

# Research Proposal & Literature Review (Assignments 1 & 2 – Chapter 1 & Chapter 2) Case: Al Rajhi Bank (C) – Risk Management, Customer Value, and Performance

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Course: MGM496/PMG496 – Final Project 1  
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# **Chapter 1: General Framework of the Study**

## **1.1 Introduction**

This research proposal addresses risk management practices and their relationship with customer value and overall performance at Al Rajhi Bank, Saudi Arabia's largest Islamic bank by assets and market capitalization. The banking sector in the Kingdom is experiencing rapid digitalization, changing customer expectations, and evolving prudential requirements (e.g., Basel III/Pillar III). In this context, a structured study helps clarify how operational, credit, and compliance risk practices translate into measurable outcomes such as service quality, market share, and financial resilience. The study aligns with the course guidelines on research purpose, significance, and scientific writing conventions.

## **1.2 Research Problem**

Although Al Rajhi Bank publicly discloses governance and risk management structures in its Integrated Annual Report and Pillar III disclosures, the mechanisms linking daily risk practices with customer value and bank performance remain under-explored empirically within the Saudi retail and corporate banking context. Specifically, there is limited clarity on how risk identification, assessment, monitoring, and reporting influence customer acquisition/retention and key performance indicators (KPIs) such as market share, asset quality, and profitability.

### **1.2.1 Theoretical Gaps**

Most project and risk management frameworks specify processes (e.g., risk identification, analysis, treatment), yet fewer studies operationalize these into customer-centric outcomes in Islamic banking environments. Additionally, the literature often treats risk management and customer value as separate streams, creating a fragmentation that this study addresses by integrating them into one conceptual model.

### **1.2.2 Empirical Gaps**

Empirical evidence from Saudi banks tends to emphasize financial ratios or regulatory compliance metrics without triangulating primary data from customers and employees. There is a need for a mixed-method approach that captures customer perceptions (service

reliability, digital experience, trust), employee perspectives on risk controls, and bank-level KPIs in one study design.

### 1.3 Significance of the Study

#### 1.3.1 Theoretical Significance

The study contributes to the project and risk management literature by empirically testing pathways from risk management practices to customer value, and then to performance. It adapts general risk constructs to an Islamic banking context, clarifying how Shariah-compliant financial intermediation interacts with risk and value creation.

#### 1.3.2 Practical Significance

For managers, findings will specify which risk practices most strongly predict customer outcomes and financial KPIs. For regulators and shareholders, the study provides an evidence-based view of how robust risk governance can sustain market leadership while improving service quality and resilience.

### 1.4 Research Questions

| Code | Research Question                                                                                            |
|------|--------------------------------------------------------------------------------------------------------------|
| RQ1  | How do Al Rajhi Bank's risk management practices (operational, credit, compliance) influence customer value? |
| RQ2  | To what extent does customer value mediate the relationship between risk practices and bank performance?     |
| RQ3  | Which risk practices are most salient for retail vs. corporate segments in explaining performance?           |

### 1.5 Research Objectives

**General Objective:** Examine the effects of risk management practices on customer value and overall performance at Al Rajhi Bank.

**Specific Objectives:**

| Obj# | Objective                                                                    |
|------|------------------------------------------------------------------------------|
| O1   | Operationalize risk practices and customer value into measurable constructs. |
| O2   | Estimate direct and indirect (mediated) effects on performance.              |
| O3   | Compare patterns between retail and corporate banking contexts.              |
| O4   | Formulate managerial implications for strengthening risk governance.         |

### 1.6 Research Hypotheses

| Code | Hypothesis                                                                       |
|------|----------------------------------------------------------------------------------|
| H1   | Risk management practices positively affect customer value.                      |
| H2   | Customer value positively affects bank performance.                              |
| H3   | Customer value mediates the relationship between risk practices and performance. |
| H4   | The strength of the H1–H3 paths differs between retail and corporate segments.   |

### 1.7 Research Model (Conceptual)

Risk Management Practices (Operational, Credit, Compliance) → Customer Value (Service reliability, Digital experience, Trust) → Performance (Market share, Asset quality, Profitability). Moderation/Comparison by banking segment (Retail vs. Corporate).

### 1.8 Research Methodology

Design: Explanatory, cross-sectional study with quantitative dominance and embedded qualitative items.

Population: Al Rajhi Bank customers and front-line/ risk staff in KSA.

Sampling: Stratified sampling (Retail; Corporate clients) with a target of  $\geq 300$  usable

customer responses and  $\geq 60$  staff responses.

Instruments: Structured questionnaire (5-point Likert) for customers; brief staff checklist on risk controls.

Validity/Reliability: Expert review for content validity; pilot test ( $n \approx 30$ ); Cronbach's  $\alpha \geq 0.70$ .

Analysis: Descriptive statistics, reliability tests, exploratory factor analysis (EFA), and structural equation modeling (SEM) for path testing.

### 1.9 Scope of the Field Study

Context: Kingdom of Saudi Arabia; focus on Al Rajhi Bank branches and digital channels. Time scope: Data collection planned within 4–6 weeks. Unit of analysis: Customer-level perceptions and staff-level risk practice perceptions; bank-level KPIs from secondary sources.

### 1.10 Proposed Project Plan

| Week | Task                                             | Deliverable                       |
|------|--------------------------------------------------|-----------------------------------|
| 1    | Finalize instrument; ethics/consent text         | Pilot-ready questionnaire         |
| 2    | Pilot test; refine items                         | Validated final instrument        |
| 3–4  | Main data collection (online + branch intercept) | Dataset (customers + staff)       |
| 5    | Data cleaning; reliability tests; EFA            | Clean dataset; reliability report |
| 6    | SEM estimation; write-up                         | Results + managerial implications |

## **Chapter 2: Literature Review & Theoretical Framework**

### **2.1 Introduction**

The literature review synthesizes project/risk management concepts with value creation in Islamic banking. It emphasizes how operational risk controls, credit underwriting, and compliance assurance are theorized to shape customer value and, ultimately, performance. The review follows the recommended structure for identifying theory, gaps, and implications for model development.

### **2.2 Independent Variable: Risk Management Practices**

Risk management is typically decomposed into operational, credit, and compliance components. Operational risk covers failures in processes, systems, or people; credit risk relates to counterparty default; compliance covers adherence to laws, regulations, and Shariah. Strong governance (policies, procedures, roles such as Business Risk Control Managers) is expected to reduce losses and stabilize service quality.

### **2.3 Dependent Variable: Bank Performance**

Bank performance is multi-dimensional. In addition to profitability measures, Islamic retail banks emphasize market leadership, asset growth, and asset quality. Performance also captures customer-centric metrics like acquisition, retention, and digital engagement—outcomes that are sensitive to consistent risk practices and service delivery.

### **2.4 Linking Construct: Customer Value**

Customer value represents perceived benefits relative to costs (including risk and effort). In retail contexts, reliable and Shariah-compliant services, easy digital banking, transparent information, and trust are central. Value perceptions translate into continued usage, advocacy, and share-of-wallet—contributing to bank KPIs.

### **2.5 Relationship between Risk Practices, Customer Value, and Performance**

The conceptual logic posits that disciplined risk practices enhance service reliability and trust, improving customer value and, in turn, performance. Where risk controls are visible to customers (e.g., secure, stable digital platforms), the effect on value may be direct; otherwise, the path is mediated through perceptions of trust and quality. In corporate

banking, rigorous underwriting improves portfolio quality and relationships, supporting growth.

## **2.6 Short Synthesis**

The review supports testing a mediated model in which risk practices improve customer value that then elevates performance, while allowing for segment differences. This sets the stage for the empirical study.

## Appendix A: Customer Questionnaire (Printable)

Instructions: Please indicate your agreement with each statement (1 = Strongly Disagree, 5 = Strongly Agree).

| Code | Statement                                                                 | 1 | 2 | 3 | 4 | 5 |
|------|---------------------------------------------------------------------------|---|---|---|---|---|
| OP1  | The bank's digital services work reliably without unexpected failures.    |   |   |   |   |   |
| OP2  | Transactions are processed accurately and on time.                        |   |   |   |   |   |
| CR1  | The bank explains financing terms clearly and transparently.              |   |   |   |   |   |
| CR2  | I trust the bank's assessment of my financing needs and ability to repay. |   |   |   |   |   |

|       |                                                                              |  |  |  |  |  |
|-------|------------------------------------------------------------------------------|--|--|--|--|--|
| CM1   | I feel the bank complies with laws, regulations, and Shariah.                |  |  |  |  |  |
| CM2   | The bank protects my data and privacy.                                       |  |  |  |  |  |
| CV1   | Overall, the bank provides good value for me.                                |  |  |  |  |  |
| CV2   | I intend to continue using the bank's services and recommend them to others. |  |  |  |  |  |
| PERF1 | I am satisfied with the bank's overall performance.                          |  |  |  |  |  |

|       |                                                                    |  |  |  |  |  |
|-------|--------------------------------------------------------------------|--|--|--|--|--|
| PERF2 | The bank's services meet my expectations better than alternatives. |  |  |  |  |  |
|-------|--------------------------------------------------------------------|--|--|--|--|--|

Demographics (tick one per line):

| Item          | Option A | Option B        | Option C          | Option D |
|---------------|----------|-----------------|-------------------|----------|
| Customer Type | Retail   | Corporate (SME) | Corporate (Large) |          |
| Gender        | Male     | Female          | Prefer not to say |          |
| Age           | 18–24    | 25–34           | 35–49             | 50+      |
| Usage         | Branch   | Mobile App      | Both equally      |          |
| Tenure        | < 1 year | 1–3 years       | 3–5 years         | 5+ years |

## Appendix B: Staff Risk Practice Checklist (Printable)

Instructions: For each item, mark Yes/No and add comments if needed.

| Area        | Item                                                   | Yes | No | Comments |
|-------------|--------------------------------------------------------|-----|----|----------|
| Operational | We update key process risk registers quarterly.        |     |    |          |
| Operational | Major incidents are root-caused and lessons logged.    |     |    |          |
| Credit      | Credit policies differentiate clearly by segment risk. |     |    |          |
| Credit      | NPL early warning indicators are monitored monthly.    |     |    |          |
| Compliance  | Mandatory compliance/Shariah trainings are current.    |     |    |          |
| Compliance  | Privacy and data protection controls are tested.       |     |    |          |

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