Factor Analysis of Constraints in Financial Feasibility for Results on Sharia Banks

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Abstract: The development of Islamic banking has always shown positive trends. This can be seen in the annual increase in its assets and market shares. However, in national banking scale, this does not seem to affect national banking assets at all. This is due to the fact that the asset value and market share of Islamic banking are relatively small. This is very ironic considering the majority of Indonesia's population is Muslim. The small market share indicates that there are many Muslims who have become customers of Islamic banks. The data were analyzed using exploratory factor analysis. The number of samples were 76 customers of 8 branches BJB Syariah, selected using the proportional simple random sampling. The results showed that what affected Islamic banking market share was the following factors: marketing, government policies, literacy and human resources. Other research findings that Islamic banks need to raise public awareness about Islamic products because they are not well-informed about Islamic products. And just as important as marketing is human resources. Without improvement in literacy, market share will not grow.

1   INTRODUCTION

Banks are profit-oriented business entities. Marketing activities are indispensable to meet what the customers need and want. Therefore, banks need to do their marketing activities in an integrated manner and continue to carry out market research to figure out what their customers really want and need. According to Utama (2016), the emergence of sharia banking is particularly because the way the society see and do things in their business activities is influenced by the Islamic teachings.

The growth of sharia banking makes the competition among sharia banks tighter than ever, resulting in a damage in a bank's competitive advantage. Therefore, a bank must make unremitting renewal efforts to become a major player in its segment. That way, a bank can remain the customers' main preference. An Islamic bank is demanded to have a reliable marketing system and not to rely on emotional mass only. The marketing process of Islamic banking is essentially the same as that of the conventional banking in that it begins with the customers' need analysis (Ahmad Azrin Adnan, 2013). Some studies have reported that marketing affects a product, image, and service, which in turn will shape consumer perception (Doraisamy,

Shanmugam, & Raman, 2011). Awan and Azhar (2014) explain that internal and external marketing affects consumer attitude.

The Islamic banking market share has only reached 4.87% of the total national banking market share, lower than the minimum target of 5% (OJK, 2016). Nowadays, Islamic banking market in Indonesia is very potential; however, due to the low sharia financial inclusion, not many people have used sharia finance products just yet. This is a serious challenge for the Islamic banking (Sumut Invest, 2017). Meanwhile, Yuliani's (2016) study suggests that the forecasting value of Islamic banking assets in December 2016 was IDR 341,614 billion or 5.01% of the national banking forecasting value of IDR 6,816,388 billion in the same period. The development of sharia banking in Indonesia is far behind that in Malaysia despite the fact that Indonesia enjoys its status as a country with the largest Muslim population in the world. Today's market share of sharia banking in Malaysia is around 40-50%, and that in Indonesia is only 4.86% (Bm & Uddin, 2016).

The society are not well-informed that Islamic banks are managed differently from the conventional banks. Islamic banks offer profit sharing and interest-free partnership system to make it conform to the Islamic teachings. Syarif (2012) suggests that Islamic

banks need to socialize their innovations and reinforce their human resources and Islamic banking system.

Promotion in the perspective of Islam is to honestly inform about a product of service to the potential customers. In this regard, Islam strongly forbids us to provide false information to deceive the potential customers. A hadith mentions: "Ibnu Umar said: "I've been deceived in the buying of this," complained a man to the Prophet. The Prophet said, "Tell them not to deceive! (Narrated by Bukhari).

2 LITERATURE REVIEW

Marketing is an organization and a process of creating, communicating, and providing value to the customers and establishing a long-term and sustainable relationship with the customers (Kotler, Philip dan Keller, 2012). Every function of management contribute in its own way to the drafting of strategy at different levels. Marketing is a function with the largest contacts with the external environments over which the corporation has only little control. Thus, marketing plays an important role in the strategic planning (Fejza & Asllani, 2013). In penetrating and seizing a market, a businessman should also take into account internal and external factors. The marketing mix has been defined as the set of marketing tools that a company uses to pursue its marketing objectives in the target (Kotler, Philip, & Keller, 2012).The company's profile depends entirely on the ability of the management to understand the marketing mix in question. Shuhaimi's (2012) study suggests that the marketing mix through 5 Ps model plays an important role in the development of Islamic banking. Mohammad's (2015) study investigated the application of 7 PS; i.e., promotion, price, people, product, place, process and physical evidence, in banking system. The result revealed that process was the most important factor, and price was the least influential factor. This goes to say that the customers prefer a simple, understandable and quick process in conducting banking transactions. Meanwhile, Phillips and Peterson (2004) put forward the importance of making differentiation in order for the product/service to be acceptable by the customers and to have competitive advantage.

Ismal's (2010) survey on Islamic banking depositors in Java, Sumatera, and Kalimantan revealed that 77.7% of the total respondents show respects towards Islamic banking instruments, 58.8% understood Islamic financial instruments, and only 27.7% participated in the Islamic financial instruments. It was also revealed that there were three types of depositors: sharia-driven, profit-driven, and transaction-driven depositors. The sharia-driven depositors refer to the customers who choose Islamic banks for their Islamic principles and will never choose conventional banks. The profit-driven depositors are indifferent between sharia and conventional banks; they only take profit into their account. The transaction-driven depositors are those who use sharia banking service for transactional purposes. The sharia-driven depositors were 56.8% of the total respondents, 27% were profit-driven depositors, and the last 16.2% were transaction-driven depositors.

It was then concluded that the majority of depositors were sharia-driven. They chose Islamic banks because of their product conformity to the Islamic teachings and fatwa of Indonesian Ulema Council (MUI) (Shuhaimi, 2012). This confirms other studies that customers chose Islamic banks due to religious reasons. Their preference was also influenced by Islamic financial literacy (Haque, Osman, & Ismail, 2009; Tara, Irshad, Khan, & Rizwan, 2014).

A survey conducted by the Financial Services Authority (OJK, 2016) revealed that in Indonesia the Islamic financial literacy was only 11.06 % and Islamic banking literacy was 66.3%. This low level of Islamic financial literacy greatly affected the preference for Islamic banks. According to Azmi and Chong (2014), financial literacy is necessary to understand Islamic banking products and services. Abdullah and Anderson (2015) suggest that financial literacy is shaped by the following factors: views on banking product, views on Islamic banking product, parents' influence on Islamic financial product and services, factors determining investment in securities, views on conventional banking product, attitude on personal financial management, influence of personal financial management, knowledge on wealth planning and management, and attitude on Islamic financial product and services.

Like in Malaysia, the Iranian government fully supports Islamic banking by ratifying the Law for Usury-Free Banking in August 1983. This law requires banks in Iran within three years to adjust thoroughly their business activities to the principles of sharia and turn the outstanding interest-based deposits into interest-free deposits within a year (Parveen, Zadeh, & Muzakkirsyed). Islamic banking in Iran and Malaysia enjoys a rapid growth due to their government full support; not only can it compete with conventional banking, but also becomes the global first and second greatest sharia banking respectively. While in Turkey and Sudan whose government only gives lukewarm support, the progress of sharia banking is not so significant. Indonesian government must learn from other

successful countries in developing sharia banking networks. State-owned enterprises (BUMN) also encouraged to invest in the sharia banking. Based on Roadmap of Indonesian Islamic Banking 2015-2019, there are 41 programs to boost the development of Islamic banks in Indonesia (OJK, 2016). In this regard, Sari, Bahari and Hamat (2016) explain in their report the influence of government and political issues on the evolution of Islamic banking in Indonesia.

3 RESEARCH METHODOLOGY

This study was conducted using an exploratory approach; i.e., by exploring dominant factors that shaped market share of Islamic banking. The primary data were qualitative statements of Islamic bank customers in Indonesia, but then quantified using five point Likert scale.

This report discusses factors affecting Islamic banking market share including promotion, product, service, price, process, external environment, human resources, and fatwa of Indonesian Ulema Council (MUI).

The data were collected through observation, interview, and questionnaire. The samples were 76 customers of BJB Syariah. The collected data were analyzed using confirmatory factor analysis by means of SPSS.

4 RESULTS AND DISCUSSION

The results of the survey data analysis are as follows:

The result of KMO and Bartlett's test revealed that the sampling adequacy was 0.706. Since it was higher than 0.5, further test can be proceeded.

The result of correlation test between independent variables in the output of KMO and Bartlett's test is:

Table 1: KMO and Bartlett's Test.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		,706
Bartlett's Test of Sphericity	Approx. Chi-Square	162,115
	df	36
	Sig.	,000

It could then be said that further test could be proceeded. The correlation between independent variables can be seen in the table of Anti-Image Matrices. What should be paid attention to is MSA (Measure of Sampling Adequacy) score. The MSA score range is 0 to 1 with the following conditions:

1. MSA = 1, variables can be correctly predicted by other variables.
2. MSA > 0.5, variables can still be predicted and further analysis can be proceeded.
3. MSA < 0.5, variables cannot be predicted and further analysis is not possible.

The results of MSA using SPSS are as follows:
1. Promotion 0.507 > 0.5
2. Government Commitment 0.631 > 0.5
3. Technology 0.821 > 0.5
4. Literacy 0.595 > 0.5
5. Human Resources 0.833 > 0.5
6. Religion 0.834 > 0.5
7. Residency 0.619 > 0.5
8. Fatwa of Indonesian Ulema Council (MUI) 0.869 > 0.5
9. Administration Cost 0.546 > 0.5

It could be then concluded that all variables could further be analyzed since their scores were higher than 0.5.

The next step is grouping these independent variables into one or more factors. This is to describe how these factors can explain the independent variables. Therefore, it should be referred to the table of Communalities below:

Table 2: Communalities.

Communalities

	Initial	Extraction
Promosi	1,000	,877
Komitmen Pemerintah	1,000	,561
Teknologi	1,000	,850
Literasi	1,000	,789
SDM	1,000	,770
Agama	1,000	,656
Tempat Tinggal	1,000	,751
Fatwa MUI	1,000	,454
Biaya Administrasi	1,000	,899

Extraction Method: Principal Component Analysis.

The results show that the factors can explain the promotion variable by 0.877 or 87.5%, the government variable by 56.1%, the technology variable by 85%, the literacy variable by 78.9%, the human resources variable by 77%, the religion variable by 65.6%, the residency variable by 75.1%, the variable of fatwa of MUI by 45.4%, and the administration cost variable by 89.9%. Since the average explanation is above 50%, the factors were determined.

Table of Total Variance Explained shows how may factors that can be established.

Table 3: Total Variance Explained.

Total Variance Explained

Compone nt	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4,319	47,983	47,983	4,319	47,983	47,983	2,989	33,208	33,208
2	1,275	14,172	62,155	1,275	14,172	62,155	2,318	25,757	58,965
3	1,013	11,259	73,415	1,013	11,259	73,415	1,300	14,449	73,415
4	,799	8,882	82,296						
5	,602	6,691	88,987						
6	,422	4,686	93,673						
7	,322	3,582	97,255						
8	,137	1,523	98,777						
9	,110	1,223	100,000						

Extraction Method: Principal Component Analysis.

Based on the above calculation, the Component ranging from 1 to 9 represents all independent variables. In the Initial Eigenvalues column, the score was set to 1. The variance can be explained by Factor 1 by 4.319/9 x 100% = 47.988, by Factor 2 by 1.275/9 x 100% = 14.166, and by Factor 3 by 1.013/9* x 100% = 11.255. The three factors combined can explain the independent variables by 47.988% + 14.166% + 11.255% = 73.409%. Since the Eigenvalues was set to 1, the total score taken was that above 1; i.e., Components 1, 2, and 3.

Afterward, which variable that would go into which factor was determined by referring to the table of Component Matrix below:

Table 4: ComponenMatrix.

Table of Component Matrix[a]

	Component		
	1	2	3
Promotion	.711	.606	-.061
Government Commitment	.655	-.144	-.334
Technology	.919	-.069	.017
Literacy	.604	.639	.127
Human Resources	.867	.128	-.047
Religion	.688	-.268	-.333
Residency	.679	-.497	.208
Fatwa of Indonesian Ulema Council (MUI)	-.567	.353	.086
Administration Cost	.409	-.120	.847

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Based on the above table, the correlations between independent variables with the factors to be formed are:

1. Promotion: Factor 1 correlation 0.11; Factor 2 correlation 0.606; Factor 3 correlation -0.061
2. Government Commitment: Factor 1 correlation 0.655; Factor 2 correlation -1.44; Factor 3 correlation -0.334
3. Technology: Factor 1 correlation 0.919; Factor 2 correlation 0.069; Factor 3 correlation 0.017
4. Literacy: Factor 1 correlation 0.604; Factor 2 correlation 0.639; Factor 3 correlation 0.127
5. Human Resources: Factor 1 correlation 0.867; Factor 2 correlation 0.128; Factor 3 correlation -0.047
6. Religion: Factor 1 correlation 0.688; Factor 2 correlation -0.268; Factor 3 correlation -0.333
7. Residency: Factor 1 correlation 0.679; Factor 2 correlation -0.497; Factor 3 correlation 0.208
8. Fatwa of MUI: Factor 1 correlation -0.561; Factor 2 correlation 0.353; Factor 3 correlation 0.086
9. Administration cost: Factor 1 correlation 0.409; Factor 2 correlation -0.120; Factor 3 correlation 0.847

Table of Rotated Component Matrix below shows which variable goes to which factors.

Table 5: Rotated Component Matrix.

Rotated Component Matrix^a

	Component		
	1	2	3
Promosi	,235	,907	,008
Komitmen Pemerintah	,697	,260	-,089
Teknologi	,728	,483	,296
Literasi	,067	,874	,144
SDM	,605	,610	,176
Agama	,788	,179	-,050
Tempat Tinggal	,706	-,001	,503
Fatwa MUI	-,652	-,044	-,165
Biaya Administrasi	,062	,160	,933

Extraction Method: Principal Component Analysis.

The input of a variable into a particular factor was determined by the correlation coefficient between the variable and factor in question. And it was obtained the following:

1. Factor 1: Government Commitment, Technology, Religion, Residency, Fatwa of MUI
2. Factor 2: Promotion, Literacy, Human Resources, and
3. Factor 3: Administration Cost

Refer to the table of Component Transformation Matrix below to conduct a test at the final step and to determine the factor.

Table 6: Component Transformation Matrix.

Component Transformation Matrix

Component	1	2	3
1	,758	,585	,287
2	-,538	,810	-,231
3	-,368	,021	,929

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Factor 1 comprised the variables of government commitment, technology, religion, residency, and fatwa of MUI that could be characterized as the external driving factors. Factor 2 represented the variables of promotion, literacy, and human resources that could be characterized as the corporate capability factors. And Factor 3 represented the administration cost variable that could be characterized as the operational technical factor.

Thus, these factors can be summarized as follows:
1. Factor 1 is called the external driving factor
2. Factor 2 is called the corporate capability factor
3. Factor 3 is called operational technical factor

5 CONCLUSION

The following factors affected BJB Syariah market share: promotion, government commitment, technology, human resources, religion, residency, fatwa of Indonesian Ulema Council (MUI). Having been rotated, these factors were categorized into three: Factor 1: government commitment, technology, religion, residency, fatwa of MUI, Factor 2: promotion, literacy, human resources, and Factor 3: administration cost. Factor 1 is then called the external driving factor (that affects the market share), Factor 2 is called the corporate capability factor, and Factor 3 is called the operational technical factor.

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