

THE DETERMINANTS OF THE BUSINESS PERFORMANCE OF BANK MUAMALAT INDONESIA IN THE SUMATERA UTARA BUSINESS REGION

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Abstract—Islamic banking is a financial institution that offer the management of transactions and financial needs based on the universal Islamic principles. Particularly in Indonesia, with predominantly moslem population, Islamic banking is expected to grow rapidly, just like in several neighboring countries, namely Malaysia, Brunei Darussalam, Dubai, Qatar, and several European countries that have implemented the Islamic principles in their banking transaction. However, for almost 26 years since the first Islamic bank, Bank Muamalat, began its operation in 1992, it has yet to show any significant business growth compared with conventional banking. This condition encourages the researcher to conduct a study on improving the performance of Islamic banking business, in particular Bank Muamalat, by examining market orientation variable and competitive advantage variable as the influencing factors. The study is conducted on 10 (ten) branches of Bank Muamalat in Medan by selecting the marketing employees and customer relation services, at both manager and staff level as population. The respondent sample are 100 people. By applying Partial Least Squares - Structural Equation Model (PLS-SEM) through path analysis method using SmartPLS V.3.2.8, a conclusion can be drawn that there is a positive and significant influence on direct market orientation test on competitive advantage, and a direct influence from market orientation on the performance of Bank Muamalat displays a positive and significant influence. Moreover, for the indirect test result of market orientation on business performance of Bank Muamalat through competitive advantage also exhibits a positive and significant influence.

Keywords— Islamic Bank, Market Orientation, Competitive Advantage, Business Performance, Conventional Bank

I. INTRODUCTION

These days, the Islamic economy through Islamic banking is becoming an essential part of globalization and economic integration in all regions of the world, especially in Indonesia with predominantly moslem population. Therefore, the growth of Islamic economy itself is also strongly influenced by both macro and micro conditions of the world economy. The Economic Disruption which driven by the digital technology growth and industrial revolution 4.0 requires entire business institutions, including Islamic banking to evolve as providers of alternative goods and services through products and services that can be universally accepted and utilized while still based on Islamic principles.

This paradigm which is faced by Bank Muamalat, the intense competition of similar industry in fighting for the same market share. When several competitors acquire the market share, then the others will certainly lose. Hence to form a negative influence from the industrial environment on the growth of business performance. Besides, the inadequate understanding of the community regarding the differences in principle, the product and service of Islamic bank with conventional bank immensely influences the decision of the community to choose Islamic bank as the main choice, other than strengthening the customer orientation towards the product and its innovation. Bank Muamalat must improve their competitive advantage to win this industry competition. Therefore, to see the factors that led to the lack of optimal business growth of Bank Muamalat, this study examines the magnitude of the influence of market orientation and competitive advantage that has been carried out by Bank Muamalat as the determinant of the increase of its growth of business performance. This study was conducted at Bank Muamalat, which located throughout the Sumatera Utara Province. Sumatera Utara Province is selected due to its regional and demographic characters that are able to represent the condition of Indonesia in general.

II. LITERATURE REVIEW

According to The Constitution No.7 of 1992, No.10 of 1998, No.23 of 2003, and No.21 of 2008 that complement each other, state that Indonesia has implemented the dual bank system, which are the conventional system and profit sharing or Islamic bank. Islamic bank is a financial institution which main business is providing credit financing service and traffic payment service, as well as circulation of money in accordance with sharia principles. Perwataatmadja (1997) utters that Islamic bank is a bank that operates in accordance with the principle of Islamic sharia, referring to the provisions contained in the Al-Quran and Al-Hadist. One of them is by optimizing the market orientation in the creation of its competitive advantages. Narver and Slater (1995) and Han *et al.* (1998) explain that there are two strategies which generally used by companies, which are market orientation and product superiority innovation.

Improving the performance and increasing the competitiveness of a company can be conducted through the development of organizational culture which focused on market needs comprehension, wants, and demand, namely market-oriented (Kumar, 2002). Narver and Slater (1990) define market orientation as the most effective and efficient organizational culture to create behaviors needed to create superior value for buyers and produce superior performance for the company, especially in a tightly competitive environment. The implementation of market orientation will increase the performance for the company. Narver and Slater (1990) disclose that market orientation consists of 3 components of behavior, namely customer orientation, competitor orientation, and interfunctional coordination. The approach to customer to gather information regarding the needs and desires of the customer to the information on the competitor can be undertaken by optimizing personal closeness with customer or customer intimacy. Bharadwaj *et al.* (1993) explain that competitive advantage is a result from the implementation of a strategy that utilizes various resources owned by the company. Next, Porter (1990) utters that competitive advantage is the heart of business performance in facing the competition.

Business performance is an achievement measure obtained from the overall marketing process activity of a company or organization. In addition, business performance is also able to be highlighted as a concept used to measure the extent to which the market achievement has been achieved by a product produced by the company. Ferdinand (2000) reveals that business performance is a factor that is frequently used to measure the impact of a strategy implemented by the company. This study on the influence of market orientation on competitive advantage which become the determinants of business performance growth is supported by the existence of previous studies, such as

a study by Puspitasari *et al* (2015) in a Jepara furniture company which disclose that market orientation has a positive and significant influence of marketing performance. Furthermore, Simona Salyova *et al.* (2015) in their study in Slovak Foodstuff Industry express that market orientation has a positive and significant influence on business performance. Lastly, a study performed by Haryanto & Haryono (2015) pronounce that market orientation and innovation have a positive and significant influence on the performance of the company.

Hypothesis:

1. Market orientation has a positive and significant, and it directly effect the formation of competitive advantage
2. Competitive advantage has a positive and significant, and directly effect the achievement of business performance
3. Market orientation has a positive and significant effect, both directly and indirectly, on the achievement of business performance

The conceptual work in this study is organized as follows:



Definition Operational of variables:

Variable	Definition Operational	Dimension	Indicator	
Market Orientation	Corporate Culture of Islamic bank is formed by customer orientation activities, competitor orientation and Functional Coordination of Islamic banking	Customer Orientation	Information from customers and information to customers obtained by marketing	(X ₁)
		Competitor Orientation	Competitor strategies and its activities Information obtained by marketing	(X ₂)
		Functional Coordination	Coordination & Communication between business unit according to customer and	(X ₃)

			competitor information by marketing	
Competitive Advantages	The ability of Islamic banks to make more value of products and services than competitors and bring benefits to customers by paying attention to uniqueness, quality and price	Product Uniqueness	Attractive appearance (shape, style, impression) and product features	(X7)
		Product Quality	Product Research owned, Durable Power, Reliable and Flexible Product Utilization	(X8)
		Competitive Price	Price compatibility, discount, and price list	(X9)
Business Performances	The measure of Islamic banks growth based on the sales volume by marketing team, the ability of the marketing team to grow the number of customers, and the level of profits in a certain period of time compared to the last year's target	Financial	Sales volume at a certain time	(X10)
			Profitability achieved by marketing team at a certain time	(X11)
		Non-Financial	Customer Growth achieved by marketing at certain time	(X12)

III. METHODS

The research type is quantitative descriptive which aims to systematically, factually, and accurately describe the facts and characteristics of an object or certain population (Sinulingga, 2013). From the nature of the data, the data of this study are quantitative research and from the method's point of view, it is descriptive research with survey method by using questionnaire.

The population is the marketing employees and customer relation services, at both manager and staff level, of Bank Muamalat Indonesia with a total sample of 100 bank employees in the Sumatera Utara working region, which chosen using the proportional random sampling system. The data analysis presented is using the Structural Equation Model (SEM). The data in this study will be collected through primary data and secondary data. The variation of the types of primary data in this study are questionnaires,

observation/interview, which will then be processed and tested into variant of quantitative descriptive value. Meanwhile, the secondary data is collected through library research. In this study, the measurement scale used is Likert scale of 1-5, start from strongly disagree to strongly agree (Sugiono, 2011). The hypothesis testing in this study is using the Partial Least Square (PLS) method. PLS is an alternative analysis method which appropriate with Structural Equation Modelling (SEM) that based on variance for prediction purpose using SmartPLS V.3.2.8.

IV. RESULTS AND DISCUSSION

A. Character of Respondent

According to 100 people in the study sample, the following are presented the descriptive result of characteristic respondents who have answered the questionnaire.

TABLE 1. CHARACTER OF RESPONDENT

Character of Respondent	Respondent's Answer		
	Majority	Midle	Minority
Age	30 – 40 65 sample	< 30 25 sample	> 40 10 sample
Sex	Male 73 sample		Female 27 sample
Education	Bachelor 92 sample	Master 5 sample	Diploma 3 sample
Job Experience	> 2 years 85 sample	2 years 10 sample	< 2 years 5 sample

In accordance with the sample distribution above, it can be concluded that the sample are employees with working experience more than 2 years in Bank Muamalat, and on average have high education so it gives a good reference with valid and accountable information.

B. Outer Model Analysis

In the outer model analysis, Convergent Validity test is performed with outer loading test, reliability and Average Variance Extracted (AVE) test on each statement in the questionnaire which represents each independent and dependent variable. The outer loading test shows that 22 from 27 statements are valid with value of > 0.7 and the limitation of tolerance value of > 0.5. The construct reliability test can be observed from the *Crombach's Alphavalue* and *compositereliability(ρc)* value. The rule of thumb which is usually applied to see the validity convergent of > 0.7 for confirmatory research.

TABLE 2. RELIABILITY RESULT

	Crombach's Alpha	Composite Reliability
Market Orientation (X)	0.940	0.950
Business Performance (Y)	0.921	0.939
Competitive Advantages (Z)	0.900	0.920

The minimum value of Average Variance Extracted (AVE) of 0.5 indicates a good size of convergent validity. Which means the latent variable can explain the average more than the half of the variants from the indicator.

TABLE 3. AVERAGE VARIANCE EXTRACTED (AVE)

Construct Validity	Average Variance Extracted (AVE)
Market Orientation (X)	0.705
Business Performance (Y)	0.718
Competitive Advantages (Z)	0.595

The next outer model analysis is by testing Discriminant Validity through cross loading and AVE roots. Cross Loading in discriminant validity test is to see the difference of correlation level between indicators. The cross loading result shows that construct correlation between market orientation with its indicator is still higher than construct correlation of other variables. One of test examples which can be viewed from the indicator of market orientation (X₁) with its construct X_{1.11} of 0.869 is higher than the indicator of market orientation with the construct of business performance (Y) of 0.263. Based on the cross loading test, it can be stated that the entire construct have good and adequate discriminant. The size of other discriminant validity is that the root value of AVE is higher than the square of the correlation between constructs.

TABLE 4. AVE ROOTS

	Competitive Advantages (Z)	Business Performances (Y)	Market Orientation (X)
Competitive Advantages (Z)	0,771		
Business Performances (Y)	0,782	0,848	
Market Orientation (X)	0,404	0,318	0,839

The variable test result shows the overall correlation between the construct is higher than the correlation with other constructs. One example can be seen from the table above is the square root value of AVE from the market orientation correlation with the construct of market orientation of 0.839 is higher than the market orientation correlation with the construct of competitive advantage of 0.404. Therefore, from the overall variable test result can be concluded that the discriminant validity is good.

C. Inner Model Analysis

Evaluated based on the percentage of variance which explained by R-square value for each endogenous latent variable. The rule of thumb of R-square according to Hair et al (1995) is 0.75-0.25 shows the model is strong-moderate or weak.

TABLE 5. R-SQUARE

Variabel	R Square	R Square Adjusted
Competitive Advantages (Z)	0,342	0,341
Market Orientation (X)	0,614	0,604

According to the result of R-Square above, it can be summarized as follows:

- a. The competitive advantage variable has the value of R-square = 0.342, which shows a moderate influence. Competitive advantage variable that can be explained by market orientation variable is 34.2%, while the remaining 65.8% is explained by other variables outside of this study.
- b. Business performance has the value of R-square = 0.614, which shows a strong influence. Business performance variable that can be explained by market orientation variable is 61.4%, meanwhile the remaining 38.6% is explained by other variables outside of this study.

Furthermore, T Value Model is conducted, which is the prediction of causality relationship between latent variables. The process performed to obtain the causality relationship between variables is bootstrapping. The rule of thumb of significance (two tailed) is t value = 1.65 (significance level = 10%), t value = 1.96 (significance level = 5%), t value = 2.58 (significance level = 1%).

D. Direct Effect Test

- a. The relationship of the effect of market orientation (X) on business performance (Y) states that there is a positive and significant relationship, indicated through the t statistic value of 2.961 above the rule of thumb of 1.65 with significance above 5%.
- b. The relationship of the effect of market orientation (X) on competitive advantage (Z) utters that there is a positive and significant relationship, seen through the t statistic value of 4.493 above the rule of thumb of 1.65 with significance above 5%.
- c. The relationship of the effect of competitive advantage (Z) on business performance (Y) discloses that there is a positive and significant relationship, viewed through the t statistic value of 13.016 above the rule of thumb of 1.65 with significance above 5%.

E. Indirect Effect Test

The relationship of the effect of market orientation (X) on business performance (Y) through competitive advantage (Z) reveals that there is a positive and

significant relationship, indicated through the t statistic value of 5.019 above the rule of thumb of 1.65 with significance above 5%.

V. CONCLUSION

Market orientation has a positive and significant, and it directly effect the formation of competitive advantage of Bank Muamalat in the Sumatera Utara region. This relationship is also supported by the correspondence result which shows the dominant answer is Agree (A) with the average value of 48.33%. The implementation of customer orientation is more inclined through customer intimacy strategy. Loyal and intimate customers will provide the information regarding the needs, demand of products and services of Islamic bank, as well as information on the competitor, therefore the information obtained by the business unit is more precise and accurate. However, based on the result of respondent's answer which also show a number of Neutral (N) answer with average value of 43.44%. This shows that the implementation of market orientation has not been performed optimally in the Bank Muamalat working unit. This can be noticed from the customer intimacy strategy that has yet to be applied to all customers, and particularly for the priority customers. Other than that, the creation of competitive advantage is also affected by other factors, such as product innovation which can directly address the needs of customers.

Competitive advantage has a positive and significant, and directly effect the achievement of business performance of Bank Muamalat in the Sumatera Utara region. This relationship is also supported by the correspondence result which shows the dominant answer is Agree (A) with the average value of 49.38%. Bank Muamalat have to possess an advantage of its own product. The quality of product and service is an inseparable unit which cannot be separated in the marketing process of the product of Islamic bank in Sumatera Utara. The customer's trust in product and service is proved by the number of loyal and referral customer who join Bank Muamalat that continue for more than 2 years. The quality of financing is also affecting the performance, whereas publication related to the level of problematic financing is also affecting the authority of the business unit in selling its financing product. At the beginning and mid of 2018, there are several Islamic bank in Medan which implement "stop financing", therefore automatically it reduces the income ratio from financing, including Bank Muamalat.

Market orientation has a positive and significant effect, both directly and indirectly, on the achievement of business performance of Bank Muamalat in the Sumatera Utara region. Bank Muamalat relies on customer intimacy strategy to generate referral for prospective bankable customers. Besides, the information regarding the superior products of the

competitor can also be obtained from the loyal customers. The customer will not hesitate in giving input as well as the current demand of the market. Thus, the marketing team in the branch business unit can immediately coordinate with the head office to make a strategic policy in order to aid them to penetrate the market with evaluated superior product in accordance with the information from the customer. The increasing number of customer is also accompanied with the escalation in product sales that directly related to the development of business unit's income ratio. The level of customer's trust and understanding in Islamic banks, especially in principle, also affecting the business performance.

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