent to which any additional business opportunities had resulted from the service exchange.

The rationale behind this approach reflected the sensitivity of the research intent with regard to the data being sought. The host financial institution was willing to assist but only on the basis that the research was limited to their client managers, not the clients themselves. In addition, they wished to approve the 'questionnaire' and retain a degree of control regarding, what could be, sensitive commercial data. Unfortunately, this one-sided view of the service relationship was not ideal (Yin, 1994). However, given the exploratory study of the research and the fact that it fell within a far wider and more intensive research initiative, the authors decided to accept the host's stipulations.

The following section will provide a summary of the eight cases as well as show evidence of S-D logic and value co-creation in action.

VII. CASE STUDIES: FINDINGS AND RESULTS

The first case comes from a leading power generating company with approximately 1000 employees. The bank and the company signed an *ijārah* agreement. The main reason for choosing this form of Islamic finance was that the company had a large amount of assets that they wanted to lease to raise cash. This mode of finance also gave the company flexibility to reset the financing size every six months. The agreement offered the bank asset ownership (and thus security) until the debt was repaid. It also offered better asset liability management. Indeed, this agreement benefited both parties and helped to start a business relationship that resulted in new Islamic finance being requested from the company.

We can notice from this mode of finance that both the client and the bank benefited from the business transaction. Moreover, value was co-created when both the bank and the client interacted with each other when signing the agreement. This agreement and business transaction helped both parties to establish a relationship that later resulted in new business opportunities. This form of business dealing and interaction is a key component of S-D logic and is a clear example of joint benefit or value among both parties.

The second case comes from a mobile telephone company. This company has recently achieved over US$90 million in turnover, operating with approximately 700 employees. The bank and the company signed a *murābaḥah* (commodity finance) agreement. This form of agreement offered substantial benefits to both parties. The telecom company benefited via Singapore Interbank Offered Rate (SIBOR) / London Interbank Offered Rate (LIBOR) decreases. Furthermore, it allowed the company greater flexibility to reset the financing size every three or six months. On the other hand, this agreement offered substantial benefits to the bank, especially when the SIBOR/LIBOR rate increased. It also gave the bank better asset liability management. Thus, the agreement was beneficial for both parties and helped in enhancing their relationship. The initial business agreement and relationship encouraged the company to open new accounts with the bank and use its cash management services.

It is clear from this case that both the telecom company and the bank benefited from the finance agreement. This agreement and business dealing helped in building a relationship between the company and the bank and also contributed in the establishment of new business opportunities (e.g. new business account) between the two parties. This form of business dealing and interaction between both parties is an essential element of S-D logic and an example of value co-creation.

The third case example comes from a real estate company with a US$800 million turnover. The company has 300 employees. The bank and the company signed a *murābaḥah* agreement. The finance agreement was structured as a series of consecutive six-month transactions. The main reason for using this structure was to allow for changes in the syndicate of financing banks over the lifetime of the financing agreement. This form of agreement provided the holding company with the ability to syndicate the underwritten amount pre- and post-financial close. This agreement provide the lender (bank) an opportunity to develop a better relationship with the client and provided flexibility to (partially) sell or buy a participation in the financing every six months.

The finance agreement strengthened the business relationship and also offered the bank the opportunity to syndicate the facility and eventually free up part of its credit capacity for the client and provide additional financing. Both the company and the bank benefited from the finance agreement because it gave both parties the opportunity to start a business relationship that offered both the opportunity to create further value.

The fourth example also comes from a leading holding company operating in both the real estate and financial industries. The company had a turnover of US$700 million in 2008 and has 170 employees. The bank and the company signed a *mushārakah* agreement. This agreement involved a number of other banks. In this agreement the client provided part of their assets and the bank provided the funding. The structure of the agreement allowed the client to change the composition of the *mushārakah's* assets over the lifetime of the facility and allowed the banks to easily sell/buy their participation in the *mushārakah* at any time. In addition to the different benefits the agreement offered both parties, the agreement helped in strengthening the business relationship between the parties and allowed the bank to provide advice on merger and acquisition opportunities. The advice, combined with the positive experience of the ongoing relationship, resulted in new shared business opportunities.

It is evident from this case that both the holding company and the bank benefited from the *mushārakah* agreement. This agreement clearly shows how Sharīʿah finance can minimise usage in that new, mutually-shared opportunities emerged. This fits well with the underpinnings of S-D logic and is value co-creation.

The fifth case comes from a real estate company. The bank and the company signed an *ijārah* agreement. This agreement allowed the bank to finance the acquisition of the real estate assets and keep full control over the assets until the client made full payment. Also, the agreement provided the bank with the flexibility to (partially) sell its participation during the lifetime of the financing. In contrast, the agreement provided the client with an opportunity to execute a major asset acquisition. It also gave the lender the opportunity to assist the client with many of its current and future financing and financial needs. By leveraging the initial *ijārah* agreement, both parties created opportunities in which they partnered and together grew new business, a clear example of co-creation.

The sixth case comes from an information technology (IT) company. The bank and the company signed a *bayʿ bi-thaman ājil* agreement. This agreement gave the client full visibility with regard to the financing costs. Also, the agreement helped the client to better plan its long-term cash flows due to the absence of variable financing costs. Similarly, the agreement offered the bank the ability to 'lock-in' an attractive fixed profit rate in a high interest rate environment and benefit from an attractive interest spread when funding costs decreased.

More importantly, this agreement helped the client to start its business in today's volatile and suspect socio-economic climate while giving the lender (bank) the opportunity to assist the client with many of its current and future financing and financial needs. This opportunity and agreement helped both the bank and the company to finance an investment project in an uncertain economic time while sharing the risk between them. This is key to S-D logic and is value co-creation that may help strengthen the future relationship between both parties.

The seventh case comes from an infrastructure development company. The bank and the company signed an *ijārah* agreement. The main reason for selecting this form of financing was because the infrastructure project required long-term non-recourse financing. The agreement gave the financing bank security while also offering the bank the opportunity to sell the financial asset to other banks. The agreement also offered the lending bank a floating profit rate to mitigate risk, solid security structure and tradable assets. The agreement provided the bank with exclusive rights to provide the infrastructure project with all required financial services from an initial public offering (IPO) to cash management.

This is a long-term project which from the outset was underpinned by a partnering arrangement that offered an evolving and sound basis for mutual benefit which was designed to withstand the test of time.

The final case comes from a real estate company. The bank and the company signed a *mushārakah* agreement. This agreement gave both parties the ability to share the returns from the project (investment). Also, it provided the company with the opportunity to repay the bank once the project became profitable. On the other hand, the agreement helped the bank to take part and participate in an attractive real estate project; it also helped in the establishment of joint business opportunities between the bank and the client.

It is evident from this business case that both the real estate company and the Islamic bank benefited from the *mushārakah* agreement: it addressed fair usage and promoted value co-creation.

All eight cases, as described by the banking representatives, indicate that at the core of the deals there is a clear articulation of value co-creation, an effort to form a lasting relationship and an endeavour to foster future joint benefits. The cases illustrate S-D logic in action and suggest, at least to the authors, that a greater understanding of the actual process of engagement, gleaned through a more longitudinal study, is likely to provide greater insights and lessons for all proponents of value co-creation. As previously noted, the exploratory study reported within this paper is part of a larger research initiative which is concerned with service innovation within the Saudi Arabian banking sector. Initial results appear to support the importance placed upon value co-creation and the service relationship. In particular, as part of an extensive online survey, executives from the same host bank stressed the importance the institution placed upon partnering working and joint venturing. In fact, 80% of the 30 executives who responded suggested that partnering was a key component of their success. Although again rather one sided, this is further evidence of an S-D logic connection.

The authors fully appreciate that Western fee and interest driven banking practices can also provide the opportunity to build lasting business relationships. However, the authors question whether such practices are as robust as those associated with Islamic banking approaches. Given recent coverage of the present financial crisis, many are questioning the banking sector's willingness to engage with business (OECD, 2008; Liu, 2009; Weissman, 2009). In particular, banks are being criticised for being reluctant to lend to existing and potential business clients (OECD, 2008; Chang, 2008; Tyler, 2009a; Tyler, 2009b; Letts, 2009; Cooper and Dash, 2009) and businesses are being accused of being risk adverse (Chang, 2008, Whiting, 2009). This is taking place in an environment of socio-economic uncertainty with some commentators predicting impending growth while others predict years of uncertainty (Liu, 2009; Weissman, 2009).

In short, if Western economies are to grow, the capital has to flow and businesses/funders must speculate on future success (Cooper and Dash, 2009). An innovative forward-looking stance must be adopted (OECD, 2008, World Economic Forum, 2009). The authors contend, as witnessed by the above cases, that Sharīʿah banking philosophies may be better placed to exploit opportunities in times of crisis and financial uncertainty.

VIII. CONCLUSION

The research reported in this paper is of an exploratory nature. It was conducted in an effort to scope a wider research terrain as part of a more substantive research project on the service innovation potential of the Saudi Arabian banking industry. Ideally, this study would have been compared to others in similar or related contexts, but such studies on service, innovation, S-D logic, co-created value and banking within non-Western (and to a great extent within Western) contexts do not as yet exist. The authors recognised the limitations, such as the 'one-sided' view of the service exchange and limited sample size, but felt that such limitations were acceptable in relation to the need for access and timeliness. In addition, Sharīʿah banking is no less sensitive to the commercial need for confidentiality regarding financial transactions and client relationships than the Western approaches. The severity and complexity of the current financial crisis, combined with the need for considered and progressive responses, as noted earlier, influenced the researchers' approach. There was a strong desire to explore both Sharīʿah and SD logic potential in a timely fashion.

As we have noted, commentators and researchers have signalled the need to adopt an innovative stance in terms of stimulating business growth and support. The authors contend that this is more likely to occur when one adopts an S-D logic position. Empirical studies in the fields of service innovation and S-D logic are limited, but, as noted, the potential benefits of co-credited value outputs are widely acknowledged. This paper set out to explore the potential of Sharīʿah-led banking in relation to both stimulating business growth and co-created value. To a certain extent, given the research scope, this has been achieved.

Sharīʿah banking principles appear to be well aligned with the S-D logic approach and offer the potential to at least provide mutual benefit to the parties involved without the negative connotations of socio-economic 'usage'. At best we have gleaned evidence of sustainable co-created value and opportunity. Indeed, Sharīʿah may offer a viable alternative to discredited Westernised financial models. Further, the Sharīʿah approach appears to offer a tangible example of S-D logic in action. This paper, given the dearth of socio-economic literature and knowledge relating to Islamic business practice and culture (Siddiqi, 2000; Choudhury and Al-Hallaf, 2001; Choudhury and Hussain, 2005; Khan, 2008), may help shed some light on the subject and build better understanding between East and West.

Ongoing research is underway to determine how best to capitalise on Sharīʿah potential within the Saudi Arabian banking industry. The Islamic banking industry appears to have the 'products', but does it have the capacity to be innovative in their deployment?

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