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Business Environment and Competitive Strategy in Improving Sharia Bank Performance in Indonesia

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Abstract: This study aimed to examine the influence of business environment and competitive strategy on the performance of sharia banks in Indonesia. The time horizon of this study was cross-section/one-shot in the year 2018. The unit of analysis was Sharia Banking in Indonesia, with a leader from each bank as an observation unit. According to Bank Indonesia's data, the total population was 34 Islamic banks consisting of two categories: 12 sharia commercial banks and 22 sharia business units. A cross-sectional study approach was used in this study, and the census conducted data collection. Verification analysis measures quantitative data and hypothesis testing using partial least square (PLS). The results showed that the business environment and competitive strategy significantly affected the performance of sharia banks. The competitive strategy had a greater impact than the business environment in improving the performance of Islamic banks. The results of this study were expected to be useful for the management of sharia banking to improve bank performance by improving the implementation of competitive strategies, especially speed strategy accompanied by the strengthening of the internal environment in terms of organizational structure and sharia bank management policies.

Keywords: business environment, competitive strategy, performance of sharia bank.

改善印度尼西亞伊斯蘭教法銀行業績的商業環境和競爭戰略

摘要: 本研究的目的是考察商業環境和競爭戰略對印度尼西亞伊斯蘭教法銀行業績的影響。本研究的時間範圍是 2018 年的橫截面/單次拍攝。 分析單位是印度尼西亞的伊斯蘭教法銀行，每個銀行的領導者作為觀察單位。根據印度尼西亞銀行的數據，總人口為 34 家伊斯蘭銀行，包括兩類：12 家伊斯蘭教商業銀行和 22 家伊斯蘭教企業。本研究採用橫斷面研究方法，並通過人口普查進行數據收集。驗證分析用於使用偏最小二乘測量定量數據和假設檢驗。結果表明，商業環境和競爭戰略顯著影響伊斯蘭教法銀行的業績。在提高伊斯蘭銀行的業績方面，競爭戰略比商業環境的影響更大。這項研究的結果預計將有助於伊斯蘭教法銀行的管理，以提高銀行績效，通過改進競爭戰略的實施，特別是速度戰略，同時加強組織結構和伊斯蘭教法方面的內部環境。銀行管理政策。

关键词： 商業環境、競爭戰略、伊斯蘭教法銀行的表現。

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1. Introduction

1.1. Research Background

The number of accounts (DPK) in sharia banking compared to the number of Muslims in Indonesia has not shown the appropriate comparison. This shows that many Muslim customers still use the services of conventional banks. Moreover, Indonesia's sharia banking is facing a serious challenge as the impact of slowing world economic growth affects Indonesia's economic growth rate that is not as high as expected. This situation caused the development of sharia banking in Indonesia to decline in terms of several offices slightly. Several employees and the number of banks only experienced the addition of 1 Bank.

The phenomenon of sharia banking shows an increasing trend in assets, reflecting an increasing demand for sharia banking customers as interest-based banks based on the concept of mudaraba and musharaka, which is, sharing of profits so as not to be free to do what they want but to integrate the value-moral values with economic action to maximize social benefits.

The conditions described above show that the performance of sharia banking services companies in Indonesia has not been said superior. This is allegedly due to problems in the implementation of competitive strategies. According to Wheelen *et al.* [16], three of Porter's generic competitive strategies are intended to outperform other companies in an industry, where the three generic strategies include cost leadership, Differentiation, and Focus. Meanwhile, Belkhaoui*et al.* [3] examines the market structure, market share, strategic choice, and bank performance and found that strategic variables associated with risk-taking and diversification affect bank performance both directly and indirectly by bank performance

1.2. Research Objectives

Based on this background, this study aims to examine the influence of business environment and competitive strategy on the performance of sharia banks in Indonesia.

2. Literature Review

The concept of the business environment is delivered by Krapez *et al.* [10], which is an environment that indicates external forces and internal strengths and institutions beyond the control of individuals within the enterprise that can affect the business of the company directly indirectly. The business environment consists of the internal environment and the external environment. The internal environment includes strategy, values, organizational structure, human resources, skills, support, and physical and financial assets. The external environment of the narrow external environment includes the strength of newcomers, the strength of the product/service substitution, the bargaining power of the supplier, the bargaining power of the buyer, the competition among competitors; and a wider external environment, covering the environment: political and legal, social, economic, technological, natural. Based on the research results of previous research journals, the business environment in this study is measured by two dimensions of the internal environment and the external environment.

In achieving competitive advantage, Pearce & Robinson [12] evaluate speed-based strategies as a competitive advantage as a business strategy built on functional capabilities and activities that enable the company to be faster than its main competitor in meeting customer needs directly or indirectly directly. Thompson, Peteraf *et al.* [15] argue that two major factors distinguish competing strategies:(1) broad and narrow target market, and (2) advantages to being achieved by companies, whether lower cost or differentiation. These two factors create five competitive strategy options: Low-cost provider strategy, Broad differentiation strategy, Focused low-cost strategy, Focused differentiation strategy, and Best-cost provider strategy. Based on the comparative dimension and adjusted to the unit of research analysis, the competing strategy in this study is measured by the dimension consisting of cost leadership strategy, differentiation strategy, focus strategy, and faster strategy.

David [5] has financial ratios as a quantitative criterion for evaluating strategies consisting of Return on Investment (ROI), Return on Equity (ROE), Profit Margin, Market Share, Debt to Equity, Earnings per share, Sales growth, and Assets growth. According to [13], there are similarities and differences found in measuring the performance of conventional and sharia banks. The performance of conventional banks compared to sharia banks lies in aspects of profitability, liquidity, credit risk management, and solvency. Based on the comparison of the above dimensions, for this study, the performance of firms in the sharia banking services industry includes several dimensions that refer to [7, 9, 13], which include: net profit margin, operating profit ratio, and financial performance ratio.

Abou-Youssef *et al.* [2] found that strategy implementation impacted consumer attitudes toward Islamic banking in Egypt. By exploring the effects of implementing the Islamic Strategy on consumer attitudes toward Islamic banking in Egypt, Pasrizal *et al.* [8] found that the Personality, Social Class, and Entrepreneur Culture of Marketing Strategy and Decision Becoming Customers of Sharia Bank culture directly influence the decision to become a customer. In addition, Belkhaoui *et al.* [3] examine the market structure, market share, strategic choice, and bank performance and find that strategic variables associated with risk-taking and diversification affect bank performance directly and indirectly. Based on a review of the findings of previous research, a conceptual model of this study was developed as follows:

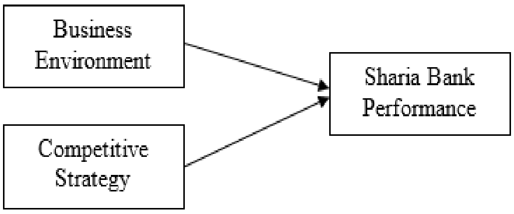

Fig. 1 Conceptual model

3. Methodology

The research design is done conclusively. According to Malhotra [11], conclusive research tests specific hypotheses and examines the specific relationship. The time horizon is cross-section/one-shot, meaning that the information or data obtained results from research done at a certain time in 2018. Creswell [4] said that explanatory research could test the hypothesis with an interesting random population sample.

Sekaran [14] states that the unit of analysis refers to the level of aggregation of the data collected during the subsequent data analysis stage. The unit of analysis in this study is Sharia Banking in Indonesia, with the observation unit that is the Leader of each of these banks. According to Bank Indonesia's data, the total population is 34 Islamic banks consisting of two categories: 12 sharia commercial banks and 22 sharia business units. This study used a cross-sectional approach, and the census conducted data collection. The census is the process of obtaining information by observing all population members. The census is done because of the small population size, so that the research will be conducted on all sharia banks.

Verification analysis measures quantitative data and hypothesis testing using partial least square (PLS). The PLS model consists of two linear equations called the structural model (Inner model), which illustrates the relationship between the latent and measurement variables (Outer model), which shows the relationship between latent variables and a group of manifest variables that can be directly measured.

4. Results and Discussion

4.1. Hypothesis Testing

Below is the result of hypothesis testing, both simultaneous and partially.

Table 1 Hypothesis testing result

Hypothesis	R^2	F-value	Conclusion
Business Environment and Competitive Strategy -> Bank Performance	0.453	12.826*	Hypothesis accepted

* Significant at α = 0.05 (F table = 3.305)

Based on Table 1, it is known that within the degree of confidence of 95% (α=0.05), simultaneously, there is the influence of Business Environment and Competitive strategy on Business Performance amounted to 45.3%, while the rest of 54.7% is affected by other factors did not examine.

Below is the result of partial testing of the hypothesis:

Table 2 Partial testing of hypothesis

Hypothesis	γ	SE(γ)	t	R^2	Conclusion
Business Environment -> Bank Performance	0.235	0.101	2.330*	0.115	Hypothesis accepted
Competitive Strategy -> Bank Performance	0.527	0.091	5.805	0.338	Hypothesis accepted

* Significant at α = 0.05 (t table = 2.04)

Partially, there is significant influence from Business Environment and Competitive strategy to Business Performance, which is Competitive strategy has a greater influence (33.8%).

4.2. Research Finding

Based on the results of hypothesis testing obtained, the findings of the model are as follows:

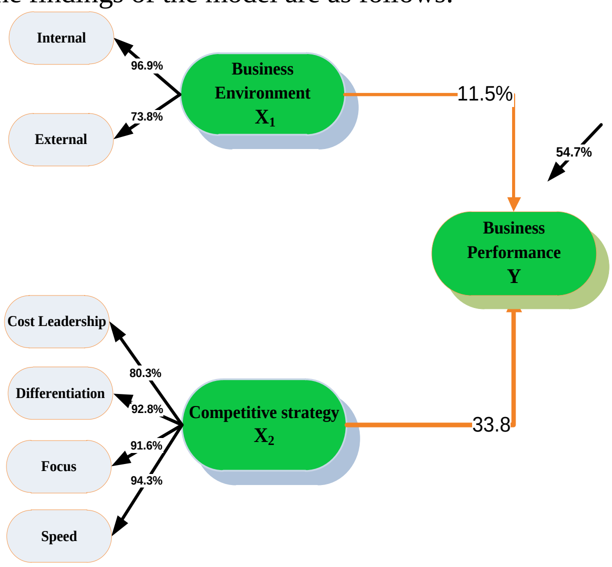

Fig. 2 Research finding

The study findings indicate that the business environment and competitive strategy have a significant effect on the performance of sharia banks. The competitive strategy has a greater influence of 33.8% than the business environment (11.5%) in improving business performance.

Competitive strategy is measured by four dimensions: cost leadership strategy, differentiation strategy, focus strategy, and faster strategy. Speed strategy has the greatest role (94.3%), followed by differentiation, focus, and cost leadership. These results illustrate that the competing strategy of sharia banking today is based on speed. Islamic banks need to have speed in providing services to customers, anticipate the demands of the Islamic banking market, and anticipate the movement of competitors of sharia banks.

The business environment is also proven to affect business performance. The internal environment has a higher effect than the external environment. An internal environment that impacts performance is the organizational structure of Islamic banks and sharia bank management policies. Both proved to have a greater impact than the external environment. The external environment affecting performance includes the technological environment, competition environment, political turmoil environment, banking policy environment, and environment of sharia bank substitution product.

The results of this study support the findings of Abou-Abou-Youssef *et al.* [2], Pasrizal *et al.* [8], Belkhaoui *et al*. [3], and Hahn and Powers [6], which shows that competitive strategy affects bank performance. In addition, the results of this study indicate support for Nandakumar [1] explores the fact that the business environment has an impact on company performance.

5. Conclusions and Suggestions

The business environment and competitive strategy have a significant effect on the performance of sharia banks. The competitive strategy has a greater impact than the business environment in improving the performance of Islamic banks. The competing strategy of sharia banking today relies on speed. Islamic banks need to have speed in providing services to customers, anticipate the demands of the market of Islamic banks, and anticipate the movement of competitors of sharia banks.

The results of this study are expected to be useful for the management of sharia banking to improve bank performance by improving the implementation of competing strategies, especially speed strategy accompanied by the strengthening of the internal environment in terms of organizational structure and sharia.

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