

Technology-Driven Strategy on Islamic Banking Performance in Malaysia

Muhammad Zulfaris Mohd Salleh¹, Jasni Mohd Yusoff², Nur Azlina Mohamed Mokmin², Azwan Abdullah¹,
Noorshella Che Nawi¹

¹Universiti Malaysia Kelantan Kampus Kota, Karung Berkunci 36, Pengkalan Chepa, 16100
Kota Bharu. Kelantan.

²Politeknik Balik Pulau Pinang, Nirai Mukim 6, 11000 Balik Pulau, Penang, Malaysia.,

Abstract: By adopting the new technologies in Islamic banks will lead the banks to become more competitive in the industries. Thus, banks should be more advance compare to the competitors in order to attract the customers never terminate the accounts or change to the other banks. Besides that, providing the better technologies will facilitate the customers in doing any transaction or affairs because everything can be done in lesser time just at the fingertips. The main objective of this research is to investigate the impacts of technology-driven strategy on the Islamic bank performance. The questionnaires were distributed by employing the convenient sampling technique and Statistical Package for Social Scientist (SPSS) is used to analysis the data that already gathered. The result indicated the relationship between technology-driven strategy on the Islamic bank performance is positively related.

Key words: *Technology, Islamic Banking, Performance*

INTRODUCTION

Technologies have played the important role in enhancing the bank performance and delivering the best services to the customers [1]. According to Rangarajan [2], by implementing the technology in services, it can enhance the productivities in the firms. Nowadays, it seems compulsory to the banks in improving the technological implementation in services in order to fulfil the customers needs and necessities [3]. Since few years ago, the growth of technologies make the banks compete at each others in order to improve the performance [4]. According to Bank Negara Malaysia [5], technologies make the bank to transform in achieving the better target and improving the business performance. According to Kuppusamy et al., [4], the technological growth make the customers more easy to have any affairs or business related with the banks because everything just at the fingertips. Sometimes, the unique services that offered by the banks can be the factors of the customers choices and loyalty [4]. Rangarajan [2] said, technology not just enhance the efficiency of the operation, but at the same time can provide the customers better services and fulfil their wants and needs.

PROBLEM STATEMENT

To sustain the customers loyalty is the biggest challenges that face by the banks [6]. Mbithi [7] also agreed the challenging in sustaining the customers on banks and how to make them loyal to the banks. The employers should take the chances ask the problems on the customers who decided to terminate the accounts and find the solution how to retain them [7]. Besides that, technology also help the banks to reduce the cost in operations and fulfil the demands that requested by the customers [8].

According to Mbithi [7], the obsolete technology and slow technology growing will cause the increasing of customer's termination to the better services because the customers will expect the banks will provide the best services to them.

Nowadays, the current situation demand every industries to implement the updated technologies to face the challenges and become more competitive in the industries [9]. Furthermore, the transformation of the business environment will push the banks to take this as the chances to improve and enhance the applying of technologies in banks [10].

The applications that base on technology like internet banking, mobile banking, telephone banking, ATM and POS network brings a lot of benefits to the banks either employees or employers [11]. Besides that, the usage of technologies not just improve the productivities and efficiencies, but can reduce the operation cost especially in paying the wages to the employers [12]. According to Rashid & Hassan [13], the Islamic banks should provide the technologies services to the customers due to the globalization and high competition of the Islamic banks in worldwide and at the same time lead the good competition within Islamic banks in worldwide.

RESEARCH QUESTION

- a. What are the impacts of technology-driven strategy on the Islamic bank performance?

RESEARCH OBJECTIVE

- a. To investigate the impacts of technology-driven strategy on the Islamic bank performance.

LITERATURE REVIEW

According to Mu & Di Benedetto [14], the technology - driven is applying the technologies in delivering the services and products thus can increase the bank's performance. Due to the high competition and the fast growing of the technologies in the industries, banks have made a lot of innovation to sustain as the competitor in the industries [15]. Most of banks believe, by enhancing the technological implementation, banks can improve the performance and increase the profitability [16]. The research by Romdhane [17] also agreed that the investment in technologies will lead to the improvement of the performance. According to Ali & Zhou [18], by enhancing the technological facilities like internet and online system services, banks can improve their

performance very well. Besides that, in order to improve the effectiveness of marketing, banks also can apply the technologies channels as medium [19].

Furthermore, according to Hao & Song [20], the development of technology give benefit to the bank in delivering their product very fast and quick to meet the customers thus improving the bank performance. Chen, Wang, Huang, & Shen [21] also agreed the growth of technologies can save much time in delivering the banks's products thus increase the bank's profitability. Siddique [22] also claimed, to ensure the services and products that delivered have qualities, banks should adopt the current technologies thus can fulfil the customers demand and increase the bank performance.

According to Akhisar, Tunay, & Tunay [11], using technologies can reduce the cost, facilitate the people by having the services at the fingertips thus increase the profit of the banks. Mu & Di Benedetto [14] also believed the usage of technologies could push the banks in delivering the products and services quickly. So, the banks should be fast make the change by applying the technologies in order to become more competitive in the industry [19].

RESEARCH HYPHOTHESIS

The hypothesis is as follow:

H1. The relationship between technology-driven strategy and Islamic bank performance is significantly positive.

RESEARCH FRAMEWORK

Below is the framework for this research in order to investigate the relationship between independent variable and dependent variable. The technology- driven strategy represent as an independent variable while the Islamic bank performance represent as a dependent variable.



Figure 1: Model

METHODOLOGY

The data was collected in Kota Bharu, Kelantan. The target population focused on Islamic banks in Kelantan. Respondents were selected by convenience sample, where the questionnaires were distributed during the visits of the customers to the banks. In total, there are 20 questionnaires distributed. Statistical Package for Social Science (SPSS) Version 22.0 is used to analyse the data that gathered.

DATA COLLECTION METHOD

For the primary data, this study used a survey approach and distribute the questionnaires to the respondents by employing the convenient sampling technique. The respondents were asked to answer the questionnaires based on a Likert-type scale, that ranged from 1= 'strongly disagree', 2= 'disagree', 3= 'neutral', 4= 'agree', and 5= 'strongly agree'. The secondary data was referred in order to support the primary data.. The

example of secondary data that was referred in this research include newspapers, journals, internet, and books.

FINDINGS

Reliability Analysis

Cronbach’s Alpha statistic is used to analyse the reliability of the data. The value can be measured

between 0 and 1 by using Cronbach’s Alpha. The value that closer to 1 indicate the value become more reliable. According to Ulfat [23], the value that showed between 0.738 and 0.813 can be considered good while the value below 0.60 cut off point, has no reliability in the coefficients. In this research, Alpha = 0.847, so the scale is reliable.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.847	.847	5

Hypothesis Testing

H1. The relationship between technology-driven strategy and Islamic bank performance is significantly positive.

The table below showed, the variables explain 78.3% of the variance (R square) and indicate the positive

relationship. Thus, the relationship between technology-driven strategy and Islamic bank performance is positive and significant. Thus, the results provide strong support for Hypothesis 1.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.885 ^a	.783	.771	.21165

a. Predictors: (Constant), mean_technology_driven

b. Dependent Variable: mean_performance

CONCLUSION AND RECOMMENDATIONS

The main purpose of research is to investigate the impacts of technology-driven strategy on the Islamic bank performance. For this purpose, the convenient sampling technique was employed in this study by selecting 20 customers for the data. The questionnaires are distributed to the customers that coming from different Islamic banks.

The results showed that the relationship between the technology-driven strategy and the Islamic bank performance is significant and positively related. Actually, this study will contribute the benefit to the banks in order to enhance the technologies usage thus can improve the Islamic bank performance. Besides that, the employers should know the needs and wants that demands by the customers in order to improve the services and product offered. The employers also should train the staff thus they can have some expertise

in technologies and can answer the queries from the customers.

LIMITATIONS AND FUTURE RESEARCH

The present research just represents a small sample size of the respondents and data. For a further research, the questionnaires and surveys should be distributed on a big sample in order to get results that are more accurate. Furthermore, in the further research, the researchers should consider other determinants that can affect the bank performance such as learning orientation, market orientation, innovation orientation and strategic orientation. The similar research also should be conducted on conventional banks in order to measure the impact of technology on the performance of those banks.

REFERENCES

- [1] Sreelatha, T., & Sekhar, C. (2012). Role of Technology in Indian Banking Sector, *9519*, 36–40.
- [2] Rangarajan, C. (2011). Role of Technology in Development of Banking, (November).
- [3] Weigelt, C., & Sarkar, M. (2012). Performance implications of outsourcing for technological innovations: managing the efficiency and adaptability trade-off. *Strategic Management Journal*, *33*(2), 189–216. <https://doi.org/10.1002/smj.951>
- [4] Kuppusamy, M., Raman, M., Shanmugam, B., & Solucis, S. (2009). A Perspective on the Critical Success Factors for Information Systems Deployment in Islamic Financial Institutions. *Ejisdc*, *37*(8), 1–12. Retrieved from <http://www.ejisdc.org/Ojs2/index.php/ejisdc/article/view/576>
- [5] Bank Negara Malaysia. (2015). Technology and Innovation In Islamic Banking, (March).
- [6] Choudhry, M. (2017). *The principles of banking*. John Wiley & Sons Singapore.
- [7] Mbithi, W. N. (2013). Challenges of Customer Retention in the Kenyan Banking Sector: A case Study of KCB Treasury Square Branch , Mombasa, 124–132.
- [8] Lode Snykers. (2013). Challenges faced by banks with changes in technology and increased regulation. Retrieved September 26, 2017, from <https://internationalbanker.com/banking/challenges-faced-by-banks-with-changes-in-technology-and-increased-regulation/>
- [9] Banking Technology. (2014). Key technology issues facing banks. Retrieved September 26, 2017, from <http://www.bankingtech.com/209482/key-technology-issues-facing-banks/>
- [10] Shukla, R., & Shukla, P. (2011). E-Banking : Problems and Prospects. *International Journal of Management & Business Studies*, *1*(1), 23–25. Retrieved from <http://www.ijest.com/ijmbs/research1/ruby.pdf>
- [11] Akhisar, İ., Tunay, K. B., & Tunay, N. (2015). The Effects of Innovations on Bank Performance: The Case of Electronic Banking Services. *Procedia - Social and Behavioral Sciences*, *195*, 369–375. <https://doi.org/10.1016/j.sbspro.2015.06.336>
- [12] Bashir, A. H. (2003). Determinants of profitability in Islamic banks : Some evidence from the Middle East. *Islamic Economic Studies*, *11*(1), 32–57. <https://doi.org/10.1017/CBO9781107415324.004>
- [13] Rashid, M., & Hassan, M. K. (2009). Customer Demographics Affecting Bank Selection Criteria, Preference, and Market Segmentation: Study on Domestic Islamic Banks in Bangladesh. *International Journal of Business and Management*, *4*(6), 131. <https://doi.org/10.5539/ijbm.v4n6p131>
- [14] Mu, J., & Di Benedetto, C. A. (2011). Strategic orientations and new product commercialization: mediator, moderator, and interplay. *R&D Management*, *41*(4), 337–359. <https://doi.org/10.1111/j.1467-9310.2011.00650.x>
- [15] Lala P., I., Preda, G., & Boldea, M. (2010). a Theoretical Approach of the Concept of Innovation. *Managerial Challenges of the Contemporary Society*, (1), p151–156. 6p.
- [16] Wang, C.-H. (2015). The Impact of Market Orientation on Innovation Performance: Does Service Innovation Matter? *Journal of Business Studies Quarterly*, *6*(3), 77–93. <https://doi.org/http://dx.doi.org/10.1108/00251741011053433>
- [17] Romdhane, S. Ben. (2013). Impact of information technology on the performance of Tunisian banks: A stochastic frontier analysis with panel data. *Asian Academy of Management Journal of Accounting and Finance*, *9*(2), 95–125.
- [18] Ali, F., & Zhou, Y. (2013). An Assessment of the Perceived Service Quality : Comparison of Islamic and Conventional Banks at Pakistan. *International Journal of Innovation and Business Strategy*, *2*(August 2013), 45–59.
- [19] Koech, S. C., Makori, M., & Jomo. (2014). Effects Of Innovation Orientation On Financial Performance Of Commercial Banks In Kenya: A Case Of National Bank Of Kenya, *2*(1), 1–13.
- [20] Hao, S., & Song, M. (2016). Technology-driven strategy and firm performance: Are strategic capabilities missing links? *Journal of Business Research*, *69*(2), 751–759. <https://doi.org/10.1016/j.jbusres.2015.07.043>
- [21] Chen, K.-H., Wang, C.-H., Huang, S.-Z., & Shen, G. C. (2016). Service Innovation and New Product Performance: The Influence of Market-Linking Capabilities and Market Turbulence. *International Journal of Production Economics*, *172*, 54–64. <https://doi.org/10.1016/j.ijpe.2015.11.004>
- [22] Siddique, N. (2012). Bank Selection Influencing Factors : A Study on Customer Preferences with Reference to Rajshahi City. *Asian Business Review*, *1*(1), 80–87. <https://doi.org/10.18034/abr.v1i1.340>
- [23] Ulfat, S. (2013). Pairing of Customer’ Satisfaction with Brand Consciousness and Price Sensitivity (A Feminine Study in Pakistan on Beauty Care Products’ selection, Use and Satisfaction). *Asian Journal of Business Management*, *5*(1), 144–152. Retrieved from <http://maxwellsci.com/print/ajbm/v5-144-152.pdf>