Islamic Banking Performance in Majority and Minority Muslim Region
Irwan Thaib¹, Astrid Puspaningrum², Ananda Sabil Hussein³ and Sri Palupi Prabandari⁴

Abstract

Islamic Banking attracted many consumers in many Muslim majority countries. The rules and obligation to follow the Islamic law is one of key factors that make this banking is popular in Muslim community. There is also interesting fact that many Non-Muslim also become customers of this Islamic Bank. They found the business operation of Islamic Bank is interesting, with no interest and transparency. This study examines the collaboration and internal resources on Islamic Banking Performance with Majority and Minority Muslim Community region as moderator. Another objective of this study is to analyze the collaboration strategy as a mediator in the relationship between Innovation and Business Performance. This research used a quantitative method with structural equation modelling analysis. Data was collected from 300 Sharia bank executives throughout Indonesia. Data was processed using SmartPLS version 4.1.0 to analyze the hypothesis for this study. The results showed that Majority and Minority Region has no moderation impact to Collaboration on Business Performance (β = .03, p = .04), The Majority and Minority Region also has no moderation effect to Internal Resources on Business Performance (β = -.01, p = .75), Internal Resources impact to Business Performance (β = -.35, p = .00). Furthermore, Collaboration Strategy mediated the relationship between Internal Resources and Business Performance (β = -.16, p = .00). This research finds that Majority and Minority Region has significant direct effect on Business Performance

Keywords: Majority and Minority Region, Internal Sharia Capital, Strategic Innovation, Strategic Collaboration, Business Performance

INTRODUCTION

Islam has Sharia law which covered all activities for Muslim, including in Banking & Financial business. As a business, Islamic finance is one of the fastest-growing financial segments in the global financial system. This industry has taken advantage of Muslims' increasing concerns regarding the compliance of their financial matters with the law of Islam. This industry also attracts many non-Muslim customers due to greater transparency. All transactions must be fair so that one party does not have advantages over the other. It has grown by an average of 17% since 2009. Sharia finance also shows a rapid development trend that will continue, mainly driven by strong economic growth in countries with large Muslim populations. Indonesia has the largest Muslim population in the world, which is a potential that Sharia banks should be able to achieve through superior business performance. Islamic banks are expected to grow optimally as a representation of one the most prominent Islamic countries in the economic sector. However, Indonesia has captured only 2% of the global Sharia market for now. Poor performance of Sharia banks will impact public trust in the Sharia-based financial system.

Demography of Indonesia is interesting because as biggest Muslim country in the world, this country has various percentage of Muslim distribution in its region. In some region, like North Sulawesi, Papua and Bali, Muslim is minority. This demography fact make different perception of Islamic banking in Indonesia and need also different strategy of stakeholders Islamic Banking to achieve business performance in those region. Previous study in business performance also showed that there is a research gap due to inconsistent results of the influence of internal resource on business performance. Several studies, like Pham et al. (2019) and Teng et al. (2022), found a significant effect, while several other studies found no significant impact (Hutahayan, 2020; Olan et al., 2022)
The inconsistent results of previous research indicate that there are still exciting gaps for further study. To fill this gap, this research added mediating variables to the relationship between internal resources and business performance, namely collaboration strategy.

LITERATURE REVIEW

Major and Minor Muslim Region

Indonesia is biggest Islamic country in the world with total Muslim population is 242 million or 87% of total Indonesia population. Mostly of Muslim is in West Indonesia region and Non-Muslim in many area in East Indonesia Region. Various percentage of Non-Muslim compare with Islam in Non-Muslim region, such as North Sulawesi province, percentage of Muslim is 31.84% and Non-Muslim is 68.16% is Non-Muslim.

Similar with previous research from Mbawuni & Nimako (2018), Non-Muslim in Indonesia also has various perception of Islamic Bank, such as they have high perceived benefit of Islamic Bank and also concern of popularity of Islam. According to Setiawan et al (2016), Majority of Non-Muslim in Indonesia knows about saving in Islamic Bank, but has less knowledge for other Islamic Bank products.

Saiti et al (2022) found interesting result that showed control as one of factor that make Non-Muslim attract to use Islamic Bank, this result also confirm that strict Sharia Law in Islamic Banking have positive perception for Non-Muslim customers.

Business Performance

Business performance is defined as the ability of the business company to achieve its goal. In the Sharia Banking industry, the business's objective is revenue and a positive impact on the community. According to Otto et al. (2020), business performance should be measured by the customer satisfaction index. Hamzah and Shamsudin (2020) also concluded that customer satisfaction is crucial for business performance. In terms of Sharia banking, customer satisfaction means that customers can ensure that their banking follows the Shariah rules and compliance.

Market share is also one of the parameters to identify whether a business's performance is bad or good. According to Varadarajan (2020), successful companies can use market insight information to increase their market share. Varialle et al. (2022) found that organizations can improve market share if they can run their innovation strategy correctly.

Organizations should achieve financial growth to be sustained. According to Latifi et al. (2021), organizations need positive profit growth for good financial growth. Nariswari and Nugraha (2020) studied the impact of many financial parameters that should affect profit growth.

Return on Investment (ROA) is also essential to measure a company's achievement. Prieto and de Carvalho (2018) informed that a company should have a good return on investment to gain the trust of stakeholders. Setiawan and Rosa (2023) analyzed that return on investment has a crucial impact on business financial performance.

Many successful organizations showed that their achievement in return on assets impacted overall business performance. Puspitasari et al. (2021) showed that return on assets could be used to measure business performance in the Indonesian banking industry. Chalal and Bakhsh (2016) concluded that organizations should be concerned about their return on asset performance.

Collaboration Strategy

As a fully competitive business, Sharia banking should collaborate with various stakeholders in their business operations. Developing a collaboration plan is essential to having a proper collaboration strategy. According to Jan et al. (2021), Sharia banking needs to have a collaboration strategy with lenders to ensure that some specific policy can be implemented. Aminah et al. (2020) concluded that the Sharia financial industry needs to collaborate in joint products to maximize customer service.
Predicting future customer needs is also important for Shariah banking. According to Kartika et al. (2020), Sharia banking needs to provide products referred to customers' needs. Having a collaboration to predict customer needs will be advantageous for Sharia banking. Entering specific market segments is also suggested by Kartika et al. (2020), particularly for financing micro and macro market segments. Collaboration with stakeholders should be measured to understand the progress, results and opportunities for improvement.

Collaboration has been studied in many previous studies to find its impact on productivity. Many researchers proved that collaboration behavior and culture are crucial for an organization and mediate other performance-related factors. According to Alzoubi et al. (2020), Collaboration can mediate the business strategy to the performance of the supply chain. Qureshi et al. (2023) also used Collaboration as a mediator for learning performance. Al-Omoush et al. (2020) showed that Collaboration mediates business agility.

**Internal Resources**

The organization has capital that needs to be utilized to achieve its objectives. Similar to conventional banking, Sharia banking also has important capital, such as organization, management team, Infrastructure and a specific capital called spiritual capital. According to Kim et al. (2021), organizational capital impacts the value of the firm. Mojambo et al. (2020) stated that management team characteristics affect a Bank's financial performance. Lawal and Bukar (2020) showed that Sharia has a specific infrastructure that may positively impact the performance of Sharia banking. A study by Mohd Noor et al. (2020) concluded that Sharia financial infrastructure compliances, like supervisory power, activity restrictions, and private monitoring, impact the efficiency of Islamic banks.

Jamili et al. (2022) found that internal resource sharing can improve Collaboration, Baah et al. (2021) also concluded that internal resources could affect the collaboration strategy and performance.

Based on the Sharia Capitals and Collaboration Strategy description, we have the hypotheses below:

- **H1**: International Resources has a significant effect on Strategic Collaboration
- **H2**: Strategic Collaboration has a significant effect on Performance
- **H3**: Internal Resources has a significant effect on Performance
- **H4**: Strategic Collaboration mediated the relationship between Internal Resources and Performance
- **H5**: Majority & Minority Region moderate the internal resources on Performance
- **H6**: Majority & Minority Region moderate the strategic collaboration on Performance
RESEARCH DESIGN

A sample of this research was collected by distributing a questionnaire to 300 executives of Sharia Bank, and a total of 285 respondents submitted the data or 95% of the total questionnaire distributed. The questionnaire is divided into 2 sections: the first is for collecting demographic data and the second is for collecting data on variables. The data analysis used in this research was inferential statistical analysis, namely the Partial Least Square Structural Equation Model, referred to as PLS-SEM. This analysis was operated through the Partial Least Square (PLS) software, version 4.1.0 of Smart-PLS. Simple random sampling was used in this study at the head of the office branch position level, fulfilling the minimum requirements of the sample.

The data was quantified by using 5 5-point Likert-Scale, with values 5 being strongly agree, 4 agreeing, 3 being neutral, 2 not agreeing, and 1 strongly not agreeing.

RESULTS

Table 1 Demographic Data shows the criteria percentages of respondents. Gender of respondent; 77.54% are men, or 221 out of the 285. The majority of respondents are 36-45 years old (61.75%). 67.37% or 192 worked as Head of Branch more than 2 years. The results showed that most of the education level were Bachelor, with 243 staff; Magister level had 34 (11.93%) respondents and Doctoral level 1 respondent (0.35%). This demographic data showed us that all participants are at the managerial level and should be able to answer the questions about Sharia Capital, Innovation Strategy, Collaboration Strategy and Business Performance.

Table 1. Demographic Data

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Item</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>221</td>
<td>77.54%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>64</td>
<td>22.46%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>285</td>
<td>100.00%</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>≤ 35 Years</td>
<td>28</td>
<td>9.82%</td>
</tr>
<tr>
<td></td>
<td>36 - 45 Years</td>
<td>176</td>
<td>61.75%</td>
</tr>
<tr>
<td></td>
<td>46 - 55 Years</td>
<td>76</td>
<td>26.67%</td>
</tr>
<tr>
<td></td>
<td>&gt; 55 Years</td>
<td>5</td>
<td>1.75%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>285</td>
<td>100.00%</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Diploma (D1/2/3)</td>
<td>7</td>
<td>2.46%</td>
</tr>
<tr>
<td></td>
<td>Bachelor (S1)</td>
<td>243</td>
<td>85.26%</td>
</tr>
<tr>
<td></td>
<td>Magister (S2)</td>
<td>34</td>
<td>11.93%</td>
</tr>
<tr>
<td></td>
<td>Doctoral (S3)</td>
<td>1</td>
<td>0.35%</td>
</tr>
</tbody>
</table>
Islamic Banking Performance in Majority and Minority Muslim Region

<table>
<thead>
<tr>
<th>Tenure as Head of Branch</th>
<th>Total</th>
<th>100.00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1 Year</td>
<td>50</td>
<td>17.54%</td>
</tr>
<tr>
<td>1 - 2 Years</td>
<td>43</td>
<td>15.09%</td>
</tr>
<tr>
<td>&gt; 2 Years</td>
<td>192</td>
<td>67.37%</td>
</tr>
<tr>
<td>Total</td>
<td>285</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

The result of data processing was generated by Partial Least Square, which many researchers have increasingly used to explore the dependent construct's variance (Hair et al., 2018). The outer and inner models were tested to ensure the data quality for the accuracy of hypotheses testing. The outer model tests are validity and reliability tests. AVE, or Average variance Extracted, was used for convergent validity testing that can be achieved if all model variables are statistically significant. The equation of AVE is below in Table 2. AVE Value. All variables have AVE values greater than 0.5, so we can conclude that all variables are valid.

Table 2. AVE value

<table>
<thead>
<tr>
<th>Variable</th>
<th>AVE:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Resources</td>
<td>62</td>
</tr>
<tr>
<td>Business Performance</td>
<td>72</td>
</tr>
<tr>
<td>Majority and Minority Region</td>
<td>64</td>
</tr>
<tr>
<td>Strategic Collaboration</td>
<td>80</td>
</tr>
</tbody>
</table>

Cronbach’s Alpha and Composite reliability values were used as a parameter of Reliability testing. This reliability testing ensures that items are consistent to measure across time. Table 3. Result of Reliability Testing below are the Cronbach Alpha equations and reliability composite values. All values are more than 0.6. Thus, we can confirm that all variables are reliable.

Table 3. Result of Reliability Testing

<table>
<thead>
<tr>
<th>lc</th>
<th>Cronbach’s Alpha</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Resources</td>
<td>80</td>
<td>87</td>
</tr>
<tr>
<td>Business Performance</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Majority and Minority Region</td>
<td>77</td>
<td>86</td>
</tr>
<tr>
<td>Strategic Collaboration</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

The constructed test results are shown in Table 4. Path Coefficient. The value of T Statistics varies in each construct. Not all relationships are significant based on their value. The relationship between the Innovation Strategy and Collaboration Strategy has the biggest value. The table also showed that the smallest value is the relationship between Infrastructure Sharia Capital and Collaboration Strategy.

Table 4. Path Coefficient

| Relationship | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (|O/STDEV|) | P Values |
|--------------|--------------------|-----------------|---------------------------|----------------|----------|
| CS -> BP     | 0.26               | 0.25            | 0.04                      | 5.90           | 0.00     |
| IR -> BP     | 0.35               | 0.36            | 0.04                      | 8.10           | 0.00     |
| MMR -> BP    | 0.36               | 0.35            | 0.04                      | 8.12           | 0.00     |
| IR -> CS     | 0.65               | 0.65            | 0.03                      | 24.63          | 0.00     |
| Moderating Effect1 | 0.01   | 0.01            | 0.04                      | 0.32           | 0.75     |
| Moderating Effect2  | 0.03  | 0.03            | 0.04                      | 0.84           | 0.40     |

Note. Collaboration Strategy = CS, Business Performance = BP, Internal Resources = IR, Majority and Minority Region = MMR

Based on Table 4. Path Coefficient, we can conclude the result of the hypotheses testing below.

H1: International Resources has a significant effect on Strategic Collaboration

The t-statistic value for Internal Resources on Collaboration Strategy is 24.63 (p < 0.00), which is greater than 1.96, so it can be concluded that H1 is accepted. The results of this hypothesis test indicate that Internal Resources impacts Collaboration Strategy significantly.
H2: Strategic Collaboration has a significant effect on Performance.
The t-statistic value for Spiritual Sharia Capital on Collaboration Strategy is 5.90 (p < 0.00), which is less than 1.96, so it can be concluded that H2 is accepted. The results of this hypothesis test indicate that the Strategic Collaboration affect the Performance.

H3: Internal Resources has a significant effect on Performance.
The t-statistic value for Infrastructure Sharia Capital on Collaboration Strategy is 8.10 (p < 0.00), which is lower than 1.96, so it can be concluded that H3 is accepted. The results of this hypothesis test indicate that Internal Resources has affected the Performance.

H5: Major and Minority Region moderate the internal resources on performance
The t-statistic value for moderating effect of Major and Minority Region is 0.32 (p < 0.75), which is less than 1.96, so it can be concluded that H5 is rejected. The results of this hypothesis test indicate that the Major and Minority Region has no moderating effect in relationship internal resources and performance.

H6: Major and Minority Region moderate the strategic collaboration on performance
The t-statistic value for Major and Minority Region is 0.84 (p < 0.40), which is less than the required test criteria, namely 1.96, so it can be concluded that H6 is rejected. The results of this hypothesis test indicate that Major and Minority Region has no moderating effect in relationship strategic collaboration and performance.

The path coefficient also concluded important result that Major and Minority Region has direct significant value to performance. The t-statistic value is 8.12 (p < 0.00), which is greater than the required test criteria, namely 1.96, so it can be concluded that Major and Minority Region has significant direct effect to performance.

### Table 5. Specific Indirect Effect

| Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (|O/STDEV|) | P Values |
|---------------------|-----------------|-----------------------------|--------------------------|----------|
| IR -> CS -> BP      | 0.16            | 0.16                        | 0.03                     | 5.51     | 0.00     |

Note. Collaboration Strategy = CS, Internal Resources = IR, Business Performance = BP

H4: Strategic Collaboration mediated the relationship between Internal Resources and performance.
The t-statistic value is 5.51 (p < 0.00), which is greater than the required test criteria, namely 1.96, so it can be concluded that H4 is accepted. The results of this hypothesis test indicate that Collaboration Strategy mediated the relationship between Internal Resources and business performance.

**DISCUSSION AND CONCLUSION**

Discussion of Main Results

This research aims to analyze the influence of Major and Minority Region, Internal Resources and collaboration strategies as a mediating variable on business performance. This section will describe the findings and theoretical and practical implications. This section also presents limitations and recommendations for further research.

Internal resources in form of human factor has significant effect on Collaboration Strategy. This finding aligned with Cui et al. (2022) that found the importance of human factors on strategic, tactical, and operational collaboration. Hunter and Goodie (2010) also found that human behavior should be able to adapt to collaboration behavior.

Collaboration Strategy has a significant effect on Business Performance. This result similar with previous studies from Awan and Sroufe (2020), Alvarez-Aros et al. (2022) and Nguyen (2020) who also concluded that collaboration has affected business performance.
Collaboration Strategy mediated the relationship between Internal Resources and Business Performance. This result aligned with study from Zahoor and Al-Tabbaa (2020). Van der Voet and Steijn (2021) that also confirmed the mediation role of collaboration in relationship between internal innovation and Performance.

Major and Minority Region has no moderating effect on the relationship between Internal Resources and Business Performance. Major and Minority Region also has no moderating effect on the Collaboration on Business Performance. The most important finding for this study is Major and Minority Region has significant direct effect to Business Performance. This result was aligned with many study that found that in Major and Minority Region, Islamic Bank can grows and achieve business performance target, but Islamic Bank needs to have different strategy to attract Non-Muslim customers.

LIMITATION

Firstly, Internal resources for this study is Sharia Internal resources that implemented in Islamic Financial and Banking Industry, there may be different Internal resources for conventional banking. Secondly, this study is in Islam majority population country, the future study in Islam minority country will be needed to have comprehensive result.

CONCLUSION

In conclusion, this study showed that Internal Resources and collaboration affected Business Performance directly and indirectly through the Collaboration. Furthermore, Islamic Bank needs to consider Non-Muslim region as potential region for customers to improve their business performance. Others important conclusion is Islamic Bank should understand the factor that make Non-Muslim interested to use Islamic bank, such as better control, trust and quality.

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