



Business Process Improvement of Funding: A Proposition to Increase the Performance of Indonesian Islamic Banking

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Abstract

The aims of this research paper are to analyze the problems related to some aspects of the Indonesia Islamic Banking such as the implementation of Shari'ah principles and its value chain on the Funding of Islamic Banking, and to formulate an improvement proposal to improve the business process of third party mobilization in order to increase the performance of Islamic Banking in Indonesia. This is a combined qualitative and quantitative research. Value Stream Mapping, Business Process Re-engineering (BPR) and Analytic Network Process were used in a qualitative approach. Likert scale questionnaire was used in a quantitative approach. The results of this research involve a proposition to change the business process of funding, which was actually an outcome of business process reengineering with enablers of information technology development and adjustment of policies related with the enhancement of Islamic principles implementation and business strategy formulation. Design of BPR was able to reduce the waiting time (queue) as a waste or non value added sub process (NVA) and re-layout several necessary but non value-added sub process (NNVA). The business process changes will be effective with the two groups of enabler. The first enabler is information technology development, such as online registration, and instalation of self service banking machine (SSBM) and/or Cash Deposit Machine (CDM). The second enabler is the policies adjustment that included the recommendations to increase Shari'ah values implementation, as well as the adjustment of strategies combined with a sequential priority of resources empowerment, product development, institutional strengthening, and increase in marketing.

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Keywords: Indonesian Islamic Banking, Shari'ah Principles Implementation, Business Process Reengineering, Analytic Network Process

1. Introduction

Islamic banking in Indonesia is one of the financial institution pillars that maintain the economic stability because of its role in moving forward the real sectors. Indonesia Islamic banking has been developing and operating since 1991. However, its market shares in terms of assets, third party funds and financing is still relatively small. The Indonesia banking statistical data showed that the third party funds of Islamic banks and Islamic business units in December 2014 were only IDR 217.87 billion. That shows that the market share of Islamic banks was only five percent of the total third party funds of conventional commercial banks of IDR 4.29 trillion (OJK 2014). In fact, third party fund is an input for Islamic banks in order to carry out their financing operations. The financing volume of Islamic banks as intermediation institutions depends on the amount of third party fund. If the third party fund is small, the financing volume will be small and vice versa. The research results found by Beik and Aprianti (2013) prove that one of the factors influencing the agricultural sector financing by Islamic banks is the amount of third party fund.

Indonesia Islamic banking development is much influenced by its own capabilities. Its internal problems such as the one related with inadequate human resources (Ascarya, 2010; Ben, 2011) and with

technical aspects such as standard operating procedures and information technology (Puspito, 2008; Ascarya, 2010; Mohamad, 2011). These may cause the emergence of a sub-stage that has no added value to the business process and that will in turn influence the development of Islamic banks. Islamic banking development is also influenced by the community trust on the Islamic banking operations. The negative stigma of the community that Islamic banks are the same as conventional ones is also a problem that the banks have to deal with. This is in line with the findings of the previous researches, which indicated that the amount of Islamic banking profit sharing was determined based on the conventional interest rate (Chailis, 2007), that the banks do not possess any goods at the time the *murabahah* financing scheme is agreed and signed between the bank and the customer (Hasanah, 2007) and the components of CAMEL (Capital, Asset, Margin, Earning, Liquidity) provide more a dominant influence on the profit of Islamic Banks than the *musharakah* and *mudarabah* financing as the core product of Islamic banking (Bachruddin, 2009). There is not enough information to make a firm conclusion whether Islamic banking industry can compete due to its compliance to the normative basis or to a high contestability pressure (Fahmi, 2012)

Based on the above description, the research problem is formulated as the low third party fund of Islamic banking that may limit its financing capability in order to run the real sector in Indonesia. Meanwhile, the purposes of this research are (i) to analyze the problems of Indonesia Islamic Banking in the aspects of the implementation of *Shari'ah* principles and its value chain on the business process of third party funding in Islamic Banking (ii) to re-formulate the business process model of funding in order to increase the Islamic Banking performance.

2. Relevant Literature Review

Islamic banking is one of the global Islamic economic practices. Economic activity is an aspect of *mu'amalah* in the Islamic system as the other aspects such as marriage, inheritance law and politics. Therefore, all activities are to be carried out in compliance with the rules of Al-Qur'an, *hadith* or *ijtihad*. The rules are known as *fiqh* meaning the knowledge of Islamic laws that are obtained from the detailed Islamic laws. The *fiqh* used in the economic transactions is of *mu'amalah* type.

The sources of Islamic law used as the basis for the *Shari'ah* economic system operation are Al-Qur'an, *Hadith*, *Ijma* and *Qiyas* (Haron and Wan Azmi, 2009; Sjahdeini, 2010). Islamic bank operations should accentuate the *Shari'ah* values referring to *Shari'ah* transaction principles. Antonio (2001) states that the economy of community, not only muslim's one will be better when they are employing the framework or references based on the Islamic norms. Several signs indicating the Islamic norms or *Shari'ah* values are: 1) commitment to always looking for the lawful (*halal*) and good things (*tayyib*), 2) avoidance of prohibited activities, 3) avoidance of extravagant life style, 4) avoidance of oppressive activities, 5) avoiding payment with receipt of interest (*riba*), 6) avoidance of gambling or speculation (*maysir*), 7) avoidance of manipulative transaction of which is the object is not clear, not own, not known its whereabouts (*gharar*), 8) commitment to always uphold social responsibility such as *zakat*, *infaq*, *sadaqah*, 9) principles of justice and brotherhood. The Bank Indonesia Regulation no. 10/16/PBI requires Islamic banks to comply with *Shari'ah* principles in their activities of funding, financing and other services. The principles include the aspects of balance and justice (*'adl wa al tawazun*), benefit (*mashlahah*) and universalism (*alamiyah*), and prohibition of *gharar*, *maysir*, *riba*, *haram* and *zulm* (BI 2008). IAI (2007) and Sholihin (2010) grouped five principles to be applied to *Shari'ah* transactions namely 1) brotherhood (*ukhuwah*), 2) justice (*'adalah*), 3) benefit (*mashlahah*), 4) balance (*tawazun*), 5) universalism (*syumuliyah*).

A business process is a collection of related structured activities in order to solve a specific problem or to produce service or product. It consists of a series of logically related entities that makes use of organizational resources. Davenport and Short (1990) as quoted by Doomun and Jungum (2008) define business process as structured, measured set of activities designed to produce a specified output for a particular customer or market.

Havey (2005) provides a simple definition of business process as a step-by-step rules for resolving a particular business problem. According Hammer and Champy (1993) business process is a collection of activities that takes one or more kinds of feedbacks and creates an output that is of value to the customer

(Vergidis *et al.*, 2008). Cook (1995) defines business process as a set of steps of business activities with the customer satisfaction as its main goal by providing what is needed by the customers at the time they need (Islam and Ahmed, 2012).

Islamic business process is the one that bases on the Islamic principles. It is bound to the moral and ethics conveyed by Prophet Muhammad SAW. In general, Islamic banking business is almost the same as the conventional banking in terms of the fundraising and distribution. However, the Islamic banking should put into practice the Islamic norms namely the *Shari'ah*.

Business process modeling is a way that may be used to improve the performance of an organization. This modeling is also known as Business Process Reengineering (BPR). BPR may be used to follow up the intention of the organizational entity or institution in order to make change or it is designed since the commencement of an activity or business. Business process change is acknowledged as one of organizational sustainable changes where the company changes and improves their business model, strategies and goals (Jaklic *et al.*, 2006). A change in business process may be carried out by using some continuous sustainable, incremental or radical methods. An industry, institution or organization can use one of the methods to change its business process depending on the goals it wants to achieve and its available time and fund. Cook (1995) defines business process change as an improvement method where different business activities are designed or managed (Islam and Ahmed, 2012).

3. Data and Method

This was a combined qualitative and quantitative research. Qualitative research used re-modeling by means of BPR, Value Stream Mapping (VSM) and Analytic Network Process (ANP) while quantitative research used Likert scale questionnaire. The typical data used was the primer data obtained from in depth interview and or questionnaire completed by the respondents. Three groups of respondents were used. They were a group of customers, a group of Islamic bank internal workforce (staff and management) and a group of experts. The respondents of customer and Islamic bank internal workforce were obtained from four types of Islamic bank operating in Indonesia which consist of three full-pledge Islamic bank (since its establishment, subsidiary of state-own conventional bank, subsidiary of private conventional bank) and Islamic business unit of conventional bank.

To measure the *Shari'ah* principles implementation, the research used 240 respondents consisting of customers and staff of the Islamic banks from each of which 30 customers and 30 staff were chosen. The questionnaires for the customers were used to find the reasons why they chose Islamic banks and what values they wanted the banks to develop. Twelve respondents of internal workforce of Islamic banks were employed to review the business process and value chain.

The expert respondents were employed to provide feedbacks in relation with the design of business process improvement and its validation process. The research also asked the expert respondents to complete the ANP questionnaires in order to find the enabler of business process of Funding. Marimin (2009) stated that the involved experts could be divided into four groups namely a) experts with master and doctorate degrees in the discipline being studied, b) experts who have experience in the discipline being studied and holding master degree in different disciplines, c) experts who hold master degree and experience in the discipline being studied, d) experts who are practitioners in daily life (who are rich in empirical expertise in one of economic sectors). In this research, seven experts were involved. Two experts were Islamic bank practitioners. One expert represented Bank Indonesia. One expert represented Financial Services Authority. One expert represented the National *Shari'ah* Board (DSN) of Indonesia Ulama Council as the recognized authority to originate kosher and illegitimate fatwa. One expert represented academic and another one represented the community. Their various backgrounds represented the stake holders of Islamic banking.

4. Finding and Discussion

4.1. Customers' Reason for Choosing an Islamic Banks

The completed questionnaire indicates only 10% of Indonesia Islamic banks customers mention the compliance of Islamic banks to *Shari'ah* principles as their main reason to choose Islamic banks. The rest

or 90% state that other aspects that are of general services were their main reason to choose Islamic banks. The Islamic bank compliance to the *Shari'ah* principles are the third rating below the hospitality (15%) and easy access (14.17%). Figure 1. provides the detailed main reasons. The questionnaire results confirm the statement made by several Islamic Bank management involved in this research sample that Indonesia Islamic Bank customers are of rational typical (functional benefit).

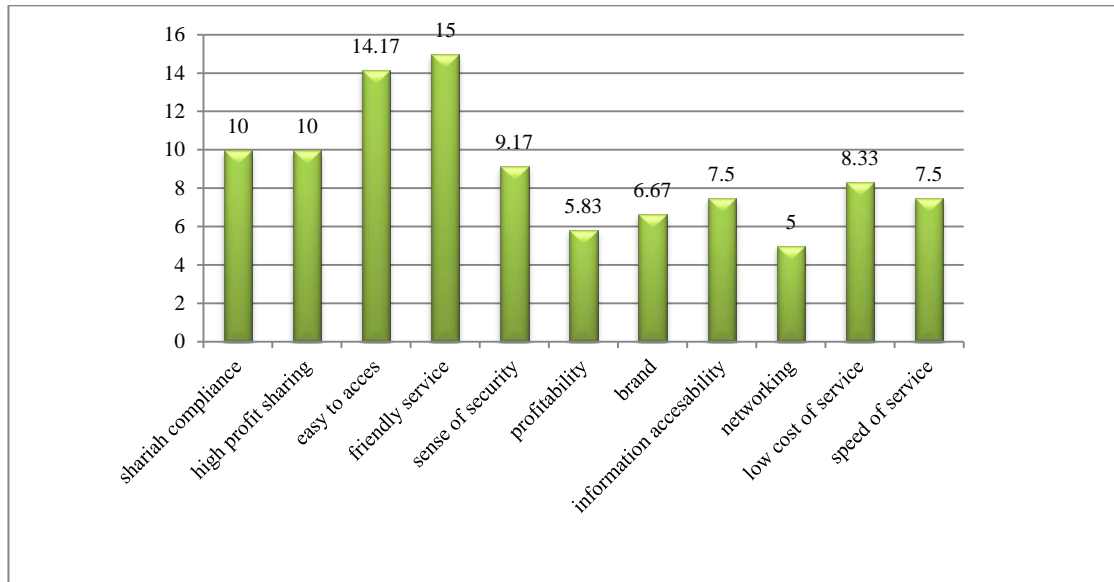


Figure 1: Main Reasons for Choosing an Islamic Banks

4.2. Measurement of Perception Based *Shari'ah* Principles Implementation

Based on the measurement of employees and customers perception, the average index of *Shari'ah* principles implementation is 4.31 (Widigdo et al, 2016b). The measurement of *Shari'ah* principles shows that the aspect with the lowest score is justice then followed consecutively by brotherhood, benefit and balance (Figure 2). Therefore, the future improvement should pay attention to and focus on the aspects of justice, brotherhood, benefit and lastly balance in the business process. Each Islamic bank human resource should realize the aspects for planning, implementation, monitoring and evaluation on each sub-stage of the business process.

The lowest score (4.0) is gained by justice aspect. From this aspect, the lowest perceptions of *Shari'ah* principle implementation to funding are on the following statements:

- i. The profit sharing ratio when the fundraising process is determined partially by bank (leaders) that scores 3.28.
- ii. The profit sharing ratio determined based on the prevailing interest rate of conventional bank (Bank of Indonesia) that scores 3.48.

The profit sharing ratio calculated based primarily on the one-sided decision of the bank leaders are not in compliance to the *Shari'ah* principles. It is better that the decision is made based on the agreement between the bank and the customer to avoid a despotic action by one party to the other. The profit sharing ratio based on the conventional bank interest rate should be reviewed. However, using the current interest rate for a reference only is acceptable but that is not the only factor used to decide the profit sharing ratio. The average scores for these perceptions of Islamic bank staff regarding the relevance of *Shari'ah* parameter are still relatively high (3.9 and 4.2). Meanwhile, the customer perception gains lower scores are 2.7 and 2.6. The wide gap between the customer and staff perception shows potential unjust treatment toward customers or it is merely as a result of ineffective communication between the bank workforce and customers. Therefore, the business process change to the third party funding should set out improved communication regarding the decision of profit sharing ratio before an agreement is signed. Improved communication between Islamic banks and their customers or potential customers may also be applied during the data validation carried out by the Customer Service or during an electronic agreement by means

of online registration technology but it is to be re-confirmed during validation process or agreement signing.

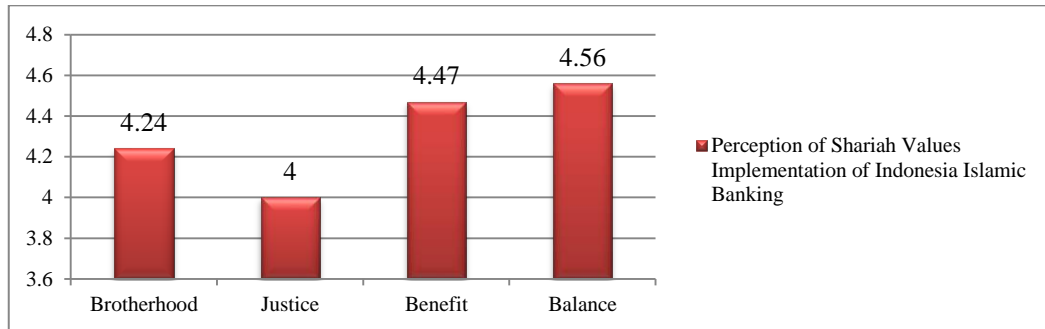


Figure 2: Comparison of *Shari'ah* Principles Implementation by Aspect of Islamic Banking

Average score calculation of brotherhood aspect is 4.24. The lowest score of this aspect are on the following statements:

- i. Discriminative treatment to customers based on the business and economic scale (corporate, Small Medium Sized Enterprises, and individual/retail) scores 3.1
- ii. Discriminative treatment to customers based on a segmentation such as agriculture and other segment scores 3.42.

The consequence of the low score on the brotherhood aspect particularly on the statement regarding the varied treatment is that the Islamic banks should review whether varied treatment to customer based on the business scale and segments is really necessary. The Islamic bank staff gave high score of *Shari'ah* value implementation to the statement regarding business or economic scales discrimination (4.0) and regarding business segment discrimination (4.1). Meanwhile the Islamic bank customers give lower score of *Shari'ah* value implementation to the statement regarding business or economic scales discrimination (2.2) and regarding business segment discrimination (score 2.8). The wide difference between the bank staff and customers indicate two possibilities, namely unfair treatment to the customers or ineffective communication between them. Therefore, the discriminative treatment should be minimized by means of technology development. Moreover, the brotherhood aspect in regards with greeting, even so it almost reached a perfect score (4.76), the Islamic banks should not be satisfied too quickly since they have to increase the score to 100 percent by making sure for example that the greeting procedure already available for all Islamic bank staff when they meet the customers or potential customers. The Management of Islamic banks are also to ensure that all employees are aware of the greeting philosophy. On the other hand, *Shari'ah* Compliance Division is aware of their higher role to monitor that all staff are applying the procedure.

For the benefit aspect, the score for *Shari'ah* principle implementation is 4.46. The activity that gains lower score of *Shari'ah* implementation (3.5) is the collection program of *zakah* on salary to employees. Some Islamic banks have not applied 100% the collection program of *zakah* on salary to employees. The Islamic banks as financial institutions that apply Islamic principles should give good example to their customers and public that implementation of Islamic values will increase benefits to the communities around the banks. The *zakah* program has no relation with the customer service but with the benefit of the Islamic banks for the surrounding communities. The *zakah* collection program applied to the bank employees will provide bigger contribution to the distribution of *zakah*, *infaq* and *shodaqoh* (ZIS) to the receiver (*mustahik*) or the entitled surrounding community members in accordance with 8 *asnaf* as regulated by *Qur'an surah At-Tawbah* verse 60.

Except for the implementation of professional *zakah* collection program to Islamic banks, the social program requires the Islamic bank management to ensure that the ZIS collection facilities are available. The management should ensure that an operational procedure for the program is available. They should ensure that the employees dealing with customer service are aware of the ZIS collection program. The management should ensure this because the score for ZIS facilities and features has not yet reached 100

percent but only 4.37 meaning that there are still several Islamic banks that have not implemented the ZIS collection program. It also means that the customer service staff have not explained clearly the ZIS collection program to the customers. In fact, the ZIS collection program and its distribution are the specific character that needs to be exposed by the Islamic banks so that the existence of Islamic bank can provide benefit to the surrounding communities. Therefore, it is necessary for the management to ensure the optional ZIS collection program is in place.

4.3 Value Chain of Business Process of Funding

The research results indicate that there are three sub-stage of business process on the process of Funding of Islamic banking namely a process sub-stage that has an added value (VA), a process sub-stage that has no added value (NVA) and a process sub-stage that has no added value but is needed (NNVA). Classification of added value upon the process stage is based purely on the customer point of view. Womack and Jones (2005) define the value as an activity that consumers are willing to pay because it is absolutely necessary to solve the problem. Womack (2006) argues that each stage of the process should be valuable meaning that it should create value from the standpoint of the customer. However, since Islamic banking is included in the strategic industry whose operations have to comply with the terms regulated by Bank of Indonesia or Financial Service Authority, then a number of Islamic banking aspects should follow the prevailing regulations.

Based on a series of discussion, the VA category of process sub-stage is the agreement of profit sharing ratio, fund deposit, book or certificate printing, fund monitoring. The stages that really have no added value (NVA) are the waiting time. NNVA category includes form completion, data collection and verification. From the customer point of view, the form completion stage, data collection and verification do not really matter if they have not to complete. However, the stage is very important for Islamic banks because they have to adhere to the Bank Indonesia regulation No 3/10/PBI/2001 known as Know Your Customer (KYC) principle. In *Shari'ah* concept, the KYC principle is known as *ta'aruf* or introduction to the first *Shari'ah* principle namely brotherhood. In the *mu'amalah* concept after the *ta'aruf*, the next step is mutual understanding (*tafahum*), cooperation (*ta'awun*) and mutual risk taking (*takaful*).

According Widigdo et al. (2016a), the critical point of the process business sequence of funding due to its long time process is the sub-stage of approval of the amount of profit sharing ratio, data collection and waiting time for corporate customer as well as data collection and waiting time for individual customer. Therefore, a sub-stage that may be eliminated is the waiting time because it is purely waste of time, while the other sub-stages like form completion, data collection and verification can be redesigned using re-layout method because they are of NNVA category.

4.4. Proposed Business Process Change

4.4.1. Business Process Model for Funding

Funding is designed to accelerate the completion of business process stage. *Shari'ah* values should not be understood only as legitimate and illegitimate aspects. All goodness and benefits for others will also mean to have *Shari'ah* values. Acceleration of business process completion is also the spirit of *Shari'ah* value implementation. In Islamic concept, a man should work with *ihsan* and *itqan* spirit. *Ihsan* may contain two meanings - the relation with God (*Allah SWT*) and the relation with creatures. *Ihsan* toward God (*Allah SWT*) means that a man should worship God as if God watches him. *Ihsan* toward creatures means that man should fulfill all their rights. Therefore, when working, a man should have *ihsan* meaning that he should fulfill the rights of the company or employer, worker himself, other workers, customers and other stakeholders in line with the type of work. The implementation rules are as follows:

- Please work : Soon will Allah and His Messenger, and the believers observe your work, (Qur'an surah At-Tawbah 105).
- Muhammad SAW said: Verily, Allah loves one who does his work with *itqan* (*Hadith* Thabrani)

The word *itqan* has the meaning of doing a thing in procedural, propositional and progressive manner. Work is to be completed correctly in accordance with the work procedures and method. Work is to be carried out according to the determined time schedule or deadline. It must not be completed in poor way. The person should try hard to develop the work and be aggressive in achieving the results and higher achievement from stage to stage or time to time. *Itqan* implementation rules are as follows:

- Verily, Allah *Tabaraka wa Ta`ala* loves that when anyone of you does a job he should perfect it (*Hadith Baihaqi*).
- Hadith of Aisyah r.a., that Messenger of Allah (SAW) said: Indeed Allah loves one who when he does a work, he does it with *itqan* (perfection) his work (*Hadith At-Tabrani*).

The concept of completion acceleration of business process stages of funding is to fulfill the *ihsan* and *itqan* spirit as Allah *Tabaraka wa Ta`ala* has declared or written in the *hadith*. In relation with the business process reengineering of Funding that will shorten the time of business process as designed in the model with the consequence for rearrange the stages and technology introduction which also putting into action the spirit to carry out the work with *ihsan* and *itqan*.

Business process reengineering is also applied to respond the mapping of Islamic bank customers in this research. The completed questionnaire indicates that only 10% of customers have main reason for choosing the Islamic bank based on the *Shari'ah* compliance, while 90% of customer gave main reason based on the more general service factor. Consequently, the finding leads to the need to reengineer the business process which orients to the service improvement to the customers particularly a time process cutting.

Islamic banks should implement the *Shari'ah* principles to the *Shari'ah* transactions. Therefore, in operating the Islamic banking business process, each staff of Islamic banking should apply the *Shari'ah* principles in general namely brotherhood, balance, benefit, and justice. *Shari'ah* principles should be attached to the Islamic banking human resource understanding and should be applied to each sub-stage of Funding. The proposal to change the business process of funding by eliminating the waiting time, applying re-layout to the form completion stage and data collection and information technology development and by synthesizing with the improvement of *Shari'ah* principles implementation. The improvement is presented in Figure 3.

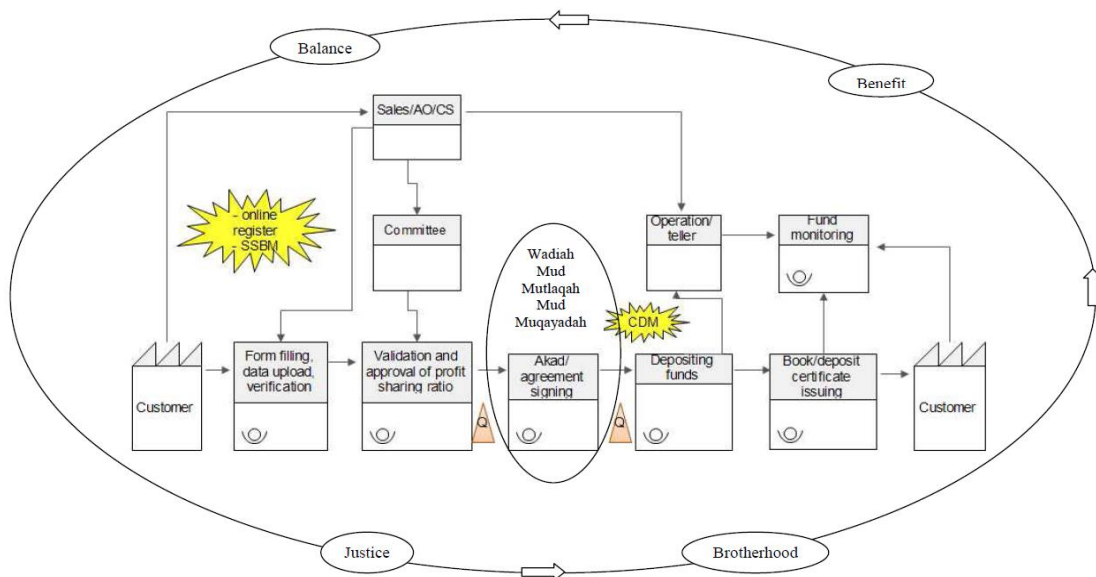


Figure 3: Future Model of Funding Business Process of Indonesia Islamic Banking

Other specific features that differentiating the business process of the funding of Islamic banking in comparison to that of conventional ones are three alternate *aqd* models namely *wadi'ah* scheme, *mudarabah mutlaqah* scheme, and *mudarabah muqayadah* scheme. *Wadi'ah* in the fiqh of *mu'amalah* is deposit akad that may take form of saving or time deposit. In the *wadi'ah* contract, the saving of customer fund will give no profit sharing as agreed on the initial contract. In general, Islamic banks will provide bonus to the customers who save their fund using *wadi'ah*. *Mudarabah mutlaqah* is a contract that has a profit sharing scheme where the customers as the fund owners (*shahibul maal*) do not give any

requirements to the bank as the fund manager (*mudarib*) in managing the customer fund. In the context of *mudarabah mutlaqah*, the Islamic bank is free to distribute the fund without restriction to the type of customers, products or business to be financed. Meanwhile, *mudarabah muqayadah* is a contract with a profit sharing scheme where the customers apply some restrictions to the bank in distributing their fund like type of business to be financed, type of *aqd* to be signed, type of customer or business sector to be financed. However, the Islamic bank should not go out of the DSN fatwa corridor.

4.4.2. Technology Enabler

The business process improvement will be perfect when it is applied using the information technology development enabler. Based on the observation of available information technology facilities, there are only a few numbers of Islamic banks that have applied online registration to serve their potential customers to open an account. Online registration application will surely provide the potential customers with better financial access to the Islamic banks.

By implementing of online registration, the rearrangement of steps or stages will be based on the time availability of potential customer. The e-register will enable customers to re-arrange their registration plan to suit their spare time. The use of web-based e-register technology will assist potential customers to complete the form and upload the data anytime and anywhere and they need not to come to the Islamic bank office. The potential customer will of course visit the bank when they need to validate their data and at the same time they can negotiate the profit sharing ratio. These can be scheduled beforehand so that they can make confirmation of the appointment and avoid waiting time and queue.

In addition, the interviews with the Islamic banks used in the research sample indicate that none of them have self-service banking machine (SSBM) and cash deposit machine (CDM) independently (Widigdo *et al.*, 2016a). Therefore, SSBM and CDM facilities need to be considered for their investment priorities in order to improve the access for their customers and potential customer. SSBM is used to facilitate the potential customers with an easy and convenient access for account opening without requiring them to see the limited number of Customer Service. Information technology development by SSBM facility installation will reduce the customer waiting time as non added-value activity to the potential customers that have arrived at the branch office. Using the SSBM facility, potential customers can complete the form and upload their personal data, and Customer Service may then validate the data, after the customers have completed the stage using the SSBM facility.

CDM facility installation will reduce the waiting time and line up for the customers who will deposit their fund. In addition, CDM facility will provide customers with more flexible time for fund deposits, as it is not limited to work hours and days.

When the information technology development is applied, then the *Shari'ah* principles implementation in accordance with the plan to improve the *Shari'ah* principle adjustment should be clearly informed or ensured it has been integrated in the features of the online registration technology, SSBM or CDM/ATM i.e: i) Terms and condition of profit sharing ratio decision, ii) Greeting and iii) Information of ZIS collection facility.

4.4.3. Policy and Strategy Adjustment Enabler

Recommendation of *Shari'ah* Compliance Improvement

Recommended elaboration of *Shari'ah* principle application on each stage of business process of funding on the new business process model is based on the sequence of priority to be improved in accordance with the *Shari'ah* principle implementation analysis. Based on the sequence of *Shari'ah* principle aspect from the lowest score to the highest score of application, the priority sequence will be started from justice, brotherhood, benefit, and balance. Detailed *Shari'ah* principle implementation that may be applied to the sub-stage is presented in Table 1.

The management of Islamic banking industry should establish a more binding policy for the human resource in regards with the need to communicate the *Shari'ah* principles to the customers. The information of profit sharing ratio for example should be communicated as clear as possible to the customer and potential customer. The profit sharing ratio should be mutually decided between the customer and the bank. The bank staff should be patient in providing explanation to the customer. The staff should also confirm customer's understanding and agreement regarding the profit sharing ratio and

the implications of the cumulative figure of profit sharing calculation to be received by them. Adequate explanation regarding the terms and conditions in account opening will of course spend much time of the Customer Service or reduce customer service productivity, but on the other hand it will provide blessing impact to the Islamic bank. The agreement will be reached on accepting and un-forceful manner and this indicates mutual agreed, no despotic action in the justice context and brotherhood aspect.

Table 1: Recommendation of *Shari'ah* Compliance Improvement of Funding

Recommended Application Improvement	<i>Shari'ah</i> Values	Business Process Stages
Customer is involved in deciding the profit sharing ratio	Justice	<ul style="list-style-type: none"> • Validation of customer and agreement on the profit sharing ratio • <i>Aqd</i>
No discrimination on ethnic, religion, business scale and segment. All are treated equally in accordance with SOP (Standard Operating Procedure) and presence time	Brotherhood	<ul style="list-style-type: none"> • Form Application, data upload and verification • Customer validation and agreement on profit sharing ratio • <i>Aqd</i> • Fund deposit
Ensured availability of ZIS collection facility feature	Benefits	Form application, data upload and verification
Explanation of the availability of optional ZIS collection facility.	Benefits	Customer validation and agreement on profit sharing ratio

Strategy Adjustment

To increase the effectively of business process change of funding that will be applied, policy adjustment enabler from Islamic bank management is required. Policy adjustments were developed through the feedbacks provided by expert respondent using ANP method. Policy adjustment will provide operational strategies. The basic principles of ANP are decomposition, comparative judgment and hierarchical or synthetically composition of priorities. The decomposition and structuring of problems, solution alternative and strategies have been described as an ANP feedback network model (Figure 4).

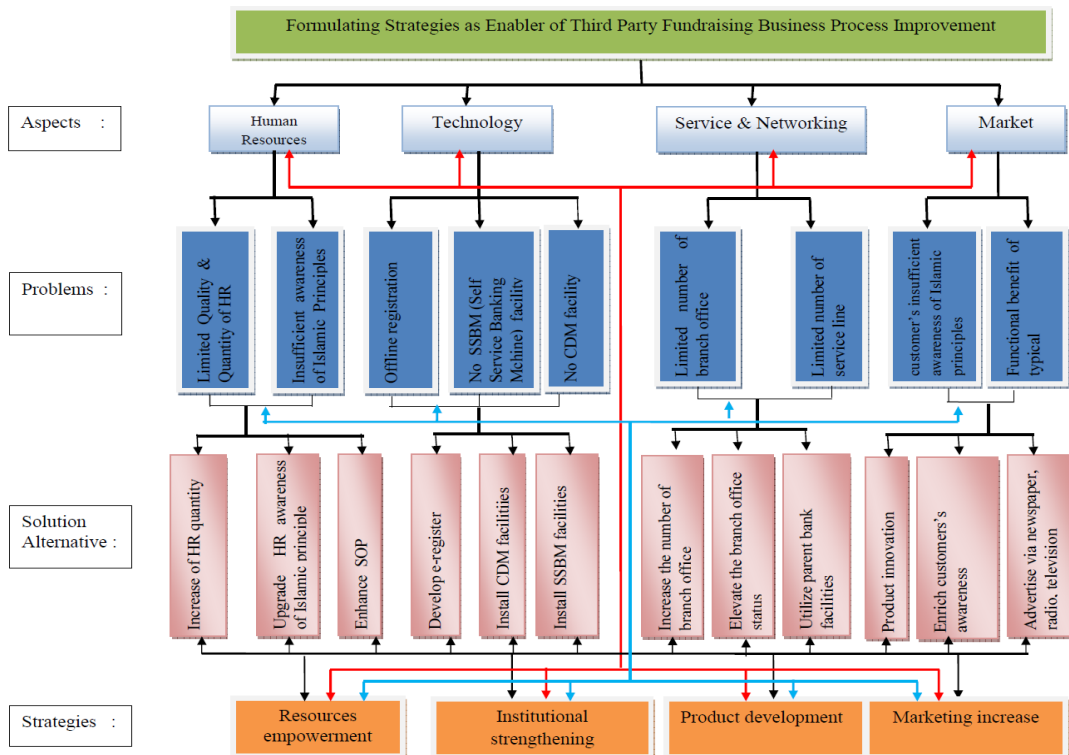


Figure 4: ANP Feedback Network Model for Formulating Strategies for Funding Business Process Improvement

Strategy can be defined in simple terms as a careful plan employed by a company to achieve its goals. Hambrick and Frederickson (2005) define strategy as a central, integrated, externally oriented concept of how the business will achieve its objectives. In regard with ANP model in this research, a strategy is defined as a method that can be used as an alternative to support the business process change of funding so that the business process change can be implemented with third party fundraising increase as its final goal. The strategy is formulated into four plans that are element groups in strategy cluster namely resource empowerment, institutional strengthening, product development and marketing increase.

The concord level of expert opinions was tested using Kendall's Coefficient of Concordance (W). The calculation by super decision version 2.0 showed that W score was 19.11%. Because the score was lower than 50%, it indicated that the experts have various opinions that will make it difficult to find a single priority conclusion. Therefore, the appropriate strategy to support the business process change are to combine all four identified strategies albeit different priority sequence in accordance with the calculation results.

Based on the ANP calculation results, the average score of expert opinions showed that the resource empowerment strategy is the first priority, followed by product development strategy on the second, institutional strengthening on the third and marketing increase on the fourth priority. The rating is presented in Figure 5.

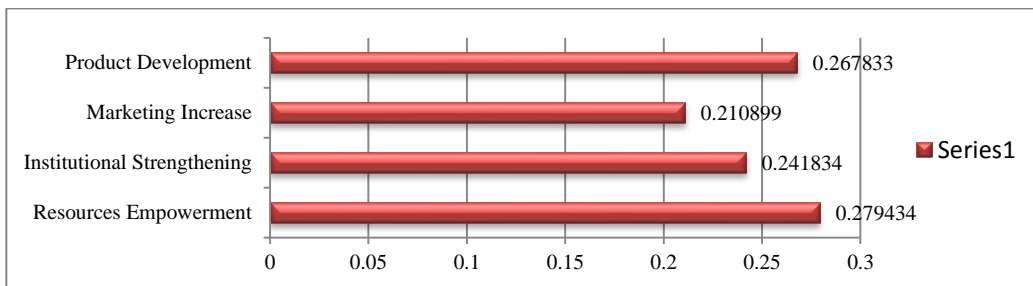


Figure 5: Strategy Priority to Support Business Process Change of Funding of Indonesia Islamic banking

The average of combined expert opinion that has decided to give first priority to resource empowerment is also in line with the problems faced by Islamic banks in Indonesia during their development, which also was influenced by human resource aspect and information technology. Resources empowerment strategy is completed by improving human resource as the company's major asset in the service provider industry group. In addition, resource empowerment strategy may also be achieved by improving the infrastructure role like information technology development that will have important role for Islamic banking industry.

Resources empowerment strategy can be done by carrying out the alternative activity to improve human resource awareness with regard to *Shari'ah* values. Awareness of *Shari'ah* values is the foundation for Islamic banking human resources. The activity to improve awareness of the *Shari'ah* essentials will later assist in improving the services to the customers because the bank employees will be Islamic (*akhlakul karimah*). Awareness of *Shari'ah* essentials will influence a lot of things like attitude (*akhlak*), knowledge and ability to carry out the operational activities in accordance with roles and responsibilities. The example of good understanding of *Shari'ah* essentials are polite explanation of *Shari'ah* products to the customers by marketing, sales, and account officers, and professional service to the customers is always given by the tellers and security officers (*itqan* and *ihsan*).

Awareness of *Shari'ah* philosophy will also strengthen one's faith and motivate the employees to always do everything right without breaching any Islamic rules and regulation, for example preference toward the rightness not fraud, toward the kosher not illegitimate, toward sacred reward not sin, heaven not hell. Excellent awareness of *Shari'ah* values applied consistently (*istiqamah*) by Islamic banking human resource to operational level will lift up the satisfaction of customers and

potential customers and this will eventually increase the transaction volume. Human resource enhanced awareness of *Shari'ah* values will support the effect of business process change of funding.

Human resource capacity and competence improvement collaborating awareness of the *Shari'ah* principles and good selling techniques are also required by selling strategy applied to corporate customers or potential customers. Customers of this type are not numerous but they often have enormous value transactions and have specific characteristics. The tellers need to specifically memorize huge value transactions by applying a proactive strategy in terms of new account opening or fund depositing. This requires human resource capability that can provide special service while maintaining the rule and regulations of *Shari'ah* principles. In addition, such strategy also requires an ability to explain properly the *Shari'ah* values as well as products and ability to negotiate in order to accelerate the growth of Islamic banks. These human resource competencies will influence the success of Islamic banks in mobilizing fund from the corporate third party or customers.

Development of technology in order to support the information flow, easy and prompt transaction can be applied as an enabler of change to business process of funding. Development of online registration, installation of CDM and or SSBM are also optional alternatives in technology development. Technology development is intended to provide better access to customers and potential customers. According to Parasuraman *et al.* (1985) one of service providing dimensions is the access in terms of easy access to customer service, easy access to the services, no long waiting time service. To facilitate the performance of ATM, CDM or SSBM, it is necessary to ensure the core banking capacity. Sufficient capacity of core banking will maintain excellent operation of ATM, CDM or SSBM meaning that the machines are guaranteed to be operationally reliable and accordingly to maintain the service consistency as well so that the customers or potential customers will be able to use the machines without any difficulty.

Information technology development that will be the change enabler to business process of funding will be oriented to increase the service speed that is in line with *Shari'ah* principles namely *ihsan* and *itqan*. The development of on line registration as well as installation of SSBM and CDM are expected to improve the performance due to the operating of the new business process models can be implemented easily, which will ultimately have an impact on increasing the volume of transactions and lead to increase of funding.

The second strategy priority is product development. Product development through innovation is required by any company if it wishes to survive in this highly competitive era. Any innovation product for funding that can be developed by Islamic banking may be in connection with the variant (product type) or features (service or facility). Funding product should be oriented to attract corporate investors in order to increase the attraction in Islamic banks. Product is not limited to kosher aspect but also business aspect such as a high profit share ratio for the customers, fund safety, fund withdrawal flexibility prior to deposit maturity date without penalty, time deposit products with possibilities of prize or bonus as an attraction factor to maintain the fund depositing time or products with various facilities such as a single card that can be used for multiple transactions.

The third priority is institutional strengthening. This can be made real by increasing the collaboration with the parent bank, institutional strengthening with information technology provider, institutional strengthening with Islamic organizations like IKADI (Indonesian Islamic Preachers Association), NU (Nadhatul Ulama), Muhammadiyah, IAEI (Indonesian Islamic Economists Association), MES (*Shari'ah* Economic Community), or directly with MUI (Indonesian Ulama Council). The cooperation improvement with the parent bank in order to utilize the facilities owned by the parent bank (network, offices, ATM/CDM/SSBM/HR). Institutional strengthening with IT providers in order shared ATM/CDM/SSBM particularly for middle down Islamic banks. Islamic banks have to collaborate with Islamic organizations in order to utilize their network and mass basis particularly in regards with the position of *ustadz/ustadzah* or preachers as non-formal leaders that can influence Islamic communities to start making more Islamic financial transactions. Islamic organizations may also help increasing the distribution channels of Islamic bank awareness among the communities particularly those who are not aware of the Islamic financial transactions.

Institutional strengthening strategy particularly with the parent banks is very important step when it is connected to the phenomena of related finding that *Shari'ah* customers typical customers that in

general are rational. The survey indicates only 10% of Indonesia Islamic banks customers mention the compliance of Islamic banks to *Shari'ah* principles as their main reason to choose Islamic banks. This is a strong indication that might be no separation between the customers of Islamic bank and those of conventional banks. Considering the lower business scale and business exposure duration compared to conventional banks, it will be very difficult or Islamic banks to directly compete with conventional banks. Therefore, institutional strengthening with the stakeholders particularly the parent bank in utilizing their facilities (spaces, ATM, human resource), network and brand, becomes a prioritized strategy for realization.

The fourth priority strategy is marketing increase for instance regular and periodic advertisement to mass media like television or radio not only during *Ramadan* month in order to enhance the knowledge and awareness of Islamic bank potential customers on Islamic bank and its products. *Shari'ah* values education to the (potential) customers may be conducted at the time of the arrival of (potential) customers, during the visit to the primary or corporate customers, during customer gathering, or education to the community that are purposely selected as potential customers by means of institutional cooperation with Islamic organizations. Therefore special service pattern is recommended to be applied by Islamic bank management in their marketing strategy, particularly to the potential corporate customers for example a "proactive service" technique for new account opening and fundraising.

4.5. Managerial Implications

The research conducted in the scope of *Shari'ah* value implementation, business process value chain and re-modeling of business process of funding has several managerial implications as follows:

1. Islamic banking management should always ask for periodic feedbacks from the customers regarding *Shari'ah* value implementation. The third party may be used to conduct survey in order to obtain customer feedbacks so that more objective, valid and open data may be collected for sustainable improvement. The feedback may be in respect of *Shari'ah* aspects or business performance.
2. Sustainable improvement regarding *Shari'ah* value implementation by the Islamic banking management should be applied with focus and priority from the *Shari'ah* values of low score namely justice through high score aspects in consecutive way such as brotherhood, benefit and balance.
3. It is necessary for *Shari'ah* Compliance Division or *Shari'ah* Supervisory Board (DPS) to improve its role in order to supervise the *Shari'ah* compliance on one hand and to enhance the awareness of Islamic bank operators on the other.
4. Islamic bank Management need to always develop an effective method to increase the customer and potential customer attraction for example by providing business process that accelerate service time, flexibility for customers (service hours, products) and product added values regarding *Shari'ah* and economical aspects.
5. The government, through Financial Service Authority and Finance Ministry is to establish a regulation that drives the synergy among institutions in order to accelerate Islamic bank development such as further regulation regarding the relation between the Islamic banks and its stakeholders like parent banks, IT providers, Islamic organizations and *Shari'ah* economic education institutions.

5. Conclusions and Suggestions

Indonesia Islamic banks had been operated in *Shari'ah* manner with average perception index of 4.31 of highest scale of 5. However, the index that had not reached 100% provides sustainable improvement consequences toward *Shari'ah* value implementation on a consecutive priority from justice, brotherhood, benefit and balance.

Proposed business process change is able to cut of waiting time that was waste and re-arrange several stages with NNVA category. In order to improve the effectiveness of business process change, an enabler is to be included and grouped into two types of actions. Firstly is information technology development such as online registration application, installation of SSBM and CDM. Secondly is policy adjustment that includes *Shari'ah* value implementation improvement and strategic combination adjustment with

consecutive priorities from resource empowerment, product development, institutional strengthening and marketing increase.

Resource empowerment may be applied with improvement of human resource capacities and competencies and technology development. Human resource competency improvement should be implemented particularly on awareness of *Shari'ah* essentials. Information technology development should be oriented to improve the access for potential customers for account opening and access for existing customers to increase their saving. The product development strategy may be implemented by Islamic bank management is product development in order to increase the potential customer attraction to use Islamic banks. Institutional strengthening strategy is applied by building institutional model between Islamic bank and its stakeholders. Marketing increase strategy may be applied by Islamic bank management by enhancing the awareness of potential customers and regular customers regarding *Shari'ah* values on one hand and by providing proactive service for corporate customers on the other.

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