

The Measurement of Non-Performing Finance Using the Approaches of Market Segmentation in Islamic Banking

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Abstract

Background: Research shows that financial variables are not enough to predict the success of future bank, thus we have to think again about the measurement of non-performing finance to see company's success. Objective: The objective of this study is to analyze the measurement of non-performing finance to the approaches of market segmentation (product, professional, the image of the bank, and the principles of the bank) at Islamic banks. Result: The result shows that concurrently there is an influence of independent variable into dependent variable; however, the professional variable and image of the bank is not significantly influencing the non-performing finance of Islamic banking. Conclusion: The dominant variable affecting into non-performing finance is a product, so that the variation of the product that is offered by Islamic banks to market or customer should be taken care. The implementation of the right Islamic principles is also being a customer's attention. The upcoming research is advised to concurrently integrate the measurement of financing and non-performing finance to know the complete Islamic banks performing conditions.

Keywords: Islamic banking, non performing finance, market segmentation.

1. Introduction

Performing measurement is a tool to control the organization and to reach goal of organization. Performing management is in line with the company strategy and functional as well as the company goal's.

The process of performing management describes how an organization uses many systems to manage its unlimited performing in strategic development, management accounting, management target, and performing measures both financial and non-financial (Bashir, 2001). The company's performance is one indicator of the company's success should be measured, reported and accounted for by the management company (Hoque, 2004; Abdel-Maksouda, David, and Robert, 2005). The primary purpose of performance measurement is to encourage management to be more proactive (Bititci, Carrie, and Devitt, 1997) in running the company, so the company's goals can be achieved.

The company's performance can be measured using financial and non-financial performance. Financial performance measurement is a measurement method using financial measures that use financial ratios as benchmark (Laitinen, 2004), focused on the short term, as well as to measure past performance (Jusoh, 2008), but the result of performance measurement is not sufficient as a basis for decision-making, planning and control for managers in conditions of high competition. This limitation encourages companies to emphasize the measurement of non-financial performance, measuring the performance of several factors: the characteristics of the company, the level of competition, the management control system (MCSS) (Laitinen, 2004), strategy (Holzer and Norreklit, 1991) and organizational structure (Gosselin 2005), so the performance measurement becomes more complex (Nelson and Enrico, 2008).

Many organizations implement performing measurement, both financial and non-financial to assess the business performing and more adopting the model of excellence and / or a balanced scorecard to facilitate a structured approach in implementing the strategy of continuous improvement (Robinson, 2005). The important of increasing non-performing finance measurement and non-traditional will cause the urgency of action and is associated with a customer basis quality (Gomes, at all, 2007) in analyzing the ability of non-financial factors to predict the value creation.

Research shows that financial variable is not enough to predict the success of enterprise technology of the future. Financial ratios used as a benchmark (Laitenin, 2004b) of success can be measured with the creation of market value. Some research predicts the creation of value by the helping of non-financial information. Many variables are able to give additional information through traditional financial statement data in creating value. Things included non-financial variable are as follows: strategy, innovative potential, product, industry, competition, responsiveness, customer orientation, organization, and MCSS as an important predictor of grades.

Islamic banks are required to be able to fulfill the rules of sharia, Islamic bank and BMT are also expected to be able to provide the results to third-party funds that at least equal, or even bigger than the interest rate prevailing in conventional banks and apply the financing

profit margin that is lower than the rate conventional bank lending. To realize this ideal concept, Islamic bank or BMT should be managed optimally based on the principles of amanah (trust), sidiq (honest), Fatonah (intelligence) and tabligh (convey), including in terms of policy-setting of profit margins and financing revenue sharing.

However, sometimes the determination of margin given by Islamic banks is bigger than conventional interest rate with an excuse to avoid inflation. Such condition cause unfavorable perception of the public that Islamic banks practical or BMT has no difference with conventional bank. One of the ways to make Islamic banks is continuously remembered and always be in the mind of consumers is to establish proper positioning. The proper positioning is expected to create loyal customers.

In an effort to snatch the market share of banking, thus segmentation is one of the ways in marketing to place the image of the bank and its products in a mind of customer. So that, a banking position in the authorization of market share is able to be maintained and even can be improved. The market segmentation is according to product, professional, image of the bank, and principles of the bank will be able to measure the performing of Islamic banking.

The finding of previous research shows that there is relation between characteristic of banking and the performing measures at Islamic banks. Firstly, profitability of Islamic banks is positively affecting the increasing of capital ratio and loan. It shows that capital adequacy ratio and loan portfolio explain the performing of Islamic banks. Secondly, the finding also points out the important of consumer and short-term funding, non-earning assets, interest, and overhead in increasing bank profits. Thirdly, the result shows that the tax factor is also more important in deciding bank performing. The negative effect of tax reserves shows the opportunity cost of holding reserves (Bashir, 2001). The hypothesis submitted for the present research is: product, professional, image of the bank and principles of the bank both are significantly affecting the measurement of non-performing finance of Islamic bank.

2. Method

This research uses quantitative explanation method since it functions to explain the relation and effect of one variable to another. The object of this research is Islamic banking while the respondents are all of the customers of the Islamic banking.

The measurement of non-performing finance measures the performing of several factors, such as organization's characteristic, strategy, competitive stance, consistency of performing measurement, management control system (MCSS), and MCSS quality (Iaitenin, 2004b), and also continuously improvement strategy (Holzer & Norreklit, 2005). One of the types of its method is Balanced Scorecard method (BSC) executing the performing measurement with more complex indicators (Waweru & Uliana (2008) which in addition to use financial measures and also focus on factors such as non-financial or contextual strategies and organizational structures (Gosselin, 2005). Today, more and more companies are adopting the model of the Balanced Scorecard (BSC) for measuring the performance of financial and non-financial (Holzer & Norreklit, 1991). Variable Indicator consists of, market share, market development, new product development, research and development (R & D).

Factors of market segmentation are contained of, firstly, product is part of product factor which shows that consumers choose Islamic banks due to the kinds of product offered by Islamic Banks. Secondly, the professional's indicator variable is partnerships done by Islamic banks and the security provided to customers. Thirdly, image of the bank of variable indicator that reflects the image of the activity of Islamic banks gets a great response from customers. Fourthly, the principles of the bank is part of factors preferences and benefits, which provide insight to clients that the operationally conventional banks bank's operations are conventionally, contain of elements of usury and interest system implementation is contrary to the teachings of Islam adopted by most customers.

Descriptive data analysis technique is used to describe qualitative data done by doing interview. Quantitative analysis used in this research is multiple regression analysis; it is to know the influence between independent and dependent variables. Thus, it can be known the strength of the effect of each of these variables.

3. Result and Discussion

Analysis result of hypotheses testing about the influence of simultaneously variable

Table 1: Linear Regression Analysis Result

Independent Variable	Regression coefficients (bi)	T	S i g .	I n f o r m a t i o n
P r o o d u c t (X 1)	0 , 3 6 8	4 , 3 3 1	0 , 0 0 0	S i g n i f i c a n t < 0 , 0 5
P r o f e s s i o n a l (X 2)	0 , 0 4 6	0 , 5 4 3	0 , 5 8 9	N o t s i g n i f i c a n t
I m a g e o f t h e b a n k (X 3)	0 , 0 5 0	0 , 8 0 5	0 , 4 2 4	N o t s i g n i f i c a n t
P r i n c i p l e s o f t h e b a n k (X 4)	0 , 3 2 5	2 , 2 7 1	0 , 0 2 7	S i g n i f i c a n t < 0 , 0 5
C o n s t a n t s	0 , 6 5 8	2 , 0 3 7	0 , 0 4 6	S i g n i f i c a n t < 0 , 0 5
Coefficient of multiple determination (R ²) = 0,679				
Coefficient of multiple relation @ = 0,824				
Statistic of Durbin Wanston = 1,785				
F = 26,631 Prob. = 0,000				
Prob. = 0,000				

Sources: Primary data processed in (2015)

Product variable is a dominant variable that affects into non-performing finance of Islamic bank; it indicates that a customer is more care the product variation to increase the bank performing. Professional variable and image of the bank have an insignificant influence into the non-performing finance of Islamic bank; it indicates that customers are care more on bank conditions than on the image of the bank building in a public/customer's view. Principal variables of bank are significantly affecting into non-performing finance of Islamic banks; it is accordance with Islamic principles in operating Islamic bank. It also gets more people's attention in investing or saving money in Islamic bank.

Image of the bank is not significantly affecting non-performing finance; thus it is advised to save more cost on image of the bank building, but in introducing Islamic bank more widely to society, it streamlines the implementation of promotion. The application of the Is-

Islamic principles has been the most important thing that is noted by customer, so that it has to be introduced more intensively to costumers with the right Islamic principles.

It needs to be more explored on variables related to non-performing finance of Islamic bank. The upcoming researchers are advised to do analysis together with the affecting variable into the performing finance and non-performing finance in Islamic banks.

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