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## The Competitive Strategy for a Shari'a Business Unit (SBU): Pension Fund Management from PT Bank Muamalat Indonesia

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**Abstract:** Based on the 2015 Indonesian Financial Services Authority's statistics on the pension fund, out of 68.03 millions of productive work force in Indonesia, only 4.19 million people (6,16%) who are supported with pension fund. The remaining 63.84 million people (93.84%) are left without any pension programme to protect their future after retired. Seeing this lucrative opportunity, the Pension Fund Management of PT Bank Muamalat Indonesia, as the first form of Shari'a pension funds originating from a financial institution in Indonesia, must have competitive strategies that are effective to win the competition among other pension fund managers in Indonesia. This research aims to analyse the opportunities, risks, benefits, and weaknesses of pension funding strategies and to formulate and identify the best competitive strategy which must be applied in the Pension Fund Management of PT Bank Muamalat Indonesia. Data is collected through literature studies and direct investigation in the field (using questionnaires, documentations, and interviews). The research method used is the Porter's Analysis of the Five Forces Model to analyse the external environment and the Porter's Value Chain Analysis to analyse the internal environment. The results of the analyses of the internal and external environments are then arranged in EFE Matrix (External Factor Evaluation) and IFE Matrix (Internal Factor Evaluation). The Competitive Profile Matrix is compared to the transactions of financial institution pension fundings to see the strengths of competitors. Strategic Factor Analysis Summary Matrix determines the dominant factor affecting the company significantly. The formulation of the strategy uses the SWOT Matrix (Strengths-Weaknesses-Opportunities-Threats), the Internal-External Matrix (IE), the SPACE Matrix (Strategic Positions and Action Evaluation), the BCG Matrix (Boston Consulting Group), and the Grand Strategy Matrix. Finally, the applicable strategy is determined using the Quantitative Strategic Planning Matrix. The results of this research conclude that a competitive strategy must be applied continuously and sincerely within a period of five years. In the first and second year, the Pension Fund Management of PT Bank Muamalat Indonesia should run the market development strategy. In the third and fourth, it should run the market penetration strategy; and in the fifth year, the product development strategy.

**Keywords:** pension fund management, PT Bank Muamalat Indonesia, competitive strategy, shari'a business unit, pension fund financial institution.

## **FOREWORD**

Despite the slowdown in 2015, Indonesia's economic development is still on the positive course. According to the Indonesian Act on Banks No. 10 1998, a bank is a business entity that collects funds from the public in the form of savings and forwards them to the community in the form of credits and/or other forms in order to increase the standard of living of many people. Specifically, the role of both state and private banks is fundamental in the implementation of the fifth Sila from Pancasila: social justice for all people of Indonesia. One way to implement this is through the awareness of Indonesian society for pension fund products available in banking services (Source: Bank Indonesia Annual Report 2015, reworked). Based on the statistical data of the Indonesian Financial Services Authority on pension funds, the Central Bureau of Statistics, and the Information Data Centre of the Ministry of Industry, out of 3,220,563 companies in Indonesia, only 7,333 companies (0.23%) support their employees with a pension programme, while the remaining 99.77% or 3,205,839 companies do not. Out of 68 million people work force, 63.84 million people (93.84%) do not have any pension fund management programme to protect their future after retirement. Only 4.19 million people (6.16%) have the assurance of a pension fund management programme. A pension fund product is a product that is very useful for corporate employers and employees. For companies, the benefits include less income tax and maintainable employee quality. As for employees, it can reduce personal income tax, guaranteed continuity of income in their elderly days, and tax-free investments up to the time when the benefits of the programme are paid (Source: Indonesian Financial Services Authority's statistics on pension funds 2015: 6-9, Indonesian Act No. 11 1992 on pension funds, and Indonesian Act No. 13 2003 on employees and workforce; reworked).

The five largest pension fund financial institutions in Indonesia, qualified by the amount of total net assets and investment revenue, consist of 3 state banks and 2 foreign insurance companies. Their standings per 31 December 2015 are as follows:

1. Bank Negara Indonesia (BNI)
2. Manulife Indonesia
3. Bank Mandiri
4. Bank Rakyat Indonesia (BRI)
5. AIA Financial

On the first position is BNI with a total asset of Rp 13.029 trillion, followed by Manulife Indonesia on the second position with a total asset of Rp 9.454 trillion. Bank Mandiri comes next with a total asset of Rp 4.864 trillion, followed by BRI on the fourth position with a total asset of 4.696 trillion. Lastly, AIA Financial is on the fifth position with a total asset of Rp 4.071 trillion. Meanwhile, the total asset of PT Bank Muamalat Indonesia is Rp 893.64 billion per December 31<sup>st</sup>, 2015; which sits on the 12<sup>th</sup> position out of 25 pension fund managers in Indonesia (Source: Indonesian Financial Services Authority's statistics on pension funds 2015: 52).

The small number of Indonesian employees having a pension fund management programme is the base of this research's gap in formulating a competitive strategy for the Pension Fund Management product of PT Bank Muamalat Indonesia to make both employers and employees more aware about the importance of participating in a pension fund management programme. Hopefully, this will elevate the

position of PT Bank Muamalat Indonesia as the first Shari'a pension fund financial institution in Indonesia from the 12<sup>th</sup> to the top 5 in the pension fund industry.

## LITERATURE STUDY

Strategic management is a form of art and science in formulating, implementing, and evaluating various decisions facilitating an organisation to achieve its goals (David 2016: 3).

According to Wheelen & Hunger (2015: 38), strategic management is a series of decisions and managerial actions that determine the long-term performance of a company. This strategic management includes environmental observations, strategy formulation and implementation, evaluation, and control.

External analysis using the Porter's Analysis of the Five Forces Model or also known as the Five Strengths Porter's Model is an approach that is widely used in developing strategies for many industries (David, 2016: 59). The five forces included in the model are as follows:

1. The rivalry among existing firms.
2. The threat of new competitors.
3. The threat of substitute or replacement products.
4. The bargaining power of suppliers.
5. The bargaining power of buyers.

Value Chain Analysis is used to analyse the internal environment. The Value Chain Analysis is the activities of a company divided into five main activities and four supporting activities (Pearce and Robinson, 2016: 163), as follows:

1. The primary activities consist of logistics in, logistics out, operational, marketing, and services.
2. The supporting activities consist of item procurement, the development of new technologies, company infrastructure, and human resources management.

The formulation of the competitive strategy for the Shari'a Business Unit: Pension Fund Management of PT Bank Muamalat Indonesia uses the concept of a book by Fred R. David: the 2016 15<sup>th</sup> edition Management Strategic-Concept, which consists of three stages, as follows:

- 4.1 Input Stage
- 4.2 Matching Stage
- 4.3 Decision Stage

The Input Stage uses Internal Factor Evaluation (IFE) Matrix, External Factor Evaluation (EFE) Matrix, and Competitive Profile (CP) Matrix. IFE Matrix measures the strengths and weaknesses of the pension fund financial institution, EFE Matrix analyses opportunities and threats, and CP Matrix analyses the strengths of competitors over the sample company using standings and total weight scores (David, 2016: 66).

The Matching Stage uses SWOT Matrix (Strengths-Weaknesses-Opportunities-Threats), IE Matrix (Internal-External), Grand Strategy Matrix, BCG Matrix (Boston Consulting Group), and SFAS Matrix (Strategic Factor Analysis Summary).

The SFAS Matrix borrows the concept from Wheelen and Hunger to enrich and maintain the novelty of this journal. SFAS Matrix summarises the strategic factors of an organisation by combining the external factors from EFAS Table (External Factor Analysis Summary) and internal factors from IFAS Table (Internal Factor Analysis Summary) (Wheelen and Hunger, 2015: 198-199). The data of IFAS and EFAS is derived from the EFE and IFE Matrix tables.

The SWOT Matrix maximises the strengths and opportunities while minimising the weaknesses and threats to the company. It also brings a profound impact to the design of the company's success strategy (Pearce & Robinson, 2013: 149).

The IE Matrix places the various divisions of an organisation within the view of nine cells. The IE Matrix is based on two key dimensions: the total IFE weight score on the X axis and the total EFE weight score on the Y axis (David, 2016: 181).

The SPACE Matrix is a matrix with four quadrants that shows if a defensive, conservative, competitive, or aggressive strategy is most suitable for a specific organisation (David, 2016: 174).

BCG Matrix tests the position of the relative market share and the level of relative industrial growth to be viewed as a sign or an indicator whether the market is saturated or lacking growth by request (David, 2016: 177).

The Grand Strategy Matrix consists of two evaluative dimensions: the competitive position and the industrial market growth. Every industry with more than 5% yearly sales growth can be considered rapidly growing (David, 2016: 183).

The Decision Stage uses QSPM Matrix in order to specify the relative attractiveness of various select strategies and determine which is considered the best to be implemented (David, 2016: 185).

## **RESEARCH METHODOLOGY**

The methodology of this research is qualitative because of the problems in it which are vague in nature and quite complex. This research is expected to draw an illustration on the condition of the external environment and the internal company, to find fundamental problems, and to provide solutions and business-level competitive strategy suitable for the Shari'a Business Unit: Pension Fund Management of PT Bank Muamalat Indonesia.

Data is collected through field researches, such as interviews, distribution of questionnaires, observations, and documentations. It is also gathered through relevant literature studies. The literatures are in the form of brochures, internet articles, magazines, newspapers and books.

All required data is then analysed using the concept of Fred R. David, Wheelen, and Hunger for the SFAS Matrix. The Input Stage uses the IFE and EFE Matrix by providing the weight and scoring of 1 to 4 on the internal and external factors. The CP Matrix is used to determine the actual strengths of the competitors.

The Matching Stage uses the entire conclusions of SWOT, IE, BCG, SPACE, SFAS, and Grand Strategy Matrices to be used as an alternative for the final strategy.

The Decision Stage uses the QSPM Matrix to determine the relative attractiveness of the various select strategies and to find the best one to be applied in the Pension Fund Management product of PT Bank Muamalat Indonesia.

## **RESULTS AND DISCUSSION**

### **Analysis of the External Environment**

The result of EFE Matrix is 3.4326. The value is above the average number of 2.5 which is categorised as quite significant. This shows that the external position of the Pension Fund Management product of PT Bank Muamalat Indonesia can take advantage of the opportunities to overcome the threats (David, 2016: 65).

### **Analysis of the Internal Environment**

The result of IFE Matrix is 2.6437. The value is above the average number of 2.5. It can be said that the Pension Fund Management product of PT Bank Muamalat Indonesia is strong enough to compete (David, 2016: 111).

### **Analysis of the Competitive Profile Matrix**

The CP Matrix results show that BNI obtains the value of 3.780, followed by Manulife with the value of 3.558 and the Pension Fund Management product of PT Bank Muamalat Indonesia with the value of 3.077. This shows a very strict competition in the pension fund industry in Indonesia.

### **Analysis of the Strategic Factors Analysis Summary Matrix**

The SFAS Matrix table returns the value of 3.0 which means that the Pension Fund Management product of PT Bank Muamalat Indonesia has the qualifications to be an average compared to other competitors in the industry (Wheelen and Hunger, 2015: 199).

### **Analysis of the Strength - Weakness - Opportunity - Threat Matrix**

The results of the SWOT Matrix show that the difference between Total Strength and Total Weakness is 1.68 on the X axis. The difference between Total Opportunity and Total Threat is 1.58 on the Y axis. Values are then applied on the SWOT Matrix analysis diagram and found located in quadrant I, which means that the Pension Fund Management product of PT Bank Muamalat Indonesia occupies a strong position with a significant chance of developing. The recommended strategy is the aggressive strategy or SO Strategy (Strengths Opportunities) so that it is possible to continue achieving optimal progress, accelerate growth, and expand the business.

### **Analysis of the Internal-External Matrix**

The IE Matrix results are 3.4326 EFE total score and 2.6437 IFE total score which means that the Pension Fund Management product of PT Bank Muamalat Indonesia is in quadrant two, where the strategy that must be run is the strategy to grow and build through market penetration and product development.

### **Analysis of the Grand Strategy Matrix**

The result of the Grand Strategy Matrix shows that sales growth reached 26%, position mastery against the biggest competitor reached 19.96%, and located in the quadrant I which means that the company is

able to take advantage of external opportunities and it is recommended that the company competes using the aggressive strategies, such as market development, market penetration, product development, forward integration, backward integration, horizontal integration, and concentric diversification.

### **Analysis of the Boston Consulting Group Matrix**

BCG Matrix analysis uses the input based on the growth of participants in the Pension Fund Management product of PT Bank Muamalat Indonesia and overall market share participants in the pension fund management industry in Indonesia. The result is 26% growth. This means that the Pension Fund Management product of PT Bank Muamalat Indonesia is in the Quadrant I Question Mark. Occupying the Quadrant I Question Mark means the company has a relatively low market share position competing in an industry with a high rate of growth. The organisation in the quadrant must decide whether to strengthen the ongoing business through intensive strategies, such as market penetration, market development, and product development; or to sell the company (David, 2016: 179).

### **Analysis of the Strategic Position Action Evaluation Matrix**

The results of the SPACE Matrix yield the values of 3.00 Y axis and 3.13 X axis. This means the Pension Fund Management product of PT Bank Muamalat Indonesia occupies the aggressive quadrant. It is financially sufficient, competitive in both growing and stable industries, and able to take advantages from opportunities. The best strategy for the company is to do market penetration, market development, product development, backward integration, forward integration, and horizontal integration.

### **Analysis of the Quantitative Strategic Planning Matrix**

The QSP Matrix views the strategy which should be prioritised. The results of the Total Attractiveness Score is Market Development Strategy (6.7637), followed by the Market Penetration Strategy (5.417), and Product Development Strategy (4.9767). This shows that PT Bank Muamalat Indonesia must continue to do the development of its market widely, to focus on market penetration, and finally to develop its products.

In the next five years, PT Bank Muamalat Indonesia should prioritise the recommended strategies, which are Market Development in the first and second year, Market Penetration in the third and fourth year, and Product Development in the fifth year.

Further details of each of these strategies are as follows:

#### ***Market Development in the first and second year***

This strategy is implemented through:

- Promoting the sales of PT Bank Muamalat Indonesia's pension fund products and putting the records in the Key Performance Indicators.
- Providing incentive for marketing officers and customers from Marketing Funding, Lending, Customer Service, Telemarketing, and Sala Muamalat divisions.
- Enforcing the Pension Programme for Generous Severance Compensation and the Certain Dues Pension Programme.

- Expanding market development beyond Jakarta.
- Aggressive promotion to customers.
- Giving bonuses such as bank assurance products.
- Educating routinely in a unique and creative way.
- Making sure that brochures are always available in every branch.
- Socialising the ease of online payment and registration via <http://dplk.muamalatbank.com/>.
- Maximising the promotion of pension fund products via <http://www.bankmuamalat.co.id/>.

### ***Market Penetration in the third and fourth year***

This strategy is implemented through maintaining the first strategy and:

- Creating an MGM (Member Get Member) Programme.
- Maximising the benefits of the website <http://dplk.muamalatbank.com/>.
- Working with Indonesian Financial Services Authority and other related institutions.
- Maintaining good relationship with customers.
- Making it a prerequisite for debtors to purchase pension fund products while also providing incentive.

### ***Product Development in the fifth year***

This strategy is implemented through maintaining the first and second strategies while creating new Inflation and Life Insurance features for the Shari'a pension products, publishing promotion and discount cards, and fine-tuning products according to the needs of the customers.

## **CONCLUSION**

The competitive strategy to increase the market share and position of the Pension Fund Management product of PT Bank Muamalat Indonesia in the pension funding industry in five years to come include Market Development in the first and second year, followed by Market Penetration in the third and fourth year, and finally Product Development in the fifth year. If the strategy is carried out continuously and sincerely, it will successfully raise the position and the market share of the Pension Fund Management product of PT Bank Muamalat Indonesia.

## **SUGGESTIONS**

It is suggested for PT Bank Muamalat Indonesia to do the following:

1. Continue improving the synergy, coordination, and communication between divisions, sub divisions, and external parties by holding informal and internal meetings and creating WhatsApp<sup>TM</sup> or Telegram Group to promote the active role, work initiative, and functions of the secretary as the person in charge who facilitates both internal and external parties.

2. Form new sales teams that are separate from the marketing teams. Marketing teams focus on the promotion and improvement of the brand image of pension fund products while the sales team focus on the sales of the products, after sales, and maintaining good relationships with clients as well as external and internal parties.
3. Creating a Team Leader Training & Learning Centre synergised with the Human Capital Development Training and Lending Teams from PT Bank Muamalat Indonesia to work together with the HRD divisions of debtor companies for free socialisation, sustainable education, and consultation on the benefits of the Shari'a pension fund products.
4. Remembering the big opportunities ahead, tougher competitions, and higher targets, an agreement on a better and fairer career path system and remuneration according to the employees' positions and responsibilities has to be made. This will bring positive impact on employee performance as well as improving work excitement and future career steps while preventing key members of the company from quitting and working for other companies.

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