

MARKET POWER AND PERFORMANCE: AN ISLAMIC BANKING PERSPECTIVE

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Abstract

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This study aims to test the theories of market power and its role in interpreting the performance of Islamic banks in the GCC countries. Based on data from 22 Islamic banks for the period 2012-2017, using standard models, market power theories were unable to explain the returns of Islamic banks in the Gulf. Accordingly, these results deny the existence of an impact of monopoly in the structure of the Islamic banking sector in the performance of this sector, as well as the impact of traditional efficiency in its performance.

Keywords: Market Power, Islamic Banking Sector Returns, Structure Theory-Behaviour-Performance, Traditional Efficiency Hypothesis

1. INTRODUCTION

The Islamic finance and banking industry is characterized as modern and rapidly growing as it possesses many elements that provide it with security and reduces risks, and it is expected for the Islamic finance and banking industry to experience wide development especially in terms of improving the quality of services and innovating new products to reach a wider customer base. The increase in the volume of financial assets in Islamic banks, which amounted to 2.5 trillion US dollars, and a growth rate of more than 92%, with a higher rate of returns than those achieved in conventional banks, as well as the widespread of these banks, prompted interested people to ask about the structure of the Islamic banking sector and how it relates to its profitability. How strong is the market power in achieving these returns? In other words, are the returns achieved by the Islamic banking sector due to their efficiency and ability to provide alternative and innovative products to meet the requirements of customers? Or is it due to the monopoly of a few banks to the industry?

There are many theories competing in the interpretation of the returns of banks; some of them are centered around the fact that banks are achieving their revenues due to the intensification and monopoly of banking, and thus the development of non-competitive prices through which they raise interest rates on loans, and reduce deposits, which

contribute to the high savings because of this monopoly. Another argument is that banks are yielding their returns because of their efficiency. This is known as the traditional efficiency hypothesis. The quality of banking services, as well as the early entry of the market, give banks the advantage of obtaining a high market share that enables them to achieve substantial savings in profits. While other hypotheses go into the deeper analysis by looking for cost efficiency and profit efficiency in their interpretation of bank returns.

The Islamic banking sector is considered as the largest and most developed banking sector in the region; thus, it is necessary to study and analyse the structure of this market, and its efficiency, which contributes to its understanding and thus to provide information to the organizers of this market based on decisions to support and develop them on clear scientific and methodological basis. We can put the problem of the study in the following question: Is there an effect of the variables of market strength (concentration or market share) on the interpretation of the returns of Islamic banks in the Gulf?

The importance of the study stems from the subject that is addressed. Acknowledging the impact of market power and the structure of efficiency on the performance of Islamic banks will lead to the recognition of the performance levels and the behaviour of Islamic banks operating in the Gulf countries, and the diagnosis of their ability to

withstand global competition will contribute to the state of the banks in each country and whether the market power or efficiency of each market are the variables that explain the returns of their banks, which contributes to the clarification of the banking administration and regulatory authorities in the conditions of those banks, and then take the necessary measures that support its stability and establish or ingrain its presence in the economy.

The study includes six parts: an introduction, a forward to the study problem and its main issues; the theoretical framework of the subject and the construction of hypotheses. The third part details the methodology of the study, by showing the study population, its sample, its measurable model, and the baselines of measuring its variables. The fourth part aims to test the study hypotheses, so that the final part summarizes the conclusions of the study, makes recommendations, and proposes future studies after identifying the setters/determinants of the study.

2. LITERATURE REVIEW

Many economic theories compete in interpreting the structure of the banking market and its relationship to performance; Structure-conduct-performance hypothesis and the Traditional Efficiency Hypothesis are among the most common theories in the economic literature; while the first is interpreting banks performance as a product for monopoly and a concentrated limited number of banks in a banking market, the other goes to explain these returns as a product of efficiency in the management of these banks.

2.1. Definition of the structure of the banking market

The structure of the banking market is defined as the distribution of banks in the banking system in terms of number, location, and size, and this leads to the argument that the structure of the market determines the degree of competition in the market, the degree of competition also affects the performance of the establishment in terms of quantity and efficiency of the service provided (Amayreh, 2005, p. 50). Conventional models explaining the performance of organizations indicate that monopolies have enough market power that enables them to reduce the acuity of competition they face through a conglomerate of leading companies that allows them to set prices above marginal costs and thereby achieve high rates of profit; accordingly, the prevailing perception of the positive performance in the banking industry according to two criteria: the focus of a limited number of banks (oligopoly) led to alliances and dominance in the banking industry, and the imposition of non-competitive prices led to high levels of performance, reduce cost and profit inefficiencies by achieving differentiation and reducing costs (reducing costs and maximizing profits) and diversifying banking services and processes, which led banks to obtain a market share that contributes to high-performance rates (Cor., 2007: 254).

2.2. Structure-behaviour-performance hypothesis

Bain (1951) noted in the SCP hypothesis that the more concentrated markets - because of low competition for alliance or monopoly reasons - lead to

inappropriate pricing for consumers (for example, in the banking industry, high rates of interest on loans and interest rates less on deposits compared with another competitive environment) contribute to high profits, which is known as concentration in the banking industry. According to this hypothesis, a few monopolistic companies are leading the rest of the companies to set the highest prices and reduce costs, thus achieving the highest levels of profit at the expense of consumers (Al-Zu'bi & Balloul, 2005). The term SCP consists of three parts: structure, which refers to the characteristics of the structure of the banking market in terms of the number of banks, their concentration, and the size of their contribution to the market. The second part is conduct which refers to the behaviour of the bank, economic characteristics, bank cost management, trade-offs between returns and risk, volume efficiency, debt efficiency and obligations. The last part of the term i.e., performance, indicates the level of performance that is affected by both the structure of the banking market and the efficiency of management with marginal costs and profits (Amayreh, 2005, p. 50).

In other words, the banks' profits are the result of the banks joining hands together and monopolizing the banking market, placing high-interest rates on loans and low rates of interest on deposits, which yields significant profits. Bain (1951) pointed out that the major benefits are the result of market concentration, the organizations of the concentrated industry are allied with each other in a way that avoids the destructive competition of prices and generates high returns (Al-Kur and Fayoumi, 2007). Therefore, the hypothesis of the first study can be constructed as follows:

H₁: There is a significant statistical impact for the market concentration on the performance of Islamic banks in the Gulf States.

2.3. The Traditional Efficiency hypothesis

This hypothesis was presented by Demsetz (1973) and assumes that differences in the efficiency and dispersion of organizations within the market create inequalities in market shares; because higher levels of efficiency are associated with larger market shares for a limited number of banks, leading to higher levels of performance, and thus a positive correlation between market share and profit (Alkor, 2006: 24). This hypothesis suggests also that more efficient companies are growing in size and market share; thus increasing their ability to generate high profits by concentrating market share in a limited number of banks (Al-Zu'bi & Balloul, 2005).

In other words, achieving a higher level of efficiency results in larger market shares for a limited number of banks that lead to a positive relationship between concentration and profit (that is, Al-Kour and Fayoumi, 2007). This is contrary to the SCP hypothesis, which assumes that monopoly in the banking industry contributes to high profits for monopolies. Accordingly, the second hypothesis of the study can be constructed as follows:

H₂: There is a statistically significant impact of the market share on the performance of Islamic banks in the GCC.

The first sub-hypothesis tests the impact of market concentration on assets in the performance of Islamic banks in the GCC according to the structure-behaviour-performance model. On the other hand, the second sub-hypothesis tests the impact of the

market share of deposits on the performance of Islamic banks in the Gulf according to the traditional efficiency hypothesis.

2.4. Literature review and the contribution of the current study

The empirical studies on the strength of the market and its relation to performance have found a wide resonance among academics and professionals as well as those interested in the banking industry. These studies have produced mixed results between supporters of the concentration hypothesis and market share and their relation to performance. The results have varied in some economic environments. This may be due to the different methodologies used, or the time series and the sample used, and, more importantly, the different structure of the banking market in each country depending on their economic and social conditions.

The examination of the relationship between the structure of the banking market and the profitability of banks in Bahrain and Kuwait was one of the most important objectives of the study carried out by Hamdan et al. (2014). The study sample included the local banks in the two countries (23) during the period (2005-2010). The results of the analysis were generally confirmed in support of concentration according to the structure-behaviour-performance hypothesis as an explanation for the relationship between the structure of the market and the profitability of Bahraini banks. Whereas the results didn't support the structure-behaviour-performance hypothesis in the Kuwaiti banking market, thus excluding the hypothesis of the most focused interbank alliance, and results that do not support the traditional efficiency hypothesis in the Kuwaiti banking market.

Hamdan (2013) examined the structure of the banking sector in the UAE and the factors affecting its returns in terms of competition, monopoly and efficiency levels. The study sample included (99%) UAE banks during the period (2007-2012). The study found empirical evidence to support the absence of the banking monopoly hypothesis in the UAE banking market, pointing to its work under conditions of full competition, and other evidence supporting the UAE banks' efficiency in cost efficiency and standard profit efficiency, which explain the returns of this sector; this confirms the absence of conditions of banking monopoly in the UAE. The returns of the banking sector are explained through the structure of efficiency rather than through market power. The main recommendation of this study was to maintain the balance in the banking market, to prevent concentration and monopoly by promoting market access policy, to encourage and support competition, and to legislate to limit the emergence of monopolistic practices, to stimulate and incite management in national banks, to take the necessary measures, which help to reduce levels of inefficiency and to highlight efficiency as an important administrative requirement, which contributes to the elimination of inefficiencies in banking.

A study was conducted recently by Al-Kor (2011) on a sample of 14 Jordanian commercial banks for the period from 1993 to 2006. The aim was to test the effect of concentration according to the structure-behaviour-performance hypothesis (SCP) and the

market share of deposits according to the traditional efficiency hypothesis (MS). However, the study was unable to prove any effect on the performance of Jordanian banks, which indicates the impact of other factors in the concentration of Jordanian banks, such as social and political factors, as well as the early market access that contributed to a few banks obtaining high market shares. However, as a result of legislation and laws that promoted competition in the Jordanian banking market, there were no alliances between the more focused banks that exercise market power over input prices and outputs within the Jordanian banking industry.

Al-Jarrah study (2010a) aimed to test the relationship between the structure of the market and the profitability of Jordanian banks for the period 2001-2005; it supported the hypothesis of the structure-behaviour-performance (SCP) as an explanation of the relationship between market structure and profitability and provided limited support to the traditional efficiency hypothesis (MS). Al-Jarrah (2010b) showed that the Jordanian banking market cannot be described as fully competitive or fully monopolized. In other words, Jordanian banks operate under monopolistic conditions of competition, thus earning their profits in conditions similar to monopolistic competition conditions. The study also showed that large banks operate in more competitive conditions than those of smaller banks.

Mashharawi & Al-Zu'bi (2009) examined the determinants of the proficiency of the Jordanian banks for the period 1992-2006 and found that the concentration ratio- one of the traditional efficiency indicators- had an impact on the banks' returns during this period. On the other hand, Al-Kour and Fayoumi (2007) conducted a study on Jordanian banks for the period from 1993 to 2004, and the results showed that there is a kind of interest of competition but it did not support the structure-behaviour-performance hypothesis. It considered that the most focused Jordanian banks are far from the non-competitive practices, and it indicated that Jordanian banks have high levels of efficiency because concentration is not a random event, but it is due to the banks efficiency in addition to the role of laws and legislation that have contributed to the promotion and raising the level of competition and reducing the impact of market power on prices within the Jordanian banking industry. In contrast, in line with the results of the Al-Kur (2011) study, these two hypotheses (market structure and efficiency) were unable to explain the performance of Jordanian banks Al-Zu'bi & Balloul, (2005; while Fayoumi and Awad (2003) found a relationship between the concentration of Jordanian banks and their performance during the study period from 1993 to 1999. In this study, the concentration was measured by focusing the market on the assets of the three largest banks, while the performance was measured by the return on equity. The study model was reinforced by a set of control variables of which the size of the bank which was found to be one of the largest controlling variables Impact on Jordanian banks' returns.

It is noted from the previous discussion that the test of the impact of market power and efficiency has generated widespread controversy, and the results of studies in the same environment differed in supporting the impact of concentration or market

share in the performance of banks, as the market share variable may also indicate the strength of the market and capture the effect of other non-efficiency variables, which are known as the modified efficiency structure. Shepherd (1986) suggested that performance is explained by efficiency and the residual impact of market share. Therefore, it is not appropriate to use the market share variable as an indicator of efficiency without adjusting the concepts of direct efficiency within the models of the relationship with the performance of the banks (Al-Kur, 2006: 25). In their study of the relationship between the structure of the market and the profitability of Saudi banks which was tested on all local banks for the period 2005-2010, Hamdan and Al-Anaswa showed their results in support of the efficiency hypothesis as an explanation of the relationship between market structure and profitability; Saudi banks are also far from non-competitive practices, but the main reason for their concentration and gaining a high market share is their efficiency. The main recommendation of this study was for decision-makers in the Saudi banking system to expand market liberalization in order to reduce concentration and enhance market competitiveness. This is in line with the results of Al-Khathlan & Abdul Malik (2010), which showed the efficiency of Saudi banks in managing their financial resources, whereas Abdulkader & Nourredine (1999) examined the impact of business risk, concentration, size of the bank, and market share in the performance of Saudi banks, and the study found that business risk and bank size were the main determinants of the profitability of Saudi banks.

In a comparative study of several Arab countries: Jordan, Saudi Arabia, Egypt and Bahrain, Al-Jarrah & Molyneux (2007) found that the estimated average cost efficiency was 95% for the period 1992-2000, and the average efficiency for standard profit and alternative profit are 66% and 58%, respectively. This study showed that large banks are more efficient at cost and profit than small banks. The results also showed that Islamic banks are the most efficient and profitable of investment banks. And that banks operating in Bahrain are the most efficient of banks operating in Jordan.

The strength of the market resulting from concentration affects both the price and non-price competition of the bank. The higher the concentration in the US banking market, the higher the prices of banking services provided by the bank. And the quality of these services decreased (Heggstad & Mingo, 1976). This concentration in the banking industry contributes to high returns for monopolized banks, which can be constrained by government ownership in banks (Short, 1979). However, this idea - a positive relationship between monopoly and return - was determined by Smirlock (1985) who showed that high returns are achieved by the high market share of the most efficient banks. In Europe, Molyneux & Forbes (1995) found results supporting the structure-behaviour-performance hypothesis stating that the concentration of European monopolized banks leads to high returns. In Pakistan, the banking market is characterized by concentration and monopoly by a few leading banks, which have dominated the market and put prices at the highest returns. The relationship between concentration and profitability is both positive and negative between

competition and profitability (Bhatti & Hussain, 2010).

3. RESEARCH METHODOLOGY

3.1. Study sample and time series

The Islamic banks listed in the Gulf financial markets (23) are considered a clear study group. The study sample consisted of (22) Islamic banks selected from four Gulf countries: the United Arab Emirates, the Kingdom of Bahrain, Kuwait and Saudi Arabia. And the time series included (6) years from (2012-2017).

3.2. Standard study models

The performance of Islamic banks as a function of concentration and market share was expressed with the addition of a set of control variables to adjust the relationship between the independent and dependent variables, according to the following formula:

$$\pi \int_{22}^1 Conc, MS, X^{iS} \quad (1)$$

π : Bank performance

$Conc$: Bank concentration

MS : Market share

X^{iS} : A set of control variables that determine the relationship between bank performance, concentration and market share.

Based on the hypotheses of the study, the following standard models were constructed for testing. The general model of the study was developed to test the main hypothesis, which includes the first and second hypotheses that examine the effect of both concentration and market share in performance, as follows:

$$\pi_{i,t} = \beta_0 + \beta_1 Conc_{i,t} + \beta_2 MS_{i,t} + \sum_{k=1}^n \beta_k Z_{itk} + \varepsilon_{i,t} \quad (2)$$

β_0 : Fixed value.

$\beta_{1,2,k}$: Slope of market structure variables and controlling variables.

$Conc_{i,t}$: Market concentration of bank (i) per year (t).

$MS_{i,t}$: Market share of the bank (i) per year (t).

Z_{itk} : A series of control variables relevant to the characteristics of the Bank and their impact on performance is expected to be: the ratio of facilities to assets, the ratio of equity to assets, bank size and cost to income ratio.

$\varepsilon_{i,t}$: Random error.

The first hypothesis that aims to test the impact of concentration on the performance of banks:

$$\pi_{i,t} = \beta_0 + \beta_1 Conc_{i,t} + \sum_{k=1}^n \beta_k Z_{itk} + \varepsilon_{i,t} \quad (2.1)$$

The second hypothesis that aims to test the impact of market share on performance as well:

$$\pi_{i,t} = \beta_0 + \beta_1 MS_{i,t} + \sum_{k=1}^n \beta_k Z_{itk} + \varepsilon_{i,t} \quad (2.2)$$

3.3. Measuring study variables

This study employs three basic variables to test its models: the dependent variable, which is the performance of banks and a set of independent variables that include the concentration of different measures and market share, with the addition of

control variables, which are the parameters of the performance of banks, which are expected to have an impact on the performance of banks and contribute to the control of the relationship between dependent variables and independent, Performance and structure of the Islamic banking market.

Table 1. Study variables: definitions, measures, and statistics*

Variables	Definition and measure tools	Mean	Standard Deviation
Islamic banks performance	This variable was measured based on (Return on Assets RON). This measures the effectiveness of bank management in using the available resources and its impact on gaining revenues using all available resources. This index shows the impact of working and financing activities in the company (Al-Kor, 2011; Karim and Hamdan, 2010; Hamdan, 2018; Hamdan et al., 2017).	0.021	0.082
Market concentration	The Herfindal-Hirshman Index (HHI) was used in this study to measure market concentration which is normally measured as the sum of market share within the assets of the bank according to formula (3) below: $HHI = \sum_{i=1}^n (MS_i)^2 \quad (3)$	0.020	0.015
Market Share	It refers to the market share of deposits in each bank; it is calculated by dividing credit assets of each bank over the total deposits of the banking system. This index is used to identify the effectiveness of traditional efficiency based on formula (4): $MS_{i,j} = \text{credit facilities}_{i,j} / \sum_{i=1}^n \text{credit facilities}_{i,j} \quad (4)$	0.049	0.071
Control variables			
Bank Size in (US dollar)	It is measured by the natural logarithm of total assets and is used to indicate the extent to which the Bank achieves savings resulting from its increased volume and lower costs (AlQanea and Hamdan, 2017).	19.334	34.577
The ratio of facilities to assets	It is measured by dividing the bank's credit facilities on total assets. This variable is used to measure the liquidity risk of the bank. The high rate of this variable is an indication of the bank's excessive lending and therefore its liquidity deficit (Mustafa, 2002).	0.722	1.654
GPD	The GDP growth rate for each country and per year has been included, due to the prevailing belief that economic growth can have a significant impact on the returns of the banking sector.	0.042	0.034
Market value to GDP	This ratio measures the contribution of the financial market to the gross domestic product and has been chosen to be one of the controlling variables since the increase in the activity of the financial market would increase the activity of the banking sector and affect it directly or indirectly. The data of this variable were obtained from the World Bank database.	0.840	0.487
Credit to GDP ratio	This ratio measures the extent of growth in the country's banking activity and its contribution to GDP. It is one of the important control variables that distinguish one bank from another and one country from another, as well as from year to year. The data of this variable were obtained from the World Bank database.	0.602	0.279
State	The state is listed as an officer variable, as different economic conditions and other factors can have an impact on the relationship between the structure of the banking market and its performance. Phantom variables were used to express this variable, given the number 1 for variables from a given country and zero for the other.		

Note: *The US dollar has been used to report all study variables

3.4. Do performance indicators and market strength differ in the sample countries?

Table 1 shows the descriptive statistics of performance indicators and market strength (concentration and market share) of the sample. It is noted that The average return on assets of all Islamic banks in the sample countries was 2.1%, while the concentration index was 2% Market share of Islamic banks (4.9%). But are these indicators different from one country to another? In order to verify this, we used the tests of the analysis of the instructional and non-instructional variance, and the results were as shown in Table 2.

Table 2 shows that there is a difference in the return on assets among the sample countries as an indicator of the performance of Islamic banks. However, this difference was not statistically significant according to any of the instructional or

non - instructional tests. For the indicator of Islamic banks concentration, it was noted that there is variation in the concentration ratio in the sample countries; the Islamic banks in Kuwait were the most concentrated and monopolized, followed by Islamic banks in Saudi Arabia, followed by Islamic banks in Bahrain; the least concentrated being the Islamic banks in the UAE United Arab Emirates. These differences were statistically significant according to both the F-test and the non-specific (Chi2). The second indicator of market power, which is the market share of Islamic banks, has been found that Islamic banks in Kuwait are the most likely to acquire a market share, followed by Saudi Arabia and the United Arab Emirates, and the least dominating the domestic market are the Bahraini Islamic banks. These differences were statistically significant according to both instructional and non-instructional tests.

Table 2. Analysis of variance of differences in basic study variables by country

Variables	Mean for state			Analysis of Variance		
	UAE	Bahrain	Kuwait	KSA	F-test (p-value)	Chi2 (p-value)
Performance of Islamic banks (return on assets).	0.036	-0.002	0.017	0.032	1.835 (0.154)	2.126 (0.547)
Islamic banks concentration index.	0.002	0.009	0.056	0.011	19.778*** (0.000)	117.853*** (0.000)
Market share of Islamic banks.	0.029	0.019	0.098	0.048	4.537** (0.005)	13.982*** (0.003)

Note: One Way ANOVA was used as a teacher test, and another non-teacher test was the Kruskal-Wallis test; it was used to enhance the results. Symbols mean that the test is statistically significant at: * 10%, ** 5%, *** 1%.

3.5. Applied study and hypotheses testing

3.5.1. Selecting the appropriate method for analysis and testing the validity of the model

The longitudinal data model will be used to test the relationship between market power and the performance of the Islamic banking industry. When time series data and cross-sectional data are mixed, we obtain longitudinal data. It gives more information about data with more variance and less correlation between variables, more degrees of freedom, and more efficiency (Gujarat, 2015). The longitudinal regression models are divided into firm fixed-effect approach FE and random-effect approach RE (Buallay et al., 2017). The differentiation between the two previous methods depends on the outcome of the Hausmann Test; In which the default hypothesis is that the capabilities of the FE model and the EFs are not different, If the null hypothesis is rejected, it is an indication that the random effects model is inappropriate, and it is preferable to use the static effects model. The probability of "Hausman" "square squared" of the study model shown in Table (3) is not

statistically significant, which means that the capabilities of the random effect model (RE) is best to represent the relationship. Thus, the results of the tests were presented in Table 3. It is noted that the Durban Watson statistics of the two models are in the appropriate range of this test (1.5-2.5). Standard economists are reassured about their results when the calculated Darban Watson value is close to (2) and show that the problem of self-association is not acute; as there is no evidence of a positive and subjective association. The general linear model GLM is essentially based on the independence hypothesis of each independent variable. And if this condition is not met, the general linear model is then not applicable and cannot be considered as a good parameter for the estimation process (Sevo et al., 2003) To achieve this, the Collinearity Diagnostics is used by calculating the Tolerance coefficient for each of the independent variables, and a Variance Inflation Factor VIF is then created; This coefficient is a measure of the effect of correlation between independent variables. Getting A VIF value greater than 5 indicates the linear multiplicity problem of the independent variable in question.

Table 3. Results of testing the impact of market power in the Islamic banking industry

Symbol	VIF	Method of static effect			Method of random effect		
		β	t-Statistic	p-value	β	t-Statistic	p-value
Constant		-1.880	-2.926	0.0005	-0.323	-2.673	0.009
Conc	1.533	-0.817	-0.174	0.862	0.176	0.287	0.774
MS	1.145	-0.137	-0.297	0.767	-0.186	-0.957	0.341
Size	1.136	0.113	2.868	0.006	0.017	2.882	0.005
LONAST	1.116	0.039	2.540	0.014	0.031	5.379	0.000
Δ GDP	2.239	0.644	1.387	0.172	0.450	1.333	0.186
MCtoGDP	2.131	0.113	2.766	0.008	0.043	1.615	0.110
DCtoGDP	1.705	0.079	0.722	0.474	0.018	0.425	0.672
R Square		0.352			0.297		
Adjusted R Square		0.021			0.241		
F-Statistic		1.063			5.309		
p-value (F)		0.414			0.000		
Hausman Test (Chi2)	11.866						
p-value (Chi2)	0.105						
Durbin-Watson stat		2.054					

Therefore, the VIF results shown in Table (3) confirm the validity of the general study model and its absence from linear interference problem. This model, whose statistical value was statistically significant, was found to be less than 1 percent in the sub-models (static and random effects). Whereas the results of the Fisher test show that the random effects model was better to represent the relationship than the fixed effects model, and the modified coefficient of the random effects model was better than the modified coefficient of the fixed effects model, all of

which support the Hausmann test that the random effects model is best to represent the relationship.

3.5.2. Test the market power in the performance of the Islamic banking industry

Based on the method of random effects in the test hypotheses of the study, as the results are shown in Table (3), we cannot prove the impact of market power in the performance of the Islamic banking industry in the GCC countries. As The variables "market concentration" and "market share" were not

statistically significant in the study model; therefore, the first and second hypotheses are rejected. The theory of market power has not been able to explain the returns of Islamic banks in the Gulf. As These returns were not the result of monopoly in the provision of Islamic banking services, nor were they the result of the acquisition of a high market share. While it is noted that there are controlling variables affecting the performance of Islamic banks in the Gulf, including the size of the bank, which indicates that it has a direct and significant impact on the performance of the Islamic banking industry, as well as the proportion of facilities for assets. While GDP and other regulatory variables did not have an impact on the returns of Gulf Islamic banks.

4. CONCLUSION

The Islamic banking industry has witnessed rapid growth in the recent period, and its revenues and total assets have increased due to the high demand for Islamic financial services, especially after the crises experienced by traditional ones, And the steadfastness shown by Islamic banks in the face of these crises. This has prompted us to look into the structure of this industry to find out the real reasons behind those returns. We have employed one important economic theory to define the returns of a given industry and its relevance to traditional monopoly or efficiency that leads to a high market share and how these variables affect the performance of that industry. This theory is known as the "structure-behaviour-performance" theory.

The study has built its standard model to examine the impact of market power on the performance of Islamic banks. We applied it to four (4) GCC countries: Bahrain, Kuwait, Saudi Arabia, and the United Arab Emirates. As we targeted all Islamic banks listed in the financial markets of those countries and they are (23) banks with the exclusion of one bank for lack of necessary data. By applying a set of descriptive and applied measures, the study reached several conclusions. Of which there is a

difference in the extent of concentration or monopoly of Islamic banks among the sample countries, as it turns out that the Kuwaiti Islamic banks are the most monopolistic of the banking market, followed by Islamic banks in Saudi Arabia and Bahrain, while the lowest is the Islamic banks in the United Arab Emirates. The most important result of this study is the inability of market power variables to explain the returns of Islamic banks in the Gulf. And these are positive results that deny claims that Islamic banks use monopolies to realize their returns and deny that traditional efficiency is the engine of their returns, such as early market entry or otherwise.

The practical application of the results of this study comes from being a guide to the banking system in the GCC countries on the success of banking policy in general in preventing monopoly within the banking market. It also contributes to the enrichment of the financial literature of Islamic banking and the structure of Islamic banking in an effort to propose the best ways to develop it.

Despite the importance of the results of the study; it is necessary to be cautious when circulating results to all Islamic banks, as the relatively small sample and the six-year time series, which may be affected by the consequences of the global financial crisis, And their application to the Gulf Arab countries with similar economic and social environment All of which lead us to be cautious about circulating results to other environments that may have different economic and social characteristics.

These parameters open the door for further studies to confirm or refute the results of this study; by expanding the study sample to include the rest of the GCC and other Islamic countries. The failure of the market power to explain the returns of the Islamic banking industry in the Gulf invites us to research advanced theories explaining the returns, the most important of which is the research on the structure of economic efficiency, which includes cost efficiency, profit efficiency and their impact on performance.

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