



Competition Strategy in the Islamic Banking Industry: An Empirical Review

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Abstract

The research purpose to understand about Islamic banking industry competition in the marketing. The research method is used in the form of library research which collecting data by using written materials. The competition demands Islamic banking to be more aggressive than before to apply marketing strategic especially during Covid-19 pandemic. The government give recommendation and instruction that Islamic banking is demanded to serve customer by digitization of bank service. Islamic banking can reach a wider market. Acceleration of technology driven business model has to be a main priority during and pasca Covid-19 pandemic. The study found that the competition strategy in the Islamic banking Industry adopted by the marketing value is having a significant impact on to serve customer by digitization of bank service.

Keywords: Competition, Islamic Banking, Marketing

1. Introduction

Along with the current development of financial institutions, the number of Islamic financial institutions is increasing in Indonesia. In addition, from the results of Islamic Banking Statistics, it is known that the capital and profits obtained by Islamic financial institutions increased dramatically from 2015 to 2018, which experienced an average increase of 50% to 150%. Indonesia, which is one of the countries with the largest Muslim majority population in the world, has the opportunity to further advance sharia-based financial institutions (Hidayati et al., 2017; Asutay and Izhar, 2007).

The growth of Islamic financial institutions, which is already quite high, has a positive impact on the professionalism of Islamic financial institutions to increase market share and attract as many customers as possible. Seeing these consequences, Islamic financial institutions must have a reliable marketing strategy. The Islamic banking strategy is interesting to observe because of the application of Islamic law that is highlighted to prospective customers. Therefore, all Islamic financial institutions need to compete to attract customers who are Muslim and become one of the targets. However, Islamic financial institutions should also not close themselves to potential non-Muslim customers because they also have a fairly large market share (Alamad et al., 2021; Sukono et al., 2020; Alssadi, 2021; Setiawan, 2020).

In the era of free competition, every company, especially Islamic financial institutions, faces intense competition. The increasing intensity of competition from competitors makes Islamic financial institutions have to look at what customers need and try to fulfill it by providing the best and satisfactory service, so that they can dominate the market. Therefore, Islamic financial institutions are innovative, creative, accurate in seeing customer needs, and are able to satisfactorily serve customer needs that will survive and remain in demand by the community (Rusydia, 2018; Menne et al., 2016; Syarif, 2019). Based on the explanation above, the author will try to discuss related to market analysis in the Islamic banking industry competition.

Mokhtar et al. (2008) investigate the efficiency of the fully fledged Islamic banks as well as Islamic windows in Malaysia. The findings show that the efficiency of the overall Islamic banking industry has increased. However, Islamic windows of the foreign banks were found to be more efficient than Islamic windows of the domestic banks. Ahmad et al. (2010) investigated of Islamic banking in Pakistan based on perception of service quality. The results

indicate that there is significant difference in perception of service quality among customers of Islamic banks on the basis of gender but there is no significant difference in service quality perception of male and female customers of conventional banks.

Mohammed et al. (2015) evaluated the nature and changes of market concentration in the Malaysia's Islamic banking due to the restructuring of Islamic banking industry within the liberalization wave in the banking market. This study found an evidence that structural changes in the Islamic banking market has changed the market structure of the respective market from moderately concentrated to low concentrated market; whereby supporting the existence of competitive environment in the Malaysian Islamic banking market. Dahari et al. (2015) studied the key dimensions of service quality of Islamic banks by using Important Performance Analysis. The results show that the service quality of Islamic banks is still perceived not optimal by their customers.

Maghfuriyah et al. (2019) analyzed market structure and behavior on Islamic banking performance by using the Structure Conduct Performance (SCP) analysis to approximate the growth of Islamic banking performance in the short and long-term using error correction model. The results show that the market structure variable outside market share of financing in the long term had a significant effect on the Islamic banking performance, but in the short-term market structure, the variable had no significant effect on the Islamic banking performance in Indonesia. Muhammad et al. (2019) presented promotional techniques adopted by Islamic banks and the effect of these methods on consumer interest in Islamic banking products and services in the UAE (United Arab Emirates). The results of the study reveal that the consumer attitude towards Islamic banking products is highly influenced by the active involvement of sales representatives and the use of social media in the promotional activities applied by UAE-based Islamic banks. Basri et al. (2020) investigated the impact of competition in the Malaysian Islamic banking industry and the market structure of the industry. The study found that the Islamic banks have recorded consistently increased annual performance with the under-performing Islamic banks catching up on the top performers.

The main objective of this paper is to present about Islamic banking industry with marketing strategi approach. This article provides an overview of the competitive strategy of the Islamic banking industry in various countries such as Malaysia, United Arab Emirates, Pakistan and Indonesia.

2. Literature Review

2.1. Islamic Bank

Islamic bank is a financial institution whose main business is to provide financing and services in payment traffic and money circulation which operates in accordance with sharia principles. According to Muhammad Syafi'i Antonio, Islamic banks are banks that operate using sharia principles that refer to the provisions of the Qur'an and hadith. It was further explained that the provisions of Islamic law relating to Islamic banks are contained in the Islamic procedure for muamalat, namely the procedure for muamalat which is far from practices that are feared to contain elements of usury.

According to Law Number 21 of 2008 concerning Islamic banking, it has been explained that Islamic banks are banks that carry out their business activities based on sharia principles and by type consist of Islamic Commercial Banks (BUS) and Sharia People's Financing Banks (BPRS). The law explains that sharia principles are the principles of Islamic law in banking activities based on fatwas issued by institutions that have the authority to determine fatwas in the field of sharia. With the various models of financial transactions that exist in Islamic banks, it is a challenge for internal Islamic banks to understand and provide education for the wider community which incidentally becomes a market share for Islamic banks in marketing banking products and services (Antonio and Mukhlisin, 2013; Amin, 2017).

Malini (2016) presented on competitive conditions and market power of Islamic banks and Conventional Commercial Banks in Indonesia in 2006 and 2013 suggested that banks earn their income operating under the conditions: monopolistic competition in that period. In addition, Peni and Vahamaa (2012) measuring the competitiveness of Islamic banking in Indonesia's dual banking system found that Islamic banking is relatively more efficient than conventional banking. This means that Islamic banking is competitive enough to compete with conventional banks.

2.2. Marketing

Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchange values that satisfy individual and organizational goals (Alam and Seifzadeh, 2020). Marketing activities are concerned with the process of identifying and meeting human and community needs. Therefore, marketing is also defined as an activity to meet the needs of others profitably. In another sense, it is explained that marketing is a human activity that is directed to fulfill and satisfy needs and wants through an exchange process (Hasan et al., 2008).

Marketing aims to maximize many things in goods and services trade transactions, such as the purchase of goods and services, customer satisfaction through services that are in line with customer needs, the choice of goods and services, the ease of obtaining goods and services, and the creation of a climate (Khan, 2015). It seems like society and the economy; marketing also has a history in its development. The need for marketing arises and grows when the economy of a society develops from an agrarian economy to an economy that relies on a system of division of labor, industrialization, and urbanization. When humans interact with other humans, where these activities encourage the exchange of goods (barter), then this is the forerunner of marketing. Over time, the concept of the division of labor began to emerge and develop. Humans began to concentrate on producing the best things that could be done. Furthermore, to market their products, humans need certain strategies so that the products offered are of interest to other parties or in other words, promotional activities begin to appear.

Marketing activities developed further beyond just barter and promotion. Later, in the stage of marketing development, small producers began to produce goods in larger quantities. In anticipation of future orders, a deeper division of labor occurred and a new type of business emerged, namely helping to sell over-produced products. This business acts as an intermediary between producers and consumers who are called brokers (middleman). In this case, to facilitate communication, a group of buyers and sellers began to group themselves, so that they became commercial centers. The world of marketing is very dynamic and growing very fast. The world economic system has changed a lot in the last two decades. Geographical and cultural distances have dwindled with the advent of airplanes, facsimile machines, telephones, mobile phones, computers, and the internet. This allows the company to expand its market and source of supply geographically. This happens all over the world, including Indonesia. Many apparel industries in Indonesia are orders from owners of well-known brands abroad. At this stage the term international marketing began to emerge (Abbas et al., 2018).

At the international marketing stage, the trade that occurs has crossed national and regional boundaries. The activities are getting more complex and the level of competition is getting fiercer. Along with the development of the global market, regional trade market blocks, such as NAFTA, AFTA, APEC, and the EU also began to emerge. Indonesia as a developing country is involved in regional cooperation, namely AFTA and APEC. International marketing at this time will continue to experience dynamics in accordance with the progress of human civilization. However, it is important to remember that today's marketing is more than an organization's ability to produce goods or services to meet needs because organizations must know how to present a better offer in the target market than competitors. Consumers can buy from various sources with ever-changing needs, choices, and desires, so organizations must always be ready to face all these changes and continuously review and improve their offerings.

2.3. Islamic Marketing

Islam views marketing as an activity that must reflect Islamic values in its activities, namely marketing activities do not contain elements or matters that harm others. From this explanation, it can be concluded that marketing cannot be separated from friendship and communication activities in order to introduce products, both goods and services to consumers so that the use value can be transferred and these activities must reflect Islamic ethical values as the basis for marketing activities not to harm the other party. Hadith of the Prophet Muhammad. from the friend of Anas Ibn Malik ra. And narrated by Imam Bukhari and Muslim ra. which means "Whoever wants his sustenance to be expanded and his influence expanded, then he should connect the ties of kinship".

The real concepts offered by Islam regarding the concept of Islamic business ethics in which marketing is included include:

- Marketing activities are carried out in order to carry out virtue and piety to Allah SWT, namely activities to help out in the context of fulfilling life needs or utilizing the use value of an item or service.
- Be fair in doing business because fair brings the perpetrators closer to the value of piety.
- Good personality, sympathetic, and respect the property rights of others because Islam forbids taking other people's property in a false sense.
- Serve consumers humbly or solemnly because humility is recommended in Islam.
- Honest and trustworthy, namely by carrying out good and professional marketing activities. Goods or services promoted must be in accordance with the reality.
- Don't misbehave or act provocatively, namely by vilifying the goods or services of competitors.
- All forms of economic activity including marketing must provide benefits to many parties, not only to certain individuals or groups.
- Don't take bribes (risywah), for example to win certain projects because such actions are clearly prohibited by Islam.

Hassan et al. (2008) in his study "Islamic Marketing Ethics" plays significant role for the welfare of the society by principle of value maximization and equity and justice. Islamic ethics can help to raise the standards of living of bankers and customers both. Currently in rapid changing in market to focus on the customer need and behavior is very

important. Islamic Banks need to behave with the customers and the contact of employees with them must be being an Islamic. They found that Islamic banks ethical behavior have major impact on the development and maintenance of buyer and seller relationship.

2.4. Strategic Marketing

A strategy reflects the company's awareness of what the company will do. A strategy reflects how, when, and where the company competes, against whom in the competition, and for what purpose a company competes (Naser and Moutinho, 1997). Marketing is the process of managing profitable customer relationships. Another definition of marketing is the process by which companies create value for customers and build strong customer relationships with the aim of capturing value from customers in return. Marketing can also be interpreted as a social and managerial process that involves the interests of both individuals and groups in meeting needs and wants through exchanging goods or services to customers from producers.

The application of competitive strategies in any firm improves communication that is necessary to carry out the managerial functions and for linking the organisation with its outside environment (Ekeowa, 2015). Competitive strategies, therefore, must provide a communication link that makes the activities and responsibilities surrounding management or managers possible.

In order to improve performance and ensure sustainable growth of Islamic banks, marketing strategy is one of the most important issues. A suitable marketing strategy can be developed by understanding internal strengths and weaknesses and the external opportunities and threats. Authors have given their analysis based upon the empirical findings and pinpointed some important opportunities and threats for this sector (Shabbir, 2015). These recommendations and discussions can be very useful in making a suitable and effective marketing strategy which in turn can lead to sustainable growth. So, this information may not be only useful for Islamic banking sector but also for other sectors who want to get knowledge about these uncontrollable environmental forces as sufficient knowledge and analysis of these forces is necessary in order to make a good marketing strategy.

3. Materials and Methods

The research method is a step that is owned and carried out by researchers in order to collect information or data on the research. The method used in this research is in the form of library research or library research, namely collecting or collecting data by using written materials.

4. Results and Discussion

Islamic banks are now the choice for banking business people. With the ratification of Law no. 21 of 2008 concerning Islamic banking, it can strengthen the position of Islamic banking, then with the MUI fatwa regarding several contract products also strengthens the position of Islamic banking. With the issuance of the haram fatwa on bank interest by the MUI, it will change the paradigm of society and will increase the number of sharia bank customers. Meanwhile, Bank Indonesia as the monetary authority must give more flexibility to Islamic banking so that it can be affordable throughout Indonesia (Utama, 2018; Widarjono, 2018).

Competition in Islamic financial institutions are very tight in obtaining customers; besides that, it requires financial institutions to improve services professionally in accordance with their respective fields. Changes in technology and the rapid flow of information have encouraged financial institutions to produce products or services that can meet the needs and desires of customers, so that customers are satisfied with what they have received from these financial institutions. The development of Islamic banks in Islamic countries has an effect on Indonesia. Efforts to encourage the development of sharia banks are carried out by taking into account that some Indonesian Muslim communities are looking forward to a healthy and reliable sharia banking system to accommodate their needs for banking services that are in accordance with sharia principles.

Islamic banks that want to develop and gain competitive advantage must be able to provide quality products/services. The era of business competition that is so strong and tight as it is currently happening, requires all banks, especially Islamic banks to be more aggressive and courageous in making decisions and implementing corporate strategies, so that they can be superior to competitors. However, to become a bank that truly excels in competition in the business and business world is not an easy matter. Therefore, good management is needed, strategic accuracy, and maximum company performance in Islamic banking. Marketing is also one of the things that need to be done in order to face competitors who are increasing from time to time. Marketing is very important in a company to maintain the products/services that are owned still exist for customers.

Increasing the marketing of Islamic banking can be done through the creation of good marketing strategies, and carrying humanity and at the same time in line with Islamic economic values. However, Islamic banking is required to be more aggressive in doing various things, both marketing strategies, marketing, or other things, so that they can

survive and even grow and develop in the era of competition. Especially during the current Covid-19 pandemic, Islamic banks in carrying out their functions as intermediary institutions or financial intermediaries that bring together people who have excess funds and people who lack funds are required to be able to transact with many people. But on the other hand, the threat of exposure to the Covid-19 virus is a challenge for banking institutions, especially Islamic banking. Various policies have been issued by banks to survive in the midst of the Covid-19 pandemic (Shaharuddin, 2020).

Currently the use of technology has grown very rapidly not only in developed countries but also in developing countries such as Indonesia. This technological development then gave rise to a new alternative in the form of digitalization in Islamic banking which is often called the fintech system (financial technology) or electronic banking. This service is a service based on information technology which is commonly used to market products owned by Islamic banks in Indonesia. As a customer, of course, you want fast and easy service. Therefore, Islamic banking institutions must be able to provide services that are considered fast and practical, one of which is by using electronic banking services.

The development of information technology, telecommunications, and the internet has led to the emergence of electronic-based business applications. Electronic banking services are service facilities provided by banks and can be accessed through electronic objects, such as mobile phones, computers, laptops, and others which are usually used to replace the need for transactions through ATMs.

The complexity of the competition in the banking industry causes every bank to focus on customer desires and satisfaction. Banking transactions no longer use applications in paper form that are filled in by customers at bank counters, but all banking transactions can be accessed through electronic banking. Along with the increasing development of electronic banking, the function of bank counters has become

The Financial Services Authority (OJK) explains that digital banking services are banking services or activities using electronic or digital facilities owned by banks, and/or through digital media belonging to prospective customers and/or bank customers that are carried out independently. Digitalization of bank services makes it possible for customers and prospective customers to obtain banking services independently without having to come directly to the bank.

The challenge of transforming the use of digital technology is more than just providing online and mobile banking services, it is necessary to innovate in combining digital technology with customer interaction, in this case the findings of these new technologies must make it easier and provide convenience for users in accessing banking services.

In the era of technology disruption, every industry must be ready to move in the face of dynamic changes. The Islamic banking industry inevitably has to adapt to existing technological developments, digitalization requires Islamic banks to renew services, considering that the transition from conventional banking to digital can increase the efficiency of work processes and improve the quality of customer service, so by digitizing banks, they have made investments. long-term future and it is projected that digital services will become one of the main drivers of the growth of the banking industry in a sustainable manner.

With the adoption of digital technology, fundraising and financing by banks can be easier. It is easier for the public to perform banking transaction services and place their funds in Islamic banking. Digitalization makes it possible for the Islamic banking industry to develop services to customers, provide alternatives to provide direct information to customers, and reduce face-to-face interactions in accordance with government recommendations to maintain physical distancing and work from home. The current effort that can be done to deal with the spread of infectious diseases, such as Covid-19 is to avoid crowds and crowds.

The benefits of bank digitization are primarily to lower operational costs and long-term investment. The banking sector can reach a wider market by reducing the investment budget for opening sub-branches and petty cash offices. One of the goals of digitizing this bank is to achieve customer satisfaction. In the banking industry as a service sector, customer satisfaction is the most important thing. Customers will easily switch to other banks if they don't get what they expect. The Covid-19 pandemic has forced the Islamic banking industry to survive and remain creative in innovating to create competitive advantages in the midst of the difficult times of the Covid-19 pandemic. Acceleration of technology driven business models must be a top priority during the Covid-19 and post-Covid pandemics in the future.

5. Conclusion

Competition in Islamic financial institutions are very tight in obtaining customers; besides that, it requires financial institutions to improve services professionally in accordance with their respective fields. Marketing is one thing that needs to be done in order to face competitors who are increasing from time to time. Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchange values that satisfy individual and organizational goals. Marketing activities are concerned with the process of identifying and meeting human and community needs. Marketing is very important in a company to maintain its

products/services still exist for customers. One of the ways to increase the marketing of Islamic banking can be done by creating a good marketing strategy. The study found that the competition strategy in the Islamic banking industry adopted by the marketing value is having a significant impact on to serve customer by digitization of bank service.

Marketing strategy can be interpreted as procedures in marketing that have been structured and planned to be carried out in order to achieve company goals. However, given the current Covid-19 pandemic, every industry must be ready to move in the face of dynamic changes, including the Islamic banking industry. One of the recommendations and directives from the government is that Islamic banking is required to serve customers through digitizing bank services. The benefits of bank digitization are primarily to lower operational costs and long-term investment. The banking sector can reach a wider market by reducing the investment budget for opening sub-branches and petty cash offices. The acceleration of the technology driven business model must be a top priority during the Covid-19 and post-Covid pandemics in the future.

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