Managing Change for Radical Business Process Improvement: Effects on Islamic Banks Performance

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Abstract: Managing change is difficult as the change is constant. Organizational resources have to be wisely utilized in optimizing the outcome of a change management project. The rapid rate of change has imposed many companies to radically change to improve their current business processes. The banking industry is one of the main economic drivers of any nation, and banks have been experiencing drastic changes in their operations. This paper examines the effect of change management initiatives on the Islamic banks performance. The performance of Islamic banks differs than any conventional banks due to three main aspects, namely, (1) educating individual, (2) public interest, and (3) establishing justice. In this study, the organizational performance is measured by the cost spent by the banks to fulfill those three aspects. The causal relationship was analyzed using the Partial Least Square (PLS) structural equation modeling. Collectively, the results show the significant positive effect of change management on the performance of the Islamic banks. The findings of the study contribute to the knowledge of change management to both managers as well as researchers in relation to the banks performance.
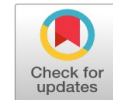
INTRODUCTION

The dynamic environment of the financial markets urges the banking sector to change the operational processes in order to be more competitive. Customer service quality, speed of delivery, low operating costs are some of the goals of many banks to compete in todays business environment. These goals can be achieved through significant improvement in the business process or better known as Business Process Management (BPM). BPM refers to the improvement of a firms end-to-end enterprise business processes in order to achieve three areas, namely: 1) clarity on strategic direction, alignment of the firms resources, and 3) increased discipline in daily operations (Rock & Dwyer, 2017). The improvement of business process is influenced by many factors. One of the key factors is related to the organizational change management. Change management is defined as the adoption of various approaches to implement change in organizations. It includes managing people and processes within an organization. Even though the literature on the BPR implementation is widespread, the focus on the issue of change management and its relationship to business process is still lacking. Hence, further study is deemed necessary for understanding their relationship. This initiative is in line with Devaraj and Kohli (2000) who stressed further studies to be investigated on the organizational performance. Hence, this paper would examine the effect of change management on the organizational performance of the Islamic banks in Malaysia.

Islamic banking sector in Malaysia

Malaysia is known for its Islamic banking hubs today. The journey to become the financial hub has started since 1963, when Perbadanan Wang Simpanan Bakal-Bakal Haji (PWSBH) or known today as

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Tabung Haji was developed. This institution was set up as the financial management for Muslims in Malaysia to perform Hajj in Mecca, which is one of their religious obligations.

After the success of Tabung Haji, Bank Islam was the first full fledge Islamic Bank established in the year 1983. After more than 30 years, this Islamic bank has proven that it is still strong and competitive in the market that is comparable to the other conventional banks. Currently, in the year 2017, it has 139 branches and more than 1200 self-service terminals (Bank Islam, 2017).

The success of Bank Islam has led other conventional banks to start offering Islamic Banking products. In 1993, Bank Negara Malaysia has allowed these conventional banks to do so under the Islamic Banking Scheme (IBS). It is a compulsory, however, for these banks to separate the Islamic products and those conventional products that they are offering. In the early years, these Islamic banks were having difficulties to compete (Azhar & Afandi, 2003; Antara, Musa, & Hassan, 2016), but after gaining strong support from the government (Wajdi & Irwani, 2007) and development of more innovative products, the banks have become more progressive and eventually gradually successful in the market (Abdullah, Datin, & Muhammed, 2013; Wasiuzzaman & Nair, 2013).

The National Syariah Advisory Council additionally has also been developed as the main advisor for the Bank Negara Malaysia (BNM) on the Shariah matters, particularly on the operations of the Islamic banking institutions, including their products and services. In 2005, a dedicated University known as the International Centre for Education in Islamic Finance (INCEIF) was established to train skilled and certified personnel for the Islamic finance sector in Malaysia. It offers academic programs in Islamic finance at postgraduate levels as well as professional certification. Now, it has produced 1,322 graduates from 70 different countries worldwide (International Centre for Education in Islamic Finance, 2017).

These days, Malaysia is the benchmark of a dual banking system that has been proven to the world that its current Islamic banking system can successfully operate along with the conventional banking system. The Malaysian government has long been strategizing this industry to become the international hub for Islamic banking (Sufian, 2007). Further, this aim was targeted to be achieved under the nation Economic Transformation Programs (ETP). The Islamic banking sector is expected to achieve more than 40% of growth in the year 2020 (Islamic Banking, 2014).

Because of the industry is considered as one of the highly important sector to the Malaysias economy, the Islamic banking sector has to be always competitive globally. The banks need to be flexible as well as responsive to the customers demand. Wei and Richardson (2003) have suggested that the Malaysian banking industry to increase the speed, deliver quality service, and strive to reduce operating costs in order to keep abreast with the global change. Business process improvement is one of the practices to achieve this goal.

CHANGE MANAGEMENT FOR BUSINESS PROCESS AND ITS RELATIONSHIP WITH THE ORGANIZATIONAL PERFORMANCE

In the 1990s, the concept of business process reengineering was introduced by Hammer and Champy (1993). Ever since, the concept has been adopted by various organizations to gain competitive advantage. The focus of BPR is significant and drastic improvement of the processes in organizations.

Business Process Reengineering refers to "the analysis and design of workflow and processes within and between organizations" (Hammer & Champy, 1993) which has three main goals, namely: (1) customer friendly, (2) effectiveness, and (3) efficiency. It is evident that the improvement in these areas is strongly associated with the adoption of Information Technology (IT) in the business process (Sin & Razalli, 2015). IT has improved the speed of the business process as well improve customer experience with the service providers. In addition, the rapidity of technological change also promotes innovation and improvements in business processes. Through advanced technology, companies are able to diminish the time available to develop new products and introduce them to the market.

Change management concerns with managing people to adopt organizational changes. Change management is a process of restructuring and redesigning the organizational activities in order to keep abreast of challenges and for meeting needs of customers (Moran & Brightman, 2000; Purba & Sitorus, 2017). In fact, change management is the application of a structured process and set of tools for leading

the people side of change to achieve a desired business outcome (Prosci, 2017). It is a critical discipline for todays highly competitive business environment. The driver of change could be due to merger and acquisition, innovation, technology, restructuring, declining sales and market share, and globalization (Nishiyama, 2016; Stanleigh, 2008). However, a change management program is difficult to succeed. It will be more successful when changed leaders are developed to focus on the big picture, to use their network, to engage stakeholders, and to develop their emotional intelligence and resilience (Bhalerao, 2016; Kilkelly, 2014). Change management is closely related to reward and motivation, effective communication, organizational culture, employee empowerment, human involvement, organization receptivity to change, and training and education (Ringim, Razalli, & Hasnan, 2011).

The change management program is found to be positively associated with business process improvement. Change management initiatives were found to be one of the key success factor for business process improvement (Ndahiro, Shukla, & Oduor, 2015), which in turn lead to better organizational performance.

In relation to the performance measurement, the current study assessed the Islamic banking performance using the Maqasid al-Shariah Framework (Mohammad & Shahwan, 2013; Abdul, Mohamed, & Md Taib, 2008) instead of the normal measurement such as financial and non-financial. Measuring the performance based on the Shariah principle is better than common measurement because the Islamic principle further emphasizes the profit and loss sharing and it prohibition of the collection of interest (Abdullah et al., 2013). This study is interested to study about the relationship between change management and performance of Islamic banking in Malaysia based on the Maqasid al-Shariah perspective. Note that from this perspective the performance is operationalized as cost improvement rather than profitability.

The above argument leads to the following hypothesis of the study:

H1: Change Management has a significant effect on the organizational performance in terms of educating individuals.

H2: Change Management has a significant effect on the organizational performance in terms of establishing justice.

H3: Change Management has a significant effect on the organizational performance in terms of public interest.

METHODOLOGY

A cross-sectional and causal study was adopted for this study. Descriptive analysis was undertaken to identify the level of change management implementation of the Islamic banks. The causal research or hypothesis testing was carried out to further determine the relationships between change management and bank organizational performance in terms of educating individuals, establishing justice and public interest.

Survey method was adopted for data collection. The population of the study was the Islamic banks Headquarters (HQs) in Malaysia. A total population of sixteen (16) banks participated in the Islamic banking scheme (Islamic full-pledge & Islamic window of conventional bank) registered with the Bank Negara Malaysia (Bank Negara Malaysia, 2015). The managers of these banks were chosen as the respondents of the study due to their knowledge on the subject matter. Four questionnaires were distributed for each bank. A total of 64 questionnaires was distributed to the Islamic banks headquarters.

The Partial Least Squares (PLS), SmartPLS 3.0 software, was used to analyze the causal relationships among major constructs. The PLS analysis was appropriate because it can analyze all paths simultaneously. In addition, the bootstrapping method was used to derive the statistical significance. The size of sub-samples to run bootstrapping technique was based on the suggestion by Hair Jr, Hult, Ringle, and Sarstedt (2016).

FINDINGS

Descriptive statistics

Out of the 64 distributed questionnaires, only 35 sets were used for further analysis. The descriptive analysis showed that there were 51.4% male and 48.6% female respondents. All respondents had a significant experience in the business process projects in their career life in the banking sector. These managers also held various positions in the banks such as 37.1% as the executive director/general manager, 5.7% as the deputy general managers, 40% as the senior managers, and the remaining 17.1% as the head of departments.

The change management implementation in the Islamic banking sector

Table 1 shows the means and standard deviations of the change management implementation in the banks. All items were measured on a six-point scale. The mean scores for change management were found to be at 4.62. In other words, the level of change management in these banks can be considered as above average.

Table 1: The level of change management implementation

Dimensions	Mean	Standard Deviation
Change Management	4.62	.39

Measurement model

Figure 1 shows the overall results of the hypothesized model. A good model fit in PLS depends on several factors such as (1) the availability of the significant path coefficients, (2) acceptable R^2 values, and (3) good construct reliability (Gefen & Straub, 2005). The results, as shown in Figure 1, showed that all path coefficients were statistically significant. The R^2 values were for the path change management and educating individual was 39.4%, while the path change management and establishing justice was explained for about 26.5%. The final path between change management and public interest was explained for 42.9%. These were all significant values as the R^2 value above 26% is considered as substantial (Cohen, 1988). Thus, the model in Figure 1 can be considered as a highly acceptable model.
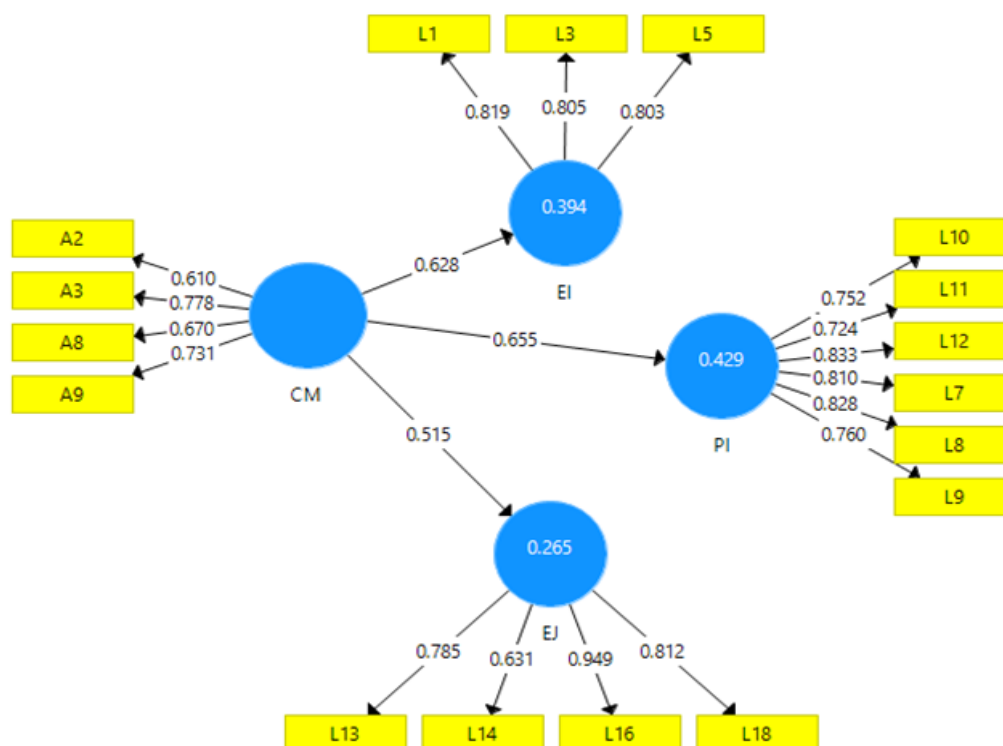

Figure 1. Hypothesized model structure and results

The Composite Reliability (CR) and Average Variance Extracted (AVE) were then used to assess the reliability of the constructs of the study. Table 2 shows the results of the analysis. CR is recommended to be higher than 0.7 (Fornell & Larcker, 1981). The CR values for the constructs were all above the recommended 0.7 level. The values of the Cronbachs alpha (α) for the constructs were also above 0.7 except for the variable change management which was slightly lower than the recommended value. The AVE, on the other hand, denotes the amount of variance that a construct captures from its indicator relative to the amount due to measurement error (Chin, 1998). The recommended critical value for AVE is 0.5 (Fornell & Larcker, 1981). In the context of this study, the AVE values were also above the recommended value of 0.5. In addition, the convergent validity was also assessed through the loadings of each indicator. The standardized loadings should be greater than 0.7 (Hair Jr et al., 2016). As shown in Table 2, the loadings for most of the indicators were above the cut-off point, except for the following variables: A2, A8, and L14. These indicators were maintained due to the AVEs for the particular variables were above the threshold of 0.50.

Next, the discriminant validity through the cross loadings and the relationship between correlations among constructs and the square roots of AVE (Chin, 1998; Fornell & Larcker, 1981) was assessed. Table 3 shows the results of the analysis. The cross loadings exhibited adequate levels of discriminant validity as the square roots of AVE (bold in diagonal) were greater than the correlations among the constructs (off diagonal values).

Table 2: Convergent validity and reliability of the constructs

Latent Variable	Indicators	Loadings	AVE	CR	
Change Management	A2	0.61	0.50	0.80	0.65
(CM)	A3	0.79			
	A8	0.67			
	A9	0.73			
Educating Individual	L1	0.819	0.66	0.85	0.74
	L3	0.805			
	L5	0.803			
Public Interest	L7	0.81	0.64	0.88	0.81
	L8	0.83			
	L9	0.76			
	L10	0.75			
	L11	0.72			
	L12	0.83			
Establishing Justice	L13	0.79	0.62	0.91	0.88
	L14	0.63			
	L16	0.95			
	L18	0.81			

Table 3: Discriminant validity of constructs

	Change Management	Educating Individual	Establishing Justice	Public Interest
Change Management	0.700			
Educating Individual	0.628	0.809		
Establishing Justice	0.515	0.483	0.802	
Public Interest	0.655	0.717	0.408	0.785

Structural model

Table 4 summarizes the results of causal relationship in the structural model. The findings showed that all hypothesis were supported. The first relationship, change management and educating individual was found to be significant (0.63; $t > 2.33$). The second relationship, change management and establishing

justice was also significant (0.52; $t > 2.33$) and the final relationship, change management and public interest was found to be significant (0.66; $t > 2.33$). Moreover, all relationships were positive. In other words, the study showed that change management initiatives in these banks had positive effects on the performance of the Islamic banks in terms of educating the individual, establishing justice, as well as public interest.

Table 4: Structural model results

Path	Beta	t-Value	Decision
Change management - > Educating individual	0.63	6.49	Supported
Change management - > Establishing justice	0.52	5.01	Supported
Change management - > Public interest	0.66	9.73	Supported

DISCUSSION AND CONCLUSION

In general, business process management has a significant relationship with the organizational performance (Ahmad, Francis, & Zairi, 2007; Cheng & Chiu, 2008; Ringim et al., 2011; Wei & Richardson, 2003). This particular study is in line with those findings. As a matter of fact, we have found change management is an important key determinant for business process improvement in banks in Malaysia. Our findings show change management lead to better performance in terms of three aspects of the Maqasid Al-Shariah, namely educating individuals, establishing justice, as well as public interest. These results are new contributions, as most of the previous studies have focused on organizational performance from the perspective of financial and non-financial performances.

Additionally, change management is about activities implemented to adapt to any change in the organization. It is also about initiatives taken to make people change to the new organizational processes. This study highlights the importance of managing peoples resistance in order to make them receptive to changes in an organization. To succeed in the change management program, organizations should also focus on people management as well as the leadership commitment towards the change. Organizational culture also plays an important role in ensuring appropriate change is taking place in an organization.

Finally, several limitations of the study must be noted. This study is done on a full-fledge Islamic banking as well as the Islamic window of conventional banks, hence, the sample is rather small. Generalization in a larger context must be done with caution. We recommend further investigations with a larger sample in the future. In conclusion, change management program has to be one of the main attentions for business process improvement.

ACKNOWLEDGEMENT

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