



## STRATEGIC MANAGEMENT ANALYSIS OF INDONESIAN SHARIA BANKING

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### Abstract

Increasing banking competition on a national and global scale requires managers to determine the right strategic steps. This is done to improve banking performance as a public entity which is increasingly needed. The purpose of this study is to analyze the strategic management of Indonesian Islamic banking in increasing market share in the Indonesian banking industry. This study uses the literature study method and uses secondary data as well as providing explanations and analysis of various literature studies and secondary data related to the strategic management process of Indonesian Islamic banking. The results of this research, analysis of the external environment of Indonesian Islamic banking found several opportunities to encourage the competitiveness of the Islamic banking industry but also found threats from competition from conventional banking. From the analysis of the internal environment, several weaknesses were found, namely, in the field of human resources, information technology, and the number of bank branch offices. By analyzing the external and internal environment, medium and long-term goals and objectives of Islamic banking are produced and several strategies are produced, namely, expansionary strategy, conventional bank conversion strategy to Islamic banking, human resource strategy, banking technology development strategy, funding, and capital strategy, and a strategy to increase the number of bank offices. From the analysis of the internal environment, several weaknesses were found, namely, in the field of human resources, information technology, and the number of bank branch offices.

**Keywords:** Strategic Management, Islamic Banking, Banking Performance

## INTRODUCTION

Strategic management has great urgency in the banking industry. The following are some reasons why strategic management is very important in the context of banking: changing business environment, namely the banking industry continues to face rapid changes, including technological developments, changing regulations, increasing competition, and shifting consumer preferences. Strategic management helps banks anticipate these changes, evaluate their implications, and formulate relevant strategies to remain competitive.

Making the right decision means that strategic management assists the bank in making the right decision. By analyzing internal and external situations, banks can identify opportunities and challenges faced. By using a strategic management framework, banks can choose the most suitable strategy to achieve their long-term goals. Increased competitiveness, namely the banking industry is very competitive. Strategic management helps banks develop a competitive advantage by identifying attractive market segments, tailoring product and service offerings, and developing effective marketing strategies. Thus, banks can win and retain customers, increase market share, and grow sustainably.

Risk management is an integral part of strategic management in banking. Banks must be able to identify, measure and manage risks related to operational, credit, market, liquidity, and other risks. Through strategic management, banks can develop effective strategies to reduce risk and maintain financial stability. The application also calls for digital innovation and transformation: technological developments influence the way banks operate and interact with customers. Strategic management helps banks to innovate and carry out digital transformation to remain relevant in the digital era. This involves the use of new technologies, the development of digital products and services, and the integration of different distribution channels. In order to achieve long-term success, banks need to have a strategic vision, understand market challenges and opportunities, and be able to manage risk properly. Strategic management plays a key role in ensuring the bank can adapt to changes and achieve its strategic goals.

According to a report by The Royal Islamic Strategic Studies Center (RISSC), Indonesia has the largest Muslim population in the world. And the Muslim population in

Indonesia in 2022, according to RISSC, will be 231.06 million people or 86.7 of the total population of Indonesia. Based on the Muslim population data, it is very reasonable for Indonesia to have an Islamic Sharia-based financial or banking system in addition to having a conventional financial and banking system. The Islamic Sharia-based financial and banking system was based on a very strong request from Indonesian Islamic religious leaders and Islamic thinkers, the need for Islamic Sharia principles contained in the Al-Quran and Hadith to be implemented in the operation of the Islamic financial and banking system (Marimin et al., 2015). Specifically related to prohibiting usury or interest instruments in the banking system and prohibiting products or banking instruments that are contrary to Islamic sharia.

This aspiration or request by Muslims regarding the application of Islamic Sharia principles, which are listed in the Al-Quran and Hadith, was well responded to by the Indonesian government making the Indonesian Sharia banking law, Law 21 of 2008 concerning Sharia Banking. The Sharia Banking Law regulates activities that do not conflict with Sharia principles, among other things, prohibiting businesses that contain elements of *usury*, *maisir*, *gharar*, *haram*, and unjust. Before Law 21 of 2008 concerning Islamic Banking was enacted, in 1998 Law Number 10 of 1998 concerning Banking was enacted which emphasized that Indonesian banking adheres to two banking systems, namely the conventional banking system and Islamic banking (Ni et al., 2021). Thus, the Indonesian banking system has accommodated the desire of the Indonesian Muslim community to transact in Indonesian banking that applies Islamic Sharia principles, which are in accordance with the beliefs of the majority of the Indonesian population (Kunaifi, Kadir, and Suhairiyah 2021).

During the two decades that the two laws related to Islamic banking have been enacted in Indonesia, banking growth has indeed grown significantly. Significant growth in terms of funding and distribution of Islamic banking funds is due to the noble desire or emotional attachment of Muslims who have a strong desire to do transactions in Indonesian banks that apply Islamic Sharia principles. However, in terms of scale, the size of the portion terms of funding and distribution of funds owned by Indonesian Islamic banking is still much lower than in conventional banking (Ade, 2009). Based on a report by the

Financial Services Authority (OJK), as of February 2022, the portion or market share of Indonesian Islamic banking is only IDR 681.95 trillion or only controls 6.65 percent. Even though the portion or market share of conventional banks is Rp. 10,297 trillion or still 93.35 percent of the national banking market share.

The still minimal market share of Islamic banking in the national banking industry needs to be stimulated or developed in the management of Indonesian Islamic banking by taking strategic steps or making strategic management in order to increase Indonesia's Islamic banking market share to reach 20-22 percent in the next 10 years. The steps of strategic management in increasing market share growth are significant and drastic growth, namely, making an analysis of the external environment and internal environment of Islamic banking, making long, medium and short term goals, formulating strategies, making implementation of strategies to achieve targets as well as evaluating the implementation of the strategy and its implementation (Sri Anugerah Natalina & Arif Zunaidi, 2021).

The strategic management steps taken by the government in enlarging the scale of Islamic banks recently were the government, in this case, the Ministry of BUMN, carrying out a merger or merger of 3 Islamic bank unit banks, BUMN banks, PT. BRI Syariah Bank, PT. Bank Syariah Mandiri and PT Bank BNI Syariah, became PT. Bank Syariah Indonesia or BSI. The move to merge or merge 3 units of state-owned Islamic banks is not enough to drive the significant growth in Indonesia's Islamic banking market share. Need to take advantage of opportunities from the external environment of Indonesian Islamic banking and at the same time encourage the development and improvement of the internal environment of Indonesian Islamic banking.

Utilization of the external environment or external environment of Islamic banking is related to cooperation with the government in increasing Islamic bank capital and increasing cooperation in the development of Islamic banking Human Resources (HR). Also working together with Indonesian clerics in awakening Muslims to conduct banking transactions based on Islamic sharia principles. As well as cooperating with Muslim financial and zakat institutions such as national zakat institutions, hajj funding institutions, Islamic foundation cooperatives, and others in increasing sharia banking funding and

capital. And, utilizing the funding potential of people who have high awareness in implementing Islamic sharia principles in transactions in sharia banking (Kunaifi 2016b).

In fact, the potential market (market) is very large to be served and worked on by Indonesian Islamic banking because the Muslim population in Indonesia is 231.06 million people and has a high awareness of implementing Islamic sharia in banking transactions. If you look at this high market potential and refer to the implementation of Islamic sharia in transactions, especially transactions in banking, then the current market share of sharia banking, which is only nearly 7 percent, means that the ability of Indonesian sharia banking and its stakeholders is not maximally in encouraging Indonesian Islamic banking to compete with conventional banking in increasing market share in Indonesia.

It is clear that there must be great efforts to take advantage of the potential of the banking market, both for the devout Muslim community who want to implement Islamic sharia in banking transactions. Of course, the efforts made to work on this huge market potential, namely increasing the capacity of the internal environment of Islamic banking organizations. Increasing the capacity of the internal environment of Islamic banking organizations, namely, improving the quality of Human Resources (HR), improving banking information technology, increasing Islamic banking capital, and increasing the network of Islamic bank branch offices. By increasing the internal strength capacity of Islamic banking, the target of 20-22 percent market share in the Indonesian banking industry in 2032 will be achieved.

A recent research on the competitiveness of Indonesian Islamic Banks in national competition is written under the title Opportunities Analysis of Bank Syariah Indonesia (BSI) Become Top 5 Bank in Indonesia Based on Asset Strength and Vision Mission, describes potential and competitive opportunities (Kunaifi, Said, and Mawardi 2023). Although this study presents quantitative and qualitative data regarding management readiness in positioning BIS as the Top 5 Banks in Indonesia, it does not explicitly detail how the strategy will be implemented.

For this reason, the formulation of the problem in this study is to analyze the external environment of Indonesian Islamic banking. Second, analyze the internal environment of Islamic banking. Third, make medium and long term goals or objectives of

Islamic banking. Fourth, make several strategies to increase the market share of sharia banking by relying on the internal and external environmental conditions of sharia banking.

## **REVIEW OF LITERATURE**

In terms of the theoretical basis or review of the literature in this research journal, it is related to the explanation of Islamic banking principles, the meaning of strategic management and the stages of strategic management. This theoretical basis is made to support the discussion and analysis of the strategic management of Indonesian Islamic banking.

### **Islamic Banking Principles**

The word sharia which means “the road to the source of water”, namely the path to the source of life. The definition of sharia is a decree from Allah for His servants or everything that Allah SWT sent down to the Prophet Muhammad SAW in the form of revelations in the Al-Quran and Hadith. In Islamic law or sharia, it regulates human relations with Allah through worship and regulates the laws or orders of relations with fellow human beings or is called muamalah. In this muamalah, laws are regulated related to the activities of fellow believers, specifically related to sharia economic activities or also called Islamic economic law.

Islamic banks or sharia banks are part of the sharia economic system that implements Islamic sharia principles in banking operations. These Islamic banks do not use interest instruments in obtaining income but use profit/loss sharing instruments and Islamic banking products are developed based on the Al-Qur’an and the Hadith of the Prophet SAW. Thus, an Islamic bank is a financial institution whose main business is providing financing and other services in payment traffic and money circulation whose operations are adjusted to Islamic sharia principles (Wilarjo, 2006).

In Islamic banking, there are important principles as a basic reference for thinking related to *muamalah* foundations and all transactions in Islamic banking. The basic principles of Islamic banking are, first, the principle of being free from *maghrib*, *maysir*, *gharar*, *haram*, *usury*, and vanity. Second, the principle of trust and second, prudence in

managing Islamic banking activities. And third, the principle based on the contract (Supriadi, 2020).

### **Competitive Strategy**

The context of the company's competitive strategy is the "Porter's Five Forces Model" developed by Michael Porter. This theory helps in analyzing the industrial environment and determining the key factors that affect the competitive strength of a company. The following is a brief description of each of the forces in this model:

*Threat of substitute products or services.* This strength refers to the ability of alternative products or services to meet consumer needs. The more substitute products available, the higher the threat to the company. If consumers easily switch to cheaper or better alternatives, companies will face pressure to maintain a competitive advantage. *Level of Competition Between Companies in the Industry.* This factor reflects the level of competition that exists within the industry. If there are many strong and aggressive competitors, the competition will be higher. Competition can be affected by factors such as the number of competitors, industry growth, switching costs, product advantages, and marketing strategies adopted by companies in the industry. *Threat of Entry of New Participants.* This strength relates to the extent of the barriers to entry for new entrants wishing to enter the existing industry. If barriers to entry are high, such as large capital requirements, strict regulation, or limited access to distribution, the threat of entry by new competitors will be low. However, if the barriers to entry are low, the company will face the risk of new competitors disrupting the market.

*Bargaining Power of Buyers.* This factor describes how much influence the buyer has on the price and conditions of sale. If buyers have many options, buy large quantities, or have the ability to influence company policy, they will have high bargaining power. In this case, the company may need to adjust prices, improve product quality, or provide other added value to maintain customer satisfaction. *Bargaining Power of Suppliers.* This power reflects the extent to which suppliers can influence the company in terms of price, quality, or supply of raw materials. If there are few dominant suppliers or unique raw materials, suppliers will have high bargaining power. In this case, the company may face rising costs or dependency on suppliers which may affect its operational activities.

Competitive strategy in the financial industry involves a unique approach and focuses on the specific characteristics of this sector. Following are some of the competitive strategies that are often implemented in the financial industry. *Product and Service Differentiation*. In a competitive financial industry, companies can try to differentiate themselves by offering unique or innovative products and services. This could include developing products tailored to client needs, enhancing customer experiences through digital technology, or providing a more responsive and personalized service.

*Focus on Specific Market Segments*: Instead of trying to cover all market segments, financial companies may choose to focus on specific market segments and build a competitive advantage within them. By understanding the needs and preferences of the target market segment, companies can develop products, services and customer experiences that are more relevant and engaging. *Excellence in Customer Service*: High quality customer service is a critical factor in the financial industry. Companies can achieve a competitive advantage by providing superior services, such as fast response times, effective problem solving, easy access to services through multiple channels, and competent financial advisors.

*Expertise in Risk Management*: The financial industry is closely connected with risk management. Companies that are able to manage risk well and provide safe solutions for their customers have a competitive advantage. This involves in-depth risk analysis, effective risk management, and the provision of products and services that help customers manage their risks. *Technological Innovation and Digital Transformation*: Financial companies that are able to adopt technological innovations and carry out digital transformation have a competitive advantage in the digital era. This includes the use of artificial intelligence (AI), blockchain technology, mobile banking services, and enhanced digital user experiences. Technological innovation can improve operational efficiency, improve customer experience,

*Strategic Partnerships and Alliances*: In the financial industry, strategic partnerships and alliances with other companies can be an important strategy. This could involve partnerships with financial technology (fintech) companies to capitalize on their innovations, alliances with insurance or investment companies to provide cross-sector

solutions, or collaborations with other financial institutions to expand networks and offer comprehensive services. Every financial company must carefully analyze the market, competitors and industry strengths to formulate a competitive strategy that fits their position and goals. The combination of the above strategies can help companies generate added value for customers, build competitive advantage, and achieve sustainable growth in the financial industry.

### **Strategic Management**

This strategic management involves strategic steps or decisions made by top management or the main director and directors to achieve medium and long term goals. The essence of this strategic management is to make strategic decisions to achieve goals (goals) by utilizing the resources they have. (Kardirman, 2000) explains, the definition of strategic management is the determination of the main long-term goals and objectives of a company or organization as well as possessing ways of acting and allocating the resources needed to realize these goals.

The main thing in this strategic management is to explain the stages of the strategic management process so that we can apply it in managing and planning companies, including Indonesian Islamic banking, so that they have competitiveness in their industry. If we explore various strategic management literature, the stages of the strategic management process are the same. However, there are different sequences of strategic management processes given by the experts in the books they publish.

(David, 2011) in his book provides a three-stage strategic management process, namely, formulating strategies, implementing strategies and evaluating strategies. Based on an in-depth review that the process of the given strategic management stages (David, 2011) comprehensive even though it is given in 3 stages of the strategic management process. In the strategy formulation stage by (David, 2011), 3 component stages have been included, namely, the stages of external and internal environmental analysis, the stages of formulating goals (goals) and the stages of formulating various corporate strategies.

(Wheelen, 2010) provides strategic management stages with four stages, namely, environmental analysis, strategy formulation, strategy implementation and strategy

evaluation. Associated with the stages of formulation of goals or objectives (goal), (Wheelen, 2010) included in the strategy formulation stage.

Based on the study conducted on strategic management studies, the stages of the strategic management process that are realistic and have logic in analyzing a company's strategic decisions in increasing the company's competitiveness are: a) External environment analysis (external environment analysis); b) Internal environment analysis (internal environment analysis); c) Setting goals (goals) and targets (objectives); d) Formulating strategy; e) Making strategy implementation; f) Making an evaluation.

## **RESEARCH METHOD**

In this study, the research method used was the study of literature (literature study). According to (Creswell, 1998) states that a literature study is a written summary of articles from journals, books and other documents. In research using literature studies using sources for writing this research are strategic management books, scientific journals related to Islamic banking and from internet materials. In addition to using literature studies, this research also uses secondary data sources from the Financial Services Authority (OJK), related to data sources for indicators of Indonesian Islamic banking. According to (Kuncoro, 2009), secondary data is data that has been collected by data collection agencies and published to the data user community.

The data obtained from various sources were then analyzed using descriptive method. The descriptive analysis method is carried out by describing facts which are then followed by analysis, not merely describing but also providing understanding and explanation regarding Indonesian Islamic banks. To analyze the collected data, competitive strategy theory is used in the SWOT approach. Models and research methods of this kind are also applied in various well-known studies such as; analysis of the application of human spirit marketing in Islamic financial institutions (Kunaifi 2016a), welfare authentication analysis in the Islamic economic system (Kunaifi, Rahman, and Dwiaryanti 2021), application of sharia accounting to refinancing *murabaha* transactions (Kunaifi, Handayati, and Bahri 2022), as well as an analysis of the future of world finance in the presence of cryptocurrencies (Kunaifi, Fawa'id, and Faujiah 2022).

## **RESULTS AND DISCUSSION**

In this study, the focus is on the formulation of the research problem, namely, first, analyzing the external environment (external environment analysis) of Indonesian Islamic banking. Second, analyze the internal environment (internal environment analysis) of Islamic banking. Third, setting goals and targets (objectives) of Indonesian Islamic banking. Fourth, formulating various strategies for Indonesian Islamic banking.

In formulating the strategy, the strategic approach used is to make various strategies based on improving and managing the weaknesses of Indonesian Islamic banking by utilizing the strengths of Islamic banking so that it can maximize opportunities in the Indonesian banking industry. The approach based on the internal weaknesses of Islamic banking in formulating various strategies is very practical and easy to understand.

In the science of strategic management, in making strategy formulation, companies can use the SWOT analysis approach (strength, weakness, opportunity and threat analysis). This SWOT analysis approach in formulating various strategies is impractical and the procedure is long and complicated. For the sake of practicality and easy to understand and direct to the target that must be repaired or managed by Indonesian Islamic banking, in formulating various strategies using an approach based on the internal weaknesses of Indonesian Islamic banking.

### **Analysis of the External Environment of Indonesian Islamic Banking**

Theoretically in strategic management science, external environmental factors, namely, economic, social and political, competition or industry and consumers. In the banking industry, especially the external environment of Islamic banks, the weight of the emphasis is on consumers or banking customers of Islamic banks. Below is discussed environmental factors outside the Islamic banking industry so that opportunities and threats are obtained from the external environment of Indonesian Islamic banking.

From an economic standpoint, Indonesia's economic growth has high prospects. Indonesia is still one of the countries with high economic growth. Indonesia's economic growth has averaged 5 to 6 percent per year in the last few decades. Likewise inflation and interest rates are still maintained and stable. From an economic standpoint, there are positive opportunities in developing the Islamic banking market.

From a social and political standpoint, Indonesia must be recognized as “smart” in managing its social and political affairs. After the reform, politics remained stable and social eruptions in society were well managed. Democracy is running well and there is a succession of national leadership running smoothly. And the openness of state and government management is well managed as well. From a social and political standpoint, the external environment positively supports the banking industry.

In terms of competition in the Indonesian banking industry, it must be admitted, there is a big threat. This is very reasonable because Islamic banking was only established 30 years ago. Even though conventional banks had been operating before Indonesia’s independence. This is reflected in the market share held by Islamic banking which is still only 7 percent. It must be admitted that there are many players in the banking industry in Indonesia, based on the 2021 report, there are 87 Indonesian conventional banks, 8 foreign conventional banks, only 12 Islamic banks. In terms of control over funds, Islamic banks only control IDR 681.95 trillion. Meanwhile, conventional banks amounted to IDR 10,297 trillion. So, in terms of competition in the banking industry, Islamic banking is experiencing a big threat.

In terms of the banking customer population, Islamic banking has opportunities that can be exploited in increasing its market share. This is because the majority of Indonesian banking customers embrace Islam. As explained, Indonesia’s population is 87 percent Muslim. This religious emotional bond and Islamic sharia do not allow the use of usury instruments for transactions in banking, if this strategy is right to arouse these religious emotional ties then it can convert conventional bank customers to Islamic banks. If the continued and intense use of the media emphasizes the importance of implementing Islamic sharia in banking transactions, the conversion of customers from conventional banks to Islamic banks will be able to increase the market share of Islamic banks in the future.

Based on the explanation of the banking external environment above, it can be summarized, that from an economic and political standpoint, Islamic banking is very conducive to activities and can take advantage of Indonesia’s economic growth. In terms of banking industry competition, it must be admitted that Islamic banking has experienced many threats from conventional banks in the Indonesian banking industry. Also, in terms of

religious emotional ties from customers, Islamic banking can get opportunities to increase its market share.

### **Analysis of the Internal Environment of Indonesian Islamic Banking**

Also theoretically, the company's internal environmental factors are the company's own functions, namely, production, marketing, finance, Human Resources (HR), Information Technology (IT). For the banking industry, internal environmental factors, namely Islamic bank savings and financing products, funding/capital, Information Technology (IT), Human Resources (HR).

In Islamic banking, the products of Islamic banks are, namely, Islamic savings, Islamic deposits, Islamic mortgages (*rahn*), Islamic current accounts, and Islamic financing. These Islamic banking products are the same as those of conventional banks, namely demand deposits, savings, time deposits, lending and bank services. The difference between Islamic banking products and conventional banking is that Islamic banking does not apply interest rate instruments in its transactions, but applies profit/loss sharing instruments. Meanwhile, conventional banks apply interest rate instruments to their products.

In terms of its products do not describe a different quality. The difference is how conventional banking products are massively marketed, using branch offices, the use of information technology in upgrading the product. However, the products of Islamic banks are not competitive because when they are marketed, the internal factors of Islamic banking have many weaknesses, especially the lack of a network of Islamic banking branch offices. However, in order to reduce the superiority of conventional bank products, we must take advantage of religious emotional ties, in this case emphasizing profit-sharing instruments and prohibiting usury in transactions.

In terms of Human Resources (HR), Islamic banks are unable to compete far from conventional HR. This is because Indonesian Islamic banks have only been operating three decades ago. This sharia bank is still newly established so that the training and development of its human resources and operational experience are still minimal compared to conventional banks. In fact, one of the keys to success in managing the operations of a bank is determined by the quality of its human resources. Without unqualified human resources, it is impossible for banking, including Islamic banking, to be able to compete.

Specifically related to training and operational development of Islamic banking just 15 years ago it was massively held in tertiary institutions both private and public. With training and development as well as minimal experience, it must be realistic to accept that the quality of human resources in Islamic banking is still below that of conventional banking.

One more weakness of Islamic banking is that information technology cannot compete with conventional banks. We can see that in our own environment, conventional bank ATMs, such as BCA, Mandiri, CIMB Niaga and BNI have a very wide network that serves the cash needs and other banking transactions carried out by the Indonesian people. The number of Islamic bank ATMs is very limited so that the ability to serve the community is also limited.

In terms of funding and capital, Islamic banks also have weaknesses or are far behind from conventional banking. Reflected in data on conventional banking funding, it has now reached Rp. 10,297 trillion, while Islamic banks are only Rp. 681.95 trillion in February 2022. The data indicates that Islamic banks are very far behind conventional banks in terms of funding.

From bank capital proxied by the banking Capital Adequacy Ratio (CAR) indicator, the CAR of Islamic banking is balanced or almost the same, which is only 23.25 percent in July 2022. Meanwhile, the CAR of conventional banking is 24.9 percent. Indeed, in terms of Islamic bank capital, it is as strong as the national banking CAR.

Regarding the number of branch offices, the number of Islamic bank branch offices is very small, only 1,860 branch offices as of December 2021. Even though the number of conventional bank branch offices is 20,671 branch offices. Far behind the sharia bank branch offices, this is what causes the control of funding to be controlled by national banks as much as 93 percent of the total national banking funding.

When viewed from the side of the internal environment, only the capital position/CAR of Islamic banking can be competitive against conventional banking. While other internal factors, funding, number of branch offices, IT advantages, and banking human resources, sharia banking is in a very weak position compared to conventional banking.

### **Determination of Goals and Objectives of Islamic Banking**

In setting the goals and objectives of the company in the long and medium term, it must consider the opportunities and threats from the external environment. And also consider the strengths and weaknesses of the internal environment. Likewise Islamic banking organizations must consider the external environment and the internal environment.

Based on an analysis of the external environment, there is an opportunity for Islamic banking to increase its market share significantly. From the market side, there is an emotional religious attachment that wants to implement Islamic sharia in banking transactions and economic, as well as social and political factors support the growth of market share. However, from an analysis of the internal environment of Islamic banking, almost all of the internal environmental factors of Indonesian Islamic banking have weaknesses, including human resources, IT, funding, number of branch offices. Only on the CAR factor, banks have strength. As explained in terms of products, Islamic banking and conventional banks offer the same products.

How does the growth of third party funds (DPK) and Indonesian Islamic banking financing/credit compare to the growth of conventional bank deposits and loans? Annual growth (year on year/yoy), December 2021 Islamic banking financing/credit growth of 6.90 percent and Islamic banking DPK growth of 15 percent. Meanwhile, conventional banking credit growth was 5.25 percent and deposit growth were 12.19 percent.

Funding control data in the banking industry is also considered in setting medium and long term goals and targets. As explained above, the mastery of Islamic banking over bank funding is only 6.65 percent, with only IDR 681.95 trillion. Whereas conventional banking controls bank funding 93.35 percent, with a total of IDR 10,297 trillion.

Based on an analysis of the external environment and an analysis of the internal environment of Islamic banking, currently only 6.65 percent of Islamic banking owns funding, and the support of Islamic banking and Islamic institutions and communities in utilizing emotional ties to implement sharia in banking transactions. As well as, making banking goals and targets realistic and challenging, then in the next 5 years or 2027, in the form of medium-term goals, Islamic banking must be able to have a market share of around

10 to 12 percent. The long-term goal is that in 2032, Islamic banking will be able to dominate market share in the range of 20 to 22 percent.

In the objectives of sharia banking financing/credit growth in the next 5 years and 10 years, or medium- and long-term targets, it is expected to grow by an average of 15 to 20 percent. Meanwhile, the growth of sharia banking DPK in the medium and long term grows by an average of 17 to 22 percent. With this growth in financing and DPK, the market share of Islamic banking that will be achieved in the next 10 years, which is 20 to 22 percent, can be achieved.

### **Various Strategies Issued to Increase Market Share (Market Share)**

In formulating the strategy of Islamic banking, this is based on improving the weaknesses of internal banking environmental factors by considering the opportunities and threats from the external environment. An analysis has been made that Islamic banking has weaknesses in the factors of funding, HR, IT and branch offices. So, the strategies made are to improve the internal weaknesses of Islamic banking to achieve medium- and long-term goals and objectives of Islamic banking.

If you really want to be successful in growing and being competitive as a bank in the banking industry, then there are a number of things that must be considered, namely the key factors for success in the banking industry. Key factors for success in the banking industry, namely, having qualified human resources, having very large capital, and having modern information technology. The key success factors in the banking industry are the same as the weaknesses in the internal environment of Islamic banking. Hence, in making various strategies in Islamic banking in achieving its goals and objectives, the key success factors in the banking industry must be the focus of attention of these Islamic banking actors.

### **The Basic Strategy of Islamic Banking**

In the science of strategic management, there are 3 basic strategies of strategic management in achieving its goals and objectives, expansionary strategy, normal strategy and reduction strategy. By looking at the setting of Islamic banking goals and objectives set out in the objectives and targets which will achieve 20-22 percent market share in the

national banking industry, the basic strategy in the medium and long term of Islamic banking is an expansionary or aggressive growth strategy.

To make this expansive strategy, Indonesian Islamic banking inevitably improves its internal environment, related to weaknesses in the areas of HR, IT, capital and funding and the network of Islamic banking branch offices. Without the internal improvement of Islamic banking, an expansionary strategy or aggressive growth cannot run or stagnate.

### **Conversion Strategy from Conventional Banks to Islamic Banks**

To increase market share in the national banking industry, Islamic banking cooperates with the government, Islamic financial institutions, Islamic figures in the country and also includes international financial institutions whose leaders may be personally close to NU and Muhammadiyah figures who will discuss and open room for buying conventional banks to be converted or converted into Islamic banks. Included in the cooperation is discussion of financing the purchase of the conventional bank.

The basis for cooperation in purchasing conventional banks is the pressure on emotional ties that Indonesians must be accommodated by the implementation of Islamic sharia in transactions in Indonesian banking. This emotional bond for the implementation of Islamic sharia is not only limited to our country, but also related to other countries, especially Middle Eastern countries. This should be a strategic plan for Islamic banking and its stakeholders in implementing the strategy of converting conventional banks into Islamic banks.

Regarding the purchase of a business in the context of expanding a company, it is normal in the business world, that's why there is a strategy of buying a company and merging or merging companies in order to increase business scale and competitiveness quickly. Thus, the option of purchasing a conventional bank to convert into an Islamic bank is very possible and wide open. The strategy of purchasing conventional banks and converting them into Islamic banks is one way to accelerate the rapid increase in market share. Based on the rule of law, the Law on Islamic Banking, Islamic banking is permitted to convert from conventional banks to Islamic banks. However, the conversion of banks from Islamic banks to national banks is not permitted or prohibited.

### **Sharia Banking Human Resource (HR) Development Strategy**

To be competitively successful in the banking industry or one of the key factors for sustainable competitive success in the banking industry is to improve the quality of its Human Resources (HR). Without having qualified and reliable human resources, it is certain that a bank does not have competitiveness. Including Islamic banking must improve its human resources in order to have competitiveness against conventional banks. This is because it is human resources that manage and increase the competitiveness of a bank. Banking human resources are at the forefront in managing whether or not the banking industry is progressing. Islamic banking human resources still have weaknesses, so training and human resource development is needed.

Islamic banking must make a strategic plan to invest large funds to finance the training and development of its human resources. Apart from that, sharia banking also cooperates in the context of developing its human resources with external parties, among others, in collaboration with Bank Syariah Indonesia (BSI), foreign banks in Indonesia and sharia banks in Middle Eastern and European countries.

The aggressiveness of developing human resources is very urgent or urgent because Islamic banking was only established three decades ago, so it is only natural that it cannot compete with conventional bank human resources, especially with foreign conventional banks that are even further behind. Moreover, the training and development of Islamic banking human resources at universities only started 15 years ago. Therefore, to compete with conventional banking human resources and improve Islamic banking operational services, Islamic banking must invest in the budget for training and development of Islamic banking human resources.

### **Sharia Banking Information Technology (IT) Development Strategy**

In addition to HR, which is a key factor for success in competing in the banking industry, modern banking Information Technology (IT) is also important. In addition to functioning to streamline banking operational costs, this IT is due to the automation of work processes in banking operations, this IT also functions to maximize banking product services so that these banking products are of high quality and make it easier for customers to transact in banking.

As explained, this IT makes banking operational costs more efficient because it can reduce the number of branch offices, because it has replaced the role of IT itself, namely the use of ATMs in multiple locations, so it does not require many bank branch offices. That's why the current trend is that bank branch offices have decreased significantly over the years because they have been replaced with ATMs and mobile banking. For this reason, if Islamic banking wants to achieve its goals and objectives in the medium and long term, Islamic banking must invest large funds in banking technology and finance personal technology to master modern banking technology.

Islamic banking should seek funding to finance the purchase and development of modern banking technology infrastructure. For the purchase of IT, you can use Bank BSI and state-owned banks such as Bank Mandiri as a consultancy for the purchase and development of IT infrastructure for Islamic banking and at the same time assisting the development of IT human resources for Islamic banking.

### **Islamic Banking Funding and Capital Strategy**

In order to finance funding for HR development, banking IT, branch office networks, strengthening banking capital, sharia banking must seek external funds to finance the internal development of sharia banking. There are limitations to procuring funds and seeking capital from internal Islamic banking. For this reason, Islamic banking must make a strategic plan to obtain funds from outside to finance the development of Islamic banking infrastructure.

By taking advantage of religious emotional ties, Islamic banking seeks funding support from the government, foreign Islamic bank investors, especially investors from Middle Eastern countries, Islamic financial institutions related to *zakat* management bodies and *haj* fund management agencies. The management team of Islamic banks must be proactive in seeking funding from outside of Islamic banking in order to accelerate the internal strengthening of Islamic banking and increase the competitiveness of Islamic banking in enhancing the role of Islamic banking and simultaneously increasing its market share in the long term.

By procuring funds from outside Islamic banking, in addition to financing investment funding for IT, HR, branch offices in strengthening the internal strength of

Islamic banking to increase competitiveness in the national banking industry, it is also in order to increase the capital of national banking banks. The banking industry has special characteristics, namely the banking industry is a capital-intensive industry. Without regular capital additions in the banking industry, growth in bank financing/credit will stagnate.

In the banking industry, any increase in lending must be covered by additional banking capital. In the banking industry, there are regulations that apply in any country that the Capital Adequacy Ratio (CAR) or capital adequacy ratio is determined by the capital requirement. The formula for calculating banking CAR is the total Risk-Weighted Assets (RWA) divided by the bank's nominal capital. Even though the percentage of the CAR ratio is in accordance with regulations of at least 12 percent.

If Islamic banking increases its assets or assets and continues to maintain its CAR capital above 12 percent, Islamic banking must regularly increase its capital. Sharia banking assets in May 2022 amounted to IDR 680 trillion with a bank CAR of 23.25 percent. Whereas conventional banking assets have reached IDR 10,297 trillion. If sharia banking assets are increased, through the distribution of financing/credit, for example, by increasing the range of Rp. 100 to Rp. 200 trillion, banking capital or CAR will no longer be sufficient to cover the increase in the addition of sharia banking assets. Therefore, it is very urgent to look for funds from outside Islamic banking because there are limitations to increasing capital through fertilizing bank profits that are generated every year.

### **Strategy for Building a Network of Sharia Banking Branch Offices**

The defeat of sharia banking in gaining market share is the lack of sharia branch offices compared to national banks. The bank's branch office is the source center for obtaining DPK funds and lending. Without having a branch office as a center for obtaining DPK funds, it will be difficult for the bank to be able to obtain funding to enlarge its assets and business.

Based on December 2021, the number of sharia banking branch offices is only 1,860 bank branch offices while the number of conventional bank branch offices reached 20,671 bank branch offices. If one looks at the comparison of the number of branch offices of the two banks, it is only natural that conventional banks control 93 percent of the

banking industry's funding. Only 7 percent of banking funding is owned by Islamic banking.

If Islamic banking increases its market share, inevitably Islamic banking builds a network of branch offices. The construction of the infrastructure network of sharia banking branch offices can be financed internally and from outside sharia banking. What is certain is that Islamic banking must increase its network of branch offices in order to increase the acquisition of sources of funds from the public. Hence, seeking external funds from investors who are interested in developing banking that implements Islamic sharia, a strategic and action plan or implementation is immediately made.

However, Islamic banking is currently benefiting because the number of conventional bank branch offices is decreasing every year. As in August 2022, conventional bank branch offices have decreased by 15 percent due to the capacity of the number of ATMs being increased and mobile banking development has been encouraged, both for withdrawing funds and depositing funds and transfer services and other banking services can replace the role of bank branch offices. Branch office network development is still needed to seek DPK funds in order to increase market share in the banking industry, but sharia banking does not only focus on building a branch office network but also on developing its information technology. So, there is a mix of development and financing between branch office network development and information technology development.

To achieve competitive advantage in Islamic banking, a measurable strategic management is required with the main parameters and focus including: a) Increase the number of customers significantly. Islamic banking must strive for an increase in customers in the next 4-5 years. For now, Bank Syariah Indonesia (BSI) has managed to get 15 million customers; b) Profitability performance that can make a positive contribution to shareholders is even better by increasing Return on Equity (ROE), which was originally 14 percent to 18 percent; c) Increase the volume side. Bank Syariah Indonesia (BSI) wants to become the top five assets in Indonesia by having assets of more than 500 trillion by 2025. Currently, Bank Syariah Indonesia (BSI) has 250 trillion assets.

To achieve this Sharia banking in Indonesia needs to focus on five things including: a) Distribution of the future. Bank Syariah Indonesia will focus on reorganizing the

network. Not only moving, reducing, but also changing several branch operational patterns, so that the bank has good efficiency; b) Digital banking plan. Services for customers are no longer only through branches but through digital; c) Wholesale and retail banking. This business is the main business of Bank Syariah Indonesia (BSI). Therefore, the company will improve the process, service, price. That way, customers get the best experience; d) Focus on massive and aggressive Islamic ecosystem. With this focus, the company hopes to be a differentiator between Bank Syariah Indonesia (BSI) and other traditional and conventional banks. Synergy with non-organic. Bank Syariah Indonesia (BSI) realizes that the company needs synergies through non-organic growth and other sharia businesses so that the sharia financial industry will grow even bigger.

## **CONCLUSION**

In this study an analysis of the external environment and internal environment of Indonesian Islamic banking was made. In the analysis of the external environment of Islamic banking, Islamic banking has several opportunities to increase market share but has a major threat related to competition with conventional banks in the banking industry. And in the analysis of the internal environment, Islamic banking has many weaknesses compared to conventional banks. The internal weaknesses of Islamic banking, namely, in the areas of human resources, banking technology, capital and number of branch offices.

To increase market share and at the same time be able to compete with conventional banks, Islamic banking has made various strategies with approaches to reduce the internal weaknesses of Islamic banking, namely, expansionary strategies, strategies for converting conventional banks into Islamic banks, Human Resource development (HR) strategies, Information Technology (IT) development strategy, bank branch network development strategy.

Factors that can be used as a competitive advantage for Islamic banking are the strengths and weaknesses of the company. The strengths referred to include: large financial capital and having a good service culture and reflecting work principles that are in accordance with Islamic sharia. Apart from that, it is also the quality and quantity of the HR sector that is considered to be able to run well. In addition, the technology used is more

practical, effective and efficient. Filtech development can make it easier to develop digitized products. The potential threat of Indonesian Islamic banks is that information technology is rapidly increasing which can make competitors switch to developing better digitalization product services.

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