Business Process Re-Engineering (BPR) and Performance of Islamic Banking Branches in Kedah: Maqasid Al-Shari’ah Perspective

Mohd Rizal Razalli, Universiti Utara Malaysia

Available at: https://works.bepress.com/rizalrazalli/1/
Business Process Re-Engineering (BPR) and Performance of Islamic Banking Branches in Kedah: Maqasid Al-Shari’ah Perspective

Muhammad Aizat Md Sin  
School of Technology Management & Logistics  
Universiti Utara Malaysia  
Sintok, Kedah, Malaysia  
aizatmdsin@gmail.com

Mohd. Rizal Razalli  
School of Technology Management & Logistics  
Universiti Utara Malaysia  
Sintok, Kedah, Malaysia  
rizal@uum.edu.my

Norlena Hasnan  
School of Technology Management & Logistics  
Universiti Utara Malaysia  
Sintok, Kedah, Malaysia  
norlena@uum.edu.my

Abstract—The purpose of this study is to investigate the relationship between Business Process Re-Engineering (BPR) and performance of Islamic banking branches in Kedah from the perspective of Maqasid Al-Shari’ah. The questionnaires were sent directly to branches and collected by hand. 59 samples were returned, however, only 54 samples were used for further data analysis. The data were analyzed using the multiple regression analysis. Collectively, the result showed that the BPR was able to influence the performance of Islamic banking branches in Kedah. The findings indicated that only management commitment, customer focus, and BPR project management were significantly related to the overall Islamic banking performance. The outcome of this study provides important insights to both managers and researchers for further understanding about BPR factors and Islamic bank’s performance.

Keywords- Business process reengineering, Islamic banking performance, Banks, Kedah.

I. INTRODUCTION

The globalization and competition have led financial institutions to change their operation processes. To succeed in this environment, most organizations must have unique and distinctive structure and processes which are fast and can deliver high quality, flexible as well as low cost. Bank Negara Malaysia (BNM) encourages banking sector in Malaysia to respond quickly to changes in the marketplace [1].

One of the Malaysian government aspirations is to have a strong Islamic banking in Malaysia. Islamic banking products and services have a strong demand and positive momentum even from the non-Muslim customer [2]. Hence, this sector has no other way but to undergo changes in order to fulfill the ever challenging customer demand and sustainable performance.

In order to improve the performance, Islamic banking industry needs to establish an effective strategy such as Business Process Reengineering (BPR). BPR is the best approach to be implemented [1] and BNM was fully supported the implementation of BPR in this industry. BPR concept was introduced by Michael Hammer on 1988s as an originator in this field. Hammer and Champy outlined that the BPR as a radical approach to gain significant improvement in measuring the performance, such as speed, service, quality and cost [3]. However, BPR implementation is not always successful to be applied in organizations. Almost 50-70 percent of organizations are not capable of implementing the BPR [3], [4].

In the context of Malaysia Islamic Banks performance, it is noted that their performances are increasing. However, due to the lack of evidences available from the previous studies, the conclusion about the BPR association with these performances, especially from the perspective of shari’ah, cannot be drawn [5]. Hence, the objective of this paper is to investigate the link between BPR implementation and Islamic Bank performance in terms of Maqasid al-Shari’ah.

II. LITERATURE REVIEW

A. Islamic Banking Performance from the perspective of Maqasid Al-Shari’ah.

Islamic banking is defined as the financial activities that consists of Shari’ah compliant or Islamic law, and based on Al-Quran and Sunnah of Prophet Muhammad P.B.U.H. The Islamic banking industry is divided into three main categories such as full-fledged Islamic banking, Islamic window of conventional banks, and Islamic finance companies. The performance of the organization is measured based on actual output compared to the input. Based on Maqasid al-Shariah framework of Islamic banking industry, the performance is classified into three major categories such as (1) educating individual, (2) establishing justice, and (3) public interest [6].
Educating individual refers to the advancement of knowledge, instilling new skills and improvements and creates awareness of Islamic banking. Establishing justice is related to the fair returns, elimination of the negative elements that cause injustices and not reasonable prices for products and services. Last but not least, promoting welfare or public interest is defined as the profitability of bank, redistribution of income and wealth and investment in vital economic sectors.

B. BPR Factors

BPR is the popular approach in organization because it able to handle a cycle of rapid technologies, business activity and assist company to optimize the profit and productivity [22]. Furthermore, BPR is also expected to manage the new way of managing people, organization and process to achieve incredible result and help banks performance. Basically, BPR is seeking to isolate between old approaches to the new approach. The main goal of the BPR implementation in the organization is to transform and improve business practices and processes to achieve dramatic improvements in organizational performance [24]. Hanafizadeh and Osouli claims that most of the researcher agreed that the process re-engineering is the best approach for continuous improvement in evaluating demand from customer, market, and being the best tools to reach competitive advantage [25].

Michael Hammer [23] defines re-engineering as:

“Fundamental rethinking and radical redesign of business processes to achieve a dramatic improvement in a critical quantum leap of contemporary measures of performance, such as cost, quality, service, and speed”.

The successful implement BPR in islamic banking depends on the management commitment, focus on customer and BPR project management. Effective management commitment will influence the performance and management practices and eventually will directly affect the organizational success [7]. In other words, the commitment from the top management will ensure that all employees to perform better and eventually improve the bank’s performance. In fact, customer focus is a key to drive changes [8]. Wei and Nair suggested that banking and financial industry in Malaysia to emphasize the importance of customer relationship management to gain brilliant performance [9]. Furthermore, successful implementation of BPR also depends on the BPR project itself [10]. Other factors of BPR include strategic alignment, change management, and IT infrastructure [8], [11].

The research framework of the relationship between Business Process Re-Engineering (BPR) and Performance of Islamic Banking Branches in Kedah from the Maqasid Al-Shari’ah Perspective as follows:

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>BPR Factors</td>
<td>Performance of Islamic Banking Branches in Kedah</td>
</tr>
<tr>
<td>1. Strategic Alignment</td>
<td></td>
</tr>
<tr>
<td>2. Management</td>
<td></td>
</tr>
<tr>
<td>3. Change Management</td>
<td></td>
</tr>
<tr>
<td>4. Customer Focus</td>
<td></td>
</tr>
<tr>
<td>5. BPR Project Management</td>
<td></td>
</tr>
<tr>
<td>6. IT Infrastructure</td>
<td></td>
</tr>
</tbody>
</table>

Based on previous findings, the research hypotheses were formulated as follows:

H1: There is a significant relationship between BPR and bank performance.
H1a: There is a significant relationship between strategic alignment and bank performance.
H1b: There is a significant relationship between management commitment and bank performance.
H1c: There is a significant relationship between change management and bank performance.
H1d: There is a significant relationship between customer focus and bank performance.
H1e: There is a significant relationship between BPR project management and bank performance.
H1f: There is a significant relationship between IT infrastructure and bank performance.

III. RESEARCH METHODOLOGY

This study used a quantitative approach to achieve its objectives. This was also a cross-sectional survey where questionnaire was used as a research instrument. The research survey was conducted via a face-to-face survey with the managers of the banks. The unit of analysis was organization, which was deemed appropriate for measuring organizational performance [12]. The banks were randomly chosen and the questionnaire were distributed to the Islamic banking branches in Kedah. The completed questionnaires were returned by hand or email. The Islamic banking branches in Kedah were chosen because Kedah has a significant number of Muslims (77%) [13]. In addition, Kedah also has future prospects to be developed as a developing state. Kedah also has a significant number of Islamic full-pledged banks.

The total population of Islamic banks in Kedah was 63. It is recommended that the sample size for such population should be 56 samples which represented 89% of the total population [14]. The questionnaire was adapted from previous prominent study in BPR [8] and performance in terms of Maqasid Al-Shari’ah [6]. A five-point Likert Scales with a rating of 1 to 5 were used. Seven questions were also asked in terms of demographic characteristic. The questionnaire was tested by experts from banks and academicians for readability, structure, completeness, and ambiguity [8]. The reliability of the questionnaire is shown in Table 1.
Table 1. Reliability Statistic for Pilot Test

<table>
<thead>
<tr>
<th>Items</th>
<th>Number of Items</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank performance</td>
<td>18</td>
<td>0.952</td>
</tr>
<tr>
<td>Independent Variables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Alignment</td>
<td>5</td>
<td>0.816</td>
</tr>
<tr>
<td>Management Commitment</td>
<td>8</td>
<td>0.865</td>
</tr>
<tr>
<td>Change Management</td>
<td>7</td>
<td>0.881</td>
</tr>
<tr>
<td>Customer Focus</td>
<td>4</td>
<td>0.780</td>
</tr>
<tr>
<td>BPR Project Management</td>
<td>9</td>
<td>0.856</td>
</tr>
<tr>
<td>IT Infrastructure</td>
<td>5</td>
<td>0.897</td>
</tr>
</tbody>
</table>

Data were analyzed using the Statistical Package for Social Science (SPSS) version 21. 54 or 86% responses were used for the analysis after the process of data cleaning and elimination of outliers. Descriptive analysis, validity and reliability test, normality test, correlation analysis, multiple regression analysis were used to assess the hypotheses of the study.

To formulate the hypothesis, the researchers used multiple regression analysis to solve the problem. Preliminary assumption such as the linearity, normality and homoscedasticity was also examined. Multiple regression analysis is a method to analyze link between several of independent variables and dependent variables. Multiple regression analysis was conducted to investigate the relationship between the BPR factors as the independent variables and the Islamic banking performance as the dependent variable. The significant value and t value was used to determine the influence or significant between independent and dependent variables. If the significant value is p<0.05 and t value is >1.645, the relationship is considered as significant [21].

IV. FINDINGS

The result of the multiple regression analysis showed that R Square value was 0.642 or 64.2% of the variance. The F value = 14.039 and significant value was 0.000 (p<0.05). The hypothesis was accepted, which suggested that the BPR has significantly influenced the overall performance of Islamic banking branches. Furthermore, hypotheses H1b, H1d, and H1e were also accepted when the value of β = 0.258, 0.397, and 0.332 and t value was 2.198, 3.889, and 2.682 respectively. The t value was more than 1.645 (t >1.645) and the significant value was less than 0.05 (p<0.05). Hence, hypotheses H1b, H1d, and H1e were accepted which mean that management commitment, customer focus, and BPR project management were significant indicators for improving the overall performance of Islamic banking branches.

However, hypotheses H1a, H1c, and H1f were rejected due to the insignificant relationships found between the factors and the performance. In other words, the strategic alignment, change management, and IT infrastructures were not significant predictors of the overall performance of Islamic banking branches.

Table 2. Multiple Regression Analysis (N=54)

<table>
<thead>
<tr>
<th>Variable</th>
<th>H (β)</th>
<th>Sig.</th>
<th>t</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall performance of Islamic banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.642</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>14.039</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independent Variables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Align.</td>
<td>H1a 0.258 0.033* 2.198</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mgt. Commit.</td>
<td>H1b 0.011 0.913 0.010* 2.682</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change Mgt.</td>
<td>H1c 0.397 0.000** 3.889</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer</td>
<td>H1d 0.332 0.010* 2.682</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT infra.</td>
<td>H1e 0.144 0.234 1.206</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

V. DISCUSSION AND CONCLUSION

A. Discussion

This is the extension of past studies on the BPR implementation and bank’s performance. However, this study specifically examines the performance from the perspective of Maqasid Al Shari’iah. This study discovered that the BPR practices, in general, influence the performance of Islamic banking branches in Kedah. This study indicates that the BPR influences the performance of Islamic banking branches. It means that, the relation between BPR and islamic banking performance in Kedah from perspective of Maqasid Al Shari’iah shows the significant relation or positive relation.

Specifically, only three BPR factors are found to be significant predictors of a bank's performance, such as management commitment, customer focus, and BPR project management. However, the other factors like strategic alignment, change management, and IT infrastructure are not significantly related to the overall performance of the Islamic banks.

The findings of the study are supported by past studies. For example, past studies [15], [8] [11] found the significant relationship between management commitment and banking performance. [8] suggest to all banking managers to focus on the voice of the customer and keep adding value to the banking customer [8]. Furthermore, they also stress customer focus as the key driver of change that leads a transformation in organizations. A study also highlights the importance of market needs evaluation and customer research to improve organizational performance [16]. Al-Mashari and Zairi support the findings in terms of the importance of managing the BPR project [10].

On the other hand, strategic alignment is given little concern from practitioners [8], while change management was found an insignificant predictor for performance [11]. Additionally, previous studies showed that only 30% of the organizations agreed that IT application is the key success
factor and BPR project is not only depending on IT to succeed [8], [17].

Based on the research finding, manager of Islamic banking branches in Kedah should focus on management commitment, customer focus, and BPR project management from the perspective Maqasid Al-Shari’ah in order to improve performance effectively.

B. Limitation

The scope of the study was in the state of Kedah. Hence, generalization of the findings must be made with caution. Moreover, the banks were represented by a single person, hence, the answer may be subject to his or her own past experience not the organization.

C. Suggestion for Future Research

In tandem to few studies [18], [11], [19], it is suggested that future studies to select multiple respondents to avoid bias and getting a more balanced perspective of BPR variables and performance [8]. In terms of the analysis, the bank’s performance may be zoomed into the three perspectives of Maqasid Al-Shari’ah instead of the overall performance. The future researchers may also apply a mixed-mode method and use IT capability as a moderating variable between BPR factors and Islamic banking performance [20].

D. Conclusion

In sum, the results show that the BPR influences the overall performance of Islamic banking branches in Kedah, particularly in terms of management commitment, customer focus, and BPR project management.

Hence, this study strengthens the essential need to have management commitment, the importance of customer orientation in the strategy, and the effective management of BPR project. Without these key factors, the BPR in organizations, particularly in the banking sector, may not be successful. The study also provides new empirical study about the implementation of BPR factors towards the performance of Islamic banking branches in Kedah. Henceforth, the researchers hope that this study will provide assistance to other potential future researchers to extend and explore exhaustively of this topic area.

VI. ACKNOWLEDGEMENT

We would like to take this opportunity to express our sincere appreciation to Ministry of Higher Education for awarding us the research grant of RM105000 to enable this research to be accomplished.

REFERENCES
