Business Environment and Cultural Organization Based on Islam:
Role of Performance Improvement of Islamic Banks

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Abstract: The objective of research is to conduct empirical test over the role of business environment and Islam-based organization culture on organization performance improvement of Syariah Commercial Banks (SCB). Research population is all SCB branch offices in East Java counted for 34 branch offices. Therefore, this research uses census method. The analytical technique is Partial Least Square (PLS) with Software SmartPLS. Result of research indicates that (1) there is a relationship between business environment and organization performance improvement; (2) business environment does not play significant role on organization performance improvement (at SCB); and (3) Islam-based organization culture does not have significant role on Islam-based organization culture. These findings are evident because SCB in East Java are already adaptive in anticipating macroeconomic change and are also willing to perform internal integration to strengthen Islam-based organization culture.

Keywords: business environment, organizational culture based on Islam and organizational performance

I. Introduction

Banks in Indonesia today consist of 124 commercial banks (including 11 Islamic banks / BUS, Oct 2010), and is dominated by 15 major banks control more than 70% market share of total assets of the national bank. In terms of ownership, commercial banks can be divided into: state banks and private banks (Bank Indonesia 2010). Islamic banking is predicted to be in high-growth phase her. With the enactment of Law No. 21 of 2008 concerning Islamic Banking, the development of national Islamic banking industry increasingly has an adequate legal basis and will encourage faster growth again.

This study examines an integrated manner on the business environment associated with organizational culture on organizational performance based Islamic sharia banks (BUS). Besides, do penambahah several indicators for each dimension derived from theoretical study and previous research. Previous studies mostly in manufacturing companies, service companies and conventional banking, there are also differences of opinion and inconsistent results of some previous studies. For it in need of a study with the object of Islamic banking, which can eliminate various problems and obstacles faced by Islamic banks which have unique characteristics and culture that have an impact on improving organizational performance.

Islamic Bank

Bank Islam or Sharia Bank, hereinafter referred to, is a bank that operates without relying on flowers. Islamic banks can also be interpreted as a financial institution / bank operations and products are developed based on the Quran and the Hadith the Prophet (Antonio, 2001). When a new transaction appears not previously known in Islamic law, the transaction is considered acceptable, unless there are implications of the arguments of Al-Quran and Hadith that forbid it, either explicitly or implicitly. As such, all transactions are allowed except the forbidden. The first Islamic bank was established in 1992 is Bank Muamalat Indonesia (BMI). When the period of 1992-1998 there was only one unit of Bank Syariah, then in 2009 there were 5 BUS, UUS 27, 131 BPRS and 11 Islamic banks (OCT 2010) after the enactment of Law No.21 Th. 2008.

Judging from the potential and prospects for the future, based on the results of research conducted by Bank Indonesia at the ± one-third of the districts / municipalities in Indonesia showed that ± 42% of the category potential until the potential for Islamic banking, as well as more than 85% of respondents agreed to the application profit sharing system (Islamic principles) in banking in Indonesia.

I.1 Literature Review And Hypothesis Development

1.1 Business Environment

In the context of the management, there are two kinds of environments, namely external and internal. The external environment refers to the environment outside the company, such as the government, the economy and consumers. Internally, the company was the organization of the company itself as well as the elements therein. Forming an Islamic business environment is tantamount to realize ethical business. As for ethics itself has two meanings: First, ethics as morality, contains values and norms that guide and a concrete grip of human
life in all life. Secondly, ethics as a critical and rational reflection. Ethics helps people act freely but can be accounted for. So, if the word "ethics" combined with the word "business", it can mean incorporate religious norms for the business world, putting code of professional conduct business, revising the legal system and the economy, improve the skills meet the demands of ethics. (Syarifuddin, 2011 and http://istanailmu.com/archives-2011/membentuk-lingkungan-bisnis-yang-islami/ html)

In this study to identify the dynamics of the business environment refers to both the above sources, namely Michael E. Porter (2003) and Hashim, Wafa Sulaiman (2007) to establish an Islamic business environment by always referring to the Islamic business ethics. The argument would be more comprehensive environmental dynamics if identified both the degree of uncertainty (uncertainty) and intensity (intensity).

II. Organizational culture

In some of the literature use the term corporate culture can be replaced by the term organization culture, these two terms have the same meaning. Robbins (2003) defines organizational culture: "a system of shared meaning held by members that distinguishes the organization from other organizations. This system of shared meaning is, on closer examination, a set of key characteristics that the organization values".

The organizational culture is based on a three-tiered concept, namely: the level of basic assumptions (basic assumption), then the level of value (value), and the level of artifact that is something left. The basic assumption as a philosophy, or belief, something that can not be seen by the eye but guaranteed that it exists. Value, associated with the act or behavior While the artifact is some thing that can be seen but it is difficult imitated. He could take the form of technology, art or something that can be heard (Schein, 2004).

In creating an atmosphere and culture of the Islamic-based organization, must be modeled on what has been practiced by the Prophet Muhammad. The characteristics of the Prophet Muhammad as a trader is, in addition to the dedication and tenacity also has properties Siddiq, fathanah, trustworthy and sermons. Fourth nature and morality that should be applied in the business world. (Adityangga 2010 and The Jakarta Consulting, 2007).

Hypothesis relationship between organization culture and organization performance is :

III. Organizational Performance

Organizational performance can be approached from all sides, in addition to the acquisition in the form of financial aspects become common indicators of the success of the organization, the organization's performance can also be evaluated from the concepts of productivity, efficiency and effectiveness, because the three concepts demonstrate the use of resources optimally (Gleason and Mathur, 2000). Idrus and Stanton (1991) specifically to review some of the approaches that can be used in measuring the performance of the organization, such as; classical approach, behavioral, quantitative, systems, seven ss, quality and degan cycle theory Z. Performance measurement can be classified into two major groups items, namely the size of the financial and non-financial performance. Measurement of organizational performance in this study Refers to the approach in terms of the concepts of productivity, efficiency and effectiveness (Gleason and Mathur, 2000), with indicators covering: Profitability, Sales, Assets, Customer Satisfaction and Market Share (Terziowski, 1999). Model studies conducted an explanatory research that examines the relationship between the study variables and testing the hypothesis that has been formulated (Malhotra, 1999). If the terms of the approach to the analysis, this study uses a quantitative approach that is supported by qualitative approach.

Figure 1. Conceptual framework relationship business environment variables, organizational culture variables of islamic-based, business strategy and organizational performance

Description:
Based on the review of the literature and empirical evidence, the hypothesis of this study is:

H1. The business environment is more conducive to encourage an organizational culture based on Islam.

H2. More conducive business environment will be able to improve organizational performance.

H3. An organizational culture based on Islam which is getting stronger will be able to improve performance organizations.

IV. Research Methods

This study uses a quantitative approach that is supported by qualitative information. Quantitative analysis was performed by using an explanatory method, because the next destination assessed causality relationship between research variables through hypothesis testing (Ferdinand, 2006). According to (Malhotra, 1999) explanatory research is to analyze the relationship between the variables of the study, or explain the process of a variable affect other variables. The study population is Islamic Banks in the province of East Java totaling 34 branches, number of population can be seen in Table 1. The unit of samples in this study were BUS branch in East Java. Overall BUS in East Java sampled. This study therefore is a kind of census research.

Table 1. Islamic Banks in East Java (BUS Branch Office)

<table>
<thead>
<tr>
<th>Number</th>
<th>Bank Names</th>
<th>Amount of Branch Offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PT Bank Syariah Muamalat Indonesia</td>
<td>5</td>
</tr>
<tr>
<td>2.</td>
<td>PT Bank Syariah Mandiri</td>
<td>11</td>
</tr>
<tr>
<td>3.</td>
<td>PT Bank Syariah BNI</td>
<td>5</td>
</tr>
<tr>
<td>4.</td>
<td>PT Bank Syariah BRI</td>
<td>4</td>
</tr>
<tr>
<td>5.</td>
<td>PT Bank Bukopin Syariah</td>
<td>1</td>
</tr>
<tr>
<td>6.</td>
<td>PT Bank Panin Syariah</td>
<td>4</td>
</tr>
<tr>
<td>7.</td>
<td>PT Bank Syariah Mega Indonesia</td>
<td>3</td>
</tr>
<tr>
<td>8.</td>
<td>PT BCA Syariah</td>
<td>1</td>
</tr>
<tr>
<td>Amount</td>
<td></td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia, 2011

Statistical analysis used to test management conception expressed in the research hypothesis (Ferdinand, 2006). Analysis of the data used is Partial Least Square (PLS) with software SmartPLS. Indicators measured using a Likert scale. A range of scales used are the numbers 1 to 5. Number 1 indicates "very low" number 2 "low" number 3 "reasonable" number 4 "high", and 5 "very high", with low scores (points 1) showed a low dynamics, while the high score (5 points) showed a very high dynamics according to the perception of the respondents. Difinisi operasional variabel dapat dikemukakan sebagai berikut:

1.2 Business Environment (X1)
   a. Business environment (Hashim, Wafa and Solomon, 2007) in this case is conduciveness internal and external business environment Islamic commercial bank that includes:
   b. The Government (Political stability and security) (X1.1)
   c. Economic Conditions (X1.2)
   d. The existence of the new BUS (X1.3)
   e. Financial support from the customer / loyalty (X1.4)
   f. The existence of competitors and non-Bank Financial Institutions (X1.5)
   g. Location bank (X1.6)
   h. The ability of human resources (X1.7)
   i. Variation / type of bank products (X1.8)
   j. The intensity of the prices of products offered by banks (X1.9)
   k. Facilities and infrastructure (X1.10)

1.3 Organizational Culture Of Islamic-Based (Y1)
   Islam-based organizational culture is based on a three-tiered concept, namely: basic assumptions (basic assumption), value, and the artifact that is something visible. (Schein in Adityangga, 2010) The basic elements of the organization that can be seen, heard and felt (artifacts) (Y1.1)
   a. Logos banks identities identify Islam (Y1.1.1)
   b. Procedures dressed close the genitals, not tabarruj and moderation (Y1.1.2)
   c. Using the language and jargon that reflects Islamic adab (Y1.1.3)
   d. Technology based on the principle of transactions, contract and bank management based on the principles of sharia (Y1.1.4)
   e. The products and services of the bank is not illegitimate nor ghairu lidzatihi lidzatihi (Y1.1.5)
   f. Values and behavior that apply in the organization based on morals nubuwah (Siddiq, Amanah, Tabligh, Fatonah) (Y1.2)
   g. The incompatibility of oral speech with reality (Y1.2.1)
V. Results And Discussion

4.1. Result

Results of PLS and hypothesis testing, and also the channel of relationship between variables, can be seen in the following diagram:

More conducive business environment will strengthen Islam-based organization culture. Result of testing has shown that the path coefficient of the relationship between business environment and Islam-based organization culture is rated for 0.508 with p-value of 0.000. Because p-value is < 5%, it can be said that there is adequate proof that H1 is accepted. Because path coefficient has positive sign (0.508), it means that the connected variables have unidirectional relationship.

Path coefficient that explains the relationship between business environment and organization performance is rated for 0.242 with p-value of 0.0826. Because p-value is > 5%, it can be said that there is no adequate proof to accept H2 that business environment is influential to organization performance. It means that business environment condition is less influential to organization performance.

Result of testing on the relationship between Islam-based organization culture and organization performance has obtained path coefficient of 0.040 and p-value of 0.731. Because p-value is > 5%, then there is no empirical evidence to accept H3 that Islam-based organization culture is influential to organization performance of syariah commercial banks.

4.2. Discussion

4.2.1. Relationship between Business Environment and Organization Culture
Result of analysis over model path coefficient in PLS has indicated that the direct effect of business environment on organization culture is scored at 0.508 with p-value of 0.000. Because p-value is < 5%, there is empirical evidence to accept the hypothesis that “business environment is influential directly to organization culture”. It means that business environment plays important role to improve organization culture.

Stricter competition, along with business environment vulnerable to change, has forced syariah commercial banks (SCB) to adapt with such condition by improving their technology capacity. Therefore, it needs structures and infrastructures to ensure that customers will be better served. The application of information technology (IT) by reliable experts with their practical skills on implementation, computation, note-taking, and reporting, is a mandatory consideration in banking business other than technology related to customer service (ATM, e-banking, and phone-banking). However, in Chatab (2007), 90% companies fail to meet this expectation because their work is constrained by organization culture conflict which also impairs business environment.

Organization culture at SCB is relatively adaptive to external environment which helps the banks to survive and to undergo internal integration. Syariah commercial banks’ organization culture is also functional to solve problems related to internal integration by improving the understanding and the capacity of organizational members in using language, in communicating, in making agreement or internal consensus, in determining power and rule-of-game, in building relationship across organization members (employees), and in giving reward and sanction.

4.2.2. Relationship Between Business Environment and Organization Performance

Result of analysis over model path coefficient in PLS has revealed that the direct effect of business environment on organization performance is scored at 0.242 with p-value of 0.086. Because p-value is < 5%, no adequate proof is given to accept the hypothesis that “business environment is influential directly to organization performance”. It means that business environment does not play important role on organization performance improvement.

This result points to a suggestion that perception of SCB management about business environment must be followed by steps to anticipate and to analyze the implication of macroeconomic change, various macro policies made by the government, community income, and change in consumer expense pattern. These shall be important initiatives because it precedes proper planning of strategic management and it also ensures the obtaining of customer support (customer loyalty).

Increasing SCB performance is not only forcing the maturity of SCB amidst market economic. The role of government for national economic is indeed very important. Authorities and facilities owned by the government will help the government to establish powerful policies and decisions. In managing dana haji and dana abadi umat, both funds are kept with syariah commercial banks due to the consideration of syar’i as due process. Performance improvement of SCB can be better if it is underlined by structural movement through supportive governmental policies. In reality, governmental approach is still market-driven, meaning that the growth of syariah commercial banks is greatly depending on market mechanism.

This result does not agree with the finding of Nurseto (2012) that external environment factor is influential negatively to performance. According to Porter (1997), business peoples determine their business strategy by the aim to connect the company with the environment. Current research indicates that SCB development has been too fast and lacking of support from reliable infrastructures such as effective policy, exact direction of business activity, and professional human resource. Too fast promotion may subject the maturity of employees to the incompatibility with their experience, capacity and skill. All these factors prove that business environment does not play important role on organization performance.

4.2.3. Relationship Between Organization Culture and Organization Performance

As shown by loading factors of organization culture (basic assumption, value and artifact layers) and their association with organization performance, it can be said that organization culture plays important role on organization performance improvement. If it is examined thoroughly, there is a difference between loading factors (that places basic assumption indicator as the highest-layer) and SCB management perception (that places value indicator as the highest score compared to other indicators). Consequently, the role of organization culture may be less meaningful to organization performance improvement. Ideally, basic assumption shall be main priority because it always underlies other indicators of organization culture. This finding has supported the finding of Gani (2006) that organization culture is not influential to organization performance. It differs from the
finding of Herry and Wafa (2003) that organization culture is influential to organization performance, but supports previous researches such as Denisson (1990) and Kottler-Haskett (1992) quoted in Gani (2006).

In general, human resource at SCB is mostly derived from the spin-off of the head-quarters of conventional banks. It is always expected that the demanded human resource will have complete competence as investment expert, banking financial expert, and ethic expert who understands shariat compliancy. The fulfillment of this demand can be done properly in quantitative and qualitative manners through continuous recruitment and training. Fast increasing number of SCB shall be compensated with the improvement of human resource quality of SCB. It is an important element in SCB development. Recently, the practitioners of syariah commercial banks are still dominated by the former practitioners of conventional banking who are promoted or mutated to SCB.

Under Islam perspective, banking practice is a part of religious devotion. Therefore, human resource of SCB must understand that working or having a career at certain profession not only concerns with short-term dimension for secular interest, but also gives long-term implication for the beyond further than secularity. It may be difficult for any human resources to understand, implement and apply Islam syariah. Most human resources at SCB are the spin-off from conventional banks, and thus, syariah competence must still be improved due to the presence of few non-Moslem staffs.

Organization members are still attempting to develop their self-personification by identifying themselves with basic assumption in organization culture. For instance, goal achievement principle emphasizes not only on profit but also on al-falah or to build good relationship across humans based on Ukuhuwah Islamiyah. Organization culture still remains in transition between conventional banking and syariah banking, and therefore, it causes the adjustment of goals across managerial groups in organization. As a result, there is no empirical evidence about the effect of organization culture on organization performance.

IV. Conclusion

Conducive business environment will produce stronger organization culture. Syariah Commercial Banks (SCB) can be said as relatively adaptive to their external environment. This adaptation is conducted by internal integration which seems quite useful to establish their feasibility. The dominance of business environment at SCB tends to emphasize upon macroeconomic aspect but it is not compensated with structural movement through governmental policies and supports. In fact, the approach used by the government is often market-driven, which means that the growth of syariah commercial banks will rely on market mechanism.

SCB have continuously ensured that organization culture will always be good. The aims are to build trust and transparency, to reveal information needed, and to protect stakeholder interest through socialization program given to all bank lines. Organization culture at SCB is in transition between conventional banking and syariah banking. Consequently, the adjustment of goals across groups and managements in organization is inevitable. Such adjustment is a process that follows the adjustment, understanding and implementation of general perception on cultural values that start to change across humans based on Ukuhuwah Islamiyah. Organization culture still remains in transition between conventional banking and syariah banking, and therefore, it causes the adjustment of goals across managerial groups in organization. As a result, there is no empirical evidence about the effect of organization culture on organization performance.

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