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# Committed Actors, Institutional Complexity, and Pathways to Compromise: The Emergence of Islamic Banking in Germany

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**ABSTRACT** The formation of the first Islamic bank in Germany in 2015 came with considerable tensions at the interface of the religious logic, on the one hand, and the state logic, on the other. With the Islamic religious logic being novel to the German field of banking and finance, innovative templates were established to deal effectively with the resulting tensions and conflicts. Drawing on qualitative data, we investigate how the bank, with its strong commitment to Islam, navigated such novel institutional complexity and the challenges stemming from the jurisdictional overlap. We identify four distinct compromise mechanisms in this institutionally complex situation, in which a committed actor prioritizes one logic over another: explaining, convincing, conceding and suspending. Importantly, as options, these mechanisms are situated in a cascading order of preference for the focal actor. More generally, our research posits that in any encounter between institutional logics in which the specific instantiation of a logic stems from a foreign interinstitutional system, the resulting novel institutional complexity may necessitate the development of innovative templates which, at the same time, may imply ‘stretching’ an institutional logic and, in consequence, impact the compatibility of its jurisdictional claims.

**Keywords:** commitment, compromise, institutional complexity, institutional logics, interinstitutional system, Islamic banking

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## INTRODUCTION

With the receipt of a banking licence for KT Bank, 2015 marked the beginning of Islamic banking in Germany. Media attention at the time highlighted the significance of this event with headlines dubbing KT Bank a ‘Shariah Bank’, ‘Islambank’, or ‘Allah Bank’. Apart from the (potentially derisively) catchy headlines, though, the first Islamic bank received quite positive coverage in German media, mirroring the general openness from society and politics. However, its prospects from a legal and regulatory perspective – i.e., whether an Islamic banking model was at all viable – were much less certain. The bank’s founding process was preceded by extensive conversations, exchanges, and negotiations between the bank and regulatory authorities regarding the Islamic characteristics of the organizational model and business practices, exemplifying the considerable tensions between the prescriptions of the Islamic religion, on the one hand, and the German bureaucratic state, on the other. In tandem, they posed contradictory and conflicting institutional demands that were novel in the German field of banking and finance, and which KT Bank had to wrestle with.

Conceptually, not only did the bank face various instances of institutional complexity in the form of ‘incompatible prescriptions from multiple institutional logics’ (Greenwood et al., 2011, p. 317); importantly, it was exposed to ‘causes of institutional complexity’ (Faulconbridge and Muzio, 2016, p. 99) that were unprecedented in the focal setting. We argue that with the emergence of KT Bank, a specific religious logic – Islam – ‘entered’ the German field of banking and finance, which represents a religious logic that was derived from another ‘interinstitutional system’. An interinstitutional system here comprises the totality of interrelated logics present within a focal society (Friedland and Alford, 1991; Thornton et al., 2012). The Islamic logic, previously not present in the German field of banking and finance, then gave rise to a novel ‘constellation’ of relevant logics (Goodrick and Reay, 2011) in this highly regulated setting. As a result, the bank (as well as other actors) faced institutional complexity of various types. On the one hand, there were tensions between religious and market demands. When addressing these tensions, the bank could draw on a long history of Islamic banking that offered specific templates for dealing with complexities between these two logics. On the conceptual level, this type of complexity – organizations operating across two or more institutional logics from within the same interinstitutional system – is relatively well researched in existing literature. On the other hand, it experienced tensions between religious and state demands that were novel in this specific empirical setting. For instance, the Christian religious logic has established interfaces with the state logic in the German field of finance; no such precedents or templates existed for the Islamic religious logic. Thus, the bank faced a type of institutional complexity with a logic from a different interinstitutional system entering the constellation that was novel to the field, and, on a conceptual level, has not yet drawn sufficient scholarly attention.

KT Bank was strongly committed to the Islamic religious logic but was aware that compliance with the regulatory regime in place was a *conditio sine qua non* for receiving a licence. Although there was a general openness for Islamic banking in the field, there was also a considerable jurisdictional overlap of the Islamic religious and

state logics – two logics with high specificity, that yield highly scripted prescriptions and a limited discretion for actors to interpret them creatively (Meyer et al., 2021; Raynard, 2016). This novel complexity necessitated a prolonged process of negotiating about Islamic banking specifically, but also, more generally, about the interface between the state and the Islamic religious logic within the banking and finance context. This type of complexity, a novel constellation of logics with considerable jurisdictional overlap, along with the strong commitment of a key actor and their willingness to provide sufficient resources, was important: innovative templates needed to be negotiated and developed, which, once established, could then shape the interface of logics and open new possibilities for actors – present and future – to effectively deal with overlap and tensions. These considerations inform our research question: *How do committed actors navigate novel constellations of institutional complexity in which one logic has entered from a foreign interinstitutional system?*

Empirically, we study the formation of the first Islamic bank in Germany. Islamic banking has been a controversial and increasingly pertinent topic for some time (Boone and Özcan, 2016, 2020; Boone et al., 2022; Gümüşay et al., 2020; Syakhroza et al., 2019). Having obtained privileged access to the banking project, our case study is predominantly based on a 24-month-long account spanning the initial planning phase up to the acquisition of the banking licence and formal opening. Our unique, contemporaneous data allowed us to follow the process of the bank's foundation, its interactions with regulatory agencies such as the Federal Financial Supervisory Authority (BaFin) and other actors in the field such as the Auditing Association of German Banks, and the joint development of novel Islamic banking templates – innovative organizational and regulatory solutions to effectively deal with institutional complexity.

By theorizing our empirical findings, this study contributes to the literature on institutional theory in general and to institutional logics in particular. We identify *explaining*, *convincing*, *conceding*, and *suspending* as four distinct mechanisms. These mechanisms depict diverse pathways towards what has been summarized as 'compromise' (Kraatz and Block, 2008; Oliver, 1991; Pache and Santos, 2010). As a menu of potential options they can be situated in a cascading order of preference, given a context where there is a committed focal actor that prioritizes one logic over another and an (in)compatibility of logics arising from jurisdictional overlap and institutional demand specificity. We also elaborate that, in encounters between institutional logics that stem from different interinstitutional systems, the resulting novel complexity may necessitate the development of innovative templates. By establishing such templates at the interface of a novel constellation of logics, organizations may redefine the very prescriptions they and others are subjected to and impact the compatibility of jurisdictional claims of these logics.

## **THEORETICAL ORIENTATION**

The institutional logics perspective has become a prominent lens to 'bring society back in' to institutional analysis with logics forming a social order's 'organizing principles'

(Friedland and Alford, 1991, p. 248). They are ‘socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality’ (Thornton and Ocasio, 1999, p. 802). In modern societies, multiple institutional logics co-exist, form specific constellations (Bohn and Gümüşay, 2023; Goodrick and Reay, 2011) and yield complexity (Greenwood et al., 2011). We have considerably advanced our understanding of how, mostly within specific interinstitutional systems, logics impact organizations and, in return, how organizations manage logics (Besharov and Smith, 2014; Glynn and Lounsbury, 2005; McPherson and Sauder, 2013; Oliver, 1991; Pache and Santos, 2010; Reay and Hinings, 2009). Recently, however, scholars have started to call for the unpacking of different types of complexity depending on the characteristics of logics (such as their compatibility, specificity, jurisdictional overlap, or malleability) and their constellations (Bohn and Gümüşay, 2023; Goodrick and Reay, 2011; Lok and de Rond, 2013; Meyer et al., 2021; Raynard, 2016). In addition, Lounsbury et al. (2021, p. 263) called for seeing logics as ‘complex, dynamic phenomena in their own right’. This is a call to examine the social ontology of logics (Friedland, 2021; Steele, 2021) and its implications for their relationships. They note that ‘it is surprising that more research has not focused on how logics as complex phenomena, cohere and endure’ (Lounsbury et al., 2021, p. 267). In the following, we note five characteristics of institutional logics that are important for our argument: (a) logics are both structuring axioms and modes of reasoning; (b) they claim validity in specific jurisdictions and with different degrees of institutional compatibility and demand specificity; (c) they are temporarily situated and malleable; (d) they influence both means and ends; and (e) they unfold their impact within and across the constellations of interinstitutional systems.

First, logics are conceived as structuring axioms (e.g., Thornton et al., 2012) and as modes of reasoning (e.g., McPherson and Sauder, 2013). As structuring axioms, they prescribe and proscribe meaning and practices, and purport sensemaking. As modes of reasoning, they enable agency because organizations may purposefully draw from logics (Dalpiaz et al., 2016). Logics are, in fact, both. In line with debates around embedded agency (Seo and Creed, 2002), organizations are shaped by institutional structures and are likewise agentic given their values and beliefs, which are, of course, also influenced by institutions. Institutional logics thus have the potential to bridge what Selznick (1996, p. 276) calls the ‘pernicious dichotomies’ between old and new institutionalism, and to ‘incorporate both the macrolevel influences, disregarded by old institutional theory, and the role of norms and values, of underlying reasons for action, neglected by new institutional theory with its focus on cognitive legitimacy’ (Gümüşay, 2020, p. 9; see also Greenwood and Hinings, 1996).

Organizations are not indifferent towards the institutional logics that are in tension with each other, but are potentially more aligned with those logics that they care more about (Lee and Lounsbury, 2015; Mair et al., 2015; Malhotra et al., 2021; Ocasio and Radoynovska, 2016; Pache and Santos, 2010; Thornton et al., 2012); or, alternatively, are strategically interested in certain logics as instrumental tools ready to be used (McPherson and Sauder, 2013; Swidler, 1986). Organizations are regularly embedded in multiple logics at the same time and may internally prioritize one logic vis-à-vis another,

strategically or otherwise, with their propensity to prioritize specific logics impacting how they attend to institutional expectations, demands, and prescriptions (Almandoz, 2014; Malhotra et al., 2021). For instance, Raaijmakers et al. (2014) found that decision-makers may delay and challenge compliance with a focal logic based on their beliefs and collective sets of values. This internal prioritization within the organization can be aligned to the field-level prioritization of logics (Raynard, 2016) or deviate from it as in our case. To capture the varying degrees to which actors embrace institutional logics, we can distinguish between commitment to and compliance with institutional demands (Ocasio and Radoynovska, 2016). The former implies embracing institutional demands as much as possible, while the latter implies conforming with them as much as necessary. This distinction is especially relevant when actors face institutional complexity, as the way they deal with tensions is also dependent on their own values, norms, and standpoints towards particular institutional logics.

Second, logics claim validity in specific jurisdictions. If multiple logics are present in the same social space, their jurisdictional claims overlap (Dunn and Jones, 2010; Jancsary et al., 2017; Schüssler et al., 2023). 'Jurisdictional overlap occurs where the prescriptive demands of logics target the same jurisdictional spaces' and logics speak to the same concern (Raynard, 2016, p. 314). This overlap is what actually yields institutional complexity (Thornton et al., 2012, p. 57). Further, logics may be more or less (in)compatible and have varying degrees of specificity (Meyer et al., 2021; Pache and Santos, 2010; Raynard, 2016). Highly specific logics provide clear scripts for action and grant little discretion regarding interpretation and jurisdiction. Complexities that result from jurisdictional overlap and tensions between highly specific logics are more challenging to resolve than complexities that stem from overlaps between logics with low specificity because actors have less leeway in their interpretations. Religion and state can be regarded as logics with a high degree of specificity: states are commonly based on binding legal texts, and religions refer to scriptures that are deemed sacred. Such texts have relatively clear guidelines, exhibit significance, and often come with enforcement mechanisms.

Third, logics are malleable across time and space. They are resilient social norms, structures and practices and as such are relatively stable and durable (Lounsbury et al., 2021), with some degree of plasticity (Lok and de Rond, 2013). Logics are not static but rather resilient yet changing (Gümüşay et al., 2020). As Quattrone (2015) noticed, logics may change in the long run. He highlights the historicity of logics as they influence space and time, yet also exist in it. For instance, with LGBTQA+ movements, the family logic has been transforming from one of male–female union in marriage to diverse forms of partnerships. Over time, the multitude and magnitude of organizational behaviour has an impact on the substance of logics while logics have an impact on organizational behaviour. Other work has highlighted how a change of logics 'trickles up' from everyday improvisations (Smets et al., 2012) or as field-level 'rebound effects' based on the repercussions of organizations' bottom-up theorization (Höllerer et al., 2017). Yet, the jurisdiction and interpretation of logics may also change in the short run when organizations deliberately reinterpret and 'stretch' logics as they develop new practices and templates in their attempts to conform to a particular logic in situations of institutional complexity. With stretching we mean that novel and innovative practices that were previously not approved become

acceptable within logics. Thus, organizations not only have agency; their agency impacts the very underlying structures that influence reasoning and behaviour. As the jurisdictional claims of logics are constantly in motion, ‘institutional complexity – including the degree of incompatibility between logics – is in continuous flux’ (Boone and Özcan, 2020, p. 17).

Fourth, logics can be decomposed into means and ends (Pache and Santos, 2010; Yan et al., 2019) as sets of ‘means-ends couplets’ (Friedland, 2002, p. 383). Through logics, organizations ‘make sense of their environment and ... identify, express, and justify particular means and ends’ (Kroezen and Heugens, 2019, p. 979). Yan et al. (2019) note that logics are both providers of means, such as resources, practices and knowledge, as well as of ends or purposes, such as wealth maximization or social justice so that ‘the means/end distinction can be a powerful lever to grasp complexity’ (Yan et al., 2021, p. 933). Demands of logics may be aligned with regards to the outcome, but not the pathway towards that outcome. To realign logics, then, requires active work to render logic means malleable.

Fifth, logics form an interinstitutional system (Friedland and Alford, 1991). Within an interinstitutional system, logics have developed certain alignments over extended periods of time. Friedland and Alford (1991) explicitly focused on the interaction of logics within the interinstitutional system of the West. As a result, extant research examines cases in which different logics within one and the same interinstitutional system (e.g., Greenwood et al., 2011; Malhotra et al., 2021), or different instantiations of logics within a single institutional sphere such as professions (Smets et al., 2012) or the capitalist market (Meyer and Höllerer, 2016), co-exist. However, a logic may become relevant across interinstitutional systems. In such situations and settings, jurisdictional overlaps are emerging, compatibility or incompatibility of logics must be negotiated, and established guidelines or templates for how to manage the novel intersection of logics do not (yet) exist. As a result, organizations may need to provide interpretations of the pressures and complexity, and creatively develop innovative solutions to manage the jurisdictional overlaps. We echo Lounsbury and Wang’s (2020) call for a global perspective. Such a global perspective could examine institutional patterns across interinstitutional systems. This includes situations like our case of Islamic faith entering the German field of banking and finance.

An understanding of the social ontology of logics that conceives them as structuring yet enabling, with varying jurisdictional claims, (in)compatibility, and specificity, malleable yet resilient, separable in means and ends, and situated within and across interinstitutional systems has important implications for institutional complexity. Organizational agency, for instance of committed actors, impacts how they engage with complexity. The degree of jurisdictional overlap and logic specificity impact the level of complexity. The malleability of logics allows for ways to attend to complexity through stretching logics. A focus on means versus ends highlights that even when the purpose is not changing, means and practices may be able to adapt. Lastly, less work has examined complexity across interinstitutional systems and what happens when a new logic enters such a system. Hence, we focus here on novel institutional complexity, where a committed actor negotiates the entry of a new logic in an interinstitutional system, with novel tensions over the means to resolve or accommodate this complexity.

## RESEARCH CONTEXT AND EMPIRICAL DESIGN

### Islamic Banking Principles

Islamic Banking is derived from the scriptural norms of Islam on finance. Islam, at its minimal core, is the declaration of belief in God and that Muhammad is God's messenger. Its primary sources are the Quran and Sunnah. For Muslims, the Quran contains the words of God in 114 surahs (chapters) with over 6000 āyāt (verses; singular: āyah) gradually revealed between 610 and 632AD. Many of these verses entail socio-economic aspects and have hence an extensive application to social and individual activities. The Sunnah is the deeds, sayings, and silent or tacit (dis-)approvals of the prophet Muhammad. Secondary sources and practices are Ijma' (consensus) and Qiyās (analogy). Ijma' is the unanimous agreement amongst a certain group of people like religious scholars or the entire Muslim community depending on the Madhhab (i.e., the specific school of jurisprudence). Qiyās is a form of analogical reasoning which is somewhat contested amongst Islamic scholars. In addition, for some religious scholars there exist certain tertiary sources such as the common good or public interest (maslaha). Together, these sources and their interpretation underpin the Shariah and hence the religious foundation of Islamic Banking.

Islamic Banking builds particularly on the prohibition of interest (riba), uncertainty (gharar), and gambling (maisir), as well as unethical investment (Ayub, 2007). Riba is divided into riba al-fadl, an interest on excess in countervalue, and riba al-nasi'ah, an interest for delayed payment. So while riba al-fadl relates to trade such as a direct exchange of superior goods with a greater quantity of inferior goods, riba al-nasi'ah relates to loans. Riba was explicitly forbidden in the Quran in a gradual process of revelation culminating in the verse 2:275 that 'Allah has permitted trade and forbidden usury'. The Quran even entails a declaration of war against those who use usury (2:279). The underlying understanding is that transactions are asset-backed and linked to the real economy so that wealth increase is not guaranteed ex ante, but risk – and therefore also profit and loss – is shared ex post. Deposits with a return are thus participation or investment accounts. Money for a house or company inventory, for instance, is not borrowed but the house or inventory is purchased and sold by the bank.

Islamic sources not only prohibit certain activities, but they also encourage others, such as specific partnerships. In a Mudārabah partnership one party, the rabb-ul-māl, provides capital and the other, the mudārib, offers entrepreneurial labour. In a Mushārahah the various parties provide capital and some also engage in management. While Mudārabah is effectively a form of trust financing, Mushārahah is a joint venture partnership.

Religious scripture also offers general guidelines on business activities, for instance to act in accordance with economic (62:10), ecological (2:60; 28:77), and social (4:29; 11:85; 55:9) sustainability. They include specific financial prescriptions akin to a social tax (9:103), prohibitions on hoarding wealth (3:180; 9:34), and a worldview of humans as vicegerents of God (2:30; 57:7), so that ultimate ownership lies with God (24:33). From scriptural sources Islamic Banking hence derives both specific and generic rules that are central to the beliefs and values of many Islamic Banking employees and customers – and which are also visible in the vignettes below.

## Global Islamic Banking Practices

The global market for Islamic finance has developed from 150 billion US dollars in the mid-1990s to 2.4 trillion in 2017, with Islamic banking accounting for 71 per cent of this sum (Di Mauro et al., 2013; Thomson Reuters, 2018). The remainder are other asset categories such as takaful (Islamic insurance) and sukuk (Islamic bonds). This market, tailored particularly but not exclusively to Muslims, is expected to grow further, with increased customer interest in Islamic financial products and an increasing customer base being the drivers (Thomson Reuters, 2018). Islam is the fastest growing and second largest religion in absolute numbers, with 1.8 billion adherents in 2015 – that is 24 per cent of the world's population. It is expected to reach 3 billion or 31 per cent of the world's population by 2060 (Pew Research Center, 2017).

Historically, modern Islamic finance began in the 1960s with three developments: the establishment of Mit Ghamr Local Savings Bank in Egypt, regulatory reforms in Pakistan for non-interest banking, and the establishment of the Malaysian Pilgrims Savings Board. In 1975, the Islamic Development Bank and the Dubai Islamic Bank were founded. In 1979, the first Islamic insurance company opened in Sudan. Citibank began offering Islamic banking services in Bahrain in 1996. In 1999, the Dow Jones Islamic Market Index, which is the first Islamic equity index, was established, and in 2001, the first sovereign sukuk, a shariah compliant bond-like instrument, was issued by the Central Bank of Bahrain.

In Europe, financial service firms such as Citi offered products as early as the 1980s. Some established firms such as HSBC created so-called Islamic windows, which are 'run as separate organizations within conventional banks' (Boone and Özcan, 2020, p. 5). The UK has had Islamic retail banks since 2004. Around the time of our study, European Islamic funds made up 8.3 per cent of the global Islamic fund industry (Di Mauro et al., 2013). Commonly, such funds have a commercial rather than a retail focus and serve clients outside of Europe. Islamic finance in Europe has also benefitted from political support and growing demand. In 2014, for instance, the UK government issued a 200-million-pound sovereign sukuk. Overall, then, while Islamic finance was gaining momentum, at the time of the founding of KT Bank it was 'still at a fairly embryonic stage' in Europe (Di Mauro et al., 2013, p. 9).

## Islamic Banking and the German Socio-Legal Setting

In Germany, prior to the founding of KT Bank in 2015, multiple organizations offered Islamic finance advice, such as the Institute for Islamic Banking and Finance (since 2006) and ZinsFrei (since 2008). As early as 2004, Saxony-Anhalt, a German federal state, issued a sukuk. Finance institutions like Commerzbank and Deutsche Bank also offered Islamic compliant funds, but generally with a focus on the Middle East and Asia rather than the domestic market. With its founding, KT Bank effectively kicked off Islamic banking in Germany; later, in 2018, a second Islamic bank was created.

From a business perspective, the prospects for Islamic finance in Germany were seen as favourable, with Germany being the largest economy in Europe and home to five million Muslims. As one manager (KTB8a) noted: '*The number of potential Muslim*

customers, their need of Islamic finance products and services, as well as their interest in Germany-based solutions are all growing'. Yet, no Islamic bank had obtained a licence so far. As a result, there was no precedent for an Islamic bank within the German regulatory system. While the prospects looked favourable from a business perspective, legal and regulatory issues remained.

The establishment of the first Islamic bank in Germany in 2015 was thus characterized by a long internal bank formation process, an extensive exchange between the bank's founders and state regulators, and several field-level events. It can be divided into three crucial phases, all of which helped to establish an Islamic bank within the German regulatory setting: initial contact between bank and regulatory authorities, growing dialogue, and intensive engagement (see Table I). Throughout this process, KT Bank's holding company, Kuvveyt Türk Participation Bank, grew its presence in Germany.

At the field level, regulatory agencies were initially very cautious, particularly because Islamic attributes were previously misused and Muslim customers deceived. From 1995 to 2002, Turkish companies had advertised Islamic-compliant investments. They promised high returns and promoted their products with very explicit religious connotations and profit-and-loss participation. The savings of over 200,000 investors, mainly Turks living in Germany, were misappropriated and investors lost over five billion euros (Uebel and Ugurlu, 2006). These developments underlined

Table I. Key events

	Phase I: Initial contact between bank & regulator		Phase II: Bank & regulator growing dialog		Phase III: Bank & regulator intensive engagement	
<b>Bank project</b>	2004: Representative office in Munich opened		2010: Branch office in Mannheim opened		05.2013: Project office in Frankfurt opened	02.2015: Headquarter in Frankfurt opened
			2011: Feasibility study		04.2015: Bank establishment	
<b>Bank-regulator exchange</b>	Informal dialogue & application for representative office		Informal dialogue & application for branch office		10.2012: Bank license application	03.2015: Bank license approval
					2013-2015: Reporting, screening, exchange with BaFin, Bundesbank and the Auditing Association of German Banks	
<b>Field-level events</b>	1995-2002: Konya model deceit	2004: Saxony Anhalt issues Sukuk	2007/8: Financial crisis	2009: BaFin Islamic Finance conference I	2012: BaFin Islamic Finance conference II	01.2014: Islamic economic law conference at Osnabrück University
	2006: Deutsche Bank launches shariah compliant mutual fund		2008: Financial advisory FMF with focus on Muslims founded			

both the growing interest in Islamic finance theory at the time but also a particular scrutiny of actual Islamic finance practices.

In 2007–8, the Global Financial Crisis revived interest in Islamic finance (Hasan and Dridi, 2010). German media outlets increasingly covered this topic. Articles about the subject in leading newspapers such as *Die Zeit*, *Die Welt*, and *Süddeutsche Zeitung* explicitly discussed it as an alternative banking model. With conferences on Islamic finance in 2009 and 2012, BaFin advanced, channelled, and codified the discussion. Selected topics covered at the first conference were Islamic finance abroad, the opportunities and challenges of Islamic finance, and tensions between Islamic rules and German legal regulations. The second conference focused on Islamic products like Islamic funds, sukuk, and takaful. Academics, public servants, and businesspeople were well represented amongst the participants, as were managers of what later became KT Bank. The CEO of its holding company was even invited to give a keynote address in 2012, which, as has been stressed by public servants in interviews, should be interpreted as a signal of the interest in and general acceptance of Islamic finance by the regulatory authority. These conferences demonstrated that the field-level discourse was aimed at comprehending and better accommodating Islamic finance and banking in Germany.

The integration of Islamic guidelines into German law and society has featured prominently and controversially in public debates, and court rulings have been issued on a range of topics such as the dress of public servants, ritual slaughtering, official Islamic holidays, and circumcision. Tensions in Islamic banking are representative of these wider socio-legal struggles about how to combine the demands of the Islamic religion, on the one hand, and the bureaucratic state, on the other. They have become more significant and immanent as organizations try to institutionalize their presence – as in the case of KT Bank.

Overall, there were five factors that facilitated the emergence of Islamic banking in Germany in 2015. First, the financial crisis opened up the debate and interest in, and acceptance of, alternative business models, in particular Islamic finance. Second, the negative public sentiment towards Islam in Germany somewhat toned down at that time. Third, the role and influence of Muslims in German society was slowly increasing. Fourth, there was a debate about the competitiveness of the field of finance in Germany and the city of Frankfurt vis-à-vis the UK and Turkey, and London and Istanbul, respectively. Fifth, there was a long-term rapprochement between Islamic finance and German regulations, with a general willingness to accept Islamic banking, although dispute about how to make it happen.

### **Case Selection, Access, and Data Collection**

Our case study and longitudinal analysis builds on over 24-months of data collection. We zoom in on a single case study (Yin, 1994) that is ‘particularly revelatory’ (Eisenhardt and Graebner, 2007) for at least four reasons: (a) an organization in its pre-founding stage and a field in which social structures are in a process of change allowed us to observe the case unfolding over time; (b) the focal organization, the first Islamic bank in Germany, had distinct positioning and few pre-existing templates for the German regulatory system to draw on; (c) while most case studies have to anonymize their source, KT Bank executives agreed to the

disclosure of their bank's identity (without such an agreement it would have been extremely difficult to analyse and explain the distinctiveness of what became the first Islamic bank in Germany); and (d) the bank entered a pre-dominantly non-Muslim market.

From October 2012 onwards, we engaged with people who had been involved with Islamic finance and compiled relevant documents. Having defined a broad research theme and approach, we contacted KT Bank at the beginning of its formation process in April 2013 and entered into discussions with senior management, both about the banking venture and about gaining access for research purposes. They were very welcoming and offered access to the bank's archival data and project office. When the bank launched its project in May 2013, they agreed that we could conduct in-depth observations and discussions. This represented a unique opportunity to collect contemporaneous data rather than examining the process retrospectively, which allowed us to observe and discuss developments as they were happening instead of relying on interviewees' retrospective sensemaking. It was also important, as challenges and tensions during the founding process of the bank were, as we noticed later in the analysis, to some extent retrospectively reframed.

## Data

Our research strategy involved gathering data from three types of sources: observations (obs), interviews (int), and written material (doc). To immerse ourselves within the context, we observed meetings and informal discussions, conducted interviews with central actors in the field, and collected written documents about and from multiple stakeholders and media articles. Key stakeholders were KT Bank and its parent company, consultants, experts, customers, Muslim organizations, and the regulatory authorities, particularly BaFin as the primary responsible regulatory body formally granting authorization in the form of a banking licence. Table II provides a detailed overview.

Observations were primarily based on five longer and four shorter visits. The first author stayed for three weeks in September 2013, two weeks in December 2013, two weeks in April 2014, two weeks in July 2014, and one week in January 2015. We also visited KT Bank for a day in April 2013, January 2014, November 2014, and July 2015 as well as for two days in May 2014, March 2015, and May 2015. In between our stays, we had regular phone conversations, conference calls, and email exchanges. Overall, we spent 60 days with the bank. Our observational data-gathering entailed a variety of formats, including formal meetings and external visits as well as informal gatherings and day-to-day encounters. Between 2013 and 2015, we interviewed 81 project team members including KT Bank managers (KTB) and project consultants (CONS) as well as key stakeholders such as Islamic finance experts (IFE), public servants from regulatory authorities (REG), Muslim organization representatives (MOR), and potential customers (CUST). Key actors were interviewed multiple times and marked accordingly such as KTB1b for a second and KTB1c for a third interview with KTB1. Interview guidelines were adapted to the interviewee role as well as to the stage of the project and included questions about the founding process, existing challenges and considerations and steps taken to solve them. The first author recorded and transcribed the interviews whenever possible, as they were conducted in multiple

Table II. Data overview

Type	Observations			Interviews			Documentary evidence		
	Immersion in bank	Conferences and events	Project team	Field actors	Company documents	Field documents	Media coverage		
Data items	60 days	14 days	58 interviews, 8 group discussions, 3 follow-up interviews	23 interviews, 2 follow-up interviews	1181 documents	152 documents	304 documents		
Pages (ca.)	450	30	920	360	16,500	1700	750		
Description of data	Five longer stays between 1–3 weeks and seven shorter visits	Attended conferences such as the World Islamic Economic Forum, World Muslim Leadership Forum, Islamic Economic Law Conference in Osnabrück, Durham Islamic Finance Summer School, Cambridge Islamic Finance Executive Programme	Interviews with senior executives, managers (KTB) and consultants in the project office (CONS). Multiple group discussions	Interviews with key field actors like Islamic Finance experts (IFE) and public servants (REG). We also interviewed Muslim organization representatives (MOR) and potential customers (CUST)	Archival documents and final project documents including handbooks, decision sheets, videos, and presentations for internal and external use. Written draft materials including status updates, emails, project-related documents and pre-final versions	Legal documents, official announcements, reports, conference proceedings and books; videos, websites and social media statements	Newspaper and magazine articles (search for inter alia KT Bank, names of executives, Islam* bank* + Germany” in German and English)		
Use of data	Insights into the handling of institutional complexity at the bank	Insights into the discourse about institutional complexity at the field level	Insights into views, interpretations and practices regarding institutional complexity at the bank	Insights into views, interpretations and practices regarding institutional complexity at the field level	Insights into the processes at the bank	Insights into the field-level discourse	Insights into the social discourse		

languages and included sensitive data. In 2022, five follow-up interviews with key actors from both the bank and the regulator were conducted to discuss our findings and interpretations. These interviews were not recorded, but they were documented through intensive note-taking. Overall, 86 interviews were conducted. Written materials encompassed 1181 company documents, 152 field documents, and 304 media articles. Company documents consisted of both archival and project documents, including written reflections on and responses to authorities' requests. The field documents were regulatory documents, statements, articles by regulatory authorities, and conference proceedings. The media coverage about the emergence of KT Bank in particular, and Islamic finance more generally, was systematically collected for the period 2000 to 2017 through Factiva. Overall, we assembled over 1630 documents to inform our study.

### Data Analysis and First Insights

We continuously built and updated an event database with the aim of obtaining a detailed understanding of KT Bank and its market entry process. Throughout the research project, we moved between data collection and sampling; data reduction and representation; and conclusions and verification (Miles and Huberman, 1994). As we coded observations, interviews, and documents, a variety of patterns and sequences emerged, which served as a catalyst for additional data collection. We also performed 'member checks' (Nag et al., 2007) to test whether our interpretative scheme resonated with actors in the field and asked for further comments and explanations.

Our data analysis entailed a series of iterative stages following established procedures for working with qualitative data (Corley and Gioia, 2004). In an initial round of open coding, we focused on the challenges KT Bank faced in the venturing process, such as building the necessary IT infrastructure, identifying office space for their headquarters, and recruiting employees. This gave rise to a long list of challenges, ranging from products to processes and practices. Prior to commencing the field research, we had expected to observe challenges that emerged due to KT Bank's religious focus. Our initial coding confirmed this expectation. We saw tensions between the religious and market logics as well as between the religious and state logics. The bank engaged with these tensions by researching and drawing on solutions from the Islamic finance field. Given a long history of Islamic banking globally, this helped to resolve tensions between the religious and market logics. However, the same was not possible for tensions between the religious and state logics. Here, the distinct regulatory setting of the German banking system required innovative solutions.

Through this initial data analysis, the relevance of the state logic vis-à-vis the religious logic became more apparent (Yan, 2020) and a more specific theme emerged: how to build Islamic banking templates that were in accordance both with Islamic guidelines and German state regulatory requirements. Our media analysis enabled us to reconstruct the public view on the topic at the time. Media articles were coded *inter alia* for overall assessment of the new venture and its specific products as well as stakeholder and public reaction. This revealed an overall positive coverage across media outlets: many articles welcomed Islamic banking in principle and noted its

market potential, albeit having concerns about the realization of specific products and practices.

The fact that innovative templates had to be established in a heavily regulated context – the German banking context after the financial crisis – and had to be aligned with religious beliefs and values that differed from the ones that had prevailed in the interinstitutional system made it particularly interesting. As noted in one of the media articles: *‘It took more than two years of wrangling to get a bank license. There were tax problems to solve in addition to equity capital requirements or consumer protection standards’* (Schlieker, 2015). In contrast, the tensions that existed between the market and state logics had long been ‘domesticated’ through established institutionalized templates designed for conventional banking. A new conventional bank faces these tensions but can follow the associated templates. Similarly, as far as the tensions between the Christian religious logic, the market, and the state logic are concerned, Germany had guidelines, templates, and settled arrangements that had been established over the long period of co-existence between these logics. For instance, banks are closed on Sundays and Christian holidays, while this is not the case for the feast days of other religions. KT Bank adjusted its opening hours on Friday by taking a longer break during midday to accommodate Friday prayer and the associated prohibition on doing business during that time. Another example is the prohibition on Catholics accepting interest on loans, which was a rule in medieval Europe, but was given up over time. In our case, it is not simply that KT Bank is a faith-based bank, but specifically an Islamic faith bank in an institutional context that has co-evolved under the influence of the capitalist market, the bureaucratic state, and Christian religious logics. The insight that the central conundrum in our story was the requirement to find ways to integrate the demands of the state and Islamic religious logics emerged from the interviews with managers and regulators alike. Hence, we restarted the coding process in relation to the challenges faced with this focus on Islamic versus regulatory concerns in mind.

We zoomed in on instantiations and manifestations of the institutional logics of the Islamic religion and the bureaucratic state in the context of Islamic banking (see Table III). Logics were captured qualitatively by identifying, comparing, and matching patterns between data from our case and respective ideal types in the literature (Reay and Jones, 2016). Such instantiations regularly shared a reference to the market logic with their focus on banking – Islamic banking and banking regulation, respectively – but differed in terms of religious and state logics. We observed the central focus on a deity and a metaphysical quest, the key role of sacred scripture in offering guidance, and the structural integration of bodies such as the Internal and External Ethics Councils to formally ensure adherence to religious rules and norms. The religious logic had key implications for banking operations. The metaphysical quest was central to the bank’s purpose. Sacred scripture interpreted by the two councils determined Islamic banking rules and norms such as the prohibition on interest (riba), uncertainty (gharar), gambling (maisir), and unethical product investment. Equally, we noted the centrality of banking regulations and standards such as governance structures, liabilities, or deposit guarantees. The key focus of the bank during that time was to obtain its licence, and its operations were planned around key milestones in this process and engagement with regulatory authorities. Islamic rules and banking regulations had very specific overlapping jurisdictional claims, exerting strong and conflicting demands on the bank over structures and products.

To establish the type of complexity for our case, in our detailed coding we focused on identifying instances where institutional tensions between Islamic rules and regulatory

Table III. Ideal type institutional order in the research setting

<i>Ideal type institutional order</i>	<i>Religion</i>	<i>State</i>
Specific domain	Islamic banking	German banking regulation
Overarching aim	Metaphysical pursuit	Bureaucratic order and due process
Source of specificity	Sacred scripture	Law
Internal oversight	Compliance Department; Internal Ethics Council	Regulatory agencies, public servants
External oversight	Shariah/Ethics Council	Courts
Conduct	Religious commitment	Legal compliance

requirements arose, as well as on understanding how the bank experienced, interpreted, and navigated these tensions. In a first step, we coded attempts to resolve them. In a second step, we looked for relationships between first-order concepts to collapse them into second-order themes via axial coding (Corbin and Strauss, 1990). This involved oscillating between data, experiences, analysis, and reflection until we refined the data into conceptual categories, which we derived to capture our observations. Our second-order themes thus abstract from these specific observations. The third step entailed organizing the second-order themes into overarching theoretical dimensions. Four dimensions emerged that revealed four distinct compromise mechanisms: *explaining*, *convincing*, *conceding*, and *suspending*. In the findings section, we present these in detail and structure them according to four case vignettes that address central concerns of Islamic banking in relation to German regulation. Table IV presents illustrations of first-order categories and outlines the data structure.

Figure 1 illustrates the derived theoretical dimensions. It shows the four distinct compromise mechanisms and positions them in cascading order, from most to least preferred option from the bank's perspective. The institutional demands of logics A and B are depicted as circular areas. The idea for this depiction came from a KT Bank presentation that showed the legal system and Islam as spatial areas that needed to overlap to find the common ground. Where the circular areas do not intersect, their demands are not in congruence. We note four mechanisms. Three mechanisms reduce complexity through solutions that bring the interface of the two logics together; two of these include the development of innovative templates, while the fourth mechanism keeps the tensions pending resulting in a form of suspense.

## FINDINGS

### A Novel Constellation: Requirements, Tensions, and Priorities

With a positive sentiment both in the media and amongst regulators towards Islamic banking in general, the tensions were over means – not ends. The media reported on the potential of Islamic banking and challenges in its implementation. Multiple articles called KT Bank a 'pioneer'. The BaFin expressed 'goodwill' with 'a certain caution' (int,

Table IV. Representative data

<i>Theoretical dimensions</i>	<i>Second-order themes</i>	<i>First-order categories</i>	<i>Representative data*</i>
Explaining	Concrete explanation	A. Explanation of existing governance structure	‘There were many discussions about the Ethics Council; that the Executive Board remains unaffected by it ...’ (int, KTB4a)
		B. Detailed answers regarding status quo	Responses to queries regarding governance and Islamic compliance. (doc)
	Explicit specification	C. Revision of documents to make status quo structure clear	Explanation that management has final decision, not Ethics Council. (obs)
		D. Rephrasing to emphasize status quo	Shariah Board is called External Ethics Council with an advisory role. (doc)
Convincing	Innovative resolution of other’s concerns	E. Product innovation through analogy from outside the field	‘This is indeed an innovative product taken from outside the field of finance’. (int, IFE4)
		F. Process innovation can be accepted by regulatory framework	Product profile document details specific processes of real estate purchase with detailed steps and various scenarios. (doc)
	Novel justification of other’s concerns	G. Advocating for novel construct	Real Estate Financing with Islamic compliance would consist of two sales requiring property acquisition tax to be paid twice. Special purpose vehicle circumvents this. (doc)
		H. Justification with legal framing from outside the field	‘The special purpose vehicle is an existing legal construct. So it should be possible to use it for real estate financing’. (int, CONS5)
Conceding	Innovative resolution of own concerns	I. Re-thinking Islamic compliance rules	‘We had to re-consider what features of the credit card are forbidden by Islamic compliance and what not’. (int, KTB2b)
		J. Identifying innovative approaches to Islamic compliance	‘You either leave this project and do not offer the product, and potentially even don’t pursue the business. The other solution: You find a way out: innovatively. (...) This was particularly challenging given our beliefs’. (int, KTB1c)
	Creative interpretation of own concerns	K. Extending product attributes through Islamic exegesis	The time between sale and re-sale can be infinitely small and not oppose Islamic compliance. (obs)
		L. Easing adherence to Islamic compliance	Islamic compliance can be established through ex ante self-declaration of customers regarding intended purchases. (obs)

(Continues)

Table IV. (Continued)

<i>Theoretical dimensions</i>	<i>Second-order themes</i>	<i>First-order categories</i>	<i>Representative data*</i>
Suspending	Consensual vagueness	M. Vague juristic expression	'We are exuberantly happy that this vague juristic formulation, that we are principally prepared to take on all losses, was accepted, because this was the biggest hurdle'. (int, KTB5d)
		N. Equivocal formulation	'... to find a designation of risk costs, that is sufficient for the legal transparency requirements and at the same time adequately accommodates the business interests of the bank'. (doc)
	Benevolent postponement	O. No final discussion	'The deposit guarantee was actually the biggest project risk and God willing, it is now through. We are not certain yet, but since we stated our position there was also a meeting and it was not even brought up as an issue'. (int, KTB1d)
		P. Assumed acceptable solution for now	'It seems to be remedied for now with the bank's willingness to take on losses'. (int, CONS8)

\*Documentary data not in quotation marks where paraphrased.

REG3). For regulators, there was no problem as long as KT Bank templates were in line with regulatory requirements.

'I can tell you that there is no separate permit for Islamic banking in Germany. Banks offering Islamic finance require a regular permit from BaFin'. (int, REG2)

'BaFin organized two Islamic finance conferences with the aim, among other things, of exploring or better understanding the extent to which Islamic rules can be interpreted in line with the laws here'. (int, REG1a)

In this situation, KT Bank needed to negotiate solutions which both followed Islamic rules and complied with the relevant regulations. We thus zoom in on the bank and first present how managers experienced the tensions between regulatory and religious requirements and then offer four case vignettes, each of which illustrates specific struggles and solutions to the central tensions.

Developing an Islamic banking template within the German context was commonly regarded as the crux of the project, as these remarks from interviewees point out:

'To establish a bank is one thing, an Islamic bank a completely different one. (...). For all regulatory agencies [in Germany]: this is virgin soil for them, too; how do we want to deal with it? It is an unprecedented case'. (int, KTB10a)

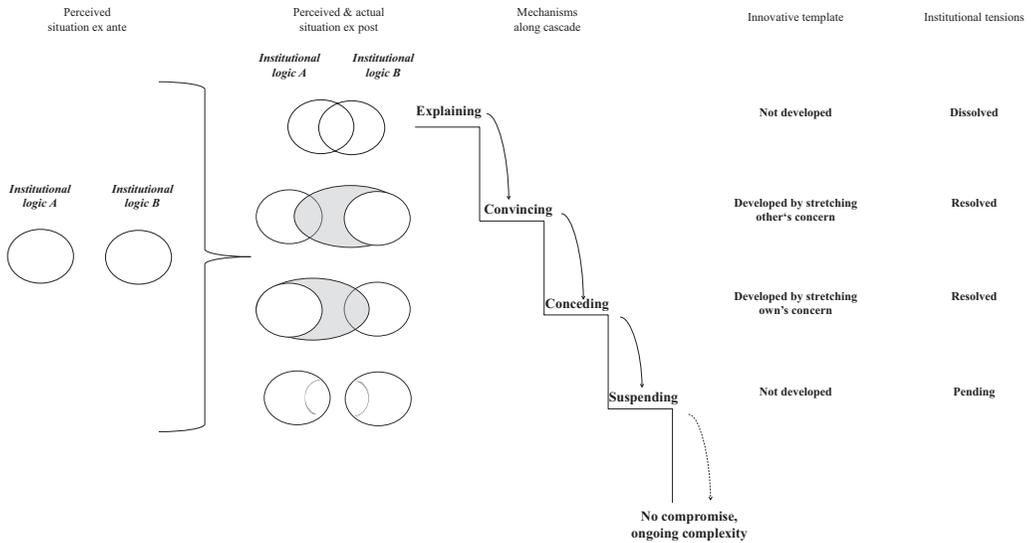


Figure 1. Four compromise mechanisms, innovative templates, and institutional tensions

‘We are in a Christian state, and this makes it obviously more difficult’. (int, MOR2)

‘If it works here, it will work anywhere in the eurozone’. (int, KTB2a)

Managers were well aware that the whole endeavour might fail.

‘What we need to do is to work out how to build an Islamic bank here. In Germany, banking regulations are much more complex, particularly the tax system is very complex, very difficult, and one is not sure whether it is possible or not to integrate taxes and banking regulation together with Islamic banking’. (int, KTB5b)

The exchange with regulators was hence considered of highest importance and urgency, and compliance with the regulations was regarded as very important. Project documents listed and highlighted milestones for document submission to regulators, discussions with those regulators, and their potential approval of the documents. One document, for instance, referred to the ‘ongoing effort to manage requests from authorities’. The title of the document was ‘Framework | KT Germany in the context of German authorities’ and the document itself contained three columns. The first column was ‘regular reporting [...] required by BaFin’ and included multiple ‘personal meetings’. The second column referred to the Auditing Association of German Banks, which decided on membership of the Deposit Guarantee Scheme; it posed 89 detailed questions and also necessitated regular status updates. Iteratively, they asked for further clarifications and modifications. The third column concerned the bank’s engagement with tax authorities. After identification of potential tax concerns, the bank requested a binding statement from the tax authorities with feedback on suggested products and processes. The significance of this engagement with regulators

was also apparent in the long working hours, stress, and tensions before submission deadlines or visits by regulators (obs). Despite intense preparations there was a common unease and concern as to whether an identified solution would be deemed acceptable as well as uncertainty as to how meetings and submitted documents would be received (obs). Managers eagerly waited and hoped for positive responses from regulators (obs).

It became clear that bank managers approached religious concerns differently from regulatory requirements. This was often not mentioned explicitly, but it became apparent when we asked managers for explanations or when we observed them dealing with contradictory demands. The strong commitment to Islamic religious beliefs and values were the drivers of the whole endeavour, while complying with banking regulations and obtaining a banking licence was a prerequisite. In conversations, managers stressed that love for their God as well as potential rewards in heaven and punishments in hell were key considerations for their activities and decisions. They emphasized that if adherence to Islamic rules was not possible ‘then the project is dead’ (int, *KTB1b*).

While shariah compliance is a common term in Islamic finance, the meaning underlying it and ways in which it is enacted often suggest a certain commitment to religious beliefs, guidelines, and values. In that sense, the bank was dedicated to Islamic rules and practices rather than just trying to comply with them.

‘Shariah compliance means to stick as much as possible to Islamic guidelines, to follow the Quran and the Prophet – his deeds and sayings’. (int, *KTB15a*)

‘The challenge was initially to look: what do we actually want? And what is Islamic about the product? Trading is allowed, riba (interest) is forbidden. But what does riba mean precisely? (...) For me, Islam is not operationalized. And we need to operationalize it’. (int, *KTB11a*)

KT Bank started with generic Islamic banking concepts that needed to be integrated into the novel cultural setting. Given the large potential market of Muslim customers in Germany and promising market studies and surveys about their interest in Islamic finance, the bank’s business prospects were not seen as a major challenge. Instead, interviewees frequently listed legal ‘challenges’ and regulatory ‘obstacles’ that needed to be overcome and reconciled. Overall, it was obvious to them that complying with German regulations was necessary but difficult.

‘What are the challenges? One is for sure German banking regulations. To adapt and adjust Islamic products to here. This is not an easy obstacle to overcome: legal questions, tax questions. These are challenges’. (int, *IFE1*)

‘It was important to clarify how Islamic views on banking and financial products fit at all into the existing system in Germany. Germany is not a developing country. Everything is largely designed: There are legal regulations, tax regulations, an institutional framework. So one needs to look how one may try to establish Islamic principles within these existing regulations’. (int, *KTB7a*)

To form a modified template of banking that adhered to both German regulations and Islamic prescriptions, KT Bank drew on various sources of expertise. It built internal professional capacity and competence by hiring and training experts in German law and Islamic finance. An Internal Ethics Council, consisting of three people, monitored religious adherence, and a legal department observed legal compliance. The bank also drew on external expertise. They hired lawyers and consultants to develop and structure products and processes in accordance with legal and religious obligations. The Internal Ethics Council was connected to an External Ethics Council of eminent religious scholars who provided expert advice. At various conferences, managers also engaged with experts on key issues (obs). Ultimately, difficult decisions needed to be taken.

‘The bank sees a problem. We consider which steps need to be taken, which third parties need to be involved – be it tax consultants, lawyers. They are then asked: how can we solve this problem. They then propose something, and we make a decision’. (int, KTB14a)

Central to the endeavour was the formal and informal dialogue with regulatory agencies. The bank submitted written documents for assessment and presented their progress to representatives in both the project office and at public agencies (obs). Various civil servants on these occasions displayed what KT Bank employees described as a Weberian bureaucratic mindset in that they focused on due process and on working within their mandate without imposing their own views. In interviews, they also stressed that they did not oppose an Islamic bank but were trying to assist within the corridor of what was legally possible.

In the following, we focus on four representative case vignettes. These vignettes exemplify Islamic banking principles and the tensions that arose due to the regulatory setting. They concern governance structure, real estate purchases, overdraft credit, and the deposit guarantee scheme (see also Table V). Other challenging matters such as Islamic compliant leasing or loans to firms required similar resolutions. However, these four concerns were commonly regarded as the most pressing and important ones by interviewees; they were also apparent in meetings and discussions and featured extensively in documents. Moreover, they are excellent instances to exemplify the four aggregate dimensions – or pathways to compromise – that emerged from our coding.

Our analyses revealed consecutive steps that were taken when engaging with the tensions that arose from the overlapping jurisdictional claims of the religious and bureaucratic state logics. The bank’s staff translated and explained Islamic concepts both literally and conceptually into German legal terms. Where possible, they explained that perceived incompatibilities were merely misconceptions and, in fact, no incompatibility existed. In cases that could not be resolved through explanation, the bank expended considerable financial resources on consultancy and legal fees and proceeded to develop innovative solutions that were consistent with both Islamic guidelines and the German legal system. In cases where the bank could not resolve incompatibilities between religious and regulatory demands, solutions that suspended the tensions were sought. Each step is effectively an addition to the response repertoire and does not replace previous steps, but rather builds on and complements them.

Table V. Four compromise mechanisms and case examples

<i>Mechanism</i>	<i>Case example</i>	<i>Tension (ex ante)</i>	<i>Compromise (ex post)</i>
Explaining	Governance structure	Role of Shariah Board vis-à-vis Executive Board questioned. German law requires ultimate decision authority to lie with management	Shariah Board renamed Ethics Council; its advisory function specified with no authorization to issue directives. Internal commitment is in line with regulation
Convincing	Real estate purchase	Loan to customer based on interest – prohibited in Islamic finance. Purchase and sell through bank results in payment of property acquisition tax twice	Special purpose vehicle owned by bank and customer buys real estate; bank sells share to customer for a mark-up. No interest. Tax paid only once
Conceding	Overdraft credit	Flexible overdraft credit offered with interest – prohibited in Islamic finance. Also, cards typically can be used to buy non-Islamic-compliant products	Customer buys on behalf of the bank (trading – not lending). Self-declaration, product blacklisting and 5% tolerance threshold employed
Suspending	Deposit guarantee	According to German law deposit investments need to be guaranteed by the bank. Islamic Finance does not allow such guarantees	Profit stabilization reserve to offer extensive assurance. Bank intention to cover losses can be interpreted as a de facto but not de jure guarantee

### Explaining: Governance Structure

In relation to governance, a structural issue arose regarding the role of the Shariah Board – later to be called the Ethics Council. According to German law, the executive board needs to be fully responsible for the activities of a bank. No individual or body other than the executive board may have ultimate decision authority. There are also very specific rules about who may be appointed as a board member of a bank and their responsibilities. At the same time, an ethics council is a body that ensures that the bank's practices adhere to Islamic rules and principles. Thus, a key concern was the relationship between the Executive Board and the Ethics Council – specifically, whether the council could overrule the Executive Board and who had the final say about banking activities.

“The ethics council is welcome, but it must not have co-decision powers, it must not act as a “shadow government””. (int, REG1a)

“Other banks also have their own distinctive features”, the German financial regulator BaFin says. “However, these features must always be in line with regulatory requirements. For example, when there is an ethics committee, it is imperative to ensure that it does not impact on the sole responsibility of the board””. (Die Presse, 2015)

‘There was this worry, that this Shariah and Ethics Council create a form of shadow regime, which would endanger the sole responsibility of the board and be removed from regulatory checks through the public agencies’. (int, KTB1b)

KT Bank established two bodies – an internal and an external one – and called both ethics councils. Their overall task was to formulate general principles of fairness, social responsibility and solidarity, sustainability, profit and loss participation, and transparency and communication (doc). They also issued fundamental prohibitions on matters such as interest (riba), uncertainty and vagueness (gharar), speculation and wagers (maisir), and forbidden goods and services (doc). In addition, they were tasked with addressing all ethical and Islamic compliance questions for KT Bank (doc).

The Internal Ethics Council was responsible for monitoring ethical guidelines, providing staff training in ethical issues, and overseeing the implementation of Islamic compliant processes and transactions in departments and branches. It was involved in the development of products and was also the point of contact for staff regarding Islamic compliance. The External Ethics Council addressed questions regarding Islamic finance compliance as it applied to products, services, and other issues for which no adequate standards had yet been defined. It was also involved in the development of novel products and advised bank management on interpretations of Islamic finance. The Internal Ethics Council had relevant expertise in banking, law and religion, and was embedded in the bank’s regular activities on an ongoing basis, but it did not necessarily have training in Islamic theology, while the External Ethics Council consisted of three trained and certified Islamic scholars who focused on more fundamental concerns.

‘The Internal Ethics Council is organizationally embedded into the banking practices. It consists of three employees. The External Ethics Council consists of independent religious scholars, who are always consulted when new products or new processes are developed, or new questions to existing products or processes arise’. (int, KTB1b)

In their Islamic compliance reviews, these ethics councils could object to certain practices, processes, or products. BaFin required written clarifications regarding the extent to which council decisions could bind the Executive Board. While, under German law, the rulings of such councils must not be binding, the bank could bind itself to rulings on a voluntary basis. In other words, the bank could choose to adhere to a ruling but it could not be formally obliged to do so. During the founding period, KT Bank re-named the Ethics Board and Shariah Board as the Internal and External Ethics Council, respectively. The bank also stated that it intended to adhere to advice from the ethics councils in all cases. Such declarations of intent are not formally binding, meaning that the ultimate decision and legal liability remains with the Executive Board. This solution was relatively simple and there was a common expectation that this would pose no serious challenge, but that all that was required was to provide the regulator with concrete explanations and explicit specifications (obs.), which turned out to be correct. These explanations were sent to the regulator and received written approval. It was codified in the highest

levels of documents such as the bank's Internal Regulations (*Geschäftsordnung*), which state explicitly:

‘The External Ethics Council is solely an advisory committee. The External Ethics Council is not authorized to issue directives to banking bodies’. (doc)

### **Convincing: Real Estate Purchase**

While a conventional bank can provide a loan to a customer to purchase a property, in Islamic finance this is forbidden. Managers in the bank referred to the Quranic verse 2:275, which says: ‘Allah has permitted trade and forbidden usury’. They also stressed the significance of this prohibition in relation to another verse, 2:279, which amounts to a declaration of war on those who use usury. For the bank, breaking with this religious rule and charging interest was unthinkable. Yet, they wanted to offer real estate financing, particularly for Muslims in Germany, noting – with pride and satisfaction – the potential benefits for Muslims who would not otherwise be able to purchase a home and comply with their faith. In Germany, using this so-called *murābahah* contract meant that property acquisition tax would have to be paid twice, in accordance with the Real Estate Transfer Tax Act (*Gründerwerbsteuergesetz*). In contrast, in the United Kingdom, legislative changes were made to cater for Islamic finance. Such a legislative change was also demanded in Germany. In 2012, the *Financial Times Germany* remarked that: ‘The British amended the Finance Act 2003 a few years ago precisely because they wanted to make London the global center of Islamic banking. France later followed suit. A comparable change in the law would also be needed in Germany’ (Dohms, 2012).

Initially, the bank tried to obtain regulatory approval for their banking practice so that purchasing a property and selling it to their customer for a mark-up would be seen as only one sale.

‘The goal would be in order to have an easier way to simply speak to the state and say: “listen, you know that in the end this is only one sale. So levy the real estate transfer tax only once” – like they did in England’. (int, KTB1c)

However, this was not approved by the regulatory authorities, who viewed this as entailing two transactions. A manager explained: ‘We asked BaFin whether a similar construct as in England is possible for Germany, but they said no’ (int, KTB7c).

Legislative changes were thus not likely in Germany, and the regulatory authorities were not willing to accept the clarifications provided by the bank that, in fact, this could be considered as only one sale. In order to align religious rules with legal requirements, KT Bank had to develop an innovative solution within existing laws and obtain approval for it – ‘So we needed to develop this new construct’ (int, KTB16a). To develop an innovative solution to the challenge of property purchase, the bank's management looked for and ultimately identified an existing product from a different business field. The bank transferred it to the field of finance and modified it to fit the needs of KT Bank.

‘With regard to real estate, there is an existing method of resolution, which we take and implant into the Islamic banking context.’ (int, KTB20a)

The relevance of this construct could be inferred *inter alia* from KT Bank’s careful attempts to guard this construct by not sharing its specifications and the associated intellectual property until the bank’s launch (obs). In fact, one manager emphasized that ‘thousands of euros were spent to research, develop, and codify the real estate financing product’ (int, KTB13b). The bank proposed this solution to the regulatory authorities and incorporated feedback into the product’s characteristics.

In the product development document, KT Bank states that their ‘Real estate financing is structured differently to typical German real estate financing’. A special purpose vehicle (SPV), which is owned by the bank and the customers and has a certain division of shares, is used to finance property purchases. For legal reasons, a purchase with three parties is the most cost-effective. In such a case, the bank might own 89.8 per cent, while customers 1 and 2 would own 5.1 per cent of the SPV, respectively. With private clients, for instance, the bank signs a contract with the customers to establish a company under civil law. The SPV acquires the real estate and pays the real estate transfer tax and other fees. The bank then sells its stake in the SPV at a profit to one of the remaining stakeholders of the SPV. The customers finance this stake by taking a loan provided by the bank. This specific SPV construct, drawn from outside the finance industry, circumvents the two-transaction problem described above without infringing Islamic guidelines. The regulator was ultimately convinced to accept such a novel construct.

### **Conceding: Overdraft Credit**

While issues regarding the governance set-up were structural, both real estate purchase and overdraft credit posed product challenges. An overdraft facility comes, for instance, with a credit card. Again, in conversations the regulator highlighted that its sole concern was that current law was upheld. For KT Bank this gave rise to two challenges concerning Islamic norms and rules. First, these rules and norms do not allow for lending on credit and the charging of interest. Second, the provision of assistance in purchasing products and services that are forbidden in Islam – such as, for instance, alcohol or pornography – is not allowed. Hence, religious demands were inconsistent with this payment method: ‘Conventional credits are a taboo’ (Heller, 2015). Yet, the credit card, with its underlying mechanism of flexible overdraft credit, was deemed a core product feature.

‘We need to offer a credit card. Our customers expect us to do so. There is no way around it. And we need to do so while satisfying legal requirements for credit cards and considering what is Islamically possible. What we have to do and what we are allowed to do’.

(int, KTB5b)

Early product development work gave rise to questions from regulators about product characteristics. Simple clarifications were insufficient, and there was no similar product within the German socio-legal setting. Bank managers agreed that changes in general

credit regulations, i.e., convincing the regulator to initiate legal changes, were likewise not feasible. As one manager noted: ‘There will be no changes in credit regulations just for us’ (int, KTB8b).

The key concern and focus was then to design a type of credit that was still Islamic and ‘comes closest to Allah’s will and the message of his prophet’ (int, CUST3). Whereas for purchases such as a car and house, the bank could invite a customer to the bank and make tailored calculations and offers, this was not feasible for smaller and more frequent purchases. As far as screening purchases for Islamic compliance was concerned, bank lawyers were also worried about consumer protection regulations regarding privacy issues (obs).

The bank had to find an innovative solution from within Islamic finance:

‘BaFin is also not static, it is flexible, but BaFin is important for the stability of the financial system to satisfy regulatory minimum requirements. And if these stand in potential conflict with ethics, then you need to consider how to interpret ethics, so that you move towards BaFin, but still work out a model that is bearable and reconcilable from an Islamic banking and finance perspective’.  
(int, KTB7b)

This thought process manifested itself in product specifications. Managers proudly spoke about the innovativeness and depth of thinking that went into product development alongside the negotiation processes with the regulators (obs). The bank explained what they meant by ‘Islamic finance particularities’ in a business plan submitted to the authorities (doc). The effort that went into product development was evident in the editing and commenting. A member of the Internal Ethics Council, for instance, edited the general product description, which previously read: ‘The main difference to a classical murābahah contract [which is a mark-up sale] is that the money is directly paid to the seller by the customer and not by the bank’. The new version stressed the role of the bank as the initial buyer (emphasis added): ‘The main difference to a classical murābahah contract [which is a mark-up sale] is that the money is directly paid to the seller by the customer on behalf of the bank and not directly by the bank’.

The ‘project management report decision overview document’ lists the attributes of the ‘Flex Credit’ product. It has the customer’s name on it, but the customer buys in the name of the bank. The purchase does not need to be confirmed by SMS immediately – confirmation by email was also possible. This product could not be used to finance standing orders or used good purchases. Thus, while conventional banks offer credit products that charge interest, KT Bank offers mark-up loans. The customer acts as a representative of the bank when buying a product, and the product is subsequently transferred to him/her. While this may in practice look like a conventional purchase, from an Islamic perspective two transfers occur. Such use of a credit card is thus a creative interpretation that the ethics councils approved. The specific feature is that ‘the customer buys the assets on behalf of the bank directly from the vendor so that the bank can sell the goods immediately back to the customer’ (doc).

While this solution was considered Islamic compliant, another concern was the type of products purchased. For instance, the credit card should not be used to fund gambling in a casino. The solution that was approved by the ethics councils contained three points. Through a self-declaration form, customers pre-agreed not to purchase non-Islamic

compliant products when they signed up for the card. The card also passively prohibited the purchase of certain products based on a blacklist and merchant category codes. Additionally, a 5 per cent tolerance threshold permitted some non-Islamic compliant purchases and thus offered some leniency and flexibility. If these mechanisms did not lead to Islamic compliance – i.e., in case of intentional or unintentional card misuse – the bank would give its profits earned through card usage to charity. With these solutions, the bank conceded on its Islamic rules and norms to the extent possible.

### **Suspending: Deposit Guarantee**

In Germany and the wider European Union, banks are obliged to participate in the deposit guarantee scheme that insures deposits up to 100,000 euros. For an Islamic bank, this poses the difficulty that a deposit account is not allowed to make a loss. However, according to Islamic finance requirements, wealth increase cannot be guaranteed *ex ante*, because risk – and therefore also profit and loss – is shared *ex post*. Deposits with a return are thus participation or investment accounts. This was of central importance to the bank.

‘If you interpret shariah strictly, there should be no deposit insurance’, says Matthias Casper of the ‘Religion and Politics’ Cluster of Excellence at the University of Münster. (Saibel in Welt Online, 2015)

‘The biggest difficulty next to issues with tax is the deposit guarantee. And here we are also very sensitive as a bank. Our CEO has made clear in the kick-off meeting before we sent off our application [for a banking license] that if it is not possible to have a profit-loss sharing in Germany, then the project is dead. Then, we are not doing it. It is not Islamic compliant ...’. (int, KTB1c)

According to KT Bank documents, a participation account is based on two principles derived from the Quran: the prohibitions on speculation and on interest. This has implications for both the credit and deposit business. Because speculation is prohibited, the credit business can only finance real goods. Deposits are used to obtain capital for these financing activities. The prohibition on interest means that credit businesses are priced with a profit margin rather than interest. Deposits do not receive interest but a share in the earnings from the credit business through a participation rate (doc). Hence, KT Bank needed to identify a solution that would satisfy the deposit insurance regulations as well as obey Islamic guidelines for profit and loss sharing.

KT Bank started by holding multiple meetings with the regulatory authorities that were internally classified as ‘Communication BaFin Deposit Guarantee Scheme’ (doc). These meetings were central to explaining the implications of Islamic finance requirements and to examining,

‘together with the Auditing Association of German Banks as well as BaFin where Islamic banking differs from regulatory requirements and how to then do it, how to bring it together, how to work with the prohibition of interest, how to do the calculation, and the consequences for risk spreading’. (int, KTB7b)

These meetings were effectively an attempt to clarify whether there was a way within German law to alter deposit accounts to allow for losses. For this, the bank screened solutions from Islamic banks in the UK, where a voluntary ex post opt-out system by deposit holders was used. Yet, this was not regarded as far-reaching enough, as one manager noted: ‘If this is how it is done there, it is a sham. There is nothing new ... If this is how it is done, it is also not Islamic’ (int, KTB1b). In these intense back-and-forth dialogues, the bank received negative feedback from the regulators on product specifications regarding potential losses on deposit accounts.

Despite repeated conversations, deliberations, and research into alternative designs, KT Bank was not able to identify an innovative solution or novel justification that fitted the Islamic and state regulatory requirements even when they tried to interpret Islamic rules somewhat creatively. For instance, management identified a solution used by an Islamic bank in England, which formally guarantees deposits but allows customers to relinquish their claims on their money ex post in case of bank insolvency. However, the ethics councils deemed this not to be Islamic compliant, as this was an ex ante deposit guarantee. An Ethics Council member called it ‘window dressing’ (int, KTB12). On multiple occasions, including in informal conversations and meetings, a deep worry and uncertainty was expressed as to whether the bank could be founded at all (obs). Ultimately, the bank proposed a two-step solution (doc) that remained deliberately vague. First, the bank is allowed to transfer up to 15 per cent of customers’ gross earnings into a profit stabilization reserve. This fund stabilizes earnings over time, and, in particular, is intended to avoid any losses. Second, while customers would have to bear potential losses, KT Bank documents stressed that it intended to cross-finance customer losses. It would use available resources from the profit stabilization reserve. Additionally, documents noted that the bank could also renounce its own profit claims and settle losses with its own resources.

‘We have now described it to the deposit guarantee scheme and the Auditing Association of German banks in the following way: we have said that our customers can participate with their capital in the portfolio, which the bank builds for them; both in the profit as well as potential loss. However, the bank is in principle willing to, even after it had to spend the necessary profit stabilizing reserves, to compensate for the losses – which is also Islamic compliant. [...] A customer should be able to make losses, but the creditor can, of course, take the loss. That is voluntary’. (int, KTB1d)

KT Bank conveyed these measures to the relevant regulatory authorities. KT Bank managers argued that, essentially, this could be interpreted as a de facto but not de jure deposit guarantee. In other words, KT Bank has the de jure right not to pay the money back, but the de facto willingness to do so. However, in such a case, as one of our follow-up interviews revealed, BaFin in turn could step in, take over control of the bank, and guarantee the deposits. The regulatory authorities did not explicitly approve this solution but did finally issue a banking licence.

‘Banks have the right not to repay money, but BaFin would step in very quickly and take control or impose conditions – the moratorium then is a stopgap measure’. (int, REG1c).

With its license to operate as a full-service bank, it can now offer all banking products, and the deposits of German savers are secured up to €100,000, as is the case with the other banks. (Der Freitag, 2015)

While religious and regulatory demands remained somewhat incompatible, both parties interpreted the situation as being broadly in line with their respective demands, and thereby effectively suspended, consensually, the need to address this incompatibility.

## DISCUSSION

To successfully establish the first Islamic bank within the German regulatory setting, KT Bank had to navigate across three institutional logics: religion, state, and market. While established templates existed for tensions between the market and Islamic religious logics as well as for the market and German state logics, the challenge of aligning institutional demands across the Islamic religious and the German state logics proved more profound. The jurisdictional intersection between religion, in the form of Islamic prescriptions, and the German bureaucratic state, in the form of banking regulations, gave rise to novel institutional tensions for which no established templates existed. Through observations, interviews, and document analysis, our study examined how the bank dealt with multiple occurrences of institutional tension and complexity. In each of the presented case vignettes, it went through a process of understanding and translating institutional demands as well as identifying and pursuing solutions.

Translated into the conceptual language of our theoretical framework, ours is a case in which a specific religion (Islam) enters an established interinstitutional system thereby resulting in a novel type of institutional complexity. This type of complexity is distinct from institutional complexities caused by multiple institutional logics from within one interinstitutional system. We found considerable jurisdictional overlap of two logics with high degrees of specificity (bureaucratic state and Islamic religion) in a situation where the demands of both logics needed to be met, but due to the novel type of complexity, no established templates fitted the situation. We found shared ends between the negotiating parties (that is, both sides were hopeful to come to an agreement), but disagreement around means, together with an organization that was strongly committed to the new Islamic logic. We observed this occurring in a context where, at the field level, the regulatory logic was imperative and did not allow for any distinction to be made between banks based on their religious beliefs. In the following, we theorize four compromise mechanisms that, given a committed actor, will run along a preference order, and discuss how a logic from another interinstitutional system results in novel constellations of relevant logics, thereby creating unprecedented institutional complexity and a need for innovative templates to be developed.

### Committed Actors, Complexity, and Pathways to Compromise

We have identified four mechanisms to deal with situations of institutional complexity, given the existence of jurisdictional overlap and the need to meet the requirements of both logics as well as the different degrees of compatibility between, and

commitment to, logics. The mechanisms offer a more fine-grained understanding of what would be commonly subsumed under ‘compromise’ (Kraatz and Block, 2008; Oliver, 1991; Pache and Santos, 2010). While the ultimate outcome – compromise – may seem similar, the ex-ante dynamics leading towards it differ. Our contribution is to highlight different pathways towards this outcome. By focusing on the antecedent processes, we offer a more nuanced distinction between different types of compromise as well as implications for the resolution of the tensions and the institutional logics themselves. This is important, as the same outcome, namely logic compromise, may be the result of fundamentally different prior processes and have substantially different wider implications.

*Explaining* deals with institutional plurality by offering explanations that aim to show that institutional demands perceived as being in tension are, in fact, compatible. *Convincing* is a mechanism that ‘stretches’ the institutional logic that one is not committed to. In contrast, *conceding* stretches the institutional logic that one is committed to. Finally, *suspending* recognizes that the incompatibilities between institutional demands cannot be reconciled and allows them to persist without deepening the potential conflict. The mechanisms can be structured in a cascading order, based on the degree of compatibility between, and the focal actor’s commitment to, logics (see Figure 1). Effectively, when the ‘structural constraints’ (McPherson and Sauder, 2013, p. 183) or ‘guardrails’ (Smith and Besharov, 2019, p. 27) for each mechanism are reached and no solution can be formed, the organization steps to the next mechanism. Hence, the mechanisms are not mutually exclusive alternatives but rather build on and complement each other. In the following, we examine each mechanism in turn (see also Figure 1).

*Explaining* *dissolves* misconceptions or misunderstandings and leads to a compatible solution without stretching or diluting any of the two logics and without the necessity to introduce any novel structures, processes, or practices. Effectively, through explanation and specification, the state of institutional plurality – not complexity – is made explicit (Greenwood et al., 2011; Kraatz and Block, 2008). In the case of KT Bank, this involved explaining its governance structure and showing that the board held clear management authority, with the ethics councils acting in an advisory capacity only.

Both convincing and conceding offer innovative solutions to institutional tensions by inventing and applying new structures, processes, or practices to *resolve* contradictory institutional demands. They require the creative interpretation of logics, as logics are ‘taken for granted and reconstituted by actors’ (Zilber, 2016, p. 151) and ‘can be creatively employed by actors to achieve individual and organizational goals’ (McPherson and Sauder, 2013, p. 165). Institutional logics are susceptible to actors’ interpretations (Voronov et al., 2013) and ‘available to organizations and individuals to elaborate’ (Friedland and Alford, 1991, p. 248). Unlike the process described by McPherson and Sauder (2013), however, the organization does not switch logics – the commitment is stable and so is the need to fulfil the demands of both logics. Neither does it strategically choose between the available logics. Similar to the findings of Malhotra et al. (2021), logics are accessed and activated with a degree of agentic leeway to enable logic settlement. Convincing stretches the external demand from the ‘other’ logic that the organization needs to comply with but is less committed to, internally. In the case of KT Bank, this

was seen in the development of a special purpose vehicle to realize real estate purchases. Conceding, however, requires the 'believed-in' logic to be interpreted creatively; that is, an institutionally committed position has to be diluted in order to resolve a situation of institutional complexity. For KT Bank, the overdraft credit resolution was such a grey zone, where the bank was outside its comfort zone. The insight that actors' commitment impacts the ways in which logics are employed leads to the distinction between a logic that an organization *intrinsically* cares about and a logic that it experiences as *extrinsically* prescribed, and reveals the separate mechanisms of convincing and conceding that would otherwise both be subsumed into the one mechanism of compromise.

Unlike explaining, both convincing and conceding are built on the creation and use of innovative solutions by incorporating external elements into existing logics. They offer new avenues that are outside current practice but consistent with the plasticity and malleability of institutional demands (Dalpiaz et al., 2016; Lok and de Rond, 2013), and they may serve as templates for future actors facing these tensions. Their deliberate design, and the care and resources that must go into their development, distinguishes them from the practice improvisations that trickled up to the field-level in Smets et al.'s (2012) study of a shift in a professional logic, and the explicit commitment to one of the logics distinguishes them from the ambiguity that organizations created in the study of Meyer and Höllerer (2016).

Finally, suspending permits mutual agreement despite the de facto persistence of the underlying tensions. While this includes a certain ceremonial element and serves to protect and buffer internal operations, it is different from decoupling as a form of ceremonial adherence to one logic while preserving commitment to another (Greenwood et al., 2011). This is because suspending is characterized by an awareness and acknowledgement that the tensions have not actually been resolved (Smith and Besharov, 2019). At KT Bank, the effective deposit (non-)guarantee is an example. Suspending does not entail window dressing or impression management between the organizations involved. However, it emphasizes both the unstable nature of the outcome and the fact that the institutional demands cannot be reconciled, meaning that there is no congruence. Hence, the organization resorted to suspending only when clarifications were not sufficient, and no innovative solution could be found. Suspending forms a truce that allows an organization, at least in the short run, to navigate this complexity while not engaging with its underlying incompatibility. While suspending may not require innovative templates and the stretching of logics, it neither dissolves nor resolves the existing tensions and thus leads to a state of uncertainty. This creates the risk of conflict at a later point in time.

Our findings speak to work that focuses on how organizations manage conflicting institutional demands (e.g., Battilana and Dorado, 2010; Pache and Santos, 2010). We contribute to this literature, which has identified mechanisms by which organizations deal with external pressures, by incorporating the level of actor commitment as an important organizational concern (Lee and Lounsbury, 2015; Malhotra et al., 2021; Ocasio and Radoynovska, 2016), and one which allows us to distinguish between mechanisms such as convincing and conceding. Focusing on a committed actor enables us to extend existing work on resolving institutional tensions (e.g., Malhotra et al., 2021; Pache and Santos, 2010; Smets et al., 2012) by positioning the mechanisms along a preference order from the point of view of just such a committed actor. While Besharov and Smith (2014)

highlight that an institutional logic can be more or less central to an organization, we show that, regardless of centrality, a logic may be more or less valued, leading to a different level of commitment. Importantly, this adds a third dimension to what Besharov and Smith (2014) have described as the *centrality* and *compatibility* of a set of institutional logics: the degree of *commitment* to one logic over another one. This complements work that highlights how organizations *can* respond to conflicting institutional demands (e.g., Greenwood et al., 2011) by integrating how they *wish* to engage with them. It responds to the ‘constitutive question of how actors become variably committed to logics [that] has not been fully worked out’ (Lounsbury and Wang, 2020, p. 11).

Our findings build on but also differ from work by Boone and Özcan (2016). In their study, ideological purity as the *adherence* to an institutional logic is contrasted with the decision of Islamic banks to hire managers from conventional banking and thereby mix logics and hybridize. If an organization remains faithful to a logic, it is ideologically pure. We complement this notion of ideological purity with the notion of commitment to a logic as *aspiration*, which is not (yet) fulfilled, with the degree of ideological purity being an outcome. This outcome would be achieved when the aspiration is fulfilled. For instance, companies focusing on shareholder value maximization as the ultimate organizational objective represent cases of ideological purity regarding the market logic (Thornton et al., 2012). In contrast, social ventures that experience ‘mission drift’ away from their social vision represent cases of ideological aspiration, where a community logic is aspired to but not instantiated (Ebrahim et al., 2014). In our case, then, the aspiration to ideological purity regarding the Islamic logic, which is new in the German banking field, was the driver of the venture but led to novel institutional tensions and resolutions. It was the focal organization’s commitment to the Islamic logic – rather than to the ideology of the market as in Boone and Özcan’s (2016) study – that determined the trade-off: There is a limited extent to which creative interpretation and action is possible without infringing on logic specificity. The order of escalation demonstrated the bank’s hesitancy to follow this route, which was also evident in the utmost care it took in designing innovative templates. There were careful attempts by the bank to avoid jeopardizing purity by stretching the other logic before their own, and a willingness to accept a state of suspension rather than to give up the commitment and the aspiration to purity.

Furthermore, our findings present a case with tensions over means, not ends. Yan et al. (2021, p. 5) note that ‘[m]ost research on the compatibility of institutional logics has focused on the extent to which their ends are aligned’. We contribute here towards our understanding of tensions over means. Both regulator and bank agreed that it should be possible to set up the bank and that the bank should be able to offer core products and services in line with both religious and state logics. The disagreement was over how this outcome could be achieved. This was particularly challenging given the high logic specificity of both the Islamic religious and the German state logics. As Yan et al. (2021) note, the means of the state logic are laws and regulations while sacred scripture is the means of the religious logic. KT Bank’s struggle was to bring these different means together, while having an internal representation of the religious logic (Pache and Santos, 2010, 2021). Pache and Santos’ (2010) third proposition notes that an organization that faces conflicting demands as to means, with

an internal representation of one side, is more likely to avoid or defy the external demand. Our data speaks to this asymmetry between internal and external representation, yet without the option to avoid or defy those demands. Complementing Pache and Santos (2010, 2021), we present an empirical case where an organization uses multiple response strategies and does so in cascading order, given its preferences and commitments.

### **Islamic Banking Emergence, Jurisdictional Struggles and Template Development**

Our study zooms in on the institutional complexity that arises from changes in the interinstitutional system in which the focal organization operates. Malhotra et al. (2021) show how actors dealt with a new logic that was already available in the interinstitutional system and how logic-based resistance was handled. By contrast, the setting for our case was an environment where the Islamic religious logic was new to the German field of finance as a whole, and not just to an organization. Hence, established templates for jurisdictional overlap did not exist but needed to be borrowed, emulated, recombined, and developed (Boone and Özcan, 2016, 2020; Gümüsay and Smets, 2020; Munir et al., 2021). We thus respond to the call by Vermeulen et al. (2016) to focus on the nature of institutional complexity and point out that organizations that draw from logics from different interinstitutional systems face a different type of institutional complexity compared to organizations that operate across institutional logics within one interinstitutional system.

In the case of KT Bank, we observed purposeful, deliberate agency, where the organization had to create complexity to subsequently engage with it (Perkmann et al., 2022). KT Bank combined multiple institutional logics to create and pursue new market opportunities (Dalpiaz et al., 2016) and attend to the interests of the growing Muslim community. In the case of Dalpiaz et al. (2016), Alessi sought a deliberate exposure to conflicting logics to create creativity. In our case, KT bank sought a deliberate integration of institutional demands to achieve the organizational setup of an Islamic bank. They were able to do so given their structural position and exposure to alternative logics (Greenwood and Suddaby, 2006). This complements work by Seo and Creed (2002, p. 238) who speak of ‘available logics’ with what we would call making a logic available that was not available before.

The novel logic (the Islamic religious logic) was drawn from a different interinstitutional system. This has implications for the interface between the novel logic and the other logics in the established constellation and for the level of complexity where jurisdictional overlap exists. While in instances of institutional complexity within the same interinstitutional system, more or less strongly institutionalized templates exist (Meyer et al., 2021), logics from different interinstitutional systems do not (yet) have such solutions. There are no frames or ‘complementary configurations’ (Ahmadjian, 2016, p. 13) nor established ‘ready-made templates’ to draw from (Kroezen and Heugens, 2019, p. 1006). As a result, ‘actors may face higher hurdles regarding the acceptability of combinations when the combination is novel and not recognized by stakeholders in their context’ (Perkmann et al., 2022, p. 8). Perkmann and colleagues continue that it ‘may also be that specific contexts are so tightly coupled with a specific logic that stakeholders resist

attempts to import other logics'. This is all the more challenging in historically grown interinstitutional systems, in particular in mature settings which are highly institutionalized (Perkmann et al., 2022).

KT Bank had to develop innovative solutions to manage the intersection and overlap of novel institutional complexity. Such innovative templates have a payoff that may be greater the higher the challenge and thus opportunity to differentiate oneself (Perkmann et al., 2022). In our case a huge investment was made to develop templates, yet these solutions may also have paved the path for followers, and, indeed, a second Islamic bank was founded in Germany in 2018.

Innovative templates become woven into, and thus impact, the existing institutional fabric. We thus contribute to the understanding of the malleability, temporality, and historicity of institutional logics (Ocasio et al., 2015) as well as their 'vibrant, unfolding, and contingent' nature (Lounsbury et al., 2021, p. 6) given the interplay of local activities and trans-local patterns (Steele et al., 2019). Quattrone (2015) has rightly made the criticism that institutional logics are often portrayed as stable sets of beliefs. He showed that logics can change over extended periods of time. The number of logics, their relationships, and their significance may also change over time (Bohn and Gümüşay, 2023). Our case highlights that organizations are not passive recipients but actively shape the institutional context in which they are embedded. They may be able to disrupt institutional settlements through the development of novel arrangements that become recognized and potentially institutionalized as new templates at the field level. For instance, through creative interpretations they may transform what is considered to be within the scope of a logic and may eventually even create a novel archetype – a set of ideas, values, and beliefs coupled with organizational structures, practices, and processes that reflect a specific interpretive scheme (Greenwood and Hinings, 1988, 1993). This addresses important calls for research on 'how organizational responses have feedback effects on field structure and institutional pluralism' (Greenwood et al., 2011, p. 357) and 'how spatial and temporal contexts create conditions that give rise to actors, who, in turn, work with the structure of opportunities and constraints found in their habitats' (Hwang and Colyvas, 2020, p. 588). It also relates to questions 'on how religion affects the entrepreneurial emergence of novel markets' (Yan, 2020, p. 558) by showing how religion may affect the formation of innovative institutional templates. Lastly, by examining institutional developments across interinstitutional systems, our findings speak to recent calls to connect institutional logics with world society institutionalism, thereby bringing in a more global perspective (Lounsbury and Wang, 2020; see also Faulconbridge and Muzio, 2016).

## IMPLICATIONS FOR FUTURE RESEARCH AND PRACTICE

We note several limitations of and future research potential from our study. The data set covered a single case and our findings need to be contextualized for other settings. Future research could thus examine market entry and change processes in diverse emerging and mature fields. This includes contexts where – unlike in our case, in which both sides were in favour of a compromise and hopeful that an agreement

could be reached – cooperation is missing, the situation is conceived or framed differently, or solutions could not be developed. In addition, in our study, we focus on the formation of the first Islamic bank in Germany but do not follow the subsequent development of the German banking field. Following the work of Faulconbridge and Muzio (2021), we encourage future research to explore whether the need to adhere to a shared regulatory framework while being committed to a specific logic may or may not be the starting point of field partitioning or even subfield formation and, if so, whether novel templates that are developed in this process become part of the institutional infrastructure of such field-level change.

We also see potential for delving deeper into the interrelationship between and intricacies of faith and other institutions. Yan (2020), for instance, noted that religious diversity within Islam across countries impacts Islamic investment fund demand and supply behaviour. To mention a related example within Islamic finance, regulations across countries are very diverse at present, for instance through different forms of Shariah boards. As institutional processes are intertwined with the regulatory setting, these warrant comparative analyses across different settings. Future work could examine further the implications of the social ontology of logics including their structuring yet enabling nature, jurisdictional claims and specificity, malleability and resilience, means-end coupling, and positioning within and across interinstitutional systems. Additionally, our case sheds light on the disruptive potential of an organization that needs to co-create innovative templates because it is institutionally embedded in logics from diverse interinstitutional systems. It thus highlights how, over time, organizations may alter the very prescriptions they are subjected to. We thus welcome more work that analyses organizations whose disruptive potential lies in the very nature of their underlying institutional make-up – one that cuts across interinstitutional systems (Ahmadjian, 2016).

Our study also offers insights for regulators and public policy makers. As their actions impact institutional settings, they can perform an important role in preventing conflict or improving the process of resolving tensions. They can ease, facilitate, or aggravate, market entry. State actors might consider the option of stretching existing institutional demands to form a field that is in accordance with the desired regulatory outcome while at the same time conducive for innovation and change. In contrast to our case, the UK allowed for such change by removing the double tax issue for Islamic banking.

Finally, our work addresses central concerns of the Islamic finance and management field. The so-called ‘form versus substance’ debate can be conceptualized as a debate about how demands from the religious logic are approached and integrated into business practices. Effectively, the simple notion of Islamic compliance – despite its wide use in Islamic finance – can be deemed misleading. We suggest a continuum that spans from commitment to compliance with Islamic guidelines, within which Islamic banks with their diverse practices can position themselves.

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